

Interest on early payments and overpayments of tax 2010

This fact sheet covers:

- entitlements to interest on early payments and overpayments of tax, and
- how to calculate your interest on an early payment.

WHO IS ENTITLED TO INTEREST ON EARLY PAYMENTS AND OVERPAYMENTS?

The interest arrangements apply to individuals, taxable trusts, companies and superannuation funds.

Interest is only payable if it is 50 cents or more.

! NOTE

This fact sheet relates only to individuals and taxable trusts. It does not cover interest entitlements for companies, superannuation funds, corporate unit trusts and public trading trusts.

WHEN DID THE INTEREST ARRANGEMENTS BEGIN?

The interest arrangements outlined in this fact sheet apply to:

- early payments of tax made by taxpayers on or after 1 July 1994 in relation to the 1993–94 or later income years
- overpayments of tax arising on or after 1 July 1994 in relation to the 1993–94 or later income years, and
- delayed refunds of running balance account (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 2009–10 are shown in the table below.

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

TABLE: Interest rates used for calculation of early payments, overpayments and delayed refunds (2009–10)

Period	Interest rate (% pa)
1 July 2009 to 30 September 2009	3.13
1 October 2009 to 31 December 2009	3.30
1 January 2010 to 31 March 2010	3.95
1 April 2010 to 30 June 2010	4.16



HOW IS INTEREST CALCULATED?

Interest is generally calculated as follows:

$\frac{\text{number of days}}{365^*} \times \text{amount of payment} \times \frac{\text{interest rate for period}}{100}$
<small>*366 for a leap year</small>

IS INTEREST ASSESSABLE INCOME?

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

EARLY PAYMENT OF TAX

What is an early payment?

A tax payment made on or after 1 July 1994 for certain tax debts (as set out below) for the 1993–94 or later income years will qualify for early payment interest if 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 and Medicare levy surcharge)
- compulsory Higher Education Loan Programme (HELP) repayment amounts
- Student Financial Supplement Scheme assessment debts
- interest on distributions from non-resident trust estates
- income tax penalties for late lodgment of returns in the 1999–2000 and earlier income years
- a general interest charge relating to a late tax return for the 1999–2000 and earlier income years
- a general interest charge on increase in tax payable resulting from an amended assessment for the 1999–2000 and earlier income years
- a shortfall interest charge.

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 the purpose of repaying contributions or debts under HECS-HELP)
- 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:

- claim it as a credit on your tax return (supplementary section) 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
- write to us for payment of the interest. 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 the next page 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 pay, and
- 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 tax 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%. If the early payment extends over two or more interest periods, you 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 We issued Evan's notice of assessment which showed a tax debt of \$1,926.

21 November Evan's due date for payment.

He paid his tax debt 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:

$$\frac{19}{365} \times \$1,926 \times \frac{5}{100} = \$5.01$$

Evan's early payment interest is \$5.01.

Evan can claim the interest as a credit on his next tax return – see question **C1** in *TaxPack 2010 supplement* – or write to us 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 paid to him, or the income year in which we apply it against his tax debt.

EXAMPLE: Amended assessments

John submitted an income tax return and received a notice of assessment. He paid his tax debt early. However, he had left some income out of his tax return. When he advised us 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 debt 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 tax 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 tax 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 – see question **C1** in *TaxPack 2010 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 paid to him or the income year in which we apply it against his tax debt.

OVERPAYMENT OF TAX

Starting from the 1993–94 income year, we will pay interest on overpaid tax if:

- we take more than 30 days after your tax return is lodged to issue a notice of assessment and that assessment entitles you to a refund of tax (if you lodge a tax return without all the required information, the 30-day period starts from the date we receive all the information)
- you claim certain credits after an assessment has been made
- your assessment is amended after you paid it and the amendment reduces your tax liability
- you request a refund of all or part of a payment you made on account of income tax, certain income tax penalties, a HECS assessment debt, a compulsory HELP repayment amount or a Student Financial Supplement Scheme assessment debt **or** you request a remission of certain amounts of general interest charge that you have paid or a remission of the shortfall interest charge that you have paid **and** the refund or remission occurs more than 30 days after the date you made the request.

Who calculates the interest on your overpayment?

We will calculate your interest. Interest will be paid to you with your overpayment, or set off or applied against any outstanding tax debts you may have with us.

DELAYED REFUND OF A RUNNING BALANCE ACCOUNT SURPLUS

From 1 July 2000, we will pay delayed refund interest if we do not pay the following types of refunds within 14 days:

- a surplus on an RBA reflecting the allocation of a business activity statement (BAS) amount to the RBA (**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.)
- a surplus on an RBA arising from the remission of a penalty that relates to a BAS amount, that you requested to be remitted, or
- a surplus on an RBA that you requested to be refunded that reflects a voluntary payment made for an anticipated tax debt under a BAS provision.

If you have not given us 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 you give us the relevant statements or information.

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 tax debts you have with us.

! 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 debt you owe.

MORE INFORMATION

For general tax information and to download publications and rulings, visit www.ato.gov.au

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

OTHER SERVICES

Translating and Interpreting Services 13 14 50

If you do not speak English well and need help from the ATO, phone the Translating and Interpreting Service.

Hearing or speech impairment

If you are deaf or have a hearing or speech impairment, you can phone us through the **National Relay Service** (NRS).

- TTY users, phone **13 36 77** and ask for the ATO number you need. If you need to contact an ATO 1800 free call number, phone **1800 555 677** and ask for the ATO number you need.
- Speak and Listen (speech to speech relay) users, phone **1300 555 727** and ask for the ATO number you need. If you need to contact an ATO 1800 free call number, phone **1800 555 727** and ask for the ATO number you need.
- Internet relay users, connect to the NRS (www.relayservice.com.au) and ask for the ATO number you need.

WHY NOT LODGE ONLINE USING E-TAX?

- *E-tax* is our free online tax preparation and lodgment software.
- *E-tax* is secure, user friendly, and you can access your individual information using the pre-filling service.
- Most refunds are issued within 14 days.
- For more information, visit our website at www.ato.gov.au/etax

© COMMONWEALTH OF AUSTRALIA 2010

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth available from the Attorney-General's Department. Requests and enquiries concerning reproduction and rights should be addressed to the Commonwealth Copyright Administration, Attorney-General's Department, 3-5 National Circuit, Barton ACT 2600 or posted at <http://www.ag.gov.au/cca>

PUBLISHED BY

Australian Taxation Office
Canberra
June 2010
JS 14674