

Outsourced Payroll Services for Global Employers

Outbound payroll for employees working outside Australia

When employers send employees overseas, the employees often remain paid from the Australian payroll. A good understanding of the host country tax system, together with knowledge of the employees' tax resident status, are important so as to accurately apply the right tax withholding and reporting requirements.

The calculations of foreign sourced income, foreign tax withholdings and apportionment of PAYG withheld can be complicated. PwC Australia helps many types of employers across many industries to get these calculations right.



Employees remaining tax resident

Where an employee remains a tax resident in Australia with a resident employer, the following will generally apply:

- PAYG withholding is required to be withheld and remitted.
- Single Touch Payroll (STP) reporting is required.
- Gross wages need to be included on an activity statement.
- Fringe benefits tax (FBT) is required to be paid on non-cash and certain cash benefits.
- Payroll tax may be required, unless the employee is offshore for a continuous period of more than six months.
- Superannuation guarantee obligations continue.
- Workers' compensation coverage may continue to be required depending on the length of time offshore and the requirements in the host location.



Employee resident status

An outbound employee's resident status is integral to determining payroll requirements. These rules and Australian Taxation Office (ATO) interpretation of Australian domestic tax resident status are complex. It may also be necessary to review relevant double tax agreements (DTA) if an employee remains tax resident of Australia and also becomes tax resident in the host country.

The best way to determine an employee's tax resident status is through a **tax briefing**, which PwC Australia can provide.



Employees becoming foreign tax resident

Where an employee becomes a foreign tax resident (or DTA resident of the host country) the following will generally apply:

- No PAYG withholding is required to be withheld and no STP reporting is required (except on Australian work days/ sourced income).
- No FBT is required to be paid.
- Payroll tax is unlikely to arise, as the employee will likely be working overseas for a continuous period of more than 6 months.
- Superannuation Guarantee obligations are required to continue where the employee is covered by a certificate of coverage (including on assignment allowances that are considered OTE), or if the employer's policy is to continue to pay superannuation.
- Workers' compensation coverage may continue to be required depending on the length of time offshore and the requirements in the host location.



Pay as you go (PAYG) withholding

Resident employees

An Australian employer should withhold PAYG withholding from an outbound resident employee, however the employer can reduce the PAYG withholdings by the taxes remitted in the host country.

Taxes paid by the employer in the host country should be included as compensation in Australia. Non-FBT cash allowances paid to an employee net of tax should also generally be grossed up and reported through the Australian payroll.

When varying PAYG withholding for foreign tax withholdings, care should be taken if the host country withholdings include tax on fringe benefits (i.e., income that is not taxed in the employee's hands in Australia), as the variation may result in a tax payment being due on lodgement of the tax return.

For tax equalised assignees, the interplay between Australian and host country tax rates and withholding must be considered to determine whether PAYG withholding and/or hypothetical tax should be withheld. As an example, if the host country has a higher withholding rate than Australia, PAYG withholding is not required and hypothetical tax should be withheld in full.

Foreign tax residents

If the outbound employee is a foreign tax resident or a DTA resident of the host country, PAYG withholding on foreign source income is not required. However, consideration should be given to withholding on Australian source income received while on assignment, including bonuses relating to Australian services.



Single Touch Payroll (STP) reporting

Resident employees

Where a resident employee receives foreign compensation income, the income should be reported through STP as foreign income. Foreign reporting can be facilitated through relevant software in one of three ways:

1. through each pay event during the year;
2. through an update event during the year; or
3. through an update event as part of the finalisation process.

The employer will therefore need to consider how their payroll STP set up will allow foreign sourcing of the income in event and finalisation reports. For example, some software will require the employee to have two records in the payroll system to report the different types of income. Any foreign withholding taxes actually paid should also be reported through STP. Consideration should be given as to whether to report host country withholdings on fringe benefits.

Following year end, the employee will include the income in their income tax return and claim a foreign income tax offset (FITO) for foreign taxes paid. If the foreign sourced income is not reported in this manner, the ATO may reject any claim for a FITO, leading to increased employer costs through double taxation.

Foreign tax residents

STP reporting is not required for foreign income received by a foreign tax resident or a DTA resident of the host country. Once again, however, consider STP reporting for Australian source income paid to the employee while on assignment, including bonuses relating to Australian services. Employers should apply non-reportable payroll codes in the payroll system to ensure that the relevant income is not reported to the ATO through STP pay events.

Contacts



Alana Haiduk

Australian Payroll Services Leader
alana.haiduk@pwc.com
Ph: +07 3257 8703



Emma Wappet

Director
emma.wappet@pwc.com
Ph: +03 8603 0709



Helen Kerr

Senior Manager
helen.l.kerr@pwc.com
Ph: +02 8266 2560