



The Institute of Public Accountants



IPA INSTITUTE OF PUBLIC
ACCOUNTANTS
Partnership beyond numbers

**Aspects of
The PAYG Instalments System
25 May 2017**

12 April 2017

IPA - Deakin SME Research Centre

The Institute of Public Accountants (IPA) is one of the three legally recognised professional accounting bodies in Australia. The IPA has been in operation for over 90 years and has grown rapidly in recent years to represent more than 35,000 members and students in Australia and in more than 80 countries. The IPA has offices around Australia and in London, Beijing, Shanghai, Guangzhou and Kuala Lumpur. It also has a range of partnerships with other global accounting bodies. The IPA is a full member of the International Federation of Accountants and has almost 4,000 individual accounting practices in its network, generating in excess of \$2.1 billion in accounting services fees annually. The IPA's unique proposition is that it is for *small business*; providing personal, practical and valued services to its members and their clients/employers. More than 75 per cent of IPA members work directly in or with small business every day. The IPA has a proud record of innovation and was recognised in 2012 by *BRW* as one of Australia's top 20 most innovative companies.

In 2013, the IPA partnered with Deakin University to form the IPA Deakin SME Research Partnership, a first in Australia. This partnership has grown and evolved into the IPA assisting Deakin University in establishing the IPA-Deakin SME Research Centre in 2016. The goal of the Centre is to bring together practitioner insights with cutting edge SME academic research, to provide informed comment for substantive policy development.

The IPA-Deakin SME Research Centre comprises:

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Inspector-General of Taxation

GPO Box 551 SYDNEY NSW 2001

Email: PAYGI@igt.gov.au

Dear Sir/Madam

Aspects of the Pay As You Go Instalments System (Inspector-General of Taxation)

The IPA-Deakin SME Research Centre is pleased to submit our final response to the Review of the PAYG Instalment System. The Research Centre is a joint initiative of the Institute of Public Accountants and Deakin University. It exists to increase the awareness of government and the community more generally on issues related to individuals and small business by contributing to policy debates.

As explained in our interim response (April, 2017), as part of the IPA's advocacy role in representing its membership, the IPA regularly responds to requests from governments and other regulatory bodies, and provides submissions on a range of matters that impact on professional practice. We also explained that the most effective way in which to respond to the specific terms of reference within the PAYG Review was to seek information directly for our membership. In this respect we prepared and distributed a short survey relating to problems that our members and their clients may have experienced with the PAYG system as well as, seeking views on what potential improvement opportunities could be implemented. By gathering information directly from our members, we have employed an empirical approach which we believe would have more value to the Inspector-General Taxation and the ATO generally. Moreover, by examining a random sample of responses, we are able to extrapolate and make generalisations about the views, on average, of our entire membership. This approach we believe, has assisted in determining the extent and severity of specific PAYG problems as have been identified in the review.

Our mini survey, using the SurveyMonkey software, was made available to members on-line for a period of approximately three weeks, from which we ultimately received ninety one responses from members. The on-line results of the survey were made available to members or indeed, to any member of the public, and can be accessed via the following 'live' link;

<https://www.surveymonkey.net/results/SM-6ZWCJJ6B/>

As our more detailed analysis is based on the raw data provided from SurveyMonkey, we would encourage staff from the office of the Inspector-General of Taxation, to review the results following the aforementioned link.

Analysis of PAYG Survey Results (Descriptive Statistics)

Have you or your clients experienced one or more of the following problems (tick all boxes that apply):

- 1. Individual taxpayer entered into the PAYG instalments system due to one-off spikes in income in a particular income year?**

Table 1: One-off spikes

One-Off Spike	Freq.	Percent	Cum.
N/A	5	5.49	5.49
No	18	19.78	25.27
Yes	68	74.73	100.00
Total	91	100.00	

