

# ***PCG 2026/D3 - Dynamic pay as you go instalments and general interest charge on excessive variation - ATO compliance approach***

⚠ This cover sheet is provided for information only. It does not form part of *PCG 2026/D3 - Dynamic pay as you go instalments and general interest charge on excessive variation - ATO compliance approach*

⚠ For information about the status of this draft Practical Compliance Guideline, see item 4270 on our [Advice under development program](#).



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## Draft Practical Compliance Guideline

# Dynamic pay as you go instalments and general interest charge on excessive variation – ATO compliance approach

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### **📌 Relying on this draft Guideline**

This Practical Compliance Guideline is a draft for consultation purposes only. When the final Guideline issues, it will have the following preamble:

*This Practical Compliance Guideline sets out a practical administration approach to assist taxpayers in complying with relevant tax laws. Provided you follow this Guideline in good faith, the Commissioner will administer the law in accordance with this approach.*

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### Terms used in this draft Guideline

1. For this draft Guideline<sup>1</sup>, and for ease of expression:
  - **Dynamic PAYG instalment** refers to the pay as you go (PAYG) instalment calculated using the dynamic PAYG instalment method.
  - **Dynamic PAYG instalment method** refers to the prescribed calculation method or methods provided by the Commissioner, as updated from time to time, including the method provided by the Commissioner as part of the ATO's dynamic PAYG instalment pilot to modernise PAYG instalments. This method involves the use of financial information drawn from your business accounting software to calculate your PAYG instalment for a period. The Commissioner may also provide instructions on how to calculate the dynamic PAYG instalment.
  - **Financial position** refers to a taxpayer's overall economic situation as reflected in their assets, liabilities, overall cash flow, and capacity to meet financial obligations at a given time.
2. All legislative references in this Guideline are to Schedule 1 of the *Taxation Administration Act 1953*, unless otherwise indicated.

### What this Guideline is about

3. This Guideline outlines the Commissioner's practical compliance approach to the application of the general interest charge (GIC) on excessive variations of PAYG instalments under Subdivision 45-G.
4. The purpose of the PAYG instalments regime is to ensure the efficient collection of income tax, the Medicare levy and other liabilities.<sup>2</sup>
5. PAYG instalments are a distinct and separate liability from your income tax liability at the end of the income year. Entities with business or investment income must pay instalments that either reflect current trading and investment conditions, or instalments based on the last year's income tax and a gross domestic product (GDP) adjustment.<sup>3</sup>
6. The underlying intent of the dynamic PAYG instalment method is to better align instalment amounts or rates to current financial performance.
7. Generally, the Commissioner issues you with either an instalment rate (instalment rate method)<sup>4</sup> or an instalment amount (instalment amount method).<sup>5</sup> This is based on the latest assessment for your most recent income year, or where the Commissioner is satisfied that a later income year has no taxable income, the latest return for that later year from which an assessment would have been made.<sup>6</sup>
8. You have the option to choose to vary your PAYG instalment rate or amount<sup>7</sup>, where, for example, your instalments (worked out by applying the instalment rate method or instalment amount method) will not be an adequate reflection of your expected tax

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<sup>1</sup> For readability, all further references to 'this Guideline' refer to the Guideline as it will read when finalised. Note that this Guideline will not take effect until finalised.

<sup>2</sup> Section 45-5.

<sup>3</sup> Paragraph 2.3 of the Explanatory Memorandum to the A New Tax System (Pay As You Go) Bill 1999.

<sup>4</sup> Section 45-320.

<sup>5</sup> Section 45-112.

<sup>6</sup> Subsection 45-320(3).

<sup>7</sup> Paragraph 45-112(1)(b) and section 45-205.

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liability for that income year.<sup>8</sup> Broadly, there is no prescribed method to vary your PAYG instalment rate or amount.<sup>9</sup>

9. Where you choose to vary your PAYG instalment rate or amount to calculate your PAYG instalments for a period<sup>10</sup>, the Commissioner may work out your benchmark instalment rate (Commissioner's benchmark instalment rate) or benchmark tax (Commissioner's benchmark instalment tax) for the income year under Subdivision 45-K. The Commissioner's benchmark instalment rate or benchmark instalment tax is based on historical data.

10. If you vary your PAYG instalment rate or amount, and the amount worked out is less than 85% of the Commissioner's benchmark instalment rate or benchmark tax, GIC may apply under Subdivision 45-G. If you are liable to GIC, the Commissioner may issue you with a notice of the amount, and you must pay it within 14 days after the notice is given to you.

