



Coronavirus and Income Tax Hike: How To Prepare

The impact of COVID-19 on the Australian economy has indelibly changed the landscape for many people. The Federal Government's response to the pandemic includes a \$320 billion commitment to support JobKeeper payments, the instant asset write off and credits paid back to businesses amongst other tax schemes in a bid to keep the economy afloat.

Once the crisis passes, federal and state governments will be seeking innovative ways to increase revenue to pay back the huge debt which likely will include tax incentives, changes to tax strategies and reforms to stimulate growth, cushion businesses and workers into stability and prompt growth to restore Australia's prosperity.

In the past, governments imposed levies after natural disasters to pay for recovery costs. After the second world war, the government increased income taxes, implemented a company tax and taxed excess profits due to wartime conditions. In 2014, the federal government implemented the temporary budget repair levy to reduce the budget deficit and collected \$3 billion over three years.

Australia has a progressive income tax system. This means that the more income you earn, the higher your tax rate. A Medicare levy of 2% is also imposed to help pay for our healthcare system. The levy is charged as part of your yearly income tax assessment. If you are a low income earner, your levy

may be reduced. The cost of private health insurance is taken into consideration. Higher education and loan scheme repayment will also have an impact on the amount of tax an individual will be obligated to pay.

Income that is taxable

Income that you must pay tax on includes money from:

- employment
- pensions and annuities
- most government payments
- investments
- capital gains
- income from trusts, partnerships or businesses
- foreign income

Tax brackets 2019-2020

These income tax rates show the amount of tax payable in every dollar for each income tax bracket depending on your circumstances.

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

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There are slightly different tax pay rates for foreign residents, children and working holiday makers.

Tax Deductions

Your income tax can be reduced by claiming deductions on the expenses you incur to earn your income. Employees (including casuals) can claim work-related expenses in the financial year they are incurred. In general, items that can be claimed include:

- vehicle and travel expenses
- clothing, laundry and dry-cleaning expenses
- home office expenses
- self-education expenses
- tools, equipment and other assets
- the cost of managing your tax affairs
- gifts and donations
- interest charged by the ATO
- interest, dividend and other investment income deductions
- personal super contributions
- undeducted purchase price of a foreign pension or annuity

Tax offsets

Tax offsets, also known as rebates, directly reduce the amount of tax payable and are applied after the tax has been calculated. Common tax offsets include offsets for:

- low-income and middle-income earners
- taxpayers with a invalid relative
- pensioners and senior Australians
- the taxable portion of a superannuation income stream

Paying the debt

Decision will need to be made to repay the COVID-19 debt, of which the following are possible options:

- Cut spend: The government might decide to reduce the expenditure on certain services, which will impact which services will be cut and by how much.
- Increase taxes: This option allows the current spending to remain, but will impact who will incur the extra cost and how much the rate will be increased.
- Borrow the money: The government might decide to borrow more money for key investments, which

might impact current services and repayment interest.

- Sell national assets: This will lead to increased revenue and is sometimes done to pay back past government borrowings.

How do you prepare?

Having a budget will help you feel more in control of your money. You'll be able to pay the big bills when they come in, plan for your savings to achieve your money goals and help you cope with changes to your income.

You'll need to have a clear picture of your income, expenses and tax obligations to set up a budget. Tracking your spending habits over a period of time will help you understand where your income goes. Record your income

Record how much money you earn from all income sources. This could be from a wage / salary, investments, a trust fund, pensions or interest on bank accounts.

Add up your expenses

Record your regular expenses including how much you paid, what you paid for and when you made the purchase. Some of your purchases will be essential purchases, such as rent / mortgage, heating, cooling, electricity, gas, council rates, insurance, household expenses, medical costs, car expenses, family costs. List down your debt expenses, such as personal loan repayments, credit card debt, car loan and mortgage debt. Calculate your taxes by using a tax calculator to understand how much of your income needs to be set aside if you don't pay tax as you go.

Calculate unexpected costs, such as vet bills, car repairs, medical bills, extra schooling costs. Make sure you have recorded all of your expenses from your bills and bank statements. Track your spending using an app as you go, which will save you time and effort. You'll be able to categorise your expenses to make it easier at tax time when it comes to claim your eligible tax deductions.

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Set your spending limit

Calculate the money left over between your expenses and your income. Knowing your available income will help incorporate any changes if your income changes. Track your spending money and always know how much you have spent.

Your budget is not set in stone. It pays to review your budget regularly, as well as look at suppliers for electricity, gas, phone and internet. If you can't cover your expenses, you may have to reduce your spending money or try to earn more income. Knowing your real time money position will help with any changes to extra costs that may be implemented in the future.

Taxation

Individual income tax can be complex, and everyone's situation is different. If you want to get professional advice, think about choosing an ITP Tax Accountant to help manage your tax and lodge your tax return. Not only will they help you find all of your legal tax deductions and reduce your overall tax, their fees are 100% tax deductible.

No matter what changes are coming in the foreseeable future, and ITP Tax Accountant will know how to minimise your tax bill. Phone 1800 367 487 or book online at www.itp.com.au today.

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