

Interest on early payments, overpayments of tax and on delayed refunds of a running balance account surplus

INTEREST ON EARLY PAYMENTS AND OVERPAYMENTS OF TAX

TAXPACK REFERRED PUBLICATION

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Introduction

This publication explains your entitlement to interest on early payments and overpayments of tax and delayed refunds of running balance account (RBA) surpluses, who it affects and how it is calculated.

The information in this publication cannot answer every question on this topic. If you still have questions after reading it, please ring the Australian Taxation Office (ATO) on **13 2861**.

Who is entitled to interest?

The interest arrangements apply to individuals, taxable trusts, companies and superannuation funds. This publication relates to individuals and taxable trusts and is not intended to cover interest entitlements for companies, superannuation funds, corporate unit trusts and public trading trusts. While it may be generally relevant to these entities, they should not rely on it to ascertain their entitlement to interest on early payments or overpayments.

Interest is payable if it is 50 cents or more.

When did the interest arrangements commence?

The interest arrangements outlined in this publication apply to:

- early payments of tax made by taxpayers on or after 1 July 1994 in relation to a debt for the 1993–94 or later income years
- overpayments of tax from the 1993–94 income year (with no interest before 1 July 1994) and
- delayed refunds of RBA surpluses that arose on or after 1 July 2000.

Changes for 2000–01

There have been a number of changes to these arrangements for the 2000–01 and later income years. The changes have come about with the introduction of the Pay As You Go (PAYG) system and the abolition of the provisional tax system.

What is the interest rate?

The interest rate used in calculating your interest is set under the law and is reviewed every quarter. Interest rates for 2000–01 are shown in the next column. Details of other quarterly interest rates are available from the ATO.

Interest rates—early payments, overpayments and delayed refunds calculations

<i>Period</i>	<i>Interest rate (% p.a.)</i>
1 July 2000 to 30 September 2000	6.00
1 October 2000 to 31 December 2000	5.86
1 January 2001 to 31 March 2001	5.86
1 April 2001 to 30 June 2001	5.86

How is interest calculated?

Interest is calculated as follows:

$$\text{Interest} = \frac{\text{number of days}}{365} \times \frac{\text{amount of payment}}{\text{payment}} \times \frac{\text{interest rate for period}}{100}$$

This publication includes examples that show you how to calculate your interest on:

- an early payment of tax—refer to pages 3–4
- an overpayment of tax—refer to pages 5–7
- a delayed refund of an RBA surplus—refer to page 7.

Is interest assessable income?

Yes, interest is assessable income. Include any interest on your tax return in the year it is refunded to you or in the year it is set off or applied against another debt you have with the ATO.

Early payment of tax

What is an early payment?

A tax payment made on or after 1 July 1994, for a debt for the 1993–94 year or a later year, will qualify for early payment interest where it is paid more than 14 days before the due date for payment.

Early payment interest is payable on the following:

- income tax (including Medicare levy)
- Higher Education Contribution Scheme (HECS) assessment debts
- Student Financial Supplement Scheme debts
- interest on distributions from non-resident trust estates
- income tax penalty
- general interest charge relating to a late return or an amended assessment
- provisional tax or an instalment of provisional tax.

The following payments do not attract early payment interest:

- PAYG withholding amounts including:
 - amounts withheld from interest, dividends and royalties (formerly withholding tax)
 - amounts withheld by payers (formerly tax instalment deductions) including those withheld for HECS
- PAYG instalments including payments that used to be called prescribed payments or reportable payments
- any part of a payment that exceeds the amount that is due and payable.

If an amount that is paid early is refunded before the day it becomes due and payable, early payment interest is not payable for any period after the day it is refunded.

You cannot claim early payment interest if you are entitled to a credit, refund or remission. In these cases you may be entitled to interest on overpayment—see page 4.

Who calculates your interest?

You are responsible for calculating your early payment interest.

How to claim your interest

You can:

- claim the interest as a credit on your tax return for the income year in which the entitlement to the interest arises if it is 50 cents or more, or
- choose to write to the ATO for payment of the interest if it is more than \$5.

You will not be paid interest until after the due date for payment.

Interest on early payments can be used to offset income tax and other tax liabilities.

How to work out the period for which interest is payable

For most taxpayers, interest is payable from the later of:

- the date of issue of the notice notifying you of the amount of tax, debt, interest or instalment and
- the date you make the payment.

For companies and trustees of certain funds, the interest is calculated from the day on which the payment is made, without reference to the date of issue of a notice.

Interest is payable up to the due date for payment, but only on the amount of your payment up to the value of your debt.

