PAYG is a single, integrated system for reporting and paying:

- tax on business and investment income, and
- withholding amounts (‘withholding’ means the process by which you deduct amounts from payments to others and remit these amounts to the Australian Taxation Office (ATO)).

Note that Universities do not pay PAYG Instalments (this is the system which replaces company tax), as we are income tax exempt entities.

The PAYG System replaced 11 existing systems, including provisional tax, company and superannuation fund instalments, and Pay As You Earn (PAYE).

PAYG brings instalments of income tax (and other liabilities) and withholding obligations together in one system, which for Universities means one set of rules, one set of payment dates and one form to fill in.

### Individual Rates of Tax

**Resident Individual Rates of Tax 2006/07**

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>*Tax Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 – $6,000</td>
<td>Nil</td>
</tr>
<tr>
<td>$6,001 – $25,000</td>
<td>15</td>
</tr>
<tr>
<td>$25,001 – $75,000</td>
<td>30</td>
</tr>
<tr>
<td>$75,001 – $150,000</td>
<td>40</td>
</tr>
<tr>
<td>$150,001 +</td>
<td>45</td>
</tr>
</tbody>
</table>

**Resident Individual Rates of Tax 2005/06**

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>*Tax Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $6,000</td>
<td>0</td>
</tr>
<tr>
<td>$6,001 - $21,600</td>
<td>15</td>
</tr>
<tr>
<td>$21,601 - $63,000</td>
<td>30</td>
</tr>
<tr>
<td>$63,001 - $95,000</td>
<td>42</td>
</tr>
<tr>
<td>$95,001 +</td>
<td>47</td>
</tr>
</tbody>
</table>

*Medicare levy will also be payable for residents of Australia at 1.5% of the taxable income of the individual.
Non-Resident Individual Rates of Tax 2006/07

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>Tax Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 – $25,000</td>
<td>29</td>
</tr>
<tr>
<td>$25,001 – $75,000</td>
<td>30</td>
</tr>
<tr>
<td>$75,001 – $150,000</td>
<td>40</td>
</tr>
<tr>
<td>$150,001 +</td>
<td>45</td>
</tr>
</tbody>
</table>

Non-Resident Individual Rates of Tax 2005/06

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>Tax Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
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</tr>
<tr>
<td>$21,601 - $63,000</td>
<td>30</td>
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<tr>
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<td>42</td>
</tr>
<tr>
<td>$95,001 +</td>
<td>47</td>
</tr>
</tbody>
</table>

Payments of PAYG

Reporting and paying of PAYG instalments and PAYG withholding may be done on a Business Activity Statement (“BAS”). This form will also be used to report other tax obligations and entitlements, such as GST, FBT and deferred company and superannuation fund instalments.

Universities will have 12 due dates for their activity statements - one for each month.

Overview – PAYG Withholding

In order to assist you in determining whether a payment is subject to PAYG withholding tax, we have attached a PAYG flowchart for your reference. You will note that the first option on the PAYG flowchart requires the University to ascertain whether the payment has been made to an employee or a contractor. It is important to distinguish between these two types of recipients as they are subject to different treatment under the PAYG system.

The University will generally not be required to withhold from payments made to contractors where an ABN is quoted. The treatment of payments to employees under PAYG is outlined in the table on the following page.
Pay As You Go (PAYG) Withholding System

Withholding obligation for payments to employees, contractors and other suppliers

Is the payment made to an employee?\(^{(1)}\)

- Yes
  - Is the payment for salary, wages, commission, bonuses or allowances?
    - Yes
      - Has the employee quoted their tax file number?
        - Yes
          - PAYG withholding required\(^{(7)}\)
        - No
          - No PAYG withholding
    - No
      - No PAYG withholding

- No
  - Is the payment made to an individual as a contractor?
    - Yes
      - Is the payment made under a labour hire arrangement?\(^{(6)}\)
        - Yes
          - PAYG withholding required\(^{(7)}\)
        - No
          - No PAYG withholding
    - No
      - No PAYG withholding

Has the employee quoted their tax file number?

- Yes
  - PAYG withholding required\(^{(7)}\)
  - Deduct PAYG withholding amount\(^{(3)}\)
- No
  - No PAYG withholding

Is the payment made under a labour hire arrangement?\(^{(6)}\)

- Yes
  - Did the individual provide an invoice with an ABN?
    - Yes
      - PAYG withholding required\(^{(7)}\)
    - No
      - No PAYG withholding
- No
  - No PAYG withholding

Has a voluntary agreement\(^{(4)}\) been entered into to withhold?

