TR 92/12 - Income tax: notional averaging of net capital gains or of abnormal income to calculate the rate of tax payable on taxable income

Taxation Ruling
Income tax: notional averaging of net capital gains or of abnormal income to calculate the rate of tax payable on taxable income

*This Ruling, to the extent that it is capable of being a 'public ruling' in terms of Part IVAAA of the **Taxation Administration Act 1953**, is a public ruling for the purposes of that Part . Taxation Ruling TR 92/1 explains when a Ruling is a public ruling and how it is binding on the Commissioner.*

[Note: This is a consolidated version of this document. Refer to the Tax Office Legal Database (http://law.ato.gov.au) to check its currency and to view the details of all changes.]

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What this Ruling is about

1. This Ruling explains the method for calculating the rate of tax on taxable income which includes a net capital gain or abnormal income or both. It also explains how the calculation applies to primary producers whose income is subject to the averaging provisions and to minors.

2. The method of calculation explained in this Ruling is provided by Schedule 7 and Schedule 11 (minors) of the *Income Tax Rates Act 1986* (ITRA). It only applies to individual taxpayers (i.e. it does not apply to calculate the rate of tax payable on capital gains included in the income of companies or trusts). The method applies to both residents of Australia and non-residents.

3. The method involves the notional averaging of net capital gains or abnormal income (or both) to calculate the rate of tax. Notional averaging alleviates the effect of including in a taxpayer's assessable income of a particular year income which may be attributable to previous years.

4. This Ruling does not apply to taxpayers who receive notional income in terms of sections 59AB and 86 of the *Income Tax Assessment Act 1936* (ITAA), which is subject to tax at the rate prescribed in Schedule 9 of the ITRA.

5. Some of the terms used in this Ruling are defined in paragraph 11.

Ruling

6. Unless paragraph 4 applies, the rate of tax payable by taxpayers (other than certain minors) whose taxable income includes a net capital gain or an amount of abnormal income is calculated by following the steps outlined in Attachment A to this Ruling.

7. Division 6AA of Part III of the ITAA applies to certain minors, i.e. children under the age of 18 who receive eligible taxable income during the year and who satisfy the other requirements of section 102AC. Eligible taxable income is defined in section 102AD. Broadly speaking, it is unearned income of minors which is taxed at special rates of tax. The rate of tax payable by Division 6AA minors whose taxable income includes a net capital gain or an amount of abnormal income is calculated by following the steps outlined in Attachment B to this Ruling.

8. Notional averaging of net capital gains and abnormal income received by a taxpayer whose income is subject to the averaging provisions is based on average income rather than taxable income. In broad terms, Division 16 applies to primary producers carrying on a business in a year of income who have at least two average years and have not withdrawn from the averaging system. Average income is used whenever Division 16 of Part III of the ITAA applies to the taxpayer, even if there is a primary production loss for the year.

9. The rate of tax calculated by the methods outlined in the attachments to this Ruling is applied to the whole of the taxpayer's taxable income to determine the amount of tax payable (excluding Medicare levy). The total amount of tax payable is calculated by adding the Medicare levy to this amount, and subtracting any rebates or credits. Primary producers also need to add any complementary tax payable under section 156 of the ITAA.

Date of effect

10. This Ruling sets out the current practice of the Australian Taxation Office and is not concerned with a change in interpretation. Consequently, it applies (subject to any limitations imposed by statute) for years of income commencing both before and after the date on which it is issued.

