



A Beginner's Guide To The Tax-Free Threshold

There's no way around it. If you earn an income in Australia, it's a requirement of the Australian government that you pay income tax. This includes income earned from wages, salaries, profits from business, bank interest, side hustles and returns from investments. Income tax can also be applied to assets, such as property or shares.

If you are an Australian resident, you can earn up to \$18,200 per year without incurring income tax. That is called the tax free threshold. If you earn over \$28,200, you will be eligible to pay income tax on the excess.

The \$18,200 tax-free threshold is equivalent to:

- \$350 a week
- \$700 a fortnight
- \$1,517 a month.

If you earn less than \$18,200, you'll still need to file a tax return, but you can claim the tax-free threshold. If you have paid tax during the year and have earned below \$18,200, you will be eligible for a tax return.

If you've claimed the tax-free threshold and have earned over \$18,200, you will need to pay tax on the excess, which will be worked out at your end of year tax return.

Progressive tax system

Australia has a progressive tax system, which means that the more income you earn, the higher tax you pay. There are different tax brackets for residents, children, holiday makers and foreign residents. You will also be required to pay a 2% levy on Medicare after tax.

Resident tax rates 2019 - 20

Taxable Income	Tax On This Income
0 - \$18,200	Nil
\$18,201 - \$37,000	19c for each \$1 over \$18,200
\$37,001 - \$90,000	\$3,572 plus 32.5c for each \$1 over \$37,000
\$90,001 - \$180,000	\$20,797 plus 37c for each \$1 over \$90,000
\$180,001 and over	\$54,097 plus 45c for each \$1 over \$180,000

What if I have two jobs?

It's quite common for tax payers to derive their income from a variety of sources. You may have two jobs, or you may receive an income from a pension or government allowance in combination with a part time job.

If you have more than one payer, the tax-free threshold can only be claimed on one job, usually from the highest salary or wage. The second payer is required to withhold tax at the higher, 'no tax-free threshold' rate. This reduces the likelihood of having a tax debt at the end of the financial year.

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What is 'taxable income'?

Taxable income is the amount left over after your expenses to earn your income have been deducted. To calculate the income you will be taxed on, you'll need to add up your eligible claims and then subtract that from your income earned during the financial year. The result is your taxable income and the amount you'll need to pay tax on. Claiming all of your eligible deduction can considerably reduce your income tax.

How do I pay income tax?

If you work for an employer, your income tax will automatically be withdrawn from your wage or salary. Your employer is required to pay your tax to the Australian Taxation Office (ATO) directly with each pay period through their accounting software.

If you earn an income separately from your employer, such as from bank interest, shares or property, you'll need to account for that income yourself.

Each year, you'll need to complete an income tax return. Your tax agent will be able to access your income and tax already deducted from your employer, but you'll need to let your tax agent know if you have other streams of income. Sometimes, your employer will have paid enough tax on your behalf, and after deductions are made, you'll receive a tax return.

Who has to lodge a tax return?

All taxpayers will need to lodge a tax return, even if you earn under the threshold. This includes:

- Australian residents whose total income exceeds the \$18,200 tax-free threshold for the income year
- Any resident taxpayer earning less than \$18,200 who has had tax withheld for the income year through their job
- Every individual carrying on a business or professional regardless of income or loss

When do I need to lodge my tax return?

You'll need to lodge your tax return between the 1st July to the 31st October (the last day for lodgement). Extensions may be granted if you use a tax agent to lodge your return (up to the 15th May). Contact your nearest ITP Tax Accountant to discuss your lodgement date if you need to apply for an extension.

If you miss the tax deadline, it's not too late – but don't forget it entirely. The ATO has stiff fines and penalties for late tax returns. Working with a tax agent can help you minimise these penalties and help you navigate late tax return waters.

How can I claim my tax deductions?

It's a good idea to claim as many tax deductions as you can on expenses you have incurred for your job, as it can drastically reduce your income tax. This is often the reason why people receive a tax refund when they lodge their tax return.

If you have spent money in order to earn your income, such as purchasing and cleaning uniforms, paying for travel and meals expenses, or ongoing educational expenses you may be entitled to claim that cost as a tax deduction. Remember, you can only claim work expenses. Personal expenses cannot be deducted against your taxable income.

If you're not sure what you can claim, you can ask your ITP The Income Tax Professionals Tax Agent and they will help you work out all of your tax deductions. The best Tax Agents will often be able to work out deductions you didn't know you could claim!

Speak with an ITP Tax Professional about your tax return. They'll help you sort everything out – and their fees are 100% tax deductible. Tax time won't be confusing with the help of a tax professional.

ITP The Income Tax Professionals are more than tax agents. They have been helping Australian individuals and businesses with their business accounting and advice for 50 years and offer a wealth of knowledge. Speak to a Professional today and see how your business can be more profitable.



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