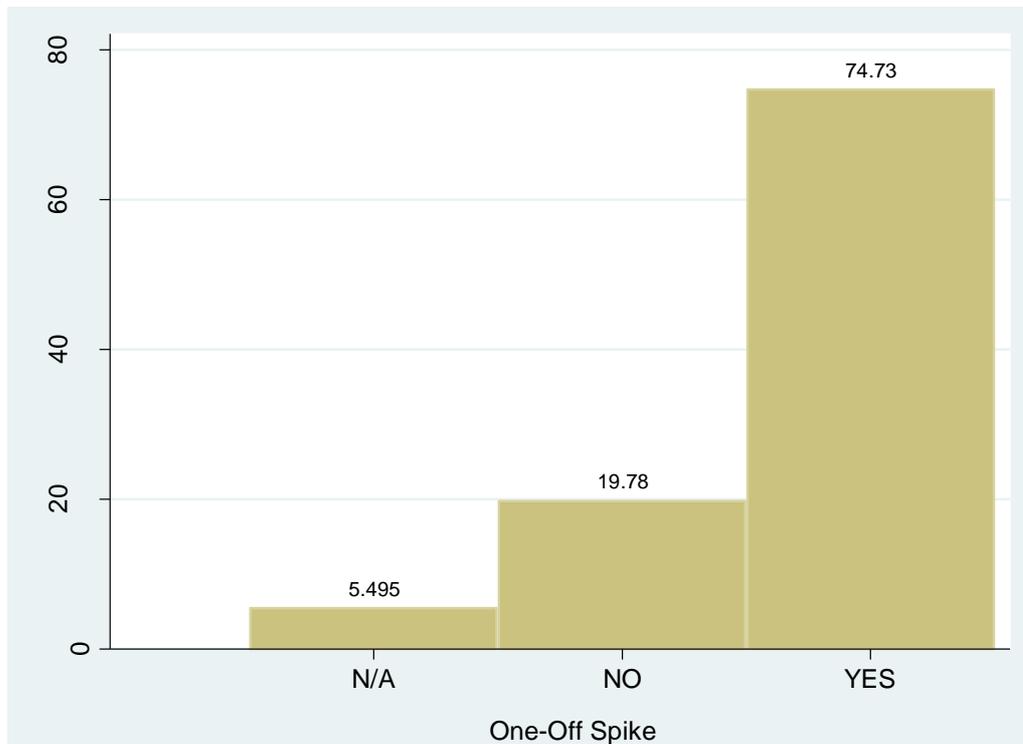


Figure 1: One-off spikes

Table 1 and Figure 1, both show that the overwhelming majority (almost 75%) of respondents (IPA members) report that individual taxpayers being entered into the PAYG instalments system are due to one-off spikes.

2. Taxpayer being unaware of an automatic inclusion into the PAYG system and receiving unexpected tax debts?

Table 2: Unaware of PAYG Inclusion

Automatic Inclusion in PAYG System	Freq.	Percent	Cum.
N/A	3	3.30	3.30
No	21	23.08	26.37
Yes	67	73.63	100.00
Total	91	100.00	

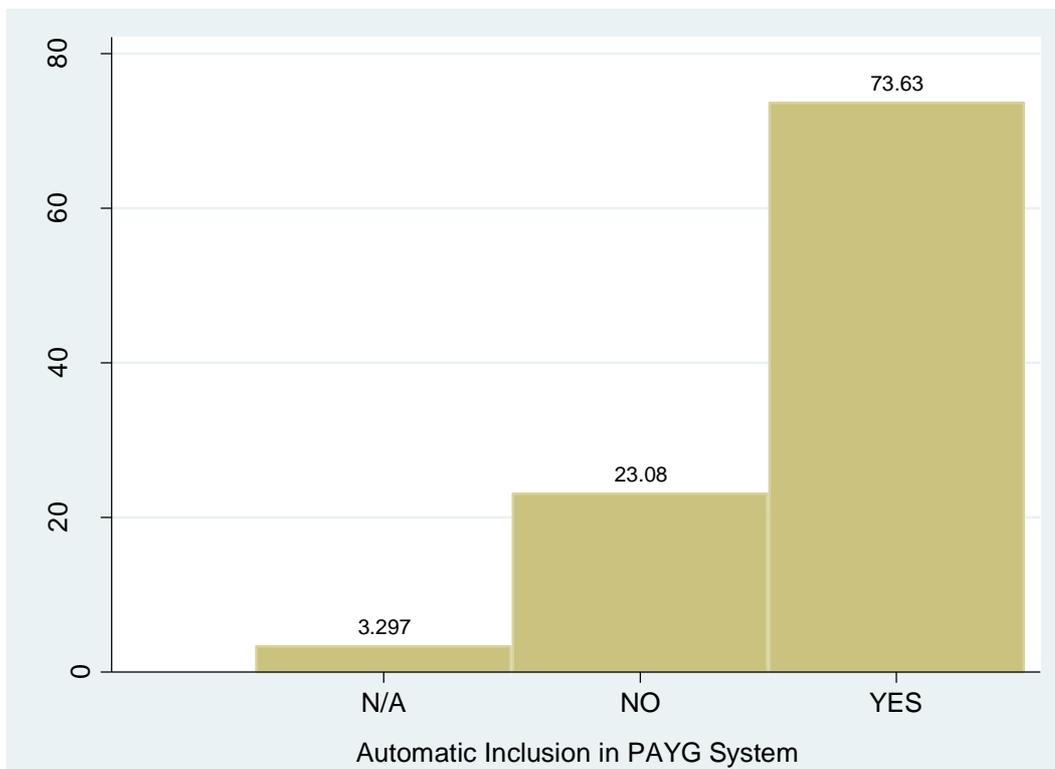


Figure 2: Unaware of PAYG Inclusion

Table 2 and Figure 2, both show that almost 74% of IPA member respondents have experienced instances where the taxpayer is unaware of an automatic inclusion into the PAYG system and receiving unexpected tax debts.

