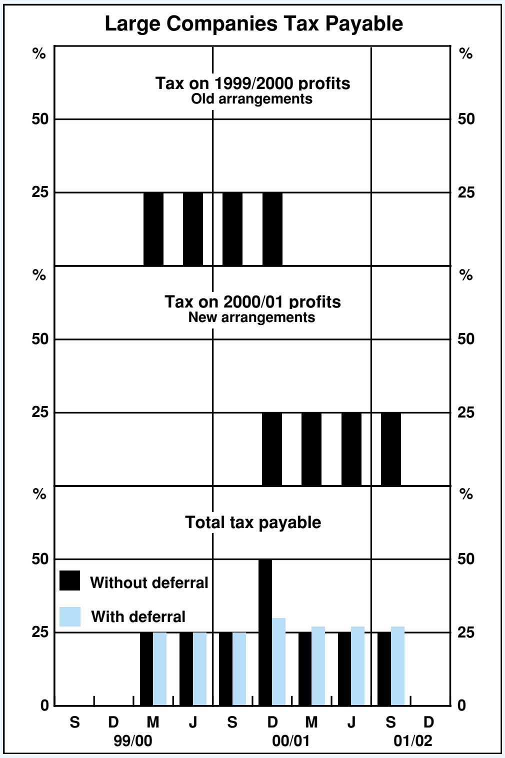
Box A: Changes in the Timing of Company Tax Payments

Since 1 July 2000, the lag between when a company earns income and when it pays tax on that income has been substantially reduced. Under the new tax system, companies will pay most of their company tax instalments in the financial year in which the liability is incurred. This contrasts with the previous system in which companies (unlike individuals) paid much of their tax after the year in which income was earned. The switch to the new system raises the possibility of larger tax payments this financial year as companies pay tax both on income earned in 1999/2000 (under the old tax arrangements) and income earned in 2000/01 (under the new tax arrangements). However, deferral arrangements reduce this burden markedly in 2000/01 by allowing payments to be spread over a number of years. The deferral arrangements vary according to the amount of tax paid by a company.[1]

Graph A1



Large tax companies

Under the old tax arrangements, large tax companies (those that pay more than $300 000 annually) paid tax in four quarterly instalments: the first two instalments fell due in March and June of the relevant fiscal year, with the remaining instalments in September and December of the next fiscal year (Graph A1, top panel). Under the new arrangements, companies pay corporate tax mainly in the year in which it is accrued: tax is based on quarterly income and is paid three weeks after the end of the quarter (Graph A1, middle panel).

In the absence of the deferral arrangements, a large company would have had to pay about 125 per cent of its normal annual tax bill in 2000/01 – 50 per cent (two instalments) of its annual tax bill for 1999/2000 profits, as well as 75 per cent of the tax bill incurred in 2000/01. Under the deferral arrangements, companies can defer most of the fourth instalment on 1999/2000 profits and pay it in equal quarterly instalments over the next $2^1/_2$ years. A company making full use of the deferral provisions might expect to pay about an extra 10 per cent of its normal tax bill in 2000/01.

Medium tax companies

Previously, medium tax companies (companies that pay between $8 000 and $300 000 tax per year) paid the first

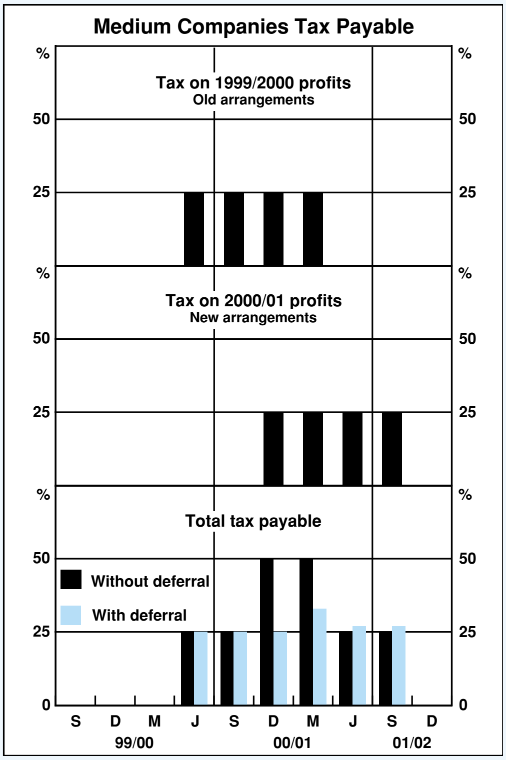
1. This box focuses on June balancing companies, which account for the bulk of company tax collections. Similar arrangements apply to companies which balance at other times of the year. The analysis abstracts from changes in the company tax rate, which was lowered from 36 per cent to 34 per cent on income earned in 2000/01.

quarterly tax instalment in the June quarter of the relevant fiscal year (a quarter later than large companies), with the subsequent three quarterly instalments paid in the following financial year (Graph A2, top panel). The new arrangements bring this tax payment schedule forward by about seven months. However, the deferral arrangements allow companies to defer the third instalment on 1999/2000 profits and most of the fourth instalment, with these payments to be made over the next five years. As a result, the total tax bill for a medium-sized company in 2000/01 will be around 10 per cent more than in a normal year.

Small tax companies

Small tax companies (companies that pay less than $8 000 per year) represent over 80 per cent of the number of corporate taxpayers, although they account for only 3 per cent of corporate tax collected. Under the old arrangements, these companies made one annual tax payment in December in the fiscal year following that in which profits were earned (Graph A3, top panel). The new arrangements require quarterly tax payments for small tax companies that are registered for the GST. (Small tax companies that are not registered for the GST can continue to make annual payments.) Without the deferral arrangements, small companies would have been required to pay, during the 2000/01 fiscal year, all of the tax on profit earned in 1999/2000, plus three quarterly instalments based on 2000/01 profits. Small tax companies have been permitted to defer all of the tax on profit earned in 1999/2000 which was due in December 2000, and pay it in quarterly instalments over five years from April 2001. A company which fully used the deferral provisions would pay around 20 per cent less tax in 2000/01 than in a normal year.

Graph A2



Graph A3