



PAYG withholding notice

PAYG withholding notice under Section 15-15 of Schedule 1 to the *Taxation Administration Act 1953*

The Commissioner of Taxation has used the powers given under section 15-15 of Schedule 1 to the *Taxation Administration Act 1953*, to grant a variation to withholding from certain payments made by the Commonwealth Superannuation Corporation (CSC) to members.

Nature of payment

Invalidation benefit payments made by CSC to members of:

- Military Superannuation and Benefits Scheme, in accordance with rules 27 and 28 of the Military Superannuation and Benefits Rules
- Defence Force Retirement and Death Benefits Scheme, in accordance with section 31 of the Defence Force Retirement and Death Benefits Act 1973

where the invalidity pension commenced on or after 20 September 2007 and are therefore superannuation lump sum payments for the purposes of section 307-65 of the *Income Tax Assessment Act 1997*. An invalidity pension will commence for tax purposes on or after the date CSC makes a determination of the member's incapacity (and not the date incapacity was backdated to).

Class of recipients

Members who have claimed the tax-free threshold in their *Tax file number declaration* or *Withholding declaration*.

Variation to the amount of withholding

Withholding for fortnightly payments made to members will be calculated using *Schedule 12 - Tax table for superannuation lump sums*, adjusted as follows:

1. Applicable withholding rate

Step 1: The first \$700 is taxed at 2% where the payment component is subject to a withholding rate when using schedule 12. This applies to taxed and untaxed elements as follows:

Reduce the *untaxed element of the taxable component* by the lesser of the *untaxed element of the taxable component* and \$700. Any balance remaining should then be applied to reduce the *taxed element of the taxable component*. The rate of withholding is varied to 2%.

Step 2: Reduce any unused *untaxed element of the taxable component* from Step 1 by the lesser of the unused *untaxed element of the taxable component* and \$1,030 before applying the applicable withholding rate in schedule 12. Any balance remaining should then be applied to reduce the *taxed element of the taxable component* when calculating withholding. The rate of withholding in respect of this \$1,030 is the lesser of 21% and the rate specified in Table A of schedule 12.

Step 3: The rate of withholding on the amount in excess of \$1,730 is the rate specified in Table A of schedule 12.

2. Full Medicare levy exemption

If the member has advised on a *Medicare levy variation declaration* that they are entitled to a full Medicare levy exemption, reduce the rate of withholding shown in Table A of schedule 12 by 2%.



3. Half Medicare levy exemption

If the member has advised on a *Medicare levy variation declaration* that they are entitled to a half Medicare levy exemption, reduce the rate of withholding shown in Table A of schedule 12 by 1%

4. Below Medicare levy threshold

Reduce the withholding rate by 2% in Table A of schedule 12 if the taxable component amount is below the Medicare levy fortnightly income threshold of \$876 (no dependants) or the adjusted threshold as calculated for where there are dependants. (For adjustments refer to *Schedule 1 - Statement of formulas for calculating amounts to be withheld.*)

5. Rounding

Add up the different withholding amounts and round the total amount to withhold to the next higher dollar.

Commencement

The variation applies to payments made from 10 June 2021.

This notice replaces the notice that issued on 23 April 2021.

The Commissioner may withdraw this variation at any time by further notice in writing.

Assistant Commissioner of Taxation
Superannuation and Employer Obligations



Attachment A - Examples

Each veteran has claimed the tax-free threshold.

The tax rate referred to in tax settings is the marginal tax rate. The rate of withholding adds in the Medicare levy of 2%.

Veteran aged 60 years and above

The current tax setting, excluding the Medicare levy, is as follows

- The capped tax rate is 15%
- Only the untaxed element of the taxable component is subject to tax
- Individual tax rate of 0% up to \$18,200 (i.e. \$700 fortnightly equivalent)
- Individual tax rate of 19% from \$18,201 to \$45,000 (i.e. \$701 to \$1,730 fortnightly equivalent)

Under schedule 12 the PAYG rate of withholding is 17% but this may be reduced to the extent that the Medicare Levy does not apply.

Under this variation, the first \$700 of the untaxed element of the taxable component has a 2% withholding rate and the balance is subject to a 17% rate.

The PAYG rate could be reduced to the extent that the Medicare levy does not apply.

