

What is tax?

Tax is a charge or cost that people and companies must pay when they earn income like wages or profits from running a business. Individuals and companies that pay tax are called taxpayers.

After tax is deducted from income, like wages or profits, the amount available for spending or saving is reduced.

When you start earning over a certain income level, you must pay tax to the Australian Government, specifically the Australian Taxation Office (ATO).

The money received by the Government from taxpayers is used to benefit the broader community by providing them with beneficial services. This tax income helps our Government fund a range of activities, including schools, roads, hospitals, caring for the elderly and providing payments to the unemployed.

Here are some examples of income that is taxable:

- wages and salaries from employment.
- investment income like interest on savings, dividends and capital gains from shares.
- rental income from properties.
- profits from running a business.
- income from family trusts.

You are required to get a Tax File Number or TFN. A TFN allows the government to track your earnings so they know how much tax to deduct from your income.

If you pay tax, you must lodge a tax return at the end of each financial year. If you are entitled to a tax refund, the ATO will pay that to you when they have assessed your tax return. You can lodge the tax return yourself through ATO online services or with the help of an accountant or tax agent.

Did you know?

As a teenager, you could pay higher rates of tax than adults on income you receive from your savings accounts, term deposits, or shares? Unless you have finished full-time study and are working full-time and/or are living with a disability, you could be paying up to 66 per cent tax on any interest earnings from savings accounts above \$416. It's a good idea to let your parents or caregivers open an account on your behalf to avoid paying these higher rates of tax.

Not supplying a TFN can also incur higher rates of tax. There is no age limit on applying for a TFN.

How much tax must I pay on my wages?

In Australia, tax is deducted depending on your annual earnings. A certain amount of your income is tax-free. You will not have to pay tax if your only income is less than \$18,200 annually.

This limit is called the **tax free threshold**.

Let's look at an example.



Example: Below the tax-free threshold

Daniel decides to do some part-time work at Coles. He earns \$13.50 per hour and works every Thursday and Friday night from 4p.m. to 8p.m. He is paid weekly by his employer. As Daniel works 8 hours per week at \$13.50 per hour, his weekly income is \$108.00

Daniel works 40 weeks in the year. His annual pay is $\$108.00 \times 40 = \$4,320$. As Daniel's income is below the tax-free threshold (\$18,200), no tax is deducted from any of his weekly wages.

What happens if you earn more than \$18,200 per year?

If you earn more than the tax-free threshold, income tax will be taken out of your pay. The rate of tax you pay depends on the 'tax bracket' your income falls within.

The more you earn, the more tax you pay. This is known as the "progressive" tax system. This schedule of tax rates provided by the Australian Tax Office sets out how much income each 'tax bracket' is taxed.

Taxable income	Tax on this income
\$0-18,200	Nil
\$18,201-45,000	19¢ for each \$1 over \$18,200
\$45,001-120,000	\$5,092 plus 32.5¢ for each \$1 over \$45,000
\$120,001-180,000	\$29,467 plus 37¢ for each \$1 over \$120,000
\$180,001 and over	\$51,667 plus 45¢ for each \$1 over \$180,000

You may also have to pay another tax called the *Medicare levy*. The Medicare levy helps fund the cost of Medicare, Australia's national healthcare system and is charged at 2 per cent of income. When you give your Medicare card to your doctor, the money the Government receives from the Medicare levy contributes towards these medical fees.

Finance facts: Tax



Example: Above the tax free threshold

Camille earns **\$25,000** per year. In this income bracket, her tax rate is 19%, so she will pay 19% on income earned over \$18,200. Based on her current earnings, she will have to pay **\$1,292** in income tax $[(\$25,000 - \$18,200) \times 0.19]$ and a **\$500** Medicare levy $(\$25,000 \times 0.02)$.

If Camille earned **\$80,000**, her income would jump into the second taxable bracket, and her tax rate would increase to 32.5 per cent. She would have to pay **\$16,467** $[(\$80,000 - \$45,000) \times 0.325] + \$5,092$ in tax and \$1,600 $(\$80,000 \times 0.02)$ Medicare levy. This leaves her with \$61,933 net income.

The more income Camille earns—the more tax she pays.

	Tax bracket		
	19%	32.5%	37%
Taxable income	\$25,000	\$80,000	\$150,000
less			
income tax payable	(\$1,292)	(\$16,467)	(\$40,567)
Medicare levy	(\$500)	(\$1,600)	(\$3,000)
Net income	\$23,208	\$61,933	\$106,433

Can I reduce the tax that I pay?

You may have heard of something called a 'tax deduction'.

A tax deduction is an amount that you can claim to reduce your income so you pay less tax. You can only claim these amounts if they relate to money spent in the course of you doing your job. For example, if you have to buy your own uniform for your job, you can claim this amount as a tax deduction. So, if you earned \$10,000 in a year and your uniform cost \$200, you would only be taxed on \$9,800 $(\$10,000 - \$200)$. The ATO has strict rules about items that can be claimed as deductions and those that cannot.

Tax on other types of income besides wages

You can receive income in the form of interest from bank accounts, dividends from shares or rent from rental properties that you own.

When all your income is combined, your taxable income level is determined. You will pay tax depending on the tax bracket your income falls into, your age, and any allowable deductions.

The more assets you own, the more complicated doing a tax return becomes. As your income increases and you start investing, it is worthwhile seeking more information on taxes from an accountant.

Glossary

Profits

A profit is a financial gain received after considering all expenses paid in making that gain. For example, if you bought a basketball card for \$30, but you sold it for \$50, you would make a \$20 profit.

Tax bracket

A range of income that is taxed at a specific rate.

Tax return

A form you complete (online or by paper) annually that reports income, expenses, and other relevant financial information to the ATO.

Links

[Tax Calculator](#): You can calculate the amount of tax you have to pay on your wage earnings.

[ATO Tax Brackets](#): This link will provide you with details on current tax brackets and tax rates that apply to income in those brackets.

[Tax, Super + You](#): A free resource designed by the Australian Tax Office to help young people understand the value of tax and superannuation and have confidence when entering the workforce.

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About Ecstra

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