Definitions

11. Terms used in this Ruling have the following meanings:

Abnormal income	This is the abnormal income amount defined in subsection 3(1) of the ITRA by reference to section 158L of the ITAA. Broadly, it is income of an eligible person (i.e. an artist, composer, inventor, performer, production associate, sportsperson or writer) which exceeds the person's average income over previous years. Division 16A of the ITAA deals with abnormal income generally.
Eligible taxable income	This is defined in Division 6AA of Part III of the ITAA (section 102AD). Broadly speaking, it is unearned income of minors (although there are some exceptions). If the amount of **ETI** does not exceed $416, it is treated as ordinary taxable income and would be liable to be taxed at ordinary rates. If the amount of **ETI** exceeds $416, but does not exceed $1,445, it is taxed in accordance with subsection 13(1) of the ITRA as modified by subsection 13(2). If the amount of the **ETI** exceeds $1,445, then the top marginal rate (currently 47%) will apply.
Net capital gain	The amount of capital gain on the disposal of an asset (or assets) which is included in assessable income as a net capital gain under subsection 160ZO(1) of the ITAA.
Notional income	Income derived by either: (i) a person who has successfully applied to the Commissioner of Taxation for a notional income determination under section 59AB of the ITAA because of disposal, loss or destruction of business assets; or (ii) a person who has received a premium for a lease and has a notional income by virtue of section 86 of the ITAA. The rate of tax applicable to a taxpayer who receives notional income is governed by Schedule 9 of the ITAA.
Ordinary rates	The rates of tax applicable under the income

of tax	tax law (Schedule 7 of the ITRA) to the taxable income of a taxpayer who is not a minor. The rates vary according to whether the taxpayer is a resident of Australia (Part I of Schedule 7) or a non-resident (Part II of Schedule 7).
Reduced taxable income (RTI)	This is defined in subsection 3(1) of the ITRA as: Taxable income *minus* **SIC**.
Special income component (SIC)	This is also defined in subsection 3(1) of the ITRA. It is either: (a) net capital gain or abnormal income or the sum of both; or (b) taxable income (if taxable income is less than or equal to the amount calculated in (a) above).

Explanations

Calculation of special income component (SIC) and reduced taxable income (RTI) where net capital gain or abnormal income is greater than taxable income

12. The definition of **SIC** in section 3 of the ITRA provides that if the net capital gain or abnormal income (or the sum of both) is greater than taxable income for the income year, **SIC** equals taxable income. For example, that would be the case if the taxpayer has incurred a revenue loss during the income year. In that case, as **SIC** and taxable income are the same, **RTI** is nil. In other words, the lowest figure **RTI** can be is zero.

Notional averaging for primary producers

13. Division 16 of Part III of the ITAA generally provides for the averaging of income from primary production. It applies if a taxpayer is a primary producer (section 157) who is actively carrying on a business (section 152) and who has had at least two average years (section 158). Division 16 applies even when the taxpayer has made an overall primary production loss for the year of income. For example, section 153 specifically provides that any year in which a taxpayer was carrying on business but had no taxable income is

capable of being an average year. Thus, Division 16 applies to the taxpayer's income unless the person has specifically elected under section 158A that the Division is not to apply. The effect of such an election is that the Division does not apply to the year of income in which the election is made and all subsequent years of income.

14. Under section 149A, net capital gains and abnormal income are excluded from the taxpayer's assessable income and taxable income in calculating the taxpayer's rebate or complementary (extra) tax payable under section 156. However, net capital gains are included in the taxpayer's assessable income and taxable income for the general purposes of the ITAA (section 160ZO).

15. Clause 3 of Part 1 of Schedule 7 of the ITRA provides a method for calculating the rate of tax payable if:

(a) the taxable income of a resident taxpayer consists of or includes a special income component; and
(b) the averaging provisions apply to the income of the taxpayer.

In the case of a primary producer with an overall primary production loss and a net capital gain, the taxpayer's taxable income (as defined in subsection 6(1) of the ITAA) includes a special income component (the net capital gain). As stated in paragraph 13, the averaging provisions apply if the taxpayer is actively carrying on a primary production business, has at least two average years and has not opted out of the averaging system. Therefore the calculation method in Schedule 7 of the ITRA applies to such a taxpayer.

16. The fact that, under Schedule 7 of the ITRA, tax on net capital gains and abnormal income of primary producers is calculated by reference to the taxpayer's average income (rather than taxable income) means that the taxpayer pays more or less tax on that income in any one year, depending on whether average income is more or less than taxable income.

