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**APPENDIX I: QUESTION BY SENATOR WATSON OF  
THE AUSTRALIAN TAXATION OFFICE  
RE : PAYE VARIATIONS**

Estimates Committee B

20 October 1992

**Senator WATSON** -- Section 221D of the Act enables employees to have their rate of tax varied where they can demonstrate that their tax liability over a 12 month period would not be affected by lower PAYE deductions. One group in society has latched onto this, namely, life insurance and superannuation agents, and they have been advising their clients that, in order to obtain additional cash to put towards increased superannuation, they can apply for a variation authority.

I put it to you that this is causing a severe administrative burden on employers, particularly those who have computer payroll packages, because they are forced into a situation of having to manually calculate the tax deductions on behalf of those employees or their clients. We understand that these employers have been directed by the Tax Office to make deductions at the behest of the insurance agents et cetera at the lower rate on behalf of employees, which they are obliged to do, having received that notification. My understanding is that the Tax Office is aware of the administrative burdens that are being caused and is taking steps to reduce the burden. My question is: what steps have been taken? You can see the difficulty?

**Department of Treasury**  
**Agency : Australian Taxation Office**

Senator Watson asked (Hansard page B 613):

- (1) What the ATO was doing about the severe administrative burden on employers of employees who could obtain a section 221D notification allowing a reduction in tax instalment deductions for life insurance and superannuation.
- (2) What was the ATO doing about life underwriters using section 221D to obtain additional superannuation business

Answer:

- (1) The PAYE Business Team is currently mid-way through reviewing the whole section 221D process with the aim of simplification for the ATO, employees and their employers. The Team is producing and distributing a standard section 221D application form common to all ATO offices, and for use by tax agents and individuals. The Team is introducing the use of 'Reduce by \$ .....' amount for variations instead of 'Reduce to .....' or percentage variation. However, the ability to use whichever variation method is most effective in the given circumstances will be retained.

The effect of this will be that the variation will be by a set amount and, as a consequence, assist in simplifying payroll calculations. The ATO has been mindful of the need to avoid adding to the collection burden already carried by employers and is seeking to reduce this burden wherever possible. Generally, variations will only be granted in those cases where there is a reasonable likelihood of a significant over-deduction of tax instalment deductions ie: where they would be likely to exceed the end of year liability by 10 per cent or \$500, whichever is the lesser.

- (2) Life insurance and superannuation agents have been advising clients that they could apply for a variation of tax instalment deductions under section 221D to obtain additional cash to put towards increased superannuation. Many of those applying for variations were just barely meeting the criteria for approval – that is, 10 per cent or more than \$500 difference in tax liability. Approximately 50 per cent of the section 221D applications in the last year were reliant on superannuation contributions as deductible expense. Since the legislative changes this year to deductibility of superannuation contributions, the number of section 221D applications has dropped markedly.