GST Start-Up
Assistance Office

Quick Guide

PAYG INSTALMENTS & CASH FLOW

Understanding the new tax system

OVERVIEW

- The New Tax System changes the way you pay your company tax from 1 July 2000. This guide provides a brief overview of the changes and how they impact on your small business.
- Company tax payments are now covered under the Pay As You Go (PAYG) system. As the name implies you will pay your company tax progressively throughout the year.

What is PAYG?

- PAYG is designed to streamline the tax system by replacing eleven different systems with one. This should simplify your reporting obligations as you only have one form to fill in and one set of payment dates, although you will still need to lodge your annual income tax return at the end of the income year.
- On 1 July 2000, PAYG replaced a number of taxes including the existing Pay As You Earn (PAYE), Prescribed Payments System (PPS), Reported Payments System (RPS), Provisional Tax, Company Tax Instalments and Superannuation Fund Instalments.
- **What will the changes mean to my business?**

PAYG will impact on three key areas of your business:

- How you report – you now report your company tax instalments on your Business Activity Statement (BAS) or your Instalment Activity Statement (IAS).
- How your tax is calculated – your tax payments are no longer calculated using your previous returns. They are based on your current income.
- Your cash flow position – making the change to the PAYG instalment system might have an impact on your business cash flow as the new system brings forward your tax payments.

BUSINESS TIPS

- Make sure that you understand the new PAYG system and how it impacts on your reporting, cash flow and tax payments.
- Record keeping becomes even more important.
- Your cash flow may change around so it is important to plan for and manage any change.
- Set up your systems as early as possible to collect the information needed to calculate and report your PAYG payments.

This guide is intended to provide small businesses with an overview of PAYG instalment and cash flow issues relating to the new tax system .

PAYG

INSTALMENTS & CASH FLOW

KEY FEATURES OF THE PAYG INSTALMENT SYSTEM

- PAYG makes your tax payments very current. As a result, you need to keep good, accurate records.
- The two keys to the PAYG instalment system are your instalment income and your instalment rate. Special rules for these terms apply for life insurance companies and superannuation entities.
- Instalment income is your gross ordinary income for the quarter that you are reporting on, but excludes a number of things such as capital gains, as they are not ordinary income.
- By now, the Australian Taxation Office (ATO) would have advised you of your instalment rate for PAYG. This rate will be pre-printed on your BAS or IAS.
- Under PAYG, your company tax payment is the sum of your **instalment income** multiplied by your **instalment rate.**
- To help with the cash flow impact of PAYG, companies and superannuation funds will be able to defer some or all of their tax for the 1999/2000 income year, for up to five years.
- You will still need to lodge your annual income tax return at the end of the income year.

CAN I VARY MY RATE?

- As your instalment rate is based on your previous tax assessment it might not accurately reflect your current position.
- You can vary your instalment rate at any time prior to reporting and on more than one occasion. But you need to provide a reason for the variation.

LET'S HAVE A LOOK AT AN EXAMPLE...

Michael is a tiling contractor. For the year ended 30 June 1999 his company's taxable income was calculated as follows:

Gross Income			$240,000
Direct Expenses			
Materials	98,000		
Sub Contract Labour	67,000	165,000	
			75,000
Operating Expenses			38,000
Taxable Income			$37,000
Tax Payable			$ 8,164

Based on his 1999 income, the ATO issues Michael's company with an instalment rate of 3.40% (or 0.0304). This is based on his 'Tax Payable' ($8,164), divided by his 'Gross Income' ($240,000).

Michael then uses this instalment rate to calculate his PAYG instalments. To do this, he multiplies his instalment rate by his instalment income.