3. Taxpayer experiencing difficulties relating to operational aspects of the PAYG system, such as:

Table 3 (a): Problems in varying instalments

a. Varying instalment amounts?

Varying Instalment Amounts	Freq.	Percent	Cum.
NO	36	39.56	39.56
YES	55	60.44	100.00
Total	91	100.00	

Table 3(b): Problems in varying lodgement frequency

b. Varying lodgement frequency?

Varying Lodgement Frequency	Freq.	Percent	Cum.
NO	57	62.64	62.64
YES	34	37.36	100.00
Total	91	100.00	

Table 3(c): Problems in making Payments

c. Making payments?

Making Payments	Freq.	Percent	Cum.
NO	54	59.34	59.34
YES	37	40.66	100.00
Total	91	100.00	

Table 3(d): Problems in exiting the system

d. Exiting the system?

Exiting System	Freq.	Percent	Cum.
NO	47	51.65	51.65
YES	44	48.35	100.00
Total	91	100.00	

Table 3(e): Problems in calculation of amount of payment due

e. Tax debts (errors in calculation)?

Tax Debts	Freq.	Percent	Cum.
NO	67	73.63	73.63
YES	24	26.37	100.00
Total	91	100.00	

Table 3(f): Problems in receiving refunds

f. Receiving refunds (delays)?

Receiving Refund	Freq.	Percent	Cum.
NO	66	72.53	72.53
YES	25	27.47	100.00
Total	91	100.00	

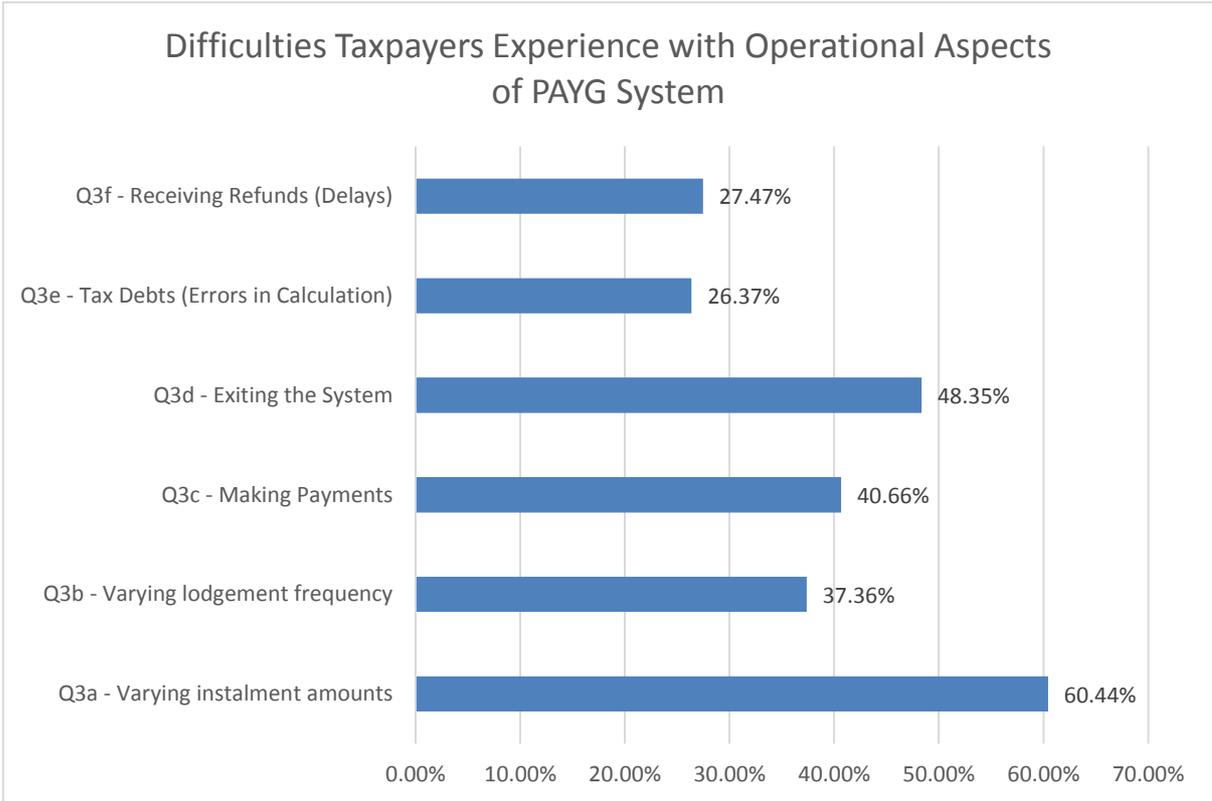


Figure 3: Difficulties with Operational aspects of PAYG

Figure 3 highlights that problems with varying instalment amounts (60.44%) are the most common difficulties reported by IPA member respondents, followed by problems with exiting the system (48.35%), making payments (40.66%), and varying lodgement frequencies (37.36%).

