

**Australian Government****Australian Taxation Office**

Income averaging for special professionals 2009

To help you complete your tax return
for 1 July 2008 – 30 June 2009

WHO IS A SPECIAL PROFESSIONAL?

A special professional is an artist, composer, writer (this category includes a computer programmer), inventor, performer, production associate or sportsperson. Theatre entrepreneurs are not special professionals.

Artist, composer, writer or inventor

If you are employed as an artist, composer, writer or inventor, you are a special professional only if you are engaged or commissioned to produce one or more specified works, or to invent one or more specified inventions, and successive engagements or commissions do not result in continuous employment over a substantial period of time. This means that journalists, draughtspersons and graphic artists do not qualify as special professionals simply as a result of their ordinary employment.

Performer

You are a special professional if you use intellectual, artistic, musical, physical or other personal skills in the presence of an audience or you perform or appear in a film, on a tape or disc, or in a television or radio broadcast.

Production associate

You are a special professional if you use artistic rather than technical skills in the production.

Sportsperson

You are a special professional if you compete in sporting activities where you primarily use physical prowess, physical strength or physical stamina. A navigator in car rallying, a coxswain in rowing or a similar competitor is also a special professional. You are not a special professional if you coach or train competitors, umpire or referee sport, administer sport, are a member of a pit crew in motor sport, own or train animals, or are a sports entrepreneur.

WHO IS SUBJECT TO INCOME AVERAGING?

You are subject to income averaging – a concessional tax treatment – if:

- you are an individual who is an Australian resident at any time during the income year
- you are a special professional, and
- you satisfy the first year requirements (see below) in either the current income year or an earlier income year.

The first year that special professional income averaging applies is the first income year for which the taxable professional income (TPI) you earned as a resident special professional individual is more than \$2,500. This is known as year 1.

TAXABLE PROFESSIONAL INCOME

TPI is the amount – if any – remaining after taking away from your assessable professional income:

- the total of the deductions that reasonably relate to your assessable professional income, and
- a part of any apportionable deductions – for example, gifts to charity which you have shown at item **D8** on your tax return.

ASSESSABLE PROFESSIONAL INCOME

Assessable professional income is used in calculating your TPI. It is income arising directly from the activities of a special professional and includes:

- rewards and prizes
- income from endorsements, advertisements, interviews, commentating and any similar service
- royalties from the copyright in a literary, dramatic, musical or artistic work, and
- income from a patent for an invention.

The following are specifically excluded from assessable professional income:

- a superannuation lump sum or an employment termination payment
- payments for unused annual or long service leave on retirement or termination, and
- a net capital gain.

AVERAGE TAXABLE PROFESSIONAL INCOME

Generally, average taxable professional income (ATPI) in an income year is one-quarter of the sum of your TPI for each of the preceding four years. Special rules apply for working out the ATPI if your first income averaging year was less than four years ago. So, in the first four years, ATPI is worked out as follows if you were an Australian resident during the year immediately before your year 1:

- year 1 = nil
- year 2 = one-third of TPI in year 1
- year 3 = one-quarter of the sum of your TPI in years 1 and 2
- year 4 = one-quarter of the sum of your TPI in years 1, 2 and 3.

If you were not a resident at any time during the year immediately before your year 1, you will need to phone us.

ABOVE-AVERAGE SPECIAL PROFESSIONAL INCOME

Your above-average special professional income is the amount of TPI you earned during the income year that is more than your average TPI. Your tax payable is the sum of tax on your above-average special professional income and tax on your other income – step 1 on the next page explains ‘other income’. If there is no above-average special professional income – that is, your TPI is equal to or less than your average TPI – you will pay tax at ordinary rates on your taxable income.

Completing your tax return

For us to work out your income averaging, you must complete **Z** item **24** on your *Tax return for individuals (supplementary section)* 2009 – see step 3 question **24** in *TaxPack 2009 supplement* and read the following.

The amount to write at **Z** item **24** on your tax return (supplementary section) is your assessable professional income less the total of your deductions that reasonably relate to this income. **Do not deduct** any apportionable deductions – for example, gifts to charity that you have shown at item **D8** on your tax return. We will take these into account to work out your TPI and your income averaging.

At **V** item **24** on your tax return (supplementary section), write the total of your category 2 other income – see step 1 question **24** in *TaxPack 2009 supplement* – including the amount you wrote at **Z** item **24**. Do not include any amounts already shown at item **1**, **2**, **13**, **14** or **15** on your tax return. If you have not shown your TPI at other items on your tax return, you must include it at **V** item **24**. If you include your TPI at **V**, do not claim any deductions you used to work out your TPI at items **D1** to **D9** or **D10** to **D15** on your tax return.

HOW TO WORK OUT TAX PAYABLE WITH INCOME AVERAGING

You do not need to work out your tax payable with income averaging. We will work it out from the amount at **Z** item 24 on your tax return. If you want to work it out for yourself, follow these steps.