In the year ending 30 June 2001, Michael's company's quarterly income and PAYG instalment payments look like this:

	Gross Instalment Income	PAYG Instalments
Sept Qtr	$100,000	$3,400
Dec Qtr	80,000	2,720
Mar Qtr	60,000	2,040
June Qtr	90,000	3,060

BUSINESS TIPS

- Understand how to calculate your instalment income. Remember it is your gross ordinary income and does not include statutory income such as capital gains (special rules apply for life insurance entities and trustees of superannuation funds).
- Check to see if you have received an instalment rate from the ATO in your BAS or IAS. It could have been sent to you or your accountant.
- Check that your instalment rate reflects your current year position.
- You can vary your instalment rate for any quarterly payment.
- If you plan to vary your instalment rate, make sure that it is a close estimate of your current position. Penalties can apply if you underestimate your varied rate by more than 15%.
- Start to plan for the cash flow required to meet the payment due dates.
- Make sure that you can calculate your current period income at the end of each quarter.

BUSINESS TIPS

There are two areas of your business that can help you manage your cash flow. These are…

LIQUIDITY

- Prepare a cash flow forecast to map out your needs over the next 12 months. This will help you plan ahead.
- Stock levels can be monitored and adjusted to the needs of your business.
- Tighten control over debtors and make sure people pay you within the timeframes you request.
- Set the GST you collect aside in a separate account to help make sure it is available when you need to pay your tax.

MARKETING

- Understand the impact of absorbing GST into your sales. If you choose to absorb the GST, it is important to remember that you still need to remit the full 10% GST to the ATO. If you don't charge your customers the full amount of tax you will be paying the tax out of your profits.

DO MY PAYMENT DATES CHANGE?

WHEN ARE PAYG INSTALMENTS DUE?

In the past you would have been used to making tax payments at particular times. PAYG changes the timing of tax payments.

You will record your PAYG instalments on your BAS (if you are registered for the GST) or your IAS (if you are not registered). The ATO will send your activity statement to you, along with a payment slip for lodging payment.

Special rules determine whether you need to lodge your BAS or IAS on a monthly or quarterly basis. However, you only pay your PAYG instalments on a quarterly basis.

If your income year ends on 30 June, the PAYG instalments must be paid by the following deadlines:

- First quarter (1 July to 30 September): 21 October 2000.
- Second quarter (1 October to 31 December): 21 January 2001.
- Third quarter (1 January to 31 March): 21 April 2001.
- Fourth quarter (1 April to 30 June): 21 July 2001.

If you have a balancing date other than 30 June, your PAYG instalment must be paid 21 days after the end of each quarter.

BUT THERE IS A REPRIEVE FOR THE FIRST 3 QUARTERLY PAYMENTS...

For many businesses, for the first quarter in 2000 there is an extra three weeks to lodge your BAS or IAS (by 11 November 2000). The second quarter allows an extra two weeks (by 4 February 2001), and the third quarter allows an extra week (by 28 April 2001). These arrangements only apply if your income year ends on 30 June.

WHAT ABOUT MY 1999-2000 TAX PAYMENTS?

To ease the cash flow implications of the move from the old instalment system to PAYG instalments, transitional arrangements apply for instalments for 1999-2000 and assessed tax for that income year.

The obligation to pay a particular instalment under the old system has been removed in some circumstances. The amount you would have paid becomes payable as part of your final instalment. The timing of all or part of your final instalment has been deferred. You will need to pay the deferred amount in a number of equal, interest free, quarterly repayments.

Check with the ATO to find out which instalment has been removed, the maximum amount you can defer and the number of quarters over which you can defer it.

GST Start-Up
Assistance Office

FOR FURTHER INFORMATION

BUSINESS INFORMATION

- GST Start-Up Assistance Office: **Ph 13 30 88**
- Internet: **www.gststartup.gov.au**

BAS Preparation

- ATO: **Ph 13 24 78**

BAS Lodgement and Payment

ATO: **Ph 13 28 66**

- Internet: **www.taxreform.ato.gov.au**

Contact your business adviser, account or tax agent for specific advice about cash flow and your business.

Disclaimer

The product is intended as a guide only. You may need to refer to the ATO's BAS Instructions or your business adviser to find out if there are any special rules that apply to your business.