PS LA 2011/20 - Payment and credit allocation

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PS LA 2011/20
Payment and credit allocation

This Law Administration Practice Statement outlines the payment and credit allocation policy to be applied to taxpayer accounts.

This Practice Statement is an internal ATO document and is an instruction to ATO staff.

Taxpayers can rely on this Practice Statement to provide them with protection from interest and penalties in the following way. If a Practice Statement turns out to be incorrect and taxpayers underpay their tax as a result, they will not have to pay a penalty. Nor will they have to pay interest on the underpayment provided they reasonably relied on this Practice Statement in good faith. However, even if they don't have to pay a penalty or interest, taxpayers will have to pay the correct amount of tax provided the time limits under the law allow it.

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1. What is this Practice Statement about?

This Practice Statement outlines the way we allocate payments and available credits to debts owed by taxpayers. Generally, payments and credits are allocated based on the type of tax debt outstanding.

The attachments to this Practice Statement provide further guidance on how we allocate specific payments and credits to taxation liabilities:

- Attachment A outlines how you should allocate certain payments, known as 'listed payments'[1] when we receive them.
- Attachment B outlines how you should allocate 'listed credits'[2] when they arise.
- Attachment C outlines how we allocate an excess payment or credit[3]. It includes the order of specific accounts that we generally follow, as well as the order that liabilities within those accounts are paid.
- Attachment D outlines how our system automatically allocates payments and credits depending on which account the excess credit originates from.

2. Payment and credit allocation under tax law

A **payment** is an amount that we receive from a taxpayer in respect of a current or anticipated tax debt.[4]

A **credit** is an amount to which a taxpayer is entitled (such as an amount resulting from an assessment) that we must pay to a taxpayer under a tax law.[5]

A taxpayer generally directs the payment to an account by making a payment through the approved process, which includes using a payment reference number (PRN).

Where a payment matches a specific liability amount, we will also use that as the basis for directing a payment to a liability.

The majority of payments and credits we receive are allocated in this way. However, there may be some circumstances where we need to determine where the payment or credit will be applied.

Where we receive unidentified payments[6] or a credit arises, we will follow the allocation rules outlined in Attachment C of this Practice Statement.

3. Rules and principles about paying tax debts

The following outlines some basic rules and principles about the payment of tax debts:

- We can only accept payment of a tax debt in Australian currency.[7]
- A payment for a tax debt is taken to be made only when it is received by us.[8]
- A taxpayer's payment may be accompanied by correspondence which places conditions on the

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[1] A listed payment is one made to specified liabilities or under an arrangement with the Commissioner.
[2] A listed credit is one that results from a specific tax product.
[3] An excess payment or credit arises where a payment or credit has paid off all liabilities in an account, and an excess remains.
[4] Section 8AAZL of the *Taxation Administration Act 1953* (TAA).
[5] Section 8AAZA of the TAA.
[6] An unidentified payment is one made without a PRN or with an incorrect PRN.
[7] Subsection 21(1) of the *Taxation Administration Regulations 2017*.
[8] Section 8AAZM of the TAA.

acceptance of the payment. Accepting the payment does not bind us to these conditions and you should inform the taxpayer of this as soon as possible. In some instances, you may treat these conditions as a proposal to us (for instance, the taxpayer may be proposing to pay an amount by instalments or may be requesting remission of interest), and you should advise the taxpayer whether the proposal has been accepted.

- Payments (whether partial or full)[9] are allocated to the appropriate accounts based on the information available when the payment is received.
- Sometimes, the administrator of an insolvent company may offer equity in the company to creditors. This situation is discussed in Law Administration Practice Statement PS LA 2011/16 *Insolvency – collection, recovery and enforcement issues for entities under external administration*.

4. Our general policy about payment and credit allocation

Payments

Generally, we will apply a payment to a particular account based on the PRN that has been used by the taxpayer, and we will allocate within that account in the manner outlined in Attachment C of this Practice Statement.

None of this overrides the law enabling us to allocate payments as we see fit and we may allocate the payment differently to the direction indicated by the PRN or specific instructions.[10]

If you decide to allocate a payment in a manner that is inconsistent with the general allocation policy, you must record specific reasons outlining why you have made this decision. This includes where you have reallocated a payment on request by a taxpayer.

Note: There are specific rules which may modify this policy where the payment is a listed payment. These are outlined in Attachment A of this Practice Statement.

Where a payment is received without a PRN

If we receive a payment with no PRN, we will allocate it in accordance with Attachment C of this Practice Statement.

Credits

Credits can arise on a taxpayer's account as a result of lodgments, or amended assessments, account adjustments or credit entitlements at law.

Where there is a credit, you should first allocate it to the account from which the credit originates. Generally, before refunding a credit to a taxpayer, it must be applied to any outstanding debts[11].

Any excess credit will then be allocated to accounts in accordance with the order of accounts outlined in Attachment C of this Practice Statement.

Within each account, the credit will be allocated in accordance with the account's specific hierarchy of allocation as explained in Attachment C of this Practice Statement.

Note: There are specific rules which may modify this policy. where the payment is a 'listed credit'. These are outlined in Attachment B of this Practice Statement.

