

# Schedule 5 – Tax table for back payments, commissions, bonuses and similar payments

QC: 34732

Content revised: Yes

Abstract revised: No

## Abstract:

Use this table if you make a payment of salary or wages that includes a back payment, commission, bonus or similar payment. NAT 3348

For payments made on or after 1 July 2014

### New withholding limit

There is a new withholding limit of 49% on tax withheld from any additional payments calculated using an annualised method.

Applying this withholding limit may result in withholding not being sufficient to cover some employees' end of year tax liability. In these situations, an employee can complete a [Withholding declaration – upwards variation](#) (NAT 5367) to increase their withholding for the remainder of the financial year.

This document is a withholding schedule made by the Commissioner of Taxation in accordance with sections 15-25 and 15-30 of schedule 1 to the *Taxation Administration Act 1953*. It applies to certain withholding payments covered by Subdivisions 12-B (except sections 12-50 and 12-55), 12-C (except sections 12-85 and 12-90) and 12-D of schedule 1 paid as a lump sum.

## Using this table

Use this table if you make a payment of salary or wages which is:

- a back payment (including lump sum payments in arrears)
- a commission
- a bonus or similar payment.

Other payments you should use this tax table for

These payments include back payments of:

- compensation or sickness or accident payments for an incapacity for work that are not tax exempt
- Australian Government education or training payments – for example, Austudy or ABSTUDY
- assessable pensions, benefits and allowances under the *Social Security Act 1991* or the *Veterans' Entitlements Act 1986*, or similar payments made under a law of a foreign country, state or province.

## Back payments (including lump sums in arrears)?

A back payment is a payment that was meant to have been made in a prior period. For example:

- your employee's wages were underpaid due to an error or oversight
- an allowance you were due to pay in July was overlooked and you made the payment in December.

A back payment is distinct from a bonus, which is a payment made for recognition of performance including past performance. A bonus (or similar payment) can only be considered a back payment if you paid the bonus later than the time that it should have been paid.

If you normally process payments in a pay period later than the work is performed, for example, overtime payments paid with a time lag of one pay period, they are not considered back payments. These payments are treated as part of the normal pay cycle when paid and withholding is calculated on total earnings for that period. An overtime payment is only considered a back payment if it was meant to have been made in a prior pay period.

## Commissions

Commissions are typically payments made as recognition of performance or service, and may be calculated as a percentage of the proceeds from a particular transaction or series of transactions.

## Bonuses and similar payments

A bonus is usually made to an employee in recognition of performance or services, and may be calculated as a percentage of the proceeds from a particular business transaction. These payments may not necessarily be related to a particular period of work.

A payment will be treated as similar to a bonus if it is an amount of a one-off nature that does not relate to work performed in a particular period. Examples include:

- a once-only payment made to a payee as compensation for a changed work location
- an amount paid as a sign-on bonus to a payee entering a workplace agreement
- any lump sum allowance.

## Leave loading

Payment of leave loading can also be regarded as a payment similar to a bonus, if it is made as a lump sum and not on a pro rata basis as leave is taken. If you pay leave loading on a pro rata basis, add it to earnings for the period to calculate withholding using the standard tax tables.

# Tax file number (TFN) declarations

The answers your employees provide on their [Tax file number declaration](#) (NAT 3092) determine the amount you need to withhold from their payments. A *Tax file number declaration* applies to any payments made after you receive the declaration. If you receive an updated declaration from an employee, it will override the previous one.

If an employee does not give you a valid *Tax file number declaration* within **14 days** of starting an employer/employee relationship, you must complete a *Tax file number declaration* with all available details of the employee and send it to us.

## When a TFN has not been provided

You must withhold 49% from any payment you make to a resident employee and 47% from a foreign resident employee (ignoring any cents) if all of the following apply:

- they have not quoted their TFN
- they have not claimed an exemption from quoting their TFN
- they have not advised you that they have applied for a TFN or have made an enquiry with us.

If an employee states at question 1 of the Tax file number declaration they have lodged a [Tax file number – application or enquiry for Individuals](#) (NAT 1432) with us, they have **28 days** to provide you with their TFN.

If the employee has not given you their TFN within **28 days**, you must withhold 49% from any payment you make to a resident employee and 47% from a foreign resident employee (ignoring any cents) unless we tell you not to.

Do not allow for tax offsets or Medicare levy adjustment. Do not withhold any amount for:

- Higher Education Loan Program (HELP) debts
- Financial Supplement (FS) debts.

## Terms we use

### Additional payments

Additional payments include back payments (including lump sum payments in arrears), commissions, bonuses and similar payments.

