NEWSLETTER

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Australian Tax-Free Threshold: What to Know Before Taking a Second Job

Whether you want to create your own side hustle or work a part-time job on the weekends, you may be tempted to work a second job to boost your take-home pay. This may especially be the case as a new small business owner looking to stay afloat while launching your company.

If you work a second job, you're not alone. One study found that 1 million Australians work two jobs.

While it can be a great way to give yourself a boost in spending income, you should take a look at the 'big picture' before jumping into a second job. Earning more income comes with significant tax implications. Perhaps the most significant tax implication is the tax-free threshold.

In this article, we'll explain everything you need to know about the Australian tax-free threshold. That way, if you take on a new job to boost your total income, you'll have a better understanding of the tax liability you'll owe at the end of the year.

What is the tax-free threshold?

If you're an Australian resident taxpayer who earns less than $18,200, you won't need to pay income tax for the year. $18,200 is known as the tax-free threshold. It's the figure at which you don't owe tax to the Australian government. If you make more than $18,200, then you're only taxed on any income over this amount.

How does the tax-free threshold impact you if you work two jobs?

If you decide to take on a second job, the tax-free threshold could impact you in more ways than one. The first has to do with the amount of tax that you'll owe. The second has to do with the way employers withhold money from your wages.

The amount of tax that you owe:

Imagine that in your first job, you earn $18,000 annually. You decided to take on a second job to help boost your income. However, if you earn more than $200 in this second job, you'll begin racking up a tax debt.

The tax-free threshold accounts for your combined income, not just what you make from the higher-paying job. Again, for tax purposes, you'll only owe money based on the excess of $18,200. You'll still end up having more money in your pocket at the end of the day, but if you're not used to having to file an income tax return, having to do so could be an adjustment and require you to find a tax agent.

If you stay under the tax-free threshold, how does that $18,200 break down? This amount of income divides out as follows:

- $350 per week
- $700 per fortnight
- $1,517 per month

Working a second job could also end up increasing the total tax you owe. The Australian Taxation Office (ATO) outlines the individual income tax rates for the next year:

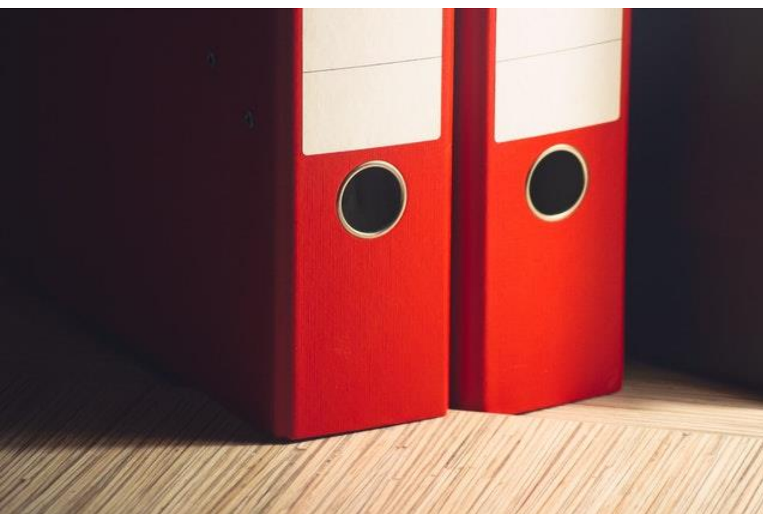
- **$0-$18,200:** No taxes owed, as this is the tax-free threshold rate
- **$18,201-$37,000:** 19 cents owed for each $1 over $18,200
- **$37,001-$90,000:** $3,752 owed for your first $37,000 income, plus 32.5 cents for each $1 over $37,000
- **$90,001-$180,000:** $20,797 owed for your first $90,000 in income, plus 37 cents for each $1 over $90,000
- **$180,001 and over:** $54,097 owed for your first $180,000 in income, plus 45 cents for each $1 over $180,000

Note that these rates do not account for the Medicare levy, which is 2%. This 2% levy applies to all taxable income — even amounts up to $18,200 that are not subject to income taxes.

So, let's say that your first job pays $35,000 annually. You already know that you're going to be a payer at the end of the financial year. Knowing that you've already crossed the tax-free threshold, you take on a second job to help boost your earnings.

However, when you do so, you end up sending yourself into a higher tax bracket because your combined total annual income now exceeds $37,000. You'll end up having to pay a higher tax rate on the additional income. But again, because this higher rate only applies to what you earn over the $30,000, you'll still end up taking home more money overall.

If you're confused about this, we recommend speaking with a trusted accountant, such as the Tax Team at Accountplan, who can better explain how the various tax brackets work in Australia.



Withholding taxes:

The other way in which the tax-free threshold can impact you is if you work as an employee for two different companies. If you work as a freelancer, you're required to pay your own taxes on the income that you earn. The tax rates for sole traders are the same as individual taxpayers. This means the $18,200 tax-free threshold is available for both sole traders and individuals. As a sole trader, you're required to withhold and pay your own income taxes.

