

Tax table for back payments

Including lump sum payments in arrears.



**FOR PAYMENTS MADE ON
OR AFTER 1 JULY 2010.**



This document is a withholding schedule made by the Commissioner of Taxation in accordance with sections 15-25 and 15-30 of Schedule 1 to the *Taxation Administration Act 1953*. It applies to certain withholding payments covered by Subdivisions 12-B (except sections 12-50 and 12-55), 12-C (except sections 12-85 and 12-90) and 12-D of Schedule 1 paid as a lump sum.



For more information visit www.ato.gov.au



WHO SHOULD USE THIS TABLE?

You use this table if you need to work out the amount to withhold from a back payment to a payee on or after **1 July 2010**.

❗ Back payments include lump sum payments in arrears.

If the payment is a bonus or other similar payment, use *PAYG withholding tax table – bonuses and similar payments* (NAT 7905).

AMOUNT TO BE WITHHELD

The amount to be withheld from a back payment is governed by the information your payee has provided on their *Tax file number declaration* (NAT 3092). This information only applies to payments you make after you receive the declaration.

A later declaration provided by a payee overrides an earlier declaration.

❗ If you have *Employment declarations* that were valid at 30 June 2000, they will continue to be valid.

NO TFN PROVIDED

If your payee has not provided you with their TFN (or claimed an exemption from doing so) you must withhold at the top rate of tax plus the Medicare levy on the payment (ignoring any cents), if the payee is a resident. If the payee is a foreign resident, you must withhold on the payment at the top rate of tax, ignoring any cents.

A payee who has advised you (through question 1 of their *Tax file number declaration*) that they have lodged a *Tax file number application or enquiry* with us has **28 days** to give you their TFN. You withhold from a back payment paid during these 28 days in accordance with the instructions in this schedule.

If a payee has not provided you with their TFN by the end of the 28 days, you must withhold at the highest rate (see above) from the total amount of all payments made to them, unless we tell you not to. This will require you to redo the calculations for the pay periods involved.

❗ Do not allow for tax offsets or Medicare levy adjustments and do not add amounts for HELP or SFSS to withholding amounts for back payments, including lump sum payments in arrears, being made to payees who have not provided you with their TFN.

HOW TO WORK OUT WITHHOLDING AMOUNTS

The way you work out the amount to withhold depends on whether the payment accrued in:

- the current financial year, or
- a prior year.

One payment may include accounts from both periods.

Payments accrued in the current financial year

To work out the amount to withhold from a back payment which relates to the current financial year, you need to work out how much of the back payment accrued in each earlier pay period. You need to determine the amount of withholding that would have been paid in each of those pay periods, then adjust those amounts by the amounts that have already been paid. Method A takes you through the steps involved.

Method A

- 1 Work out how much of the back payment accrued in each earlier pay period.
- 2 For the first affected pay period, add the back payment relevant to that period to the earnings previously paid to get total earnings for that period.
- 3 Use the relevant tax table to find the amount to be withheld from the total earnings for that period.
- 4 Subtract the amount previously withheld for the period from the amount worked out in step 3.
- 5 Repeat steps 2–4 for each pay period affected. Total the amounts calculated in step 4 for each pay period.
- 6 Use the relevant tax table to work out the amount to be withheld on the payee's normal earnings for the current pay period.
- 7 Work out the total PAYG withholding for this pay period by adding the withholding on the normal pay (the result at step 6) to the withholding on the back payment (the result at step 5).

Payments accrued in a prior financial year

There are two ways to calculate the amount to be withheld from a back payment that accrued in a financial year before the one in which the payment is made, depending on whether the payment was made:

- less than 12 months after the amount was accrued (use Method B)
- more than 12 months after the amount was accrued (use Method C).

Method B

Use this method for salary or wages accrued less than 12 months before the date of the back payment.

- 1 Use the relevant tax table to work out the amount to be withheld on the payee's normal earnings for the current pay period.
- 2 Divide the back payment amount by the number of normal pay periods over which it accrued. For example, if a back payment relates to the period August to October and the payee is paid monthly, the number of normal pay periods over which the amount accrued is three. Disregard any cents in the result. (For example, an amount of \$143.75 becomes \$143.) If the amount is less than \$1 this step is nil. In this case there is no amount to be withheld from the back payment.
- 3 Add the amount worked out at step 2 to the normal payment in the current pay period. This is the 'combined payment'.
- 4 Use the tax table used in step 1 to determine the amount to withhold on the combined payment (see step 3).
- 5 Subtract the amount worked out in step 1 from the amount worked out in step 4.
- 6 Multiply the amount worked out at step 5 by the number of normal pay periods over which the amount accrued.
- 7 Work out the total PAYG withholding for this pay period by adding the withholding on the normal pay (the result at step 1) to the withholding on the back payment (the result at step 6).