Table 3(g): Other difficulties (written answers)*

g. Other difficulties (briefly explain)

*NB: Some editorial/grammatical adjustments have been made to for sensibility in the written responses to the survey.

An error occurred in the PAYG System almost two years ago resulting in one of my clients no longer receiving PAYG instalments on his quarterly BAS statement. We amended one BAS statement to include an amount for PAYG, but this was refunded. The client therefor only pays tax on receipt of an assessment which can be 9 months after the end of the tax year. His tax bill in normally in excess of \$15,000

<p>Biggest current problem is that notices are going to incorrect addresses as either (1) ATO not processing CU forms and directing mail to tax agents (2) ATO sending or not, to myGov and taxpayers not receiving, knowing about, or paying, then, the first e Agent knows about the instalment is upon receipt of a debt referral threat, and then the agent needs to investigate and find movements on Integrated Client Account and try to cross reference in the Client Communication List, and then try to explain all this rubbish to a client that may presume the agent is trying to cover up a mistake ... whilst it is all e fault of the ATO.</p>
<p>Clients have not received their PAYG notice, as such clients have missed making payments, earning them a debt.</p>
<p>Detailed information explaining PAYG instalments from the ATO can be very misleading. Clients are quite often confused in regards to how much they need to pay and when. We have been abused by clients on a number of occasions when receiving PAYG instalments for the first time or when they have changed. Our time is required to help them which could be anywhere from a phone call/email or a face-to-face interview. We need to charge for our time which then of course leads to further problems from the client's point of view with fee resistance or perception of our service offering. Clients have also received debt collection communication in relation to PAYG instalments where a notice or information has not been received. Usually this is the case with the ATO have changed the correspondence delivery method to email (in some cases an invalid email address that is not monitored by the ATO) or to a myGov account without appropriate notice to either ourselves or the client. Usually when the client contacts the ATO they are advised that it is their tax agents fault for not on forwarding mail, again very frustrating for us. The ATO also refuses to change the correspondence's delivery method once it has been changed to electronic.</p>
<p>Have a problem personally with the system, but this is not the place to deal with such issues.</p>
<p>In times of cashflow difficulties, the system is too all or nothing. The clients are put into the system 100% after the first year of business and need to pay the full tax levied. A more gradual system of allowing part payments during the year such say 33% of the normal instalments in year 1, increasing to 66% year 2 and 100% in year 3 helps to smooth out cashflow of a new business taxpayer entering into the PAYG system.</p>
<p>No comments</p>
<p>No problem</p>
<p>No problems</p>
<p>None</p>
<p>not getting the form in the first place, then getting a debt etc,etc</p>
<p>Prepaying Instalment only to have ATO "steal" other funds due to timing</p>

Some people are being put automatically into a preference of electronic delivery when this is not a suitable option for them and sometimes are not aware they should be receiving a form or have missed a due date because of this and the next communication from the ATO is not particularly friendly. Issues fixing forms automatically completed by ATO when client unaware they had the form and received a debt letter that is not relevant

Sometimes the ATO allocates the payment to their account and income tax account and sometimes they don't,

The instalment notices were sent to an address that I hadn't used for years! I was lucky to receive the notice as it went through 3 people (and addresses) before it reached me. I sent a correction of the address and they still sent out a second instalment notice to the old address again!

The mismatch between accounts is a complete pain. Credit in Income tax account, debit and nasty letters in ICA

The type of delivery of instalment notices not being advised until a demand notice is sent (ELS, email, MyGov).

The worst issue is working out the Quantum of the debt. Have spoken with the ATO on several occasions to find out HOW they calculate the amount. There is nothing definitive that is easy to find. Even professional magazines don't have a "simple" answer to this. The whole system needs to be fairer and more explicit. Eg; Your GDP Notional Rate is calculated from 2015 based on \$100K comprising of and a detailed explanation of how this arrived. It is also unfair. I was told by one ATO representative that it is the taxpayers fault if they have to make a large catch-up, because they should have lodged their tax return BEFORE 20/9 when the ATO starts calculating/issuing new IAS. We don't live in a perfect world where all taxpayers can lodge immediately to suit this system. Also, the tax being paid is for the FUTURE tax year. Why should a taxpayer be forced to pay MORE earlier, to "catch-up". Example: They paid \$2K for Sept & \$2K for Dec, lodged their tax return in January. GDP adjustment says new annual now \$12K (\$3K P/Q). They have only paid \$4K. The next BAS issues asking them to pay \$5K. The ATO calculate that they must catch-up immediately on: 3 quarters x \$3K (new rate)= \$9K - 2 x \$2K (already paid) = \$5K instead of spreading this obligation evenly over the next 2 quarters i.e. paying \$12K - \$4K = \$8K / 2 = \$4K. After all, it is a FUTURE liability. Other taxpayers get to pay as they go and so long as it is paid by year-end isn't that reasonable and fair?