17. This outcome is due to a fundamental change in the averaging provisions that has applied since 1 July 1983. That change altered the averaging system from one where primary producers paid no greater tax in any year to one which ensured that primary producers pay no greater tax over time than other taxpayers.

18. There may be cases in which a primary producer would derive no long-term benefit from the averaging rules applying to his or her net capital gains and abnormal income. In that case, it may be appropriate to withdraw from the averaging system (refer section 158A of the ITAA). For example, that may be the case if the

primary producer is selling assets while withdrawing from primary production activities.

Examples

19. The following examples illustrate the method outlined in Attachments A and B to calculate the rate of tax on taxable income which includes a net capital gain or abnormal income. The rates of tax used are those applicable to residents of Australia.

Example 1: net salary and net capital gain

Anna's taxable income for the 1991/92 financial year was $70,000. It consisted of:

Salary:	$20,000
Net capital gain:	$50,000

The rate of tax Anna will pay on her taxable income is calculated as follows:

Step 1

Anna's **SIC** is the amount of her net capital gain, i.e. $50,000

Step 2

Anna's **RTI** is her taxable income *minus* **SIC**, i.e. $70,000 - $50,000 = $20,000

Step 3

Component A is the amount of tax payable on Anna's **RTI** ($20,000) at ordinary rates, i.e. $2,920

Step 4

Anna is not a primary producer, therefore she will work out **Component B** like this:

(a) Tax payable on ($20,000 + 20% of $50,000) at ordinary rates is $6,594

(b) **Component B =** 5 x ($6,594 - $2,920), i.e. $18,370

Step 5

The rate of tax Anna will pay on each dollar of her taxable income is:

$$\frac{\$2,920 + \$18,370}{\$70,000} = 30.41428 \text{ cents}$$

Example 2: net capital gain only

Ellen's taxable income for the 1991/92 financial year was $50,000. This consisted solely of a net capital gain.

The rate of tax Ellen will pay on her taxable income is calculated as follows:

Step 1

Ellen's **SIC** is the amount of her taxable income (which is also the amount of her net capital gain), i.e. $50,000

Step 2

Ellen's **RTI** is her taxable income *minus* **SIC**, i.e. zero

Step 3

Component A is the amount of tax payable on Ellen's **RTI** at ordinary rates. Because Ellen's **RTI** is zero, **Component A** is also zero.

Step 4

Ellen is not a primary producer, therefore she will work out **Component B** like this:

(a) Tax payable on (0 + 20% of $50,000) at ordinary rates is $920

(b) **Component B** = 5 x ($920 - 0), i.e. $4,600

Step 5

The rate of tax Ellen will pay on each dollar of her taxable income is:

$$\frac{0 + \$4,600}{\$50,000} = 9.2 \text{ cents}$$

Example 3: business loss and net capital gain

Cynthia runs her own business (as a sole trader) which made a loss in the 1991/92 financial year of $5,000. During the year she also received a net capital gain of $20,000.

Thus Cynthia's taxable income was $15,000, comprising:

Net capital gain:	$20,000
Business loss:	($5,000)

The rate of tax Cynthia will pay on her taxable income is calculated as follows:

Step 1

Cynthia's **SIC** is the amount of her taxable income, i.e. $15,000

Step 2

Cynthia's **RTI** is her taxable income *minus* **SIC**, i.e. zero

Step 3

Component A is the amount of tax payable on Cynthia's **RTI** at ordinary rates. Because Cynthia's **RTI** is zero, **Component A** is also zero.

Step 4

Cynthia is not a primary producer, therefore she will work out **Component B** like this:

(a) Tax payable on (0 + 20% of $15,000) at ordinary rates is zero because it is below the tax-free threshold

(b) **Component B** is also zero

Step 5

Because Component A and Component B are both zero, Cynthia will not pay any tax on her taxable income.

Example 4: minor with net capital gain and other income

Frank is 16 years old and has a part-time job at a supermarket from which he earned $8,000 during the 1991/92 financial year. He also received a net capital gain of $20,000 from the share portfolio which had been given to him by his parents. This capital gain is eligible taxable income.

