



# Pay as you go (PAYG) withholding Tax table for back payments Including lump sum payments in arrears

For payments made on  
or after 1 NOV 2004

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 12-85 and 12-90) and 12-D of Schedule 1 paid as a lump sum.

## Who should use this table?

You should use this tax table if you make a payment to another person that is a **back payment, including lump sum payments in arrears**.

Any payments that are considered bonuses or other similar payments are not covered by this table. Payers making bonus or other similar payments should refer to *PAYG withholding tax tables – bonuses and similar payments* (NAT 7905-9.2004) to work out the amount to withhold.

## Date of effect

The rules in this tax table replace the rules outlined in the tax tables:

- *PAYG withholding tax tables – lump sum payments in arrears* (NAT 3348-6.2003), and
- *PAYG withholding tax tables – bonuses and similar payments* (NAT 7905-6.2003).

If you cannot apply the rules contained in this tax table immediately, you may continue to use the old tax tables until 30 June 2005.

## How to work out the amount to withhold

### When the payment has accrued in the current financial year

To calculate the amount to withhold from a back payment when it accrued in the same financial year that the payment was made, you need to determine how much of the back payment accrued in each earlier pay period. Upon determining this amount, it should be added to the other payment/s made in each earlier pay period to calculate the amount to be withheld, as detailed below.

#### Method A

- 1 For each affected period, add the back payment relevant to that period to the earnings previously paid.
- 2 Use the relevant tax table to calculate the amount to withhold from the amount obtained in step 1.
- 3 Subtract the amount previously withheld for the period from the amount obtained in step 2.
- 4 Add the amount in step 3 to the withholding amount worked out for the current pay period.

❗ If the back payment relates to multiple pay periods repeat the steps above for each pay period and add the total withholding amount to the withholding amount worked out for the current pay period.

### When the payment accrued in a prior financial year

There are two ways to calculate the amount to withhold from a back payment that accrued in an earlier financial year than the one in which payment is made.

#### Method B

Where salary or wages accrued **less** than 12 months before the date of payment follow the steps in the next column.

- 1 Use the relevant tax table to work out the amount to withhold on the payee's normal earnings for the current pay period.
- 2 Divide the back payment by the number of normal pay periods over which the amount accrued. For example, if a back payment relates to the period August–October and the payee is paid monthly, the number of normal pay periods over which the amount accrued is 3.
- 3 Disregard any cents. For example, \$143.75 becomes \$143. If the result is nil, there is no amount to withhold from the back payment.
- 4 Add the amount in step 3 to the normal earnings in the current pay period.
- 5 Use the same tax table used in step 1 to determine the amount to withhold on the combined payment amount calculated at step 4.
- 6 Subtract the amount worked out in step 1 from the amount worked out in step 5.
- 7 Multiply the result by the number of normal pay periods over which the amount accrued to obtain the total amount to withhold from the back payment.

#### Method C

To calculate the amount to withhold from back payments of:

- salary or wages that were accrued **more** than 12 months before the date of payment, and
  - all other amounts that accrued in a prior financial year,
- follow the steps below.

- 1 Use the relevant tax table to work out the amount to withhold 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).
- 3 Disregard any cents. For example, \$143.75 becomes \$143. If the result is nil, there is no amount to withhold from the back payment.
- 4 Add the amount in step 3 to the normal payment in the current pay period.
- 5 Use the same tax table used in step 1 to determine the amount to withhold on the combined payment amount calculated at step 4.
- 6 Subtract the amount worked out in step 1 from the amount worked out in step 5.
- 7 Multiply the result by the number of normal pay periods in 12 months to obtain the amount to withhold from the back payment.

❗ Where the amount to be withheld from a back payment requires more than one of the methods outlined above to be used for the calculation, the back payment amount should be split and each amount calculated separately.

## Examples

The following examples use *Weekly tax table – incorporating Medicare levy with and without leave loading* (NAT 1005) effective from 1 July 2004. The calculations are made using column 3, with tax-free threshold and no leave loading.

