Objectives:
Understand taxation policy
- Fiscal adequacy
- Equity
- Economic efficiency
- Simplicity

Understand income tax basics:
- Sources of Australian taxation law
- Principles of statutory interpretation
- Introduction to income tax

1. Introduction

Overview income tax basics

Online Activity 1 Before you commence please use the Discussion Board on learn line to introduce yourself to other students in the unit.

This topic examines tax policy and ethics before considering other introductory tax issues, such as: ethics, the taxation powers in the Constitution, the sources of tax laws, statutory interpretation principles and rules, the doctrine of precedent.

3. Policy

Case aims: The study of policy is useful in that it will provide a framework in which to critically appraise the current tax system and future tax reform proposals.

Taxation policy focuses on two essential issues:
- how much tax to collect; and
- who pays?

How much tax should be collected?

This is the vital question of public policy that directly determines the level of services that the citizens of a country receive. Some countries (such as Sweden, Belgium, Finland and Denmark) have taxes that are almost equal to 50% of gross domestic product (GDP). Other countries, such as Australia, United States, Japan and Ireland, have taxes that are about or less than 30% of GDP. Of course, there are marked differences in government services between these countries.

Who pays?

Over 200 years ago, Adam Smith produced four functional criteria for assessing a tax system:

Equality: when ability to pay is taken into consideration, a good tax should distribute the burden of supporting more or less equally among those who benefit from government.

Convenience: The time and manner of payment should be as convenient as possible for the taxpayer.

Certainty: The amount of tax that is due, the method of payment, and the deadline for payment should be clear so that each taxpayer can be certain about his or her obligations.

Efficiency: The cost of administering the tax should be as low as possible so that a large fraction of what is taken from the taxpayer’s pocket is not used up in collecting taxes.

Today, a similar set of functional criteria for designing a tax system of fiscal adequacy, economic efficiency, equity and simplicity is well accepted in Australia and internationally. While other objectives do exist for tax policy, the central focus involves these four functional criteria.

Economic efficiency

Taxes obviously influence behaviour, thus it is thought by some economists that taxation could be used to encourage certain types of behaviour that generate economic growth. For example, taxing a particular activity or good will discourage that activity or the purchase of that good; conversely, an exemption will encourage certain behaviour. That begs the question, what are the contributors to economic growth and what are the effects of taxation policy? Also, a related issue queries how well economists can measure or predict the effects of tax changes on economic growth.

There are many economic theories, although the market approach clearly takes precedence in the modern taxation debate. Under the market view economists prefer a neutral tax system because such a system does not favour nor discourage similarly placed activities or classes of taxpayer, as described by A Smith in An Inquiry into the Nature and Causes of the Wealth of Nations so as not to distort the market forces, for consumption, production, trading, investment and financing. Under a neutral income tax system, all types of income (economic income) would be equally subject to income tax.

Equity

From a justice perspective, tax laws that are fairer or more equitable will be preferred, although there are a number of views as to what constitutes fairness or justice. However, it is generally accepted in the modern tax debate that equity should be considered in terms of horizontal and vertical equity.
**Horizontal equity**

A generally accepted and fundamental principle of social justice demands equal treatment for people in similar circumstances. In a tax sense this requires the determination of a tax base, to measure similar circumstances so that an appropriate amount of tax is imposed on a taxpayer. Accordingly, most commentators have defined the tax base by a taxpayer’s ability to pay.

Thus, the classic definition of horizontal equity requires that those having an equal ability to pay, bear equal burdens of tax. Ability to pay could be based on income or wealth or a combination thereof. However, to ensure equity, the tax base should be defined as comprehensively as possible, so as to include both income and wealth. Thus, the Haig-Simons formulation of economic income has become a widely accepted means of defining ability to pay, as this approach includes both income and wealth gains. For example, Dave and Shelly both earn $80,000 and both pay $20,000 income tax, thus horizontal equity is satisfied.

