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# Payments to employees

Understand when and how to withhold payments from the different types of payments you make to employees.

## Types of payments to employees

You must withhold amounts from a number of payments you make to your employees.

## Calculating amount to withhold

The easiest way to work out how much tax to withhold is to use our online tax withheld calculator or the tax tables.

## Tax file number and withholding declarations

New employees must complete a tax file number declaration. They may also need to complete a withholding declaration.

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## Allowances and reimbursements

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QC 27061

# Types of payments to employees

You must withhold amounts from a number of payments you make to your employees.

**Last updated** 11 June 2025

If you need to withhold amounts from payments to employees, including those who are overseas or foreign residents, you need to get them to complete a Tax file number declaration. In some cases, they may also need to complete a Withholding declaration.

These declarations will help you to work out how much tax to withhold by indicating whether there are other factors you need to consider, such as withholding where employees:

- are under 18 years of age
- have compulsory repayments for study and training support loans, such as Higher Education Loan Program (HELP), Australian Apprenticeship Support Loan (AASL) (previously known as Trade Support Loan) or Financial Supplement debts
- are claiming tax offsets.

You also need to understand how to manage PAYG withholding for employees:

- on leave
- receiving allowances or reimbursements
- receiving back payments, commissions, bonuses and similar payments
- wanting to vary their withholding rate
- who have been overpaid.

If you operate your business as a company or trust with a corporate trustee, and the company or corporate trustee pays you a wage or director's fees, PAYG withholding amounts must be sent to us.

We also have guidance for administrators or liquidators, as well as the trustees of bankrupt estates.

# Calculating amount to withhold

The easiest way to work out how much tax to withhold is to use our online tax withheld calculator or the tax tables.

**Last updated** 11 June 2025

## Calculating PAYG withholding

The easiest and quickest way to work out how much tax to withhold is to use our online tax withheld calculator. Alternatively, you can use the range of tax tables we produce.

These take into account the:

- tax-free threshold
- Medicare levy
- study and training support loans.

## If you withheld more tax than you should

### Discovering your error early

If you withhold more tax than you should and you discover the error early, you must refund the extra amount you withheld to the payee, even if you have already paid the amount to us.

If you have already paid the amount to us, and you are:

- liable to pay us another withholding amount in the future, you can offset the amount against it. Remember to record this offset in your accounts.
- not liable to pay us any further withholding amounts for the relevant year, you need to lodge a revised activity statement by using Online services for business or using our self-help phone service for businesses.

### Discovering your error late

If you withhold more tax than you should and you discover the error later than 30 June after the end of the financial year in which the

withheld amount relates, **do not refund the amounts to your payee** – if you do, we cannot refund the amount to you.

To fix the error you need to:

- issue your payee with an amended payment summary
- complete and forward us an amended PAYG payment summary statement (NAT 3447)

If your payee has already lodged their income tax return for that financial year, they need to amend their tax return.

QC 27065

# Tax file number and withholding declarations

New employees must complete a tax file number declaration. They may also need to complete a withholding declaration.

**Last updated** 11 June 2025

## TFN declaration

Each of your employees should complete a *Tax file number declaration*. This allows you to work out the amount you withhold from payments to the employee.

Lodging TFN declaration data online is a quick and secure way to meet your reporting obligations.

You must lodge TFN declaration details with us, unless your employee has completed the employee commencement forms in ATO Online Services.

## Withholding declaration

A valid TFN declaration must be in place **before** your employee can authorise you to vary their withholding by providing a withholding declaration.

They must give you a completed Withholding declaration if they want to:

- claim an entitlement to a tax offset by having a reduced amount withheld from payments made to them
- advise you of changes to their
  - tax-free threshold
  - residency status
  - HELP, Australian Apprenticeship Support Loan (previously known as Trade Support Loan) or Financial Supplement debt.

A withholding declaration takes effect from the first payment you make after the employee has provided the declaration.

**Don't** send completed withholding declarations to us. Keep the declarations with your employee records.

## Employee commencement forms

Employee commencement forms are an alternative to your employee completing a paper *Tax file number declaration* and *Withholding declaration*.