Where there are no tax debts to offset

Where there are no unpaid tax debts to apply a payment against, before any amount is refunded to a taxpayer it will be allocated to the following Services Australia amounts:

- firstly, to any Family Tax Benefit debts, provided the refund relates to income tax
- next, to any child support debts as notified by the Child Support Program, and
- lastly, to debts in relation to social security, family assistance or student assistance.

[9] Subsection 21(3) of the *Taxation Administration Regulations 2017* requires a taxpayer to pay their tax debt in a single payment unless we agree to accept payment by instalments. In practice, we receive and allocate payments of less than the full amount.

[10] Section 8AAZLE of the TAA.

[11] Division 3 of the TAA.

5. More information

For more information, see:

- Director penalty liabilities
- Law Administration Practice Statement PS LA 2011/4 *Collection and recovery of disputed debts*
- Indirect tax sharing agreements

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Attachment A – Listed payments

The following payments have specific rules which apply to their allocation.

Arrangements to pay tax-related liabilities by instalments

We often agree for a tax debt to be paid by instalments.[12] A payment received in accordance with such an arrangement will be allocated using the 'order of allocation' as outlined in Attachment C of this Practice Statement. A PRN will be provided to the taxpayer to direct the instalments to the correct account and liability.

Generally, where there are multiple debts recorded on different accounts, the order of allocation will determine in which order payments will be applied to those accounts.

However, you can take into account individual circumstances to allocate payments differently if it will achieve a more appropriate and reasonable outcome for the taxpayer, with no detriment to the revenue.

For example, a taxpayer may have a super guarantee liability and a judgment obtained on another account. If that taxpayer wanted to enter into concurrent payment arrangements to specifically address the judgment liability as soon as possible, it may be permissible to alter the order of allocation.

The core principle, in agreeing to a payment arrangement that may alter the order of allocation, is to consider a taxpayer's individual circumstances.

Administrative overpayments

Where an administrative overpayment[13] is returned, you should allocate the payment to the overpaid amount.

Payment agreements made under former section 222ALA

Where there is a written agreement with a taxpayer in accordance with former section 222ALA of the *Income Tax Assessment Act 1936,* you must allocate a payment in the order detailed in that agreement. These agreements will have been made before 1 July 2010, but some are still in effect.

Payment of company liabilities under a remittance provision

Where you can identify a taxpayer has directed a payment towards a particular liability of a company arising under a remittance provision (for example, a pay as you go (PAYG) withholding obligation) you should generally allocate the payment to that liability.

Director penalty liabilities

Where a payment is received from a director (in full or in part) in relation to a director penalty liability[14], the payment will reduce the penalty on the director's account and the corresponding parallel liability on the company's account.

If the payment is for less than the full amount, the payment will be allocated against the earliest penalty on the director's account and will offset the company's parallel liability.

Disputed tax debts

Where the taxpayer has entered into a 50/50 arrangement in relation to a disputed debt[15], you should allocate the payments received (in accordance with that arrangement) to 50% of the disputed principal tax debt.

Any additional payment after the 50% disputed principal tax debt has been paid, will follow the order of allocation in Attachment C of this Practice Statement.

Current legal proceedings

Payments made towards debts subject to legal action in the income tax account will be allocated to the earliest debt, first using relevant allocation hierarchy.

Payments made for the activity statement running balance account (RBA) legal account will follow the proportional allocation rules.

Judgment debts and associated costs

Generally, when applying payments to a case where judgment has been entered against a taxpayer, payments will be allocated firstly against the judgment debt and then to the costs involved in obtaining the judgment.

However, for judgments entered into in NSW State Courts, you must follow the *Civil Procedure Act 2005*

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[12] Section 255-15 of Schedule 1 to the TAA allows for payments by instalments.

[13] An administrative overpayment is a payment that the Commissioner has paid to a person by mistake, being an amount to which the person is not entitled under section 8AAZN of the TAA.

[14] Raised under Division 269 of Schedule 1 to the TAA.

[15] See PS LA 2011/4.

(NSW)[16] which requires that any payment made on account of a judgment debt is to be allocated firstly towards any post-judgment (or later date as the Court orders) interest, and then towards the balance of the judgment.

Garnishee notices

Where a payment is made pursuant to a garnishee notice which satisfies the liability on the notice, you must allocate the payment to the amounts that constitute the total payable in that notice.

Where a part payment towards the amount stipulated on the garnishee notice is received, you should allocate this amount to the debts subject to the garnishee notice, in accordance with the order of allocation in Attachment C of this Practice Statement. How payments are allocated within that account will depend on the allocation rules for that account which are also outlined in Attachment C.

If the amount on the garnishee notice has been settled, any excess payments received will be allocated to other liabilities not subject to the notice in accordance with Attachment C of this Practice Statement.

Voluntary payments

Where payments are made voluntarily for an anticipated tax debt in an account (not including the activity statement RBA), you should use the order of allocation as outlined in Attachment C of this Practice Statement if there are existing debts on that account.

If there are existing tax debts in the activity statement RBA, where there is also an expected lodgment, then the voluntary payment made will be allocated to that anticipated lodgment. However, where that anticipated lodgment is not received within the specified timeframe[17], then the payment will be allocated according to the activity statement RBA allocation rules, with any excess to be allocated according to Attachment C of this Practice Statement.

