



Australian Government

Australian Taxation Office

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## Legislative Instrument

# PAYG Withholding variation to the rate of withholding for superannuation income stream beneficiaries who turn 60 during the financial year

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I, Deborah Anne Jenkins, Deputy Commissioner of Taxation, make this instrument under section 15-15 of Schedule 1 of the *Taxation Administration Act 1953*.

Deputy Commissioner of Taxation

Dated: 31 May 2018

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### 1. Name of instrument

This instrument is the *PAYG Withholding variation to the rate of withholding for superannuation income stream beneficiaries who turn 60 during the financial year*.

### 2. Effective dates

This instrument commences on 1 July 2018.

### 3. Application

This instrument applies to the taxed element of the taxable component of payments that:

1. are superannuation income streams covered by paragraph 12-80(a) of Schedule 1 to the *Taxation Administration Act 1953*
2. consist of a taxed element only
3. are paid to a payee who is aged 59 years on 30 June immediately before the start of the relevant financial year; and
4. do not exceed the defined benefit income cap.

The amount to be withheld from the taxable component of these payments is the amount calculated using the following rules.

## **RULES FOR CALCULATING VARIED WITHHOLDING AMOUNT**

### **Step 1**

Calculate the amount of assessable income the payee will receive before their 60<sup>th</sup> birthday.

*Assessable income before 60<sup>th</sup> birthday* = (taxable component of the payment x number of payments before 60<sup>th</sup> birthday)

where:

- the taxable component of a superannuation income stream benefit is the amount of the income stream minus the tax free component of the benefit, and
- the number of payments before 60<sup>th</sup> birthday is the number of payments expected to be made to the payee between 1 July and their 60<sup>th</sup> birthday.

### **Step 2**

Turn the *Assessable income before 60<sup>th</sup> birthday* (Step 1) into an average payment per pay period, as if spread over whole year.

*Assessable income before 60<sup>th</sup> birthday* / total number of payments in the year

Total number of payments made for the year:

- 52, for payments made weekly
- 26, for payments made fortnightly; or
- 12, for payments made monthly.

The result is the payee's *Adjusted average payment*.

### **Step 3**

Convert the *Adjusted average payment* calculated in Step 2 to its weekly equivalent. Where the payments are made weekly, ignore any cents and add 99 cents.

If the payments are made fortnightly or monthly, calculate the weekly equivalent using the following:

- fortnightly payments - divide the sum of the fortnightly payment by two. Ignore any cents in the result and then add 99 cents.
- or
- monthly payments - multiply the monthly payment by 3 and then divide by 13. Ignore any cents in the result and then add 99 cents.

### **Step 4**

Calculate the withholding amount on the figure calculated in Step 3, using the appropriate formula from *Statement of formulas for calculating amounts to be withheld* (NAT 1004) or using the tables in *Weekly tax table* (NAT 1005).

If the payments are made fortnightly or monthly, calculate the withholding amounts using the following:

- fortnightly payments – determine the weekly withholding. Multiply this amount by two.
- or
- monthly payments – determine the weekly withholding. Multiply this amount by 13, divide the product by 3.

Round the result to the nearest dollar.

### Step 5

Adjust the amount calculated in *Step 4* for the number of payments made before the payee's 60<sup>th</sup> birthday.

$$\text{Adjusted withholding amount} = \text{withholding amount (Step 4)} \times \frac{\text{total number of payments in year}}{\text{number of payments before 60}^{\text{th}} \text{ birthday}}$$

Round the result to the nearest dollar.

### Step 6

Calculate the superannuation tax offset applicable to the payment.

Taxable component of the payment x 15% = *Superannuation tax offset*

Round the result to the nearest dollar.

### Step 7

Calculate the *Notional amount to be withheld* per payment.

$$\text{Notional amount to be withheld} = \text{Adjusted withholding amount (Step 5)} - \text{Superannuation tax offset (Step 6)}$$

Round the result to the nearest dollar.

Note: If the *Superannuation tax offset* is greater than the *Adjusted withholding amount*, the *Notional amount to be withheld* is nil.

### Step 8

Using the appropriate formula below, calculate the *Medicare levy adjustment* applicable to the payment.

If the payee's *Assessable income before 60<sup>th</sup> birthday* (*Step 1*) is:

- **less than \$21,655** – the payee's *Medicare levy adjustment* is nil.
- **greater than \$21,655 but less than \$27,068** – the payee's *Medicare levy adjustment* is equal to:  
$$(\text{Assessable income before 60}^{\text{th}} \text{ birthday} - \$21,655) \times 0.10 / \text{number of payments before 60}^{\text{th}} \text{ birthday}.$$
- **greater than \$27,067** – the payee's *Medicare levy adjustment* is equal to:

$(\text{Assessable income before 60}^{\text{th}} \text{ birthday} \times 0.02) / \text{number of payments before 60}^{\text{th}} \text{ birthday}$

Round the result to the nearest dollar.

