Personal taxation: common terms, calculations and your responsibilities

Factsheet
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This guide to personal taxation, and how it affects you, will help you understand how your income is taxed, and explain some common terms and calculations used. As an individual who earns income, you may be responsible for a range of personal taxes. These taxes are imposed on income you earn, including investment income and capital gains.

For a starting point, the following formula can give you an indication of your individual tax liability:

(Assessable income + assessable capital gains - allowable deductions) x (income tax rate) + applicable levies - tax offsets = tax payable

Assessable income

Examples of assessable income include:

- salary and wages,
- other payments for your services,
- allowances for things like car, travel, clothing and laundry,
- interest from bank accounts,
- dividends and other income from investments,
- overtime you may receive as an employee, and
- any rent you may receive.

Assessable income does not include:

- inheritances,
- unexpected income from lotteries or prize winnings,
- some scholarships, and
- irregular money received from a hobby.

Assessable capital gains

If you sell a capital asset, such as real estate or shares, you usually make a capital gain or a capital loss. This is the difference between what it cost you to acquire the assets and that you receive when you dispose of it. Capital gains tax (CGT) applies to any gains made on the sale of non-exempt assets. Exempt assets for CGT purposes include your family home, car and personal use assets such as furniture. For assets acquired on or after 20 September 1985 and held for more than 12 months half the capital gain is counted as an assessable capital gain for individuals. If the asset was held for less than 12 months the full capital gain is assessable. Refer to our 'Understanding Capital Gains' spreadsheet for further information on CGT.

Allowable deductions

To be an allowable deduction, an expense must have been:

- paid for by yourself, and for which you were not reimbursed,
- directly related to earning income, and
- documented with a receipt as proof of purchase.

Common income tax deductions claimed are:

Tools and equipment

If you buy equipment or other assets to help earn your income, you can claim a deduction for some or all of the cost.

If the equipment is used for both work and private purposes:

- you will need to apportion the amount you claim. For example, if you have a computer that is used for private purposes for half of the time you can only deduct 50% of the cost, and
- you also need to keep records, such as a diary, so that if requested, you can show how you apportioned the amount of private use and work-related use.

The type of deduction you claim depends on the cost of the asset:

- For items that don't form part of a set and cost $300 or less, or form part of a set that together cost $300 or less, you can claim an immediate deduction for their cost.
- For items that cost more than $300, or that form part of a set that together cost more than $300, you can claim a deduction for their decline in value (this is known as depreciation).

Vehicle and travel expenses

You can claim the cost of travelling:

- directly between two separate workplaces,
- from your normal workplace to an alternative workplace,
- if your home was a base of employment,
- if you had shifting places of employment, or
- from your home to an alternative workplace for work purposes, and then to your normal workplace or directly home. This does not apply where the alternative workplace has become a regular workplace.

You can't claim the cost of driving your car between work and home because:

- you do minor work-related tasks,
- you have to drive between your home and your workplace more than once a day,
- you are on a work call,
- there is no public transport near where you work,
- you work outside normal business hours,
- your home was a place where you ran your own business and you travelled directly to a place of work where you worked for somebody else, or
- you do some work at home.

Professional libraries, journal subscriptions, college or other professional memberships, ongoing education expenses

So long as you are already working in your profession and generating an income, the above items are deductible.

Contributions to superannuation

Personal concessional contributions to superannuation up to $25,000 may be tax-deductible. Refer to our Understanding superannuation: the accumulation phase factsheet for further details.

Interest expense associated with borrowing to invest

You can claim a deduction for expenses incurred in earning interest, dividend, rental or other investment income. These expenses include interest and associated borrowing costs. Refer to our Novated Leasing and Other Car Financing Options for Doctors factsheet for further details.

Income tax rates

Broadly, there are four different tax rate scales applicable to income earned that apply to different circumstances of individuals:

- Australian residents,
- Foreign residents,
- Minors (under age 18),
- Working holiday makers.

