

Company Tax

The company tax rate is a flat 30% in Australia. This means that the marginal tax rate is the same as the average tax rate.

In some countries including the US, company tax rates are progressive, so the marginal rate steps up as more income is earned. In a progressive tax system, the marginal tax rate differs from the average tax rate.

Personal Income Tax

The personal income tax rate in Australia is progressive rather than flat.

A person earning less than \$18,200 pays no tax. Their marginal and effective tax rates are zero.

A person earning \$30,000 pays 19% on each dollar over \$18,200, so total tax paid would be \$2,242(= $(30,000 - 18,200) \times 0.19$).

Their marginal tax rate is 19%, and the average tax rate is $\frac{2,242}{30,000} = 7.473\%$.

Calculation Example: Personal Income Tax

Question: A sharp student graduates from university and is employed on an impressive salary of \$50,000 per year.

Given the following tax rates, find the personal income tax she will have to pay per year, as well as her marginal and effective tax rate.

Australian Individual Income Tax Rates	
Taxable income (\$)	Tax on this income
0 – 18,200	Nil
18,201 – 37,000	19c for each \$1 over \$18,200
37,001 – 80,000	\$3,572 plus 32.5c for each \$1 over \$37,000
80,001 – 180,000	\$17,547 plus 37c for each \$1 over \$80,000
180,001 and over	\$54,547 plus 45c for each \$1 over \$180,000
The above rates for 2014-15 apply from 1 July 2014.	
Source: Australian Tax Office	

Answer: The quick method using the table:

$$\text{Personal tax payable} = 3,572 + (50,000 - 37,000) \times 0.325 = 7,797$$

Here is the long method, which is how the numbers in the table are calculated by the Australian Tax Office (ATO). Tax paid per income bracket:

- $18,200 \times 0.00 = 0$
- $(37,000 - 18,200) \times 0.19 = 3,572$
- $(50,000 - 37,000) \times 0.325 = 4,225$

$$\text{Personal tax payable} = 0 + 3,572 + 4,225 = 7,797$$

The marginal tax rate is 32.5%.

$$\text{The average tax rate is } \frac{7,797}{50,000} = 0.15594 = 15.594\%$$

So the newly employed student pays 15.594% tax overall, and 32.5% tax for every extra dollar that she earns.