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Taxation System in Australia

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I am pleased to introduce the Australian Taxation system in this paper mainly focusing on comparing the difference between Australia and Japan because it would be an easy way to understand the Australian Taxation system for Japanese. I organized this paper with the support Masanobu TABUCHI (Professor of Otemon Gakuin University, Faculty of Management and Certified Public Accountant Japan).

Part 1. Financial Conditions of the Australian Government and Taxation System in Australia

1. Financial Conditions of the Australian Government

The revenue and expenditure balance of the general account in the Australian Government in the 21st century is as shown in the following table. The government finance continued to maintain a surplus until the Lehman Shock in 2008. Although, in the fiscal year that ended in June 2009, the fiscal revenue and expenditure showed a deficit of 3.2 billion dollars due to a decrease in revenue and an increase in expenditure, it is safe to say that in view of the prior financial surplus there is room for tax reduction even under the taxation system. This aspect of the financial surplus differs widely from the situation of Japan.

Table 1 Receipts and Payments, and Underlying Cash Balance of the Australian Government

Year	Receipts	Payments	Underlying cash balance
2001–2002	187,495	188,478	△983
2002–2003	204,552	197,066	7,486
2003–2004	217,722	209,686	8,036
2004–2005	236,943	222,327	13,616
2005–2006	255,903	240,060	15,792
2006–2007	272,584	253,242	17,208
2007–2008	303,700	280,100	19,700
2008–2009	295,900	324,400	△32,100

(excerpt from Australian Government Budget 2009–2010, etc.)

(1) Outline of the income tax reduction programs in the financial year that commenced in July 2008 is as stated below:

- Tax credit for low-income persons was raised to $1,200 from $750.
- Range in application of tax rate of 30%: raised to $34,001 from $30,001
- Range in application of tax rate of 40%: raised to $80,001 from $75,001
- Range in application of tax rate of 45%: raised to $180,001 from $150,001

(2) Income tax reduction is scheduled to be further implemented in and after July 2009:

- Tax credit for low-income persons is to be raised to $1,350; range in application of tax rate of 30% is to be raised to $35,001; tax rate of 40% is to be lowered to 38%.

(3) Income tax reduction in and after July 2010 is scheduled to be implemented as follows:

- Tax credit for low-income persons is to be raised to $1,500; range in application of tax rate of 30% is to be raised to $37,001; tax rate of 38% is to be lowered to 37%.

2. Tax File Number System

In Australia taxpayers are provided with tax file number. Such tax file number is indispensable for transactions with banks, opening of accounts in securities companies and trust companies, and asset management. Even for nonresidents such tax file number is indispensable for opening of bank accounts and asset management in Australia. Banks, etc. to which asset management is entrusted notify ATO (Australian Taxation Office) directly of details of banking transactions and contents of income of taxpayers during taxable periods. ATO confirms whether contents of tax returns filed by taxpayers are appropriate or not by checking consistency between such tax returns and data obtained from banks, etc.

In Japan, petty dividend income is not subject to filing return, and interest on deposits with banks is subject to separate taxation and not subject to aggregate taxation. This shows a marked contrast between Japan and Australia. A highly transparent society can be said to be established in Australia based on the tax file number in that the national tax agency builds a large information system and thereby gets hold of all income of taxpayers and verifies them with their filing return. Such a tax file number system is considered to be a task challenged in Japan in that the system itself serves as the basis for mutual fairness in the society and also for relationship of mutual trust. In Japan, some people say that privacy is lost under a tax file number system, but it is thought to be antisocial forces who are hit hardest by the introduction of a tax file number system. To put it the other way around, a tax file number system is considered to be useful for preventing illicit slush funds.

Part 2. Personal Income Tax in Australia

In Australia personal income taxes are imposed only by the federal government and there is no such taxation of personal income in units of state and city. In Japan personal income is taxed by the central government, Prefectures, and municipalities.

1. Tax liability Computation Process of Personal Income Tax

Taxation process of personal income tax in Australia is as shown below:

(1) Assessable Income: A

What comes first in the computation process is assessable income, which corresponds to aggregate income amount in Japan.

(2) Business Deduction: B

These are necessary expenses for business purposes which are deductable from income and which correspond to necessary expenses for business income and real-estate income in Japan.