Your employees can access the commencement forms either:

- directly through ATO online services
- through a link to ATO online services sent from your software. Ask your software provider if this service is offered.

If your employee accesses the form directly, their information is sent electronically to us. They must **print out** the employee tax details summary and give it to you. **Don't** ask your employee to send the summary to you via email. Sending personal information via email, which is not a secure channel, increases exposure to fraud.

You must:

- input the information into your business systems
- **not** send the printed form to us.

If your employee accesses the forms through a link from your software:

- their information is sent electronically to us
- your payroll software will request the information from us once the form is submitted.

# TFN not provided or incorrect

You must withhold at the top rate of tax (plus Medicare) from any payment you make to an employee if they have **not**:

- supplied their TFN
- claimed an exemption from quoting their TFN
- advised you that they have applied for a TFN or have made an enquiry with us about this.

If the employee has applied for a TFN, they have 28 days to provide you with their TFN. If they still haven't given you their TFN within 28 days, you must withhold at the top tax rate plus Medicare.

If you are advised by either us or your software that the employee has quoted an incorrect TFN on their TFN declaration, you will also need to withhold at the top tax rate for resident payees until the employee has provided a correct TFN.

## TFN code

Use one of the following code numbers instead of the TFN when a payee either:

- hasn't completed a TFN declaration
- isn't required to quote a TFN
- has chosen not to quote a TFN
- has provided an invalid TFN.

### TFN code numbers and when to use them

| TFN code number | When to use code number |
| --- | --- |

| | |
|---|---|
| 000000000 | The payee has:<br>• not provided a TFN<br>• fails to provide a TFN within 14 days. |
| 111111111 | The payee<br>• hasn't provided a valid TFN<br>• given you a declaration that says they have applied for a TFN.<br>This code should be updated with the payee's TFN, or, with the no TFN quoted code when the payee fails to provide the TFN to the payer within the 28-day period allowed. |
| 333333333 | The payee is both:<br>• under 18 years old<br>• claiming the general exemption because they won't earn more than the tax-free threshold.<br>If circumstances change and the payee's earnings will exceed the tax-free threshold, they will need to provide a TFN. |
| 444444444 | The payee is both:<br>• receiving a social security or service pension or benefit (other than Newstart, sickness allowance, special benefits or partner allowance)<br>• claiming an exemption from quoting a TFN. |

## Employee is under 18 years old

The amount you need to withhold from payments to the employee is nil if all of the following 3 conditions are satisfied:

1. The individual is under 18 years of age.
2. The individual hasn't provided you with a TFN declaration.
3. The amounts you pay to the individual don't exceed
   - $350 where you pay the individual weekly

- $700 where you pay the individual fortnightly
- $1,517 where you pay the individual monthly.

Note: If you are making a single (one off) payment to the employee under 18 years old, apply the monthly threshold.

QC 27062

# Withholding from leave payments for continuing employees

Check when to withhold tax from advance annual or long service leave payments for continuing employees.

**Last updated** 11 June 2025

You may need to withhold tax if you make advance payments of annual leave, long service leave and leave loading to employees who are continuing in your employment.

## Annual or long service leave payments

If you are paying an employee annual leave or long service leave for a period greater than one pay period, you can use the online tax withheld calculator or appropriate tax table to calculate the PAYG withholding amount.

The amount to withhold from an advanced leave payment is based on the amount of leave taken.

## Leave loading

Any leave loading attracted by annual leave in an advance leave payment is to be added to the total leave payment when calculating the withholding.

### Example: leave in advance with leave loading

Your employee:

- is paid weekly
- claims the tax-free threshold
- earns $1,410 a week
- is taking 8 weeks leave – 4 weeks annual leave and 4 weeks long service leave.

They will receive a leave payment of $11,280 for the 8 weeks leave.

The annual leave attracts leave loading at the rate of 17.5% per day, which increases the total leave payment by $987 to $12,267.

