

# GMS Flash Alert

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## Australia - Streamlined Employer Compensation Reporting

From 1 July 2018, Single Touch Payroll (STP) will streamline how Australian payroll information, including pay as you go (PAYG) withholding tax and superannuation contributions, is reported to the Australian Taxation Office (ATO).<sup>1</sup>

While the main impact will be on Australian employers, it will also affect foreign employers who use Australian payroll to deliver any elements of pay or manage Australian tax obligations.

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### WHY THIS MATTERS

- STP will require employers to correctly report payroll when they pay their employees. Employees will be able to access details of their pay, PAYG withholding and superannuation contributions in real time. Thus, the information employers provide to the ATO is expected to be accurate. Significant penalties will apply for failing to lodge information on time and for providing incorrect information, and there are stricter rules for correcting errors.
  - These changes provide the ATO with greater transparency of compensation matters for both Australian and foreign employers, which increases the risk of exposure for non-compliance with reporting and tax withholding obligations, and improves the ability of the ATO to conduct data validation and data matching analysis against employee personal tax returns.
  - The ATO is sending a clear message that all employers are accountable for getting their payroll and compensation reporting and withholding correct, and if required, for being able to validate compliance on a real-time basis.
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## Foreign Employers with Workers in Australia

Foreign employers with employees working in Australia and remaining on the foreign employer's payroll have managed the Australian PAYG withholding tax and compensation reporting obligations for these employees through one of the following mechanisms:

### Shadow Payroll

Under this arrangement, the foreign employer continues to operate the payroll and to pay its employees working in Australia, with all reporting on payroll and PAYG tax withholding processed by the Australian entity, generally in line with the standard Australian payroll process.

This has resulted in an annual PAYG payment summary disclosing the gross wages/salary and PAYG tax withheld. This mechanism also facilitates compliance with the new STP obligations

### Employer PAYG Withholding Variation

In certain circumstances, an application can be lodged with the ATO for approval to eliminate the foreign employer's obligation to withhold PAYG tax from specified employees' salary/wages for a fixed period of time.

This requires the foreign employer to take responsibility for payment of employee income tax and any fringe benefits tax liabilities that may arise while the employees are in Australia.

Importantly, the approval requires the foreign employer to provide its employees covered by the variation with an annual earnings statement containing the information that would ordinarily be disclosed on a PAYG payment summary.

These mechanisms continue to be available in conjunction with the increased reporting requirements of STP.

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## KPMG NOTE: Key Actions

In preparing for the new STP obligations, foreign employers with expatriates working in Australia and remaining on the foreign employer's payroll should make sure they have one of the above ATO-accepted procedures in place to manage their Australian tax reporting and withholding obligations.

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## FOOTNOTE:

1 For additional information, see "Single Touch Payroll," on the ATO website at: <https://www.ato.gov.au/Business/Single-Touch-Payroll/>.

## Contact us

For additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm in Australia:



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