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Income Taxation – Michelle Jordan Case

Student's Name and Number

Affiliation

Professor's Name

Due Date

Part A

According to Section 6 subsection 1 of ITAA, a resident of Australia is a person or an individual who lives and stays in Australia and whose domicile is located in Australia. A person who has been living in Australia for more than one and half years continuously is also considered an Australian Citizen. A spouse or a child under sixteen is regarded as a citizen by the Australian constitution. People viewed as Australian citizens are required by the law to pay their income taxes annually, according to the Income Tax Assessment 1936.

Statutory Law

Additively, there are few statutory requirements put in place by ITAA 1936 to ensure that clarification on who to pay tax is made. The common law of residency in Australia states that individuals born and have their residence for more than one and half years in Australia continuously. Companies incorporated in Australia are considered Australia resident companies, hence liable for paying income and corporate taxes in Australia (Meagher, 2008). Companies registered and incorporated outside Australia will be regarded as Australian Companies if only the principal shareholders have their residence in Australia.

Under ITAA, a person like Michell is considered a Trust. According to ITAA, a Trust is an entity considered a taxable identity that typically has no physical location or appearance in Australia. ITAA offers clear rules that apply to persons or identities considered as Trusts. A Trust is located in Australia and has its operations located in Australia; then, it is subject to income or corporate tax payment in Australia.

Common-Law test

Before identifying whether Michelle was an Australian tax Residence or not, the laws regarding standard law requirements on Michelle should be tested. These common laws include; the main intention that made Michelle move out of Australia to the USA, the number and type of assets owned by Michelle, such as a house, and the nature of social and living of Michelle in Australia. Concerning these laws, Michelle satisfies all the requirements for the standard law test. Michelle was previously an Australian Citizen because she used to reside in Australia. Michelle owned a house in Australia which she later sold. Finally, the social and responsibility for Michelle is located in Australia, even if she was previously playing for L.A Belles in the USA. As a resident of Australia, all income earned by Michelle will be taxed in Australia.

Both statutory and common law attests that Michelle is a permanent Australian resident. Michelle remained an Australian resident because she stayed in the United States for less than two and half years. Michelle Jordan remained in the United States from 1 July 2020 to 1 July 2021. Therefore, relating to the ITAA acts, a person considered an Australian resident is responsible for remitting and payment of tax. In this case, Michelle's tax file number (TFN) should be used while paying her taxes to the Australian Tax authorities.

Part B

Medicare levy =2% of taxable Income, income-deduction

Income tax = 45%*

¹
Match payments - \$100,000

Sign on Fee - \$30,000

Best on court award – \$8,000

Air fare (Reimbursement) -\$2,000

Sale Proceeds house -\$300,000

Sale gain – (\$300,000 - \$200,000 = \$100,000)

Sale proceeds (Furniture) -\$5,000,

Disposal loss – (\$5,000 - \$20,000 = -\$15,000) Not taxable

Interest - \$1,000

Dividends -\$1,400

Franking credit - \$600

Dividend gain = \$25,000 - \$15,000 = \$10,000

Allowable deductions. – 15000+600 +10,000 = \$25,600

Total income received in USA – 100,000+20,000+30,000+8000+2000+300,000+1000-

10,000+100,000-15,000+5000-600 = \$560,040

Medicare – 2%*\$560,040= \$112,208

560,040-180,000 = \$380,040

\$380,040*3% = \$11,401.2

Tax payable 45%*\$560,040 = \$252,018

45%*(560,040-180,000) = \$171,000

Australian non-residence are responsible for paying their income tax on only income that is received exclusive of dividends, royalties, and interest earned. Therefore, while calculating the taxable income for Michelle, these income sources are exempted. Although the income received by Michelle in the USA will be taxed, this will lead to double Taxation. Still, for this situation, the effect of double Taxation is assumed in this scenario.

Employment Income

Having received income above \$180,000, Michelle qualifies to pay an income tax rate of 45% according to the ² [Australian Income tax rates for 2018 -2019 and 2019 -2020 residents](#) and an additional 45% on every additional AUD1 exceeding \$180,000. The extra dollar above \$180,000 attract 45%.

Michelle's employment income will involve all bonuses received in or outside Australia, wages and compensation received. Therefore, the bonus received by Michelle of \$8,000 and salary of \$100,000 will be part of the employment income received. Michelle's employer's Allowance includes airfare reimbursement of \$2,000 will also be part of her employment income. The amount that Michelle received from her grandparents unexpectedly adds up to her employment income. If Michelle had received any form of benefits such as tips and awards, they would form part of her employment income.

