Income averaging for special professionals 2019

Information about types of professional income and how to work out the tax payable with income averaging.

Last updated 30 May 2019

Who is a special professional?

A special professional is an author of a literary, dramatic, musical or artistic work, an inventor, a performing artist, a production associate or a sportsperson.

Author or inventor

The expression 'author' is a technical term from copyright law. In general, the 'author' of a musical work is its composer and the 'author' of an artistic work is the artist, sculptor or photographer who created it.

Performing artist

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. The people who qualify as production associates are specified in the definition of **artistic support** to be:

- an art director

- a choreographer
- a costume designer
- a director
- a director of photography
- a film editor
- a lighting designer
- a musical director
- a producer
- a production designer
- a set designer
- any person who makes an artistic contribution similar to that made by any of these people.

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.

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Who is subject to income averaging?

Guidance notes on eligibility for special professional income averaging.

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You are eligible for special professional 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 you are eligible for special professional income averaging 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.

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Taxable professional income

Guidance notes on taxable and assessable professional income.

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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
- the part of any apportionable deductions (for example, gifts to charity which you have shown at item **D9** on your tax return) that are to be taken into account in calculating your TPI.

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 copyright of a literary, dramatic, musical or artistic work
- income from a patent for an invention.

If you are an author or inventor only count as your assessable professional income the income you derive from the activities of a special professional where you have been engaged or commissioned to produce one or more specified works, or to invent one or more specified inventions, and any previous or successive engagements or commissions do not result in continuous engagement over a substantial period of time.

The following are specifically excluded from assessable professional income:

- any income you derive from
  - coaching or training competitors
  - umpiring or refereeing sport
  - administering sport
  - being a member of the pit crew in motor sport
  - being a theatrical or sports entrepreneur
  - owning or training animals
- a superannuation lump sum or an employment termination payment
- payments for unused annual or long service leave on retirement or termination
- a net capital gain.

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Average taxable professional income

Guidance notes on average taxable professional income (ATPI).

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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, phone us on **13 28 66**.

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Above-average special professional income

Guidance notes on above-average special professional income and completing your tax return.

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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 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) 2019*. See step **3 item 24** in *Individual tax return instructions supplement 2019* 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 **D9** 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 item 24 in *Individual tax return instructions supplement 2019*), 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 **D10** or **D11** to **D15** on your tax return.

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How to work out tax payable with income averaging

Steps to work out your tax payable with income averaging.

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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’
- 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 **13 28 66**

Example: Working out tax payable with income averaging

Kevin has a taxable income of $60,000, including assessable professional income of $45,000. He has deductions of $5,000 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 $9,000.

Kevin’s tax payable, before the Medicare levy or tax offsets are taken into account, is $7,942.00. It would have been $11,047.00 (the tax on $60,000) if income averaging had not been applied.

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

Row	Calculation element	Amount
a	Assessable professional income	$45,000
b	Deductions	$5,000
c	TPI = row **a** – row **b** = $45,000 – $5,000	$40,000

Kevin transfers the amount at row **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
= $9,000 (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)
= $60,000 – $40,000
= $20,000 (e)

Other income
= (d) + (e)
= $9,000 + $20,000
= $29,000 (f)

Tax on other income at ordinary rates
= $2,052 (g)

Above-average special professional income
= (c) – (d)
= $40,000 – $9,000
= $31,000 (h)

Tax on (other income plus one-fifth of above-average special professional income)
= tax on [(f) + 1/5 (h)]
= tax on [$29,000 + $6,200]
= Tax on $35,200
= $3,230 (i)

Tax on above-average special professional income
= [(i) – (g)] × 5
= [$3,230 – $2,052] × 5
= 5,890 (j)

Kevin's tax payable
= (g) + (j)
= $2,052 + $5,890
= 7,942 (k)

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More information

Supporting publications and phone numbers.

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Publications

To get publications, taxation rulings, practice statements and forms:

- go to **ato.gov.au/publications**
- phone **1300 720 092**.

Phone

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**
  Information about business income tax, fringe benefits tax (FBT), fuel tax credits, goods and services tax (GST), pay as you go (PAYG) and activity statements, including lodgment and payment, accounts and business registration (including Australian business number and tax file number), and dividend and royalty withholding tax
- **Superannuation 13 10 20**

Other services

If you do not speak English well and need help from the ATO, phone the Translating and Interpreting Service (TIS National) on **13 14 50**.

If you are deaf or have a hearing or speech impairment, you can phone us through the National Relay Service (NRS) on the numbers listed below, and ask for the ATO number you need:

- TTY users, phone **13 36 77**. For ATO 1800 free call numbers, phone **1800 555 677**.
- Speak and Listen (speech to speech relay) users, phone **1300 555 727**. For ATO 1800 free call numbers, phone **1800 555 727**.
- Internet relay users, connect to National relay service call numbers

Lodge online

Lodging online with myTax is the easiest and fastest way to do your own tax.

Benefits of lodging online:

- Information from employers, banks and government agencies is pre-filled, saving you time and effort.
- We use a range of systems and controls to ensure that your information is protected, it's as safe as online banking.
- It's available 24/7 so you can lodge at your convenience.
- Get your refund faster – generally within two weeks.

See also:

- ato.gov.au/lodgeonline

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Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.