There is a question about a spike in income, which is manageable especially as the solution of varying the instalment down is easily applied. However, there is difficulty joining the system if in one or two years a taxpayer does not have to pay tax and in the next year their system of setting aside funds for PAYG is disrupted because they have been kicked out of the system. Voluntarily joining the system is an issue. The current system forces subcontractors to do their own PAYG accounting. The previous simple solution was that contractors withheld amounts for subcontractors and paid it on. I have not experienced this, but it seems that such a system would prevent the multitude of small-business cash-flow issues.

This is the most misunderstood area of taxation. Have spent hours explaining this to clients, especially for new people caught up in the system. A new name would be a start. My suggestion is "Income tax instalment 2016-2017". The name is clean, no jargon.

Trying to re-instate PAYG instalments when the previous year was a refund and the current year was going to have a profit (resulting in a tax debt).

Table 3g (above) lists the qualitative responses by IPA members to the question of ‘other difficulties’ experienced with PAYG. It would seem from the above comments that there are serious issues with the PAYG system on an operational level, for example payment notices being generated where only on one occasion, PAYG income exceeded the threshold, as well as considerable time lags in the serving of notices, particularly unwarranted debt referral notices. Entering and exiting the PAYG system due to changes in circumstances also appears to be problematic. As well, respondents have commented that payments are offset against the wrong accounts, and also that communication between to/from the ATO is poor (see also question 4 below)

4. Problems understanding ATO communications and guidance materials?

Table 4: Problems understanding ATO communications and guidance materials?

Problems ATO Communications	Freq.	Percent	Cum.
N/A	9	9.89	9.89
No	28	30.77	40.66
Yes	54	59.34	100.00
Total	91	100.00	

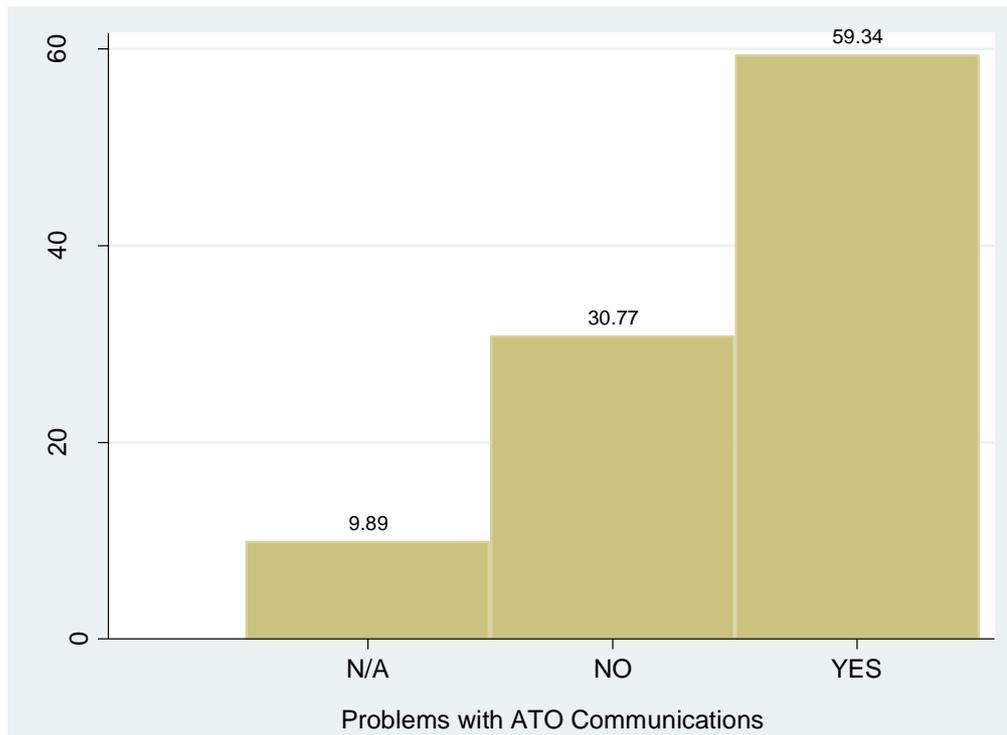


Figure 4: Problems understanding ATO communications and guidance materials?

Table 4 and Figure 4 both show that almost 60% of respondents have problems with understanding ATO communications and guidance materials.

5. Is the threshold for varying PAYG instalments of 15% reasonable safe harbour?

Table 5: 15% Threshold for Varying PAYG reasonable?