Dividends received from insolvency administrations

You should allocate payments of dividends of less than 100c in the dollar according to the account's hierarchy rules (Attachment C of this Practice Statement) to each tax debt and other debts (such as judgment interest) that formed the ATO's claim in the administration.[18]

Where all, or part, of a debt is an activity statement RBA deficit debt (which is the balance of all activity statement debts as well as payments and credits on an RBA), you should allocate the dividend proportionally amongst the components of the activity statement debts. Once these debts are extinguished, you should allocate any excess credit proportionally to debts relating to the activity statement debts, such as the provable general interest charge (GIC).

Where a company has a liability that is also subject to a director penalty (a parallel liability) you should apply the instruction in this Practice Statement to identify the balance subject to director penalties. Any dividend that is applied to the liability subject to the director penalty will also reduce the director penalty liability.

Where the dividend received relates to super guarantee charge (SGC) liabilities, you must allocate in accordance with the following rules.

For company insolvencies under the Corporations Act 2001

Priority dividends

The order of allocation for payments of SGC priority dividends, subject to capping[19], is the:

- nominal interest component
- total of the individual super guarantee shortfall
- administration component.

Allocation is pro-rata across all periods of one component[20] of the SGC debt followed by the next component according to this order of allocation.

If there are insufficient funds to pay the total of a particular component across quarters, the component will receive a percentage of the balance of the dividend remaining in accordance with the portion that the

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[16] Sections 136 and 101.
[17] This is 90 days.
[18] In accordance with the decisions of *Turner Manufacturing Co Pty Ltd v Senes* [1964] NSWR 692 and *Thompson v Hudson* (1871) LR 6 Ch App 320.
[19] For companies that went into liquidation, receivership or entered into a Deed of Company Arrangement on or after 31 December 2007, priority benefits paid to excluded employees – that is, directors, their spouses or relatives – will be subject to being capped under subsection 556(1A) of the *Corporations Act 2001*. The capped amount will vary depending on the other benefits payable to that person under paragraph 556(1)(e) of the *Corporations Act 2001* but the amount paid with respect to each excluded employee for the nominal interest and individual super guarantee shortfall components will not exceed $2,000. As the administration component is not paid to the employee, it should not be included in the capped amount.
[20] Individual tax liability within an account.

quarter's component represents of the total outstanding for that particular component.

Non-priority dividends where priority dividends have already been received

The order of allocation for payments of non-priority SGC dividends which follow priority dividends is:

- if priority dividends paid previously were subject to capping[21], any balance outstanding for nominal interest or individual super guarantee shortfall for excluded employees
- additional GIC for the unpaid total of the individual super guarantee shortfall
- Part 7 of the *Superannuation Guarantee (Administration) Act 1992* (SGAA) penalty charges
- additional GIC for unpaid Part 7 of the SGAA penalty charges.

Allocation is pro rata across all periods of one component of the SGC debt followed by the next component according to this order of allocation.

If there are insufficient funds to pay the total of a particular component across quarters, the component will receive a percentage of the balance of the dividend remaining in accordance with the portion that the quarter's component represents of the total outstanding for that particular component.

For individual bankruptcies under the Bankruptcy Act 1966

Priority dividends

For insolvency administrations **after 5 May 2003,** the order of allocation for payments of SGC priority dividends, subject to capping[22], should be:

- the nominal interest component
- the total of the individual super guarantee shortfall
- additional GIC for the unpaid total of the individual super guarantee shortfall
- the administration component.

Allocation is pro rata across all periods of one component of the SGC debt followed by the next component according to this order of allocation.

If there are insufficient funds to pay the total of a particular component across quarters, the component will receive a percentage of the balance of the dividend remaining in accordance with the portion that the quarter's component represents of the total outstanding for that particular component.

Non-priority dividends where priority dividends have already been received

The order of allocation for payments of SGC non-priority dividends which follow priority dividends should be:

- if priority dividends paid previously were subject to capping, any balance outstanding for nominal interest or individual super guarantee shortfall for excluded employees
- additional GIC for the unpaid total of the individual super guarantee shortfall
- Part 7 of the SGAA penalty charges
- additional GIC for the unpaid Part 7 of the SGAA penalty charges.

Allocation is pro rata across all periods of one component of the SGC debt followed by the next component according to this order of allocation.

If there are insufficient funds to pay the total of a particular component across quarters, the component will receive a percentage of the balance of the dividend remaining in accordance with the portion that the quarter's component represents of the total outstanding for that particular component.

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[21] Ibid.

[22] Whilst the priority for SGC and GIC applies to administrations from 5 May 2003, we can only apply the capping where the date of bankruptcy is on or after 31 December 2007; for personal insolvency agreements, if the agreement makes provision for distributions pursuant to section 109 of the *Bankruptcy Act 1966*, we will apply the capping if the date of the section 188 authority is on or after 31 December 2007. (The date of the section 188 authority is not the effective date of the Part X.) The capped amount will vary depending on the other benefits payable to that person under paragraph 109(1)(e) of the *Bankruptcy Act 1966*, but the amount paid with respect to each employee for the nominal interest, individual super guarantee shortfall components and additional GIC for the unpaid total of the individual super guarantee shortfall will not exceed an amount calculated, and increased at the applicable consumer price index rate, according to regulation 6.02 of the *Bankruptcy Regulations 1996* for any individual employee. As the administration component is not paid to the employee, it should not be included in the capped amount.