Thus Frank's taxable income for the year was $28,000, comprising:

Wages	$8,000
Eligible taxable income	$20,000

The rate of tax Frank will pay on his taxable income is calculated as follows:

Step 1

Frank's **SIC** is the amount of his net capital gain, i.e. $20,000

Step 2

Frank's **RTI** is his taxable income *minus* **SIC**, i.e.

$28,000 - $20,000 = $8,000

Step 3

Component A is the amount of tax a minor would pay on Frank's **RTI** ($8,000). Because this is employment income it is taxed at ordinary rates. Therefore **Component A** is $520.

Step 4

Frank will work out **Component B** like this:

(a) Tax payable on ($8,000 + zero) at ordinary rates is $520

(b) Tax payable on **RTI** at ordinary rates is $520

(c) **Component B** = 5 x ($520 - $520), i.e. zero

Step 5

Component C is 47% x $20,000, i.e. $9,400

Step 6

The rate of tax Frank will pay on each dollar of his taxable income is:

$\frac{\$520 + \text{zero} + \$9,400}{\$28,000} = 35.42857$ cents

Example 4A (variation of Example 4)

The same facts as in **Example 4** except that Frank's net capital gain is $1,000 instead of $20,000 resulting in a taxable income of $9,000 consisting of:

Wages	$8,000
Eligible taxable income	$1,000

The rate of tax Frank will pay on his taxable income under subsection 13(1) as modified by subsection 13(2) and Part I of Schedule 11 of the ITRA is calculated as follows:

Step 1

Frank's **SIC** is the amount of his net capital gain, i.e., $1,000

Step 2

Frank's **RTI** is his taxable income *minus* **SIC**, i.e., $9,000 - $1,000 = $8,000

Step 3

Component A is the amount of tax Frank would pay on his **RTI** ($8,000). Because this is employment income it is taxed at ordinary rates. Therefore, **Component A** is $520.

Step 4

Frank will work out **Component B** like this:

(a) tax payable on ($8,000 + zero) at ordinary rates is $520

(b) tax payable on **RTI** at ordinary rates is $520

(c) **Component B** = 5 x ($520 - $520), i.e., zero.

Step 5

As the **ETI** of $1,000 exceeds $416 but does not exceed $1,445, subsection 13(2) of the ITRA must be applied to calculate **Component C**. The amount of tax payable on the **ETI** must not exceed the greater of two calculations required under paragraphs 13(2)(a) and 13(2)(b) of the ITRA.

(i) paragraph 13(2)(a) calculation:

(**ETI** - $416) x 0.66 = ($1,000 - $416) x 0.66 = $584 x 0.66 = $385.44

(ii) paragraph 13(2)(b) calculation:

tax on the taxable income of $9,000 at ordinary rates ($720) minus tax on the taxable income reduced by the **ETI** ($9,000 - $1,000 = $8,000), at ordinary rates ($520), = $200.

It follows that **Component C** as calculated under subsection 13(2) will be $385.44.

Step 6

The rate of tax Frank will pay on each dollar of his taxable income is:

$$\frac{\$520 + \text{zero} + \$385.44}{\$9,000} = 10.06044 \text{ cents}$$

Example 5: minor with net capital gain only

Frances is 14 years old and is a full-time student. During the 1991/92 financial year she received a net capital gain of $2,000 from the sale of shares. This capital gain is eligible taxable income (unearned income). She received no other income during the year. Thus her taxable income for the year was $2,000.

The rate of tax Frances will pay on her taxable income is calculated as follows:

Step 1

Frances' **SIC** is the amount of her net capital gain, i.e. $2,000

Step 2

Frances' **RTI** is her taxable income *minus* **SIC**, i.e. zero

Step 3

Component A is the amount of tax a minor would pay on Frances' **RTI**. Because Frances' **RTI** is zero, **Component A** is also zero.

