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# Pay As You Go Instalments (PAYGI)

## Frequently Asked Questions (FAQ's)

The ATO quarterly PAYG instalment system can be very confusing!

**Why have I received an ATO letter talking about PAYG Instalments? I've never paid these before!**

If your last lodged tax return resulted in you having to pay tax, the ATO are likely to enter you in to the PAYG Instalment system.

**Can I get out of the PAYG instalment system?**

You are not able to opt out of the PAYGI system.

**Do I have to pay it?**

Yes, you are required to pay the instalment amount by the due date. Late payment penalties may be applied if overdue.

**Can I use it for other ATO debts?**

No, PAYG Instalments cannot be used to pay another ATO debts.

**I am no longer in business, why am I still getting the instalment notices?**

You will remain in the PAYG Instalment system until a tax return is lodged which does not include any business income.

**Can I vary the PAYG instalment amount to a lesser amount or even nil?**

It may be possible to reduce or vary an instalment if you meet **certain criteria**. See page 2.

**Why is my June quarter PAYG Instalment so much?**

The June quarter is the 'catch up' period. If your three quarterly instalments already paid are considered to fall short of your estimated annual tax payable (based on your latest lodged tax return), the ATO will increase the June quarter instalment.

**Why is my September instalment different from earlier periods?**

The PAYG Instalment system resets at the start of each financial year.

**More detailed information on the PAYG Instalment System**

## Who enters the Pay As You Go Instalment system?

Based on information provided in your annual tax return, the ATO determines if you, or your business, are entered in to the Pay As You Go Instalment (PAYGI) system.

PAYGI can apply to individuals who operate as sole traders, small business owners, investors or individuals who may have a self employed income as well as salary or wages from an employer.

Business' which operate through a company can also be entered in to the PAYGI system.

PAYGI are usually raised on a quarterly basis and due on the 28th day after the end of each quarter.

If you are registered for GST, PAYG instalments are generally paid quarterly after being reported in your Business Activity Statement (BAS).

Basically, PAYGI are income tax payments being made in advance for the current financial year and will be applied as a credit when completing that years tax return. Rather than paying a large tax liability at the end of the financial year, the PAYG system enables individuals & businesses to pay the instalments spread over the year.

## How are the PAYGI calculated?

There are two main PAYGI calculation methods:

- Instalment amount method (ATO set)

The ATO calculates a fixed amount each quarter based on your last lodged tax return. This amount usually stays the same unless:

- The ATO revises it based on new data
- You choose to vary it
- Your tax return is lodged for the previous year.

- Instalment rate method (percentage of income)

You report your income each quarter and apply a % rate set by the ATO

The amount you pay varies depending on how much you or your business actually earned that quarter.

## PAYGI variation

You may be able to vary your instalment if you expect the annual income for you or your business (and tax payable) to be significantly different from the ATO estimate.

To vary an instalment you, or your business, must meet one of the following criteria

- Change in investments
- Current business structure not continuing
- Significant change in trading conditions
- Internal business restructure
- Change in legislation or product mix
- Financial market changes
- Use of income tax losses

- Consolidations

**Please note: if a PAYG Instalment is reduced or varied to nil and as a result you have an end of year shortfall on your tax return, the ATO may impose penalties.**

**Why PAYGI amounts may change**

In the June quarter each year the ATO may calculate that the instalments paid by you or your business, have not met the amount required for that years tax obligations. In these cases, the June quarter may be increased as a "catch up", often making this a higher amount than previous periods.

The timing of the lodgement of your annual tax returns will generally determine when & if the PAYGI amount changes.

If we have not answered your PAYG Instalment question please email admin@carrollaccounting.com.au or call our office on 03 5986 2189.