



**Australian Government**

**Australian Taxation Office**

# Interest on early payments and overpayments of tax

Covers:

- How to qualify for early payment interest
- Who is entitled to interest
- How to calculate interest on an early payment

**2003–04**

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## INTRODUCTION

This publication provides an overview of your entitlement to interest on early payments and overpayments of tax and delayed refunds of running balance account (RBA) surpluses. It includes examples that show you how to calculate your interest on an early payment of tax.

The information in this publication cannot answer every question on this topic. If you still have questions after reading it, please phone the Personal Tax Infoline on **13 28 61**.

## 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. 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
- delayed refunds of RBA surpluses that arose on or after 1 July 2000.

## WHAT IS THE INTEREST RATE?

The rate used in calculating your interest is set by law and is reviewed every quarter.

Interest rates for 2003–04 are shown in the table below.

Details of other quarterly interest rates are available from the Tax Office.

### INTEREST RATES USED FOR CALCULATION OF EARLY PAYMENTS, OVERPAYMENTS AND DELAYED REFUNDS (2003–04)

Period	Interest rate (% p.a.)
1 July 2003 to 30 September 2003	4.78
1 October 2003 to 31 December 2003	4.82
1 January 2004 to 31 March 2004	5.31
1 April 2004 to 30 June 2004	5.57

## HOW IS INTEREST CALCULATED?

Interest is generally calculated as follows:

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

\*366 for a leap year

## 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 had with the Tax Office.

## EARLY PAYMENT OF TAX

### What is an early payment?

A tax payment made on or after 1 July 1994, for certain debts (as set out below) for the 1993–94 or later income years, will qualify for early payment interest where the payment is made more than 14 days before the due date.

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
- certain income tax penalties for the 1999–2000 and earlier income years
- a general interest charge relating to a late tax return or an amended assessment for the 1999–2000 and earlier income years.

The following payments do not attract early payment interest:

- Pay as you go (PAYG) withholding amounts including:
  - amounts withheld from interest, dividends and royalties
  - amounts withheld by payers, including those withheld for HECS
- PAYG instalments, and
- any part of a payment that exceeds the amount that is due and payable.

### How to claim your interest on early payment

There are two ways to claim your interest. You can:

1. claim it as a credit in the supplementary section of your tax return for the income year in which the entitlement to the interest arises – if it is 50 cents or more. To do this you will need to calculate the amount of your entitlement.
2. write to the Tax Office for payment of the interest if it is more than \$5. You will not be paid interest until after the due date for payment of the relevant tax liability.

You cannot claim early payment interest if you are also entitled to claim interest on overpayment on that early payment – see page 4 for information on when you are entitled to interest on overpayment.

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 or interest you are required to make,
- the date you make the payment.

Interest is payable up to and including the due date for payment. If your payments exceed the value of your debt, you do not receive early payment interest on the excess.

The date you make the payment is:

- the date shown on the receipt if you paid at the post office
- the date your bank account is debited (for direct debit arrangements) – this date is shown on your bank statement, or
- the date of postage plus three days for mailed payments.

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.

The following examples show you how to calculate your interest amount. The examples assume a normal year of 365 days, and use a single interest rate of 5%. Where the early payment extends over two 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 \$1,926 more than 14 days early. He calculated his early payment interest based on the following dates:

29 October The Tax Office issued Evan's notice of assessment which showed a tax bill of \$1,926

21 November Evan's due date for payment.

He paid his bill at the post office on 3 November.

Evan calculated interest on \$1,926 from 3 November, the date he paid his assessment, to 21 November, the due date for payment – a period of 19 days:

$$\frac{19}{365} \times \$1926 \times \frac{5}{100} = \$5.01$$

Evan's early payment interest is \$5.01

Evan can claim the interest as a credit on his next tax return (item **C1** in *TaxPack 2004 supplement*) or write to the Tax Office and ask for payment of \$5.01

He must include \$5.01 as income on his tax return for the income year the interest is refunded to him, or the income year in which the Tax Office sets it off or applies it against a tax debt.