**Vertical equity**

Horizontal equity only concerns the equal treatment of equals, so as a corollary, vertical equity is required to ensure that the tax imposed on people in different circumstances is also fair. While there are different notions of what constitutes vertical equity, it is clearly not fair that a person with a lower ability to pay, should pay more tax than a person having a greater ability to pay. Indeed, most countries have progressive rates of income tax, so as to try to ensure that a person with a greater ability to pay pays not only more tax, but at a higher income tax rate. For example, Dave earns $80,000 and pays $20,000 income tax (at 25% tax rate) and Shelly earns $100,000 and pays $30,000 income tax (at 30% tax rate), thus vertical equity is satisfied.

**Simplicity**

Simplicity cannot be easily defined. Cooper found that simplicity has elements of predictability, proportionality, consistency, compliance, administration, coordination and expression. Tran-Nam defined simplicity in terms of the degree of difficulty of establishing the amount of tax liability, and collecting and enforcing tax.

Simplicity can also be measured in a number of ways, for example:

- the writing style of the tax legislation written
- the degree of difficulty of the content of the tax legislation
- by the behaviour of taxpayers and tax administrators to the tax law, or
- the costs of operating the tax.

The first three methods of measurement are very difficult to quantify. For example, a tax law may be simply written, such as the definition of ordinary income in s 6-5(1). Yet defining ordinary income is a highly complex task as seen by the hundreds of court cases involving ordinary income. Similarly, simple content in the legislation can give a misleading impression of its simplicity. Also, a complex piece of legislation that replaces a myriad of judicial principles may be simpler. Additionally, behaviour is undoubtedly an important aspect to be taken into account in designing a tax law. Whether taxpayers comply with a law is an indicator of whether it is understood, but again this is difficult to measure. The same
applies to measuring the responses of tax administrators. Of course, the proliferation of tax exemptions and concessions in the income tax laws has added considerable volume and complexity to the law. For example, have a look at the following concessions:

The most rigorous and generally accepted measure of simplicity seeks to identify the operating costs of a tax law. Operating costs consist of compliance costs of taxpayers and the administration costs of the government. Simplicity can, theoretically at least, be measured by estimating these operating costs, and dividing this amount over the amount of tax revenue. It follows that simplicity will improve where the operating costs or this ratio falls.

Compliance costs can be defined as the costs incurred by taxpayers, or third parties such as businesses, in meeting the requirements laid upon them in complying with a given structure and level of tax. Taxes, though, can provide a number of benefits to taxpayers that may offset these costs. First, compiling accounts for tax purposes can provide useful information to management for the conduct of business. Second, the compliance costs are tax-deductible expenses. Third, various tax concessions offer the temporary or permanent deferral of tax.

Compliance costs can thus be represented by the following equation:

Compliance costs = costs of taxpayers complying with tax laws
 minus managerial benefits to taxpayers
 minus tax deductibility benefits

Taxation administration can be categorised into four types of government activities: tax policy, design and planning; tax law drafting and enactment; Australian Taxation Office, and tax dispute resolution. Administration costs can thus be represented by the following equation:

Administration costs = tax policy, design and planning costs
 + tax law drafting and enactment
 + Australian Taxation Office costs
 + tax dispute resolution

Overall, as Stiglitz noted, an optimal tax is ‘the one that maximizes social welfare, in which the choice between equity and efficiency best reflects society’s attitudes toward these competing goals’.1

4. Ethics

Ethical behaviour can be described as acting with integrity which in turn means telling the truth, avoiding shady and illicit dealings, refusing to take or give bribes it means being true to oneself. Tax preferences damage tax integrity as they provide taxpayers and tax advisers with both the rationale and opportunity for tax avoidance and tax evasion. Additionally, such preferences may affect tax administration as administrators may be tempted to provide favourable interpretations of the law so as to satisfy the requirements of an income tax preference.

