Financial literacy – Taxation

Levels 9 and 10,
Economics and Business,
resources

Authorised and published by the Victorian Curriculum and Assessment Authority
Level 7, 2 Lonsdale Street
Melbourne VIC 3000

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**Note:** Please see the accompanying Financial literacy – Taxation activities document for a full description of the sample activities.

Worksheet A: The circular flow of the economy

1. Use ‘Diagram 1: The circular flow of the economy’ to classify and explain each of the following scenarios within the circular flow. The first one has been completed as an example.

|  |  |  |
| --- | --- | --- |
| Scenario | Classification(s) | Explanation |
| Fred works a shift at a fast-food outlet and earns $150. | Work (labour)Income  | Fred provides labour to the business sector to produce goods and services. Fred earns income for this.  |
| Fred deposits $100 into his savings account. |  |  |
| Fred withdraws $50 from his savings account and purchases a new shirt made in China. |  |  |
| Natasha purchases a vehicle to be used to make deliveries for her courier business. |  |  |
| Jun’s designer clothing business sells $2000 worth of clothing to a buyer in the USA. |  |  |
| Fred buys a 2-litre container of milk at his local supermarket. |  |  |
| Zelda purchases an electrical appliance and is charged $25 extra for GST. |  |  |
| The government announces plans to build a new primary school. |  |  |

Diagram 1: The circular flow of the economy



Injections (money entering the circular flow)

* Government spending
* Government uses money collected through taxation.
* Government spends this within the Australian economy on goods and services.
* Investment
* Banks loan money to people/businesses, commonly to purchase capital items, for example, machinery, buildings and/or land.
* Exports
* People overseas spend money on goods and services produced within the Australian economy. This money moves into the Australian circular flow cycle.

Leakages (money leaving the circular flow)

* Taxation
* A percentage of income is levied by the government, which means it leaves the circular flow, rather than going towards goods and services.
* Savings
* Rather than spend their income on goods and services from the business sector, consumers put it into their own savings and store it.
* Imports
* Rather than spend income on goods and services from the business sector in Australia, consumers spend their income on goods and services from overseas producers/businesses.

Worksheet B: Different tax types

Type 1: Progressive tax

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

Source: Individual income tax rates 2020–21, Australian Taxation Office, <https://www.ato.gov.au/rates/individual-income-tax-rates/>

1. Write the definition of ‘progressive tax’.

Example progressive tax calculation:

Taylor is an IT consultant who earns $87,000 a year. To determine the amount of tax that they are required to pay, you need to break the income that they earn up into the above brackets.

|  |  |  |  |
| --- | --- | --- | --- |
| **Taxable income bracket** | **Income earned from that bracket** | **Tax rate** | **Tax to be paid** |
| 0–$18,200 | $18,200 | Nil | $0 |
| $18,201–$45,000 | $26,800 (45,000–18,200) | 19 cents for every dollar | $5092 (26,800 × 0.19) |
| $45,001–$120,000 | $42,000 (87,000–45,000) | 32.5 cents for every dollar | $13650 (42,000 × 0.325) |
| **TOTAL** | **$87,000** |  | **$18,742** |

**Answer: This shows that Taylor earned $87,000 and was required to pay $18,742 in tax.**

2. Using the above information, calculate the tax paid in the following scenarios.

a. Joey works in retail; they earn $32,000 a year. How much tax are they required to pay?

b. Ellen works as a nurse; they earn $76,000 a year. How much tax are they required to pay?

c. Stephanie works as a lawyer; they earn $210,000 a year. How much tax are they required to pay?

3. What do you notice about the relationship between the amount of income earned and the amount of tax that an individual is required to pay?

4. Why would the Australian government use a progressive tax system?

Type 2: Proportional tax

|  |  |
| --- | --- |
| **Income category** | **Rate (%)** |
| [Base rate entities](https://www.ato.gov.au/Rates/Changes-to-company-tax-rates/?page=1#Base_rate_entity_company_tax_rate) | 27.5 |
| Otherwise | 30 |

Source: 2019–2020 tax rates – Companies, Australian Taxation Office <https://www.ato.gov.au/Rates/Company-tax/>

A proportional tax, or flat tax, is a tax where the percentage of tax taken from an individual’s or business’s income is the same (such as a uniform 10%), regardless of how much money is earned. Base rate entities are charged proportional tax in Australia.

