

The payg system



THE PAYG SYSTEM For more than two decades Australia has adopted Provisional tax payments system, which includes PAYE (Pay As You Earn) for employees. Pay As You Go (PAYG) tax system was introduced in July, 2000 replacing the older systems of taxation. PAYG is part of tax reforms initiated by Australian Taxation Office. PAYG is integrated with Goods and Services Tax thereby consolidating tax liabilities into one Quarterly form/payment. Introduction of PAYG has resulted in considerable revenue to the Taxation office.

PAYG was introduced to simplify the then complex provisional tax payments system. The tax tables under PAYG system are structured to result in a refund when an Income tax return is processed. This refund culture encourages strong compliance with annual returns. PAYG also provides flexibility, ability to alter the taxation payments based on the current income received. PAYG has removed lack of equity in payment timing between individuals and companies. Henceforth, tax payers need to file only one form and make one payment for each quarter. PAYG allows the netting off Liabilities and credits.

PAYG Installment System

Tax payers like Individuals, Corporate, Trustees, Mutual insurance associates, etc having Business and Investment income are subjected to PAYG Installment system. A taxpayer is subjected to PAYG installment system if his most recent income tax assessment shows more than \$2000 of gross investment or business income or if his recent income tax return resulted in a tax debt of over \$500. PAYG installments are generally payable quarterly. The due dates by which quarterly installments are required to be paid are 28th July, 28th October, 28th February and 28th April. Certain tax

payers like primary producers and Special professionals can pay two installments per year. These tax payers need to pay 75% of PAYG liability by 28th April and the balance by 28th July. A tax payer is eligible to opt for paying PAYG installment annually under the following circumstances:

- 1) He is not registered, nor required to be registered, for goods and services tax (GST) or
- 2) He is not a partner in a partnership that is registered, or required to be registered, for GST
- 3) His most recent notional tax amount notified by the Commissioner is less than \$8, 000, and he is a company taxpayer that is not part of a consolidated group or a participant in a GST joint venture

PAYG Withholding System

Payments made to tax payers having income other than business or Investment income like Salaries and wages, Pension Annuity, Dividend, Interest, Royalty are subjected to PAYG Withholding system. PAYG withholding is also applicable to payments to other businesses who do not quote Australian Business Number. Employers deduct tax according to the published tables from wages and the net amount is paid to employees. Employers send the amounts withheld to taxation office, hence this system is called Withholding system. Tax payer has to determine the status of the payees like employees, contractors, directors, etc. Then determine what type of payments require withholding. Based on the published tables the amount to be withheld is determined. Then the amount withheld should be paid and reported to the taxation authorities. Each payee should be given a payment summary and a report submitted to the taxation office annually.

Small withholders are individuals or businesses who withhold \$25, 000 or less in a year, pay the withheld amount quarterly to the taxation office.

Medium withholders are individuals or businesses who withhold more than \$25, 001 in a year, pay the withheld amount monthly to the taxation office.

Example: PAYG Withholding System:

A company pays \$10, 000 per month to an employee as salary. Assuming there are no tax offsets and medical levy, based on the published tax tables the company has to deduct \$2986 and pay the net amount of \$7014 to the employee. If the company is a small withholder it needs to pay \$8958 per quarter to the taxation office. If the company is a medium with holder then it needs to pay \$2986 per each month.

Bibliography

1) PAYG Installment Essentials, Australian government, Australian taxation office, 16 January 2009,