

Australia: Single Touch Payroll and reporting for inbound employees post 1 July 2019

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In brief

Australia introduced real time payroll reporting from July 1, 2018, similar to other jurisdictions around the world. Known as Single Touch Payroll (STP), each pay event must now be reported to the Australian Tax Office (ATO), providing the ATO with real-time visibility over the accuracy and timeliness of organisations' payroll processes.

The ATO is aware of the complexities involved in ensuring payroll compliance for globally mobile employees, and had announced an exemption from STP reporting for a certain class of globally mobile employees who are inbound to Australia until 30 June 2019.

The ATO has recently advised that from 1 July 2019 employers will be required to report their inbound employees in an STP event report each pay period, with an automatic deferral of up to one month after the pay event. This reporting requirement will also apply to employers/employees who have a PAYG withholding variation to nil in place.

In detail

What is STP for inbound employees?

From 1 July 2019, an employer will be required to report all inbound employees via STP-enabled software on or before each payday. The STP reporting includes the employee's year-to-date:

1. gross payments
2. certain allowances
3. taxes withheld (will be nil where the employers has a PAYG withholding variation to nil)
4. ordinary times earnings (optional)
5. superannuation paid.

In addition, employers will no longer need to lodge a PAYG annual report. Instead, employers will need to lodge a finalisation declaration for each employee at year-end through the STP-enabled software.

What are an employer's PAYG withholding requirements?

STP does not change an employer's obligation to withhold PAYG from remuneration or the way that the withholding is calculated.

For all inbound employees to Australia, an employer is required to withhold PAYG unless one of the following exemptions apply:

1. The employee's income is exempt under a Dependent Personal Services treaty exemption.
2. The employer has applied for a PAYG withholding variation to nil. A PAYG withholding variation to nil requires several criteria to be met (including payment from a foreign payroll with the employer being responsible for payment of the Australian tax due under an equalisation arrangement). The variation must specifically cover each employee and state their tax file number, and is valid for two years.

How will STP be applied to inbound employees to Australia?

For globally mobile employees, salaries may be paid through a foreign payroll (either in full or in part), and may require information to be collected from a foreign payroll. This coordination and data gathering can make the prospect of complying with PAYG withholding and superannuation requirements under STP difficult. The ATO has therefore advised that employers can report inbound employees on a one month in arrears basis. We understand that this is an automatic exemption and does not require written confirmation with the ATO.

The ATO have confirmed that STP reporting will be required for employers who have applied for a PAYG withholding variation to nil. This means that while an employer does not need to withhold PAYG on a regular basis, they will be required to report the income and superannuation each pay event. This is a significant administrative change, and employers should consider whether the variation to nil approach remains effective.

We recommend that employers with inbound employees consider establishing a shadow payroll process that complies with the PAYG withholding requirements and that will enable the employer to commence reporting STP when their Australian payroll provider/software is STP enabled, no later than July 1, 2019.

Further clarity required

PwC are seeking clarity from the ATO on a number of matters, including those cases where an employer is unable to collate and calculate the foreign payroll information within one month of the pay event.

What other STP issues should employers of globally mobile employees consider?

STP will provide the ATO with much greater transparency over payroll and superannuation compliance. On top of the increased data matching with various government departments – notably the Department of Homeland Affairs (encompassing immigration) – employers of globally mobile employees should consider the broader implications that may arise, and take steps to ensure compliance. This includes:

- timely lodgment of tax file number declarations
- documentation of exemptions from the superannuation guarantee, such as certificates of coverage and senior executive exemptions
- tracking and compliance for short-term business travelers
- analysis of foreign and Australian wage/pay codes to ensure they are correctly set up for PAYG withholding, STP reporting, superannuation, payroll tax, and workers' compensation
- use of the most appropriate PAYG withholding rates
- identification and classification of foreign-sourced employment income for outbound resident employees.

The takeaway

Employers of inbound employees should establish a payroll process for regular STP reporting before the start date of 1 July 2019. This will include:

- set up of the employees in the payroll software
- monthly gathering of foreign payroll information
- monthly calculation of the income for Australia reporting purposes
- lodgment of STP event reports

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- lodgment of STP finalization reports

Let's talk

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