Method C

Follow the steps below to work out the amount to be withheld from back payments of:

- salary or wages that were accrued more than 12 months before the date of the back payment, and
 - all other amounts that accrued in a prior financial year.
- 1 Use the relevant tax table to work out the amount to be withheld on the payee's normal earnings for one pay period in the current financial year.
 - 2 Divide the back payment by the number of normal pay periods in 12 months (that is, 12 monthly payments, 26 fortnightly payments or 52 weekly payments). Disregard any cents in the result. (For example, \$143.75 becomes \$143.) If the amount is less than \$1 this step is nil. In this case there is no amount to be withheld from the back payment.
 - 3 Add the amount worked out at step 2 to the normal payment in the current pay period. This is the 'combined payment'.
 - 4 Use the tax table used in step 1 to determine the amount to withhold on the combined payment (see step 3).
 - 5 Subtract the amount worked out in step 1 from the amount worked out in step 4.
 - 6 Multiply the amount worked out at step 5 by the number of normal pay periods in 12 months (see step 2).
 - 7 Work out the total PAYG withholding for this pay period by adding the withholding on the normal pay (the result at step 1) to the withholding on the back payment (the result at step 6).

If you have to use more than one of the methods above to work out the amount to be withheld from a back payment, split the back payment amount and work out each withholding amount separately.

! NORMAL EARNINGS

Normal earnings are all payments, except those relating to termination payments, received in the last full pay period of employment (this includes allowances and overtime). Therefore, a payee's normal earnings should be taken to be the earnings relating to the last full pay period worked.

Where earnings fluctuate significantly over a number of pay periods, we will accept an average of gross assessable earnings for the financial year to date.

VARIATIONS

Where a payee has a withholding variation in place for the current financial year, to work out the amount of withholding you should use:

- the varied rate – if the notice you received included the income from the back payment in their variation application, or
- this tax table – if the notice you received did not include the income from the back payment in their variation application.

! If a payee had a withholding variation in place at the time the back payment accrued, but the withholding variation is no longer in effect when the back payment is made, it does not apply when working out the amount to withhold.

> If you need help to determine whether to use a withholding variation to work out the amount to withhold from a back payment, phone **1300 360 221**.

HELP, SFSS AND BACK PAYMENTS

If a payee has advised you they have a Higher Education Loan Program (HELP) or Student Financial Supplement Scheme (SFSS) debt on their *Tax file number declaration* (NAT 3092) or *Withholding declaration* (NAT 3093), you are required to withhold an additional amount from the back payment according to the relevant HELP/SFSS tax tables.

The amounts that are required to be withheld from back payments for HELP and SFSS should be calculated based on the method used to calculate the amount to be withheld from the back payment.

For example, if you calculate the amount to be withheld from the back payment using Method C, you should use the same method to calculate the amounts to be withheld for HELP and SFSS purposes.

EXAMPLES

Example 1 uses *PAYG withholding – Statement of formulas for calculating Higher Education Loan Program (HELP) component including coefficients for calculating weekly withholding amounts incorporating HELP component (NAT 2335)* effective from 1 July 2010. The calculations are made using scale 7, with tax-free threshold and no leave loading.

Examples 2 and 3 use *PAYG withholding – Weekly tax table incorporating Medicare levy with and without leave loading (NAT 1005)* effective from 1 July 2010. The calculations are made using column 3, with tax-free threshold and no leave loading.

EXAMPLE 1: Payee with a HELP debt

Robyn, who has an accumulated HELP debt, does not submit a timesheet for pay period 10 and is not paid in that period. She submits the timesheet in the next pay period. Her normal payment for period 11 is \$870 and her back pay entitlement is also \$870. To determine the withholding amount, use Method A as follows:

- 1 How much back payment accrued in each earlier pay period? In this example, only one pay period is involved. = \$870
- 2 Add the relevant back payment amount to the wages in period 10 (\$0 + \$870). = \$870
- 3 Use the tax table to find the amount to be withheld from the total earnings for period 10. = \$175
- 4 Subtract the amount previously withheld for period 10 (\$0) from the amount worked out in step 3 (\$175 – \$0). = \$175
- 5 As the back payment relates to only one prior period, there is no need to repeat steps 2–4.
- 6 Use the tax table to calculate the amount to be withheld on the payee's normal earnings for the current pay period (\$870). = \$175
- 7 Add the withholding on the back payment (step 4) to the withholding on the normal pay (step 6) to work out the total PAYG withholding for pay period 11 (\$175 + \$175). = \$350

EXAMPLE 2: Amount accrued in earlier financial year but within 12 months of the payment date

Joanne is employed by Macropayers Ltd. On 1 July 2010 she received a salary increase of \$5 per hour, taking her gross weekly salary to \$730. Her employer has also agreed that the increase is to be backdated to 1 October 2009. The back pay will be paid in her next pay.

