

# Unexpected lump sum payment in arrears? There's a tax offset for that

A lump sum payment in arrears is a payment you may receive that relates to earlier income years. The tax offset that can be utilised with these sorts of payments works to alleviate the problem of a taxpayer being expected to pay more tax in a year when a lump sum of back payments is received — where they would be disadvantaged by paying more tax than if the income had been spread over several income years.

The general rule is that employment income is assessable in the income year it is received, regardless of the period the payment covers. This is still the case, however the tax offset works to restrict the amount of tax payable to the same “marginal” rate that would have applied if it were “received” in the tax year or years it relates to.

As the lump sum payment in arrears (LSPIA) is taxable in the year you receive it, it can impact your tax and non-tax entitlements such as:

- Student loans
- Child support and welfare payments.

You may also find that as a result you:

- Are in a higher tax bracket and pay more tax than you would have if you received the amount when you earned it
- Are in the same tax bracket and pay the same amount of

tax as you would have if you received the amount when you earned it

- Are in a lower tax bracket and pay less tax than you would have if you received the amount when you earned it
- Have a new or increased medicare levy surcharge obligation, because the lump sum pushes you over a medicare levy surcharge threshold.

The ATO says taxpayers may be able to access the tax offset for certain payments, which usually relate to employment, compensation or welfare payments. To be eligible for the tax offset, an LSPIA must be 10% or more of your taxable income in the year of receipt after you deduct any:

- Amounts that accrued in earlier years (that is, this payment)
- Amounts received on termination of employment in lieu of annual or long service leave
- Employment termination payments (etps)
- Income stream and lump sum superannuation payments
- Net capital gains
- Any taxable professional income that exceeds the average taxable professional income.

The ATO notes that the calculation of this tax offset is complex, therefore, there is no online calculator.

