

ezytax  
BLUE

chapter 4  
tax offsets



## **CHAPTER 4 - TAX OFFSETS**

Tax offsets – provide the taxpayer with tax relief. Tax offsets are not deductions and **most** will **NOT** result in a refund.

Deductions reduce the taxpayer's income to calculate taxable income. Gross tax is calculated on the taxable income, this amount of tax is then reduced by the tax offsets.

If the tax payer's tax offsets are greater then the tax on their taxable income, the amount of tax paid this year can only be reduced to zero.

**There are five exceptions:**

- The private health insurance rebate, where any excess is refunded
- The franking tax offset, where any excess imputation credits on dividends paid to the taxpayer on or after 1 July 2000 are refunded
- the Landcare and water facility tax offset, where any excess is carried forward and used to reduce a future tax liability

Most tax offsets do not reduce the Medicare levy. However, where excess refundable tax offsets are available, these can be applied to reduce tax, including Medicare levy. Generally, being able to claim a tax offset depends on circumstances like maintaining a Dependant or living in a remote area or on how much taxable income is earned.

**Deductions and offsets**

It is important to understand -

- A deduction *reduces* assessable income.
- A tax offset **reduces** tax owing and **not** taxable income.
- Some tax offsets are shown **on** the tax return and some are calculated **automatically** by the ATO from information on the tax return.

**Example.....**

*Julian has an income of \$44,000*

*If he is entitled to a deduction of \$1000*

*The tax saving is:*

<i>Tax and Medicare due on 44,000</i>	<i>\$5,418</i>
<i>Tax and Medicare due on 43,000(44,000 – 1000)</i>	<i><u>\$5,208</u></i>
<i>Benefit to him (1000 x (0.19 + 0.02))</i>	<i><u>\$210</u></i>

**BUT**

*If he had a Tax offset of \$1000*

*The tax saving is:*

<i>Tax on \$44000</i>	<i>\$5,418</i>
<i>Minus tax offset</i>	<i><u>\$1,000</u></i>
<i>Tax and Medicare due</i>	<i>\$4,418</i>
<i>Benefit to him</i>	<i><u>\$1,000</u></i>

***As illustrated the net worth to the taxpayer for a deduction is the amount multiplied by their tax rate but in the case of a tax offset it is \$ for \$.***

***Tax Offsets are LIMITED to tax payable in most cases (refer to exceptions above) they can only reduce the tax liability to NIL.***

***Tax offsets do not reduce Medicare or HECS.***

**Example.....**

*Taxable income \$34,000, no tax withheld, tax offsets total \$4,000*  
*Income Tax due \$3,002*  
*Minus tax offsets \$4,000 (non refundable tax offset)*  
*NIL*  
*Plus Medicare levy \$680*  
*Therefore amount payable is \$680*

## **DEFINITION OF A DEPENDANT**

### **WHO IS A DEPENDANT?**

A dependant can be:

- a child who is under 21 years old who is not a student
- a student under 25 years old who is studying full time at school, college or university
- a child-housekeeper (your child of any age who kept house for you full time)
- an invalid relative (your child, brother or sister) 16 years old or older who:
  - receives a disability support pension or a special needs disability support pension under the *Social Security Act 1991*
  - receives a rehabilitation allowance under the *Social Security Act 1991* and immediately before they were eligible to receive that allowance they were eligible for an invalid pension under that Act, or
  - has a certificate from a Commonwealth-approved doctor certifying a continuing inability to work.

### **A dependant needs to be an Australian resident for tax purposes.**

If you want to claim a tax offset for your dependants you need to work out your and your dependants' adjusted taxable income (ATI) for the relevant period to determine:

- whether you are eligible for a tax offset, and
- the amount of the tax offset you are entitled to.

The relevant period is identified in the questions dealing with the particular tax offset you wish to claim. This may be all of the 2022–23 income year or a period during 2022-23.

You maintained a dependant if any of the following applied to you:

- The taxpayer and the dependent resides together or
- The taxpayer gave the dependent food, clothing and lodging or
- The taxpayer helped them to pay for their living, medical and educational costs.

If the taxpayer has a spouse for the whole year and the spouse worked for part of the year, the taxpayer is still considered to have maintained their spouse as a dependent for the whole year.

The taxpayer is considered to have maintained a dependent even if they were temporarily separated- for example, due to holidays. The taxpayer is still considered to have maintained dependents who were overseas if they were away from Australia for a short time.

If the taxpayer maintained a dependent for only part of the year, the claim may need to

be adjusted.

A dependent also must earn under the income limit for their relevant tax offset.

### **Overseas dependants**

The taxpayers dependent children who are waiting to migrate to Australia are considered to be dependents for tax offsets purposes but they must migrate within 5 years from when the taxpayer came to live in Australia permanently. The taxpayer may be asked to provide evidence.