Calculate the withholding as follows:

- **Step 1:** Divide the total leave payment by the number of weeks leave to give the average weekly earnings: $12,267 ÷ 8 = $1,533
- **Step 2:** Calculate the amount of withholding from the average weekly earnings, ensuring the calculation takes into account the tax-free threshold. The withholding amount for the average weekly earnings of $1,533 is $367.00.
- **Step 3:** Multiply the withholding amount by the number of weeks leave: $367 × 8 = $2,936.00

The total amount to withhold from the full leave payment of $12,267 is $2,936.00.

This example uses the weekly tax table for payments made on or after 1 October 2016. Ensure that you use the appropriate tax table that applies to that employee's normal earnings when calculating the amount to withhold.

If a continuing employee receives a payment for unused leave, with or without leave loading, use Tax table for back payments, commissions, bonuses and similar payments.

If an employee ceases working for you, use Tax table for unused leave payments on termination of employment.

QC 16601

# Allowances and reimbursements

Payers need to know the correct withholding for allowances and the differences between allowances and reimbursements.

**Last updated** 11 June 2025

## Allowances

Allowances are separately identified payments made to an employee for:

- working conditions – for example, danger, height or dirt
- qualifications or special duties – for example, first aid certificate or safety officer
- expenses that can't be claimed as a tax deduction by the employee – for example, normal travel between home and work
- work related expenses that may be claimed as a tax deduction by the employee – for example, travel between work sites.

Allowances that have been folded in to normal salary or wages are not treated separately for withholding.

## Reimbursements

Reimbursements are payments made to a worker for actual expenses already incurred, and the employer may be subject to fringe benefits tax (FBT). If the reimbursement is covered by FBT, the amount is not assessable income to the employee, and the employee can't claim a deduction for the expense.

## Super obligations when paying allowances

You must pay super on an employee's ordinary time earnings.

Super obligations apply to 'on call' allowances paid for ordinary hours of work, such as an 'on call' loading.

Super obligations don't apply to:

- expense allowances and reimbursements – these are not 'salary or wages' and therefore aren't ordinary time earnings
- 'on call' allowances paid when employees are required to make themselves available during hours they aren't otherwise working – these are excluded from ordinary times earnings.

**See also:**

- Taxation Ruling TR 92/15 *Income tax and fringe benefits tax: the difference between an allowance and a reimbursement*
- Superannuation Guarantee Ruling SGR 2009/2A1 *Superannuation guarantee: meaning of the terms 'ordinary time earnings' and 'salary or wages*
- List of payments that are ordinary time earnings


### Withholding for allowances

Work out the withholding treatment for allowances.

### Travel allowances

Check what the PAYG withholding implications are on travel allowances.


QC 51679

# Withholding for allowances

Work out the withholding treatment for allowances.

**Last updated** 26 August 2026

### Changes to award transport payment

From 1 October, award transport payments (which no longer exist as a distinct class of payments in the law) transition back into normal withholding.

For more information see Changes to award transport payments.

## Overview of allowance types

The correct withholding treatments and reporting requirements for various allowance types are listed in the following tables.

You must follow the relevant withholding and reporting requirements to allow your employees to correctly complete their income tax return.

For reporting of allowances in Single Touch Payroll (STP), go to STP Phase 2 employer reporting guidelines.

## Types of allowances and how they're treated

Table 1 lists types of allowances an employee might receive and describes how they are treated. You need to withhold for these allowances.

The employee is expected to incur expenses that may be claimed as a tax deduction at least equal to the amount of the allowance. The amount and nature of the allowance is shown separately in the accounting records of the employer.