But, if you're an employee, your employer is required to withhold tax on your behalf. To start this process, your employer will provide you with a tax file number (TFN) declaration form. If you utilise the Centrelink system, you can receive this TFN declaration form through it as well.

You'll provide information to complete this form. One of the most important questions on this form is Question 8, which asks, 'Do you want to claim the tax-free threshold from this payer?' You'll want to choose 'Yes'.

Your employer will then track how much you've earned. Once you exceed the tax-free threshold, the employer will then begin withholding taxes on the excess.

Where this becomes a bit more interesting is if you're working as an employee for two different companies. Again, if you're working as a sole trader in your second role, you'll probably just claim the tax-free threshold through your primary employer.

But what do you do if you have two employers? And, what do you do if you receive a government allowance or taxable pension but also work in a part-time role?

In these cases, you're going to claim tax-free threshold rates from the employer or payer that pays the highest salary. That's because the second employer is required to withhold tax at the 'no tax-free threshold rate'. This serves as a tax offset and helps reduce the likelihood that you'll owe extra tax at the end of the year.

If you happen to have too much tax withheld throughout the year, you'll receive a tax refund.

One way to avoid having too much money withheld is by tracking your funds and filing a withholding only when you cross the tax-free threshold rate. If you do so, you'll need to file a withholding declaration with your employer.

Filing a withholding declaration instructs your original employer to withhold funds. This pay-as-you-go system creates fewer problems down the road and attempts to reduce the amount that you'll owe at the end of the year.

If you happen to notice that employers are withholding way too much money from your paychecks, you'll need to submit a PAYG withholding variation application. Upon doing so, the government will look at your earnings and come up with a varied withholding rate. The government will then pass this rate on to your employers who will institute the changes on your next pay stub.

Requesting a withholding review is not something that you should treat lightly, however. There are only certain circumstances in which you're allowed to make such a request. The first is that you're certain of your income amounts. Keeping diligent records, like payment summaries, is an excellent way to show how much you've earned.

Second, you'll need to be disadvantaged by the current withholding rates. You should not apply merely to see if you can secure a better tax rate. You should have proof, or a strong inclination, that you're losing money under the current rate system. The purpose of withholding variation is to ensure the amount you withhold during the year is as close as possible to your year-end tax liability.

Tips to consider when claiming the tax-free threshold:

The Australian Taxation Office will look at your total taxable income for the financial year, which means the income from both of your jobs will be added together. To avoid getting a rude shock come tax time, it's definitely worth setting aside money regularly to cover your tax bill if you decide to get a second job.

As discussed above, if you're an employee for both jobs, your employers should automatically withhold funds. Just remember to not tick the tax-free threshold on both jobs — only one.

On the other hand, if you're doing a side gig as a freelancer or sole trader as your second job, you can use the tax brackets to determine how much money you should be setting aside each week or month. Just remember that your tax will be calculated from your total taxable income, including both jobs.

While you may be able to claim significant tax deductions as a sole trader, it's best to not consider these when you're setting aside your tax. That way, you might actually get a pleasant surprise come June 30 when your tax is calculated.

You should account for your deductions at the end of the year as a potential refund, instead of relying on them when making your quarterly payments.

Understanding the tax-free threshold will maximise returns:

If you're looking to take on a second job, it's tempting to grasp at the highest-paying opportunity available. However, you should take the time to look at the bigger picture and consider the potential tax ramifications associated with your decision.

Be sure to consider the Australian tax-free threshold and whether the additional funds would push you over the $18,200 limit, at which point you'd need to pay taxes. Similarly, think about how much you're going to need to withhold from your two employers to avoid over or under withholding. A tax agent can help you sort through these dilemmas.

If you take the time to understand what the tax-free threshold is, you'll put yourself in a much better position for success, increasing the amount of money in your pocket.

Source: Intuit

Retirement Living Transition Checklist for Those Making the Change

There's a lot to consider, if and when the time comes.

For many Australians, the decision to move into retirement living can be difficult and fraught with emotion, yet downsizing is a process many us you may end up going through.

When the time comes to taking the next step, there are many considerations to weigh up.

These 10 tips from Kerry Mann, chief executive of Cranbrook Care, may make the transition to retirement living a little simpler.

"Many of us have friends and family who are understandably concerned about our welfare and wellbeing as we age. It's hugely important that they are brought into the decision-making process early to make sure that retirees are comfortable with the choices being made," said Ms Mann, adding that understanding the overwhelming sense of uncertainty that retirees and their families experience is key to a successful transition into retirement living.

"There are some clear signs to look for that might indicate that making the move to retirement living could be the right decision for you, such as declining health, finding it difficult to maintain your home or a large garden, having rooms in your house that are not frequently used, or beginning to experience difficulties managing stairs or other areas of your property.

