



Taxation, social security and family assistance for 2004–05

Introduction

This publication provides a guide to the taxation treatment of social security and family assistance payments. It describes which social security and family assistance payments are to be included in an individual's taxable income (see Table 1), the various types of tax offsets and other forms of tax relief available to individuals to offset their tax liability, and the circumstances in which the Medicare levy must be paid. Income tax rates are listed in Table 2.

Table 1: Taxable and non-taxable social security and family assistance payments

These payments are taxable:	These payments are not taxable:
<ul style="list-style-type: none"> • Age Pension • Austudy • Bereavement Allowance • *Carer Payment (<i>only if either the carer or the person being cared for is of Age Pension age</i>) • Disability Support Pension (<i>only if the recipient is of Age Pension age</i>) • Education Entry Payment • Exceptional Circumstances Relief Payment or Farm Help Income Support (previously known as Restart Income Support) • Mature Age Allowance • Newstart Allowance • Parenting Payment • Partner Allowance • Sickness Allowance • Special Benefit • Widow Allowance • Widow Pension (class B) • Wife Pension (<i>if either the taxpayer or partner is of Age Pension age</i>) • Youth Allowance • Bereavement lump sum payment over the tax-free amount <p><i>* different rules might apply for associated bereavement payments i.e. the lump sum bereavement payment is non-taxable up to the tax free amount if a care receiver has died</i></p>	<ul style="list-style-type: none"> • *Carer Payment (<i>if both carer and the person being cared for are under Age Pension age</i>) • Carer Allowance • Child Care Benefit • Disability Support Pension (<i>for those recipients below Age Pension age</i>) • Disaster Relief Payments • Double Orphan Pension • Employment Entry Payment • Family Tax Benefit • Fares Allowance • Incentive Allowance • Large Family Supplement • Maternity Allowance • Maternity Immunisation Allowance • Mobility Allowance • Multiple Birth Allowance • Pension Bonus Scheme • Pensioner Education Supplement • Pharmaceutical Allowance • Remote Area Allowance (<i>however, any income tax zone tax offset will be reduced by the amount of the allowance paid</i>) • Rent Assistance • Seniors Concession Allowance • Telephone Allowance • Utilities Allowance • Wife Pension (<i>if both the pensioner and partner are below Age Pension age</i>) • Bereavement lump sum up to the tax-free amount

Table 2: Income tax rates for 2004–05 (excluding Medicare levy)

Taxable income	Tax on taxable income
\$0–6 000	Nil
\$6 001–21 600	Nil plus 17c for each \$1 over \$6 000
\$21 601–58 000	\$2 652 plus 30c for each \$1 over \$21 600
\$58 001–70 000	\$13 572 plus 42c for each \$1 over \$58 000
\$70 001 and over	\$18 612 plus 47c for each \$1 over \$70 000

Note:

Taxable income is assessable income less deductions. Assessable income includes income from *all* sources, including taxable social security payments. Examples of assessable income for taxation purpose include superannuation pensions, business income, income from employment, capital gains, interest and dividends.



Family Tax Benefit

Family Tax Benefit Part A is the most common payment to help families with the cost of raising children. It is paid per dependent child. Family Tax Benefit Part B gives extra assistance to sole parents and families with one main income where one parent chooses to stay at home or to balance some paid work with caring for their children. It is paid for each family, regardless of the number of dependent children. To be a dependent child for benefits under Part A and Part B, the child must satisfy age and income requirements.

Families can choose how to claim their Family Tax Benefit:

1. through the Family Assistance Office as either:
 - a fortnightly payment directly into their bank account; or
 - a lump sum after the end of the financial year.
2. through the tax system as either :
 - a lump sum claimed with their tax return for the relevant income year – the claim is made after the end of the income year; or
 - an adjustment to their wages by anticipating the amount of Family Tax Benefit they will receive and reduce their PAYG withholdings deducted from their wages. They must provide their employer with a withholding declaration form (NAT 3093). After the end of the income year they need to lodge a *Family Tax Benefit tax claim* with their tax return.

For a full description of rates and income limits see *A Guide to Commonwealth Government Payments* for 20 March to 30 June 2005 or visit the website at <http://www.familyassist.gov.au/>.