Threshold for Varying PAYG Instalments	Freq.	Percent	Cum.
N/A	3	3.30	3.30
No	58	63.74	67.03
Yes	30	32.97	100.00
Total	91	100.00	

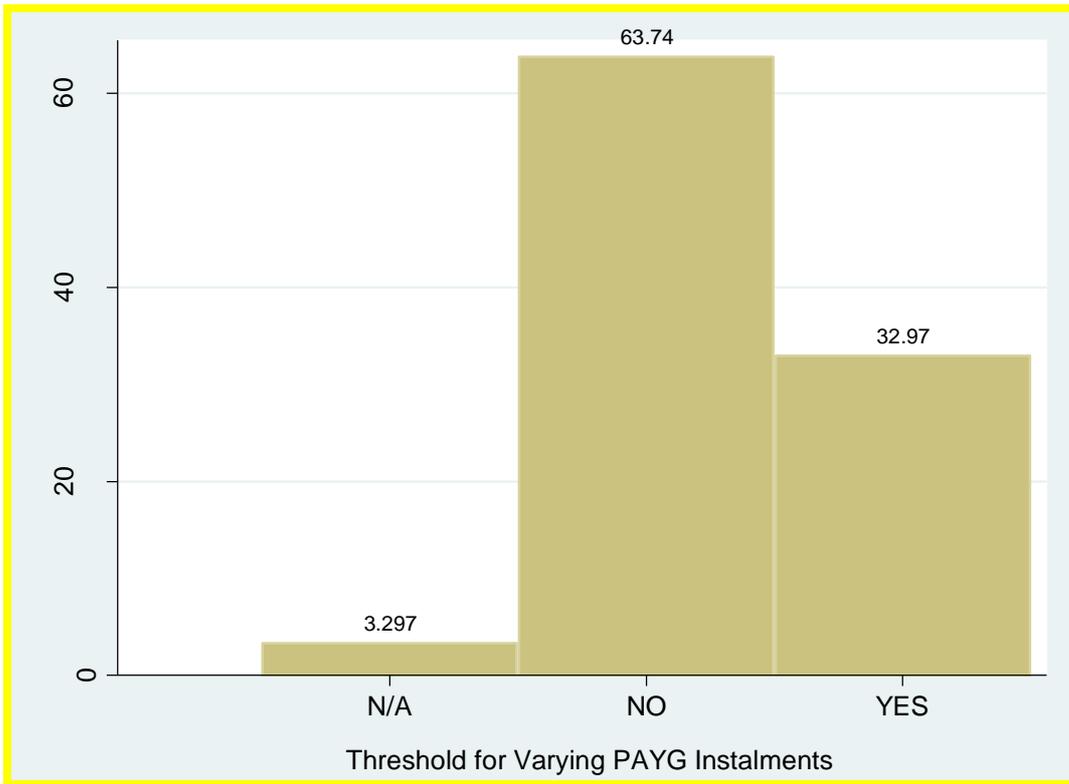


Figure 5: 15% Threshold for Varying PAYG reasonable?

The majority of respondents to this question (63.74%) have indicated that the 15% threshold is unreasonable.

6. Please identify and list potential improvement opportunities for taxpayers, the ATO and the PAYG system as a whole. Please rank in order of priority.

There were a number of individual comments to this question that are more fully disclosed in Tables 6a - 6e: Improvements and Opportunities below. As some respondents provided up to five comments, these comments are segregated into five separate tables.

Table 6a: Textual (qualitative) responses to analyse individually

A taxpayer opt in opt out system to better reflect the taxpayers current and future tax issues
Ability to adjust prior lodgement
Ability to opt out if they are included because of a one off income spike

All fine - system works well
Allowing people to voluntarily enter
Always a problem where the annual payment is due 21st October and the ATO mucks up the assessment or allows the client a credit for the annual instalment because it is not due yet if the return is lodged before the instalment is due, and the client then gets a bill for the instalment after 21st October.
ATO correspondence should be more detailed and clearer as to obligations
ATO need to identify taxpayers who should be in the system
Base it on taxable income
Better access to the portal
Better communications
Better system for giving out PAYG instalments.
Clarity of frequency of lodgement (annual or quarterly)
Clear communication
Clearer explanation to taxpayer of consequences of varying
Compulsory bank institution to collect tax from investments, interest, etc.
Contact the tax agent first to see if unusual spike in income, etc.
Don't hit payer up for multiple periods in one go
Easier method to opt in
Easy re-instatement (after refund)
Explain the calculation base exactly
I am an individual PAYG payer and any issues I have are taken up with my Tax Advisor.
I think the system works well and there is an opportunity for varying the amount payable, much preferable to the old annual payment system.
If Taxpayers have no history of non-compliance, why not allow an opt-out feature so they are made aware of the potential amount but can opt to pay annually.
Improve the system for varying amounts via the BAS / IAS
Include more recipients of payments in system
Increase the 15% threshold
Increase the amount that the PAYG instalments start at.
Increase the safe harbour to 25%
Increase threshold for varying PAYG instalments to 20%.
Increasing the threshold where you need to enter the system
Lift the minimum amount where PAYG instalments come in
Make SGC a ATO obligation like PAYG
Make the agent centre again, as appointed under Taxpayers Charter
New Name as above
No instalments unless they exceed \$4000 p.a.
Not being able to vary PAYG instalment notices (where T7 is the only option) after the due date
One off payments

