Print whole section

Income averaging for special professionals 2024

Information about types of professional income and how to work out the tax payable with income averaging.

Published 30 May 2024

How to complete your tax return with income averaging

Instructions to complete your tax return with income averaging.

QC 101698

Who can income average?

Find out if you are eligible for special professional income averaging.

Published 7 May 2024

You are eligible for special professional income averaging (a concessional tax treatment) if:

- you are an individual who is an Australian resident at any time during the income year
- you are a special professional, and
- you satisfy the first-year requirements (see below) in either the current income year or an earlier income year.

The first year you are eligible for special professional income averaging is the first income year for which the taxable professional income (TPI) you earned as a resident special professional individual is more than $2,500. This is known as year 1.

Continue to: **Types of special professionals**

QC 101698

Types of special professionals

Find out about the 4 categories of special professionals.

Published 30 May 2024

Author or inventor

You are a special professional if you are an inventor or the author of a literary, dramatic, musical or artistic work.

The expression 'author' is a technical term from copyright law. In general, the 'author' of a musical work is its composer, and the 'author' of an artistic work is the artist, sculptor or photographer who created it.

Performing artist

You are a special professional if you use intellectual, artistic, musical, physical or other personal skills in the presence of an audience, or you perform or appear in a film, on a tape or disc, or in a television or radio broadcast.

Production associate

You are a special professional if you use artistic rather than technical skills in the production.

The people who qualify as production associates are specified in the definition of **artistic support** to be:

- an art director
- a choreographer
- a costume designer
- a director
- a director of photography
- a film editor
- a lighting designer
- a musical director
- a producer
- a production designer

- a set designer
- any person who makes an artistic contribution similar to that made by any of these people.

Sportsperson

You are a special professional if you compete in sporting activities where you primarily use physical prowess, physical strength or physical stamina. A navigator in car rallying, a coxswain in rowing or a similar competitor is also a special professional.

Continue to: **Types of professional income**

Return to top

QC 101698

Types of professional income

About the 4 types of professional income.

Published 30 May 2024

Taxable professional income

Taxable professional income (TPI) is the amount (if any) remaining after taking away from your assessable professional income:

- the total of the deductions that reasonably relate to your assessable professional income
- the part of any apportionable deductions (for example, gifts to charity which you have shown at question **D9** in your tax return) that are to be taken into account in calculating your TPI.

Assessable professional income

Assessable professional income is used in calculating your TPI. It is income arising directly from the activities of a special professional and includes:

- rewards and prizes
- income from endorsements, advertisements, interviews, commentating and any similar service
- royalties from copyright of a literary, dramatic, musical or artistic work
- income from a patent for an invention.

If you are an author or inventor include as your assessable professional income the income you derive from activities of a special professional where you:

- have been engaged or commissioned to produce one or more specified works
- have invented one or more specified inventions
- have had any previous or successive engagements or commissions that do not result in continuous engagement over a substantial period of time.

The following are specifically excluded from assessable professional income:

- any income you derive from
  - coaching or training competitors
  - umpiring or refereeing sport
  - administering sport
  - being a member of the pit crew in motor sport
  - being a theatrical or sports entrepreneur
  - owning or training animals
- a superannuation lump sum or an employment termination payment
- payments for unused annual or long service leave on retirement or termination
- a net capital gain.

Average taxable professional income

Average taxable professional income (ATPI) in an income year is one-quarter of the sum of your TPI for each of the preceding 4 years. Special rules apply for working out the ATPI if your first income averaging year was less than 4 years ago.

In the first 4 years, ATPI is worked out as follows, if you were an Australian resident during the year immediately before your year 1:

- Year 1 = nil.
- Year 2 = one-third of TPI in year 1.
- Year 3 = one-quarter of the sum of your TPI in years 1 and 2.
- Year 4 = one-quarter of the sum of your TPI in years 1, 2 and 3.

If you were not a resident at any time during the year immediately before your year 1, **contact us**.

Above-average special professional income

Your above-average special professional income is the amount of TPI you earned during the income year that is more than your average TPI. Your tax payable is the sum of tax on your above-average special professional income and tax on your other income (**Step 1** explains 'other income'). If there is no above-average special professional income (that is, your TPI is equal to or less than your average TPI) you will pay tax at ordinary rates on your taxable income.

