

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

2017 - 2018

Division/Agency: Australian Taxation Office
Question No: 131
Topic: Expenses for managing your tax affairs
Reference: Hansard page 36 (30 May 2017)
Senator: Di Natale, Richard

Question:

Senator DI NATALE: If somebody has so many deductions that they manage to bring their tax below the tax-free threshold—for example, there are 48 millionaires we saw reported somewhere—they would not be subject to the Medicare levy, would they?

Senator Cormann: This sounds like a hypothetical proposition to me. The officer has answered the question.

Senator DI NATALE: It is not hypothetical; it is a statement of fact.

Senator Cormann: The Medicare levy is applied to taxable income but, incidentally, income tax rates are applied to taxable income too. Obviously, as you have indicated before, the higher your taxable income, the higher the marginal tax rate that will apply to your income.

Mr Jordan: Can I make just one little comment here. It is not on the Medicare levy, but it is on the label in the tax return I think you are referring to. Every year, it seems to get a bit of publicity, and I want to investigate whether we can put another label in the tax returns to stop this from happening. The label is called 'Expenses for managing your tax affairs'. You see someone earning a million bucks and then you see a \$1.1 million claim for managing their tax affairs, and you say, 'That's outrageous, are they paying an accountant a million bucks?' But what is included in that is not just the fee you pay to the tax agent, but any penalty interest you might have paid to the tax office. Because penalty interest is tax-deductible. If we owe you interest, it is taxable to you, so you might get one of these high-wealth individuals who we have nailed for 10 million bucks of extra tax and some of that might be \$1 million of interest. It goes into that box, and I would break that box up, because this keep coming up.

Senator DI NATALE: How many of those 48 would be in that category?

Mr Jordan: I cannot—

Senator DI NATALE: That is not what I am here to ask, but I would be interested, on notice, if you could take that, and I get it...

Answer:

Of the 48 individual taxpayers in the 2014-2015 income year who reported over \$1 million in total income yet had taxable incomes of \$18,200 or less, 19 claimed a deduction at the 'Cost of managing tax affairs' label.

Of the same 48 individual taxpayers, 12 had interest imposed during the 2014-2015 financial year, with most of these also claiming a deduction at the 'Cost of managing tax affairs' label of their return. As has been the case in previous years, there is a clear link between the high cost of managing tax affairs and the imposition of interest.