Payments to consolidated group liabilities, including tax sharing agreement contribution amounts

The way you allocate payments made in relation to a consolidated group liability will depend on whether a tax sharing agreement (TSA) exists.

If an effective TSA exists:

- A payment by the head company will be allocated to the head company liability and the TSA contributing members' liabilities to an amount equalling the reduced head company liability.
- A payment by a TSA contributing member will be applied against that member's liability and the head company liability.

If no TSA exists, all members are jointly and severally liable. This means that:

- A payment by a subsidiary member in relation to a group liability will be applied against that liability and will also reduce all related subsidiary members' liabilities and the related head company liability.
- A payment made by the head company will be applied against the head company group liability and will also reduce the related subsidiary members' liabilities.

Further information is outlined in Law Administration Practice Statement PS LA 2013/5 *Collection of consolidated group liabilities*.

Payments to GST joint venture or group liabilities and indirect tax sharing agreement contribution amount

The way you allocate payments made in relation to a GST joint venture or GST group liabilities will depend on whether an indirect tax sharing agreement (ITXSA) exists.

Where a valid ITXSA exists:

- A payment from a participant or member will be applied against the participant or member's liability and also reduce the related operator or representative member's liability.
- A payment from the operator or representative will be applied to their liability and may also reduce each participant or member's liability, depending on the terms of the ITXSA.

Where there is no ITXSA:

- A payment from a participant or member will be applied to their personal joint and several[23] liability. It will also reduce the liability of all participant or group members as well as the related operator or representative member's liability.
- A payment from the related operator or representative member will be applied to their liability and will also reduce the participant or member's joint and several liabilities equally.

Further information is outlined in Law Administration Practice Statement PS LA 2013/6 *Collection from goods and services tax (GST) groups, GST joint ventures and other entities of debts arising from indirect tax laws*.

Shortfall interest charge

Shortfall interest charge (SIC) is posted to the relevant account for the underlying liability on which it is charged (for example, income tax). The allocation for this liability follows the income tax account hierarchy as outlined in Attachment C of this Practice Statement.

General interest charge

You should allocate payments towards GIC using the same allocation rules that apply to the relevant account on which GIC is charged. See Attachment C of this Practice Statement for further information about the allocation rules for different accounts.

Super guarantee charge payments

You should allocate an SGC payment to a specific debt where the payment is directed by the employer at the time of making the payment (for example, if the employer specifies which employee it applies to).

You should allocate a payment towards an estimate of SGC if we can identify the employee that the payment is to be allocated toward (for example, if the employer specifies where the payment should go).

Once a payment towards SGC has been made and applied against the employer's liability, this will credit the employees' entitlements of SGC shortfall, associated GIC and the nominal interest component according to the allocation rules of the SGC account in Attachment C of this Practice Statement.

If there is only one employee with an entitlement, the payment will be applied in full to this employee. If there

[23] 'Jointly' means that both parties have joint liability, giving responsibility for the full amount of the obligation to each party. 'Severally' means that the parties are only responsible for their share of the obligation.

are multiple employees with entitlements, the payment will be applied proportionally across these employees.

Super excess contributions tax payment

You should allocate super excess contribution tax payments to a corresponding excess contribution tax assessment, where you can identify that the payment has been directed towards that liability (for example, if the payment dollar matches that liability).

Attachment B – Listed credits

The following credits have specific rules which apply to their allocation.

PAYG credits to be allocated first to compulsory repayment amounts and financial support assessment debts

There is a special rule that operates when you apply credits arising under the PAYG withholding provisions[24] which provides that you should allocate this credit to the following amounts in the following order:

(a) compulsory repayment amounts arising under the *Higher Education Support Act 2003*

(b) compulsory Vocational Education and Training Student Loan repayment amounts

(c) compulsory Student Start-up Loan repayment amounts

(d) compulsory ABSTUDY Student Start-up Loan repayment amounts

(e) compulsory Trade Support Loan repayment amounts, and

(f) Financial Support assessment debts

before allocating it to a non-RBA tax debt (which are tax debts other than an RBA deficit debt).

Credits for instalments

Where an entitlement to a credit for instalments payable in relation to GST instalments, PAYG instalments, or FBT instalments arises where we make an assessment of the annual returns for GST, income tax or FBT, you should allocate that credit to those respective assessed taxes for that income year.

Credits arising from account adjustments, and SIC and GIC remissions

You should allocate credits arising from account adjustments against the account posting to which it pertains. Any excess credit is allocated in accordance with Attachment C of this Practice Statement.

A debt may have previously been reduced by a payment or credit and then may later be subject to an account adjustment. In these situations, where an excess credit arises you should allocate it to reduce unpaid component debts due and payable on the relevant account. Once that account has no further liabilities, you should allocate any excess credit to pay debts in other accounts in the order outlined in Attachment C of this Practice Statement.

