Tax Offsets – 2014/15

Dependant Tax Offsets

From 1 July 2012 (i.e., for the 2013 and later income years), the Dependant (Invalid and Carer) Tax Offset (DICTO) replaced eight dependent rebates (namely, the invalid spouse, carer spouse, housekeeper, child housekeeper, child housekeeper (with child), invalid relative and parent/parent-in-law tax offsets). However, for the 2014 income year, these offsets remain relevant for taxpayers who are eligible for the zone or overseas forces tax offsets.

The DICTO is a non-refundable tax offset and is only available where the dependant who is being maintained by the taxpayer is genuinely unable to work due to invalidity or carer obligations during an income year. Note that, for the 2014 income year, the DICTO did not replace the dependent spouse tax offset ('DSTO'), which continued to be available, but only in respect of a spouse that was born before 1 July 1952.

However, as part of the 2014/15 Federal Budget, the government announced that the DSTO will be abolished for all taxpayers from 1 July 2014 (i.e., from the 2015 income year). At the time of writing, this measure is awaiting Royal Assent. The ATO has recommended that taxpayers should not claim this offset for the 2015 income year and has removed the DSTO label from the 2015 individual tax return accordingly.

Description	2014/15	
	Max Offset $	**Max ATI[1] $**
DICTO[1]	2,535	10,422
Spouse/de facto (no dependent child/student)[2]	N/A	N/A
Tax offset/rebate available where taxpayer entitled to claim ZTO, OFTO or OCTO[3]:		
Spouse/de facto (no dependent child/student) or invalid spouse/carer spouse (whichever is applicable)	N/A	N/A
Child-housekeeper (no dependent child/student)	N/A	N/A
Child-housekeeper (with dependent child/student)	N/A	N/A
Invalid relative	N/A	N/A
Parent or parent-in-law	N/A	N/A
Housekeeper (no dependent child/student)	N/A	N/A
Housekeeper (with dependent child/student)	N/A	N/A
Tax offset/rebate 'notionally' used for other purposes:		
Spouse/de facto (with dependent child/student) – higher tax offset	N/A	N/A
First child under 21 (not being a student)[4]	376	1,785
Each other child under 21 (not being a student) [4]	282	1,409
Student[4]	376	1,785
Sole parent[4]	1,607	N/A

1 If the taxpayer is claiming an offset in respect of a dependant other than a spouse, the combined Adjusted Taxable Income ('ATI') of the taxpayer and their spouse must not exceed $150,000. If claiming for a spouse, the taxpayer's ATI must not exceed $150,000. In addition, the amount of the dependant offset reduces by $1 for every $4 by which the dependant's ATI exceeds $282.

A taxpayer's ATI includes their
– taxable income;
– adjusted fringe benefits total;
– tax-free pensions or benefits;
– target foreign income;
– reportable superannuation contributions;
– total net investment losses;
Less Deductible child maintenance expenditure (i.e., child support paid).

2 For the 2014 income year, this offset could be claimed by taxpayers who have a spouse born **before 1 July 1952** where certain conditions were met**.** If a DSTO claim was made, a claim could not be made for the same spouse under the DICTO.

3 For the 2014 income year, taxpayers eligible for the Zone Tax Offset ('ZTO'), the Overseas Forces Tax Offset ('OFTO') or the Overseas Civilian Tax Offset ('OCTO') continued to be entitled to claim (where eligible) the other eight dependent tax offsets (e.g., the housekeeper tax offset) set out in the table above rather than the DICTO.

However, in its 2014/15 Federal Budget announcement, the government indicated that, from 1 July 2014 (i.e., from the 2015 income year), any retained entitlement to any of these eight other dependent tax offsets, as part of the ZTO, OFTO and OCTO will be removed (the DICTO is available, where eligible). Note that at the time of writing, legislation to implement this measure is awaiting Royal Assent.

4 These dependant tax offsets have been abolished or replaced, however they have been notionally retained for various purposes (e.g., calculating the ZTO, OFTO, OCTO and entitlement to other tax offsets).

Medical Expenses Tax Offset

As part of the May 2013 Federal Budget, the former federal government announced that it would phase out the Net Medical Expenses Tax Offset ('NMETO') by the end of the 2019 income year.

Legislative amendments to give effect to this measure were enacted by the *Tax and Superannuation Laws Amendment (2014 Measures No. 1) Act 2014*. However, transitional arrangements apply whereby claims for the NMETO can only be made as follows, subject to satisfying the income test set out below:

- For the 2014 income year, the NMETO can be claimed in respect of the full range of eligible out-of-pocket medical expenses if the offset was claimed in the 2013 year;
- For the 2015 income year, the NMETO can be claimed in respect of the full range of eligible out-of-pocket medical expenses if the offset was claimed in both the 2013 and 2014 income years;
- In all other cases, the NMETO can only be claimed in respect of out-of-pocket medical expenses relating to disability aids, attendant care or aged care, up to and including the 2019 income year; and
- From 1 July 2019 (i.e., from the 2020 income year), the NMETO is abolished for all taxpayers.

