Australia: 2016-17 Federal Budget to impact global mobility

May 19, 2016

In brief

The 2016-17 Federal Budget was handed down by Treasurer Scott Morrison on May 3, 2016.

The personal tax measures announced as part of the Budget include a slight increase to the threshold from which the second highest marginal tax bracket applies. Although the proposed changes do not significantly impact individual taxpayers, businesses with international assignees should bear in mind the potential impact of these changes on any tax equalisation arrangements.

With effect from July 1, 2017, concessional contribution caps will be reduced, which will limit the amount that employers can contribute to an employee's superannuation.

Companies with global revenue of $1 billion or more may also be affected by increased administrative penalties imposed for failure to adhere to tax disclosure obligations. This measure forms part of the Government's Tax Integrity Package, which will strengthen the integrity of Australia's tax system.

In detail

Changes to individual income tax brackets

The second highest tax bracket in Australia is 37 per cent, and currently applies to taxable income between $80,001 and $180,000.

The proposed tax rates announced as part of the Budget include an increase in the lower limit of the 37 per cent tax bracket. Taxpayers will now fall into the second highest bracket when their taxable income exceeds $87,000.

The proposed measure will take effect from July 1, 2016. Individuals with incomes between $80,001 and $87,000 will have their marginal tax rate reduced from 37 per cent to 32.5 per cent.

It is expected that this change will prevent around 500,000 individuals from falling into the 37 per cent tax bracket during the 2016-17 tax year. Affected taxpayers will likely face the second highest tax bracket in three years' time i.e., from July 1, 2020.

Increase in Medicare levy low-income thresholds

Australia's public health care system is funded by taxpayers who pay the Medicare levy of two per cent of their taxable income. Low-income taxpayers with incomes below prescribed thresholds are exempt from paying the Medicare levy.

The Budget includes an increase in the Medicare levy low-income thresholds from July 1, 2016 for singles, families, and seniors and pensioners.

The increased thresholds are:

- individuals - $21,335 (increased from $20,896)
- families - $36,001 (increased from $35,261), with an additional $3,306 for each dependent child or student (increased from $3,283)

- single seniors and pensioners - $33,738 (increased from $33,044)
- senior and pensioner couples - $46,966 (increased from $46,000).

Tax equalisation impacts

Employers typically calculate hypothetical tax withholding for international assignees based on home country tax rates.

If the proposed changes are enacted, companies with international assignees who are tax equalised to Australia should review the rate of hypothetical tax withholding that is being applied.

The company's overall global tax equalisation costs should also be reviewed to ensure cost projections take into account the change in Australian tax brackets and Medicare levy low-income thresholds.

Reduced concessional superannuation contribution caps

With effect from July 1, 2017, concessional contribution caps, i.e., for superannuation contributions which come from pre-tax income, are to be reduced to $25,000 per annum (currently set at $30,000 for those individuals aged under 50, and $35,000 for those over 50 years of age), limiting the amount that employers can contribute to an employee's superannuation.

There are also a number of proposed changes to superannuation that affect an employee's ability to contribute non-concessional (after tax) contributions to superannuation.

Increased administrative penalties

The Budget also announced a number of integrity measures, including an increase in administrative penalties for companies with global revenue of $1 billion or more.

This measure will apply from July 1, 2017, and is estimated to have an unquantifiable gain to revenue over the forward estimates period.

Penalties relating to the lodgement of tax documents to the Australian Taxation Office (ATO) will be increased by a factor of 100. The maximum penalty will rise from $4,500 to $450,000, which will help to ensure that multinational companies do not opt out of their reporting obligations.

Penalties relating to making statements to the ATO will be doubled.

It remains to be seen when the legislation is introduced as to the definition of 'tax documents' however, a company should begin to consider their tax documents and disclosures relating to international assignees.