Example 1: \$2,000 per fortnight - \$50 tax free, \$250 taxed element and \$1,700 untaxed element. The veteran has claimed the Half Medicare Levy exemption.

Under schedule 12 no withholding required on the \$50 tax free and \$250 taxed element components. Withholding will apply to the untaxed element of the taxable component and is calculated as follows:

Component	Untaxed amount	PAYG rate	Medicare levy adjustment	Actual rate of withholding	PAYG amount
1 st \$700	700	2%	-1%	1%	7
Balance	1,000	17%	-1%	16%	160
Total	1,700				167

Example 2: \$2,000 per fortnight (disability superannuation benefit recipient) - \$850 tax free, \$200 taxed element and \$950 untaxed element. No Medicare Levy exemption.

Under schedule 12 no withholding required on the \$850 tax free and \$200 taxed element components. Withholding will apply to the untaxed element of the taxable component and is calculated as follows:

Component	Untaxed amount	PAYG rate	Medicare levy adjustment	Actual rate of withholding	PAYG amount
1 st \$700	700	2%		2%	14.00
Balance	250	17%		17%	42.50
Total	950				56.50*

* Rounded up to \$57



Veteran is under Preservation age

The current tax setting, excluding the Medicare levy, is as follows

- The capped tax rate is 20% on the taxed element
- The capped tax rate is 30% on the untaxed element
- Individual tax rate of 0% up to \$18,200
- Individual tax rate of 19% from \$18,201 to \$45,000
- Individual tax rate of 32.5% tax rate from \$45,001 to \$120,000

Under schedule 12 the PAYG withholding rate is 22% on the taxed element and 32% on the untaxed element but the rates may be reduced to the extent that the Medicare Levy does not apply.

Under this variation

- the first \$700 of the untaxed element has a 2% withholding rate and the next \$1,030 is subject to a varied rate of 21% with the balance subject to the schedule 12 rate of 32%
- the taxed element has a varied rate as follows
 - where the untaxed amount is less than \$700 – 2% on the lesser of the taxed element and the difference between the untaxed element and \$700
 - where the untaxed element is between \$701 and \$1,730 – 21% on the lesser of the taxed element and the difference between \$1,730 and the untaxed amount
 - any balance is subject to the schedule 12 rate of 22%

The withholding rate could be reduced to the extent that Medicare does not apply.

Example 3: \$2,000 per fortnight - \$50 tax free, \$250 taxed and \$1,700 untaxed. The veteran has claimed a Half Medicare Levy exemption.

No withholding required on the \$50 tax free component. Withholding will apply to the taxed and untaxed element of the taxable component and is calculated as follows:

Component	Untaxed element	Taxed element	Total amount	PAYG rate	Medicare levy adjustment	Actual rate of withholding	PAYG amount
1 st \$700 of Untaxed element	700		700	2%	-1%	1%	7.00
Next \$1,030 of the Untaxed element	1,000		1,000	21%	-1%	20%	200.00
Balance of Untaxed element	0		0	32%	-1%	31%	0.00
1 st \$700 of Taxed element not already used by the Untaxed element		0	0	2%	-1%	1%	0.00
Next \$1,030 of Taxed element not already used by the Untaxed element		0	0	21%	-1%	20%	0.00
Balance of Taxed element		250	250	22%	-1%	21%	52.50
Total	1,700	250	1,950				259.50*

* Rounded up to \$260



Example 4: \$2,000 per fortnight (disability superannuation benefit recipient) - \$850 tax free, \$200 taxed element and \$950 untaxed element. No Medicare Levy exemption.

No withholding required on the \$850 tax free component. Withholding will apply to the taxed and untaxed element of the taxable component and is calculated as follows:

Component	Untaxed element	Taxed element	Total amount	PAYG rate	Medicare levy adjustment	Actual rate of withholding	PAYG amount
1 st \$700 of Untaxed element	700		700	2%		2%	14.00
Next \$1,030 of the Untaxed element	250		250	21%		21%	52.50
Balance of Untaxed element	0		0	32%		32%	0.00
1 st \$700 of Taxed element not already used by the Untaxed element		0	0	2%		2%	0.00
Next \$1,030 of Taxed element not already used by the Untaxed element		200	200	21%		21%	42.00
Balance of Taxed element		0	0	22%		22%	0.00
Total	950	200	1,150				108.50*

* Rounded up to \$109