11. The dynamic PAYG instalment method will assist you to vary your PAYG instalment amount so that the calculated dynamic PAYG instalments better reflect the underlying financial performance of your business for a period. Using real-time information from your business accounting software will reduce the potential for tax debts at the end of the year or overpaying instalments which reduces your working capital during the year.

12. To support the use of the dynamic PAYG instalment method, this Guideline provides a safe harbour from GIC being imposed and collected under Subdivision 45-G if the requirements set out within this Guideline are met, specifically when you are risk rated as falling in the white or green zones as described in Table 1 of this Guideline.

13. This Guideline does not consider the imposition of administrative penalties pursuant to Division 284.

## **Background**

14. The dynamic PAYG instalment method helps you use data obtained from your business accounting software to calculate PAYG instalments that reflect current financial performance, for the purpose of varying PAYG instalments under the law.

15. The dynamic PAYG instalment method operates within existing law and provides a way for taxpayers to work out appropriate varied instalment amounts.

## **Date of effect**

16. When finalised, it is proposed that this draft Guideline will apply from 1 July 2026.

## **Who this Guideline applies to**

17. This Guideline applies to you if you are using the dynamic PAYG instalment method provided by the Commissioner to work out your dynamic PAYG instalments.

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<sup>8</sup> Paragraph 2.104 of the Explanatory Memorandum to the A New Tax System (Pay As You Go) Bill 1999.

<sup>9</sup> See Subdivision 45-C and Subdivision 45-F (respectively).

<sup>10</sup> Paragraph 45-112(1)(b) and section 45-205.

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### **When you can rely on this Guideline**

18. You must comply with the following requirements to obtain the benefit of this Guideline:

- If you start using the dynamic PAYG instalment method at the beginning of your income year, or part-way through your income year, you must use it to calculate your dynamic PAYG instalments for the remainder of the income year. Starting to use it at the beginning of the income year will put you in the best position to more accurately vary your PAYG instalments and achieve better alignment with your end-of-year tax position. If you cease using the dynamic PAYG instalment method at any point during that income year once you commenced using it, you cannot rely on this Guideline.<sup>11</sup>
- You must retain evidence of your inputs, your use and the outputs of the dynamic PAYG instalment method to calculate your dynamic PAYG instalment.
- You must complete all business activity statement (BAS) labels required to vary the PAYG instalment amount and use the exact outputs that the dynamic PAYG instalment method produces for each BAS period.
- You must pay the dynamic PAYG instalment amount worked out using the dynamic PAYG instalment method.<sup>12</sup>
- Your past lodgments, including income tax returns and BAS, and payments of tax (including any resulting tax at the end of an income year) must be up to date.<sup>13</sup>

### **Requirement to take reasonable care**

19. The dynamic PAYG instalment method is designed to allow you to leverage your business accounting software to more accurately vary your PAYG instalments as a reflection of your financial performance for the relevant period. This design relies on and requires you to ensure that the information used in the dynamic PAYG instalment method properly reflects your financial position.

20. The compliance approach outlined in this Guideline is therefore also contingent on you taking reasonable care in relation to your inputs (values or data you use in the dynamic PAYG instalment method) and your broad use of the dynamic PAYG instalment method, including as to acts or omissions that might affect the accuracy or completeness of those inputs.

21. We will accept that you have exercised reasonable care for the purposes of this Guideline if, having regard to all relevant facts and circumstances, you have exercised the care that a reasonable person would be likely to exercise in your circumstances (this will include consideration of your knowledge, education, experience and skill) when meeting your tax obligations. The standard of reasonable care is determined objectively.

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<sup>11</sup> This does not mean that GIC will automatically apply to you. You may still be able to vary your instalments in a way that ensures the resulting variation is not less than 85% of the Commissioner's benchmark rate or benchmark tax.

<sup>12</sup> Where the PAYG instalment is reported on a BAS rather than an instalment activity statement, the BAS amount will include the dynamic PAYG instalment amount, and other debts or credits arising directly under the BAS provisions and reported by the taxpayer on the BAS (such as fringe benefits tax, goods and services tax, wine equalisation tax, luxury car tax and other taxes).

<sup>13</sup> This requirement does not apply where the taxpayer is subject to a payment plan or other arrangement with the Commissioner in relation to its outstanding liabilities and lodgments.

