Australian Government
Australian Taxation Office

Guide to tax offsets

Overview

Tax offsets (sometimes also referred to as rebates) directly reduce the amount of tax you must pay. They are not the same as tax deductions. Deductions only reduce your total assessable income dollar for dollar and your tax payable at most by your marginal tax rate. Each dollar of tax offset reduces your tax payable by a dollar regardless of your taxable income.

Tax offsets are used to:

- introduce fairness in the way people in different circumstances are taxed – for example, the dependent spouse tax offset compensates people for supporting their spouse
- encourage people to do some things the government would like them to do – for example, the government encouraged people to take out private health cover to reduce pressure on the public health system, by offering a refundable tax offset.

Benefit recipients

The beneficiary tax offset is available to taxpayers who receive certain Centrelink benefits and Commonwealth education allowances. Generally, you pay no tax if your only income is a qualifying benefit or allowance. If you are not in receipt of the full amount of any qualifying benefits and allowances or have other taxable income you may be eligible for a partial offset.

Taxpayers with dependants

Taxpayers with dependants may be eligible for:

- dependent spouse, parent or invalid relative tax offset
- housekeeper tax offset
- child-housekeeper tax offset.

Health insurance

The private health insurance offset is a percentage of the premium you pay to a registered health insurer for a complying private health insurance policy. The offset is not affected by your level of income.

Medical expenses

You can claim a tax offset of 20% of your net medical expenses over $1,500. There is no upper limit on the amount you can claim. Net medical expenses are the eligible medical expenses you've paid, less any available refunds from Medicare or a private health insurer.

Pensioners and senior Australians

The senior Australians tax offset and the pensioner tax offset allow eligible people to earn more income before they have to pay tax and the Medicare levy The mature age worker tax offset encourages mature age workers to stay in the workforce by offering a tax break of up to $500 for people aged 55 or more.

Zones and overseas forces

Offsets are available for people who lived or worked in remote or isolated areas of Australia or served in forces overseas, to partially compensate them for being in those areas.

Tax offsets - home

Benefit recipients

The beneficiary tax offset is available to taxpayers who receive certain Centrelink benefits and Commonwealth education allowances. You pay no tax for the year if you:

- receive the full amount of any of the qualifying benefits and allowances for the full year, and
- have no other taxable income.

If you have other assessable income you may still need to pay some tax.

To claim the offset, you must enter the payment you receive at the correct item on your tax return.

Qualifying payments and allowances

There is a range of assessable government payments and allowances that qualify for the beneficiary tax offset. They include parenting payment (partnered), youth allowance, and mature age allowance.

Calculating your beneficiary tax offset

We will automatically calculate the offset for you when we process your tax return. If you want to calculate your beneficiary tax offset before you receive your notice of assessment, you can use our worksheet or online calculator.

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Qualifying payments and allowances

The following payments and allowances qualify for the beneficiary tax offset:

- parenting payment (partnered)
- Newstart allowance
- youth allowance
- mature age allowance
- partner allowance
- sickness allowance
- special benefit
- widow allowance
- Austudy payment
- exceptional circumstances relief payment or farm help income support
- interim income support payment
- income support component from a Community Development Employment Project (CDEP) – shown as 'CDEP salary or wages' on your PAYG payment summary – individual non-business
- CDEP scheme participant supplement
- Northern Territory CDEP transition payment
- the following education payments if you were 16 years or older
  - ABSTUDY living allowance
  - payment under the Veterans' Children Education Scheme
  - payment under the Military Rehabilitation and Compensation Act Education and Training Scheme 2004 – shown as 'MRCA Education Allowance' on your PAYG payment summary – individual non-business
- other taxable Commonwealth education or training payments.

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Calculating your beneficiary tax offset

We will automatically calculate the offset for you when we process your tax return.

To work it out yourself, you can use the **Beneficiary tax offset calculator**.

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Taxpayers with dependants

Taxpayers with dependants may be eligible for a number of tax offsets.

Dependent spouse, parent or invalid relative tax offset

You may be eligible for a tax offset if you maintained:

- a spouse
- your parent or your spouse's parent
- an invalid relative – your child, brother or sister who is 16 years old or older.

Housekeeper tax offset

You may be able to claim this offset if you have a housekeeper who works full time keeping house for you and caring for your eligible children or invalid relatives in the household.

Child-housekeeper tax offset

You may be able to claim this offset if you have a child who keeps house for you full time and has some responsibility for running the household.

For information on who is a dependant and maintaining a dependant, refer to the Tax return for individuals instructions **Adjusted taxable income (ATI) for you and your dependants**.

