1. **Statement**
The purpose of this standard is to provide the correct PAYG withholding treatment of lump sum payments in arrears for salary and wages including allowances and loadings.

2. **Scope**
Compliance with this standard is mandatory.
This standard shall apply to all employees, contractors and consultants within the Department of Health divisions and commercialised business units as well as Hospital and Health Services.

3. **Requirements**
Employees may receive certain income paid in a lump sum containing an amount that accrued in earlier years. These payments may be eligible for an “income in arrears" rebate. Payments that qualify are called “lump sum payments in arrears“ (LSPIA) and must be reported separately to normal earning on the payment summary.

**Lump Sum Payments in Arrears**
The following lump sum payments qualify as LSPIA:

- Lump sum payments to the extent that they accrued during a period ending more than 12 months before the date on which they were paid.
- Salary and wages paid to a person after reinstatement to duty following a period of suspension to the extent that they accrued during the period of suspension.

The following lump sum payments do not qualify as LSPIA:

- Return to work payment.
- Advance payments on annual leave or long service leave.
- Accrued annual leave and long service leave paid on retirement or termination.
- Employment termination payments.
- Payment under a contract that is wholly or principally for the labour of the recipient.
- Payments of salary or wages referable to a period not more than 12 months before the date of payment, even though these might be in arrears and they accrued in a prior financial year.

**Payment Summaries**
If a lump sum qualifies as a LSPIA then it should be reported on the PAYG payment summary in label E. Any part of a payment that relates to an accrual period of less than 12 months before the payment was made should be included in ordinary gross payments on the payment summary. In
addition any payment less than $400 should also be reported in ordinary gross payments on the payment summary.

In addition to specific reporting on the payment summary, a letter should be supplied to employees in receipt of qualifying LSPIA detailing the apportionment of the LSPIA into financial years.

**Flowchart**

The following flowchart is provided to assist in determining the character of a payment for taxing as a LSPIA.

- Is the payment a lump sum? (Y/N)
  - Y: Proceed to next question.
  - N: Payment is a lump sum payment in arrears.

- Is it more than $400? (Y/N)
  - Y: Proceed to next question.
  - N: Payment is not LSPIA.

- Is it salaries and wages? (Y/N)
  - Y: Proceed to next question.
  - N: Payment is not LSPIA.

- Is it unused sick leave? (Y/N)
  - Y: Proceed to next question.
  - N: Payment is a back pay.

- Is it an employment termination payment? (Y/N)
  - Y: Proceed to next question.
  - N: Payment is not LSPIA.

- Is it unused annual leave or unused long service leave? (Y/N)
  - Y: Proceed to next question.
  - N: Payment is not LSPIA.

- Is it in respect of an entitlement that goes back more than 12 months before the date of the payment? (Y/N)
  - Y: Proceed to next question.
  - N: Payment is a lump sum payment in arrears.

- Is the accrual period all within the last 12 months before the date of payment? (Y/N)
  - Y: Proceed to next question.
  - N: Payment is not LSPIA.

- Isolate the >12 months part <= 12 months
  - Payment is a lump sum payment in arrears.
  - >12 months: Payment is not LSPIA.
4. Related legislation and documents

- Taxation Administration Act 1953, Schedule 1, Sections 12-35, 12-40, 12-45
- Purdon v FCT 2001 ATC 2064; (2001) 46 ATR 1161
- Cooper v FCT 2003 ATC 2123; (2003) 52 ATR 1199
- Dolphin v FCT 2006 ATC 2109; [2006] AATA 169
- Re Andrew Lamparelli and Commissioner of Taxation [2005] AATA 414
- Case 35/95 95 ATC 324; (1995) 30 ATR 1326
- Re Wilks and Commissioner of Taxation [2004] AATA 245
- Wallwork v Commissioner of Taxation [2006] AATA 528

Version Control

<table>
<thead>
<tr>
<th>Version</th>
<th>Date</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>01/06/2015</td>
<td>Policy Rationalisation Project</td>
</tr>
</tbody>
</table>