### Normal earnings

Normal earnings are gross taxable earnings and include all salary and wage income, taxable allowances, and overtime earnings for the current financial year. This includes any back payments previously made using Method B (i).

At the start of a financial year, an employee's normal earnings can be based on the last full pay period worked in the previous financial year.

If an employee's pay fluctuates significantly, you can use an average of gross taxable earnings for the current financial year (or, if applicable, the previous financial year).

If an employee has no current or past normal earnings (for example, the employee is newly employed), you can include expected future earnings in your calculations. This can be based on the employee's contracted or expected salary for the financial year.

For the purposes of this table, normal earnings do not include employment termination payments or unused leave payments made on termination of employment.

### Average total earnings

Average total earnings are the sum of all normal earnings paid in the current financial year, including current pay, plus any current year back payments if Method B (i) is used to calculate withholding. Then divide the total earnings by the number of pay periods to date (including the current pay period).

### Pay periods per financial year

Pay periods per financial year refers to a total of 52 pay periods if paid weekly, 26 pay periods if paid fortnightly or 12 pay periods if paid monthly. No adjustments are required for a 53 week / 27 fortnight year.

# Withholding limit

If your employee has a Higher Education Loan Program (HELP) or Financial Supplement (FS) debt, see [HELP, SFSS and additional payments](#).

If you use Method A or Method B (ii), the amount of tax to be withheld from an additional payment is limited to a maximum of 49% of the additional payment. If the withholding amount calculated (including a HELP or FS component) using Method A or Method B (ii) exceeds 49% of the additional payment being made, then the amount is reduced to be equal to 49% of that payment. The withholding limit applies to the additional payment only and not to normal earnings for the current pay period.

For some employees, the withholding limit may result in their withholding amounts not being sufficient to cover their end-of-year tax liability, as their total earnings for the financial year may exceed the HELP or FS repayment threshold or attract a higher rate of tax. Under these circumstances, your employee can arrange an upwards variation by entering into an agreement with you to vary the rate or amount of withholding. You and your employee need to complete a Withholding declaration – upwards variation.

For more information about withholding variations, refer to:

- For employers: [PAYG withholding guide no. 10 – withholding variations for payers](#) (NAT 11483)
- For employees: [PAYG withholding – varying your PAYG withholding](#) (NAT 70791)
- [Withholding declaration – upwards variation](#) (NAT 5367).

For more information about HELP and FS repayment thresholds, refer to:

- [HELP repayment thresholds and rates](#) (NAT 4427)
- [Financial Supplement repayment thresholds and rates](#) (NAT 4379).

# Working out the withholding amount

To work out the amount you need to withhold from an additional payment, you must use either **Method A** or **Method B**.

Using **Method B** is more complex but produces a withholding amount that more closely approximates the actual tax payable.

Calculations made using either method are acceptable to work out the withholding amount. If your calculation using either method results in a negative amount, you treat the result as nil.

## Using Method A

Use this method for any additional payments made regardless of the financial year the additional payment applies to. This includes all back payments, commissions, bonuses or similar payments.

This method calculates withholding by apportioning additional payments made in the current pay period over the number of pay periods in a financial year, and applying that average amount to the gross earnings in the current pay period.

If you are paying a commission, bonus or similar payment for a defined period of less than 12 months, you can choose to calculate withholding by using the number of pay periods the payment relates to at step 3. For example, if a commission relates to four weeks and the employee is paid weekly, you divide the commission by four pay periods at step 3, rather than 52 pay periods.

Step	Instruction
1	Work out your employee's gross earnings excluding any additional payments for the current pay period. Ignore any cents.
2	Use the relevant tax table to find the amount to be withheld from your employee's gross earnings in step 1.
3	Add any additional payments to be made in the current pay period together and divide the total by the number of pay periods in the financial year (that is, 52 weekly pay periods, 26 fortnightly pay periods or 12 monthly pay periods). Ignore any cents.
4	Add the amount at step 3 to the gross earnings at step 1.
5	Use the relevant tax table to find the amount to be withheld from the amount at step 4.

6	Subtract the amount at step 2 from the amount at step 5.
7	Multiply the amount at step 6 by the number of pay periods used in step 3.
8	Multiply the additional payment being made in the current pay period by 49%.
9	Use the lesser amount of step 7 and step 8 for the withholding on the additional payment. Ignore any cents.
10	Work out the total PAYG withholding for the current pay period by adding the withholding on the additional payment (step 9) to the withholding on the gross earnings (step 2).

## Using Method B

Use Method B (i) for any back payments applied to specific periods in the current financial year.