All forms of tips and bonuses received by a tax resident should also be declared as part of their employment income (Tran, 2015). While in the United States, Michelle received an award for being the best on the court. She received \$8,000 for being the best player. As a requirement by the ITAA, this amount is part of her employment income. Income received

from other sources such as tips and bonuses will increase the taxable amount to be paid by Michelle.

Investment Income

The sale proceeds on Michelle's shares form part of her investment portfolio income and interest received from the Commonwealth Bank of Australia. Sale proceeds of \$25,000 achieved from her shares amounted to a net gain of \$10,000 ex-dividend gain. Michelle received \$1,000 as interest received from Commonwealth Bank of Australia deposits. Interest earned or received from bank deposits forms part of the taxpayer's investment income. Resident and non-resident taxpayers are required by the law to declare any interest received in Australian Banks. Michelle's share dividends from her investments amounted to the capital gain Office (Australian Taxation, 2019). Capital gains from part of taxpayers' investment income and are included in the taxable income calculation. While calculating Michelle's tax and taxable amount, interest from bank deposits or income from dividends is excluded from the total taxable amount.

Additionally, Michelle had purchased a private apartment at \$200,000, her home on 2 January 2015; she later sold the house at \$300,000, a disposable gain of \$100,000. Disposable growth realized from the sale of this house forms part of investment income. Michelle sold her furniture at \$5,000, which was a disposable loss of \$15,000. Disposable loss is excluded in the calculations of a tax payers' taxable income. Therefore, this figure will not be included while calculating Michell's total taxable income.

Foreign Income

The majority of income that Michelle received was foreign. She received her reimbursement air fee, sign-on price, match payments, and best on court award while in the United States. Michelle should declare all these incomes received as foreign income sources. The main reason for reporting this source of income is to allow individuals who wish to pay their taxes in other countries of their residence.

Franked dividends are excluded in the calculation of taxable income. ¹Michelle received Franked dividends totaling \$1,400 from the shares owned in the Commonwealth Bank. In most cases, Franked dividends are perceived as tax-free. Michelle's long-term shares after moving to the United States are part of investment income and not foreign income because the company she invested in is located in Australia. The gains received are only taxable if the shares were bought with the aim of long-term investment. Short-term income on the sale of shares at a profit is not taxable.

Michelle's tax paid on share profit will depend on her marginal tax as a shareholder and the number of months or years that the shares were possessed. Michelle purchased her shares on 1 September 2019 and sold them at a profit of \$10,000 on 10 July 2021. Michelle held her shares for less than 12 months. Although Michelle intended to keep the shares as a long-term investment, she will have to pay tax on the profit realized. Tax paid on share profit is referred to as capital tax gain. If Michelle Jordan had purchased these shares in the last two years and decided to sell them on 10 July 2021, she would have paid tax on half the profit realized, 50%.

Expenses and Allowable

Michelle incurred expenses while moving and settling in the United States. She incurred air travel expenses of \$2,000, for which she was later compensated. Air travel is part of work-related expenses and should be undertaken as an allowable expense or deduction. Therefore, while calculating the taxable amount that Michelle should pay, traveling expenses that she incurred should be deducted from the employment income. Only costs related to work are subject to deductions.

Other expenses treated as allowable deductions in Australia include costs incurred in managing or monitoring tax payer's tax matters, donations made to charitable organizations, and all expenses incurred in the line of duty. Although there is an exclusion to these requirements, the cost incurred in traveling to and from work will not be treated as traveling costs or expenses.

Deductions related to dividends and Interest expenses

Although not mentioned, the cost that Michelle incurred in selling her shares is treated as a deduction. This expense should have reduced the amount of taxable income that Michelle should have paid. Additively, if Michelle decided to rent her apartment, the cost incurred in renting the apartment to a new tenant should have been treated as an income deduction.

The United States and Australia came up with a treaty in 1982 that aimed to reduce double Taxation on Australian and United States citizens. Michelle is identified as a tax resident of Australia and not the United States. By clarifying this, the United States will not tax her employment income. However, she will have to remit funds related to the Social Security Number while still in the United States. In a case scenario where The United States

could have taxed Michelle, the Australian tax authority could have credited the tax paid to her tax remittance account.

In conclusion, the income received from Australian sources should be taxed irrespective of whether the taxpayer is a tax resident or not. As discussed, all tax residents are required to declare their employment income inclusive of investment income. Michelle's income, including the \$20,000 from her grandparents, should be taxed fully. This income is fully assessable by the Australia Tax Authority. Furthermore, Michelle received the majority of her income from the United States. Non-residents individuals permanently living in Australia and have their income from foreign sources should declare their income. This amount is assessable. Exclusively, the foreign income earned by Michelle is not assessable under the ITAA.

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