



Australian Government

Australian Taxation Office

Income averaging for special professionals 2005

To help you complete your tax return for 1 July 2004–30 June 2005

WHAT 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, and
- you are a special professional, and
- you satisfy the first year requirements in either the current year or an earlier year.

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

ABOVE-AVERAGE SPECIAL PROFESSIONAL INCOME

Your above-average special professional income is the amount of TPI you earned during the year that is more than your average TPI. 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 the next page explains ‘other income’. If 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, or
- 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, and
- assessable capital gains.

TAXABLE PROFESSIONAL INCOME (TPI)

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
- 2 a part of any apportionable deductions – for example, gifts to charity which you have shown at item **D8** on your tax return.

Completing your tax return

For the Tax Office to work out your income averaging, you must complete **Z** item **22** on your *Tax return for individuals (supplementary section) 2005* – see step 3 of the instructions for item **22** in *TaxPack 2005 supplement*.

The amount to write at **Z** is your assessable professional income less the amount at 1 as described in **Taxable professional income** above. DO NOT DEDUCT any apportionable deductions – for example, gifts to charity that you have shown at item **D8** of your tax return. The Tax Office will take these into account as required by 2 to work out your TPI and your income averaging.

At **V** item **22**, write the total of your category 2 other income – see **Other income** in question **22** in *TaxPack 2005 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 tax return, you must include it at **V** item **22**. If you include your TPI at **V**, do not claim any deductions you used to work out that income at items **D1** to **D10** or **D11** to **D15** on your tax return.

AVERAGE TAXABLE PROFESSIONAL INCOME (ATPI)

Generally, average taxable professional income (ATPI) in an income year is one-quarter of the sum of the TPIs for the preceding four years. Special rules apply for working out the ATPI if your income averaging year 1 was less than four years ago. So, in the first four 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, phone the Tax Office.

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 Tax Office 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 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

Take away 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 Tax Infoline on **13 28 66**.

EXAMPLE: Working out total 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 no other deductions. His average TPI over the last four years was \$6,250.

Kevin's tax payable – before any Medicare levy is worked out – is \$5,780. It would have been \$8,172 – the tax on \$40,000 – if averaging had not been applied.

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

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

Kevin shows this amount at **Z** item **22** on his tax return and, if he has not already included the amount at items **1**, **2**, **12**, **13** or **14**, also at **V** item **22** on his tax return.

ATPI	
= one-quarter of TPI for the preceding four years – not including this income year	(d) 6,250.00
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) 10,000.00
Other income	
= (d) + (e)	
= \$6,250 + \$10,000	(f) 16,250.00
Tax on other income above at ordinary rates	(g) 1,742.50
Above-average special professional income	
= (c) – (d)	
= \$30,000 – \$6,250	(h) 23,750.00
Tax on [other income plus one-fifth of above-average special professional income]	
= tax on [(f) + 1/5 (h)]	
= tax on \$21,000	(i) 2,550.00
Tax on above-average special professional income	
= [(i) – (g)] × 5	
= [\$2,550.00 – \$1,742.50] × 5	(j) 4,037.50
Kevin's total tax	
= (g) + (j)	
= \$1,742.50 + \$4,037.50	(k) 5,780.00

MORE INFORMATION

INTERNET

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

INFOLINES

- **Personal tax** **13 28 61**

Individual income tax and general personal tax enquiries, including capital gains tax

- **Business tax** **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 Australian business number and tax file number), dividend and royalty withholding tax

- **Superannuation** **13 10 20**

- **Fax** **13 28 60**

Get information faxed to you about individual taxes and the repayment of debts under the Higher Education Contribution Scheme (HECS), the Higher Education Loan Programme (HELP) and the Student Financial Supplement Scheme (SFSS). Phone **13 28 60** and follow the instructions to order information to be faxed to you.

OTHER SERVICES

- **Translating and Interpreting Service** **13 14 50**

If you do not speak English well and want to talk to a tax officer, phone the Translating and Interpreting Service for help with your call.

- If you have a hearing or speech impairment and have access to appropriate TTY or modem equipment, phone **13 36 77**

If you do not have access to TTY or modem equipment, phone the **Speech to Speech Relay Service 1300 555 727**

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.

LODGE ONLINE WITH E-TAX

Looking for an easy and convenient way to do your tax return? Try e-tax – available free from the Tax Office website at www.ato.gov.au

You can use e-tax to:

- prepare your tax return electronically in a secure online environment
- calculate items such as your net capital gain
- work out your tax refund or tax debt.

e-tax is available from 1 July 2005.

Tax returns lodged using e-tax are usually processed in 14 days.

For more information, visit our website at www.ato.gov.au

* for the cost of a local call – mobile rates apply to calls from mobile phones