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Dependent spouse, parent or invalid relative tax offset

Eligibility

You are eligible to claim a dependent spouse, parent or spouse's parent, or invalid relative tax offset if you maintained the spouse, parent or invalid relative (respectively). You maintained a dependant if any of the following applied:

- You and your dependant lived in the same house.
- You gave your dependant food, clothing and lodging.
- You helped them to pay for their living, medical and educational costs.

We consider you to have maintained a dependant even if the two of you were temporarily separated – for example, due to holidays or because they were overseas.

If you maintained a dependant for only part of the year, you may need to adjust your claim.

Where another person or persons contributed to the maintenance of your dependant, you can claim part of the allowable tax offset, according to the extent of your contribution. For example, if you and another person contributed equally to the maintenance of your dependent parent, you can claim half of the allowable tax offset.

From the 2009–10 income year, the introduction of a new income test may affect your eligibility for these tax offsets. You may no longer be eligible for an offset or only entitled to a lesser amount.

For more information on the income tests, refer to **Income tests and how they affect you**.

Dependent spouse tax offset

Your spouse includes another person (whether of the same sex or opposite sex) who:

- you were in a relationship with that was registered under a prescribed state or territory law
- although not legally married to you, lived with you on a genuine domestic basis in a relationship as a couple.

You may be eligible to claim the dependent spouse tax offset if you maintained your spouse, and both you and your spouse were residents for tax purposes.

If you had a spouse for the whole income year and your spouse worked at any time during the year, we still consider you to have maintained your spouse – as a dependant – for the whole income year.

For more information on eligibility and how to calculate the offset, refer to the Tax return for individuals instructions **T1 - Spouse (without dependent child or student), child-housekeeper or housekeeper**.

Parent or spouse's parent tax offset

If you maintained your parent or your spouse’s parent, you may be entitled to a tax offset.

Your spouse includes another person (whether of the same sex or opposite sex) who:

- you were in a relationship with that was registered under a prescribed state or territory law
- although not legally married to you, lived with you on a genuine domestic basis in a relationship as a couple.

You cannot claim for a relative who lives overseas or who is on a visit to Australia – they must be a resident for tax purposes.

For more information on eligibility and how to calculate the offset, refer to the Tax return for individuals supplement 2010 instructions **T10 - Parent, spouse's parent or invalid relative**.

Invalid relative tax offset

You have an invalid relative if you have a child, brother or sister who is 16 years old or older, who:

- receives a disability support pension or a special needs disability support pension
- receives a rehabilitation allowance under the *Social Security Act 1991* and immediately before they were eligible to receive that allowance they were eligible for an invalid pension under that Act, or
- has a certificate from a Commonwealth-approved doctor certifying a continuing inability to work.

If you maintained an invalid relative, you may be entitled to a tax offset. You cannot claim for a relative who lives overseas or who is on a visit to Australia – they must be a resident for tax purposes.

For more information on eligibility and how to calculate the offset, refer to the Tax return for individuals supplement 2010 instructions **T10 - Parent, spouse's parent or invalid relative**.

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Housekeeper tax offset

A housekeeper is a person who worked full time keeping house for you and cared for:

- a child of yours aged under 21 years, irrespective of the child's adjusted taxable income (ATI)
- any other child aged under 21 years (including a student aged under 21 years) who was your dependant and whose ATI was less than $1,786
- your invalid relative who was your dependant and for whom you can claim an **invalid relative tax offset**, or
- your spouse who received a disability support pension.

Keeping house means more than simply childminding or performing domestic duties. It includes having some responsibility for the general running of the household.

From the 2009–10 income year, the introduction of a new income test may affect your eligibility for this tax offset. You may no longer be eligible for an offset or only entitled to a lesser amount.

For more information on:

- the income tests, refer to **Income tests and how they affect you**
- eligibility and how to calculate the offset, refer to the Tax return for individuals instructions **T1 - Spouse (without dependent child or student), child-housekeeper or housekeeper**.

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Child-housekeeper tax offset

A child-housekeeper is your child, adopted child or stepchild who kept house for you full time. A child who is a full-time student or a full-time employee is not considered to keep house full time.

Keeping house means more than simply childminding or performing domestic duties. It includes having some responsibility for the general running of the household.

From the 2009–10 income year, the introduction of a new income test may affect your eligibility for this tax offset. You may no longer be eligible for an offset or only entitled to a lesser amount.

For more information on:

- the income tests, refer to **Income tests and how they affect you**
- eligibility and how to calculate the offset, refer to the Tax return for individuals instructions **T1 - Spouse (without dependent child or student), child-housekeeper or housekeeper**.

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Health insurance

The private health insurance offset (sometimes called a private health insurance rebate) is worked out as a percentage of the premium paid to a registered health insurer for a **complying private health insurance policy**. The percentage of offset you may be entitled to claim is determined by the age of the oldest person covered by the policy.