Tax offsets

Beneficiary tax offset

The beneficiary tax offset is generally available to recipients of taxable social security payments (benefit payments) that are not pensions. Benefit payments include Widow Allowance, Newstart Allowance, Mature Age Allowance (granted after 1 July 1996), Sickness Allowance, Special Benefit, Partner Allowance, Youth Allowance, Austudy, Parenting Payment (partnered) and Exceptional Circumstances Relief Payment or Farm Help Income Support. The tax offset is calculated using the following formula:

(i) if the person's benefit amount is not more than \$21 600:

Beneficiary tax offset = 0.17 x (amount of the benefit payments received – tax free threshold)

(ii) if the person's benefit amount is more than \$21 600:

Beneficiary tax offset = (the same formula as above) PLUS 0.13 x (amount of the benefit payments received – \$21 600)

If the amount of the benefit payments received in the financial year is less than the tax free threshold then no beneficiary tax offset is available.

Senior Australians tax offset

The senior Australians tax offset is available to eligible people who satisfy the following four conditions:

1. On 30 June 2005 they were:
 - a male aged 65 years or more, or a female aged 62.5 years or more (Age Pension age), or
 - a male veteran or war widower aged 60 years or more, or a female veteran or war widow aged 57.5 years or more.
2. They are eligible for the Australia Government age pension or are eligible for a pension, allowance or benefit under the *Veterans' Entitlements Act 1986* (other than Part VII), regardless of whether they actually receive a payment.
3. They have not been in prison for the whole of the income year.
4. They satisfy the threshold that applies to them:
 - for a single person their taxable income is less than \$38 340
 - for a member of a couple their combined taxable income is less than \$59 244 or less than \$71 406 if the couple is separated due to illness.

	Maximum tax offset amount	Shade-out threshold (a)	Taxable income above which tax becomes payable	Cut-out threshold (b)
Single	2 230	20 500	20 500	38 340
Couple (c)				
General	1 602	16 806	16 806	29 622
Living apart due to illness or infirmity	2 040	19 383	19 383	35 703

Notes:

(a) The shade-out threshold is the maximum taxable income at which a person entitled to the senior Australians tax offset receives the maximum tax offset amount. The tax offset reduces by 12.5 cents for each dollar of taxable income in excess of the shade-out threshold. The senior Australians tax offset shade-out threshold also allows for the low-income tax offset.

(b) The cut-out threshold is the level of taxable income where the senior Australians tax offset is reduced to nil.

(c) Any unused portion of the senior Australians tax offset of a person may be available for transfer to his or her spouse if they are eligible for the senior Australians tax offset or pensioner tax offset.

Pensioner tax offset

The pensioner tax offset is available to people who receive taxable Australian Government pensions or allowances and who are not eligible to receive the senior Australians tax offset because they have not met all four of the eligibility conditions. For example, they have not reached Age Pension age within the meaning of the *Social Security Act 1991*. The pensioner tax offset does not apply to pensions that are not taxable. In some circumstances, exempt pensions maybe deemed taxable for the purposes of calculating the amount of unused pensioner tax offset for transfer.

Table 4: Pensioner tax offset (generally for pensioners under Age Pension age) (\$ per annum) (f)

	Maximum tax offset amount	Shade-out threshold (a)	Taxable income above which tax becomes payable (b)	Cut-out threshold (c)
Single	2 117	18 453	19 252	35 389
Couple (d)				
General	1 585	15 324	16 123	28 004
Living apart due to illness or infirmity (e)	1 969	17 583	18 382	33 335

Notes:

(a) The shade-out threshold is the maximum taxable income at which pensioners eligible for the pensioner tax offset will receive the maximum tax offset amount. The tax offset reduces by 12.5 cents for each dollar of taxable income in excess of the shade-out threshold. The pensioner tax offset shade-out threshold does not allow for the low-income tax offset.

(b) These figures show the taxable income above which tax liability exceeds the sum of the pensioner and low-income tax offset.

(c) The cut-out threshold is the level of taxable income where the pensioner tax offset is reduced to nil.

(d) Any unused portion of the pensioner tax offset of a pensioner may be available for transfer to his or her spouse if they are eligible for the pensioner tax offset or senior Australians tax offset.

(e) Pensioner couples separated because of illness receive the (higher) single rate of payment but the same income test free area as other pensioner couples. Therefore, the tax offset level for this category is higher than the level for pensioner couples not separated because of illness but lower than that for single pensioners.

(f) The information in this table only applies to pensions or allowances from Centrelink. Different figures apply to pensions or allowances from the Department of Veteran Affairs (DVA) for the 2004-05 income year due to DVA having 26 pay periods.

Personal tax offsets

Some recipients of social security payments are eligible for certain personal tax offsets in addition to the previously mentioned tax offsets (see Table 5). Eligibility for personal tax offsets and the amount of tax offset actually received depend on individual circumstances (for example, if you receive Family Tax Benefits, you will not be eligible for some tax offsets) and the amount of separate net income received by your dependants during the income year.