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1 J Stiglitz, Economics of the Public Sector, (2nd ed, 1988), 478-479.
Taxing comprehensive income limits tax avoidance and evasion activities that take advantage of income tax preferences. This prevents resources being wasted on low-yielding investments and tax planning. Such tax avoidance means that income tax rates and other taxes must be higher. The net effect of tax avoidance has been almost certainly a shift from taxes on income to other forms of taxation, usually indirect taxes. Consequently, a comprehensive income tax appears to both lead to a reduced reliance on indirect taxes and reduced levels of tax avoidance.

Given the significant breaches of horizontal equity and vertical equity in the Australian tax system one may surmise that this would impact heavily on the ethics of the players in the tax system.

A review of recent ATO media releases provides a number of examples of tax professionals committing fraud. For example, a Tamworth accountant was gaol for two years and three months for GST and income tax fraud totalling $114,248. An accountant created three business entities and registered them for GST but the businesses never traded and she lodged eight activity statements. She further claimed false tax deductions in her 2002 and 2003 personal income tax returns. Further, a former Victorian accountant was sentenced to two years gaol in the Melbourne County Court for GST fraud totalling $861,741.

The recent Australian experience with mass-marketed tax schemes illustrates the lack of ethical conduct of certain tax professionals. The Australian Senate Economics Reference Committee into the operation of the ATO found that mass-marketed schemes posed a major risk to revenue. The ATO disallowed deductions from these schemes worth $1.5 billion, claimed by 22,000 taxpayers. The inquiry noted estimates of tax avoidance by high-wealth individuals of $800 million per annum.

More recently, the ATO and other government agencies have been engaged in Project Wickenby. This is a multi-agency taskforce investigating internationally promoted tax arrangements allegedly involving significant tax avoidance or evasion, and in some cases large-scale money laundering.

As a consequence of such conduct, the Federal Government introduced harsh new penalties in Div 290 and subdiv 298-B of the Taxation Administration Act 1953 (TAA 1953) to deter the promotion of tax exploitation schemes. Previously, there were no civil or administrative penalties for the promoters of these schemes. Such promoters were able to make substantial profits yet investors may be subject to penalties under the TAA 1953.

5. Sources of Australian taxation law

There are three sources of taxation law: statute law (eg, ITAA 1997); case law (eg, High Court, Federal Court, Administrative Appeals Tribunal); and the practice of the ATO (eg, Public Rulings).

Statute law

This text focuses on the tax laws made by the Commonwealth Parliament (known as Acts of Parliament, statutes or legislation). These laws help govern how our society operates and how people behave with one another. The most important legislation dealt with in this book includes:

- Income Tax Assessment Act 1936 (ITAA 1936)
• A New Tax System (Goods and Services Tax) Act 1999 (GSTA 1999)

Case law

There are two main roles for case law: to create law to fill a legislative vacuum (ie, what is income this is becoming rarer given the detail of modern legislation); and to interpret legislation (ie, determining the meaning of income). Most of the case law referred to in this textbook is provided by the High Court and Federal Court, the Administrative Appeals Tribunal and its predecessor, the Boards of Review. Some references are also made to international tax cases.

Australian Taxation Office rulings

The ATO issues public rulings. These rulings are binding as a taxpayer following these rulings will be protected from penalty or any other adverse consequences from the ATO. Prior to the public rulings system ATO rulings were only administratively binding on the ATO. A taxpayer can apply to the ATO for a private ruling if they are unsure of how the income tax laws affect him or her. These rulings are important in practice as they provide certainty as to the Commissioner’s attitude as to the application of the ITAA. However, ATO rulings do not constitute law and carry far less weight than the legislation and case law.

6. Principles of statutory interpretation

Tax is complex and words or phrases in a taxing provision may have more than one meaning, involve technical terms, or have unclear meaning. Thus principles have been developed both by courts and by Parliament, to aid in the reading of legislation.