STEP 1

Add your ATPI to your taxable income that is not subject to income averaging – your taxable non-professional income. The total, called your 'other income', is taxed at normal rates.

STEP 2

Subtract your ATPI from this year's TPI to get your above-average special professional income. To work out the tax payable on this income:

- to your 'other income', add one-fifth of your above-average special professional income
- work out the tax payable on this amount
- subtract the tax payable on your 'other income', and
- multiply the result by five.

STEP 3

Add the tax on your 'other income' and the tax on your above-average special professional income. The result is your total tax payable.

For more information, phone the Business Infoline on **13 28 66**.

EXAMPLE: Working out tax payable with income averaging

Kevin has a taxable income of \$40,000, including assessable professional income of \$33,000. He has deductions of \$3,000 that reasonably relate to his assessable professional income – this amount does not include gifts – and he has no other deductions. His average TPI over the last four years was \$6,250.

Kevin's tax payable – before the Medicare levy or tax offsets are taken into account – is \$5,100.00. It would have been \$6,000.00 – the tax on \$40,000 – if income averaging had not been applied.

The following steps show you how Kevin's tax payable has been worked out.

| | \$ | |
|--------------------------------|-----------|-----|
| Assessable professional income | 33,000.00 | (a) |
| Deductions | 3,000.00 | (b) |
| TPI = (a) – (b) | | |
| = \$33,000 – \$3,000 | 30,000.00 | (c) |

Kevin transfers the amount at (c) to **Z** item 24 on his tax return (supplementary section) and, if he has not already included any of this amount at item 1, 2, 13, 14 or 15, he also writes it at **V** item 24 on his tax return (supplementary section).

ATPI

= one-quarter of the sum of your TPI for the preceding four years – not including this income year 6,250.00 (d)

Taxable non-professional income

= amount of **TAXABLE INCOME OR LOSS** at \$ on his tax return minus the amount shown at **Z** item 24 on his tax return (supplementary section)
= \$40,000 – \$30,000 10,000.00 (e)

Other income

= (d) + (e)
= \$6,250 + \$10,000 16,250.00 (f)

Tax on other income at ordinary rates 1,537.50 (g)

Above-average special professional income

= (c) – (d)
= \$30,000 – \$6,250 23,750.00 (h)

Tax on [other income plus one-fifth of above-average special professional income]

= tax on [(f) + $\frac{1}{5}$ (h)]
= tax on [\$16,250 + \$4,750]
= tax on \$21,000 2,250.00 (i)

Tax on above-average special professional income

= [(i) – (g)] × 5
= [\$2,250.00 – \$1,537.50] × 5 3,562.50 (j)

Kevin's tax payable

= (g) + (j)
= \$1,537.50 + \$3,562.50 5,100.00 (k)

MORE INFORMATION

INTERNET

- For general tax information and up-to-date and comprehensive information about deductions, visit **www.ato.gov.au**

PUBLICATIONS

To get any publication referred to in this fact sheet:

- visit our website at **www.ato.gov.au/publications** for publications, taxation rulings, practice statements and forms
- phone our Publications Distribution Service on **1300 720 092**, or
- visit one of our shopfronts.

INFOLINES

We can offer a more personalised service if you provide your tax file number (TFN).

- **Individual** **13 28 61**
Individual income tax and general personal tax enquiries, including capital gains tax
- **Business** **13 28 66**
General business tax enquiries including capital gains tax, GST rulings, Australian business number (ABN), pay as you go (PAYG) instalments, business deductions, activity statements (including lodgment and payment), accounts and business registration (including ABN and TFN), dividend and royalty withholding tax
- **Superannuation** **13 10 20**

OTHER SERVICES

Translating and Interpreting Service **13 14 50**

If you do not speak English well and need help from the Tax Office, phone the Translating and Interpreting Service.

Hearing or speech impairment

If you are deaf or have a hearing or speech impairment, you can phone the Tax Office through the **National Relay Service (NRS)**.

- If you are a TTY user, phone **13 36 77** and ask for the Tax Office number you want. If you need a Tax Office 1800 free call number, phone **1800 555 677** and ask for the Tax Office number you want.
- If you are a Speak and Listen (speech to speech relay) user, phone **1300 555 727** and ask for the Tax Office number you want. If you need a Tax Office 1800 free call number, phone **1800 555 727** and ask for the number you want.
- If you are an internet relay user, connect to the NRS (**www.relayservice.com.au**) and ask for the Tax Office number you want.

WHY NOT LODGE ONLINE USING *E-TAX*?

- *E-tax* is our free online tax preparation and lodgment software.
- *E-tax* is secure, user friendly, and you can access your individual information using the pre-filling service.
- Most refunds are issued within 14 days.
- For more information, visit our website at **www.ato.gov.au/etax**

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