A SIC or GIC remission posting should be allocated against the imposition posting to which it relates. However, at times, a GIC remission may not be easily identified with amounts which have been imposed. Where this occurs, you should allocate the GIC remission to the earliest GIC debts on the account. Any excess can be used to pay other debts in other accounts in the order outlined in Attachment C of this Practice Statement.

Credits relating to pre-insolvency periods

You must allocate credits relating to pre-insolvency periods to pre-insolvency debts; firstly to pre-insolvency debts on the account on which the credit originates, and then to accounts as listed in the order of allocation in Attachment C of this Practice Statement.

You must allocate any further or remaining credit against any post-insolvency debts on the account on which the credit originates and then against any other post-insolvency debts as listed in the order of allocation in Attachment C of this Practice Statement.

For further information on how credits may be allocated in insolvency administrations, refer to PS LA 2011/16 and Law Administration Practice Statement PS LA 2011/21 *Offsetting of refunds and credits against taxation and other debts*.

Credits relating to post-insolvency periods

You must allocate credits relating to post-insolvency periods firstly to post-insolvency debts on the account on which the credit originates and then to accounts as listed in the order of allocation in Attachment C of this Practice Statement.

You must allocate any remaining post-insolvency credit against any pre-insolvency debts on the account on which the credit originates and then against any other pre-insolvency debts as listed in the order of allocation in Attachment C of this Practice Statement.

Note that credits under the excise fuel payment schemes generally cannot be offset against pre-insolvency debts.[25] However, where a receiver has been appointed, credits should be applied against any liabilities of the entity regardless of the period. This is because the appointment of a receiver would not normally impact on the rights of unsecured creditors, including a right of legal set-off.

[24] Section 8AAZLD of the TAA.

[25] This is because credits relating to excise fuel payment schemes do not come within the operation of the Division 3 of Part IIB of the TAA.

For further information on credits in insolvency administrations refer to PS LA 2011/21.

Credit allocation for a consolidated group

When an income tax assessment is made in relation to the head company, you should initially apply any credit entitlements to the assessed tax payable for that income year.

Any excess credit will then be allocated to the head company's PAYG instalment obligations for that income year, commencing with the instalment that has the earliest due date and any related penalties (such as SIC and GIC).

Any remaining credit would then be allocated to:

- Any other unpaid assessed tax or related administrative penalty of the head company, commencing with the debt that has the earliest due date.
- Any other liability of the head company as listed in the order of allocation in Attachment C of this Practice Statement.

A credit in relation to PAYG instalments for choosing a varied instalment rate or estimating a benchmark tax will be initially allocated to the related instalment liability.

Credit allocation for GST groups and GST joint ventures

Where a GST group exists, you must apply a credit of a member initially against any of their own tax liabilities.[26] If that member has no tax liabilities, the amount would then be allocated proportionally across the group's activity statement RBAs, commencing with the member that has the earliest period tax debt for each tax type. This may be modified by a valid ITXSA.

Similarly, where a GST joint venture exists, you may offset a participant's credit against any GST or fuel tax related debt incurred by the GST joint venture.

[26] Sections 8AAZA, 8AAZLA and 8AAZLB of the TAA.

Attachment C – Order of allocation

The following lists the order of allocation our system uses for allocating to particular debt components within these accounts. This account hierarchy is also to be utilised by staff for manually allocating excess credits and for payments where no direction has been received.

1. To super account liabilities using the following hierarchy:

(a) To any super guarantee charge (SGC) debts, commencing with the debts that have the earliest due date, applying the payments in the following order

(i) nominal interest

(ii) shortfall

(iii) shortfall GIC

(iv) administration fee

(v) Part 7

(vi) Part 7 GIC

(vii) shortfall penalty

(viii) shortfall penalty GIC

(ix) SG employer estimate.

The same order is to be followed in applying payments to each subsequent period debt until all outstanding SGC debts are finalised.

Where there has been a late payment offset and a further payment is made to be applied for the benefit of multiple employees, the proportional entitlement for each employee must first be calculated then applied to pay nominal interest pro rata across all employees.

(b) Payments received in respect of a director penalty relating to a SGC liability are to be credited towards the earliest SGC director penalty debt in the following order

(i) nominal interest

(ii) shortfall

(iii) administration fee

(iv) estimated liability.

The same order is to be followed in applying payments to each subsequent period until all outstanding director penalty debts are finalised.

Payments received in respect of an estimate of SGC under Division 268 of Schedule 1 to the TAA are to be credited first towards the estimate relating to the earliest period.

2. To the RBA which records our activity statement liabilities. A payment or credit in our activity statement account will be allocated in the following way:

(a) If a payment 'dollar matches' either a single or group debt you should allocate it to that debt.

(b) If a payment matches the total amount of a period and a single debt you should allocate it to the total amount of the period.

(c) Where a payment is made to the activity statement RBA, and

(i) does not dollar match any debts, and

(ii) there are outstanding lodgments

the payment will await allocation for up to 90 days.

Where 90 days has elapsed, the payment will be allocated proportionally to the earliest activity statement period within the RBA, given the amount of different tax debts that are recorded on an activity statement.

(d) Once all activity statement debts within that period are satisfied, any remaining amount will be proportionally allocated to non-activity statement debts, such as penalties and GIC within the same period.

