Deductable Income

Student’s Name

Institution

Date

**Introduction**

An income tax is always imposed to everybody required by the law and it depends on an individual income, or profits. Taxation depends on the traits or characteristics of an individual taxpayer. It means that the taxation imposed on an individual taxpayer, is based on an individual expenses, income and investment he or she made over a given period. This paper therefore, illustrates the income tax to Paul’s outgoings to determine the amount of tax he intends to pay and various laws, which covers taxation.

In the case of Paul investment and disposal of his property, he is expected to pay income tax for selling of his property at Brisbane at $400,000 as required by the law. Under Capital Gain tax, any assets dispose by an individual is expected to pay a capital gain of 33% as a tax. This is applied to Paul and therefore, he is expected to pay income tax to the federal government. Paul is required to pay income tax on commission paid, legal fee and for the sale of the property. Paul total annual income was 175,000 + 65,000, which is $240,000 for the period of the year ending. However, Paul is required to pay income tax on capital expenditure. Capital expenditure is the amount spend on repair and maintenance of a properly. The cost of maintained was $12,000 and therefore, he is expected to pay 15% for capital expenditure, which is the amount he spent on repairing the house before sale. In this case, 15% of $12,000

= 12,000 \* 15%

= $1800

Under section 8-1 ITAA 97 and through section 8-5 of ITAA 97, all capital expenditures are subjected to tax deductable. In this case, Paul is required to pay tax on commission, legal fee, and maintenance expenditure. The income tax assessment act 1997, the taxable income is divided into three business income, personal earnings and capital gains income. In this case, the property sold by Paul would be subjected to income tax under capital gains. Paul would therefore, pay income tax on dale of the house at $400,000- In this case, the amount sold for the house would be added to the total income and then applying the tax rate.

 Paul’s personal earning = $240,000

 Capital Gain income = $400,000

 Total income = $6400, 000

Therefore, Paul’s income tax is = $640,000 – $180,000

 = $460,000

 = $460,000

 = $54, 232

Paul’s would be required to pay personal tax of $ 54, 000. This personal tax is based on the total Paul’s earning for a year and the capital gains he obtained from the sale of the property in Brisbane.

 Under the income tax law, it is required for every citizen to pay 19% for income above $180000 per year. Paul total income is 240000 and therefore, the taxable income is 45% of any amount above 180000

Therefore, Paul’s tax income = $240000 – $180000 \*45%.

 = $60000\*45%

 = $27,000

Therefore, Paul annual income tax = $27,000.

**Ash v Federal Commissioner of Taxation**

The case of Ash v federal commission of taxation was made before the appeal case regarded the decision of the commission to enforce some deduction on his capital expenditure. In the case, the Supreme Court made the decision that the respondent made erroneous decision. The outgoing does not produce income and therefore, it cannot be subjected to taxation. In the case ”: Amalgamated Zinc (De Bavay’s) Ltd. v. Federal Commissioner of Taxation [(1935) 3 ATD 288](https://iknow.cch.com.au/document/atagUio2648226sl682351202/high-court-of-australia-19-december-1935-amalgamated-zinc-de-bavay-s-limited-v-federal-commissioner-of-taxation) at p. 293; 54 CLR 295 at 303 the judges made decisions the expenses or loses might be incurred in the line of business. And this loses or expenses should not be taxed before no income is generated in the process.

The decision made by judges under the Federal Income Tax Assessment Act, 1922–1929, s. 23, (1) (a) and under the New Zealand Act, means that deductable income tax is applicable to expenses, which are incurred when repairing or maintenance of a building. And therefore, Paul would not be required to make any income tax payment for the repairing and maintenance services of the property before he disposing it to a client. Again, under the Assessment income Tax Act 1997, the deductable income tax is applicable to income or capital gain of more than 180,000 and the capital expenditure covered by Paul was only 12,000 during the sale. And this means that Paul is not required by the law to make any income tax payment for capital expenditure.

Paul’s net capital gain is calculated based on the amount he was paid for the sale of the house, capital expenditure, legal fee and commission.

Paul’s property sold at = $400,000

Capital expenditure for the house = $12,000

Commission paid = $10,000

Legal fee = $2000

The total expenses are = $ 24,000

Income tax = $400,000 – $24,000

 = $376,000

 = $376,600 \*15%

 = $54,400

Therefore, the capital gain would be = $376,600- 54,400

 = $322,200

Based on the calculation, Paul capital gains from the sale of the property are $ 322,200. This is obtained after deduction of all the expenses incurred when repairing the house and during the sale.

It is important to state that Paul’s capital gain from the sale of house is $322,200, and the capital expenses incurred was 12,000 and the legal fee and commission is $12,000 as well. The personal income tax paid by Paul at the end of year was $54, 232. This includes personal earnings and the earnings from investment, the same of property.

# Bibliography

Lowry, S. (2017). Tax Deductions for Individuals: A Summary. *Congressional Research Service* , 2-35.