Use Method B (ii) for either:

- back payments that relate to a prior financial year
- any additional payments (including commissions, bonuses or similar payments) that don't relate to a single pay period regardless of the financial year the additional payment applies to.

If you are making back payments applying to current and previous financial years, apportion the back payment between those years and then use the applicable method for each component to calculate withholding.

If you are making multiple additional payments:

- in the current pay period, you first need to calculate withholding on the total of any current financial year back payments (including lump sum in arrears) then calculate the withholding on any other additional payments
- in the current financial year, that is, you made an additional payment to the employee in a previous pay period, do not recalculate the withholding for the additional payment previously made.

### **(i) Back payments applied to specific periods in the current financial year**

This method recalculates withholding for each pay period the back payment applies.

Step	Instruction
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1	Work out how much of the back payment applied to each earlier pay period in the current financial year.
2	For the first affected pay period, add the back payment relevant to that period to the normal earnings <sup>1</sup> previously paid to get total earnings for that period.
3	Use the relevant tax table to find the amount to be withheld from the total earnings for that period.
4	Subtract the amount previously withheld for the period from the amount at step 3.
5	Repeat steps 2–4 for each pay period affected. Total the amounts calculated in step 4 for each pay period for the withholding on the back payment.
6	Use the relevant tax table to find the amount to be withheld from your employee's gross earnings (excluding additional payments) for the current pay period.
7	Work out the total PAYG withholding for the current pay period by adding the withholding on the back payment (step 5) to the withholding on the gross earnings (step 6).

1 See **Terms we use** for the definition of normal earnings.

## (ii) Additional payments applied over the whole financial year

This method calculates withholding by averaging all additional payments made in the current financial year over the number of pay periods in a financial year, and applying that to the average total earnings to date.

Step	Instruction
1	Calculate the average total earnings <sup>2</sup> paid to your employee over the current financial year to date. Ignore any cents.
2	Use the relevant tax table to find the amount to be withheld from the average total earnings in step 1.
3	Add all additional payments made in the current financial year if Method B (ii) was used to calculate the withholding, to the additional payment in current pay. Then divide by the number of pay periods in the financial year (that is, 52 weekly pay periods, 26 fortnightly pay periods or 12 monthly pay periods). Ignore any cents.
4	Add the amount at step 3 to the average total earnings at step 1.
5	Use the relevant tax table to find the amount to be withheld from the amount at step 4.

6	Subtract the amount at step 2 from the amount at step 5.
7	Multiply the amount in step 6 by the number of pay periods used in step 3.
8	Subtract any amounts previously withheld from additional payments in the current financial year if Method B (ii) was used, from the amount at step 7.
9	Multiply the additional payment being made in the current pay period by 49%.
10	Use the lesser amount of step 8 and step 9 for the withholding on the additional payment. Ignore any cents.
11	Use the relevant tax table to find the amount to be withheld from your employee's gross earnings (excluding additional payments) for the current pay period.
12	Work out the total PAYG withholding for this pay period by adding the withholding on the additional payment (step 10) to the withholding on the gross earnings (step 11).

2 See Terms we use for the definition of average total earnings.

## Commissions, bonuses or similar payments

If a commission, bonus or similar payment relates to work your employee performed for more than one pay period (or for an undefined period), you calculate withholding by applying either Method A or Method B (ii).

Do not use this tax table for payments for a single pay period.

If the commission, bonus or similar payment relates to work your employee performed in a single pay period (for example, a week, a fortnight or a month) the amount is added to all their other earnings for the current period. Withholding is then calculated using the standard PAYG withholding tax tables.

# HELP, SFSS and additional payments

If your employee has advised you they have a Higher Education Loan Program (HELP), or Financial Supplement (FS) debt on their [Tax file number declaration](#) (NAT 3092) or [Withholding declaration](#) (NAT 3093), you must also withhold from the additional payment using the relevant HELP or SFSS tax tables.

You calculate the amounts you need to withhold from additional payments for HELP and SFSS by using the same method you used to calculate the PAYG withholding amount from the additional payment.

For example, if you calculate the amount to be withheld from the additional payment using Method A, use the same method to calculate the amounts to be withheld for HELP and SFSS purposes.

## **How do you calculate withholding on the additional payment if it is calculated separately to the HELP and SFSS components?**

If you calculate withholding separately, you need to make sure that the withholding limit in Method A and Method B (ii) applies to the combined total calculated for the additional payment and the HELP and SFSS components. For example, at step 9 in Method A you must combine the amounts from the two separate calculations used for step 7 before comparing it to the amount calculated at step 8.

