

## TAX OFFICE DISCUSSION PAPER ON PAYG

### Background

The purpose of this paper is to attempt to address the many requests being made of the ATO from representatives of small business organisations for alternative payment arrangements to provisional tax.

The proposed alternative arrangement outlined in this paper is presented for discussion and debate at this stage, on the understanding that any changes to the existing methods of collecting taxes will require the support of Government before they can be implemented. The ATO is now seeking input from interested parties on this proposal, in order to determine if it meets the requirements of non-salary and wage taxpayers, excluding companies, and the ATO as the collector of revenue.

### The Proposal

The option under consideration as an alternative to the current Provisional tax payment system is a voluntary, Pay-as-you-go (PAYG) instalment system for all non-salary and wage individuals.

The broad outline of the method Proposed under PAYG is:

*(1) Taxpayers who wish to use the PAYG system will need to make an election to this effect. (No election will be required if the taxpayer wishes to adopt or stay with the existing provisional tax system)*

And, upon electing to use the PAYG system, the following apply:

*(2) Taxpayers will make self-assessed payments on a 'regular' basis*

*(3) All tax payable within a year is to be paid in that year with some allowance for adjustments.*

*(4) No interest will be paid by A TO on credits held on behalf of the taxpayer.*

*(5) No monies will be refunded by h, A TO until assessment.*

*(6) Credits held on file will be allocated by the A TO upon assessment.*

### How Will the Proposal Work?

*(1) Taxpayers who wish to use the PAYG system will need to make an election to this effect.*

Under this proposal, taxpayers will have a choice of payment system, either the existing provisional tax system or PAYG instalment system. (See later for discussion on switching between the two systems)

## **PAYG**

PAYG will be an optional payment system, and taxpayers will need to make an election if they wish to use this, instead of provisional tax, as a method of paying tax.

The reason for making an election is to enable the Government and the ATO to determine likely revenue streams, and to facilitate monitoring. It is also to enable taxpayers to make some provision to meet the payment pattern chosen. (See later for discussion *on payment patterns*).

Upon choosing the PAYG method, the ATO will issue a payment booklet to the taxpayer. This will only be issued on demand and will probably contain the taxpayer's Tax File Number (TFN), personal details, and the year to which the payment is to apply. The ATO will hold the credits on the taxpayer's behalf until assessment of the relevant year's income, at which point it will be allocated to offset the debits raised.

### ***(2) Taxpayers will make self-assessed payments on a 'regular' basis.***

The regularity of the payments may be chosen by the taxpayer, but it will have to be suitable to the ATO as well as the taxpayer.

### ***Payment Patterns***

The payment pattern should be tailored to suit the taxpayer's income stream.

For example:

- \* for regular monthly income, the taxpayer could be expected to pay monthly;
- \* while for less regular income it could be expected to be quarterly; and
- \* in circumstances where a taxpayer receives income twice a year (as is the case for some interest income), tax would be payable twice a year.

The payments made must be calculated on actual tax payable in the period. If a taxpayer had chosen to pay quarterly, and for one quarter had no income, then no tax would be payable in that quarter. Should a taxpayer have irregular income with, for example, 80% received in the latter (or early) part of the of the financial year, then that payer would pay 80% in the latter (or early) part year. (see later for Compliance).

Should a taxpayer find that his/her circumstances have changed after electing to pay in a specified pattern, he/she may request to change the pattern of payment.

*A quarterly* payment pattern may be as follows-

First payment: 7 October  
Second payment. 7 January  
Third payment: 7 April  
Fourth payment: 7 July

with adjustments for the year to be paid and by 30 November or on assessment (whichever is the sooner); and

A monthly payment pattern:

Payments for a month to be made on the 7th of the following month; and

*A bi-annual* payment pattern:

Payments to be made in the quarters closest to receipt of income.

***(3) All tax payable within a year is to be paid in that year with some allowance for adjustments.***

Under the PAYG method of payment, tax payable in a year must be paid in the year of income.