The NMETO has been income tested since 1 July 2012.

For the 2015 income year, the NMETO is claimed as follows:

Status	Adjustable taxable income for rebates[1,2]	Medical expenses	Rate of Offset
Single	$90,000 or less	$2,218 or less	0
		Greater than $2,218	20
	Greater than $90,000	$5,233 or less	0
		Greater than $5,233	10
Family[3,4]	$180,000 or less	$2,218 or less	0
		Greater than $2,218	20
	Greater than $180,000	$5,233 or less	0
		Greater than $5,233	10

1 'Adjusted taxable income for rebates' is calculated as the taxpayer's taxable income + adjusted fringe benefits total + reportable super contributions + target foreign income + total net investment loss + any tax free pension or benefit – deductible child maintenance expenditure.

2 A taxpayer will be eligible for the family threshold if they are married on the last day of the income year or have a dependant on any day of the income year.

3 The threshold is increased by $1,500 for each dependant child after the first.

4 Where the taxpayer is married it is the combined total of the taxpayer's and their spouse's 'adjusted taxable income for rebates' that is compared to the threshold.

Low Income Tax Offset

Resident individuals (including trustees assessed under S.98 ITAA 1936 in respect of presently entitled resident beneficiaries) are entitled to the low-income tax offset[1].

In the 2014/15 and 2013/14 income years, the maximum offset of $445 is reduced by 1.5 cents for every dollar of taxable income over $37,000. The offset is not automatically indexed.

Taxable Income $	Tax Offset
0 – 37,000	$445
37,001 – 66,666	$445 – [(Taxable Income – $37,000) x 1.5%]
66,667+	Nil

1 Minors who are not classified as an 'excepted person' are not eligible to apply the low-income tax offset to reduce tax payable on their unearned (i.e., Division 6AA) income.

Seniors and Pensioners Tax Offset

Family Situation[1]	Maximum Offset $	Shade-out Threshold[2] $	Cut-out Threshold[2] $
Single, separated or widowed	$2,230	$32,279	$50,119
Each member of a couple (married or de facto, whether of the same or opposite sex)[3]	$1,602	$57,948 ($28,974 each)	$83,580 ($41,790 each)
Each member of a couple (married or de facto, whether of the same or opposite sex) separated due to illness or because one was in a nursing home[3]	$2,040	$62,558 ($31,279 each)	$95,198 ($47,599 each)

1 For a taxpayer who is a member of a couple, eligibility is established by halving the combined 'rebate' income of the taxpayer and their spouse and comparing this amount against the relevant Cut-out Threshold – if this figure reaches the Cut-out Threshold (meaning the combined rebate income of the taxpayer and their spouse is equal to or greater than double the relevant Cut-out Threshold in the above table), then neither person is eligible for SAPTO. If this figure is below the Cut-out Threshold, then the amount of each person's SAPTO entitlement depends on their own rebate income and their eligibility for any unused portion of their spouse's SAPTO.

An individual's 'rebate' income for a year of income is the sum of the individual's:

(a) taxable income for the year;

(b) reportable superannuation contributions for the year;

(c) total net investment loss for the year; and

(d) the individual's adjusted fringe benefits total for the income year.

2 The maximum offset reduces by 12.5 cents for every dollar of rebate income over the Shade-out Threshold and reduces to nil for rebate income levels at or above the Cut-out Threshold.

3 The transfer of any unused portion of a spouse's SAPTO may occur if both the taxpayer and their spouse are eligible for SAPTO, the spouse's tax offset entitlement exceeds their tax payable, and tax payable by the taxpayer exceeds their tax offset entitlement.

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Private Health Insurance Rebate

The private health insurance (PHI) rebate is an amount that the government contributes towards the cost of PHI premiums. The rebate is only available in relation to a 'complying PHI policy' (basically, a policy offered by a registered health insurer that provides hospital cover, general treatment cover or both), excluding 'lifetime health cover loading' applied to the cost of a policy from 1 July 2013.

From 1 July 2012, the PHI rebate is income tested. As a result, higher income earners now receive less PHI rebate or, if they do not have the appropriate level of private patient hospital cover, the Medicare levy surcharge may increase (as set out in table 3.03.04).

The income tier thresholds

The PHI rebate is income tested against the income tier thresholds, as set out below.

Furthermore, from 1 April 2014, PHI rebate percentages are adjusted downwards by a single rebate adjustment factor. This means that in each year, two separate PHI rebate percentages will be applied in calculating a taxpayer's PHI rebate - one for the period 1 July to 31 March, and a separate percentage for the period 1 April to 30 June (as outlined in the following table for the 2015 income year).