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22. The following is a non-exhaustive list of indicators that reasonable care has been taken:

- entering financial data that has been reconciled to underlying source records (such as reconciling accounts to invoices, bank statements and payroll records)
- relying on complete, up-to-date, financial information and ensuring that what is entered is accurate and complete
- retaining records of the financial information relied on
- implementing and following internal governance or review procedures that would ordinarily apply to a business of your size and complexity, and
- making appropriate enquiries if you are uncertain about the dynamic PAYG instalment method (for example, the inputs to the calculation) or this Guideline, such as seeking advice from a tax professional.

23. If you carry on a business, you have an obligation to keep records to explain all transactions and other acts you engage in that are relevant for any purpose of relevant taxation laws.<sup>14</sup> You must keep records that evidence your inputs, your use, and the outputs of the dynamic PAYG instalment method.

### Populating your activity statement

24. Guidance on how to vary your PAYG instalments in applying the dynamic PAYG instalment method is available on our website<sup>15</sup> or other materials authorised by us that set out how to apply the dynamic PAYG instalment method.

### Our compliance approach

25. Generally, you may be subject to review in relation to PAYG instalments under the Commissioner's compliance program.

26. The program will generally prioritise the application of our compliance resources to the areas of highest risk.

27. If you are subject to compliance action, the risk zones in Table 1 of this Guideline will assist you in understanding whether the Commissioner will have cause to apply compliance resources to impose and collect GIC under Subdivision 45-G in relation to your PAYG instalment variations.

28. It is important to note that the ATO offers tailored support for taxpayers experiencing challenging life circumstances. If you are finding it difficult to manage your tax obligations, the ATO can help with flexible options and supportive guidance.<sup>16</sup>

Table 1: Risk zones – ATO compliance approach

Risk zone	Risk level
White	The Commissioner will not have cause to apply compliance resources to impose and collect GIC under Subdivision 45-G.

<sup>14</sup> For example, see section 262A of the *Income Tax Assessment Act 1936*.

<sup>15</sup> [How to vary your PAYG instalments](#).

<sup>16</sup> [Personal crisis or financial hardship](#).

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Risk zone	Risk level
Green	The Commissioner will not have cause to apply compliance resources to impose and collect GIC under Subdivision 45-G. The Commissioner may make enquiries to understand why that outcome occurred, as it will help support the ongoing administration and improvement of the dynamic PAYG instalment method.
Yellow	The Commissioner may have cause to apply compliance resources to impose and collect GIC under Subdivision 45-G.
Red	The Commissioner can be expected to apply compliance resources to determine whether to impose and collect GIC under Subdivision 45-G.

29. Table 2 of this Guideline explains how the Commissioner determines which risk zone you are in.

Table 2: Requirements for each risk zone

Risk zone	Requirements
White	You have: <ul style="list-style-type: none"> <li>used the dynamic PAYG instalment method and have complied with the requirements outlined in paragraph 18 of this Guideline, and</li> <li>your PAYG instalment amount or the rate you used is equal to, or more than, 85% of the Commissioner's benchmark instalment rate or benchmark tax.</li> </ul>
Green	You have: <ul style="list-style-type: none"> <li>used the dynamic PAYG instalment method and have complied with the requirements outlined in paragraph 18 of this Guideline, and</li> <li>your PAYG instalment amount or the rate you used is less than 85% of the Commissioner's benchmark instalment rate or benchmark tax, but we are satisfied that you took reasonable care in your inputs and use of the dynamic PAYG instalment method.</li> </ul>
Yellow	You have: <ul style="list-style-type: none"> <li>used the dynamic PAYG instalment method and have not complied with the requirements in paragraph 18 of this Guideline, and</li> <li>your PAYG instalment amount or the rate you used is less than 85% of the Commissioner's benchmark rate or benchmark tax, and you did not take reasonable care in your inputs and use of the dynamic PAYG instalment method.</li> </ul>
Red	You have used the dynamic PAYG instalment method to vary your PAYG instalments in a way that undermines the intended object of the PAYG instalment regime or parts within it. <sup>17</sup> Fundamentally, that is the efficient collection of income tax, the Medicare levy and other specified liabilities.

<sup>17</sup> Section 45-5.