## **ADJUSTED TAXABLE INCOME (ATI)**

The following amounts are used to calculate a person's ATI:

- the person's taxable income
- the person's reportable employer superannuation contributions
- the person's deductible personal superannuation contributions
- the person's adjusted fringe benefits (total reportable fringe benefit amounts multiplied by 0.535)
- certain tax-free government pensions or benefits received by the person (this does not include all government pensions and benefits that are exempt from income tax; )
- the person's target foreign income
- the person's net financial investment loss (the amount by which the person's deductions attributable to financial investment exceeded their total financial investment income)
- the person's net rental property loss (the amount by which the person's deductions attributable to rental property exceeded their rental property income)
- any child support that the person provided to another person.

**A record of the ATI calculation should be retained.**

### **Example.....**

*Jane is a part time shop assistant. Her income and deductions are as follows – Wages \$6200, Interest \$150, Franked Dividend \$250, Imputation credit \$107, Part Time Defence Force Reserve Pay \$580, Union \$30, Dry cleaning of Army uniform \$50, Child care expenses \$900, Travel cost to work \$954 and travel costs to army base \$178.*

<b><u>Income Taxable Income</u></b>	<b><u>Adjusted Taxable Income ATI</u></b>
<b><i>Wage 6200</i></b>	<b><i>6200</i></b>
<b><i>Interest 150</i></b>	<b><i>150</i></b>
<b><i>Franked Amount 250</i></b>	<b><i>250</i></b>
<b><i>Franking Credit 107</i></b>	<b><i>0</i></b>
<b><i>Defence Force Res Pay 0</i></b>	<b><i>580</i></b>
<b><i>Sub Total 6707</i></b>	<b><i>7180</i></b>

<b><u>Deductions</u></b>	
<i>Union 30</i>	<i>30</i>
<i>Child Minding 0</i>	<i>0</i>
<i>Travel -Work 0</i>	<i>0</i>
<i>Travel- Army Reserves 0</i>	<i>178</i>
<i>Dry Clean Army Uniform 0</i>	<i>50</i>
<i>Sub Total 30</i>	<i>258</i>
<i>Total 6677</i>	<i>6922</i>
<i>Taxable Income</i>	<i>Adjusted Taxable Income ATI</i>

### **TAX OFFSET REDUCTION due to ATI**

The tax offset available to a taxpayer will be affected by the amount of the dependant's ATI.

Where a dependent derives ATI in excess of \$282, the rebate must be reduced. The reduction is \$1 in every \$4 (Whole dollars) by which the dependents ATI exceeds \$282.

#### **Example.....**

*ATI of \$2500 – The relevant rebate will be reduced by:-*

$$\frac{\$2500 - \$282}{4} = \$554 \text{ (drop the cents at this point)}$$

**This means any dependent tax offset would be reduced by \$554.**

# **ITEM T1 – SENIORS AND PENSIONERS** **AUSTRALIAN TAX OFFSET**

The taxpayer may be entitled to the seniors and pensioners tax offset if all of the following conditions are met:

## **AGE TEST**

For the 2022/23 income year the taxpayer satisfies the age condition if, on 30 June 2023 they are:

- Aged 66.5 years, or
- A veteran or war widower aged 60 years or more.

## **VETERAN, WAR WIDOW OR WAR WIDOWER**

A “**veteran**” is a person who has eligible war service under the Veterans Entitlements Act 1986. The taxpayer has eligible war service, that is, service in World War II or operational service as a member of the Australian Defence Force. Or a Commonwealth or allied veteran who served in a conflict in which the Australian Defence Force was engaged during a period of hostilities that is, World War II, or in Korea, Malaya, Indonesia or Vietnam. This also applies to Australian or allied mariners who served during World War II and war widows or widowers of a former member of the Australian Defence Force.

To be a “**war widow**” or “**war widower**” the tax payer must be receiving a war widow or war widower’s pension from DVA or receiving a foreign government pension of a similar nature to the war widows’ pension or war widowers’ pension.

## **ELIGIBILITY FOR COMMONWEALTH AGE PENSION AND SIMILAR PAYMENTS**

The taxpayer meets this condition if any of the following applied in 2022-23.

- The taxpayer showed at item 6 on your return an Australian Government pension or allowance from Centrelink, or a pension, allowance or benefit from the Department of Veterans' Affairs (DVA).
- The taxpayer satisfied the Centrelink age pension age requirement and were eligible for an Australian Government age pension during 2022-23, but did not receive it because you did not make a claim or because of the application of the income test or the assets test, and you satisfy one of the following:
  - The taxpayer has been an Australian resident for age-pension purposes for either 10 continuous years or for more than 10 years of which five years were continuous
  - The taxpayer has a qualifying residence exemption (because you arrived in Australia as a refugee or under a special humanitarian program)

- The taxpayer is a woman who was widowed in Australia (at a time when both you and your late partner were Australian residents), you have made a claim for the age pension and you had two years residence immediately before your claim
- The taxpayer received a widow B pension, widow allowance, mature age allowance or partner allowance immediately before turning age-pension age
- The taxpayer would qualify under an international social security agreement.

**NOTE** - If the taxpayer is **eligible** for a payment or pension mentioned above this does not mean that they actually need to be receiving these payments to be able to claim SAPTO.

