

Australia: Single Touch Payroll and reporting for outbound employees

25 February 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. However, there is no similar exemption for employees outbound from Australia.

In detail

What is STP?

From 1 July 2018, an employer with 20 or more employees is required to report outbound employees via STP-enabled software on or before each payday (all employers will be required to report under STP from 1 July 2019). The STP reporting includes the employee's year-to-date:

1. gross payments
2. certain allowances
3. taxes withheld
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.

The ATO has granted deferrals to a significant number of employers and payroll processing systems for this financial year (some until as late as 30 April), where the employer or provider needed additional time to become compliant. For this reason, many employers have not yet considered how the STP reporting should be implemented for their globally mobile employees.

What are an employer's reporting and PAYG withholding requirements for outbound assignees?

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

Globally mobile employees may often continue to have salaries paid through an Australian payroll, either in full or in part. For outbound employees from Australia who remain tax residents of Australia (or who

are considered to be a tax resident of the home location under a double tax agreement (DTA)), an Australian-resident employer¹ is required to withhold PAYG (a reduction may be applied in respect of foreign taxes withheld).

If the outbound employee is a tax non-resident of Australia or a DTA resident of the host country, STP reporting and PAYG withholding on foreign source income is not required.

How will STP reporting be applied to outbound employees from Australia?

The way STP reporting is processed depends on the relevant software being used by the employer. Where an employee is a tax non-resident of Australia (or a DTA resident of the foreign country), employers will need to review their payroll STP set up to determine whether they can turn off the STP reporting for these employees. It may be the case that if an employee is paid on the payroll, the software will require the income to be reported to the ATO and the employer will need to consider other options for paying these employees.

For tax residents of Australia, the employer will need to report the employee's foreign sourced income as foreign employment income. This reporting can be facilitated through the 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.

What questions should you be asking your payroll software provider?

To ensure employers can correctly report for their outbound employees, you should ask your payroll software provider the following questions:

- Can non-resident employees paid on the payroll be excluded from STP reporting in the event and finalisation reports?
- If yes, how is the employee excluded eg, in the master data input?
- What steps are required in the STP event and finalisation reports for employees with foreign employment income?
- If the steps require the employees to be set up with two records, will the software allow two employees with the same tax file number?

The takeaway

In order to be compliant for the year ending 30 June 2019 and beyond, employers of outbound employees need to determine now how their payroll software will allow exclusion of non-resident employees and allow foreign employment income to be reported for resident employees.

¹ For the purposes of this Insight, we assume that an employer who pays an employee through an Australian payroll is an Australian resident employer. Non-resident entities who pay an Australian resident for work performed overseas may be subject to STP and PAYG withholding if the non-resident entity has a sufficient connection with Australia.

Let's talk

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