The offset is not affected by your level of income.

You are eligible for the offset only if every person who is covered by the policy is eligible to claim benefits under the Medicare system. Your health insurer should send you your private health insurance statement showing the details of your offset level.

The offset can be claimed as a:

- reduction in your private health insurance premium through the health insurer
- cash or cheque rebate from Medicare
- refundable tax offset at the end of the income year through your tax return, or
- combination of all the options – each for a different period during the year.

You can only claim the offset under one method for each period – that is, if you have already received the offset by way of a reduction in your premium through the health insurer or as a rebate from Medicare, you cannot also claim a tax offset for the premiums paid for the same period.

For more information on how the offset works and how to calculate it, refer to the Tax return for individuals instructions **T5 - Private health insurance**.

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What is a complying private health insurance policy?

Your health insurance policy is a complying private health insurance policy only if it:

- is provided by a registered health insurer – the Private Health Insurance Administration Council website at **www.phiac.gov.au** can tell you if your insurer is a registered health insurer
- provides hospital or general (also known as 'extras') cover or combined hospital and general cover, and
- meets the other complying private health insurance policy requirements – if you are unsure, your health insurer can tell you if your policy meets these requirements.

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Medical expenses

You can claim a tax offset of 20% (that is, 20 cents in the dollar) of your net medical expenses over $1,500.

A Bill is currently before the Senate to increase the threshold to $2,000 with effect from 1 July 2010.

There is no upper limit on the amount you can claim.

Net medical expenses are the medical expenses you have paid less any refunds you got, or could get, from Medicare or a private health insurer.

The medical expenses must be for:

- you
- your spouse, regardless of their income
- your children who were under 21 years old, including adopted and stepchildren, regardless of their income
- any other child under 21 years old who was not a student, whom you maintained, and whose adjusted taxable income (ATI) for the period you maintained them was less than the total of $282
    - plus $28.92 for each week you maintained them for the first such child, or
    - plus $21.70 for each week you maintained them for any other such child
- a student under 25 years old whom you maintained and whose ATI was less than the total of $282 + $28.92 for each week you maintained them
- a child-housekeeper, but only if you can claim a child-housekeeper tax offset for them
- an invalid relative, parent or spouse's parent, but only if you can claim a Dependent spouse, parent or invalid relative tax offset for them.

You and your dependants must be Australian residents for tax purposes, but you can claim medical expenses paid while travelling overseas.

For more information:

- the definition of spouse, refer to Tax returns for individuals **Special circumstances and glossary**
- ATI and how it is calculated, including who is a dependant, refer to the Tax return for individuals instructions **Adjusted taxable income (ATI) for you and your dependants**.

Claimable medical expenses

You can claim expenses relating to an illness or operation paid to legally qualified doctors, nurses or chemists, and public or private hospitals. However, expenses for some cosmetic operations are excluded.

What you will need

To claim the net medical expenses tax offset, you will need details of:

- the medical expenses you can claim, and
- refunds you received, or are entitled to receive, from Medicare or a private health insurer.

To help you work out what you can claim for medical expenses you paid in 2009–10, you can ask for an itemised statement from:

- Medicare
- your private health insurer
- chemists where you had prescriptions filled.

Some of the items shown on these statements may not qualify for the tax offset. You will need to exclude these items from your claim.

For more information on claimable and non-claimable medical expenses and how to claim the offset, refer to the Tax return for individuals instructions **T9 - 20% tax offset on net medical expenses over the threshold amount**.

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Pensioners and senior Australians

Senior Australians, pensioners or mature workers may be eligible for one or more of the following offsets.

Senior Australian and pensioner tax offset

The senior Australians tax offset and the pensioner tax offset can reduce the amount of tax you are liable to pay. To be eligible for either of these tax offsets you have to meet certain conditions relating to your age, income and eligibility for an Australian government pension.

If you have claimed the senior Australians tax offset you cannot also claim the pensioner tax offset.

From the 2009–10 income year, the introduction of a new income test may affect your eligibility for the senior Australians tax offset or the pensioner tax offset. You may no longer be eligible for a tax offset or only entitled to a lesser amount.

For more information on the income tests, refer to **Income tests and how they affect you**.

Mature age worker tax offset

The mature age worker tax offset encourages mature age workers to stay in the workforce by offering a tax break of up to $500. You're eligible for some of this offset if you were aged 55 or more at the end of the income year and received net income from working of less than $63,000 during the income year.

Tax offsets - home

Senior Australian and pensioner tax offsets

In some cases you may not have to lodge a tax return any more.

There are different criteria to determine eligibility for the senior Australians tax offset and the pensioner tax offset.