A base rate entity is a company that both:

* has an income of less than $50 million in the financial year
* 80% or less of their income is passive income (for example, rental income, interest income, dividends, capital gains).

**Example proportional tax calculation:**

Soltea Pty Ltd is a company that sells tea blends. In the current year, Soltea Pty Ltd has an assessable income is $325,000, comprising:

* $300,000 trading income from running the business
* $25,000 of rental income.

**Step 1:** Determine if the total aggregated turnover of the company is less than $50 million.

**Answer: Soltea meets this criteria.**

**Step 2:** Determine whether the business has ‘passive income’.

**Answer: The rental income is passive income.**

**Step 3**: Determine whether the percentage of ‘passive income’ is 80% or less of the total income.

**Answer: The rental income is 7.6% of the company’s total assessable income.**

As this company meets both criteria, Soltea Pty Ltd is a base rate entity for the current income year and the 27.5% company tax rate applies.

This means that, as Soltea is a base rate entity, they would pay 27.5 cents for every dollar that they earn.

5. Write the definition of ‘proportional tax’.

6. Calculate the tax payable in the following examples.

a. FastandFree Pty Ltd is the owner of bike store. This company has a savings account that they are putting money into as they are planning on renovating their shop next year.

 In the current income year, FastandFree Pty Ltd has an assessable income of comprising:

 • $500,000 of trading income from running the business

 • $200,000 of interest income.

 Calculate the tax that FastandFree Pty Ltd would be required to pay in the current year.

b. TraderJill Pty Ltd is a listed company that invests in Australian shares. In the current income year, TraderJill Pty Ltd has an aggregated turnover of $12 million, comprising:

 • $3 million of interest income

 • $9 million in dividends.

 Calculate the tax that TraderJill Pty Ltd would be required to pay in the current year.

c. Dance&Feast Pty Ltd is a catering and events company that works with a range of large sporting stadiums around Australia. In the current income year, Dance&Feast Pty Ltd has an aggregate turnover comprising:

 • $79 million of trading income from running the business

 • $400,000 of rental income.

 Calculate the tax that Dance&Feast Pty Ltd would be required to pay in the current year.

7. What do you notice about the relationship between the amount of income and the amount of tax that a company is required to pay?

8. Why would the government have two different tax rates for different sized businesses?

9. Do you think that this is a fair way to charge tax? Why?

Type 3: Regressive tax

**Example regressive tax calculation:**
Lizzy and Frankie both purchase new televisions, which each cost $3000. Both also have to pay GST, which is an extra 10% on top of the cost of the televisions.

|  |  |  |  |
| --- | --- | --- | --- |
| **Name** | **Income** | **GST paid**  | **GST as a percentage of income** |
| Lizzy | $25,000 | $300 | 1.2% |
| Frankie | $48,000 | $300 | 0.6% |

 **Step 1:** Note the amount of income each person earns per year.

**Answer: Lizzy earns $25,000 year and Frankie earns $48,000 per year.**

**Step 2:** Determine the GST that is payable on the item being bought.

**Answer: Both televisions have $300 of GST payable at purchase (10% of $3000).**

**Step 3:** Determine what percentage of income the GST is for each person.

**Answer:**

**Lizzy = (300/25,000) × 100 = 1.2%
Frankie = (300/48,000) × 100 = 0.6%**

This shows that the higher your income, the lower the percentage of your income you are spending on GST. This therefore means that the burden of paying the GST is lower on higher income earners.

10. Both Jane and Scarlett want to purchase a new bike, which costs $1000. Jane earns $50,000 per year and Scarlett earns $75,000 per year.

a. Calculate the GST that would be required to be paid on the new bikes.

b. Calculate the percentage of income that it is going to cost both Jane and Scarlett.

11. Both Ted and Arthur are going to purchase a new jet ski. The jet ski costs $17,000. Ted earns $85,000 per year and Arthur earns $123,000 per year.

a. Calculate the GST that would be required to be paid on each jet ski.

b. Calculate the percentage of income that it is going to cost both Ted and Arthur.

12. What do you notice about relationship between the amount of income and the amount of regressive tax that a person is required to pay?