The date you make the payment is:

- the date shown on the receipt if you paid at the post office or
- the date your bank account is direct debited—this date is shown on your bank statement or
- the date of postage plus 3 days for mailed payments.

As mentioned earlier, the rate is reviewed every quarter. The calculations in the following examples assume a normal year of 365 days and use a single interest rate of 6 per cent. Where the early payment extends over 2 or more interest periods, you will need to do a separate calculation for the number of days in each period.

Example

Single payments

Evan paid an amount of \$800 more than 14 days early. He calculated his early payment interest as follows:

- 1 October Evan paid the total amount of his anticipated debt by mail.
- 3 November The ATO issued Evan's notice of assessment which showed a tax bill of \$800.
- 1 December Evan's due date for payment.

Evan calculated interest on \$800 from 3 November, the issue date of his assessment, to 1 December, the due date for payment—a period of 29 days:

$$\frac{29}{365} \times \$800 \times \frac{6}{100} = \$3.81$$

Evan's early payment interest is \$3.81.

Evan paid by mail and calculated his date of postage (1 October) plus 3 days = 4 October. As the date of issue of the notice of assessment (3 November) is later, interest is paid from that date.

Evan can claim the interest as a credit on his next tax return.

He must include \$3.81 as income on his tax return for the income year in which the interest was refunded to him or the income year in which the ATO set it off or applied it against a tax debt.

Example

Payment by instalments

Michael paid 2 instalments more than 14 days early. He calculated his early payment interest as follows:

- 1 August The ATO issued Michael's notice of assessment which showed a tax bill of \$800.
- 15 August Michael paid a first instalment of \$400 at the post office.
- 29 August Michael paid the final instalment of \$400 at the post office.
- 1 December Michael's due date for payment.

First instalment

Michael calculated the interest on \$400 from 15 August, the payment date of the first instalment, to 1 December, the due date for payment—a period of 109 days:

$$\frac{109}{365} \times \$400 \times \frac{6}{100} = \$7.17$$

Michael's early payment interest for his first instalment is \$7.17.

Second instalment

Michael calculated the early payment interest on his second payment of \$400 from 29 August, the payment date of the second instalment, to 1 December, the due date for payment—a period of 95 days:

$$\frac{95}{365} \times \$400 \times \frac{6}{100} = \$6.25$$

Michael's early payment interest for his second instalment is \$6.25.

Total interest is \$7.17 + \$6.25 = \$13.42.

Michael can claim the interest as a credit on his next tax return or write to the ATO and ask for payment of \$13.42. He must include \$13.42 as income on his tax return for the income year in which the interest was refunded to him or the income year in which the ATO set it off or applied it against a tax debt.

Example

Amended assessments

John left some income out of his income tax return. His assessment was amended and a notice of amended assessment—which increased the tax payable—was issued. The amended assessment has the same due date as the original assessment. John calculated his early payment interest as follows:

- 1 September John's original notice of assessment was issued and showed a tax bill of \$800—due date for payment 1 December.
 - 7 October John paid the full amount owing—\$800—at the post office.
 - 17 October A notice of amended assessment was issued, showing a debt of \$1000—due date for payment 1 December.
 - 7 November John paid the additional \$200 at the post office.
- John calculated his interest separately for each payment.

First payment

John calculated the interest on the original debt of \$800 from 7 October, the payment date, to 1 December, the due date for payment—a period of 56 days:

$$\frac{56}{365} \times \$800 \times \frac{6}{100} = \$7.36$$

John's early payment interest for his first payment is \$7.36.

Second payment

John calculated the early payment interest on the amended assessment debt of \$200 from 7 November, the payment date of the additional amount, to 1 December, the due date for payment—a period of 25 days:

$$\frac{25}{365} \times \$200 \times \frac{6}{100} = \$0.82$$

John's early payment interest for his second payment is \$0.82.

Total early payment interest is \$7.36 + \$0.82 = \$8.18.

John can claim the interest as a credit on his next tax return or write to the ATO and ask for payment of \$8.18.

He must include \$8.18 as income on his tax return for the income year in which the interest was refunded to him or the income year in which the ATO set it off or applied it against a tax debt.

Overpayment of tax

As from the 1993–94 income year, interest on overpayment of tax is payable in the following circumstances:

- You are entitled to a refund or credit of tax and it takes more than 30 days after the return is lodged to issue the assessment. Where a return is lodged without all the required information, the 30-day period starts from the date the ATO receives all the information.
- You are entitled to a refund of tax as a result of an amendment to an assessment, including as a result of a successful objection against an assessment or a successful appeal in relation to an objection.