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Risk zone	Requirements
	<p>For example, to reduce your PAYG instalment:</p> <ul style="list-style-type: none"> <li>• when using the dynamic PAYG instalment method, you disregarded your financial position or manipulated your inputs in a way that is inconsistent with your financial position, or</li> <li>• you contend that you used the dynamic PAYG instalment method, but in fact did not and varied your PAYG instalments on a different basis.</li> </ul> <p>You will also be in the red risk zone where your conduct raises questions about the possible application of general or specific anti-avoidance rules<sup>18</sup>, or you have engaged in fraud or evasion. This may include circumstances, whether in a single income year or across multiple income years, where:</p> <ul style="list-style-type: none"> <li>• PAYG instalments are reduced to nil, or significantly varied down, despite an income tax liability arising at the end of the income year (except if that liability is simply a result of non-instalment income, for example, a capital gain), or</li> <li>• such variations defer PAYG instalments and provide a cash-flow benefit.</li> </ul> <p>More generally, we will look closely at PAYG instalment variations that produce outcomes that are consistently or materially lower than what would be expected having regard to your underlying income tax liabilities.</p>

**Examples**

30. The following examples illustrate how the principles outlined in this Guideline may apply in practice. They are provided for illustrative purposes only and do not limit the circumstances in which this Guideline may apply.

**Example 1 – using the dynamic PAYG instalment method and taking reasonable care**

31. *Little Co is a small business that has experienced a reduction in sales in the current income year due to circumstances which were not present in the previous financial year. They use the dynamic PAYG instalment method to work out their PAYG instalments.*

32. *Little Co's varied rate is less than 85% of the Commissioner's benchmark instalment rate for that income year.*

33. *Little Co uses the dynamic PAYG instalment method and takes reasonable care when calculating its PAYG instalment rate. In doing so, it relies on up-to-date financial information and incorporates the impact of the downturn in its current sales into those calculations.*

34. *Little Co is in the green risk zone. The Commissioner will not have cause to apply compliance resources to impose GIC in respect of the variation for the instalment period.*

<sup>18</sup> See Subdivision 45-P.

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**Example 2 – using the dynamic PAYG instalment method and making an inadvertent error**

35. This scenario follows on from Example 1 of this Guideline. When preparing the September 2026 instalment, Little Co's head of accounts, Joanne, inadvertently enters incorrect financial data. She enters a fortnightly figure into the digital service provider (DSP) software where a monthly figure is required, resulting in a computational error.

36. The incorrect data causes the dynamic PAYG instalment method to produce a varied PAYG instalment rate less than 85% of the Commissioner's benchmark instalment rate for the income year. Without the mistake, the PAYG instalment rate would have remained at or above the benchmark. Joanne later identifies the error and corrects it when she calculates the PAYG instalment for the following month.

37. Little Co used the dynamic PAYG instalment method and otherwise took reasonable care when calculating its PAYG instalment rate. The outcome (PAYG instalment rate less than 85% of the Commissioner's benchmark instalment rate) arose from an inadvertent honest mistake that Joanne corrected for future periods.

38. Little Co is in the green risk zone. The Commissioner will not have cause to apply compliance resources to impose GIC in respect of the September 2026 instalment.

**Example 3 – using the dynamic PAYG instalment method with a software error**

39. This scenario follows on from Example 1 of this Guideline. When preparing the December 2026 instalment, Little Co's DSP software experiences a mapping error, where a, later confirmed, software bug includes an invoice that it shouldn't have.

40. The software error causes the dynamic PAYG instalment method to produce a varied PAYG instalment rate less than 85% of the Commissioner's benchmark instalment rate for the income year. Without the software error, the PAYG instalment rate would have remained at or above the benchmark.

41. Little Co used the dynamic PAYG instalment method and otherwise took reasonable care when calculating its PAYG instalment rate. The outcome (PAYG instalment rate less than 85% of the Commissioner's benchmark instalment rate) arose from a software error that could not be rectified by the DSP.

42. Little Co is in the green risk zone. The Commissioner will not have cause to apply compliance resources to impose GIC in respect of the December 2026 instalment.

**Example 4 – using the dynamic PAYG instalment method without taking reasonable care**

43. ABC Holdings Co uses the dynamic PAYG instalment method.

44. When preparing the July 2027 instalment, ABC Holdings Co's financial controller, John Doe, does not take reasonable care. ABC Holdings Co has poor record-keeping practices and weak internal controls. The failure to take reasonable care could include, but is not limited to, any one or more of the following:

- Reliance on incomplete or outdated records – John relies on incomplete and outdated financial records when applying the dynamic PAYG instalment method. Key source documents, including sales invoices and bank reconciliations, have not been finalised or reviewed at the time the PAYG instalment is calculated.