(3) Non-Business Deduction: C

These are non-business payments deductable from income and correspond to employment income deductions for employment income earners in Japan. However, in Australia, there is no such practice of computation of gross figures as is done with employment income deductions in Japan; computation is made based on only actual amount, and amount so computed is much smaller as compared to one computed in Japan. It is found by a comparison that employment income deductions in Japan are far greater.

(4) Taxable Income: D

Taxable Income $D = A - B - C$

The taxable income is computed by deducting business deductions and non-business deductions from the assessable income.

(5) Rate of Tax: E

Income Tax Rate

(6) Gross Tax: F

Tax Amount $F = D \times E$

(7) Rebate, Tax Credit: G

Tax liability amount is computed by deducting tax credits and already-paid taxes from the gross tax.

(8) Tax Liability: H

Tax Liability Amount: $H = F - G$

What makes a big difference between the Australian system and the Japanese system as regards this tax liability computation process is that in Japan there are income deductions, and taxable income is computed by subtracting deduction for dependents, deduction for spouse and basic deduction from various income amounts; whereas in Australia there are no such income deductions, and what are subtracted from assessable income are only business deduction and non-business deduction, and gross tax is computed by multiplying, by the applicable tax rate, taxable income obtained by subtracting such business and non-business deductions from assessable income. In Australia, as regards tax credit for support to spouses and children, a separate family payment by Centrelink (the social services department) may apply depending on family income.

2. Various Income Amounts

(1) Assessable Income: A

Various Income Amounts

① Ordinary Income “Income according to ordinary concepts” ITAA 97 s 6–5 (1)
There is no concrete definition.
Income from repetitive, periodic and regular employment and rendering of service
Case Law: examples of ordinary income under the case law

② Statutory Income
Income stipulated under laws

What makes a difference between Australia and Japan in this regard is that in Australia, case examples of what constitute income are accumulated under the case law, and details of income are not defined under laws, cabinet orders and ministerial ordinances like income in Japan. In Australia, the taxation law is mainly the case law where income is divided into ordinary income and statutory income. Ordinary Income is stipulated to be income according to ordinary concept and its definition is not given in laws. Income from repetitive, periodic and regular employment and rendering of service is regarded as ordinary income. Ordinary Income in Australia is rather broad and conceptual definition and is operated based on accumulation of individual case examples. In Japan various incomes are defined in detail and are taxed in accordance with such definition.

3. Taxpayer

(1) Resident

For residents, income earned worldwide is taxable in Australia. Income taxes collected at overseas sources are available as a credit against tax due in Australia. For residents, income earned worldwide is taxable. For residents, not only income earned in Australia but also income earned in Japan, for example, such as dividend in Japan and income earned from rental apartments in Japan, is taxable in Australia. Such a system in Australia is the same as that of Japan; income earned worldwide by residents in Japan is taxable as income tax in Japan. For example, when a resident in Japan has a bank deposit in Australia and receives interest on deposits, the said interest is subject to aggregate taxation in Japan. When a resident in Japan receives interest on deposits with banks in Japan, the said interest is subject to separation tax in Japan, under which 15% of national tax and 5% of local tax is withheld from the interest and no further tax other than such separation tax is imposed.

When a pensioner in Japan becomes a resident in Australia, he or she is entitled to tax relief thanks to public pension deduction applicable to residents in Japan, but when he or she is treated as a resident in Australia, the entirety of pension he or she receives is taxable without any exemption or deduction from income, causing an increase in tax burden for the said pensioner.

(2) Nonresident

For nonresidents income within Australia is taxable.

4. Income Tax Rate for Residents

Tax rates of personal income for residents in Australia are as shown below. Tax cut is implemented each year.

