Income averaging for special professionals 2000–01

Australian Taxation Office
www.ato.gov.au

Special professional

A special professional is an artist, composer, writer—this category includes computer programmers—or 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 where 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 where 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 where 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.

Income averaging

You are entitled to income averaging—a concessional tax treatment—where:

- you are an individual who is an Australian resident at any time during the income year and
- you are a special professional and
- your taxable professional income (TPI) is more than $2500 in the current year or an earlier year in which you were an Australian resident for all or part of the year.

Above-average special professional income

Your total tax payable is the sum of tax on your above-average special professional income and tax on your other income—step 1 on page 2 explains 'other income'. Your above-average special professional income is the amount of TPI you earned during the year that is more than your average TPI. Where there is no above-average special professional income—that is, TPI is equal to or less than your average TPI—you will pay tax at ordinary rates on your taxable income.

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

The following are specifically excluded from assessable professional income:

- eligible termination payments
- annual or long service leave payments on retirement or termination
- assessable capital gains.

Taxable professional income

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

1. the total of the deductions that reasonably relate to this income and
2. a part of any apportionable deductions—for example, gifts to charity which you have shown at item D7 on your tax return.

Once your TPI has exceeded $2500 (year 1), you are eligible for averaging in later years even where your TPI does not exceed that amount.

For the Australian Taxation Office (ATO) to work out your income averaging, you must complete **Z** item 22 in your *2001 tax return for individuals* (supplementary section). The amount to write at **Z** is your assessable professional income less the amount at 1 as described above. The ATO will do the calculation required by 2 to work out your TPI.

At **V** item 22 write the total of your category 2 other income—see 'Types of income' in question 22, *TaxPack 2001* supplement—including the amount you have worked out for **Z** item 22. Do not include any amounts already shown at items 1, 2, 12, 13, or 14 on your tax return. If you have not shown your TPI at other items on your return, you must include it at **V** item 22. If you include your TPI at **V** do not claim at items D1 to D9 or D10 to D13 on your tax return any deductions you used to work out that income.

Average taxable professional income

Generally, average taxable professional income (ATPI) in an income year is one-quarter of the sum of the TPIs for the preceding 4 years. Special rules apply for working out the ATPI where your income averaging year 1 was less than 4 years ago. So, in the first 4 years, ATPI is worked out as follows:

- Year 1 nil
- Year 2 one-third of TPI in year 1
- Year 3 one-quarter of TPI in years 1 and 2
- Year 4 one-quarter of TPI in years 1, 2 and 3

If you were not a resident at any time during the year immediately before your year 1, ring the ATO.

How to work out total tax payable with income averaging

You do not need to work out your total tax payable with income averaging. The ATO will work it out from the amount at **Z** item 22 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 which is not subject to income averaging—your taxable non-professional income. The total, called your other income, is taxed at normal rates.

Step 2

Take away your ATPI from this year's TPI to give you 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 5.

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, ring the Personal Tax Infoline on **13 2861** for the cost of a local call.

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 $3000 that reasonably relate to his assessable professional income—this amount does not include gifts—and no other deductions. His average TPI over the last 4 years was $6250.

Kevin's tax payable—before any Medicare levy has been worked out—is $6430. It would have been $8380—the tax on $40 000—if averaging had not been applied.

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

			$
STEP 1	Assessable professional income	(a)	33 000
STEP 2	Deductions	(b)	3 000
STEP 3	Taxable professional income = (a) – (b) = $33 000 – $3000 Kevin shows this amount at **Z** and at **V** item 22 on his tax return	(c)	30 000
STEP 4	Average taxable professional income = $^1/_4$ of TPI for the preceding 4 years—not including this income year	(d)	6 250
STEP 5	Taxable non-professional income = amount of total taxable income at **$** on his tax return minus the amount shown at **Z** item 22 on his tax return = $40 000 – $30 000	(e)	10 000
STEP 6	Other income = (d) + (e) = $6250 + $10 000	(f)	16 250
STEP 7	Tax on other income at step 6 at ordinary rates	(g)	1 742.50
STEP 8	Above-average special professional income = (c) – (d) = $30 000 – $6250	(h)	23 750
STEP 9	Tax on (other income plus $^1/_5$ of above-average special professional income) = tax on (f) + $^1/_5$ (h) = tax on $21 000	(i)	2 680
STEP 10	Tax on above-average special professional income = [(i) – (g)] x 5 = (2680 – 1742.50) x 5	(j)	4 687.50
STEP 11	Kevin's total tax = (g) + (j) = 1742.50 + 4687.50	(k)	6 430

ISBN 0 642 30813 6