Adjusted taxable income: An explainer in case a client asks

- Tax
- 1 May, 2019, 1 year ago

If your clients have ever or will ever apply for certain tax offsets or concessions or a government benefit of some kind, they may very well be asked to provide their "adjusted taxable income" (ATI).

ATI is used to assess eligibility for certain offsets and other entitlements (typically items T4, T5 and T6 but also M1 and A3), and is also used by the Department of Human Services to assess entitlement to Family Tax Benefit (both A and B), the Child Care Benefit and Child Care Subsidy, Parental Leave Pay and Dad and Partner Pay.

Eligibility for the Commonwealth Seniors Health Card is also based on ATI thresholds (although deemed income from account-based income streams are now included) and the government's private health insurance rebate also takes into account ATI for its thresholds, as does the Medicare Levy Surcharge.

The ATI recipe
Simply put, and as the name suggests, ATI starts with ordinary taxable income (the amount earned above the taxing threshold of $18,200, minus deductions) to which various elements of adjustment are applied.

These adjustments may include any of the following to calculate your client's ATI (links go to tax return instructions to explain further):

- adjusted fringe benefits*
- reportable employer superannuation contributions
- deductible personal superannuation contributions
- certain tax-free government pensions or benefits received by the person
- target foreign income (income and certain other amounts from sources outside Australia not included in your taxable income or received as a fringe benefit)

- net financial investment loss (the amount by which the person's deductions attributable to financial investments exceeded their total financial investment income)
- net rental property loss (the amount by which the person's deductions attributable to rental property exceeded their rental property income)
- less any child support payments the person provided to another person.

The ATO has provided an income test calculator to make the job easier.

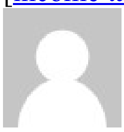
Wriggle room
Important considerations such as the levels of private health insurance rebate are affected by ATI, and also important for many taxpayers is retaining eligibility for certain offsets and concessions. For example, the Dependant (Invalid & Carer) tax offset cannot be claimed if the ATI (for 2018-19) is more than $100,000.

As ATI can be affected by the above adjustments, there are particular strategies that can be employed to ensure continuing eligibility through managing levels of ATI.

There may be little scope to reduce your or your spouse's ATI through salary sacrificing to superannuation, as reportable employer super contributions are included. But FBT-free benefits, including work-related items such as tools of trade, mobile phone, laptop computer and more, could do the job of reducing ATI.

**The adjusted fringe benefit amount has was changed (effective from 1 July 2017) so that the gross value rather than an adjusted net value (previously 1 minus the FBT rate of 47%, so 0.53) is used. The change does not affect public benevolent institutions or hospitals or charities.*

[income tax], [tax offset], [tax-free], [welfare]


Michael Jaeger
November 11th, 2019 Reply

What about using insurance bonds to hold assets that would otherwise generate taxable income? You retain full access to the funds if you need them, and any withdrawal will have a small assessable component and a larger non-assessable component. After 10 years any withdrawal is tax free in your hands.

NALI ambiguity dealt with by ATO, with a tightening of "expenditure" treatment

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