(1) Residents

① July 2007 to June 2008 Taxable period that ended in June 2008

- $0–$6,000 0%
- $6,000–$30,000 15%
- $30,000–$75,000 30%
- $75,000–$150,000 40%
- $150,000 and over 45%

② July 2008 to June 2009 Taxable period that ended in June 2009

- $0–$6,000 0%
- $6,000–$34,000 15%
- $34,000–$80,000 30%
- $80,000–$180,000 40%
- $180,000– 45%

③ July 2009 to June 2010 Taxable period ending in June 2010

- $0–$6,000 0%
- $6,000–$35,000 15%
- $35,000–$80,000 30%
- $80,000–$180,000 38%
- $180,000 and over 45%

(2) Non-residents

① July 2007 to June 2080 Taxable period that ended in June 2008

・$0–$30,000	29%
・$30,000–$75,000	30%
・$75,000–150,000	40%
・$150,000 and over	45%

② July 2008 to June 2009 Taxable period that ended in June 2009

・$0–$34,000	29%
・$34,000–$80,000	30%
・$80,000–$180,000	40%
・$180,000 and over	45%

③ July 2009 to June 2010 Taxable period ending in June 2010

・$0–$35,000	29%
・$35,000–$80,000	30%
・$80,000–$180,000	38%
・$180,000 and over	45%

(3) Comparison of Tax Burden

The following shows a comparison of gross taxes for the same taxable income from the viewpoint of tax burden in the two countries. The exchange rate is ¥85 per 1 A$:

① When taxable income is A$10,000 or ¥850,000:
Personal income tax in Australia is ¥51,000 in Japanese currency, while in Japan the total of income tax and resident tax amounts to ¥127,500.

② When taxable income is A$20,000 or ¥1,700,000:
Personal income tax in Australia is ¥178,500 in Japanese currency, while in Japan the total of income tax and resident tax amounts to ¥255,000.

③ When taxable income is A$40,000 or ¥3,400,000:
Personal income tax in Australia is ¥497,000 in Japanese currency, while in Japan the total of income tax and resident tax amounts to ¥590,000.

The point at which tax burden in Japan starts to become lighter is around A$95,000 in taxable income; however, there is not much difference in the way tax burden becomes lighter. Although, as stated below, there is not much difference between the two countries in tax burden as regards the same taxable income, there is a big difference in tax burdern as regards the same income due to employment income deduction and other income deductions, as mentioned in the income tax computation process above. What is most noteworthy for the difference in tax burdern is seen in a large amount of employment income deduction in Japan.

6. Tax Rebate

(1) Tax Rebate

① Tax Rebate for Spouse

The amount of tax rebate for spouse is prescribed to be A$2,159. Spouses under matrimonial relationship are covered by this tax rebate, while un-divorced spouses and those under homosexual marriage are not covered by this tax rebate. What is noteworthy about this definition is that spouses under matrimonial relationship are covered by this tax rebate, whereas they are not in Japan. Couples who are virtually divorced and living apart are not covered. Also persons under homosexual marriage are not covered, whereas, in Japan, persons under homosexual marriage are not presupposed from the beginning. “Allowance for spouse” as used in Japan is not tax rebate; it is exemption and deduction from income and is ¥380,000 per annum.

② Tax Rebate for Invalid Relative

A$792, but it is very rare case.

③ Tax Rebate for Parent (taxpayer’s parent) and Parent of Taxpayer’s Spouse

A$1583, but it is very rare case.

④ Tax Rebate for Low-Income Person

The amount of tax rebate for low-income person is prescribed to be A$1,200. When gross tax computed by multiplying taxable income by the applicable tax rate is A$1,200, tax liability amount becomes zero after subtracting said gross tax from the amount of tax rebate for low-income person. However, under this system, if taxable income exceeds A$30,000, an amount derived by multiplying the amount in excess of A$30,000 by 4% is to be subtracted from the amount of tax rebate for low-income person. Accordingly, when maximum taxable income is $60,000, an amount in excess of A$30,000 comes to exactly A$30,000, and in this case, the amount of the tax rebate for low-income person becomes zero after subtracting A$1,200 (derived by multiplying A$30,000 (＝$60,000–A$30,000) by 4%) from A$1,200 (the prescribed amount of tax rebate for low-income person)

⑤ Tax Rebate for Medical Expenses

20% of medical expenses exceeding A$1,500 after deducted the payment from the insurance.

⑥ Tax Offset for Dividend

If a dividend has been paid by a company after the company has paid 30% company tax then a tax offset is available for that 30% company tax. This is called a franking tax offset.

⑦ Baby Bonus (exemption for the first baby): A$2,500

A refundable system; Not affected by upper limit of tax liability amount but mainly treated by Centerlink.

