

## **PAYG CHANGE FOR MINISTERS**

Tax Law changes to take effect from 1 July 2002 introduces some important changes for occasional payments to Ministers of Religion. Ministers, Church Treasurers and Treasurers of other Religious Institutions all need to be aware of these changes. The matter is of sufficient importance to warrant this newsletter being devoted primarily to this matter.

Since the introduction of the New Tax System on 1 July 2000 any payment in excess of \$50.00 has been subject to PAYG Withholding obligations. To avoid Withholding Tax at 48.5% the standard requirement has been the quoting of an Australian Business Number (ABN). In exceptional circumstances there has been provision for the presentation of a Declaration to the payer entity to declare that there are no income tax obligations in respect to the payment. However special arrangements were made of a temporary nature for occasional payments to Ministers of Religion, as a consequence of practical difficulties identified to the Australian Taxation Office (ATO). These temporary arrangements provided a Withholding Tax rate of 0% to any payments to Religious Practitioners who were not "employees". This means that no ABN was required so occasional payments, such as preaching fees and funeral fees, did not have PAYG Withholding Tax deducted.

At the time this concession was provided the ATO stated that this was a short-term arrangement to enable them to examine the relevant issues more closely.

Parliament has now changed the laws in this area, and the 0% rating arrangements cease as of 30 June 2002. The new arrangement requires Ministers of Religion who are not employees to be subject to PAYG Withholding Tax. Ministers of Religion are also barred by the new laws from obtaining an ABN in respect of Religious activities. However, there will be still some instances where a 0% will continue to apply.

Where a Religious Practitioner undertakes activities in the pursuit of the vocation of Religious Practitioner, AND as a member of a religious institution, the minister can quote the Religious Institutions ABN. However there is a presumption here that the payment becomes the income of the Religious Institution and not of the practitioner. There will be instances, where by virtue of the arrangements between Minister and Institution already in place, that the income would automatically be the income of the Institution. In those circumstances the matter presents no difficulty.

Where the payer is a non-religious institution, all payments to Religious Practitioners except for the provision of chaplaincy and/or counselling will have a Withholding rate of 0%. This means that payments such as funeral fees will not require PAYG Withholding Tax to be deducted. Where the payments for chaplaincy and/or counselling exceed \$100.00 per week, such payments will be subject to the normal Withholding at rates of tax applicable to employees and a Tax File Number (TFN) Declaration will be required.

Where the payer is a Religious Institution, most payments to the Practitioner will be subject to PAYG Withholding at rates of tax applicable to employees. In such circumstances a TFN Declaration is needed. This will normally not be the primary declaration where the general tax free threshold is claimed, so there will be no eligibility for the general rebate. Where the payment is for locum and similar relief arrangements and the services rendered do not exceed two days in any quarter (three month period), such payments will have a PAYG Withholding rate of 0%. This means that payments such as funeral fees will not require PAYG Withholding Tax to be deducted. Where the payments for chaplaincy and/or counselling exceed \$100.00 per week, such payments will be subject to the normal

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The ATO will be providing Facts Sheets on these issues and there will also be information on their website. The website can be located at [www.taxreform.ato.gov.au](http://www.taxreform.ato.gov.au)

The revised arrangements for Religious Practitioners can be summarised as follows:

- Payments of \$50.00 or less will continue to be free of Withholding Tax.
- Funeral fees will continue to be free of Withholding Tax.
- Occasional preaching fees and lecturing fees paid by Religious Institutions will continue to be free of Withholding Tax provided the services do not exceed two days in any quarter.
- Where preaching or lecturing services exceed two days in any three-month period, a Religious Institution needs to obtain a TFN Declaration and to withhold tax at rates applicable to employees. If this is not done, the Religious Institution may be liable to pay 48.5% Withholding Tax on the relevant payments.
- Payments by a non-religious Institution for religious services will generally continue to have a 0% rating where they are of an occasional nature.
- Payments by a non-religious Institution for religious services of an ongoing nature will require a TFN Declaration and be subject to TFN Withholding arrangements, when the payment exceeds \$100.00 per week.

It is possible some modification to these principles will arise and we will advise you when such information comes to hand.

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