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GMS Flash Alert

Global Compensation Edition

2021-104 | April 6, 2021

Australia - Plan Now for Employee Share Scheme Reporting

With the annual vesting cycle for equity incentive plans typically occurring either in September or about now in Australia for many organisations, it is an appropriate time to plan ahead and beat the rush that traditionally occurs when the Employee Share Scheme (ESS) reporting deadlines arrive in July and August.[1]

WHY THIS MATTERS

There have been multiple updates to the ESS legislation over the last 15 years, meaning different rules apply to different awards depending on when they were granted.

The data that is required to be collected tends to be extensive and spread out amongst different parts of the business and share plan administrators, sometimes in multiple jurisdictions.

Add to this that Australia has unique rules in a global context regarding what is considered a taxable event, and it becomes clear how things can become time consuming; on top of that, there is the short turnaround between the 30 June year-end and the first reporting deadline of 14 July.

By employers taking steps to turn their attention to the reporting requirements now, particularly while the annual vesting cycle is still fresh, they can bring forward the analysis for the bulk of the transactions and save some stress during what is traditionally a very busy period in the first two weeks of July.

ESS Reporting Requirements

Employers have an annual obligation to report taxable ESS events – this covers all forms of equity compensation, such as shares, performance rights, and options.

The Australian Taxation Office (ATO) requires that the ESS annual report be lodged electronically, complying with its software specifications.

For the year ending 30 June 2021, employers are required to provide ESS statements to their employees by 14 July 2021, and submit the ESS annual report to the ATO by 16 August 2021.

KPMG NOTE

Top Tips

Here are six key tips to help organisations navigate the ESS reporting landscape.

1. Given the ATO-mandated software specifications for reporting, most employers cannot handle the reporting requirements internally and might engage with a third-party provider to at least some extent. It is advisable that organisations start the conversation with their third-party provider about the 30 June 2021 reporting now – do not wait until June.

2. Organisations should make sure they are clear on what data they do and do not need for the reporting, so that their requests to other parts of the business can be specific. The reporting typically involves analysis of large data sets, so efforts to limit the data to that which is actually needed will help reduce risk and increase efficiency.

3. Consider who is best placed to perform the data cleansing and analysis work. It has historically been quite common for organisations to only outsource the final calculation and reporting of the ESS income. However, where an organisation has lots of transactions, employees, or plans, the initial data cleansing and analysis piece that is required before the organisation can even begin the calculations can be a huge time burden that may stretch in-house resources. (Because of this, we're starting to see a trend in organisations outsourcing this work to leverage the skills of data analysis specialists).

4. If an organisation has globally-mobile employees with ESS income, this adds an extra layer of complexity to the calculations. The organisation needs to determine that it has accurate records showing where its employees have been working. Business travellers and employees that localise in a location following an international assignment are common situations that organisations tend to struggle with.

5. Consider the impact of COVID-19 and remote working. Where individuals have been working in another country as part of a remote working arrangement, there may be a flow-on impact to how their ESS income should be calculated and reported.

6. Do not forget payroll tax. Although payroll tax reporting does not always align with ATO ESS reporting, state revenue authorities actively match payroll tax reporting with ATO ESS reporting and will initiate reviews if there appears to be an unexplained discrepancy.

For assistance with ESS reporting requirements, organisations should contact their tax service providers or a member of the KPMG team in Australia (see the Contact Us section).

KPMG's market leading technology, ESS Assist, and dedicated team of data analysis specialists, can effectively assist organisations with their ESS reporting obligations.

FOOTNOTE:

1 For additional information from the Australia Taxation Office, see: https://www.ato.gov.au/general/employee-share-schemes/in-detail/employer-reporting-requirements/ess---reporting-requirements-for-employers/ .

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