- Yes
  - PAYG withholding required\(^{(7)}\)
- No
  - No PAYG withholding

Is the invoice for more than $50?

- Yes
  - Does the provider's invoice quote an ABN?
    - Yes
      - No PAYG withholding
    - No
      - Is the invoice for more than $50?
        - Yes
          - Deduct PAYG withholding amount\(^{(3)}\)
        - No
          - No PAYG withholding
- No
  - Is the invoice for more than $50?
    - Yes
      - Deduct PAYG withholding amount\(^{(3)}\)
    - No
      - No PAYG withholding

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This tax manual has been developed as a joint effort by the public universities in Western Australia. No person should rely on the contents of this tax manual without first obtaining advice from your University's tax accountant or other qualified professional. This tax manual has been provided as a general reference guide, on the terms and understanding that the authors are not responsible for the results of any actions taken on the basis of information in this tax manual, nor for any error or omission therein. The authors and all Universities involved in the development and update of this tax manual expressly disclaim all and any liability and responsibility to any person, in respect of anything done or omitted to be done by any such person in reliance, whether wholly or partially, upon the whole or any part of the contents of this tax manual. You should not rely on this tax manual for your personal income tax obligations.
Pay As You Go (PAYG) Withholding System

Withholding obligation for payments to employees, contractors and other suppliers

1) A payer is not required to withhold an amount from a payment:
   • if the whole of the payment is exempt income of the recipient.
   • to the extent it is a living-away-from-home allowance benefit. For example, an employer makes a payment to an employee in respect of salary or wages and living-away-from-home allowance; withholding is not required from the payment to the extent of the living away from home allowance benefit.
   • to the extent it is an expense payment benefit. For example, an employer makes a payment to an employee in respect of salary or wages and a reimbursement of the employee’s private health insurance premiums; withholding is not required from the payment to the extent of the expense payment benefit.
   • to the extent it is a reimbursement of an employee’s car expenses (calculated on a per kilometre basis) and not exempt in the hands of the employee.

2) A supply is any form of supply whatsoever. It includes: a supply of goods; provision of services; provision of advice; provision of information; and any combination of the above or any other forms of supply. It does not matter if the transaction involving the supply is unlawful.

3) An enterprise includes an activity, or a series of activities, done in the form of a business, trade or profession. It also includes one-off ventures in the nature of trade. However, an enterprise does not include the activities of a person as an employee or as a recipient of withholding payments as an employee, company director, office holder or under a labour hire arrangement. It also excludes activities done as a private recreational pursuit or hobby.

4) A voluntary agreement enables parties to arrangements, not otherwise in the PAYG withholding system to choose to come within it. It covers payments by a business to an individual who has an Australian Business Number (eg. a contract worker) for arrangements involving, wholly or partly, the performance of work or services by the individual or by others. The payer and the recipient must enter into an agreement stating PAYG withholding is to apply to payments under the arrangement. The ABN of the recipient must be quoted on the agreement. The agreement which need not be lodged with the Commissioner must be in a form approved in writing by the Commissioner and complies with any other requirements stipulated by him/her. The agreement must be retained by the parties for 5 years and may be terminated by either party giving notice to the other. A payment under the agreement is not subject to GST unless the payer is not entitled to input tax credit on the supply.

5) Where an employee has not provided a TFN declaration or where a supplier has not quoted an ABN, the Taxation Administration Regulations 1953 will require that an amount equal to the highest marginal rate of tax plus Medicare levy (currently 46.5%) be withheld.

6) A payment under a labour hire arrangement is a withholding event specifically covered in the PAYG legislation. To come within the scope of this event, it is necessary that the entity making the payment is carrying on a business of arranging for people to perform work or services for clients of the entity. This will be the case where:
   • the entity’s activities consist of arranging for people to perform work or services for clients of the entity; or
   • the entity’s activities include a business of arranging for people to perform work or services for clients of the entity unless that business is merely incidental to the other business activities of the enterprise; or
   • the entity is required to withhold an amount from payments to the individual under an arrangement for the performance of work or services by the individual for a client of the entity.

7) The amount required to be withheld is to be worked out under the Commissioner’s withholding schedules and procedures. The amounts will be based on progressive rates and have regard to the marginal income tax rates, rates of Medicare levy, effect of residency, the general exemption, various tax offsets and family tax benefit entitlements.

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