The same order is to be followed in applying payments to each subsequent period until all outstanding debts are finalised

(i) GST

(ii) GST conversion role

(iii) GST instalment

(iv) wine equalisation tax

(v) luxury car tax

(vi) fuel tax credit

(vii) fringe benefits tax

(viii) PAYG – withholding

(ix) PAYG – large

(x) PAYG – conversion

(xi) PAYG – instalments

(xii) PAYG – trust

(xiii) activity statement former account

(xiv) administrative penalties

(xv) GST Annual Information Report

(xvi) Single Touch Payroll Reporting

(xvii) PAYGW Annual Reporting

(xviii) PAYG(W) Payment Summary Report

(xix) Report – PAYGW No ABN

(xx) Report – PAYG Withhold Dep Super

(xxi) Report – PAYGW Non Resident

(xxii) Report PAYG Withhold Int N-Res

(xxiii) PAYGI Annual Reporting

(xxiv) franking tax

(xxv) NZ franking entity

(xxvi) GIC.

3. To any debt within a GST joint venture account in the following order proportionally to the debts on the earliest activity statement period within the activity statement RBA. Once all activity statement debts within that period are satisfied any remaining amount will be proportionally allocated to non-activity statement debts such as GIC within the same period:

(i) GST

(ii) GST conversion role

(iii) wine equalisation tax

(iv) luxury car tax

(v) fuel tax credit

(vi) activity statement debt from a former account

(vii) administrative penalties

(viii) GIC.

4. To any debt within a GST limited registration entity account.

5. To any debt which represents dividend, interest and royalty withholding tax debts including any associated charges and penalties.

6. To any debt within an FBT account including any associated charges and penalties to the earliest period within the account following the below hierarchy:

(i) conversion FBT

(ii) FBT

(iii) GIC.

7. To any debt within a super surcharge account including any associated charges and penalties to the earliest period within the account following the below hierarchy:

(i) surcharge superannuation provider

(ii) GIC

(iii) UDB surcharge superannuation provider

(iv) surcharge superannuant

(v) UDB surcharge superannuant.

8. To any debt within a super surcharge for a Constitutionally Protected Fund (CPF) to the earliest period within the account following the below hierarchy:

(i) CPF surcharge exit

(ii) CPF surcharge

(iii) EOY interest.

9. To any debt within a minerals resource rent tax (MRRT) account including any associated charges or penalties to the earliest period within the account following the below hierarchy:

(i) MRRT instalments

(ii) MRRT Instalments Consolidated Group Head

(iii) MRRT

(iv) MRRT Consolidated Group Head

(v) GIC

(vi) administrative penalties.

10. To any debt with a tax-sharing amount for an MRRT account including any associated charges or penalties.

11. To any debt within a petroleum resource rent tax (PRRT) account including any associated charges or penalties to the earliest period within the account following the below hierarchy:

(i) PRRT Instalments

(ii) PRRT Instalments Consolidated Group Head

(iii) PRRT Consolidated Group Head

(iv) GIC

(v) Administrative penalties.

12. To any debt with a tax-sharing amount for a PRRT account including any associated charges or penalties.

13. To any debt within an excise debts account (except diesel fuel rebate scheme debts) including any associated charges and penalties.

14. To any debt within a grants or benefits scheme account arising under the *Product Grants and Benefits Administration Act 2000* including any associated charges and penalties.

15. To any debt within a diesel and alternative fuels grants scheme account including any associated charges and penalties.

16. To any debt with a diesel fuel rebate scheme debt including any associated charges and penalties.

17. To any debt which represents an assessed net fuel amount greater than zero (where the taxpayer is not registered or required to be registered for GST).

18. To any debt which represents franking deficit tax, over-franking tax or venture capital deficit tax including any associated charges and penalties.

19. To any debt within a self-managed super fund supervisory levy account including any associated charges or penalties.

20. To any debt within an income tax debts account including any associated charges and penalties.[27]

A payment or credit will be allocated in the following way:

(a) If a payment 'dollar matches' a single debt you should allocate it to that debt.

(b) If no dollar match occurs, the payment received is applied to the earliest outstanding period within the role, based on period start date.

(c) If a credit is unable to offset the total amount of liabilities on that role, then that credit is to be applied to the individual debt components, based upon the role allocation hierarchy. The earliest outstanding period within the highest role is paid first, based on period start date following this order

(i) income tax from former account

(ii) franking tax

(iii) income tax – individual

(iv) income tax – company

(v) income tax – consolidated group

(vi) income tax – trust

(vii) income tax – super fund

(viii) income tax – partnership

(ix) income tax – government

(x) family trust distribution tax

(xi) ultimate beneficiary tax

(xii) Division 293 due and payable

(xiii) excess contributions tax

(xiv) general interest charge

(xv) administrative penalties

(xvi) Investment Income Report

(xvii) income tax – non compliance.

21. To any debt which represents only tax-sharing amounts for assessed income tax debts including any associated charges and penalties following the income tax role hierarchy.

22. To any debt within the assessed super excess contributions tax account including any associated charges and penalties to the earliest period within the account following the below hierarchy:

(i) excess contribution for income tax

(ii) excess contribution for superfunds

(iii) administrative penalties.