⑧ Tax Credit for Child Care: Not within the scope of the taxation system; Refundable from the Family Support Center

・30% of “payments for child care, training expenses, education-related payments”

・up to A$4,000

・According to a proposition by the government, in and after June 2008, the above percentage and amount will be raised to 50% and up to A$7,500, respectively.

⑨ Child Aged 21 or Less: Nominal credit and is abolished at present
A$376 for the first child; A$282 for the second child and each of subsequent children; with the exception of students

⑩ Student: Nominal credit and is abolished at present
A$376

⑪ Tax Credit for Household Work for Child, Tax Credit for Housekeeper (Adopted Child, Step-child, Child Before Wedding, Disabled Dependant, Spouse Receiving Disability Pension)
A$2,108

(2) Appropriation of Taxes Paid

① Credit for foreign tax

② Credit for withholding income tax

Part 3. Comparison of Japanese Taxation System and Australian Taxation System

In this Part comparison of personal income taxes between Japan and Australia is summarized.

1. Classification of Income

(1) Japan

Under incomes taxes in Japan, incomes are classified into income from interest, income from dividends, income from real estate, income from business, employment income, retirement income, forestry income, capital gain, occasional income and miscellaneous income.

(2) Australia

In Australia, incomes are divided into and defined as “Income” and “Capital Gains”, as stated above, and “Income” is divided into and defined as “Ordinary Income” and “Statutory Income”. No concrete definition is provided to “Ordinary Income”, which is rather comprehensively defined as Income from repetitive, periodic and regular employment and rendering of service and with regard to which a number of examples of ordinary income are given under the case law.

2. Allowance and Deduction from Income

(1) Japan

In Japan, there are basic allowance, allowance for spouse, special allowance for spouse, allowance for dependent, allowance for widow and widower, allowance for physically handicapped person, deduction for contributions, deduction for life insurance premium, deduction for earth quake insurance, allowance for working student, deduction for accidental loss, deduction for medical expenses, deduction for social insurance premiums and deduction for contribution to Small Enterprise Mutual Aid Plan

(2) Australia

On the other hand, in Australia, what are deductable from income are necessary expenses for business purposes and those for non-business purposes as shown below:

① Necessary Expenses for Business Purposes: these correspond to necessary expenses for business income and real-estate income

② Necessary Expenses for Non-Business Purposes: these are close to "deduction for specified payment of employment income earners" in Japan

Most taxpayers would claim approximately $1000 to $2000 in work related expenses each year.

Most claims are for the following types of expenses:

1. Union fees
2. Professional Association fees
3. Uniform purchase and cleaning
4. Books and reference material
5. Trade magazines
6. Mobile phone calls
7. Internet usage
8. Computer equipment
9. Stationery
10. Conferences and seminars
11. Motorway tolls
12. Parking
13. Taxi fares
14. Tax agents fees
15. Income protection insurance
16. Donations to charities
17. Travel－this could be the use of their car, or airfares, etc

What are deductible from employment income in Japan are either "deduction for employment income" or "specified payment deduction for employment income earner", and almost all employment income earners are reliant on deduction for employment income. When an employment income earner pays specified payment and the total amount of such specified payment in the said year exceeds the amount of deduction for employment income, he or she can, in filing an income tax return, subtract such excess amount from the amount after deduction for employment income

1. expenses for commutation generally deemed necessary as an ordinary commuter
2. certain amount of expenses generally deemed necessary for a change of abode resulting from a job relocation
3. expenses for taking training aimed at acquiring skill and knowledge directly necessary for work
4. expenses for acquiring qualifications (other than certain specified qualifications) directly necessary for work
5. certain amount of expenses necessary for travelling between his or her working place or place of abode and his or her home, when he or she is transferred without taking his/her family

3. Tax Rate

Comparison of tax rates between the two countries is as stated below

(1) Japan

Taxable Period Ending in December 2009 (income tax + prefectural tax + municipal inhabitant's tax)

· 0–¥1,950,000	15%
· ¥1,950,000–¥3,300,000	20%
· ¥3,300,000–¥6,950,000	30%
· ¥6,950,000–¥9,000,000	33%
· ¥9,000,000–¥18,000,000	43%
· ¥18,000,000–	50%

(2) Australia

10/2009 Taxable Period Ending in June 2010

· 0–A$6,000	0%	¥0–¥510,000	0%
· A$6,000–A$35,000	15%	¥510,000–¥2,970,000	15%
· A$35,000–A$80,000	30%	¥2,970,000–¥6,800,000	30%
· A$80,000–A$180,000	40%	¥6,800,000–¥15,300,000	40%
· A$180,000–	45%	¥15,300,000–	45%

4. Tax Credits

(1) Japan

tax credit for dividend, tax credit for human investment expense, tax credit for experimental and research expense, tax credit for acquisition of a house, withholding tax.