The relevant tax rate scales for 2021-22 are set out below.

Australian residents

Taxable income	Tax on this income
0 – $18,200	Nil
$18,201 – $45,000	19c for each $1 over $18,200
$45,001 – $120,000	$5,092 plus 32.5c for each $1 over $45,000
$120,001 – $180,000	$29,467 plus 37c for each $1 over $120,000
$180,001 and over	$51,667 plus 45c for each $1 over $180,000

Foreign residents

Taxable income	Tax on this income
0 – $120,000	32.5c for each $1
$120,001 – $180,000	$39,000 plus 37c for each $1 over $120,000
$180,001 and over	$61,200 plus 45c for each $1 over $180,000

Minors

Income received by minors can be taxed in different ways depending on the source of income and the status of the child. Minors who meet the following definitions are referred to as 'excepted persons' and are subject to taxation at the above adult taxation rates:

- full-time worker,
- entitled to the double orphan pension, or

- person with a disability, where that person was the main beneficiary of a special disability trust or on the last day of the financial year (30 June) either was:

  a. entitled to a disability support pension or someone was entitled to a carer allowance to care for the minor,

  b. certified permanently blind,

  c. disabled and likely to suffer from that disability permanently or for an extended period, or

  d. unable to work full time because of a permanent mental or physical disability and received little or no financial support from relatives.

Minors may also receive 'excepted income'. This includes:

- employment income,
- taxable pensions or payments from Centrelink or the Department of Veterans' Affairs,
- income from a deceased person's estate (including capital gains),
- income from property transferred to the child as a result of the death of another person or family breakdown, or income in the form of damages from an injury suffered (including capital gains), and
- income from a partnership in which the child was an active partner (including capital gains).

Excepted income is taxed at the same rates as adults in the above tables.

If a minor receives no excepted income or does not meet the requirements of an excepted "person", then income is subject to the following tax rates:

Tax rates for residents who are under 18

Income	Tax rates for 2021–2022 income year
$0 – $416	Nil
$417 – $1,307	Nil plus 66% of the excess over $416
Over $1,307	45% of the total amount of income that is not excepted income

Tax rates for non-residents who are under 18

Income	Tax rates for the 2021-2022 income year
$0–$416	32.5% of the entire amount
$417–$663	$135.20 plus 66% of the excess over $416
Over $663	45% of the entire amount

Working holiday makers

'Working holiday makers' refers to those on visas 417 (working holiday) and 462 (work and holiday). **Neither of these visas permit work in the medical sector.**

Working holiday makers

Taxable income	Tax rates for the 2021–2022 income year
$0 – $45,000	15c for each $1
$45,001 – $120,000	$6,750 plus 32.5c for each $1 over $45,000
$120,001 – $180,000	$31,125 plus 37c for each $1 over $120,000
$180,001 and over	$53,325 plus 45c for each $1 over $180,000

Applicable levies and surcharges

Medicare levy

The Medicare levy applies to most resident adult taxpayers, with the full rate of 2% applied to taxable income over $29,032 for singles and $48,958 (combined) for couples.

There are some circumstances where persons may be exempt from the levy and these include:

- Medical exemption. This includes blind pensioners, those in receipt of a sickness allowance from Centrelink or entitled to medical treatment for all conditions under the Defense Force or Veterans' Affairs Gold Card,
- Foreign residents, and
- Those not entitled to Medicare benefits.

The following table illustrates thresholds for the Medicare levy for 2020/2021 as the thresholds for the current year are typically not released until the following year's Federal budget:

Taxpayer	No Medicare levy payable where taxable income is below	Reduced Medicare levy where taxable income is between	Full levy of 2% where income exceeds
Singles taxable income	$23,226	$23,227 – $29,032	$29,032
Couples taxable income	$39,167	$39,168 – $48,958	$48,958
Singles entitled to SAPTO*	$36,705	$36,705 – $45,881	$45,881
Couples entitled to SAPTO*	$51,094	$51,095 – $63,867	$63,867

*SAPTO – Seniors and pensioners tax offset

Add $3,597 to the lower threshold and $4,496 to the upper for each dependent child or student.