23. To any tax debt within our legal action account. The below order is to be followed in applying payments to each debt component until all outstanding periods have been finalised:

(i) GST conversion

(ii) PAYG – withholding (conversion)

(iii) PAYG – instalment (conversion)

(iv) conversion

(v) wine equalisation tax

(vi) luxury car tax

(vii) fuel tax credit

(viii) fringe benefits tax instalments

(ix) manually-raised PAYGW

(x) PAYGW large

(xi) deferred company instalments

(xii) PAYG– instalment

(xiii) PAYG– Instalment Consolidated Group Head

(xiv) closely held trust PAYG – withholding

(xv) activity statement from former account

(xvi) administrative penalties

(xvii) activity statement reporting

(xviii) GST Reporting

(xix) GST Annual Reporting

(xx) GST Annual Information Reporting

(xxi) STP Reporting

(xxii) PAYG – Withholding – Annual Reporting

(xxiii) PAYG – Withholding Payment Summary Report

(xxiv) PAYG – withholding – no ABN

(xxv) PAYG – withholding.

24. To any debt within our transfer balance accounts.

25. To any secondary tax debts (for example, the costs involved in obtaining a judgment against a taxpayer).

[27] Note the ICP role allocation hierarchy rules.

To any judgment costs with the debts that have the earliest due date, applying the payments in the following order:

(i) costs ordered by the Court – administration costs

(ii) fines ordered by the Court – administration fines.

26. To any director penalty amount in respect of super guarantee amounts commencing with the earliest period director penalty amount until all penalty amounts are finalised.

27. To any director penalty amount in respect of PAYG withholding (or an estimate of PAYG withholding) pursuant to Division 269 of Schedule 1 to the TAA, commencing with the earliest period director penalty amount until all penalty amounts are finalised.

28. To any director penalty amount in respect of GST.

29. To any debt which represents PAYG withholding non-compliance tax (NCT), commencing with the earliest period NCT amount.

30. To tax debts that are subject to objection, review or appeal including any associated charges and penalties.

31. To tax debts associated with the first home super saver (FHSS) tax account:

(i) FHSS tax role

(ii) GIC.

32. To any debts associated with the first home super saver scheme tax account (FHSA):

(i) FHSA Provider Report

(ii) FHSA payment

(iii) return of FHSA contribution

(iv) recovery of FHSA contribution

(v) FHSA penalty

(vi) FHSA Report – Holder Details

(vii) FHSA Government contributions

(viii) intermediary – FHSA supplier

(ix) FHSS role

(x) FHSS tax role.

33. To any further amounts due to the Commonwealth directly under a taxation law, which are due but not yet payable:

(a) To the integrated client account of a trust beneficiary following allocation order, to the earliest period within the account following the below hierarchy

  (i) activity statement former account

  (ii) trust beneficiary PAYGI

  (iii) administrative penalties

  (iv) activity statement reporting

  (v) PAYGI Annual Reporting

  (vi) GIC.

(b) to the trust beneficiary non-disclosure liabilities.

(c) ultimate beneficiary non-disclosure.

34. To the tax account which administers our taxable payment reporting system (TPAR) account:

(i) to the earliest period within the account following the below hierarchy

(ii) TPAR role

(iii) TPAR GIC role

(iv) Early Stage Innovation Companies Report Reporter role

(v) Business Transactions through Payment Systems (BTTPS) Reporting Role

(vi) BTTPS GIC role

35. To the tax account which represents amount owed to the Commissioner in respect to securities and monies in trust.

36. To the foreign double-tax account in the following allocation order to the earliest period within the account following the below hierarchy

(i) trust income tax – conversion

(ii) trust beneficiary income tax

(iii) GIC

(iv) administrative penalties.

37. To the tax account under the super direction to pay regime.

38. To the tax account under the GST withholding regime.

39. To the tax account which represents a Civil Penalty Promotion Scheme.

40. To the account in respect to our Foreign Investment Review Board (FIRB) Accounts to the earliest period within the account following the below hierarchy:

(i) FIRB role

(ii) FIRB vacancy fee role

(iii) administrative penalties

(iv) GIC.

41. To the account in respect to our exchange of information with foreign Governmental agencies, known as the Automatic Exchange of Information

(AEOI) Admin Account to the earliest period within the account following the below hierarchy:

(i) Common Reporting Standard Reporter

(ii) Foreign Account Tax Compliance Act Reporter

(iii) GIC

(iv) administrative penalties.

42. To Major Bank Levy accounts (*Major Bank Levy Act 2017* and the *Treasury Laws Amendment (Major Bank Levy) Act 2017*).

43. To any further amounts due to the Commonwealth directly under a taxation law, which are due but not yet payable.

44. To any Governmental agency costs and fines account.

Attachment D – Automatic system order of allocation of payments and credits

The following lists the automatic order of allocation of our systems. The account hierarchy of each particular account is unique when allocating.

Depending on which account the excess credit originates from, it will follow the order of allocation listed below.

We note that allocation varies slightly between these accounts, and we recognise that at some point in future we may look to align the allocation policy. However, this is how we allocate at this time.