It is recognised that this may not always be possible, so it may be that the ATO will accept 90% to be paid by 30 June, and the remaining 10% paid by 30 November or on assessment (whichever is - the sooner). If these conditions are met then no provisional tax assessment will be raised for the following year.

If \$1000 or more of tax is outstanding as at 30 November then a provisional tax assessment for the following year will be raised. An exception to this may be that if instalments have already been paid against the following year's liability, those credits could be allocated to the year being assessed, and no provisional tax assessment will be raised. In these circumstances, penalty may have to be imposed for late payment.

If 100% is not paid by 30 November and there is less than \$1000 tax outstanding, then penalties may be applied to the outstanding amount (from 30 June?) but no provisional tax assessment for the following year will be raised.

***(4) No interest will be paid by ATO on credits held on behalf of the taxpayer.***

As this is a voluntary pay-as-you-go system, and not a payment in advance, the ATO will not pay interest on credits held on a taxpayer's behalf

***(5) No monies will be refunded by ATO until assessment***

This is self-explanatory. However, it may be that if a taxpayer's income were to change dramatically due to unforeseen circumstances, the ATO may review this rule.

***(6) Credits held on file will be allocated upon assessment.***

The ATO will allocate credits held on file upon assessment, and the taxpayer will not need to claim them in his/her tax return.

Taxpayers may want some indication of the credits to which they are entitled, in which case the ATO would consider producing a Statement of Account. (On request, prior to lodgement of the return?).

### ***SWITCHING BETWEEN SYSTEMS OF PAYMENT***

If the ATO raises a provisional tax assessment for a taxpayer who has elected to pay under the PAYG system because of short payment then the taxpayer will be required to pay the outstanding tax for the year of income, as well as the provisional tax for the following year in April (if a lump-sum payer), and a first instalment on 1 September (if a QPT payer).

***Can the taxpayer move back into PAYG?***

If a taxpayer is already in the provisional tax system and elects to pay under the PAYG system, then he/she cannot move back to provisional tax unless the ATO moves him/her back because of short or non-payment. (There may be some exceptions to this, but the taxpayer would have to show good cause.)

First-time non-salary and wage taxpayers may elect to go into PAYG initially, but may still move into the current provisional tax system at some time in the future if they so choose.

The ATO would carry out systematic payment analysis to monitor taxpayer behaviour in meeting the requirements under the PAYG system.

As the spirit of the system is pay as you go, the law would need to provide for abuses, for example, in situations where taxpayers hold up payment until the end of the year.

### ***ISSUES FOR FURTHER CONSIDERATION***

- initial transition from provisional tax to PAYG.
- Application of credits on file to other outstanding debts

### **HOW DOES PAYG ALIGN WITH THE CURRENT PROVISIONAL TAX SYSTEM?**

See Attachment A.

### **PAYE and PROVISIONAL TAX**

The ATO is also currently looking at the possibility of enabling non-salary and wage earners to register under the PAYE system as a method of paying as they go. This requires extending the definition of salary and wages employment, and the likely impacts of this are still being analysed. However, the analysis conducted to date leads the ATO to recognise that, while this could be a more timely solution, there are a number of administrative constraints, mostly in the areas of monitoring and compliance.

### **CONCLUSION**

The model outlined in this paper is intended to provide a starting point for discussion and debate on the whole issue of alternative payment arrangements to provisional tax, and is not to be considered as the method the ATO will necessarily adopt. It has not yet been given sufficient consideration by the ATO, and other views have not yet been canvassed.

It is currently being distributed to a number of people representing the ATO, other concerned organisations and some tax practitioners, with a view to obtaining their views on this and any other model they may wish to put forward on alternative payment arrangements to provisional tax.

If you have any queries or comments to make on the matters raised in this paper, please contact Paula Lane on (06) 216 1308.

### ***ATTACHMENT A***

### ***HOW DOES PAYG INSTALMENT SYSTEM ALIGN WITH THE CURRENT PROVISIONAL TAX SYSTEM?***

The current provisional tax system for non-QPT payers is as follows:

(Chart is available on Page 139 of the hardback copy of the report. It does not transfer into electronic form)