### **NOT IN PRISON**

To satisfy this condition, the taxpayer must not have been in prison for the whole of the income year.

### **TAXABLE INCOME THRESHOLD**

To satisfy the taxable income threshold condition, the taxpayer must meet the threshold that applies to them. The 2023 taxable income thresholds are:

<b>Circumstance</b>	<b>Taxable income threshold</b>
Single	Less than \$50,119
Married or De facto	Less than \$83,580* (combined)
Had to live apart due to illness	Less than \$95,198 *(combined)

\*If the taxpayer has a spouse, married or De facto, this eligibility test is based on the combined taxable income of both taxpayer and spouse.

If the taxpayer has a spouse, married or de facto, use the following table for information on how the combined taxable income threshold affects their eligibility for the senior Australians tax offset.

<b>If combined taxable income...</b>	<b>Then....</b>
Equals or exceeds eligible combined taxable income threshold	Neither taxpayer nor their partner is eligible for the seniors and pensioners tax offset.
Is less than eligible combined taxable income threshold	Entitlement of seniors and pensioners tax depends upon: the taxpayers own taxable income, and eligibility for a transfer of any unused portion of their spouses senior Australians or Pensioner tax offset.

The source of the taxable income **does not** affect eligibility to the tax offset. Eligibility to seniors and pensioners tax is not restricted to self funded retirees. The taxpayer can be

eligible for the Senior Australians tax offset whether they receive:

- a Commonwealth of Australia government age pension
- a superannuation pension or an overseas pension
- income from investments, or
- any other assessable income (including salary and wages)

Although the source of the income does not affect eligibility, the amount of the taxable income can.

**NOTE** - If the taxpayers' marital status changed during the year, they will be entitled to the tax offset that provides the greatest benefit. However they will still need to meet the income test that applies to their circumstances for the Senior Australians Tax Offset. If the taxpayer meets all four conditions, they are eligible for the senior Australians Tax offset.

### **SENIOR AND PENSIONERS TAXOFFSET CODES**

A	The taxpayer was single, separated or widowed
B*	If the taxpayer and their spouse- married or De facto- had to live apart due to illness, or either of them was in a nursing home at any time during 22/23 and they are both eligible for the Senior Australians Tax Offset.
C*	If the taxpayer and their spouse- married or De facto- had to live apart due to illness or either of them was in a nursing home at any time in 22/23 but the spouse is not eligible for the Senior Australians tax offset
D*	If the taxpayer and their spouse- married or De facto- were living together and they are both eligible for Senior Australians Tax Offset
E*	If the taxpayer and their spouse -married or De facto- were living together but the spouse is not eligible for the senior Australians Tax Offset

**NOTE** - For code letters with an asterisk the taxpayer may be entitled to a transfer of the unused portions of their spouses Pensioner or Senior Tax Offset.

### **INCOME TRESHOLDS AND SENIOR AUSTRALIAN TAX OFFSET**

<b>Senior Australians</b>	<b>Tax-free threshold</b>	<b>Cut-out threshold</b>
Single	\$30,685	\$48,525
Each member of a couple	\$26,680	\$39,496
Each member of an illness-sepa- rated couple	\$29,600	\$45,920

- If the taxpayers' taxable income was below their relevant income threshold they have the maximum amount of senior Australians tax offset available to use. At this income threshold, the tax payable is reduced to nil after allowing for the Senior Australians and Pensioners tax offset and the low income tax offset.

*For example.....*

*A single person with a taxable income of \$25,000 will have their tax payable of \$1,292 reduced to nil by the allowance of the Senior Australians tax offset (\$2,230) and the low income offset (\$700).*

<b>Taxable income</b>	<b>\$25,000</b>
<b>Tax on TI</b>	<b>\$1,292</b>
<b>Less:</b>	
<b>SAPTO - Single</b>	<b>\$2,230</b>
<b>Low income offset</b>	<b>\$ 700</b>
<b>Total Offsets</b>	<b>\$2,930</b>
<b>Tax Due</b>	<b>NIL</b>

- If the taxpayers taxable income is more then their relevant income threshold but less than the cut out threshold they will have a reduced amount of the Senior Australians Tax Offset available to use. However, where they have a spouse and they have available a transfer of unused spouses Senior Australians tax offset or pensioner tax offset, their available amount of tax offset maybe higher.
- If the taxpayers' taxable income is equal to or more than their relevant cut-out income threshold they will have no senior Australians Tax Offset available to use because their income is too high. The cut-out threshold only applies where they do not have any transfer of unused spouses senior Australians tax offset or pensioner tax offset. If they have a transfer of unused spouse's tax offset they may still be able to obtain some Senior Australians tax offset even though their own taxable income exceeds the cut out threshold.

**NOTE** – The Senior Australians tax offset reduces by 12.5 cents for every dollar that the taxpayer's taxable income exceeds the relevant income tax threshold.

$$\text{Senior Australians tax offset} = \frac{\text{taxable income} - \text{Income threshold}}{8}$$

### **TRANSFER OF UNUSED SPOUSE'S TAX OFFSET**

An unused tax offset occurs where the taxpayer or their spouse do not fully use the Senior Australian (or pensioner) Tax Offset to reduce the combined tax payable – that is after the tax payable is fully offset there is still some tax offset amount remaining. The portion of the tax offset that is not used is called the excess or the unused tax offset.