Overcoming the occasional spikes
Payments worked out based on cashflow
Quarterly too frequent-1/2 yearly better
Raise threshold
Reducing a tax refund to cover a BAS or PAYG instalment before the due date of the instalment.
Release refunds immediately
Remove PAYG completely
Remove the spikes, simply divide tax debt into quarters
Scrap the based on previous year calculation
Send paper letters out
Should be part of the Income Tax account, not the Integrated account. This just confuses everyone
Simplify
Simplify AUSKEY implementation
Stop using MyGov so accountants get all correspondence
Subcontractors, especially in the building industry, should be given a 20% rate immediately they receive their ABN, similar to the old PPS system - otherwise they fail to put away enough tax
The entry level is too low should be \$3-4,000
The threshold needs to be higher
Threshold 20%
Variation safe harbour should be at least 20%
Variations on BAS statements
<p>We had a client that had a one off capital gain, lodged in May and then got a large June IAS which be the time we got the notice from the client, we couldn't amend and so then the tax office were chasing them from memory for \$30,000. Her affairs are tidied up to a family trust that her husband manages so we couldn't easily just complete her return, so the tax office send more debt letters and calls, and it's just a waste of taxpayer main sending something to a debt collector that is going to end up being \$0.00. So the system should let you make changes like this, or at least have a form to apply for an ATO officer to use discretion to change it, that would be cheaper than paying a debt collector.</p>
When the income is only re CGT in one year - no PAYG should be payable in the next
Working directly with tax agents to effectively communicate PAYG responsibilities

Table 6b: Textual (qualitative) responses to analyse individually

Ability to exit due to one off spikes
Activity Statements not being forwarded
Allow a gradual introduction into system for new taxpayers
Allow for phone discussions for varying the amount due
Allow greater flexibility to change instalment frequency
Allow tax agents and/or tax payers to vary PAYG instalments past the deadline date (as sometimes unaware of PAYG Instalments until after deadline date).
Allowing clients to elect to be annual rather than quarterly, regardless of the amount required
Allowing PAYG instalments to be varied up
Allowing people who know they will have a tax bill (but the ATO doesn't) to make PAYG payments
Any taxable income up to tax free threshold should not
ATO employee ID numbers to follow up with
Better communications regarding the progression of the outstanding debt
Choices
Clarity of messages from ATO
Clearer communication as to why instalments are required
Correspondence delivery methods should be monitored for appropriateness
Create ability to lodge instalments voluntarily
Create automatic collection when selling and purchasing using ABNs.
Do away with wasteful PAYG, advice letters which if sent to the client, only result in inevitable numerous phone calls to explain the system.
Easier method to opt out and stay out
Email helpline - so don't have to wait on phone
Follow up communication
Give option to make PAYG instalments more frequent eg monthly, weekly
Greater flexibility in varying
Greater transparency as to which tax debt is being offset
Higher entry point
If a client's tax bill is below say \$1,000 don't even enrol them in PAYG Instalments
If lodging one IAS by ELS - no automatic suspension of paper returns.
Issue notices/PAYG updates etc concurrent or as part of assessments to which they relate....not some weeks later!
Make it clearer why they are entering the system
Make it easier to change to say an annual payment

Not being able to change via the portal the delivery method back to postal after a statement has been lodged via the portal.
Only have one tax account
Permit the taxpayer to smooth the increased rates
Reduction in gross up factor to 2% more in line with current increases in income.
Simpler system required
Simpler language
Sometimes clients have a good year and then a bad year and it's really hard to predict there income, so maybe a larger safe harbour threshold might work better.
Streamline ita and ica accounts into one.
The system and ability to vary needs to be easier
We are constantly having to explain to clients the instalment system and ATO accounts where instalments are involved, whereas this system was put in place by the ATO but clients are not able to easily access the ATO by phone (without having to wait on for ages) for an explanation. This has caused what should be the ATO's responsibility being placed on tax agents without any compensation.