### Step 9

To calculate the varied withholding amount, compare the *Notional amount to be withheld* (Step 7) to the *Medicare levy adjustment* (Step 8).

If the *Notional amount to be withheld* is **more than** the *Medicare levy adjustment*, withhold the *Notional amount to be withheld* (Step 7).

If the *Notional amount to be withheld* is **less than** the *Medicare levy adjustment* or zero, withhold the *Medicare levy adjustment* (Step 8).

## **EXAMPLE CALCULATIONS:**

Schedule 1 - Statement of formulas for calculating amounts to be withheld 2017/18, Scale 2 is used in these examples

### **Example 1**

Sally is 59 years old and receives a fortnightly superannuation income stream of \$2,140 during the 2017-18 financial year.

The tax free component of Sally's fortnightly superannuation income stream is \$440. The taxable component of the superannuation income stream is \$1,700, and is comprised wholly of a taxed element.

Sally will turn 60 on 8 January 2018. Her super fund will make 14 payments before she turns 60 and 12 payments after.

As the taxable component of Sally's pension is comprised wholly of a taxed element she will not have to pay any tax on this after she turns 60. Sally's withholding should be varied. Sally has claimed the tax-free threshold and is not entitled to leave loading.

### **Calculate the varied withholding amount**

#### **Step 1**

Calculate Sally's *Assessable income before 60<sup>th</sup> birthday*.

*Assessable income before 60<sup>th</sup> birthday*:  $\$1,700 \times 14 = \$23,800$

#### **Step 2**

Convert the amount calculated at *Step 1* into an *Adjusted average payment*.

*Adjusted average payment*:  $\$23,800 / 26 = \$915.38$

#### **Step 3**

Calculate Sally's adjusted weekly payment amount.

Sally's adjusted weekly amount:  $\$915.38 / 2$   
 $= \$457.99$  (ignoring cents, adding 0.99)

#### Step 4

Calculate the withholding on the amount calculated at *Step 3*.

$$\begin{aligned}\text{Weekly withholding} &= \$457.99 \times 0.2900 - 109.1077 \\ &= \$23.7094 \\ &= \$24 \text{ per week (rounded to the nearest dollar)}\end{aligned}$$

Fortnightly withholding:  $\$24 \times 2 = \$48$  per fortnight

#### Step 5

Calculate Sally's *Adjusted withholding amount* based on the amount calculated at *Step 4*.

$$\begin{aligned}\text{Adjusted withholding} &= \$48 \times 26 / 14 \\ \text{amount} &= \$89.1428 \\ &= \$89 \text{ per fortnight (rounded to the nearest dollar)}\end{aligned}$$

#### Step 6

Calculate the per payment *Superannuation tax offset* Sally is entitled to. This is calculated using the taxable component of her payment.

*Superannuation tax offset*:  $\$1,700 \times 15\% = \$255$  (rounded to the nearest dollar)

#### Step 7

Calculate the *Notional amount to be withheld*.

As Sally's *Superannuation tax offset* (\$255 – *Step 6*) is greater than her *Adjusted withholding amount* (\$89 – *Step 5*) her *Notional amount to be withheld* is **\$0**.

#### Step 8

Calculate Sally's *Medicare levy adjustment*.

As Sally's assessable income before her 60<sup>th</sup> birthday of \$23,800 (*Step 1*) is greater than \$21,655, her *Medicare levy adjustment* is:

$$\$23,800 - \$21,655 = \$2,145$$

$$\$2,145 \times 0.100 / 14 = \mathbf{\$15} \text{ (rounded to the nearest dollar)}$$

#### Step 9

Calculate Sally's varied withholding amount.

As Sally's *Medicare levy adjustment* (\$15 – *Step 8*) is greater than her *Notional amount to be withheld* (\$0 – *Step 7*), her varied withholding amount is **\$15**.

#### Example 2

Scott is 59 years old and receives a weekly superannuation income stream of \$1,900, during the 2017-18 financial year.

The tax free component of Scott's weekly superannuation income stream is \$175. The taxable component of the superannuation income stream is \$1,725. The taxable component is comprised wholly of a taxed element.

Scott will turn 60 on 21 April 2018. His superannuation fund will make 42 payments before his 60<sup>th</sup> birthday and 10 payments after.

As the taxable component of Scott's income stream is comprised wholly of a taxed element he will not have to pay any tax on this income after his 60<sup>th</sup> birthday. The amount to be withheld from each payment should be varied. Scott has claimed the tax-free threshold.

### **Calculate the varied withholding amount**

#### **Step 1**

Calculate Scott's *Assessable income before 60<sup>th</sup> birthday*.