A transfer of an unused Senior Australian (or Pensioner) Tax Offset can occur between the taxpayer and spouse (married or De facto). However, a transfer is only applicable if both are eligible for the Seniors Australians Tax Offset or Pensioner Tax Offset.

**10**

When looking at a transfer of unused tax offset the person receiving the excess is referred to as “the taxpayer” and the person who has the excess or unused tax offset is referred to as the spouse. A transfer of the unused spouse’s tax offset can only occur where the spouse’s tax offset amount to more than the spouse’s tax payable and the taxpayers tax payable is more than the taxpayers tax offset amount. In each situation you will need to determine who the taxpayer is, and who the spouse is.

**What is included in spouse’s taxable income for transfer purposes?**

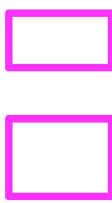
This depends upon whether the spouse is eligible for the Senior Australians tax offset or Pensioner tax offset.

If the spouse is eligible for the Senior Australian Tax Offset, the spouse’s taxable income for the purposes of calculating the transfer includes the spouse’s share of trust income on which the trustee is assessed under section 98 of the Income Tax Assessment Act 1936.

If the spouse is eligible for the pensioner tax offset the spouses taxable income for the purposes of calculating the transfer includes any exempt pension income.

**If the client has Item 6 income or is over 66.5yr old at 30<sup>th</sup> June 2023:**

1. **Tax Offsets** tab > **T1** > click **N** to open schedule.



2. **Marital Status:** Click on the three grey dots > choose correct option

**SAPTO Code:** Click on the three grey dots > choose correct option

**Veteran Code:** ONLY if the client is a veteran > Click on the three grey dots > choose correct option

AO Seniors and Pensioners (SAPTO) worksheet

General

Marital status: ...

Veteran code: ...

Seniors and Pensioners (SAPTO) code: ...

Taxpayer date of birth: 11/10/1957

You cannot claim this tax offset if you were in jail for the whole of 2019-20

Spouse Details

If Spouse's Taxable Income (O), Exempt Pension Income (Q) or tax-free government pensions under the Military Rehabilitation and Compensation Act (B) is nil, enter a zero.  
(Do not enter a zero if these amounts are unknown. Only actual amounts may be entered.)

Select button to enter Spouse Details

Spouse Details...

OK Cancel Edit

3. Click **OK** to close schedule.

## ITEM T2 – AUSTRALIAN SUPERANNUATION INCOME STREAM

Since 1<sup>st</sup> July 1994 a flat 15% tax offset has applied to all pensions paid from a **taxed** superannuation fund and to annuities purchased wholly with rolled over ETP (A taxed superannuation fund is subject to the 15% super contributions tax) or 10% from an **untaxed** superannuation fund. The date of the commencement of the super/annuity is irrelevant.

From 1 July 2018, if a taxpayer receives an unfunded (untaxed) component of their income stream, the 10% tax offset will not apply to untaxed-sourced benefits above the \$100,000 cap.

The tax offset will apply to:-

- Taxpayers who are aged 55 or more
- Taxpayers who turn 55 during the year - the tax offset will be reduced by days.
- Taxpayers under 55 - in receipt of a death or disability benefit

The rebate is calculated by reducing the gross payment by the UPP and multiplying the difference by 15%

Superannuation pensions paid from untaxed super funds

**Example.....**

*Jasper has retired and has an ETP from his super fund. The payer (the super fund) rolls his ETP into an allocated pension fund. Jasper elects to buy an annuity instead of taking a lump sum payment. He is entitled to a super annuity pension tax offset. His PAYG payment summary shows a gross amount of \$25,200. The fund has notified Jasper that his UPP is \$3,120.*

*His tax offset will be  $(\$25,200 - \$3,120) \times 15\% = \$3,312$ . This tax offset will appear on tax return at Item T2.*

As discussed in Chapter 2 most taxpayers will have received a letter with their PAYG Payment summary from the fund detailing their UPP and/or tax offset to be included on their tax return.

## **SUPER TAX OFFSET FOR COMSUPER RECIPIENTS**

As previously mentioned, the rebate only applies to pensions from a taxed super fund.

Comsuper is a large fund, which provides super support to former Commonwealth Government employees.

Due to the nature of the fund's administration, pensions from Comsuper can be made partly from a “**taxed**” and partly from “**untaxed**” source or wholly from an “**untaxed**” source.

**If the Prefill does not state the offset to be claimed, click here to access ATO T2 Calculator:**

<https://www.ato.gov.au/Calculators-and-tools/Host/?anchor=DBICT&anchor=DBICT&anchor=DBICT/questions/#DBICT/questions/>

T2 Australian superannuation income stream

**DO NOT USE THE SCHEDULE FOR T2.** Enter the amount in the white box. **SAVE** a copy of your calculation from the ATO Calculator in the client's

file.

