Monthly Information Newsletter – Tax & Super

March 2023

PAYG instalment variations

The ATO is encouraging accountants to educate clients around varying PAYG instalments – this can potentially assist cashflow.

To recap, PAYG (pay-as-you-go) instalments allow business taxpayers to make regular prepayments towards the tax on their business and investment income. This is in contrast to salary and wage earners who already make prepayments by having tax withheld from their income each time they are paid.

Business taxpayers, including individuals who are contractors for PAYG withholding purposes, will automatically be entered into the PAYG instalments system if they earn over the entry threshold in business and investment income in their latest lodged tax return. These thresholds currently stand at:

- ***Individuals (including sole traders and trusts)*** – your instalment income from your latest tax return was $4,000 or more, and the tax payable on your latest notice of assessment was $1,000 or more, and you have estimated (notional) tax of $500 or more.
- ***Companies and super funds* –** have instalment income from their latest tax return of $2 million or more, or have estimated (notional) tax of $500 or more, or are the head company of a consolidated group.

If your or your business's financial situation has changed, your expected tax liability may also change. This means your current PAYG instalments may add up to more, or less, than your tax liability at the end of the financial year.

The good news is that you can vary your instalments so the amount you prepay is closer to your expected tax for the year.

If you pay PAYG instalments using the instalment dollar amount provided by the ATO (option 1 on your Activity Statement), you may want to vary if there has been a significant change in your instalment income this year.

If you calculate your PAYG instalments using the instalment rate (option 2 on your activity statement):

- you do not need to vary simply because your income has changed – the payment you calculate will go up and down in line with your income
- you would usually only vary if the taxable proportion of your income has changed – for example, if your income has fallen significantly but your deductions for running costs have stayed the same.
- There are however dangers in varying. If you vary your instalments downwards and you underestimate your eventual income for the year, you could be left with a substantial tax bill when you lodge your tax return at the end of the year. Also, when the ATO receives your tax return, they compare your actual instalments to the total tax payable on your instalment income for the income year. If your varied instalments are less than 85% of your total tax payable, you may have to pay a general interest charge on the difference, in addition to paying the shortfall. Depending on the circumstances there may also be penalties.
- If you are not sure, it is best to not vary your instalments. Any overpaid instalments will be refunded to you after you lodge your tax return.
- If you feel your current year business or investment income is likely to be more or less than the dollar amount of your PAYG instalments you are paying, feel free to chat to us about varying your instalments.