



Pay as you go (PAYG) withholding

Tax tables

Effective for payments made on or after 1 July 2003

Eligible termination payments

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 withholding payments covered by section 12-85 of Schedule 1.

Who should use this table?

If you make an eligible termination payment (ETP) to an individual, you may be required to withhold an amount from that payment and pay the withheld amount to the Tax Office. The table below explains the types of ETPs you must withhold from and how much you must withhold.

Which payments does this table cover?

ETPs are lump sum payments described in subsection 27A(1) of the *Income Tax Assessment Act 1936*. ETPs paid by employers are lump sum payments in consequence of termination of employment. They include lump sum payments made upon resignation, retirement, death, that part of approved early retirement payments in excess of the tax free limits, that part of bona fide redundancy payments in excess of the tax free limits and invalidity payments. Most lump sum payments from superannuation funds, approved deposit funds, retirement savings accounts and other superannuation providers are ETPs.

The ETPs that are subject to withholding are shown on this schedule. Any ETP paid after the death of a person to the trustee of the estate of the deceased is not subject to PAYG withholding. Lump sums that are not ETPs will be shown in other publications.

This schedule covers two types of lump sum payments which are outlined below.

01 Lump sum payments by employers including:

- > a payment in lieu of notice;
- > a payment for unused sick leave;
- > a payment for unused Rostered Days Off (RDO);
- > a 'golden handshake' whether paid under contract, industrial award obligation or the employer's desire to recognise past service;
- > compensation for loss of job;
- > compensation for wrongful dismissal (even when paid some time after the actual termination of employment);
- > redundancy payment that exceeds the tax-free limit*. Only the amount in excess of the limit is an ETP;
- > payment under an Approved Early Retirement Scheme that exceeds the tax-free limit*. Only the amount in excess of the limit is an ETP; and
- > lump sum payments paid on the death of an employee if paid to a person who is not a dependant.

*The tax-free limit for the 2003-04 income year is \$5,882 plus \$2,941, for each year of completed service (s 27A(19) *Income Tax Assessment Act 1936*).

Note: Payments for unused annual leave, leave loading or long service leave are not ETPs.

HOW TO WORK OUT AMOUNTS TO BE WITHHELD

Income component derived by the payee in the income year	Age of person at the date the payment is made	Component that is subject to PAYG withholding	Rate of withholding (including Medicare levy)
Post-June 83 - Taxed component	Under 55	Whole	21.5%
	55 and over	Low rate part ¹	Nil
		Amount after deducting the low rate part from the whole amount	16.5%
Post June 83 - Untaxed component	Under 55	Whole	31.5%
	55 and over	Low rate part ¹	16.5%
		Amount after deducting the low rate part from the whole amount	31.5%
Death benefit ETP paid to non dependants – Taxed component	All	Whole	16.5%
Death benefit ETP paid to non dependants – Untaxed component	All	Whole	31.5%
Death benefit ETP paid to dependants ² – Taxed and Untaxed components	All	Whole	Nil

¹ The **low rate** part is allowed once per ETP. That is, if a payee received a taxed and untaxed element in an ETP, the total low rate part allowed for that ETP cannot exceed the low rate part that applies in the year. The low rate part is allocated to the taxed component first before allocating the remaining low rate part to the untaxed component.

For the **2003-04** year, the low rate part is \$117,576 (s159SG *Income Tax Assessment Act 1936*). The low rate part is indexed. Contact the Superannuation Infoline 13 10 20 for the low rate part for other years.

² **Dependants** include all children of the deceased under the age of 18 and any spouse of the deceased (including de facto and former spouse). A dependant can be a person who was financially dependent upon the deceased. Before accepting that a person is a dependant because of financial dependence, advice should be sought from the Superannuation Infoline **13 10 20**. If the ETP is to be paid to the trustee of the deceased estate, an amount should not be withheld.

02 Lump sum payments from a superannuation fund, approved deposit fund, retirement savings account or any other superannuation product including:

- > payments to a person in consequence of that person being a member of the superannuation fund or approved deposit fund or being the owner of a retirement savings account or any other superannuation product; and
- > lump sum payments paid on the death of one person if paid to another person who is not a dependant of the deceased person.

How to work out amounts to be withheld

If the individual has given you their tax file number

A person receiving an ETP from you may provide you with their tax file number. The tax file number may be provided to you by any means approved by the Tax Office. If the tax file number is given to you before you pay the ETP, you must apply the rates set out in the table on the front page of this schedule.

An ETP can be made up of several different tax components. If the person receiving the ETP has provided you with their tax file number, you must withhold an amount from each part of the post-June 83 component according to the table below. However, you do not withhold from any other components of the ETP.