## **ITEM T3 – SUPERANNUATION CONTRIBUTIONS ON BEHALF OF YOUR SPOUSE**

A tax offset will apply to contributions made after 1<sup>st</sup> July 1997 by a taxpayer for their spouse. In order to be entitled to the tax offset:

- The assessable income plus any reportable fringe benefits income of the taxpayers spouse must be less than \$13,800
- The contributions were not deductible to the taxpayer
- The contributions were made to a superannuation fund that was complying superannuation fund for the income year in which the contribution was made
- The taxpayer and the taxpayer's spouse were Australian residents when the contributions were made and when making the contributions the taxpayer and their spouse were not living separately and apart on a permanent basis
- See the notes on exceptions- page 11-3 re rental loss.

The tax offset is calculated at 18% of contributions up to a ceiling of \$3000. The maximum tax offset is \$540 i.e. \$3000 x 18%. The maximum tax offset applies if the spouses assessable income is \$10800 or less and contributions are \$3000 or over.

## **ITEM T4 – ZONE TAX OFFSET**

A special tax offset is available to certain taxpayers who reside for more than half of the income year (183 days) or who actually spend more than half of the income years (183 days) in specified remote areas of Australia. This is due to the factors of isolation, uncongenial climate and the high cost of living.

Australia is divided into four areas: Unzoned, Zone A, Zone B, and the Special Zone areas.

**There is a Zone List in Ezytax(T:) > Location > Templates or you can access it here:**

[https://www.ato.gov.au/forms/withholding-declaration---calculating-your-tax-offset/?anchor=Zone\\_Tax\\_Offsets#Zone\\_Tax\\_Offsets](https://www.ato.gov.au/forms/withholding-declaration---calculating-your-tax-offset/?anchor=Zone_Tax_Offsets#Zone_Tax_Offsets)

**Zone A** – includes Macquarie Island, Norfolk Island, Cocos Island, and the Australian Antarctic Territory. (Does not include offshore oil platforms).

**Zone B** – Includes islands forming part of Australia, which are adjacent to the part of the coastline of the mainland and Tasmania.

**Special Zone** – A place is in a special zone area if it is more than 250 kilometres from the nearest centre of population of 2500 people or more. The shortest practical surface route measures the distance. The special zone areas and centres of population are shown on zone maps but you should use the maps as a guide only. A full list of localities is published by the ATO.

## **ZONE AREAS OF AUSTRALIA**

### **WHO IS RESIDENT FOR ZONE PURPOSES?**

- A person who resides in either Zone A or Zone B for more than half the year of income (182 days is half the year therefore to qualify a person must reside for 183 days)
- A person who has actually resided in either Zone A or Zone B, whether continuously or not, for more than one half of the year of income.
- A person who does not qualify under either case above, but who dies during the year of income, and at the date of his death resided in either Zone A or Zone B.
- A person who has actually resided in a zone for less than half the year of the income year and for less than half the previous income year may claim a zone rebate if the aggregate over the 2 years is more than 182 days.
- A person who resides in a zone for a continuous period of up to five income years, but who did not have enough days in the first and last years, will be entitled to a rebate, provided the period in the first income year, combined with that in the last year, exceeds 182 days.

**NOTE** - The dependents of a taxpayer resident within a zoned area must be resident within that zone.

### **AMOUNT OF THE TAX OFFSET**

The amounts allowable as Zone Tax Offset for 2023 are:

**Ordinary Zone A** \$338 + 50% of rebates for dependents, housekeeper or sole parent

**Ordinary Zone B-** \$57 + 20% of rebates for dependents, housekeeper or sole parent

**Special Zone-** \$1173 + 50% of rebates for dependents, housekeeper or sole parent

A zone tax offset **must** be reduced by any amount received as a Remote Area Allowance from Centrelink or the department of veteran Affairs. Although these amounts appear on the Prefill, it is *not* assessable income.

### **NOTIONAL OFFSETS**

Notional tax offsets have been abolished but are notionally retained solely for the purpose of determining entitlement to other tax offsets such as housekeeper, zone and for Medicare reduction purposes.

### **Notional Child**

A notional child is defined as a child who is under 21 and who is not a student. It includes an adopted child, stepchild, grandchild or ex-nuptial child. It is not necessarily the child or the child of the taxpayer, or even a relative of the taxpayer.

### **Notional Student**

A notional student is defined as a person who is less than 25 years old and is receiving full time education at a school, college or university. It includes an adopted child, stepchild, grandchild or ex nuptial child. It is not necessary that the student be the child of the taxpayer, or even a relative of the taxpayer.

### **Spouse (with Children for zone offset only)**

Spouse legal or de facto, must be an Australian resident. The offset is reduced by spouses ATI but family tax benefits **ARE NOT** taken into account.

### **Sole Parent (for Zone Offset Only)**

If the taxpayer had sole care of a dependent child or student and can claim a notional child or student offset. Sole care means that the taxpayer alone had a full responsibility on a day to day basis, for the upbringing, welfare and maintenance of a child or student.

