



What has tax got to do with Australia Day?

Australian Day is a cause for celebration. It's a day people celebrate two-up, emu racing and our fantastic beaches. It's a day many people choose to become Australian citizens. As an Australian citizen, you're entitled to the freedoms of our great country, as well as being obligated to pay personal income tax. However the tax laws work a little differently than the same residency tests used by other Australian agencies, such as immigration.

So, how do you know if you're paying the right amount of tax?

It pays to know as you might need to pay a higher rate of tax and you don't want to end up in hot water when it comes to the Australian Taxation Office (ATO).

To understand your tax situation, you have to understand your residency status in the eyes of the ATO. You may be classified as a resident for tax purposes even if you're not an Australian citizen. You'll need to satisfy one of four residency tests to determine if you are an Australian resident for tax purposes.

The Resides Test

If you live in Australia and 'dwell permanently' in a usual abode or particular place, you will be seen to 'reside' here. This includes the test looking at your physical presence in one location, intention and purpose of your stay, family, business and

employment ties, maintenance and location of assets, social and living arrangements.

The Domicile Test

A domicile is considered to be your permanent home by law and will have a degree of permanence for you, and not be transitory in nature. It is something more than a residence. You may only have one domicile at the one time.

The 183 Day Test

If you are present in Australia for more than half of the income year you may be looked upon as having your abode inside of Australia. This can be on a continuous or intermittent basis. Your 'usual place' of abode is not seen as your 'permanent place of abode', and doesn't have to be a fixed location, however it must exhibit signs of residence rather than that of a transient traveller. The 183 day test only applies to individuals arriving in Australia.

The Commonwealth Superannuation Fund Test

This test only applied to some Australian Government employees who contribute to the PSS (Sector Superannuation Scheme) or the CSS (Commonwealth Superannuation Scheme). You will be considered to a resident of Australia regardless of other features.

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As an individual, you'll fit into one of three categories:

1. Australian resident for tax purposes
2. Foreign resident
3. Temporary resident

Australian Resident for Tax Purposes

If you satisfy the residency tests, you will be considered to be an Australian resident for tax purposes. You'll need to declare all of your worldwide income, even if you have paid tax overseas. If you have earned money from overseas, a tax offset is generally available to reduce the Australian tax on the same income. You'll also be able to make all of your legal tax deductions in order to reduce your taxable income.

Foreign Resident (Non-Resident of Australia)

As a foreign resident, you'll need to declare your income earned in Australia including your employment income, rental income, investment income, interest unfranked dividends and royalties, franked dividends, business income, Australian pensions and annuities, capital gains on Australian assets when you lodge your tax return. The capital gains on your Australian home may need to be included on your tax return if you were a foreign resident at the time of purchase. This income will be subject to the foreign resident tax rate.

You'll have no tax-free threshold and will not need to pay the Medicare levy. If you have a Higher Education Loan Program (HELP) or Trade Support Loan Debt (TSL) you'll need to declare your worldwide income or lodge a non-lodgement advice.

Certain types of income, such as unfranked dividends and interest income may be subject to PAYG withholding tax. This income is usually deducted by the financial institution or share issuer before it is paid and won't need to be reported on your tax return.

Capital Gains Tax (CGT) may apply on investments owned that are not Taxable Australia Property under disposal rules at the time you were a non-resident. CGT discount may also not be available.

Australia has tax treaties with other countries, which may affect the tax you need to pay. It's important to make sure your financial institutions have your current address and residency status as they will deduct the right amount of tax you need to pay.

Temporary Resident

You'll be deemed a temporary resident by the Australian Taxation Office if you hold a temporary visa or if you or your spouse are not an Australian resident under the meaning of the Social Security Act 1991 – that is, not an Australian citizen or permanent resident.

You'll only need to declare the income you earned in Australia and any income from employment or services performed overseas while you were a temporary resident of Australia. Foreign income and any capital gains will not need to be declared. You'll be able to make tax deductions on the income you've earned while in Australia to reduce your total taxable income. Different rates of income tax will apply.

Personal Income Tax

Personal income tax is required to be paid on every dollar of income earned above any relevant tax free thresholds. There are different tax brackets for Australian residents and non-residents.

Tax Rates for Residents 2020-21 (excluding Medicare levy of 2%)

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

Tax Rates for Foreign Residents 2020-21

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

There are separate rules for dual residents and working holiday makers. It's important to understand your residency status so that you're aware of your tax and reporting obligations in Australia. You'll need to know what you should declare on income earned in Australia or overseas including employment or investment income as it can have serious consequences if the information you give to the ATO is incorrect.

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Australian residents, foreign residents and temporary residents are all able to employ the help of a tax agent when they declare their income and lodge their tax return. An ITP tax agent has undergone rigorous education and experience and will be able to advise and guide what you'll need to do.

ITP have helped Australian individuals and businesses for 50 years. Phone 1800 367 487 and chat with one of our friendly Tax Accountants today. You'll also be able to book an appointment online to find a date and time that suits you.

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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