Tax in this regard includes certain income tax penalties and general interest charge imposed on an amended assessment that increases your tax liability, goods and services tax (GST), wine equalisation tax, luxury car tax, a Higher Education Contribution Scheme (HECS) assessment debt, a Student Financial Supplement Scheme assessment debt, fringe benefits tax and certain fringe benefits tax penalties.

- As a result of a request, you receive
 - a refund or credit of income tax, certain income tax penalties, HECS assessment debt, Student Financial Supplement Scheme assessment debt, provisional tax (including an instalment) or
 - a remission of the general interest charge and the refund, crediting or remission occurs more than 30 days after the date you made the request.
- You are entitled to a refund as a result of an amendment to an assessment of superannuation contributions tax (superannuation surcharge) or of termination payments tax (termination payments surcharge).

Interest on overpayments is not payable for periods before 1 July 1994.

Who calculates the interest on your overpayment?

The ATO will calculate your interest. Interest will be refunded to you with your overpayment or set off or applied against any outstanding debts you may have with the ATO. The following example shows how interest on an overpayment is calculated. As in the earlier examples, a single interest rate of 6 per cent has been used.

Example

Balance of assessment was a credit

Jim's balance of assessment was a credit. The ATO issued a notice of assessment which included a refund for interest on his overpaid tax.

15 August Jim lodged his tax return.

18 November Jim's notice of assessment was issued.

Jim's notice of assessment looked like this.

*Income Tax Assessment Act 1936
and Income Tax Assessment Act 1997*

NOTICE OF ASSESSMENT

For the year ending 30 June xxxx
(or substituted accounting period)

Your taxable income is \$31 010		\$	c	
Tax on taxable income	A	6 565.40	DR	
Medicare levy	O	465.15	DR	
Total credit for payment summaries	E	8 000.00	CR	
Balance of assessment	L	969.45	CR	
Credit for interest on overpaid tax*	Y	10.52	CR	
Amount refundable		979.97	CR	

* The ATO calculated interest on \$969.45 from 14 September, 30 days after lodgment date, to 18 November, the issue date of the notice of assessment—a period of 66 days:

$$\frac{66}{365} \times \$969.45 \times \frac{6}{100} = \$10.52$$

Jim must include the \$10.52 interest as income on his tax return for the income year in which the interest was refunded to him or the income year in which the ATO set it off or applied it against a tax debt.

The following examples show how interest is calculated where an assessment has been amended.

Example

Original assessment was a credit

Peter lodged his tax return on 28 October. His credit assessment and refund were issued on 18 November. As this was within 30 days of lodging his return, no interest was payable. Later, however, an amendment resulted in a further refund. His notice of amended assessment included a refund for interest on his overpaid tax.

18 November Peter's notice of assessment was issued.

31 December Peter's notice of amended assessment was issued.

Peter's notice of amended assessment looked like this.

*Income Tax Assessment Act 1936
and Income Tax Assessment Act 1997*

NOTICE OF AMENDED ASSESSMENT

For the year ending 30 June xxxx
(or substituted accounting period)

Your taxable income is \$31 010		\$	c	
Tax on taxable income	A	6 565.40	DR	
Medicare levy	O	465.15	DR	
Total credit for payment summaries	E	8 000.00	CR	
Balance of assessment	L	969.45	CR	
Balance of previous assessment	M	700.00	CR	
Difference	N	269.45	CR	
Credit for interest on overpaid tax*	Y	1.95	CR	
Amount refundable		271.40	CR	

* The ATO calculated interest on \$269.45 from 18 November, the issue date of the notice of assessment, to 31 December, the issue date of the notice of amended assessment—a period of 44 days:

$$\frac{44}{365} \times \$269.45 \times \frac{6}{100} = \$1.95$$

Peter must include the \$1.95 interest as income on his tax return for the income year in which the interest was refunded to him or the income year in which the ATO set it off or applied it against a tax debt.

Example

Original assessment was a debit

Glenn's original notice of assessment showed that he had to pay tax of \$1000. Later, an amendment resulted in a refund.

His notice of amended assessment included a refund for interest on his overpaid tax.

18 November Glenn's original notice of assessment was issued.

1 December Glenn paid \$1000, due under that assessment, at a post office.

31 December Glenn's notice of amended assessment was issued.

Glenn's notice of amended assessment looked like this.