Step 4

Frances will work out **Component B** like this:

(a) Tax payable on **RTI** (zero) + 20% of **SIC** which is not eligible taxable income (zero) is zero

(b) Tax payable on **RTI** at ordinary rates is zero

(c) **Component B** = 5 x (zero - zero), i.e. zero

Step 5

Component C is 47% x $2,000, i.e. $940

Step 6

The rate of tax Frances will pay on each dollar of her taxable income is:

$$\frac{\text{zero + zero + \$940}}{\text{\$2,000}} = 47 \text{ cents}$$

Example 5A (variation of Example 5)

The same facts as in Example 5 except that Frances' net capital gain is $1,000 instead of $2,000.

Step 1

Frances' **SIC** is the amount of her net capital gain, i.e., $1,000.

Step 2

Frances' **RTI** is her taxable income *minus* **SIC**, i.e., zero.

Step 3

Component A is the amount of tax a minor would pay on Frances' **RTI**. Because Frances' **RTI** is zero, **Component A** is also zero.

Step 4

Frances will work out **Component B** like this:

(a) tax payable on **RTI** (zero) + 20% of **SIC** which is not eligible taxable income (zero) is zero

(b) tax payable on **RTI** at ordinary rates is zero

(c) **Component B** = 5 x (zero - zero), i.e., zero.

Step 5

As the **ETI** of $1,000 exceeds $416 but does not exceed $1,445, subsection 13(2) of the ITRA must be applied to calculate **Component C**. The amount of tax payable on the **ETI** must not exceed the greater of two calculations required under paragraphs 13(2)(a) and 13(2)(b) of the ITRA.

(i) paragraph 13(2)(a) calculation:

(**ETI** - $416) x 0.66 = ($1,000 - $416) x 0.66 = $584 x 0.66 = $385.44

(ii) paragraph 13(2)(b) calculation:

tax on taxable income of $1,000 at ordinary rates (i.e., zero) minus tax on taxable income reduced by **ETI** ($1,000 minus $1,000) at ordinary rates (i.e., also zero). The difference is therefore zero.

In accordance with subsection 13(2) the tax on the **ETI** is therefore $385.44.

Step 6

The rate of tax Frances will pay on each dollar of her taxable income is:

$$\frac{\text{zero + zero + \$385.44}}{\$1{,}000} = 38.544 \text{ cents}$$

Example 6: primary producer (whose income is subject to the averaging provisions) with a net capital gain

(i) Net primary production profit

Boris is a primary producer whose taxable income for the 1991/92 financial year was $40,000. This consisted of:

Primary production income:	$30,000
Net capital gain:	$10,000

Boris' primary production income was higher than in previous years. His average income is $25,000.

The rate of tax Boris will pay on his taxable income is calculated as follows:

Step 1

Boris' **SIC** is the amount of his net capital gain, i.e. $10,000

Step 2

Boris' **RTI** is his taxable income *minus* **SIC**, i.e.

$40,000 - $10,000 = $30,000

Step 3

Component A is the amount of tax payable on Boris' **RTI** ($30,000) at ordinary rates, i.e. $6,594

Step 4

(a) Tax payable on ($25,000 + 20% of $10,000) at ordinary rates is $5,454 (**Amount Y**)

(b) Tax payable on $25,000 at ordinary rates is $4,694 (**Amount Z**)

(c) **Component B** = 5 x ($5,454 - $4,694), i.e. $3,800

Step 5

The rate of tax Boris will pay on each dollar of his taxable income is:

$\frac{\$6,594 + \$3,800}{\$40,000}$ = 25.985 cents

(ii) Net primary production loss

Dolores is a primary producer. In 1991/92, she incurred a primary production loss and her taxable income for that financial year was $8,000. This consisted of:

Primary production loss:	($2,000)
Net capital gain:	$10,000

Her average income was $25,000.

The rate of tax Dolores will now pay on her taxable income is calculated as follows:

Step 1

Dolores' **SIC** is the amount of her taxable income, i.e. $8,000

Step 2

Dolores' **RTI** is her taxable income *minus* **SIC**, i.e. zero

Step 3

Component A is the amount of tax payable on Dolores' **RTI** at ordinary rates. Because Dolores' **RTI** is zero, **Component A** is also zero.