"If this sounds like you or your family member, now might be the right time to start thinking about making the transition to a retirement lifestyle, which can offer a wealth of benefits for those who are looking to slow down the pace a little and enjoy all that this time of life has to offer."

Retirement is not a single event. It is a process that begins long before you leave work and continues for the rest of your life. Starting with …

1. Having that conversation
Moving to a retirement residence is an important lifestyle decision. Start by having open and honest conversations with family and friends to gain different perspectives on the move. This will help loved ones feel included and part of the process, as well as helping you with making a considered decision.

2. Assembling a team
You will need to create a reliable support team to help guide and support you through this transition. This should include family, a financial adviser/accountant, and an estate planner/solicitor, as well as close friends who may have also recently made the decision to move to retirement living and are likely able to offer a wealth of advice.

3. Finding the perfect time
Common signs that indicate that it might be time to start creating a retirement plan can include declining health, struggling to keep up with general household maintenance, having multiple rooms in the house that are no longer in regular use, or having mobility issues when navigating areas in your current property such as stairs.

Perhaps you simply have the desire for an easy 'lock and leave' lifestyle, which could allow you to travel without having to worry about home and garden maintenance.

4. Research
Take the time to search the internet for retirement living options in an area that you like. Find and read reviews of various properties to understand different experiences. Create a checklist of requirements that you would hope to be in your future living plan. Consider what's important to you and ask questions. Can family and friends visit, what are the monthly fees, are pets welcome, what extra services are available?

5. Seeking expert financial advice
Contact a qualified financial adviser specialising in retirement planning. This will assist you in determining your financial future.

6. Scoping out locations
Get out and about and visit the locations you have researched. Whilst visiting the property, ensure to inquire about any regulations that may apply before moving into your desired community. Look out for open days or information sessions to attend.

7. Preparing your home to sell
Keep updated on the current state of the property market. Many retirement residences can recommend a real estate agent, with whom they have previously worked, who might be able to suggest small ways of making your home more attractive to prospective buyers.

8. Sorting out what to take with you
Now that you are downsizing, be sure only to take the things you really need by asking yourself some tough questions. Will you still need that 10-seat dining table? Take your most precious mementos with you, but also consider that a move to retirement living provides an exciting opportunity to update or redecorate your new home.

9. Identifying service offerings
Read the fine print of the contract before you move into your chosen retirement residence and make sure it includes service offerings that will increase as you age, such as the availability of home care or residential aged care, allowing you to stay in your home for longer.

10. Moving in
You've done it! Retirement is the time for you to live life to the fullest – make new friends, start a different hobby or simply just relax.

Although making these decisions can be daunting – there are a number of benefits to consider for those who might be looking to make the change – convenience, opportunities to meet new friends, low maintenance living, increased independence and safety and security.

Source: Your Life Choices

How to Buy a Home when you're Self-Employed

Self-employed borrowers often come up against the challenge of not being able to present a raft of payslips and tax returns to back up their loan applications, but this need not stop you buying your dream home.

Many lenders offer low-documentation (lo-doc) loans for self-employed borrowers who don't have traditional payslips and employment records. This means that, rather than the usual documentation you prove your ability to service a loan using bank statements, declarations from your accountant and financial records.

Of course, as with any mortgage application, you must still prove that your income outstrips your spending and you can service the loan. Getting this right is more than presenting a lender with a few quick sums on the back of a napkin – it takes a solid six to 12 months of preparation.

Here are some tips to help:

- **Reduce Debt** - Pay down credit cards and personal loans and be sure to lower the credit limits as they are paid down, as lenders assess the total credit available to you as a potential debt level, not just the amount you owe.
- **Speak to a Finance Broker -** A broker can discuss the how the structure of your business and your taxable income will impact your ability to borrow with you. Finance brokers also have access to specialist lenders that assess applications on a case-by-case basis and tailor their products to self-employed borrowers and contractors, while bank lenders do not.
- **Do your Taxes** - Make sure you do your taxes when you should, and always pay your tax assessments on time.
- **Save** - Saving a deposit is obviously important and showing your ability to live within your means and save is as well. This is key to serviceability – you want to show at least a six-month history of high savings and low expenses.

Low-documentation loans do differ from standard loans in a few ways, apart from the application process. Lenders offset the extra risk they are taking by lending to a self-employed borrower or contractor by charging slightly higher interest rates and placing some extra rules on loan-to-value ratios (LVR) and insurance requirements.

Generally, you can expect an interest rate for a low-documentation loan to be one to two percentage points higher than for a full-documentation loan.

Most lenders will also insist on an LVR of no more than 80% – meaning that under no circumstances will they lend more than 80% of the property value, as assessed by the lender.

In cases where the loan amount is for more than 60% of the property's value, some lenders also require self-employed borrowers to pay for lenders mortgage insurance.

Source: MFAA

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