### EXAMPLE

#### Amended assessments

John submitted a tax return and received a notice of assessment. He paid his tax debt early. However, he had left some income out of his income tax return. When he advised the Tax Office of his error, his assessment was amended and a notice of amended assessment – which increased the tax payable – was issued. The amended assessment had the same due date as the original assessment. John calculated his early payment interest based on the following dates:

1 September	John's original notice of assessment was issued and showed a tax bill of \$794 – due for payment on 21 November
7 October	John paid the full amount owing (\$794) at the post office
17 October	A notice of amended assessment was issued, showing an additional debt of \$322, due for payment on 21 November.
3 November	John paid the additional \$322 at the post office.

John calculated his interest separately for each payment.

#### First payment

To calculate the interest on the original payment of \$794, John first worked out the number of days from 7 October (the day he made the payment) to 21 November (the due date for payment) – a period of 46 days. He then calculated his interest:

$$\frac{46}{365} \times \$794 \times \frac{5}{100} = \$5.00$$

John's early payment interest for his first payment is \$5.00

#### Second payment

John calculated the early payment interest on the amended assessment debt of \$322 from 3 November (the day he paid the additional amount) to 21 November (the due date for payment) – a period of 19 days:

$$\frac{19}{365} \times \$322 \times \frac{5}{100} = \$0.84$$

John's early payment interest for his second payment is \$0.84.

Total early payment interest is \$5.00 + \$0.84 = \$5.84

John can claim the interest as a credit on his next tax return (item **C1** in *TaxPack 2004 supplement*) or write to us and ask for payment of \$5.84. He must include \$5.84 as income on his tax return for the income year the interest is refunded to him or the income year in which the Tax Office sets it off or applies it against a tax debt.

## OVERPAYMENT OF TAX

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

- You are entitled to a refund as a result of an assessment and it takes more than 30 days after your tax return is lodged to issue the assessment. (Where a tax return is lodged without all the required information, the 30-day period starts from the date the Tax Office receives all the information.)
- You are entitled to a refund where certain credits are claimed after an assessment.
- You are entitled to a refund 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.
- As a result of a request, you receive a refund of all or part of a payment you made on account of income tax, certain income tax penalties, HECS assessment debt, Student Financial Supplement Scheme assessment debt, or a remission of the general interest charge that you have paid, and the refund-crediting or remission occurs more than 30 days after the date you made the request.

## WHO CALCULATES THE INTEREST ON YOUR OVERPAYMENT?

The Tax Office 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 us.

## DELAYED REFUND OF AN RBA SURPLUS

From 1 July 2000, delayed refund interest (DRI) is payable on a surplus on a running balance amount (RBA) that reflects:

- the allocation of a business activity statement (BAS) amount to the RBA following lodgment of the BAS where it is not refunded within 14 days after the day the surplus arises. (A BAS in this regard includes an instalment activity statement.) Note: A BAS amount is any credit or debt that arises directly under the BAS provisions, which include goods and services tax (GST), wine equalisation tax, luxury car tax, PAYG withholdings and instalments, and instalments of fringe benefits tax
- the remission of a penalty relating to a BAS amount where it is not refunded within 14 days after the day you requested the remission.
- a voluntary payment made in respect of an anticipated tax debt under a BAS provision – where it is not refunded within 14 days after the day you requested the refund.

If you have not provided the Tax Office with all outstanding activity statements or all the information necessary for your activity statements to be processed, or if, when required, you have not nominated an account at a financial institution into which the refund should be paid, delayed refund interest will not start accruing until 14 days after the day that the relevant statements or information are provided.

## WHO CALCULATES THE INTEREST ON YOUR DELAYED REFUND?

We will calculate your interest. Interest will usually be refunded to you with your delayed refund but may be set off or applied against any outstanding debts you have with the Tax Office.

### ! NOTE

Delayed refund interest is not payable if, at the time the refund or surplus arises, the refund or credit is set off against another tax liability you owe.

For more information about interest on early payments, overpayments and delayed refunds, phone the Personal Tax Infoline on **13 28 61**.

### ➔ LODGE ONLINE WITH E-TAX

Looking for an easy and convenient way to do your tax return? Try e-tax – available free from the Tax Office website at [www.ato.gov.au](http://www.ato.gov.au)

You can use e-tax to:

- prepare your tax return electronically in a secure online environment
- estimate items such as capital gains
- work out your tax refund or tax debt.

e-tax is available from 1 July 2004.

Tax returns lodged using e-tax are usually processed in 14 days.

For more information, visit our website at [www.ato.gov.au](http://www.ato.gov.au)

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