SUMMARY GUIDE

Income Averaging for Musicians

A Concise Summary of the Practitioner Companion Guide

Division 405 of the Income Tax Assessment Act 1997

Document	Income Averaging for Musicians: Summary
Audience	Accountants and reviewers preparing returns for the industry
Companion to	Income Averaging Training Manual (master); the full Industry Guide for this Division
Source legislation	Division 405 of the Income Tax Assessment Act 1997
Version	1.0

Why It Matters

Music careers are characterised by extreme income volatility: modest baseline years interrupted by breakthrough albums, sync placements, international tours, publishing advances, or catalogue sales. Without averaging, these spikes are taxed at top marginal rates in the receipt year despite reflecting work performed across many years. Division 405 averaging is a statutory entitlement, not optional planning, once eligibility is met.

Eligibility

Three of the five s 405-25 categories apply to musicians, and a single client often falls into more than one simultaneously. No apportionment between categories is required.

The three relevant categories

- **Performing artist (s 405-25(3))** singers, instrumentalists, conductors, band members, session players, orchestral musicians, live DJs.
- **Author (s 405-25(2))** composers, songwriters, lyricists, arrangers of original works.
- **Production associate (s 405-25(4))** record producers and music directors whose contribution is artistic, not purely technical.

The $2,500 threshold and first-year rule

Section 405-30 sets a $2,500 TPI threshold for eligibility in a year. The threshold is binary and unchanged since the regime commenced. Identifying the FIRST year the client reached $2,500 is critical: it is the base year for all subsequent averaging calculations. The first-year rule is the single most common preparer error.

TPI Composition

Income that IS TPI

- Live performance: touring fees, festival and corporate appearances, session work, conducting fees.
- Recording royalties: mechanical, performance, streaming (APRA AMCOS), neighbouring rights (PPCA), producer points.
- Composition: sync licence fees, sheet music royalties, commissioning fees, publishing advances (on receipt).
- Endorsements where conditional on performing or recording activity. Most creative grants from Creative Australia.

Income that is NOT TPI

- Private music tuition, music journalism, criticism, reviewing.
- Capital gains on instruments or music catalogue (statutory exclusion under s 405-20).
- Music administrator salary, investment income, government support payments, workers compensation.

> **Workpaper rule**
> Almost no musician return is 100 per cent TPI. The workpaper must show the apportionment: total assessable income minus non-TPI items equals TPI used in the AASPI calculation. Reviewers fail any file lacking this reconciliation.

The AASPI Mechanism

Average TPI = (sum of prior four years' TPI) / 4

AASPI = max(0, current year TPI minus average TPI)

- Division 405 is ONE-WAY. If average TPI exceeds current year TPI, AASPI is zero. No complementary tax in low years.
- First four eligible years use a transitional phase-in: year 1 effectively zero average; subsequent years use available history.
- Below-threshold years before the first qualifying year do NOT enter the average; they are treated as zero.
- The tax saving on AASPI is produced by the comparison-rate methodology: taxing as if spread over five years.

Worked Examples

- **Aria (breakthrough album):** Y1–Y5 TPI $18k–$45k; Y6 $285,000. Average TPI $39,000. AASPI $246,000. Approx. tax benefit $21,300.
- **Devon (sync windfall):** Stable $70–$78k baseline; Y5 receives $160,000 sync fee for a Y2 co-write. AASPI $158,250. Approx. benefit $13,000 to $14,000.
- **Imogen (international tour):** Sydney-based conductor; Y4 gross TPI AUD 420,000 with AUD 350,000 foreign-sourced and AUD 75,000 host-country withholding. Demonstrates the foreign tax order-of-operations rule.
- **Kavi (publishing advance):** $180,000 non-refundable advance against future royalties. Assessable on receipt; no statutory spreading. Averaging is the only available smoothing.

Foreign Income: The Critical Rule

For a foreign-tour year in which AASPI is triggered, the order of operations is:

- Compute total taxable income (Australian and foreign sources).
- Identify TPI including foreign-sourced TPI GROSS of foreign tax.
- Apply Division 405 averaging to compute the offset on AASPI.
- Compute final tax payable AFTER averaging.
- Apply FITO to reduce final tax, subject to the s 770-75 cap.

Why the order matters

Reversing steps 3 and 5 (applying FITO before averaging) produces a different and incorrect result, sometimes by tens of thousands of dollars. The legislative framework treats averaging as a tax computation step and FITO as a tax offset, so averaging applies first. Section 23AG does not apply to touring musicians.

GST and BAS

Standard $75,000 GST registration threshold. Australian performance fees and sync fees are taxable supplies; foreign-tour fees and many streaming royalties from non-resident distributors are GST-free or outside Australia. A material BAS-to-income variance is a red flag and must be investigated and resolved before lodgement.

Top Reviewer Errors

- Failing to identify the first qualifying year; AASPI calculated from the wrong base.
- Including teaching income in TPI; AASPI overstated.

- Netting foreign withholding against TPI before averaging; benefit understated by thousands.
- Treating a publishing advance as deferred income across the contract period.
- Missing Q4 APRA AMCOS or PPCA annual distributions because of reliance on client-emailed statements.

Workflow and Reviewer Checklist

Required source documents: APRA AMCOS portal statement (not the client-emailed copy), PPCA distribution statement, distributor royalty reports, label and publisher statements, live performance schedule, foreign withholding tax certificates, GST records, bank statements, manager and agent commission invoices, equipment depreciation schedule, and travel records.

The reviewer checklist covers five layers: eligibility (residency, first-year, threshold, qualifying category), TPI composition (source-traced and reconciled), calculation accuracy (prior years rebuilt, AASPI verified, manual recalculation reconciled), foreign income (FITO cap, order of operations, certificates on file), and documentation (workpaper signed, materiality noted, unusual items flagged with narrative).

Reviewer mindset

When you sign off a musician averaging file, you accept professional responsibility for an income classification the ATO may revisit on audit. Your sign-off should reflect that the workpaper would withstand independent scrutiny. If you cannot defend a TPI line, refer back to the preparer for additional substantiation before signing.