Continue to: **How to work out tax payable with income averaging**

Return to top

QC 101698

How to work out tax payable with income averaging

Steps to help you to manually work out your tax payable amount with income averaging.

Published 30 May 2024

We calculate tax payable with income averaging

You do not need to work out your tax payable with income averaging. We will work it out from the amount at question **24** – label **Z** in your supplementary tax return.

If you want to work it out for yourself, follow the steps below.

Step 1: Work out your income

Add your Average taxable professional income (ATPI) (d) to your taxable income that is not subject to income averaging (your taxable non-professional income (e)). The total, called your 'other income', is taxed at normal rates (g).

Step 2: Work out your tax payable on special professional income

- Subtract your ATPI from this year's TPI to get your above average special professional income.
- To work out the tax payable on this income:
  - to your 'other income', add one-fifth of your above average special professional income
  - work out the tax payable on this amount
  - subtract the tax payable on your 'other income'
  - multiply the result by 5.

Step 3: Work out your total tax payable

- Add the tax on your 'other income' and the tax on your above-average special professional income.
- The result is your total tax payable.

Continue to: How to complete your tax return with income averaging

Return to top

QC 101698

How to complete your tax return with income averaging

Instructions to complete your tax return with income averaging.

Published 30 May 2024

For us to work out your income averaging, you must complete question **24** – label **Z** in your supplementary tax return 2024. See step **3**, **question** 24 in the supplementary tax return instructions 2024.

The amount to write at question **24** – label **Z** in your supplementary tax return is your assessable professional income less the total of your deductions that reasonably relate to this income. **Don't deduct** any apportionable deductions, for example, gifts to charity that you have shown at question **D9** in your tax return. We will take these into account to work out your TPI and your income averaging.

At question **24** – label **V** in your supplementary tax return, write the total of your category 4 other income (see step 1 question 24 in the supplementary tax return instructions 2024), including the amount you wrote at question **24** – label **Z**.

Do not include any amounts already shown at questions **1**, **2**, **13**, **14** or **15** in your tax return.

If you have not shown your TPI at other questions in your tax return, you must include it at question **24** – label **V**.

If you include your TPI at label **V**, do not claim any deductions you used to work out your TPI at questions **D1** to **D10** or **D11** to **D15** in your tax return.

Example: working out tax payable with income averaging

Kevin has a taxable income of $60,000, including assessable professional income of $45,000. He has deductions of $5,000 that reasonably relate to his assessable professional income (this amount does not include gifts) and he has no other deductions. His average TPI over the last 4 years was $9,000.

Kevin's tax payable, before the Medicare levy or tax offsets are taken into account, is $7,942.00. It would have been $9,967.00 (the tax on $60,000) if income averaging had not been applied.

The following steps show you how Kevin's tax payable has been worked out

Row	Calculation element	Amount
a	Assessable professional income	$45,000
b	Deductions	$5,000
c	TPI = row **a** – row **b** = $45,000 – $5,000	$40,000

Kevin transfers the amount at row **c** to question **24** – label **Z** in his supplementary tax return and, if he has not already included any of this amount at questions **1**, **2**, **13**, **14** or **15**, he also writes it at question **24** – label **V** in his supplementary tax return.

ATPI

One-quarter of the sum of Kevin's TPI for the preceding 4 years, not including this income year
= $9,000 (d)

Taxable non-professional income

amount of **TAXABLE INCOME OR LOSS** at **$** in his tax return minus the amount shown at question **24** – label **Z** in his supplementary tax return

= $60,000 − $40,000
= $20,000 (e)

Other income
= (d) + (e)
= $9,000 + $20,000
= $29,000 (f)

Tax on other income at ordinary rates
= $2,052 (g)

Above-average special professional income
= (c) − (d)
= $40,000 − $9,000
= $31,000 (h)

Tax on other income plus one-fifth of above-average special professional income
= tax on [(f) + 1/5 (h)]
= tax on [$29,000 + $6,200]
= Tax on $35,200
= $3,230 (i)

Tax on above-average special professional income
= [(i) − (g)] × 5
= [$3,230 − $2,052] × 5
= $5,890 (j)

Kevin's tax payable
= (g) + (j)
= $2,052 + $5,890
= $7,942 (k)

Return to top

QC 101698

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We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

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