### **Table for Notional Tax Offsets for the year 2018:**

<b>Notional Tax Offset</b>	<b>Tax Offset</b>	<b>ATI Ceiling</b>
● First child under 16- not student	376	286
● Each other child under 16 not being a student	282	286
● Student	376	286
● Spouse with child zone offset only	2443	10,042

### **Questions to be asked:-**

- Do you have a dependent child or a dependent student?
- If yes, was the child/ student a dependent for the full year?
- Did the child/ student have any income?
- If yes, do they still qualify as a dependent.

### **TAX OFFSETS AFFECTING ZONE TAX OFFSET CLAIM**

**All tax offsets used to calculate zone tax offset must take into account part year dependency and or ATI.**

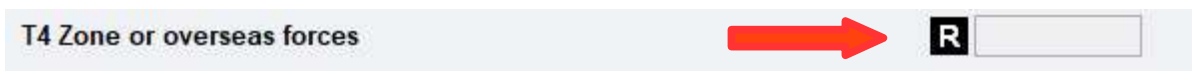
If the taxpayer resides in more than 1 zone area during the income year he is entitled to claim the maximum zone offset possible.

**REMEMEBER.....**

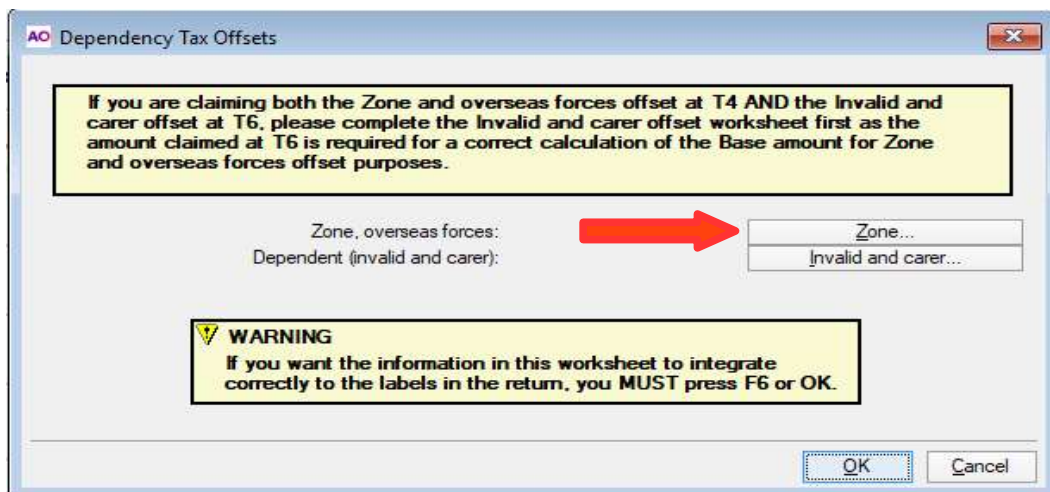
- Start with the zone area, which gives the greatest benefit.
- If the period in A) is less than 183 days then apportion the tax rebate claimed at A) using the number of days available.
- Repeat this step going down the list of zones until the full 183 days are accounted for.

**QUALIFYING PERIOD FOR ZONE TAX OFFSET IS 183 DAYS NOT 365 DAYS**

1. **Tax Offsets** tab > **T4** > click '**R**' to open schedule.



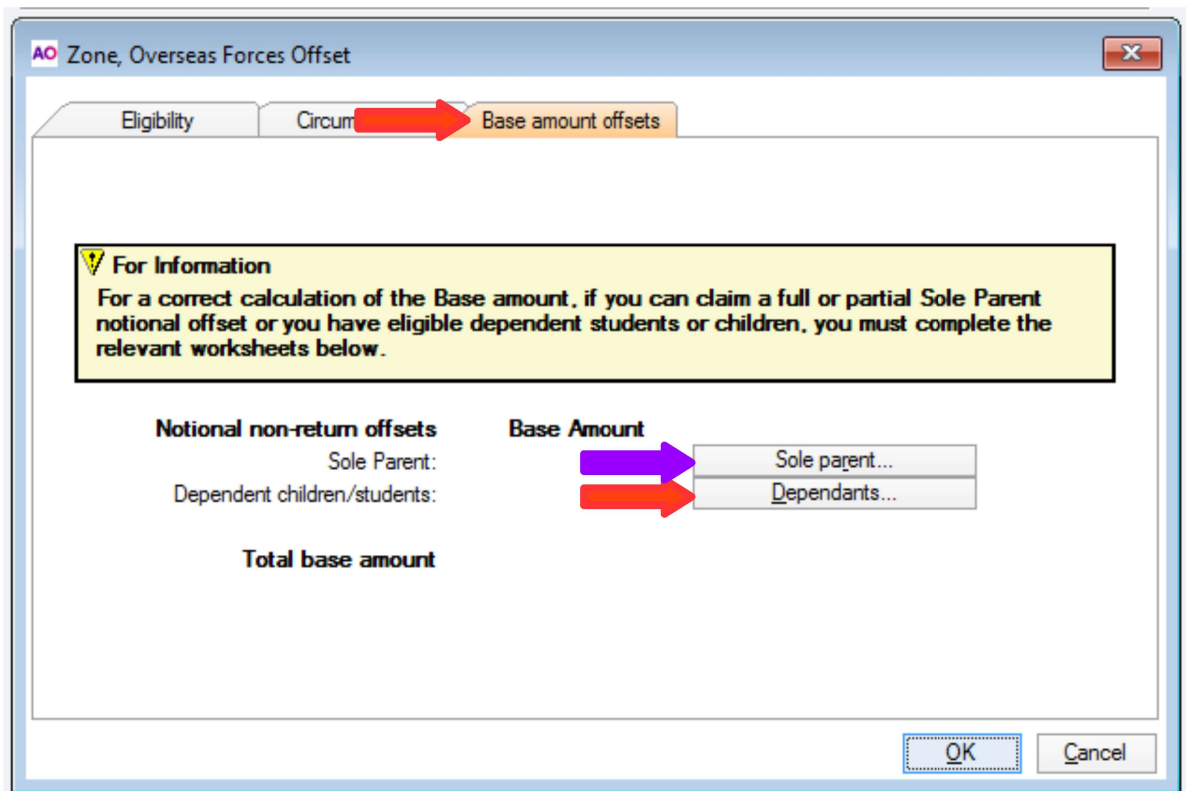
2. Click '**Zone**'.