### **Get it done**

You can use the following schedule that combine PAYG withholding with HELP and SFSS instead of repeating the calculation separately for each component:

- Statement of formulas for calculating Higher Education Loan Program (HELP) and Student Financial Supplement Scheme (SFSS) components (NAT 3539).

The results obtained when using the coefficients in the above schedule may differ slightly from the sums of the amounts shown in the PAYG tax tables. Either calculation is acceptable.

Copies of all the tax tables are available on our website, refer to [Tax tables](#).

# Variations

If your employee has a withholding variation in place for the current financial year, you use one of the following to work out the amount of withholding from additional payments:

- the varied rate – if the relevant income is specified in the variation notice
- this tax table – if the relevant income is not specified in the variation notice.

If your employee had a withholding variation in place at the time the additional payment accrued but the withholding variation is no longer in effect when the additional payment is made, it does not apply when working out the amount to withhold.

## Find out more

If you need help to determine whether to use a withholding variation to work out the amount to withhold from an additional payment, phone us on **1300 360 221**.

# Leave without pay

For the purposes of this table, any periods where your employee has taken leave without pay do not affect the calculations outlined in each of the methods. For example, for Method A and Method B (ii), you are still required at step 3 to apportion all additional payments made by the total number of pay periods in a financial year (that is, 52 weekly pay periods, 26 fortnightly pay periods or 12 monthly pay periods).

# Superannuation income streams

To work out the amount you need to withhold from the taxable component of back payments of super income streams (pensions and annuities), including lump sum payments in arrears, use either Method A or B.

# Payment summaries

You must record back payments on your employee's payment summary. What payment summary you use depends on whether the back payments relate to a superannuation income stream. Use:

- [PAYG payment summary – individual non-business](#) (NAT 0046) for all back payments except those for super income streams or if they were related to a previous period of assessable foreign service
- [PAYG payment summary – superannuation income stream](#) (NAT 70987) for super income stream payments
- [PAYG payment summary – foreign employment](#) (NAT 73297) for payments related to a previous period of assessable foreign service.

## Find out more

For more information about payment summaries, refer to [PAYG payment summaries and guidelines](#).

## Completing the individual non-business payment summary

For payments accrued in the current financial year include the total:

- gross amount of all payments at 'Gross payments'
- amount withheld at 'Total tax withheld'.

### Salary and wage income accrued before the current financial year

For each payment accrued in a prior financial year, but not more than 12 months before the date of payment include the total:

- gross amount of the payment at 'Gross payments'
- amount withheld at 'Total tax withheld'.

For each payment accrued more than 12 months before the date of payment of less than \$400, include the total:

- gross amount of the payment at 'Gross payments'
- amount withheld at 'Total tax withheld'.



For each payment accrued more than 12 months before the date of payment of \$400 or more, include the total:

- gross amount of the payment at 'Lump sum E'
- amount withheld at 'Total tax withheld'.

**Other amounts accrued before the current financial year<sup>3</sup>**

For each payment accrued in a prior financial year of less than \$400, include the total:

- gross amount of the payment at 'Gross payments'
- amount withheld at 'Total tax withheld'.

For each payment accrued in a prior financial year of \$400 or more, include the total:

- gross amount of the payment at 'Lump sum E'
- amount withheld at 'Total tax withheld'.

**Employee letter**

You must also provide your employee with a letter specifying the financial years over which the amount accrued and the gross amount that accrued each financial year.

## Completing the superannuation income stream payment summary

For payments accrued in the current financial year, include:

- the component amounts at both
  - 'Taxable component' (both taxed and untaxed elements if applicable)
  - 'Tax-free component'
- the amount withheld at 'Total tax withheld'.

For payments accrued prior to the current financial year, include:

- the component amounts at both
  - 'Lump sum in arrears – taxable component' (both taxed and untaxed elements if applicable)
  - 'Lump sum in arrears – tax-free component'
- the amount withheld at 'Total tax withheld'.

**Payee letter**

You must also provide your payee with a letter specifying the financial years over which the amount accrued and the gross amount that accrued each financial year.

## Completing the foreign employment payment summary

For salary and wage payments accrued in the current financial year, include the total:

- gross amount of all payments at 'Gross payments'
- amount withheld and paid to a foreign tax jurisdiction (if applicable) at 'Foreign tax paid'
- amount withheld for Australian tax purposes at 'Total Australian tax withheld'.

For each salary and wage payment accrued in a prior financial year, but not more than 12 months before the date of payment, include the total:

- gross amount of the payment at 'Gross payments'
- amount withheld and paid to a foreign tax jurisdiction (if applicable) at 'Foreign tax paid'
- amount withheld for Australian tax purposes at 'Total Australian tax withheld'.