The courts have tended to view tax laws with the same judicial intolerance as accorded to penal statutes. Thus, the traditional approach has been only to tax where there are clear words for that purpose, that is, a taxing Act is to be given its literal meaning, any ambiguities are resolved in favour of the taxpayer. Likewise, provisions exempting tax are to be construed in favour of the taxpayer where there is doubt. There are many principles that the courts have developed, and these include the following.

Literal rule

This was originally regarded as the most important rule. It operates to give words their ordinary and natural meaning when used in the Act, allowing them to be understood in context. Thus, this meaning will be followed even if it leads to absurd results, as it will be up to Parliament to correct it. The problem with such an approach is that it does not consider the taxation policy goals or legislative purpose, and thus facilitates manipulation of the taxation laws.

For example, in the 1970s Barwick CJ in the High Court frequently adopted a very strict formal and literal approach to interpreting taxation statutes. Consequently, a number of artificial tax avoidance schemes that were challenged by the Commissioner of Taxation were not struck down by the High Court.

Golden rule
The courts apply the literal meaning unless some absurdity arises, so the literal meaning is modified to avoid the absurdity. But as to what is absurd, different judges will have different views.

**Mischief rule**

Where the legislative meaning is unclear, the mischief rule directs the court to ascertain the provision’s meaning by reference to the state of the law before the passing of the Act, the mischief or problem which the pre-existing law created and the legislative remedy that the Parliament introduced. The court then construes the legislation so as to ensure that the legislation deals with the mischief.

**Purposive approach**

Obviously there exists considerable tension between these rules, for example, a literal interpretation may encourage tax avoidance (see *Curran v FCT* 74 ATC 4296), while a purposive approach will make it harder for tax avoidance: see *John v FCT* 89 ATC 4101. Thus, given this flexibility the matter of statutory interpretation is ultimately driven by judicial philosophies or attitudes.

For example, in the 1970s the literal rule was dominant which encouraged large-scale tax avoidance through bottom of the harbour and other schemes. However, the 1980s and 1990s have seen the Federal and the High Court adopt a purposive approach (and thereby close down such blatant schemes).

*FCT v Students World (Australia) Pty Ltd* 78 ATC 4040, an anti-avoidance case, marked the move to a purposive approach, where the court stated that a wide interpretation should be given to anti-avoidance provisions.

**On line Activity 3:** Read *FCT v Students World (Australia) Pty Ltd* 78 ATC 4040

**Other judicial rules**

Ejusdem generis (of the same kind or nature) rule. Legislation may not list out all the kinds of things or types of conduct to which the Act may apply. This legal presumption provides that the general word will be limited to include only things or conduct within the same category as the preceding listed words.

Noscitur a sociis (meaning can be gathered from the context) rule. This legal presumption provides that if a word can have more than one meaning, then the meaning of other words with which that word is associated in the provision can be used to interpret its meaning. There must be a group of words with similar meaning and a word that is ambiguous. Thus the meaning of the ambiguous word can be obtained having regard to the context of the similar words. (Unlike ejusdem generis it does not require the word to be a general word following a group of specific words.)

General words are to be given their ordinary and popular meaning. For example, the meaning of income is given its ordinary meaning: see *Scott v C of T* (NSW) (1935) 35 SR (NSW) 215. Technical words generally are given their technical meaning. Act to be read as a whole. You need to take into account that the purpose of the ITAA is to calculate taxable income, that is, assessable income less deductions.
Words are assumed to be used consistently throughout the Act. This is made clear in the ITAA 1997 which has a dictionary at s 995-1 and relies on common meanings for words throughout.

**Rules developed by Parliament**

**Definitions**

Legislation may define the meaning of a particular word in a dictionary or a definitions section. The defined word must be used if it is used in the statute. For example, the definitions can be found in s 995-1 ITAA 1997.