Our superannuation system

(i) Superannuation Guarantee Employer
(ii) Super Guarantee Director Penalty Account
(iii) Integrated Client Account (ICA)
(iv) GST Joint Venture Account
(v) ICA Trust Beneficiary
(vi) Fringe Benefits Tax Account
(vii) Income Tax Account
(viii) Costs Ordered by Court Account
(ix) Fines Ordered by Court Account
(x) PAYGW Director Penalty Account
(xi) Superannuation
(xii) First Home Saver Account
(xiii) Entity Endorsement Account
(xiv) Fund Endorsement Account
(xv) Unclaimed Super Money (USM) Superannuation Account
(xvi) USM Unmatched Account
(xvii) Superannuation Holding Account (SHA) special account
(xviii) SG Overpaid Distributions Account
(xix) External Agency

Our Integrated Client Account

(i) Integrated Client Account
(ii) GST Joint Venture Account
(iii) Miscellaneous Amounts – Admin Account
(iv) GST LRE Account
(v) Superannuation Guarantee Employer
(vi) Super Guarantee Director Penalty Account
(vii) ICA Trust Beneficiary
(viii) Fringe Benefits Tax Account
(ix) Income Tax Account
(x) FHSSS Account
(xi) Transfer Balance Account
(xii) Costs Ordered by Court Account
(xiii) Fines Ordered by Court Account
(xiv) PAYGW Director Penalty Account
(xv) Superannuation
(xvi) First Home Saver Account
(xvii) Entity Endorsement Account
(xviii) Fund Endorsement Account
(xix) USM Superannuation Account
(xx) USM Unmatched Account
(xxi) SHA special account
(xxii) SG Overpaid Distributions Account
(xxiii) FIRB Account
(xxiv) Automatic Exchange of Information Admin Account
(xxv) Miscellaneous Penalty Account
(xxvi) External Agency

Our Income Tax Account

(i) Income Tax Account
(ii) Superannuation Guarantee Employer
(iii) Integrated Client Account
(iv) GST Joint Venture Account
(v) GST LRE Account
(vi) ICA Trust Beneficiary
(vii) Fringe Benefits Tax Account
(viii) First Home Superannuation Saver Tax Account
(ix) FHSSS Account
(x) Transfer Balance Account
(xi) Costs Ordered by Court Account
(xii) Fines Ordered by Court Account
(xiii) PAYGW Director Penalty Account
(xiv) Superannuation
(xv) First Home Saver Account
(xvi) Entity Endorsement Account
(xvii) Fund Endorsement Account

(xviii) USM Superannuation Account
(xix) USM Unmatched Account
(xx) SHA special account
(xxi) SG Overpaid Distributions Account
(xxii) FIRB Account
(xxiii) AEOI Admin Account
(xxiv) Miscellaneous Penalty Account
(xxv) External Agency

Amendment history

Date of amendment	Part	Comment
9 December 2021	Attachment C – Order of allocation	Subparagraphs 1(a)(iii) and (iv) switched in order.
21 July 2020	All	In December 2019, the ATO undertook a system enhancement, referred to as Activity statement financial processing (ASFP), that moved all activity statement and franking deficit tax accounts into the one accounting system. Multiple changes were made throughout this practice statement to reflect payment and credit allocation within the updated system. This included adding Attachment D.
16 November 2015	Attachment A & C – Order of allocation of amounts	Change made to allocation order for annual SGC debts for periods before 1 July 2003 and to payments received for quarterly SGC liabilities for periods after 1 July 2003.
8 October 2015	All	Updated to new LAPS format and style.
	Page 4	Clarified the treatment of dividends received from an insolvency administration.
5 September 2013	Various	Update content to include application of new law including Mining Resource Rent Tax, changes to Petroleum Resource Rent Tax, Director Penalties for unpaid Superannuation Guarantee, Refunds of Excess superannuation contributions and GST default assessment regime.
	Various	Changes made in order to reduce duplication, incorporate policy from internal practice note regarding payment application in the ICP system and heading/style/ordering changes made to improve readability.

References

Legislative references	ITAA 1936 former 222ALA SGAA 1992 Pt 7 TAA 1953 Pt IIB Div 3 TAA 1953 8AAZA TAA 1953 8AAZL TAA 1953 8AAZLA TAA 1953 8AAZLB TAA 1953 8AAZLD TAA 1953 8AAZLE TAA 1953 8AAZM TAA 1953 8AAZN TAA 1953 Sch 1 255-15 TAA 1953 Sch 1 Div 268

	TAA 1953 Sch 1 Div 269 TAR 2017 21(1) Bankruptcy Act 1966 109 Bankruptcy Act 1966 109(1)(e) Bankruptcy Act 1966 Pt X Bankruptcy Act 1966 188 Bankruptcy Regulations 1996 6.02 Corporations Act 2001 556(1A) Corporations Act 2001 556(1)(e) Higher Education Support Act 2003 Product Grants and Benefits Administration Act 2000 Civil Procedure Act 2005 (NSW)
Case references	Turner Manufacturing Co Pty Ltd v Senes [1964] NSWR 692 Thompson v Hudson (1871) LR 6 Ch App 320
File references	1-4JI4FZX
Related practice statements	PS LA 2011/4 PS LA 2011/16 PS LA 2011/21 PS LA 2013/5 PS LA 2013/6
ATOlaw topic	Administration ~~ Other ATO processes
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Section	Operational Policy, Assurance and Law