INTEREST ON EARLY PAYMENTS AND OVERPAYMENTS OF TAX

2002–03

Covers:

- Payments and overpayments of tax that qualify for early payment interest
- Entitlement to interest on the delayed refunds of running balance account (RBA) surpluses
- Examples on how to calculate interest on early payment of tax

Australian Taxation Office

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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 Australian Taxation Office (ATO) 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 (with no interest before 1 July 1994)
- 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 2002–03 are shown in the table below. Details of other quarterly interest rates are available from the ATO.

Interest rates used for calculation of early payments, overpayments and delayed refunds (2002–03)

Period	***Interest rate (% p.a.)***
1 July 2002 to 30 September 2002	4.84
1 October 2002 to 31 December 2002	4.96
1 January 2003 to 31 March 2003	4.84
1 April 2003 to 30 June 2003	4.75

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 have with the ATO.

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
- 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.

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 in relation to a period for which you are also entitled to claim interest on overpayment in respect of that payment—see page 4 for information on when you are entitled to interest on overpayment.

How to claim your interest on early payment

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

1. claim it 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. To do this you will need to calculate the amount of your entitlement.
2. 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 you are required to make
- the date you make the payment.

Interest is payable up to the due date for payment. You do not receive early payment interest for payments made in excess of 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
- the date your bank account is direct debited—this date is shown on your bank statement, or
- the date of postage plus three days for mailed payments.

As mentioned earlier, the interest rate is reviewed every quarter.

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 6%. 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 $800 more than 14 days early.

He calculated his early payment interest based on the following dates:

1 October	Evan paid the total amount of his anticipated debt ($800) 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 paid by mail and calculated his date of postage as 4 October (1 October plus three days). As the date of issue of the notice of assessment (3 November) is later, interest is paid from that date.

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 can claim the interest as a credit on his next tax return (item **C1** in *TaxPack supplement*) or write to the ATO and ask for payment of $3.81.

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

EXAMPLE

Payment by instalments

Michael paid two instalments that were more than 14 days early.

He calculated his early payment interest based on the following dates:

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

To calculate the interest on the first instalment of $400, Michael first worked out the number of days from 15 August, the date he paid the first instalment, to 1 December, the date the payment was due – a period of 109 days. He then calculated his interest:

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

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

Second instalment

To calculate the interest on the second $400 instalment, Michael worked out the number of days from 29 August, the date he paid the second instalment, to 1 December, the date the payment was due – a period of 95 days. He then calculated his interest:

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

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

Michael's total interest is $7.17 + $6.25 = $13.42.

Michael can claim the interest as a credit on his next tax return (item **C1** in *TaxPack supplement*) 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 is refunded to him or the income year in which the ATO sets it off or applies it against a tax debt.

EXAMPLE

Amended assessments

John submitted a tax return and received a notice of assessment. John paid his tax debt early. However, he had left some income out of his income tax return. When he advised the ATO 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 $800 – due for payment on 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 an additional debt of $200—due for payment on 1 December.

7 November John paid the additional $200 at the post office.

John calculated his interest separately for each payment.

First payment

To calculate the interest on the original payment of $800, John first worked out the number of days from 7 October, the day he made the payment, to 1 December, the due date for payment – a period of 56 days. He then calculated his interest:

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

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 day he paid 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 (item **C1** in *TaxPack supplement*) 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 the interest is refunded to him or the income year in which the ATO sets it off or applies it against a tax debt.

Overpayment of tax

Interest on overpayment of tax is payable—from the 1993–94 income year— 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 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 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 the whole 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 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.

Delayed refund of an RBA surplus

From 1 July 2000, delayed refund interest 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.) 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 (that the taxpayer requested be remitted) relating to a BAS amount—where it is not refunded within 14 days after the day the request for remission is made.
- 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 after the day the request for refund is made.

If you have not provided the ATO 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.

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

Who calculates the interest on your delayed refund?

The ATO 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 may have with the ATO.

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

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