For each salary and wage payment accrued more than 12 months before the date of payment of less than \$400, include the total:

- gross amount of the payment at 'Gross payments'
- amount withheld and paid to a foreign tax jurisdiction (if applicable) at 'Foreign tax paid'
- amount withheld for Australian tax purposes at 'Total Australian tax withheld'.

For each salary and wage payment accrued more than 12 months before the date of payment of \$400 or more, include the total:

- gross amount of the payment at 'Lump sum E'
- amount withheld and paid to a foreign tax jurisdiction (if applicable) at 'Foreign tax paid'
- amount withheld for Australian tax purposes at 'Total Australian tax withheld'.

### Employee letter

You must also provide your employee with a letter specifying the financial years over which the amount accrued and the gross amount that accrued each financial year.

3 Refer to Other payments you should use this tax table for

# Examples

## Example 1: Withholding from a bonus payment using Method A

Mark, who has an accumulated HELP debt, is due to receive an annual bonus of \$900. Mark earns \$1,500 per week. Using Method A, calculate the withholding amount for the current pay period as follows:

### PAYG withholding component

Step	Instruction	Result
1	Work out Mark's gross earnings for the current pay period.	\$1,500
2	Use the relevant tax table to find the amount to be withheld from Mark's gross earnings in step 1.	\$356
3	Divide the additional payment by the number of pay periods in the financial year. $= \$900 / 52$	\$17
4	Add the amount at step 3 to the gross earnings at step 1. $= \$1,500 + \$17$	\$1,517
5	Use the relevant tax table to find the amount to be withheld from the amount at step 4.	\$362
6	Subtract the amount at step 2 from the amount at step 5. $= \$362 - \$356$	\$6
7	Multiply the amount at step 6 by the number of pay periods in the financial year for the withholding on the additional payment. $= \$6 \times 52$	\$312

As Mark has an accumulated HELP debt, his employer also needs to calculate a withholding amount from the bonus payment for HELP. They use the same method as they used to calculate withholding for the bonus payment in the first part of this example.

### HELP component

Step	Instruction	Result
1	Work out Mark's gross earnings for the current pay period.	\$1,500
2	Use the relevant tax table to find the amount to be withheld for HELP from Mark's gross earnings in step 1.	\$90
3	Divide the additional payment by the number of pay periods in the financial year.	\$17

	= \$900 / 52	
4	Add the amount at step 3 to the gross earnings at step 1. = \$1,500 + \$17	\$1,517
5	Use the relevant tax table to find the amount to be withheld for HELP from the amount at step 4.	\$91
6	Subtract the amount at step 2 from the amount at step 5. = \$91 – \$90	\$1
7	Multiply the amount at step 6 by the number of pay periods in the financial year for the HELP withholding on the additional payment. = \$1 × 52	\$52

**Withholding limit (including HELP component)**

Step	Instructions	Result
8	Multiply the additional payment being made in the current pay period by 49%. = \$900 × 49%	\$441
9	Use the lesser amount of step 7 (combined) and step 8 for the withholding on the additional payment. Ignore any cents.  Combine two step 7 results \$312 + \$52 = \$364. This amount is used as it's less than step 8.	\$364
10	See below	

**Calculate the total PAYG withholding amount for the current pay period (step 10)**

Add the amounts to be withheld:

- PAYG withholding on gross earnings in the current pay period = \$356
- HELP withholding on gross earnings in the current pay period = \$90
- PAYG withholding on additional payment = \$312
- HELP withholding on additional payment = \$52

The total PAYG withholding is \$810 (\$356 + \$90 + \$312 + \$52).

Example 1 uses both:

- *Higher Education Loan Program (HELP) weekly tax table (NAT 2173) effective from 1 July 2014*

- *Statement of formulas for calculating the amount to be withheld (NAT 1004) effective from 1 July 2014 – the calculations are made using scale 2, with tax-free threshold.*

### **Example 2: Withholding from a missed payment using Method B (i)**

Robyn, who has an accumulated HELP debt, is due to receive a back payment relating to the current financial year following a pay rise. Since the first pay period of the current financial year and up until period 8, Robyn has earned \$1,000 per week. From pay period 9 (her current pay period), Robyn will earn \$1,100 per week. Robyn's back payment which covers the first eight pay periods of the current financial year will be paid to her in pay period 9. Therefore, Robyn will receive a back payment of \$800 along with her normal gross earnings of \$1,100. Using Method B (i), calculate the withholding amount for the current pay period 9 as follows:

#### **PAYG withholding component**

Step	Instruction	Result
1	Work out how much of Robyn's additional payment applied to each earlier pay period in the current financial year. In this example it is \$800 over eight pay periods. $= \$800 / 8$	\$100
2	For the first affected pay period, add the additional payment relevant to that period to the normal earnings previously paid to get the total earnings for that period. $= \$1,000 + \$100$	\$1,100
3	Use the relevant tax table to find the amount to be withheld from Robyn's total earnings for that period.	\$217
4	Subtract the amount previously withheld for the period from the amount at step 3. $= \$217 - \$183$	\$34
5	Repeat steps 2–4 for each pay period affected. Total the amounts calculated in step 4 for each pay period for the withholding on the additional payment. As it is the same amount for each pay period in this example, it will be $8 \times \$34$ .	\$272
6	Use the relevant tax table to find the amount to be withheld from Robyn's gross earnings for the current pay period.	\$217
7	Add the withholding on the additional payment (step 5) to the withholding on Robyn's gross earnings (step 6) to work out the total withholding for the current pay period.	\$489

	= \$217 + \$272	
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As Robyn has an accumulated HELP debt, her employer also needs to calculate a withholding amount from the back payment for HELP. They use the same method as they used to calculate withholding for the back payment in the first part of this example.

#### HELP component

Step	Instruction	Result
1	Work out how much of Robyn's additional payment applied to each earlier pay period in the current financial year. In this example it is \$800 over eight pay periods. = \$800 / 8	\$100
2	For the first affected pay period, add the additional payment relevant to that period to the normal earnings previously paid to get total normal earnings for that period. = \$1,000 + \$100	\$1,100
3	Use the relevant tax table to find the amount to be withheld for HELP from Robyn's total normal earnings for that period.	\$44
4	Subtract the amount previously withheld for the period from the amount at step 3. = \$44 – \$0	\$44
5	Repeat steps 2–4 for each pay period affected. Total the amounts calculated in step 4 for each pay period for the HELP withholding on the additional payments. As it is the same amount for each pay period in this example, it will be 8 × \$44.	\$352
6	Use the relevant tax table to find the amount to be withheld for HELP from Robyn's gross earnings for the current pay period.	\$44
7	Add the HELP withholding on the additional payment (step 5) to the withholding on Robyn's gross earnings (step 6) to work out the withholding for HELP for the current period. = \$44 + \$352	\$396

#### Calculate the total PAYG withholding amount for the current pay period

Add the amounts to be withheld:

- PAYG withholding on gross earnings in the current pay period = \$217
- HELP withholding on gross earnings in the current pay period = \$44
- PAYG withholding on additional payment = \$272

- HELP withholding on additional payment = \$352

The total PAYG withholding is \$885 (\$217 + \$44 + \$272 + \$352).

Example 2 uses:

- *Higher Education Loan Program (HELP) weekly tax table* (NAT 2173) effective from 1 July 2014
- *Statement of formulas for calculating the amount to be withheld* (NAT 1004) effective from 1 July 2014 – the calculations are made using scale 2, with tax-free threshold.

### Example 3: Withholding from a lump sum payment in arrears using Method B (ii)

Mary is employed by Minercorp Pty Ltd and receives a fortnightly salary of \$1,800. She is entitled to an allowance from her employer when working in remote areas. In 2010, Mary worked in a remote area for six months, but she was not paid this allowance. The total allowance that she should have been paid for this period was \$2,480. Her employer discovers their oversight and agrees to pay her the \$2,480 as a lump sum payment in arrears on 11 November 2014. Her gross earnings for pay period 10 is \$1,800.

Mary has received normal earnings (year to date) of \$18,000 including the current pay. The amount Mary's payer must withhold from this payment is calculated using Method B (ii) as follows:

Step	Instruction	Result
1	Calculate Mary's average total earnings over the current financial year to date (including current pay). = \$18,000 / 10	\$1,800
2	Use the relevant tax table to find the amount to be withheld from Mary's average total earnings in step 1.	\$296
3	Add all additional payments made to Mary in the current financial year if Method B (ii) was used to calculate the withholding, to the additional payment in the current pay. Mary's additional payment of \$2,480 is then divided by the number of pay periods in the financial year. = \$2,480 / 26	\$95
4	Add the amount at step 3 to the average total earnings at step 1. = \$1,800 + \$95	\$1,895
5	Use the relevant tax table to find the amount to be withheld from the amount at step 4.	\$328