13. Do you think that this is a fair way to charge tax? Why?

14. Do some research and find five things that GST is not charged on. Why might GST not be charged on these items?

Worksheet C: Calculating income tax in Australia

Australia has a progressive system of income taxation. This means that the rate of taxation paid to the government increases as a person’s income increases.

The percentage of income taxation levied is determined by the following taxation brackets (2020–21).

|  |  |
| --- | --- |
| Income earned per annum | Rate of taxation on this income |
| $0–$18,200 | Nil (tax-free threshold) |
| $18,201–$45,000 | 19c for each $1 over $18,200 |
| $45,001–$120,000 | $5,092 plus 32.5c for each $1 over $45,000 |
| $120,001–$180,000 | $29,467 plus 37c for each $1 over $120,000 |
| $180,001 and over | $51,667 plus 45c for each $1 over $180,000 |

Source: Individual income tax rates 2020–21, Australian Taxation Office, <https://www.ato.gov.au/rates/individual-income-tax-rates/>

**Example:** If you earn $55,000, you will be liable to pay $8342 in tax, based on the following calculations:

Zero dollars for the first $18,200 earned (the tax-free threshold)

19c for every dollar earned between $18,201 and $45,000 (**$5092**)

32.5c for every dollar earned between $45,001 and $120,000 (**$9999 × 0.325 = $3250**)

37c for every dollar earned between $120,000 and $180,000 (**zero**)

45c for every dollar earned over $180,001 (**zero**)

**Total payable 5092 + 3250 = $8342**

1. Using the tax brackets above, calculate the income tax liable to be paid on each of the following annual incomes. The first question breaks down the income per bracket, as a guide.

a. $80,000

i. $0–$18,200:

ii. $18201–$45,000:

iii. $45001–$120,000:

Total =

b. $126,000

c. $250,000

d. $65,000

2. Use the Moneysmart [income tax calculator](https://moneysmart.gov.au/income-tax/income-tax-calculator) to determine income tax payable on the following annual incomes.

a. $535,888

b. $28,104

c. $100,993

d. $984,067

Worksheet D: Applying for a tax file number

In Australia, everyone who has ever undertaken work is required to have a tax file number(TFN). A tax file number is a unique identifier of every Australian who pays or has paid income tax, issued by the Australian Taxation Office (ATO).

A tax file number is made up of nine digits and is yours for life. If you change jobs, move interstate or change your name, your TFN stays the same. If you leave the country and later come back to Australia, you still use the same TFN.

You need to apply for a TFN before you start working and have your wages/income paid into your bank account.

1. To apply for a tax file number, go to the [ATO website](https://www.ato.gov.au/Individuals/Tax-file-number/) and follow the instructions.

**Beware:** Always keep your TFN confidential. Keep it safe from potential identity theft.

Only certain people/organisations can legally ask for your TFN. The most common places and people who will ask for TFN are:

* Australian Taxation Office
* an employer, after you start work
* a bank or other financial institution
* Centrelink
* a university or tertiary institution
* a superannuation fund.

2. Once you have applied for or received a TFN, construct a flow chart depicting the steps involved in the process.

Worksheet E: Assessable income

1. Use the [ATO website](https://www.ato.gov.au/) to find the definitions of the following terms:

a. ‘income’:

b. ‘assessable income’:

2. In your class discussion, you constructed a list of the ways a person can earn or generate income. Using the definitions above as a guide, divide the different examples of income that your class came up with into the two categories below.

Note: Only assessable income will be included in your tax return.

|  |  |
| --- | --- |
| **Assessable income** | **Non-assessable income** |
|  |  |

Note: Check with your teacher if there are any forms of income missing from the table above.

3. Test your understanding by completing the following table.

|  |  |
| --- | --- |
| **Scenario** | **Is this assessable income? Justify your response.** |
| Sonny is at university and accesses Youth Allowance from the government to help pay for living expenses. |  |
| Jenna has a full-time job as a sales assistant at the local department store. |  |
| Tom is a professional football player; he gets paid a regular salary from this. |  |
| Phan is a house painter; he paints portraits in his spare time. He has just won an art show prize of $150. |  |
| Anna has been left a $30,000 inheritance. |  |
| Sam quit his job as a police officer and now travels around different poker tournaments winning money. |  |
| Lena received $1000 in dividends from shares that she owns.  |  |

Worksheet F: Deductions and taxable income

Different jobs have different costs associated with undertaking the work involved. These work-related costs are important because they can be deducted from a person’s total assessable income and affect the total amount of income tax that needs to be paid.