A number of tax documents are required for inbound and outbound international assignee payrolls to ensure an employer satisfies their obligations. Companies should consider and ensure the following documentation is lodged in a timely manner and with complete disclosure to avoid the proposed new penalties.

Inbound international assignees

- Where a PAYG withholding variation is relied upon to vary the employer withholding obligations, it should be ensured that this variation is valid for each international assignee as they arrive.

  Although the company does not need to complete a PAYG payment summary for an employee where PAYG is varied to nil, the company does need to provide a statement of earnings in Australian dollars to the employee for the year to June 30.

  It should also be ensured that the fringe benefits tax (FBT) return is completed correctly to include the taxes paid upon lodgement of the individual income tax returns.

- Where a shadow payroll is operated, an employer should ensure that the correct withholding is deducted and remitted in a timely manner. Where the shadow payroll is operated on an arrears basis, the company should ensure they have obtained a valid payment date variation.

  The wages and taxes withheld should also be correctly recorded on the relevant Activity Statement.

  PAYG payment summaries and the annual statement should also be prepared to include the international assignee income and taxes.

- The FBT return should be completed to correctly disclosure the benefits provided to inbound international assignees regardless of where the benefit is provided.

Outbound international assignees

- Where an outbound resident employee remains paid from the Australian payroll, an employer needs to ensure that the correct PAYG withholding is deducted and remitted.

  It should also be ensured that a PAYG payment summary – foreign employment is issued to the employee if the employee's salary continues to be taxable in Australia.

  The wages and taxes withheld should also be correctly recorded on the relevant Activity Statement.

- The FBT return should be completed in relation to non-cash benefits provided to resident employees where the employees remain paid from and taxable in Australia.

The takeaway

Companies with international assignees should review:

- whether they need to update hypothetical tax withholding for employees who are tax equalised to Australia, and
- whether cost projections in relation to their global mobility program need updating for the change in Australian tax brackets and Medicare levy low-income thresholds.

They should also ensure that:

- PAYG withholding variations are valid for each inbound international assignee as they arrive in Australia (only applicable if no shadow payroll is being operated)
- statements of earnings are being issued to inbound international assignees where PAYG withholding has been varied to nil
- the correct withholding is being deducted and remitted to the ATO in a timely manner in relation to inbound and outbound international assignees
- wages and taxes withheld in relation to inbound and outbound international assignees are correctly recorded on relevant Activity Statements
- PAYG payment summaries and annual statements are prepared to include inbound international assignees, and outbound international assignees where they continue to be paid from Australia, and
- the FBT return correctly discloses taxable non-cash benefits which are provided to inbound and outbound international assignees.

Let's talk

For a deeper discussion of how this interpretive decision might affect your business, please contact your PwC Global Mobility Services engagement team or one of the following individuals:

Global Mobility Services – Australia

Norah Seddon
+61 (2) 8266 5864
norah.seddon@au.pwc.com

Kevin Lung
+61 (2) 8266 7318
kevin.lung@au.pwc.com

Lisa Hando
+61 (8) 9238 5116
lisa.hando@au.pwc.com

Justin Smith
+61 (8) 9238 3428
justin.r.smith@au.pwc.com

Shane Smailes
+61 (3) 8603 6097
shane.smailes@au.pwc.com

Anna Law
+61 (7) 3257 8081
anna.law@au.pwc.com

Maria Ravese
+61 (8) 8218 7494
maria.a.ravese@au.pwc.com

Jonathan Dunlea
+ 61 (3) 8603 5424
jonathan.b.dunlea@au.pwc.com

Alana Haiduk
+ 61 (7) 3257 8703
alana.haiduk@au.pwc.com

Global Mobility Services – United States

Peter Clarke, *Global Leader*
+1 203 539-3826
peter.clarke@pwc.com

Stay current and connected. Our timely news insights, periodicals, thought leadership, and webcasts help you anticipate and adapt in today's evolving business environment. Subscribe or manage your subscriptions at:

pwc.com/us/subscriptions

SOLICITATION