PAYG – Monthly Instalments

Currently, taxpayers fall into one of three categories when paying their tax instalments – monthly, quarterly or annually. Taxpayers are not able to elect into which category they fall with these being determined by the ATO based on certain metrics.

The proposed amendments are designed to allow entities that pay PAYG instalments to choose to pay instalments monthly rather than quarterly or annually. The changes also provide the ATO with the ability to make determinations in respect of taxpayers to force them to become monthly payers where they have a history of non-compliance with their tax obligations.

The political spin on providing taxpayers with the ability to opt into paying tax monthly rather than quarterly (in other words paying tax earlier than you would otherwise do) is that it provides "*for their PAYG instalments to adjust more dynamically to real-time business conditions*". In Federal Budget terms, the invitation is a way for the budget deficit to be reduced by taxpayers.

The "opt in" election assumes that taxpayers will be willing (and able) to give the Federal Government cash before they would otherwise need to. Unless taxpayers have significant issues with retaining funds for a quarter before paying it to the ATO, it would be hard to identify a benefit in paying tax early reducing working capital.

1 So what are the changes and how do they operate?

Taxpayers will be provided with the option to elect into monthly PAYG instalments rather than paying their tax bills quarterly or annually.

- Entities that opt in (or are subject to a determination) will become monthly payers as of the start of their next income year.
- In practical terms, for a standard 30 June year end taxpayer, notifying the Commissioner of the opt in decision in say December, means that the monthly instalments will only commence from the following 1 July.
- Entities that opt out (or are not subject to a determination) will become monthly payers as of the start of their next income year.
- Again, notifying the Commissioner of the opt out decision in say December, means that the monthly instalments will only cease from the following 1 July.
- The Commissioner can make a determination in respect of a taxpayer to force them onto monthly PAYG instalments where the taxpayer has a history of failing to comply with their taxation obligations. Again, this will start from the following income year.

The timing of a transition into or out of monthly instalments is centred around the start of a taxpayer's income year to provide an administrative ease and reconciliation of instalments between monthly, quarterly or annual payments.

Where a taxpayer is already a monthly PAYG payer (because they meet the relevant criteria), they cannot opt out of paying monthly PAYG instalments.

Clearly, moving from a quarterly to monthly instalment basis will require taxpayers to carefully manage their cashflow in the first quarter of the income year as taxpayers will need to fund the final quarter from the prior income year as well as the newly commenced monthly instalments from the current year.

Level 13, 68 York Street Sydney NSW 2000
Telephone. +61 2 9283 1666 | Email. admin@esvgroup.com.au

esvgroup.com.au