*Assessable income before 60<sup>th</sup> birthday:*  $\$1,725 \times 42 = \$72,450$

#### **Step 2**

Convert the amount calculated at *Step 1* into an *Adjusted average payment*.

*Adjusted average payment:*  $\$72,450 / 52 = \$1,393.27$

#### **Step 3**

Calculate Scott's adjusted weekly payment amount.

= \$1,393.99 (ignoring cents, adding 0.99)

#### **Step 4**

Calculate the withholding on Scott's adjusted weekly payment amount.

Weekly withholding                      =  $\$1,393.99 \times 0.3450 = 161.9819$   
   = \$318.9447  
   = \$319 per week (rounded to the nearest dollar)

#### **Step 5**

Calculate Scott's *Adjusted withholding amount* based on the amount calculated at *Step 4*.

*Adjusted withholding amount*                      =  $\$319 \times 52 / 42$   
   = \$394.9524  
   = \$395 per week (rounded to the nearest dollar)

#### **Step 6**

Calculate the per payment *Superannuation tax offset* that Scott is entitled to, based on the taxable component of his payment.

*Superannuation tax offset:*  $\$1,725 \times 15\% = \$259$  (rounded to the nearest dollar)

### Step 7

Calculate the *Notional amount to be withheld*.

As Scott's *Adjusted withholding amount* is greater than his *superannuation tax offset* then the *notional amount to be withheld* is:

$$\text{Notional amount to be withheld} = \$395 \text{ (Step 5)} - \$259 \text{ (Step 6)} = \mathbf{\$136}$$

### Step 8

Calculate Scott's *Medicare levy adjustment*.

As Scott's assessable income before his 60<sup>th</sup> birthday of \$72,450 (Step 1) is greater than \$27,067, his *Medicare levy adjustment* is:

$$\$72,450 \times 0.02 / 42 = \mathbf{\$35} \text{ (rounded to the nearest dollar)}$$

### Step 9

Calculate Scott's varied withholding amount.

As Scott's *notional amount to be withheld* (\$136 – Step 7) is greater than his *Medicare levy adjustment* (\$35 – Step 8), his varied withholding amount is **\$136**.

### Example 3

Brian is 59 years old and has just commenced receiving weekly superannuation income stream benefits of \$1,500. His first payment will be made on 6<sup>th</sup> September 2017.

The tax free component of Brian's weekly superannuation income stream benefit is \$115. The taxable component of the superannuation income stream is \$1,385. The taxable component is comprised wholly of a taxed element.

Brian will turn 60 on 3 February 2018. His super fund will make 22 payments before he turns 60 and 21 payments after.

As the taxable component of Brian's superannuation income stream is comprised wholly of a taxed element he will not have to pay any tax on this after he turns 60. The amount to be withheld from each payment should be varied. Brian has claimed the tax-free threshold and is not entitled to leave loading.

### Calculate the adjusted withholding amount

#### Step 1

Calculate Brian's *Assessable income before 60<sup>th</sup> birthday*.

$$\text{Assessable income before 60<sup>th</sup> birthday: } \$1,385 \times 22 = \$30,470$$

#### Step 2

Convert the amount calculated at Step 1 into an *Adjusted average payment*.

$$\text{Adjusted average payment: } \$30,470 / 52 = \$585.96$$

### Step 3

Calculate Brian's adjusted weekly payment amount.  
= \$585.99 (ignoring cents, adding 0.99)

### Step 4

Calculate the withholding on Brian's adjusted weekly payment amount.

Weekly withholding           = \$585.99 x 0.2100 – 67.4646  
                                      = \$55.5933  
                                      = \$56 per week (rounded to the nearest dollar)

### Step 5

Calculate Brian's *Adjusted withholding amount* based on the amount calculated at

*Adjusted withholding amount*       = \$56 x 52 / 22  
  = \$132.3636  
  = \$132 per week (rounded to the nearest dollar)

### Step 6

Calculate the per payment *superannuation tax offset* Brian is entitled to, based on the taxable component of his payment.

*Superannuation tax offset*: \$1385 x 15% = \$208 (rounded to the nearest dollar)

### Step 7

Calculate the *Notional amount to be withheld*.

As Brian's *Superannuation tax offset* (\$208 – Step 6) is greater than his *Adjusted withholding amount* (\$132 – Step 5) his *Notional amount to be withheld* is **\$0**.

### Step 8

Calculate Brian's *Medicare levy adjustment*.

As Brian's assessable income before his 60<sup>th</sup> birthday of \$30,470 (Step 1) is greater than \$27,067, his *Medicare levy adjustment* is:

\$30,470 x 0.02 / 22 = **\$28** (rounded to the nearest dollar)

### Step 9

Calculate Brian's varied withholding amount.

As Brian's *Medicare levy adjustment* (\$28 – Step 8) is greater than his *Notional amount to be withheld* (\$0 – Step 7), his varied withholding amount is **\$28**.