If the person who is entitled to receive the ETP asks you to rollover the ETP, you do not withhold tax from any amount that has been rolled over. A death benefit ETP (whether paid to dependants or non-dependants) cannot be rolled over.

If the individual has not given you their tax file number

If the individual receiving the ETP has not provided you with their tax file number before the ETP is made, you must withhold at the 'No tax file number' rate of 48.5% for pre-July 83 and post-June 83 components.

An amount should not be withheld on that part of an ETP that is being paid to an individual who was a dependant of the deceased at the time of death or at the time of payment.

If the individual is a foreign resident who has not provided you with their tax file number, you must withhold at the rate of 47% for pre-July 83 and post-June 83 components.

Tax file number declaration

Any *Tax file number declaration* a payee provided to you while they were working for you will be effective for the period that they were working for you and a period of 12 months after you make the last payment to the payee.

If the payee has previously quoted their tax file number to the superannuation provider for taxation purposes, this quotation is sufficient to authorise the superannuation provider to withhold an amount at the tax file number quoted rates.

Rounding rules

If the amount worked out under the table includes a number of cents that is less than a whole dollar, you should round the amount as follows:

Where tax file number provided:

1 to 49 cents rounded down to nearest whole dollar.

For example, if the amount worked out under the table is \$250.35, the amount you must withhold is \$250.00.

50 to 99 cents rounded up to nearest whole dollar.

For example, if the amount worked out under the table is \$250.75, the amount you must withhold is \$251.00.

Where tax file number not provided:

Ignore any cents. For example, if the amount worked out is \$110.50, the amount you must withhold is \$110.00.

EXAMPLE

Jane and Michael are both employees of SmallBiz Pty Ltd aged 54 and 55 respectively. They both started working for SmallBiz on the same day and resigned on the same day so that they could go into business as partners.

As required by the employment contract that Jane and Michael have with SmallBiz, they will both receive an ETP of \$10,000. Each ETP has a pre-July 83 component of \$2,000 and a post-June 83 component of \$8,000. Smallbiz is required to withhold an amount under the PAYG Withholding system. Jane and Michael have provided their respective tax file numbers.

SmallBiz does not need to withhold from the pre-July 83 component. It must withhold an amount from the post-June 83 component. An ETP paid by an employer will never have a taxed component.

SmallBiz withholds 31.5% (30% plus Medicare levy) of \$8,000 from Jane's ETP (\$2,520). As Jane is not aged 55, she is not entitled to the low rate part.

SmallBiz withholds 16.5% of \$8,000 (\$1,320) from Michael's ETP. As Michael is aged 55, he is entitled to the low rate part which is taxed at 15% plus Medicare levy.

Jane has been a member of a superannuation fund since 1992. Most of her superannuation money is preserved and cannot be taken until she retires. She is entitled to \$100,000 and elects to rollover \$95,000 to another fund, while retaining an ETP of \$5,000. The \$95,000 is not subject to withholding as it is to be rolled over. The fund pays Jane a \$5,000 ETP which consists only of a taxed post-June 83 component. The fund must withhold an amount of 21.5% of \$5,000 (\$1,075).

Michael has been a member of a superannuation fund for most of his working life. The fund pays him an ETP of \$120,000 consisting of a \$30,000 pre-July 83 component and a \$90,000 post-June 83 taxed component. The fund is not required to withhold from the pre-July 83 component. As Michael is aged 55, \$90,000 is less than the low rate part for an ETP and the whole post-June 83 component is a taxed component, the fund is not required to withhold any amount.

The trustees of the fund are not required to take into account any other ETPs Michael has received to determine whether the ETP they are about to pay will exceed the low rate part. The Tax Office will take into account any ETPs that Michael has received in the current or prior years when determining his tax liability.

If the taxed post-June 83 component of the ETP that the fund was to pay to Michael exceeded the low rate part, that amount in excess of the low rate part would have an amount withheld at the rate of 16.5%.

For more information

If you have any questions or need more information about calculating the amount to be withheld, you can contact the Tax Office:

By phone:

- > **13 28 66** for general PAYG enquiries or to order Tax Office forms or publications
- > **13 10 20** for superannuation and ETP enquiries

Our staff are available during office hours to answer your questions.

- > via *A Fax from Tax*. This service is available 24 hours a day. Phone **13 28 60** and follow the instructions to order a catalogue or to be sent information
- > at our Internet site, ATOassist: www.ato.gov.au
- > in person by visiting one of our ATOaccess shopfronts. Addresses are listed in *TaxPack*, and in the White Pages telephone directory under 'Australian Taxation Office'.