3. **Eligibility** tab > **tick** the box (assuming client is eligible).

4. Click '**Circumstances**' tab > enter **Enter the number of days** given the taxpayer's circumstances. A list of the locations included in Zone's A and B (both, special and ordinary) can be found **here**: <https://www.ato.gov.au/Calculators-and-tools/Australian-zone-list/>.

5. **If client has dependants:** Click '**Base Amount Offsets**' > click '**Dependants**'



6. **Child/Student:** Click drop-down box and choose correct option Child or Student.

**Date of Birth:** Enter dependants DOB

**Name:** Enter first name

**ATI:** If under 13yo, no ATI. If above 13yo, ask client for ATI (estimate).

**Number of days:** Enter number of days child/student is dependant for client. Eg: 1day/week = 52days.

**Proportion:** Usually 100% unless shared custody. Either completed number or days or percentage. Eg: 366 days but 50% custody.

7. Click 'OK' to exit schedule.
8. **SOLE PARENT:** Click Base Amounts Offsets tab > Sole Parent
9. Tick all three spots to open boxes

AO Notional Sole Parent Offset

Sole Parent

Resident of Australia for tax purposes

Had sole care (full responsibility on a day-to-day basis) of a dependent child/student for all or some of the current income year

Dependent child or student under 25 with ATI less than \$1786

Number of days: 366

Number of children/students for Medicare: 2

Offset: 1607

[F1] for Help on Special Circumstances for partnered taxpayers having sole care of dependent children/students.

OK Cancel

10. **Number of days:** Enter number of days client is a SOLE PARENT. That is, NO partner/spouse.

**Number of children:** Enter number of children client was a sole parent for.

11. Click '**OK**' to exit schedule.

12. Once entered, MYOB will automatically calculate and apply the offset amount. See *below*. Click '**OK**' to close schedule.

**AO Zone, Overseas Forces Offset**

Eligibility   **Circumstances**   Base amount offsets

**Taxpayer's circumstances**

Time Spent in Australian Zones

Special Zone A:	<input type="text" value=""/>	Days
Ordinary Zone A:	<input type="text" value=""/>	Days
Special Zone B:	<input type="text" value=""/>	Days
Ordinary Zone B:	<input type="text" value="201"/>	Days

Time Spent in Overseas Localities

Prescribed ADF/UN overseas locality:	<input type="text" value=""/>	Days
Remote area:	<input type="text" value=""/>	Days

Offsets Calculated

Zone Offset Amount:	<b>57</b>	Overseas Offset Amount:	<b>57</b>
Total Offset (Higher of the Zone or Overseas forces offset):		<b>57</b>	

Base Amount:

Notional Invalid Offsets:

Invalid and invalid carer:

Remote Area Allowance:

Allowance:

**OK**   **Cancel**

## **ITEM T5 – INVALID/INVALID CARER**

You may be entitled to a tax offset if you maintained a invalid dependent who is an Australian resident for tax purposes, is an invalid or carer and is your:

- Spouse
- Child, brother or sister aged 16 years old or older
- Spouse's child, brother or sister aged 16 years old or older
- Parent, or
- Spouse's parent
- Their ATI was less than \$9,974

and who received

- a disability support pension under the *Social Security Act 1991*
- a special needs disability support pension under the *Social Security Act 1991*, or
- an invalidity service pension under the *Veterans' Entitlement Act 1986*?

A tax offset **cannot** be claimed if the dependent did not reside in Australia and was just visiting the taxpayer for a holiday.

### **INVALID RELATIVE**

An invalid relative is a child, brother or sister of the taxpayer, who is more than 16 years of age and is certified permanently incapacitated. In most cases the income they receive from government benefits is in excess of the ATI allowed.