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- *Disorganised and unreliable accounting records – ABC Holdings Co maintains inconsistent accounting records, with transactions recorded late and without adequate descriptions. There is no regular reconciliation of the accounting system to bank statements, resulting in unreliable figures being used in the calculator. ABC Holdings Co's income and expense amounts are estimates, rather than supported by contemporaneous records.*
- *Poor governance – John exercises inadequate oversight of the company's financial reporting and does not ensure that appropriate systems or processes are in place to support accurate PAYG instalment calculations. He has not allocated sufficient time or resources to maintaining accurate records, despite knowing the PAYG instalment amount is determined from those records. Additionally, senior management tolerates a culture of late lodgments and informal record keeping, increasing the risk of material errors.*
- *No review or controls – John enters data into the dynamic PAYG instalment method without performing basic checks for completeness or accuracy. There is no internal review process, approval step, or independent verification of the data before the PAYG instalment rate is applied. Any known data gaps or uncertainties are not addressed before submitting the instalment.*

45. *The inaccurate data produces a materially lower PAYG instalment rate. The PAYG instalment rate is less than 85% of the Commissioner's benchmark instalment rate and reduces ABC Holdings Co's immediate PAYG instalment liability.*

46. *ABC Holdings Co is in the yellow risk zone. ABC Holdings Co has not complied with the requirements in paragraph 18 of this Guideline, and reasonable care was not taken when calculating its PAYG instalment rate. In these circumstances, the Commissioner may have cause to apply compliance resources to impose and collect GIC under Subdivision 45-G.*

**Example 5 – varying PAYG instalment variations in a way that undermines the intended collection of income tax**

47. *ABC Holdings Co uses the dynamic PAYG instalment method. However, they disregard the output calculated by the dynamic PAYG instalment method and instead vary their instalment to nil.*

48. *As a result, the financial information used does not reflect ABC Holdings Co underlying financial position at the time. The resulting varied instalment rate is significantly less than 85% of the Commissioner's benchmark instalment rate for the income year, and what it should have been based on ABC Holdings Co's true financial position.*

49. *ABC Holdings Co seeks to justify the variation based on 'market conditions', and uncertainty. However, this justification is expressed in vague and general terms and is inconsistent with its business records, which demonstrate ABC Holdings Co has made considerable profits throughout the income year.*

50. *The Commissioner concludes that ABC Holdings Co is approaching its tax responsibilities in a way that is inconsistent with the purposes and objects of the PAYG instalment regime.*

51. *ABC Holdings Co is in the red risk zone. In these circumstances, the Commissioner can be expected to apply compliance resources to impose and collect GIC under*

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*Subdivision 45-G. The Commissioner may also investigate the possible application of anti-avoidance rules.*

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**Commissioner of Taxation**

24 June 2026

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## Your comments

52. You are invited to provide comments on this draft Guideline, including the proposed date of effect. Forward your comments to the contact officer by the due date.

53. A compendium of comments is prepared as part of finalisation of this Guideline. An edited version of this compendium (names and identifying information removed) may be published on ato.gov.au.

54. Advise the contact officer if you do not want your comments included in the edited version of the compendium.

**Due date:** 28 August 2026  
**Contact officer:** Gianni Bei  
**Email address:** IAIPAG@ato.gov.au  
**Phone:** 08 9268 5905

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## References

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*Previous draft:*

Not previously issued as a draft

- TAA 1953 Sch 1 Subdiv 45-G
- TAA 1953 Sch 1 Subdiv 45-K
- TAA 1953 Sch 1 Subdiv 45-P
- ITAA 1936 262A

*Legislative references:*

- TAA 1953 Sch 1 45-5
- TAA 1953 Sch 1 45-112
- TAA 1953 Sch 1 45-112(1)(b)
- TAA 1953 Sch 1 45-205
- TAA 1953 Sch 1 45-320
- TAA 1953 Sch 1 45-320(3)
- TAA 1953 Sch 1 Subdiv 45-C
- TAA 1953 Sch 1 Subdiv 45-F

*Other references:*

[How to vary your PAYG instalments](#)  
[Personal crisis or financial hardship](#)

Explanatory Memorandum to the A  
New Tax System (Pay As You Go) Bill  
1999

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ATO references

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