	Base Tier $	**Tier 1 $**	**Tier 2 $**	**Tier 3 $**
Singles[1,2]				
Singles	90,000 or less	90,001 – 105,000	105,001 – 140,000	140,001+
Families/Couples[1,3]				
0 dependants	180,000 or less	180,001 – 210,000	210,001 – 280,000	280,001+
1 dependant	180,000 or less	180,001 – 210,000	210,001 – 280,000	280,001+
2 dependants	181,500 or less	181,501 – 211,500	211,501 – 281,500	281,501+
3 dependants	183,000 or less	183,001 – 213,000	213,001 – 283,000	283,001+
4 dependants	184,500 or less	184,501 – 214,500	214,501 – 284,500	284,501+
5 dependants	186,000 or less	186,001 – 216,000	216,001 – 286,000	286,001+
Each extra child	1,500	1,500	1,500	1,500
Rebate 1 July 2014 to 31 March 2015				
Aged under 65[4]	29.040%	19.360%	9.680%	0%
Aged 65 - 69[4]	33.88%	24.20%	14.52%	0%
Aged 70 or over[4]	38.720%	29.040%	19.360%	0%
Rebate 1 April 2015 to 30 June 2015				
Aged under 65[4]	27.820%	18.547%	9.273%	0%
Aged 65 - 69[4]	32.457%	23.184%	13.910%	0%
Aged 70 or over[4]	37.094%	27.820%	18.547%	0%

1 Based on law applying at the time of writing, from 1 July 2015 to 30 June 2018, the PHI income thresholds will not be indexed (i.e., they will remain at 2014/15 rates for the next three years).

2 A 'single' taxpayer is someone who is not married and does not have any dependent children.

3 A person will generally be assessed under the 'families/couples' tier thresholds if the person:

- is married on the last day of the income year (including a de facto couple) – in this case, it is the combined income for surcharge purposes (i.e., the Base Tier) of the taxpayer and their spouse which is included; or
- at any time during the year, contributes in a substantial way to the maintenance of at least one dependent child who is either the person's 'child' (as defined in S.995-1 of the ITAA 1997) or their 'sibling' who is dependent on them for economic support.

4 This is a reference to the age of the oldest person covered by the policy.

Zone Tax Offset

Taxpayers who live in remote areas of Australia may be entitled to a Zone Tax Offset depending on the amount of time spent in the relevant zones. Generally speaking, taxpayers qualify as residents of a zone where they reside in the zone (not necessarily continuously) for 183 days or more. Remote areas do not include offshore rigs.

To find out whether a location is currently in a zone or special area, refer to the 'Australian Zone List', which can be found on the ATO website.

The 2014/15 zone rebate levels remain unchanged from 2013/14 and are set out below:

Description[1]	Maximum Offset[2] $
Special Area in Zone A	$1,173 + 50% of the relevant rebate amount[3]
Special Area in Zone B	$1,173 + 50% of the relevant rebate amount[3]
Zone A	$338 + 50% of the relevant rebate amount[3]
Zone B	$57 + 20% of the relevant rebate amount[3]

1 The Zone A offset applies to a taxpayer who is a resident of Zone A during the year of income but has not resided or actually been in the special area of either zone (these areas are particularly isolated) during any part of the year. The Zone B offset applies to a taxpayer who is a resident of Zone B during the year of income but has not resided or actually been in Zone A, or the special area of either zone during any part of the year. Where a taxpayer does not fall into any of the previous categories but resided in a zone area for some of the year, the Commissioner can determine a reasonable amount of tax offset to allow in the circumstances.

2 The zone offset amount noted in the table is increased by the full amount of the dependant spouse tax offset to which the taxpayer would be entitled assuming the relevant age restriction for that rebate did not apply (and provided also that the taxpayer is not otherwise already eligible to claim the offset).

Note that in the 2014/15 Federal Budget, the government announced that it would abolish the dependant spouse tax offset from 1 July 2014, for all taxpayers. The government also announced that it would abolish the claiming of other dependant-related tax offsets (e.g., the parent/parent-in-law tax offset) as part of the zone or overseas forces tax offsets from 1 July 2014. However, eligible taxpayers may claim both the DICTO and the zone or overseas forces tax offset. At the time of writing, legislation to enact this is awaiting Royal Assent.

3 The 'relevant rebate amount' is the total of certain rebates or notional rebates to which the taxpayer is entitled or deemed to be entitled.

Note that as part of the 2015/16 Federal Budget, the government announced that from 1 July 2015 (i.e., from the 2016 income year), it will exclude 'fly-in fly-out' and 'drive-in drive-out' workers ('FIFO/DIDO workers') from being able to claim the Zone Tax Offset where their normal residence is not within a particular zone. Furthermore, for those FIFO/DIDO workers whose normal residence is in one zone, but who work in another zone, they will retain the Zone Tax Offset entitlement associated with their normal place of residence. At the time of writing no legislation has been introduced to implement these changes.