Step 4

Assuming that Dolores does not withdraw from the averaging system, **Component B** is calculated like this:

(a) Tax payable on ($25,000 + 20% of $8,000) at ordinary rates is $5,302

(b) Tax payable on $25,000 at ordinary rates is $4,694

(c) **Component B** = 5 x ($5,302 - $4,694), i.e. $3,040

Step 5

The rate of tax Dolores will pay on each dollar of her taxable income is:

$$\frac{0 + \$3,040}{\$8,000} = 38 \text{ cents}$$

Example 7: abnormal income

(i) Abnormal income only

Daniel is an author whose taxable income for the 1991/92 financial year, derived from writing, was $30,000. Daniel's average income is $10,000, therefore the remaining $20,000 is abnormal income.

The rate of tax Daniel will pay on his taxable income is calculated as follows:

Step 1

Daniel's **SIC** is the amount of his abnormal income, i.e. $20,000

Step 2

Daniel's **RTI** is his taxable income *minus* **SIC**, i.e.

$30,000 - $20,000 = $10,000

Step 3

Component A is the amount of tax payable on Daniel's **RTI** ($10,000) at ordinary rates, i.e. $920

Step 4

Daniel is not a primary producer, therefore he will work out **Component B** like this:

(a) Tax payable on ($10,000 + 20% of $20,000) at ordinary rates is $1,720

(b) **Component B** = 5 x ($1,720 - $920), i.e. $4,000

Step 5

The rate of tax Daniel will pay on each dollar of his taxable income is:

$\frac{\$920 + \$4,000}{\$30,000}$ = 16.4 cents

(ii) Abnormal income and net capital gain

Assume Daniel also received a net capital gain of $5,000. His taxable income is $35,000, comprising:

Average income:	$10,000
Abnormal income:	$20,000
Net capital gain:	$5,000

The rate of tax Daniel will now pay on his taxable income is calculated as follows:

Step 1

Daniel's **SIC** is the amount of his net capital gain *plus* abnormal income, i.e. $25,000

Step 2

Daniel's **RTI** is his taxable income *minus* **SIC**, i.e.

$35,000 - $25,000 = $10,000

Step 3

Component A is the amount of tax payable on Daniel's **RTI** ($10,000) at ordinary rates, i.e. $920

Step 4

Component B is calculated like this:

(a) Tax payable on ($10,000 + 20% of $25,000) at ordinary rates is $1,920

(b) **Component B** = 5 x ($1,920 - $920), i.e. $5,000

Step 5

The rate of tax Daniel will pay on each dollar of his taxable income is:

$\frac{\$920 + \$5,000}{\$35,000}$ = 16.91428 cents

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- Income Tax Rates Act 1986, Schedules 7, 9 and 11
- ITAA 102AD; ITAA 156; ITAA 158L

ATTACHMENT A

RATE OF TAX PAYABLE ON NET CAPITAL GAINS OR ABNORMAL INCOME BY TAXPAYERS OTHER THAN CERTAIN MINORS - SCHEDULE 7 OF ITRA

The rate of tax payable by taxpayers who are not covered by Attachment B to this Ruling and whose taxable income includes a net capital gain or an amount of abnormal income (but no notional income) is calculated according to the formula $\frac{A+B}{C}$ in clauses 2 and 3 of Part I (residents) and clauses 2 and 3 of Part II (non-residents) of Schedule 7 of the ITRA. The calculation is made by applying the following steps:

Step 1

Calculate the special income component (**SIC**).

SIC is:

(a) net capital gain (if any) *plus* abnormal income (if any); or
(b) taxable income (if taxable income is less than or equal to the amount calculated in (a) above).

Step 2

Calculate the reduced taxable income (**RTI**):

RTI is taxable income *minus* **SIC**.

Step 3

Calculate **Component A**.

Component A is the amount of tax payable on **RTI** at ordinary rates of tax (i.e. the tax payable on taxable income reduced by net capital gains and abnormal income).

Step 4

Calculate **Component B**. (Basically, **Component B** is the tax payable on the net capital gain and abnormal income).