*Income Tax Assessment Act 1936
and Income Tax Assessment Act 1997*

NOTICE OF AMENDED ASSESSMENT

For the year ending 30 June xxxx
(or substituted accounting period)

Your taxable income is \$31 010		\$	c	
Tax on taxable income	A	6 565.40	DR	
Medicare levy	O	465.15	DR	
Total credit for payment summaries	E	6 308.38	CR	
Balance of assessment	L	722.17	DR	
Balance of previous assessment	M	1 000.00	DR	
Difference	N	277.83	CR	
Credit for interest on overpaid tax*	Y	1.42	CR	
Amount refundable		279.25	CR	

* The ATO calculated interest on \$277.83 from the payment date of 1 December to 31 December, issue date of the notice of amended assessment—a period of 31 days:

$$\frac{31}{365} \times \$277.83 \times \frac{6}{100} = \$1.42$$

Glenn must include the \$1.42 interest as income on his tax return for the income year in which the interest was refunded to him or the income year in which the ATO set it off or applied it against a tax debt.

Example

Original assessment—a debit—should have been a credit

David lodged his tax return on 27 October. His notice of assessment showed that he had to pay tax of \$1000. Later, an amendment resulted in a refund that was more than the amount he paid.

His notice of amended assessment included a refund for interest on his overpaid tax.

18 November	David's original notice of assessment was issued.
1 December	David paid \$1000, due under that assessment, at a post office.
31 December	The notice of amended assessment was issued.

David's notice of amended assessment looked like this.

*Income Tax Assessment Act 1936
and Income Tax Assessment Act 1997*

NOTICE OF AMENDED ASSESSMENT

For the year ending 30 June xxxx
(or substituted accounting period)

Your taxable income is \$31 010		\$	c	
Tax on taxable income	A	6 565.40	DR	
Medicare levy	O	465.15	DR	
Total credit for payment summaries	E	8 000.00	CR	
Balance of assessment	L	969.45	CR	
Balance of previous assessment	M	1 000.00	DR	
Difference	N	1 969.45	CR	
Credit for interest on overpaid tax*	Y	12.11	CR	
Amount refundable		1 981.56	CR	

*The ATO calculated interest on \$969.45, the balance of the amended assessment, from 18 November, the date of issue of the notice of assessment, to 31 December, the date of issue of the notice of amended assessment—a period of 44 days:

$$\frac{44}{365} \times \$969.45 \times \frac{6}{100} = \$7.01$$

David is also entitled to interest calculated on \$1000 from 1 December, the payment date, to 31 December, the issue date of the notice of amended assessment—a period of 31 days:

$$\frac{31}{365} \times \$1000 \times \frac{6}{100} = \$5.10$$

David must include the $(\$7.01 + \$5.10) = \$12.11$ interest as income in his tax return for the income year in which the interest was refunded to him or the income year in which the ATO set it off or applied it against a tax debt.

Delayed refund of an RBA surplus

From 1 July 2000, delayed refund interest is payable on a surplus on an RBA that reflects:

- the allocation of a Business Activity Statement (BAS) amount to the RBA following lodgement of the BAS—where it is not refunded within 14 days of it arising.

A BAS in this regard includes an Instalment Activity Statement.

A BAS amount is any credit or debt that arises directly under the BAS provisions—they include GST, wine equalisation tax, luxury car tax, PAYG withholdings and instalments and instalments of fringe benefits tax.

- the remission of a penalty (that the taxpayer requested be remitted) relating to a BAS amount—where it is not refunded within 14 days of the request for remission.
- a voluntary payment (that the taxpayer requested be refunded) made in respect of an anticipated tax debt under a BAS provision—where it is not refunded within 14 days of the request for refund.

If you have not provided the ATO with all outstanding activity statements or all the information necessary for your activity statements to be processed, delayed refund interest will not start accruing until 15 days after the relevant statements or information are provided.

Note: Delayed refund interest is not payable if the refund or surplus is offset against another tax liability you owe.

Who calculates the interest on your delayed refund?

The ATO will calculate your interest. Interest will be refunded to you with your delayed refund or set off or applied against any outstanding debts you may have with the ATO. The following example shows how interest on a delayed refund is calculated. As in the earlier examples, a single interest rate of 6 per cent has been used.

Example

RBA surplus—activity statement refund is delayed

Mary lodged her second quarterly BAS. At that time she had provided the ATO with all the information required for the BAS to be processed. The ATO processed the BAS on 4 February and this resulted in a \$4000 RBA surplus arising.

The ATO calculated delayed refund interest from 19 February, from the beginning of the date 15 days after the RBA surplus arose, to 26 February, the date the surplus was refunded—a period of 8 days:

$$\frac{8}{365} \times \$4000 \times \frac{6}{100} = \$5.26$$

Mary must include \$5.26 as income on her income tax return for the income year in which the interest was refunded to her or the income year in which the ATO set it off or applied it against a tax debt.

For more information about interest on early payments, overpayments and delayed refunds, ring the Personal Tax Infoline on **13 2861**.

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