The total back payment of salary and wages is \$7,312.50 which accrued over 39 normal pay periods. The amount Joanne's employer must withhold from this payment is calculated using Method B as follows:

- 1 The relevant PAYG withholding tax tables are used to calculate how much to withhold from Joanne's normal gross weekly earnings (\$730) in the current pay period. = \$95
- 2 Joanne's back payment of \$7,312.50 is divided by 39 normal pay periods over which the amount accrued and any cents are disregarded ($\$7,312.50 \div 39$). = \$187
- 3 The amount at step 2 is added to Joanne's normal earnings of \$730 ($\$730 + \187). = \$917
- 4 The same PAYG withholding tax tables used at step 1 is used to work out the amount to be withheld from the amount at step 3. = \$158
- 5 The amount at step 1 is subtracted from the amount at step 4 ($\$158 - \95). = \$63
- 6 The amount at step 5 is multiplied by 39 pay periods ($\$63 \times 39$). = \$2,457
- 7 The total PAYG withholding for this pay period is the withholding on the normal weekly pay (the result at step 1) added to the withholding on the back payment (the result at step 6) ($\$95 + \$2,457$). = \$2,552

EXAMPLE 3: Lump sum payment in arrears

Mary is employed by MinerCorp Pty Ltd and receives a weekly salary of \$850.00. She is entitled to an allowance from her employer when working in remote areas. In 2007, Mary worked in a remote area for six months, but she was not paid this allowance. The total allowance that she should have been paid for this period was \$2,480. Her employer's oversight was finally discovered and her employer agreed to pay her the \$2,480 as a lump sum payment in arrears on 1 November 2010. The amount Mary's employer must withhold from this payment is calculated using Method C as follows:

1 Use the weekly tax table, find the withholding amount on Mary's normal weekly earnings in the current financial year (\$850).	= \$136
2 Divide the lump sum payment in arrears of \$2,480 by the number of pay periods Mary has a year (52, as she is paid weekly), disregarding any cents.	= \$47
3 Add the step 2 amount to Mary's normal weekly earnings (\$850 + \$47).	= \$897
4 Use the tax table used in step 1 to determine the amount of withholding on \$897.	= \$151
5 Subtract the step 4 amount from the step 3 amount (\$897 - \$151).	= \$746
6 Multiply the step 5 result by the annual number of pay periods (\$746 × 52). This gives the amount to be withheld from the back payment.	= \$38,792
7 The total PAYG withholding for this pay period is the withholding on the normal weekly pay (the result at step 1) added to the withholding on the lump sum payment in arrears (the result at step 6) (\$136 + \$38,792).	= \$38,928

SUPERANNUATION INCOME STREAMS

To work out the amount to withhold from the taxable component of back payments of superannuation income streams (pensions and annuities), including lump sum payments in arrears, use either:

- Method A – when the payment accrued in the current financial year, or
- Method C – when the payment accrued in a prior financial year.

PAYMENT SUMMARIES

You must record back payments on your payee's payment summary. The payment summary you use depends on whether the back payments relate to a superannuation income stream or not. Use:

- *PAYG payment summary – individual non-business* (NAT 0046) for all back payments **except** those for superannuation income streams or if they were related to a previous period of assessable foreign service
- *PAYG payment summary – superannuation income stream* (NAT 70987) for superannuation income stream payments
- *PAYG payment summary – foreign employment* (NAT 72397) for payments related to a previous period of assessable foreign service.

The way you fill in the payee's payment summary varies depending on the method you used to calculate the withholding amount on their back payment.

Completing the individual non-business payment summary

If you used Method A or Method B to work out the withholding amount, include:

- the total gross amount of all payments at 'Gross payments', and
- the total amount withheld at 'Total tax withheld'.

If you used Method C for one or more payments that were each **less than \$400**, include:

- the total gross amount of the payments at 'Gross payments', and
- the total amount withheld at 'Total tax withheld'.

If you used Method C for one or more payments that were each **\$400 or more**, include:

- the total gross amount of the payments at 'Lump sum E', and
- the total amount withheld at 'Total tax withheld'.

! You must also provide the payee with a letter specifying the financial years over which the amount accrued and the gross amount that accrued each year.

Completing the superannuation income stream payment summary

If you used Method A, include:

- the component amounts at:
 - 'Taxable component' (both taxed and untaxed elements if applicable), and
 - 'Tax-free component'
- the amount withheld at 'Total tax withheld'.

If you used Method C, include:

- the component amounts at:
 - 'Lump sum in arrears – taxable component' (both taxed and untaxed elements if applicable), and
 - 'Lump sum in arrears – tax-free component'
- the amount withheld at 'Total tax withheld'.

! You must also provide the payee with a letter specifying the financial years over which the amount accrued and the gross amount that accrued each year.

PAYG WITHHOLDING PUBLICATIONS

All PAYG withholding tax tables and other PAYG publications can be accessed quickly and easily at www.ato.gov.au

Copies of weekly and fortnightly tax tables are available from most newsagents. Newsagents also hold copies of the *Tax file number declaration* (NAT 3092) and the *Withholding declaration* (NAT 3093).

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