6	Subtract the amount at step 2 from the amount at step 5. = $\$328 - \$296$	\$32
7	Multiply the amount in step 6 by the number of pay periods used in step 3. = $\$32 \times 26$	\$832
8	Subtract any amounts previously withheld from additional payments in the current financial year if Method B (ii) was used, from the amount at step 7 for the withholding on the additional payment. = $\$832 - \$0$	\$832
9	Use the relevant tax table to find the amount to be withheld from the payee's gross earnings (excluding additional payments) for the current pay period.	\$296
10	Work out the total PAYG withholding for this pay period by adding the withholding on the additional payment (step 8) to the withholding on the gross earnings (step 9). = $\$832 + \$296$	\$1,128

Example 3 uses *Statement of formulas for calculating the amount to be withheld* (NAT 1004) effective from 1 July 2014. The calculations are made using scale 2, with tax-free threshold.

#### Example 4: Withholding using Method B (i) and Method B (ii)

Pablo, who has an accumulated Financial Supplement debt, is employed by Macropayers Pty Ltd. On 1 September 2014, he received a salary increase of \$5 an hour, taking his gross monthly salary from \$4,800 to \$5,600. His employer agreed that the increase would be backdated to 1 August 2013 and paid at the end of September 2014.

This means that the back payment of salary covers 13 pay periods. The total back payment of salary is \$10,400. To work out the total amount to be withheld from the back payment to Pablo, his employer will need to calculate the amount accrued in both:

- the current financial year (2 pay periods from 1 July to August 2014) = \$1,600
- a prior financial year (11 pay periods from 1 August 2013 to 30 June 2014) = \$8,800.

You don't need to complete some steps if both Methods B (i) and (ii) are used in the calculations.

#### Method B (i) – PAYG withholding component

Step	Instruction	Result
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1	Work out how much of Pablo's additional payment applied to each earlier pay period in the current financial year. In this example it is \$1,600 over two pay periods. = \$1,600 / 2	\$800
2	For the first affected pay period, add the additional payment relevant to that period to the normal earnings previously paid to get total earnings for that period. = \$4,800 + \$800	\$5,600
3	Use the relevant tax table to find the amount to be withheld from Pablo's total earnings for that period.	\$1,231
4	Subtract the amount previously withheld for the period from the amount at step 3. = \$1,231 – \$953	\$278
5	Repeat steps 2–4 for each pay period affected. Total the amounts calculated in step 4 for each pay period for the withholding on the additional payment. As it is the same amount for each pay period in this example, it will be 2 × \$278.	\$556
6	This step is not required as withholding is also calculated using Method B (ii).	
7	This step is not required as withholding is also calculated using Method B (ii).	

As Pablo has an accumulated Financial Supplement debt, his employer will need to calculate a withholding amount from the back payment for SFSS. They use the same method as they used to calculate withholding for the back payment in the first part of this example.

#### **Method B (i) – SFSS component**

Step	Instruction	Result
1	Work out how much of Pablo's additional payment applied to each earlier pay period in the current financial year. In this example it is \$1,600 over two pay periods. = \$1,600 / 2	\$800
2	For the first affected pay period, add the additional payment relevant to that period to the normal earnings previously paid to get total normal earnings for that period. = \$4,800 + \$800	\$5,600
3	Use the relevant tax table to find the amount to be withheld for SFSS	\$169

	from Pablo's total normal gross earnings for that period.	
4	Subtract the amount previously withheld for the period from the amount at step 3. = \$169 – \$95	\$74
5	Repeat steps 2–4 for each pay period affected. Total the amounts calculated in step 4 for each pay period for the SFSS withholding on the additional payment. As it is the same amount for each pay period in this example, it will be 2 × \$74.	\$148
6	This step is not required as withholding is also calculated using Method B (ii).	
7	This step is not required as withholding is also calculated using Method B (ii).	

**Method B (ii) – PAYG withholding component**

Step	Instruction	Result
1	Calculate Pablo's average total earnings, which in this example is = (salary earnings to date + current financial year additional payments to date) / number of pay periods = [(\$4,800 + \$4,800 + \$5,600) + \$1,600] / 3 = \$16,800 / 3	\$5,600
2	Use the relevant tax table to find the amount to be withheld from Pablo's average total earnings in step 1.	\$1,231
3	Add all additional payments made to Pablo in current financial year where Method B (ii) was used to calculate the withholding, to the additional payment in current pay. Then divide by the number of pay periods in the financial year. = \$8,800 / 12	\$733
4	Add the amount at step 3 to the average total earnings at step 1. = \$5,600 + \$733	\$6,333
5	Use the relevant tax table to find the amount to be withheld from the amount at step 4.	\$1,482
6	Subtract the amount at step 2 from the amount at step 5. = \$1,482 – \$1,231	\$251
7	Multiply the amount in step 6 by the number of pay periods used in step 3.	\$3,012

