



**EMBARGO** Budget. Not for release before 7.30 pm AEST, 13 May 1997.

## WITHHOLDING TAX ARRANGEMENTS

### Financial Implications (\$m)

1997-98	1998-99	1999-00	2000-01
-	330	-	-

### Explanation

This measure involves changes to the Pay-As-You-Earn (PAYE), Prescribed Payments System (PPS) and the Reportable Payments System (RPS) withholding arrangements that will improve the overall integrity of the tax system and provide compliance cost reductions for many small businesses. These modifications represent a significant first step towards simplifying the range of withholding tax systems imposed on business, with a view to ultimately establishing an efficient, modern interface between the Australian Taxation Office (ATO) and the business taxpaying community. The changes, which relate to the timing and means of payment of income tax amounts withheld by business from payments of salaries, wages and other prescribed income, will result in a net revenue bring forward of \$330 million in 1998-99.

For a large number of small businesses with an income tax withholding obligation, the timing of payment of withheld amounts will be relaxed. Arrangements whereby some employers are entitled to remit tax instalment deductions from employees once each quarter will be extended to a further 133,000 employers under the PAYE system and 178,000 businesses with obligations to deduct tax instalments under the PPS and the RPS. The option to remit quarterly, rather than monthly, will result in a reduction of paperwork and compliance costs for these small businesses. This will also result in a revenue deferral of \$500 million in 1998-99.

Payments by large withholders are to be made earlier than is currently the case and by electronic means. This will result in a bring forward of remittances such that payments are made within an average time of 7 days from the date deductions are made from salaries, wages and other prescribed income. The revenue bring forward in 1998-99 will be \$830 million. Under existing arrangements, most large businesses remit tax instalment deductions to the Commissioner of Taxation twice monthly, either electronically or through paper based systems.

Payment arrangements for other participants in the PAYE, PPS and RPS withholding arrangements will also be aligned. Those businesses which withhold income tax deductions under the PPS and RPS arrangements and which are required to remit deductions made during a month to the ATO by the 14th day of the following month will be required to remit those deductions instead by the 7th day of the following month. This is the same date that an employer who deducts tax instalments under the PAYE system is required to remit to the Commissioner of Taxation. This measure will

reduce compliance costs by aligning the payment obligations under the PAYE, PPS and RPS systems.

To effect these changes, the *Income Tax Assessment Act 1936* will be amended to:

- require large withholders to remit, by electronic means, tax deductions made under the PAYE, PPS and RPS arrangements from payments made on a Saturday, Sunday, Monday or Tuesday by the following Monday and to remit tax deductions made on a Wednesday, Thursday or Friday by the following Thursday;
- define a large withholder as an entity whose combined annual tax deductions under the PAYE, PPS and RPS arrangements exceed \$1 million in 1996-97 or any following year. These withholders will remit under the new arrangements for any tax deductions made after 30 June 1998; and
- allow small withholders, whose annual tax deductions under the PAYE, PPS and RPS arrangements do not exceed \$25,000 the option to remit tax deductions made after 30 June 1998 on a quarterly basis.

The company grouping provisions that exist under the law for PAYE remitters, and which serve to ensure that larger employers do not artificially rearrange their structures to fall below the thresholds, will be extended to cover the new arrangements.

The changes will not alter the scope of the payments covered by existing withholding tax arrangements or change the rates at which tax must be deducted from those payments.

**The above material is a full extract of the description of the measure as contained in *Budget Paper No 2: Budget Measures 1997-98*. This paper explains all outlays and revenue measures, and is available from Australian Government Bookshops or from the Treasury Internet site at <http://www.treasury.gov.au/budget>**

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