The calculation of **Component B** depends on whether Division 16 of Part III of the ITAA applies (i.e. generally whether the taxpayer is a primary producer or not).

(i) Division 16 of Part III of the ITAA does not apply - i.e. people who are not primary producers:

(a) Calculate the amount of tax payable at ordinary rates on the sum of:

(i) **RTI**; and
(ii) 20% of **SIC**.

In this Attachment, this amount is called **Amount X**.

(b) Subtract **Component A** from **Amount X** and multiply the result by five; i.e:

5 x (**Amount X - Component A**)

This amount is **Component B**.

(ii) Division 16 of Part III of the ITAA applies - i.e. Primary producers:

(a) Calculate the amount of tax payable at ordinary rates on the sum of:

(i) Average income; and
(ii) 20% of **SIC**.

In this Attachment, this amount is called **Amount Y**.

(b) Calculate the amount of tax payable at ordinary rates on average income. In

this Attachment, this amount is called **Amount Z.**

(c) Subtract **Amount Z** from **Amount Y** and multiply the result by five; i.e:

5 x (**Amount Y - Amount Z**)

This amount is **Component B**.

Step 5

Calculate the rate of tax applicable to the total taxable income:

$$\text{Rate of tax} = \frac{\textbf{Component A + Component B}}{\textbf{Component C}}$$

(**Component C** is the amount of taxable income).

ATTACHMENT B

RATE OF TAX PAYABLE ON NET CAPITAL GAINS OR ABNORMAL INCOME BY CERTAIN MINORS - SCHEDULE 11 OF ITRA

The rate of tax payable by minors assessable under Division 6AA who receive more than $416 of eligible taxable income during the year and whose taxable income includes a net capital gain or an amount of abnormal income (but no notional income) is calculated according to the formula

$$\frac{A+B+C}{D}$$

in clause 3 of Part I (residents) and Clause 3 of Part II (non-residents) of Schedule 11 of the ITRA. The calculation is made by applying the following steps:

Step 1

Calculate the special income component (**SIC**).

SIC is:

(a) net capital gain (if any) *plus* abnormal income (if any); or
(b) taxable income (if taxable income is less than or equal to the amount calculated in (a) above).

Step 2

Calculate the reduced taxable income (**RTI**):

RTI is taxable income *minus* **SIC**.

Step 3

Calculate **Component A** (subject to the note at the end of this Attachment).

Component A is the amount of tax a minor would pay on income equal to **RTI** at the rate of 47% on eligible taxable income, e.g. dividends, and at ordinary rates of tax on income other than eligible taxable income, e.g. salary.

Step 4

Calculate **Component B**. (Basically, **Component B** is the tax payable on the net capital gain and abnormal income). It is calculated as follows:

(a) Calculate the amount of tax payable at ordinary rates on the sum of:

(i) **RTI** or average income (for primary producers), whichever is applicable; and
(ii) 20% of the part of **SIC** which is not eligible taxable income of the minor (explained in paragraph 11).
In this Attachment, this amount is called **Amount X**.

(b) Calculate the amount of tax payable at ordinary rates on **RTI** or average income (for primary producers), whichever is applicable. In this Attachment, this amount is called **Amount Y.**
(c) Subtract **Amount Y** from **Amount X** and multiply the result by five; i.e.

5 x (**Amount X - Amount Y**)

This amount is **Component B**.

Step 5

Calculate **Component C** (subject to the note at the end of this Attachment).

Component C is 47% of the part of **SIC** which is eligible taxable income of the minor (explained in paragraph 11).

Step 6

Calculate the rate of tax applicable to the total taxable income:

$$\text{Rate of tax} = \frac{\textbf{Component A + Component B + Component C}}{\textbf{Component D}}$$

(**Component D** is the amount of taxable income).

NOTE: The rate of 47% as specified in **Steps 3** and **5** above, does not apply where the **ETI** exceeds $416 but does not exceed $1,445. In these cases, the tax attributable to the **ETI** is calculated under subsection 13(2) of the ITRA.