Medicare surcharge

The Medicare surcharge applies to high income earners who do not hold adequate private health insurance. It is not based purely on taxable income, but rather calculated on taxable income, reportable fringe benefits, reportable super contributions and total net investment losses.

Taxable income, plus reportable fringe benefits, reportable super contributions and total net investment losses.

Taxpayer	No surcharge	1% surcharge	1.25% surcharge	1.5% surcharge
Singles	$90,000 or less	$90,001 – $105,000	$105,001 – $140,000	Over $140,000
Families*	$180,000 or less	$180,001 – $210,000	$210,001 – $280,000	Over $280,000

* Family income threshold increases by $1,500 for each additional dependent child

Tax offsets

Unlike allowable deductions which reduce assessable income, tax offsets, sometimes referred to as rebates, directly reduce the amount of tax payable. Tax offsets can be used to reduce the tax payable on your income. Any excess tax offsets however are not refunded to the taxpayer.

Low and middle income tax offset

Taxable income	Tax offset
$0–$37,000	$255
$37,001–$48,000	$255 + 7.5c for each dollar over $37,000
$48,001–$90,000	$1,080
$90,001 +	$1,080 reduces by 3c per dollar over $90,000

Seniors and pensioners tax offset

Taxable income, plus reportable fringe benefits, reportable super contributions and total net investment losses.

Taxpayer	Tax offset
Single	$2,230 reducing by 12.5c per dollar over $32,279. Offset cuts out at $50,119
Couple (each)	$1,602 reducing by 12.5c per dollar over $28,974. Offset cuts out at $41,790
Separated due to illness	$2,040 reducing by 12.5c per dollar over $31,279. Offset cuts out at $47,599.

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Superannuation spouse contributions

If your spouse (married or de facto) is earning a low income or not working, you may be eligible to claim a tax offset. The maximum offset available is $540, where your spouse's total income (assessable income + reportable fringe benefits + reportable super contributions) is $37,000 or less and you have contributed a maximum $3,000 to superannuation for your spouse. If your spouse's income exceeds $37,000, the offset reduces by 18c per dollar over $37,000 and cuts out at $40,000.

Example: RMO doctor's personal tax position

Dr Jones is an Australian resident RMO and earns $95,000 p.a. During the financial year, she has purchased a stethoscope for $230, paid $85 in professional membership fees and attended a medical conference for $367, incurring associated travel expenses of $650. In addition, she contributed $3,000 to her spouse's superannuation account. She has $1,500 interest income from a term deposit. Her spouse is currently on sabbatical and has no taxable income for the financial year. She holds eligible private health insurance.

Dr Jones' tax position can be calculated this way:

1. Assessable income: $95,000 salary + $1,500 interest income = $96,500
2. Allowable deductions: $230 stethoscope + $85 membership fees + $367 medical conference + $650 travel expenses = $1,332
3. Taxable income: assessable income $96,500 - allowable deductions of $1,332 = $95,168
4. tax payable on $95,168: $16,304 + $5,092 = $21,396
5. plus Medicare levy: $95,168 x 2% = $1,903
6. less low and middle income tax offset: $1,080 - ($95,168 - $90,000) x 3% = $925
7. less superannuation spouse contribution offset: $3,000 x 18% = $540
8. Total tax liability: $21,396 + $1,903 - $925 - $540 = $21,834
9. Net income: assessable income $96,500 - total tax liability $21,834 = $74,666

Get advice that suits your situation

This factsheet is a guide only, and does not represent professional taxation advice. The team at Doctors Wealth Management can review your situation and recommend a solution for your individual circumstances.

You can find additional resources and information about Doctors Wealth Management at **doctorswealthmanagement.com.au** or call **1800 128 268**.