You may meet all the eligibility criteria for the senior Australians tax offset and also receive an eligible Commonwealth pension, allowance or payment such as an age pension. Where you are eligible for both tax offsets, you can only claim the senior Australians tax offset. In any event, this will give you a higher amount than the pensioner tax offset. Therefore, you should always check whether you are eligible for the senior Australians tax offset in order to maximise your entitlements.

To work out whether you are eligible for the senior Australians tax offset and to work out your offset, refer to the Tax return for individuals instructions **T2 - Senior Australians (includes age pensioners, service pensioners and self-funded retirees)**.

If you aren't eligible, you can calculate you pensioner offset by referring to the Tax return for individuals instructions **T3 - Pensioner**.

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Mature age worker tax offset

The mature age worker tax offset aims to encourage and reward mature age workers who stay in the workforce.

The offset has been available since 1 July 2004, meaning that eligible people first benefited from the offset when they lodged their 2004–05 income tax returns. The maximum tax offset is $500.

To be eligible for the mature age worker tax offset you must:

- be an Australian resident for tax purposes
- be aged 55 years or more at the end of the income year, and
- have received net income from working (within certain limits).

From the 2009–10 year, **reportable employer super contributions** will be included in your net income from working to determine your entitlement.

The mature age worker tax offset can only reduce your tax liability to nil. Any unused portions cannot be refunded or transferred to another taxpayer. This offset should not be confused with the **Senior Australians tax offset or the pensioner tax offset**. Some people may be eligible for more than one of these.

For more information on eligibility and how to calculate the offset, refer to **Mature age worker tax offset - overview**.

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Zones and overseas forces

You may be able to claim a tax offset if you lived or worked in a remote area or served in forces overseas.

Zone tax offset

Generally, you're eligible for this offset if you lived or worked in a remote or isolated area of Australia, not including an offshore oil or gas rig, for at least half the income year. If you've lived in a remote area for less than half the income year, but you also lived in a remote area in prior years and didn't claim the offset, you may still be eligible.

Overseas forces tax offset

You may be eligible for an overseas forces tax offset if you served in a specified overseas locality as a member of the Australian Defence Force or a United Nations armed force in 2008–09 and income relating to that service was not specifically exempt from tax.

Important

If you qualify for both an overseas forces and a zone tax offset, you can claim only one of them, but you may claim the highest one.

To calculate the amount of zone or overseas forces tax offset you can claim, refer to **Zone or overseas forces tax offset calculator**.

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Zone tax offset

To qualify for the zone tax offset, you must have lived or worked in a remote area – not necessarily continuously – for:

- 183 days or more during the current income year, or
- 183 days or more in total during the current and previous income years – but less than 183 days in the current year and less than 183 days in the previous income year – and you did not claim a zone tax offset in your previous year's tax return.

If you lived in a zone for less than 183 days in the current income year, you may still be able to claim a tax offset as long as you lived in a zone for a continuous period of less than five years, and:

- you were unable to claim in the first year because you lived there less than 183 days, and
- the total of the days you lived there in the first year and in the current year is 183 or more.

Remote zones

Remote areas are classed as either zone A or zone B. There are also special areas within these zones. If you do not know which zone your area is in, refer to the **Australian zone list**.

Example

Gary lived in a remote area from 1 March 2005 to 30 September 2009 – a continuous period of less than five years. He couldn't claim a zone tax offset for the first year because he lived there for only 122 days. However, he could carry forward these unused days to 2009–10. He now adds the number of days from 1 March 2005 to 30 June 2005 (122 days) and the number of days from 1 July 2009 to 30 September 2009 (92 days). As the total (214 days) is '183 or more days' over the two income years, Gary can claim the tax offset on his 2010 tax return.

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Overseas forces tax offset

You may be eligible for an overseas forces tax offset if you served in a specified overseas locality as a member of the Australian Defence Force or a United Nations armed force in the income year and income relating to that service was not specifically exempt from tax. Periods of service for which your income was exempt foreign employment income are excluded in working out your eligibility for the tax offset.

Your employer will be able to advise you whether you served in a locality that qualifies for the overseas forces tax offset.

You can also find out which localities qualify for the overseas forces tax offset: see **Overseas tax offset – specified localities**.

To claim the full tax offset, you must have served in the overseas locality for 183 days or more in the income year. If your overseas service was less than 183 days, you may be able to claim part of the tax offset. Unlike the zone tax offset, you cannot carry forward any unused days from previous years to make up 183 days.

If you served in an overseas locality for less than 183 days, but the total number of days served in the overseas locality, when added to the number of days spent in one or more zones, is 183 days or more, you may still be entitled to claim the full overseas forces tax offset. If you served as a member of the Australian Defence Force, days spent in a zone must be defence force service.

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Last Modified: Tuesday, 21 December 2010

Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.