


# How does income tax work? (Year 7–10)

 30-45 mins

Learn about income tax – what it is, how it works and when you have to pay it. This resource has been developed with [ABC education](#).

## Outcomes

Students:

- Understand the purpose of tax.
- Use technology to calculate tax.

## Curriculum links

### **Mathematics (Year 7-10)**

- Using authentic problems to express quantities as percentages of other amounts. (ACMNA158)

### **Economics and Business**

- Explaining the impact of minimum wage, government payments, taxation and government-funded services on living standards. (ACHEK052)
- The changing roles and responsibilities of participants in the Australian or global workplace. (ACHEK042)

## Required resources

- ABC Video: [My five cents: How does income tax work?](#) (2:06) – video transcript available on page 2.
- Moneysmart [Income tax calculator](#)

## Discovery (15 mins)

### **Income tax concepts**

Reflect on the following:

- What do you know about the tax system in Australia?
- How does the government use money from tax?

Watch ABC video: [My five cents: How does income tax work?](#) (2:06)

- List the terms that stand out to you as you watch the video eg. Income tax, tax rates, brackets, deductions, ATO, university loans, levies.
- Search definitions of these words using the search function on [moneysmart.gov.au](#)

## Get practical (30 mins)

### **Real-life examples**

Use the Moneysmart [Income tax calculator](#) and complete the following exercises.

#### **Exercise 1:**

Claire earns \$52,000 per annum. Use the income tax calculator and record:

- How much tax she pays.
- How much she pays for the Medicare levy.
- Her income after tax.

#### **Exercise 2:**

Using your answers from Exercise 1:

- Calculate the difference between Claire's taxable income and her income after tax.
- Claire can deduct a percentage of her travel expenses from her taxable income. Her total travel expenses are \$2,600, which she keeps a record of in her travel diary. She can deduct 15% of her travel expenses from her taxable income. Calculate her final taxable income and her income after tax.

#### **Exercise 3:**

Claire is entitled to a tax refund. She receives \$2,000 from the ATO and decides whether to spend, save, invest or donate it.

- What would you do if you had a tax refund? Why?

## Video transcript - My five cents: How does income tax work?

[music plays]

Gen Fricker: Making money can be super rewarding, but as you make some, you might have to start paying tax. Nooo!

Income tax is money the government takes from everyone's pay to spend on public services like roads, schools, hospitals, or your local pool. In Australia, the more you earn, the more tax you usually pay.

Here's how it works. There are five income tax groups called brackets. You pay no tax on any money that falls in group one. Any money you make in group two gets taxed at 19%. In group three it's 32.5 and so on.

Meet Claire. Her first job was part time. She got to keep all of her first pay because she was earning less than \$18,200 a year. Her income fell in the first group. Then Claire finished uni and got a full time job with a company. Ohhh ca-ching!

Because she was earning more, she now had three different tax rates. Since Claire worked for a company, the tax was deducted from her pay before the money hit her bank account every month. But if she was working for herself, she would have had to put money aside to pay the ATO at tax time.

Over time, Claire might get a promotion, a higher paying job, or start a side hustle. All this gives her more money, which will change her income tax.

Once Claire makes a certain amount of money, she'll have to start paying her uni loan as well. She may also have to pay other government charges like levies. Depending on her job and location, Claire can claim deductions. This could help to reduce how much tax she pays.

My 5 cents is making sure you understand how income tax works, makes tax much less scary. More importantly, you pay the right amount of tax, which can mean more money in your pocket!

[cheering]