(2) Australia

tax credit for spouse, tax credit for dependant, tax credit for low-income person, tax credit for dividend, deduction for withholding tax

5. Comparison of Taxes for Salaried Employees

Lastly, the following is a comparison of income tax on the assumption of the same family structure.

Scott, an Australian, is a bank clerk and his annual income is A$100,000. He has a full-time housewife and two children, a high-school student and a kindergartner. On the other hand, Taro, a Japanese, works for a department store and his annual income is ¥8,500,000 and has a a full-time housewife and two children, a high-school student and a kindergartner.

Table 2　A Comparison of Income Tax

(1 A＄ =¥85)

	Scott	Taro
Annual salary	A$100,000, ¥8,500,000	¥8,500,000
Non−Business Deduction deduction for employment income	A$1,000, ¥85,000	¥2,050,000
Employment income	A$99,000,¥8,415,000	¥6,450,000
Allowance for dependent, 16～22 years old		¥630,000
Allowance for dependent		¥380,000
Allowance for spouse		¥380,000
Basic Allowance		¥380,000
Taxable income	A$99,000,¥8,415,000	¥4,680,000
Federal tax,national tax	A$25,600,¥2,176,000	¥508,500
State tax,prefectural government tax		¥203,400
Municipal inhabitant’s tax		¥301,600
Total tax amount	A$25,600,¥2,176,000	¥1,013,500

Note 1.

In Australia, families who support children are provided with FTB (Family Tax Benefit) and therefore are not entitled to rebate for spouse and rebate for dependant.

What is noteworthy in this comparison is, that, as stated in Non-Business Deduction, in Australia about A$ 1000 of deduction is provided for union fees and membership fees for trade associations and other expenses as listed. A$ 1000 is equivalent to ¥85,000. For Taro, a Japanese, ¥2,050,000 is deducted from employment income as deduction for employment income.

Moreover, the difference between the two is also large in exemption and deduction from income as stated below. In the case of Taro, a Japanese, he is entitled to deduction of ¥630,000 from employment income for his high-school student son as allowance dependant 16～22 years old. As for his kindergartner child, he is entitled to allowance for dependant of ¥380,000, and also allowance for spouse of ¥380,000 because she does not work, and furthermore, Taro himself is entitled to basic allowance of ¥380,000. Whereas, in Australia, there is no such allowance and deduction from income. His taxable income is still A$ 99,000, or ¥8,415,000, the same as his employment income. In the case of Taro, a Japanese, his taxable income is ¥4,680,000 because allowance for specific dependant, allowance for dependant, allowance for spouse and basic allowance are subtracted from ¥6,450,000. Moreover, besides the above allowance, there actually are deduction for social insurance premiums and deduction for life insurance premiums.

Consequently, there is a big difference in taxable income between Scott, an Australian, and Taro, a Japanese; Scott's taxable income is ¥8,415,000, while Taro's is ¥4,680,000. Under such circumstances, when it comes to total tax, Scot's total tax is ¥2,176,000 (A$25,600), whereas in the case of Taro, his income tax is ¥508,500, his prefectural government tax is ¥203,400 and his municipal inhabitant's tax is ¥301,600, adding up to ¥1,013,500. In the case of Scot, there is only federal tax and not any personal income tax pertaining to state tax or municipal inhabitant's tax. As a result, Scot's total tax comes to A$25,600 (¥2,176,000), and Taro's comes to ¥1,013,500 which is broken down into income tax, national tax, and prefectural, municipal inhabitant's tax as stated above. From the above comparison of Australian Scot and Japanese Taro with the same annual income amount, it can be said that Scott's tax burden in Japan is almost twice as light as his tax burden in Australia.