**Online Activity 4** Read s 995-1 ITAA 1997

Definitions are expressed in a number of ways. “Means” definitions. A definition phrased this way suggests that the defined word has a conclusive meaning (entirely determined by the definition provided). “Includes definitions” A definition phrased this way suggests that the word takes on its ordinary meaning as well as the meaning added by the definition (that is, it extends the meaning of the word).

**Intrinsic materials**

Intrinsic materials consist of the materials contained within the legislation. For example, to help interpret an Act the court could use the long title or short title of the Act, the preamble (the preamble gives the reasons why the Act was enacted), statement of objects clauses, the division or chapter headings of the statute, schedules, guides, notes and examples. The court though cannot use the marginal notes and footnotes.

**Past court decisions**

If a term is not defined in the statute, past court decisions can be used for determining the meaning of words. Legal publications such as Halsburys Laws of Australia (Butterworths Australia) can assist in the interpretation of words in a statute.

**Legal dictionaries**

If a term has not been examined by a court, then the ordinary meaning of a word can be determined by a dictionary.

**Statutory approaches to interpreting legislation**

The Acts Interpretation Act 1901 (AIA) provides both general and specific rules for the interpretation of Commonwealth legislation. Under the AIA, statutory interpretation is based on reading the statute as a whole and in its context. The interpretation of each provision must be made within the context of the Act. Thus intrinsic materials (noted above) are an important part of the context of a law. In addition to intrinsic materials, other materials may include: the history of the need for the legislation, the deficiencies of the previous legislation or judge-made law, the Australian Constitution, Law Reform Commission reports, reports of other advisory bodies and any material that could assist with the understanding of meaning.

Traditionally courts have not taken into account materials outside the Act in determining purpose. This has been relaxed by the introduction of s 15AB of the Acts Interpretation Act,
so that courts may now refer to extrinsic materials: ie explanatory memoranda, second reading speeches and parliamentary committees in ascertaining the meaning of a provision.

**Online Activity 5:** Read Acts Interpretation Act 1901 ss 15AA, 15AB

**Doctrine of precedent**

This requires a court lower in the judicial hierarchy to follow and apply a legal principle established by a higher court. The High Court is the highest court, followed by the Federal court and then the Administrative Appeals Tribunal (the lowest).

**7. INTRODUCTION TO INCOME TAX**

There are two central pieces of income tax liability law. As part of the Tax Law Improvement Project the government undertook a rewrite of the ITAA 1936 to make the law easier to understand and to improve its structure. Thus, the ITAA 1997 was introduced, partially replacing the old Act.

The ITAA 1997 and the ITAA 1936 consist of the following Chapters and Parts respectively:

**ITAA 1997 (CHAPTERS)**

The ITAA 1997 consists of six chapters and focuses first on core and general tax provisions (Chapters 1 and 2) before moving on to the more specific and specialised provisions (Chapters 3 to 6).

1 — Introduction and core provisions
2 — Liability rules of general application
3 — Specialist liability rules
4 — International aspects of income tax
5 — Administration
6 — The dictionary

**ITAA 1936 (PARTS)**

I — Preliminary
II — Administration
III — Liability to taxation
IIIB — Australian branches of foreign banks
IV — Returns and assessments
IVA — Schemes to reduce income tax
VA — Tax file numbers
VIIB — Medicare levy and Medicare levy surcharge
VIII — Miscellaneous
X — Attribution of income in respect of controlled foreign companies
XI — Foreign investment funds and foreign life assurance policies

**Online activity 6:** Read ITAA 1997 Chapter 1

**Non-operative material**

Some parts of the ITAA 1997 contain other material to help you understand the law. It is important to note that these provisions are not operative law. These provisions fall into two main categories: Guides and Other material.

A guide consists of sections under a heading indicating that what follows is a guide to a particular subdivision, division etc: see s 2-40. Guides form part of this Act but are kept separate from the operative provisions. Other material includes notes and examples also form part of the Act, but are separate from the operative provisions.