	= $\$251 \times 12$	
8	Subtract any amounts previously withheld from additional payments in the current financial year if Method B (ii) was used, from the amount at step 7 for the withholding on the additional payment. = $\$3,012 - \$0$	\$3,012
9	This step is not required as final calculations for withholding limit and total withholding will be made after SFSS component is calculated.	
10	This step is not required as final calculations for withholding limit and total withholding will be made after SFSS component is calculated.	
11	This step is not required as final calculations for withholding limit and total withholding will be made after SFSS component is calculated.	
12	This step is not required as final calculations for withholding limit and total withholding will be made after SFSS component is calculated.	

As Pablo has an accumulated Financial Supplement debt his employer will need to calculate the withholding amount from the back payment for SFSS. They use the same method as they used to calculate withholding for the back payment in the first part of this example.

#### **Method B (ii) – SFSS component**

Step	Instruction	Result
1	Calculate Pablo's average total earnings, which in this example is: = (salary earnings to date + current financial year additional payments to date) / number of pay periods = $[(\$4,800 + \$4,800 + \$5,600) + \$1,600] / 3$ = $\$16,800 / 3$	\$5,600
2	Use the relevant tax table to find the amount to be withheld for SFSS on Pablo's average total earnings in step 1.	\$169
3	Add all additional payments made to Pablo in current financial year where Method B (ii) was used to calculate the withholding, to the additional payment in current pay. Then divide by the number of pay periods in the financial year. = $\$8,800 / 12$	\$733
4	Add the amount at step 3 to the average total earnings at step 1. = $\$5,600 + \$733$	\$6,333
5	Use the relevant tax table to find the amount to be withheld for SFSS from the amount at step 4.	\$191

6	Subtract the amount at step 2 from the amount at step 5. = \$191 – \$169	\$22
7	Multiply the amount in step 6 by the number of pay periods used in step 3. = \$22 × 12	\$264
8	Subtract any amounts previously withheld from additional payments in the current financial year if Method B (ii) was used, from the amount at step 7 for the withholding for SFSS on the additional payment. = \$264 – \$0	\$264

**Withholding limit (including SFSS component)**

Step	Instruction	Result
9	Multiply the additional payment being made using Method B (ii) in the current pay period by 49%. = \$8,800 × 49%	\$4,312
10	Use the lesser amount of step 8 (combined) and step 9 for the withholding on the additional payment. Ignore any cents. Combine the two step 8 results. = \$3,012 + \$264 = \$3,276 This amount is used as it's less than step 9.	\$3,276
11	This step is not applicable as total withholding for the current pay period will need to include amounts calculated in Method B (i). See next column for separate calculations.	
12	This step is not applicable as total withholding for the current pay period will need to include amounts calculated in Method B (i). See next column for separate calculations.	

**Calculate the total PAYG withholding amount for the current pay period**

Add the amounts to be withheld:

*Withholding on gross earnings current pay period*

- PAYG withholding on gross earnings in the current pay period = \$1,231
- SFSS withholding on gross earnings in the current pay period = \$169

*Method B (i) withholding*

- PAYG withholding on additional payment for current financial year = \$556
- SFSS withholding on additional payment for current financial year = \$148

*Method B (ii) withholding*

- PAYG withholding on additional payment for prior financial year = \$3,012
- SFSS withholding on additional payment for prior financial year = \$264

**Total PAYG withholding** is \$5,380  
(\$1,231 + \$169 + \$556 + \$148 + \$3,012 + \$264).

Example 4 uses both:

- *Student Financial Supplement Scheme (SFSS) monthly tax table* (NAT 3308) effective from 1 July 2014
- *Statement of formulas for calculating the amount to be withheld* (NAT 1004) effective from 1 July 2014 – the calculations are made using scale 2, with tax-free threshold.

## PAYG withholding publications

You can access all PAYG withholding tax tables and other PAYG withholding publications quickly and easily from our website. For more information:

- visit [PAYG withholding](#)
- refer to [Tax tables.](#)

Copies of weekly and fortnightly tax tables are available from most newsagents. Newsagents also hold copies of the following:

- [Tax file number declaration](#) (NAT 3092)
- [Withholding declaration](#) (NAT 3093).

If you need more information about the correct amount of tax to withhold, phone us on either:

- **13 28 61** if you are an individual
- **13 28 66** if you are an employer or payer.