

Australia: Introduction of Single Touch Payroll with reporting exemption for inbound employees

October 5, 2018

In brief

Australia has 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 now must be reported to the Australian Tax Office (ATO), providing the ATO with real-time visibility over the accuracy and timeliness of organizations' payroll processes.

The ATO is aware of the complexities involved in ensuring payroll compliance for globally mobile employees, and has announced an exemption from STP reporting for a certain class of globally mobile employees who are inbound to Australia. The exemption allows an employer to defer STP reporting until July 1, 2019 where the employee satisfies the exemption definition. It is important to note that the exemption only applies to reporting and does not apply to defer an employer's PAYG withholding requirements.

In detail

What is STP?

STP is a reporting mandate that requires an employer to lodge an STP event report through STP-enabled software on or before each payday. STP reporting includes the employee's year-to-date:

- gross payments
- certain allowances
- taxes withheld
- ordinary times earnings (optional)
- superannuation paid.

Tax File Number (TFN) declarations also can be reported through STP.

In addition, employers no longer will 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.

When will STP apply?

For the year ended June 30, 2019, STP applies to all employers with 20 employees or more (with this employee count being subject to grouping provisions).

The ATO has granted deferrals to a significant number of employers and payroll processing systems for part of this financial year, where the employer or provider needs additional time to become compliant.

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 must withhold PAYG withholdings unless one of the following exemptions apply:

- The employee's income is exempt under a Dependent Personal Services treaty exemption; or
- 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 equalization arrangement). The variation must specifically cover each employee and state their tax file number, and is valid for two years.

An employer should consider whether it requires a PAYG payment date variation or a PAYG Medicare levy variation to enable it to satisfy their withholding obligations.

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 announced that an exemption from STP reporting is available for certain foreign employees until July 1, 2019. To

qualify for the exemption, the following criteria must be satisfied:

- The employee is employed by an offshore entity, for example, an entity that is a non-resident for Australian taxation purposes.
- The employee is seconded to Australia.
- All or part of the employee's base salary and other remuneration is paid by an offshore entity.
- The employer maintains a shadow payroll arrangement.

This is an automatic exemption and does not require written confirmation with the ATO.

As the exemption will expire on July 1, 2019, 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 its Australian payroll provider/software is STP-enabled, no later than July 1, 2019.

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. These include:

- 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 may be exempt from including remuneration for inbound employees to Australia paid through a home payroll in their STP reports for the year ended June 30, 2019.

However, these employers should consider the options available to them to comply with the withholding obligations that still arise for these employees. This may include seeking PAYG withholding variations, or putting a shadow payroll process in place.

Let's talk

For more information about how this issue impacts your business, please contact your regular Global Mobility Services engagement team or the following professionals:

Global Mobility Services – Australia

Alana Haiduk, *Brisbane*
+61 (7) 3257 8703
alana.haiduk@pwc.com

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

Louise Sutton, *Sydney*
+61 (2) 8266 8641
louise.sutton@pwc.com

Penelope Harris, *Perth*
+61 (8) 9238 3138
penelope.harris@pwc.com

Emma Wappet, *Melbourne*
+61 (3) 8603 0709
emma.wappet@pwc.com

Global Mobility Services – United States

Peter Clarke, *Global Leader*
+1 (646) 471-4743
peter.clarke@pwc.com

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