**INCOME TAX EQUATION**

The following equation provides for the calculation of income tax:

Income tax payable (refundable) = (taxable income x tax rates) plus (Medicare levy and Flood levy) minus (tax offsets and credits).

To work out your income tax payable/refundable you need to calculate income tax on taxable income; medicare levy, flood levy, tax offsets and credits, and then inserting these amounts into the above equation. These terms are explained as follows:

**Taxable Income**

The first step in working out income tax is to calculate taxable income by using the equation:

\[
\text{Taxable Income} = \text{Assessable Income} - \text{Deductions}
\]

Future topics deal with assessable income and deductions. Topic 1 mainly deals with tax offsets, credits, medicare levy and flood levy before undertaking income tax calculations as follows.

**Tax offsets**
A tax offset (sometimes known as a rebate) is an amount which reduces income tax payable. This is not be confused with a deduction, which reduces taxable income (see income tax equation).

Generally the total of the tax offsets and rebates are limited to the amount of income tax (excluding Medicare levy) otherwise payable by the individual taxpayer, ITAA97 s 4-10(3); ITAA36 s 160AD. However, some tax offsets are transferable, that is the unused portion of these tax offsets can be transferred to the spouse. Also, some tax offsets are refundable (e.g. the private health insurance offset). There are also carry forward tax offsets, that is the excess of these offsets can be carried forward to future income years (excess franking offsets). Division 13 ITAA 1997 provides a comprehensive listing of tax offsets. Some important tax offsets are set out below:

**Online activity 7:** Read s 13-1 ITAA 1997

**Dependants Rebates**

A resident taxpayer who pays maintenance for one or more dependants (that are residents) may obtain a rebate of tax under ITAA36 s 159J, 159H. A dependant for whom a rebate is claimed must also be a resident (15-050). The maximum dependants rebate varies from year to year. The dependency tax offsets are limited to individuals earning $150,000 or less. These rebates include: dependent spouse, housekeeper, child-housekeeper, invalid relative, parent and parent-in-law.

**First Child Tax Offset**

This tax offset (also called the baby bonus) applies to the first child for whom legal responsibility is assumed from between 1 July 2001 and 30 June 2004. However, from 1 July 2004 the first child tax offset is phased out, with a deadline for claims by 30 June 2014. The offset is a refundable tax offset, that is, it is not limited to the amount of tax otherwise payable.

**Medical Expenses Rebate**

Taxpayers whose net medical expenses in a year of income exceed the threshold can obtain a rebate, ITAA36 s 159P. The rebate is 20% of the excess of net medical expenses over the threshold. The medical expenses must be paid by a resident taxpayer in respect of his or her own health or a resident dependant.

**Private Health Insurance Offset**

Private health insurance premiums are available as a tax offset, ITAA97 Subdiv 61-G; or by direct payment or by lower health insurance premiums.

**Education tax refund**

The education tax refund provides a fully refundable tax offset, subdiv 61-M. Subject to eligibility requirements a taxpayer can claim up to 50% of eligible education expenses up to $750 for each eligible child in primary school (a refund of up to $375) or $1500 for each eligible child in secondary school (a refund of up to $750). If the expenses exceed the refund limit, the excess can be applied to the following years refund where the taxpayer remains eligible. The excess can only be carried forward for one year. The offset is refundable.
Housekeeper Rebate
Notional Sole Parent Rebate
Low Income Rebate
Senior Australians Tax Offset
Pensioner Rebate
Beneficiary Rebate
Entrepreneurs tax offset
Zone and Overseas Forces Rebates
isolation, poor climate and cost of living, compared to Zone B.
Overseas Forces Rebates
Income Arrears Rebate
Medicare levy surcharge lump sum arrears offset
Mature Age Worker Tax Offset
Dividend Franking Tax Offset
Primary Producer Averaging Tax Offset
Small Company Research and Development Tax Offset
Superannuation and Superannuation Funds

Tax Credits
Tax credits reduce the income tax payable and may result in a refund (where tax credits and tax offsets exceed income tax and medicare levy). Tax credits commonly include Pay as you go withholding tax (PAYG), income tax that employers withhold on behalf of their employees; and interest and dividend withholding tax (eg where a tax file number is not quoted).