### Example one

An employee fails to submit their timesheet for pay period 10 and is not paid in that period. If their timesheet is submitted in period 11, the employee will be paid a back payment of \$600 for wages earned in period 10. Their wage in period 11 is also \$600. To calculate the withholding amount you need to use Method A.

Step	Method	Result
1	Use the tax tables to work out the withholding amount in period 10. Given the employee was not paid in that period there is nil withholding.	\$ 0
2	Add the back payment of \$600 to their wages in period 10 (\$600 + \$0).	\$600
3	Use the tax table to find the withholding amount on the amount calculated at step 3 (\$600).	\$116
4	Subtract the amount in step 1 from the amount in step 3 (\$116 – \$0).	\$116
5	Add the amount in step 4 to the withholding amount determined in period 11 (\$116 + \$116).	\$232

### Example two

Mary is employed by Minercorp Pty Ltd and receives a gross weekly salary of \$850.00. She is entitled to an allowance from her employer when working in remote areas. In 1997, Mary worked in a remote area for 6 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 2003. The amount Mary's employer must withhold from this payment is calculated using Method C as follows:

Step	Method	Result
1	Using the weekly tax table find the withholding amount for \$850.	\$195
2	Divide the lump sum payment in arrears of \$2,480 by 52 pay periods (Mary is paid weekly).	\$ 47.69
3	Disregard any cents.	\$ 47
4	Add this amount to the normal weekly wage of \$850.	\$897
5	Use the tax tables used in step 1 to work out the amount of withholding on \$897.	\$210
6	Subtract Step 1 from Step 5.	\$ 15
7	Multiply \$15 x 52 pay periods ie \$15 x 52.	\$780

The total PAYG withholding on the payment of normal weekly pay of \$850 plus the lump sum payment in arrears of \$2,480 is \$975 ie \$195 (step 1) + \$780 (step 7).

## If the payee has not given you a Tax file number declaration

You must withhold 48.5% of any back payment (including lump sum payments in arrears) if the payee is a resident and has not provided you with an effective *Tax file number declaration* (NAT 3092).

If the payee is a foreign resident who has not provided you with an effective *Tax file number declaration*, you must withhold 47% of any back payment (including lump sum payments in arrears).

An effective *Tax file number declaration* must include the payee's tax file number, or an exemption from quoting a tax file number.

## Payment summaries

You need to record back payments on a payee's payment summary. Each calculation method that is provided in this tax table may result in different requirements when completing the payee's payment summary.

### Method A and Method B

The total gross amount of the back payment should be included in **Gross payments** on the payee's payment summary. The withheld amount is included in the **Total tax withheld** box.

### Method C

#### Lump sum payment in arrears of \$400 or more

Where a lump sum payment in arrears (that is, any amount where withholding is calculated using method C) is \$400 or more, you must include the gross payment, in addition to any other similar lump sum payments, on the payee's payment summary at **Lump sum payments**, label **E**.

The amount withheld from the payment is included in the **Total tax withheld** box. For any year in which **lump sum E** payments are made, you must also provide the payee with a letter, detailing the financial years over which the amount accrued, and the gross amount which accrued in each of those years.

#### Lump sum payment in arrears under \$400

Where a lump sum payment in arrears is less than \$400, you should include the gross amount of the payment, in **Gross payments** on the payee's payment summary. You do not complete **Lump sum payment** label **E**. The withheld amount from the payment is included in **Total tax withheld**.

❗ Each lump sum payment in arrears should be treated separately and follow the above requirements. Do not combine the total of all lump sum payments in arrears. The total gross amount of a back payment, other than a lump sum in arrears, should be included in **Gross payments** on the payee's payment summary. The withheld amount from the payment is included in the **Total tax withheld** box.

## PAYG withholding publications

All PAYG withholding tax tables and other PAYG publications can be accessed quickly and easily from [www.ato.gov.au](http://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* and the *Withholding declaration*.