Not all expenses incurred in earning an income are allowable deductions. A taxpayer should follow advice from the ATO about which expenses are allowable as deductions on your assessable income.

Your teacher will allocate you an occupation from [a list compiled by the ATO](https://www.ato.gov.au/Individuals/Income-and-deductions/Occupation-and-industry-specific-guides/). Complete the following activities as though you were employed in that occupation.

1. Write a scenario for a person who is employed in the occupation you have been allocated. Include the following in the scenario:

• an approximate, realistic assessable income for the person in the occupation

• a list of five or more expenses involved in working in the occupation. (Use the link above. Select the job title and navigate to the deductions page using the hyperlink.)

Note: In the scenario, you should include expenses that are both able to be claimed and those that are not able to be claimed. Make sure you keep an answer guide.

Example scenario

Erin is a high school teacher. She earns $90,000 per year. While undertaking her job, she:

* purchases a $40 hat for when she is on yard duty outside
* purchases $300 worth of textbooks to help with teaching her classes
* purchases a new pair of $150 sneakers to move between classes more quickly
* attends a course about working with children with special needs. This was completed during school holidays and cost $600.

Teachers are also required to wear a school polo shirt on all school excursions. The school provides these shirts, worth $30, to all staff.

2. You will be divided into groups of four. Take it in turns to present your scenario to the other members of the group. You now have four scenarios between you. Work out the allowable deductions for each of the three new scenarios you have been given. Each person must justify their reasoning for allowing or not allowing the deductions listed using the above link as a guide.

Example justification and response

Erin now needs to work out which of these she can claim as deductions.

* You can claim a deduction for the cost of sunglasses, sunhats and sunscreen lotions if, as a teacher or education professional wearing it, protects you from the risk of illness or injury at work because your employment duties require you to spend prolonged periods outdoors. **Deductible amount: $40**
* You can claim a deduction for the total cost of a publication you purchase (including technical journals and reference books) if you use the publication mainly for work purposes. **Deductible amount: $300**
* Sneakers are a conventional, everyday piece of clothing; therefore, she won’t be allowed to use this as a deduction. **NO DEDUCTION**
* You can claim for the cost of seminars, conferences and training courses that relate to your work as a teacher or education professional. **Deductible amount: $600**
* You can't claim a deduction if your employer buys, repairs or replaces your clothing. **NO DEDUCTION**

**Total deductions that Erin can make are $940.**

3. Determine the taxable income for each of the scenarios in your group, and, thinking back to Worksheet C: Calculating income tax in Australia, calculate the total tax that is required to be paid for each scenario.

**Example calculations**

Erin now needs to work out her taxable income.

Assessable income – allowable deductions = taxable income

Assessable income = $90,000

Allowable deductions = $940

Taxable income = 90,000 – 940 = $89,060

Erin now needs to work out the total tax to be paid on her assessable income.

Using the table below, Erin has calculated she needs to pay $19,411.

|  |  |  |  |
| --- | --- | --- | --- |
| **Taxable income bracket** | **Income earned from that bracket** | **Tax rate** | **Tax to be paid** |
| 0–$18,200 | $18,200 | Nil | $0 |
| $18,201–$45,000 | $26,800 (45,000 – 18,200) | 19 cents for every dollar | $5092 (26,800 × 0.19) |
| $45,001–$120,000 | $44,060 (89,060 – 45,000) | 32.5 cents for every dollar | $14,319 (44,060 × 0.325) |
| **TOTAL** | **$89,060** |  | **$19,411** |

Worksheet G: Tax avoidance

In recent times, there has been considerable community interest in the ethical values and social responsibilities associated with large corporate groups, particularly multinational enterprises. Their reluctance to pay tax to the countries they operate within has been highlighted.

Many large businesses attempt to minimise their tax bill or avoid paying tax to the Australian government. A common way of doing this involves moving profits out of Australia to reduce the amount of company tax they are liable to pay on their profits.

1. Research one company that has been involved in this controversy and create a presentation that includes:

a. the name of the company

b. what they are doing to avoid paying tax or to pay less tax (use some figures to support your answer).

2. In 100 words, describe whether you believe tax avoidance is a significant problem for Australia. Give brief reasons for your answer.