Medicare levy
In addition to income tax, a Medicare levy is imposed on the taxable income of most resident individuals: see subs 251R and 251S ITAA 1936. The levy is imposed at the rate of 1.5 per cent of taxable income. The Medicare levy does not apply to low income individuals, families and aged pensioners.

Surcharge
An additional 1 per cent Medicare levy applies to single individuals if they do not
have private hospital cover through private health insurance and where their taxable income exceeds $80,000 for 2011-12, or couples and families with income in excess of $160,000 for 2011-12.

**Flood levy**

Individuals (residents and non-residents) who have a taxable income over $50,000 in the 2011-12 will also have to pay the flood levy. Certain taxpayers are exempt from the flood levy if their:

- taxable income is $50,000 or less; or
- are in receipt of a Centrelink Australian Government Disaster Recovery Payment for a declared natural disaster that happened during 2010-11.

The Flood levy is calculated as follows:

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>flood levy on taxable income</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 to $50,000</td>
<td>Nil</td>
</tr>
<tr>
<td>$50,001 to $100,000</td>
<td>Half a cent for each $1 over $50,000</td>
</tr>
<tr>
<td>Over $100,000</td>
<td>$250 plus 1c for each $1 over $100,000</td>
</tr>
</tbody>
</table>

**Example**

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>flood levy on taxable income</th>
</tr>
</thead>
<tbody>
<tr>
<td>$70,000</td>
<td>$100.00</td>
</tr>
<tr>
<td>((70,000-50,000) \times 0.005)</td>
<td>( )</td>
</tr>
<tr>
<td>$120,000</td>
<td>$350.00</td>
</tr>
<tr>
<td>((100,000-50,000) \times 0.005 = 250)</td>
<td>( )</td>
</tr>
<tr>
<td>((120,000-100,000) \times 0.01 = 100)</td>
<td>( )</td>
</tr>
</tbody>
</table>

**Income Tax Rates**

**Individuals**

The income tax rates for the current income tax year are:

<table>
<thead>
<tr>
<th>Tax rates 2011-12 resident</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable income</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>$1  $6000</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>$6001 - $37,000</td>
</tr>
<tr>
<td>$37,001 - $80,000</td>
</tr>
<tr>
<td>$80,001 - $180,000</td>
</tr>
<tr>
<td>$180,001 and over</td>
</tr>
</tbody>
</table>

Thus, using the above rates, income tax for taxable income of $37,000 for a resident is $4,650. Income tax for taxable income of $5,000 for a resident is $0.

**Companies**

The company tax rate is 30%.

**Superannuation funds**

Two alternative tax rates (15% or 45%) apply to the different types of superannuation funds. For the standard component of a complying superannuation fund the tax rate is 15%.

**Calculate income tax payable/refundable for an Individual**

Simply use the above the income tax equation to work out income tax payable/refundable for the current income tax year ended 30 June 2012.

**Online activity 8:** A & B both earn $50,000 and both pay $15,000 income tax. Are A & B horizontally equitable?

**Online activity 9:** A earns $50,000 and pays $10,000 income tax, and B earns $100,000 and pays $10,000 income tax. Are A & B vertically equitable?

**Online activity 10:** A earns $50,000 and pays $10,000 income tax, and B earns $100,000 and pays $30,000 income tax. Are A & B vertically equitable?

**Online activity 11:** Erica earns $200,000 wages and $5,000 rental income and has $68,000 of PAYG withholding tax deductions for the current tax year. She has private hospital cover.

a. What is her taxable income for the current income tax year?

b. How much income tax is payable/refundable?

**Online activity 12:** Australian Tax Chapter 2 Practice Problems 1-5.