Table 6c: Textual (qualitative) responses to analyse individually

A more flexible system for varying instalments i.e. tax agent portal
A simpler explanation of the PAYG instalments for taxpayers (an idiots guide)
Ability to turnoff for one qtr if low cash problems, without cancelling altogether.
Ability to vary even when lodged late
Advise to both client and accountant
All PAYG instalments to be notified to the tax agent.
Allow payers not currently but will be, in the system for PAYG instalments the opportunity to commence paying on a self-assessed basis
ATO to send cautions to people who regularly vary down then get bills at the end of the year
attract any PAYG
Clients have no idea as to what earning will be in next year - more leeway required other than 15% difference
Longer variation period for instalments payments especially if they are new people
No upfront payment required for entering an online payment arrangement
not steal refunds when instalments not due
PAYG instalments should be around 10%
Payment due dates in line with BAS payment due dates to line up with agents doing BASs for a family group
Permit the taxpayer to smooth the decreased rates
Scrap the change in amounts every time a tax return is lodged
Send ICA statement with the instalment notice
The ATO now sends some instalments notices (and BAS) to agents via paper and some have to be downloaded, Some are emailed or notified directly to clients. There is no consistency and this means that for agents to ensure clients do not forget their instalments, agents need to run checklists and notify clients when instalments are overdue.
The other issue, is sometimes we need to increase PAYG Income Tax Instalments for a company as we need the franking credits. The client is happy to increase them, but if we do this, that is give the ATO more money than they have asked and in advance, we then need to make sure we don't breach the 15% threshold. Maybe if people voluntary to pay more than the minimum ATO amount that should give an automatic safe harbour, it would be more cost efficient for a small business client then having us try to work out their taxable income and tax adjustments during the year.
Too much reliance on My Gov communications and email address
Using Australia Post to communicate

Table 6d: Textual (qualitative) responses to analyse individually

Allow annual payments if taxpayer has good record in past
Better plain English communication in notifications from the ATO.
Inability to change from electronic delivery to postal
Increase threshold % for varying PAYGI
Less computer generated paper debt notices that are out of date by the time they are received by the taxpayer (Australia Post mail is now 10 day delivery)
Letter acts as reminder
Letters sent to taxpayers should be in point form, with a check box, then they can sort out the points they need to worry about and the ones that don't
More flexible approach to varying instalments after instalment due date
Option to select amount to apply each quarter, with safe harbour enforced
Taxpayer should be able to choose delivery method that is LOCKED even if they use the agent once in the year
Unless the taxpayer specifies/has AUSKEY always send a hard-copy to the listed mailing address

Table 6e: Textual (qualitative) responses to analyse individually

Amount payable could be based on an estimate rather than historic information
ATO should not issue variation due to spikes or troughs from accelerated depreciation or one off tax offsets
More accurate information on PAYG notifications.
Notify the Tax Agent/BAS Agent if the mail is returned?
Offer easy payment plans
Offer monthly payments
PAYG instalments be deducted by employer through PAYG withholding system (similar to HELP debt repayments)

We note that the responses in Table 6(a – e) identify a very wide range of issues and subjects, making it somewhat difficult to isolate particular themes, or indeed to provide some type of generalisation based on the data. Although there are a significant number of different points raised and too many to mention individually, we believe however, that some of the following matters appear to be a common thread in the responses#;

- There appears to be serious concerns regarding several operational aspects of the PAYG System, particularly in respect of the timing of notices which appear not be served as promptly as they should. This resonates with most responses that raised concerns about the long delays in serving debt notices especially when the taxpayer is

not aware of being captured by the system as a prospective PAYG payer. It has been suggested that this area needs considerable attention to avoid unwarranted letters of demand, and all of the extra work that needs to be undertaken to explain the situation to clients and to effect an acceptable remedy.

- There are concerns regarding taxpayers being captured by the PAYG system despite having only having one year of abnormal income, ie exceeding the \$4000 threshold. This could be remedied by the taxpayer estimating (and disclosing) future income in prospective years, such that the ATO will recognise that the income in the current year is a one-off spike.
- It would appear that ATO communications electronic and otherwise are a concern for many of the respondents, particularly the lateness in receiving correspondence, errors that appear in correspondence and notices and so on. Suggestions that were given to remedy this situation were that the ATO communications arrange their processes so that correspondence should be sent to taxpayers and/or their agents more promptly and accurately, as well as being clearer as to the requirements that need to be met.
- There are several incidents where ATO communications appear to have been sent to the wrong address. Thus, notifying the Tax Agent/BAS Agent if the mail is returned, would avoid 'unwarranted' correspondence from the ATO?
- A simpler explanation of the PAYG instalments for taxpayers (an '*idiots guide*'), would be useful in explaining the PAYG system to clients.
- More latitude given than the current 15% threshold
- Offer easier payments plans
- Offer more options to select amounts payable each quarter, with a safe harbour enforced
- A more user friendly and stable computerised ATO PAYG system should replace the current system which seems to be problematic, eg, several respondents have stated that the system freezes and is often 'down', and also there are considerable difficulties in entering, exiting the system as well making required amendments which recognise changes in taxpayer's circumstances, eg. When the amount of PAYG instalment needs to be varied.

(We note that comments provided, are a compilation of actual responses from the respondents).

End of Analysis and Commentary

We thank you for the opportunity to provide a follow up response to the PAYG Review. If you wish to discuss any of our comments or would like further information then please don't hesitate to contact Vicki Stylianou at vicki.stylianou@publicaccountants.org.au or on mobile 0419 942733. We would be pleased to comment on any other matters on request.

Yours sincerely



Vicki Stylianou

Executive General Manager, Advocacy & Technical

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