## **ITEM T6 - LANDCARE AND WATER FACILITY**

Never used.

## **T7 EARLY STAGE VENTURE CAPITAL LIMITED PARTNERSHIP**

Never used.

## **T8 EARLY STAGE INVESTOR**

Never used.

## **ITEM T10 – OTHER TAX OFFSETS**

### **Heritage Conservation Tax Offset (abolished 1-7-1997)**

A 20% tax offset can be claimed for approved conservation expenditure of \$5000 or more on building or structures listed on the Commonwealth Government, State or Territory heritage register.

To be eligible for a tax offset, an application for a final certificate from the department of Environment and heritage would need to be lodged.

### **Interest from Government Securities**

A 10 % tax offset for each dollar of interest received from loans or securities issued before 1 November 1968 by the Commonwealth Government or State Government or Local Government authorities can be claimed.

### **Interest from Land Transport Facilities**

Any interest derived from the land transport facilities tax offset scheme or an election to have any interest derived from investment in infrastructure borrowings included as part of assessable income, may entitle the taxpayer to a tax offset of 30 cents for each dollar of interest.

## OTHER TAX OFFSETS

Tax offsets below **do not appear on the tax return**. They are calculated by the ATO and are shown on the assessment notice of the taxpayer.

It is therefore most important that the tax return is completely filled out with all appropriate information and codes for the taxpayer's income, **including spouse details and income where applicable**.

If this is not done the taxpayer will not receive the tax offsets they are entitled to and therefore the net tax will be incorrect.

### BENEFICIARY TAX OFFSET

A tax offset is allowable to recipients of a taxable allowance or benefit from Centrelink at **Item 5**. The tax offset is designed so that anyone receiving only a benefit or allowance for the full financial year will pay no tax (provided the taxpayer has limited other assessable income). The tax offset only applies to the amount of the benefit or allowance in EXCESS of \$6000.

### LOW INCOME TAX OFFSET

From 1 July 2021 a tax offset of \$700 will apply for taxpayers whose income does not exceed \$37,501. It will reduce by 5 cents for every dollar between \$37,501 and \$45,001, cutting out at \$66,667. This offset is calculated in dollars and cents.

Low Income Tax Offset =  $\$700 - \frac{[TI - \$37,501]}{25}$

### TAX OFFSETS FOR LUMP SUM PAYMENTS (LUMP SUM A AND ETP's)

As discussed earlier in Chapters 2 lump sum payments (Items 3 and Item 4) are not always taxed at the taxpayer's marginal rate of tax. These payments have a maximum rate of tax; therefore if a taxpayer marginal rate of tax is more than the maximum rate of tax for lump sum payments, they are entitled to a tax offset on their tax return.

#### Example.....

*Ron's taxable income is \$80000; his marginal rate of tax is 42 cents in the dollar. If his taxable income includes a Lump Sum A (Item3) of \$5000, from the table on the next page, Lump Sum A payments have a maximum rate of tax of 30 cents in the dollar. Therefore the taxpayer is entitled to a Lump Sum tax offset of 12 cents in the dollar on the Lump Sum A (.42 -.30 = .12)*

**NOTE** – No Tax Offset applies to Lump Sum B, D or Pre or Concessional Components. (These lump sums are not taxed on the full amounts received)

# **LOW AND MIDDLE INCOME EARNER TAX OFFSET**

The low and middle income tax offset has not been renewed for the 2022-23 financial year. The following information only applies to previous financial years.

Low and middle income earners may be eligible for the low income tax offset and the low and middle income tax offset. We work out the offset amounts when you lodge your tax return.

To be eligible for one or both of these tax offsets:

- you need to be an Australian resident for income tax purposes and pay tax on your taxable income
- your taxable income needs to be below certain income thresholds.

You don't need to complete a section in your tax return to get these tax offsets. If you meet the conditions above, your entitlement to any offset amount is added to your tax return. You can see the amount on your notice of assessment (you won't receive the offset as a separate payment).

The low and middle income tax offset amount is between \$255 and \$1,080.

The full offset is \$1,080 per annum but you might not receive the full \$1,080. The base amount is \$255 per annum.

This offset is available for the 2018–19, 2019–20, 2020–21, 2021-22 income years.

If your taxable income is between \$37,001 and \$126,000, you will get some or all of the low and middle income tax offset. This is in addition to the low income tax offset.

The amount of offset you receive depends on your circumstances, such as your taxable income and how much tax you have paid.

The table and graph below shows the amount of the offset you can receive depending on your taxable income.

<b>Taxable income</b>	<b>Low and middle income tax offset Offset</b>
\$37,000 or less	\$255
From \$37,001 to \$48,000	\$255 plus 7.5 cents for every dollar above \$37,000, up to a maximum of \$1,080
From \$48,001 to \$90,000	\$1,080
From \$90,001 to \$126,000	\$1,080 minus 3 cents for every dollar of the amount above \$90,000

**IT IS NOT A REFUNDABLE OFFSET!!!**