Table 5: Personal tax offsets also available to eligible recipients of social security and family assistance payments (\$ per annum)

Tax offset type	Maximum tax offset amount	Taxable income above which tax becomes payable (a)
Dependent spouse (legal/de facto)		
With no dependent child/student	1 572 (b)	15 247
Child-housekeeper		
With no dependent child/student	1 572 (b)	15 247
With dependent child/student (c)	1 885 (b)	17 088
Housekeeper caring for taxpayer's child, spouse receiving Disability Support Pension (legal/de facto) or relative		
With no dependent child/student	1 572 (b)	15 247
With dependent child/student (c)	1 885 (b)	17 088
Invalid relative	708 (b)	10 164
Parent/parent-in-law (including parent of de facto spouse)	1 414 (b)	14 317
Low income	235 (d)	7 382

Notes:

(a) The taxable income at which tax becomes payable refers to the individual tax offset in a particular row only, not to the combination of tax offsets that may be available. For instance, a recipient of Parenting Payment (single) may be entitled to claim a pensioner tax offset and a low-income tax offset, which would result in a higher income tax threshold. On the other hand, someone may receive a reduced tax offset amount which would result in a lower income tax threshold being applicable—see note (b).

(b) Reduced by \$1 for every \$4 of the separate net income of the dependant that exceeds \$282.

(c) Entitlement to the spouse, child-housekeeper or housekeeper tax offset is denied or reduced for periods when the taxpayer or the taxpayer's spouse is eligible for Family Tax Benefit Part B.

(d) Reduced by 4 cents for every dollar of taxable income in excess of \$21 600.

Mature age worker tax offset (subject to legislation being passed)

The proposed mature age worker tax offset will be available from the 2004-05 income year to Australian residents aged 55 years or over and who receive net income from working (within certain limits). It will provide a maximum annual tax offset of \$500. The mature age worker tax offset will phase in at 5 per cent from the first dollar of net income from working, so that the full \$500 offset will be available when net income from working reaches \$10 000. The offset will phase out gradually (at 5 per cent) for those mature age workers whose net incomes from working in 2004-05 exceed \$48 000, so that no offset is available when incomes reach \$58 000. In 2005-06 and beyond, the tax offset will start to phase out once net income from working exceeds \$53 000, so that no offset is available when income reaches \$63 000.

Medicare levy

The Medicare levy for 2004–05 is 1.5 per cent of your taxable income. In some circumstances the Medicare levy may be reduced or a person may be entitled to a full or half exemption from the levy. The Medicare levy is not payable where taxable income is at or below the Medicare levy threshold amounts (see Table 6).


Table 6: Medicare levy thresholds (\$ per annum)	Relevant threshold amount	Phase in limit
Individuals eligible for Senior Australians tax offset (a)	20 500	22 162
Individuals eligible for pensioner tax offset (b)	19 252	20 812
Other individuals	15 902	17 191
Couple or sole parent eligible for Senior Australians tax offset	31 729	34 301
for each dependent child/student add	2 464	2 663
Other couples or sole parent	26 834	29 009
for each dependent child/student add	2 464	2 663

Notes:

(a) refer to page 2 for explanation of persons eligible for senior Australians tax offset.

(b) refer to page 3 for explanation of persons eligible for pensioner tax offset.

Where the taxable income of a person is more than the relevant threshold amount but not more than the phase-in limit, the amount of the levy is 20 cents for each dollar above the relevant threshold amount. Full or half exemption from the levy is given to blind pensioners and recipients of Sickness Allowance for periods in which they were in receipt of the pension or allowance. An additional surcharge of 1 per cent applies to high-income earners who have not taken out appropriate private patient hospital cover (singles without dependants earning \$50 000 or more a year and couples or singles with dependants earning \$100 000 or more a year, plus an additional \$1 500 for each dependent child after the first).



This publication is produced at the end of each financial year. The 2005-2006 edition of Taxation, social security and family assistance will be available by mid-2006.

Enquiries relating to **income and deductions, taxation rates, tax offsets and the Medicare levy** should be directed to the Australian Taxation Office by phoning the Personal Tax InfoLine on **13 28 61** or visiting the website, **ATOassist** at **www.ato.gov.au/**.

Enquiries relating to social security payments should be directed to your nearest Centrelink office.

Enquiries relating to family assistance should be directed to your nearest Family Assistance Office located in all Centrelink Customer Service Centres, Medicare Offices and Tax Office Shopfronts, or by calling the Family Assistance Office on 13 6150.

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