### Table 1 – Types of employee allowance

| Allowance type | Examples | Include on payment summary? |
|---|---|---|

| | | |
|---|---|---|
| **Working conditions, qualifications or special duties** | • Crib, danger, dirt, height, site, shift or travelling time<br>• Trade, first aid certificate or safety officer | Yes (include total allowance in gross payment) |
| **Non-deductible expenses** | • Part-day travel (no overnight absence from employee's ordinary place of residence)<br>• Meals (not award overtime meal allowance or overnight travel allowance)<br>• Motor vehicle for non-deductible travel – for example, home to work, including cents per kilometre payments | Yes (include total allowance in gross payment) |
| **Deductible expenses** | • Tools<br>• Compulsory uniform or dry cleaning<br>• Motor vehicle for work-related travel, including cents per kilometre payments in excess of ATO rate<br>• Overseas accommodation for deductible travel | Yes (show total allowance separately in the allowance box with an explanation) |
| **On-call allowance** | n/a | Yes (include total allowance in gross payment) |

| | | |
|---|---|---|
| **(ordinary hours)** | | |
| **On-call allowance (outside ordinary hours)** | n/a | Yes (include total allowance in gross payment) |

## Allowances subject to a varied rate of withholding

Tables 2 to 6 list allowances that are subject to a varied rate of withholding.

### Table 2 – Cents per kilometre car expense payments using the approved rate

| Allowance type | Are you required to withhold? | Include on payment summary? |
|---|---|---|
| **Payments made by applying the approved (or a lower) rate to the number of kilometres travelled up to 5,000 business kilometres** | No | Yes (show total allowance separately in the allowance box with an explanation). |
| **Payments made by applying the approved (or a lower) rate to the number of kilometres travelled in excess of 5,000 business kilometres** | Yes (from payments for the excess over 5,000 kilometres) | Yes (show total allowance separately in the allowance box with an explanation) |

| | | |
|---|---|---|
| **Payments made at a rate above the approved rate for distances travelled up to 5,000 business kilometres** | Yes (from the amount which relates to the excess over the approved rate) | Yes (show total allowance separately in the allowance box with an explanation) |

Table 3– Award transport payments

| Allowance type | Are you required to withhold? | Include on payment summary? |
|---|---|---|
| **Award transport payments paid on or before 30 September 2026 that relate to deductible transport expenses** | No | Yes (show total allowance separately in the allowance box with an explanation) |
| **Award transport payments paid on or after 1 October 2026 that relate to deductible transport expenses** | Yes (from total payment) | Yes (show total allowance separately in the allowance box with an explanation) |
| **Award transport payments that are non-deductible transport expenses** | Yes (from total payment) | Yes (include total allowance in gross payment) |

See examples and more information about award transport payments.

### Table 4 – Laundry (not dry cleaning) allowance for deductible clothing

| Allowance type | Are you required to | Include on payment summary? |
|---|---|---|

| | withhold? | |
|---|---|---|
| **Up to the threshold amount** | No | Yes (show total allowance separately in the allowance box with an explanation) |
| **Over the threshold amount** | Yes (from the excess over the threshold amount) | Yes (show total allowance separately in the allowance box with an explanation) |

Work out costs you can claim for clothing, laundry and dry cleaning expenses.

### Table 5 – Award overtime meal allowances

| Allowance type | Are you required to withhold? | Include on payment summary? |
|---|---|---|
| **Up to reasonable allowances amount** | No | No |
| **Over reasonable allowances amount (allowance must be paid under an industrial instrument in connection with overtime worked)** | Yes (from the excess over reasonable allowances amount) | Yes (show total allowance separately in the allowance box with an explanation) |

See examples and more information about overtime meal allowances.

### Table 6 – Domestic or overseas travel allowance involving an overnight absence from employee's ordinary place of residence

| Allowance type | Are you required to | Include on payment |
|---|---|---|

| | withhold? | summary? |
|---|---|---|
| **Up to reasonable allowances amount** | No | No |
| **Over reasonable allowances amount** | Yes (from the excess over reasonable allowances amount) | Yes (show total allowance separately in the allowance box with an explanation) |
| **Overseas accommodation** | Yes | Yes (show total allowance separately in the allowance box with an explanation) |

Work out if the exception applies and what is covered in travel allowances.

Labour-hire workers who receive living-away-from-home allowance (LAFHA) can't access fringe benefits tax (FBT) concessions. LAFHA is considered ordinary income and withholding applies.

FBT rules exclude labour-hire arrangements from the concessions as the labour-hire firm is not the employer of the worker.

For more information and examples of allowances, see:

- TD 2021/6 *Income tax: what are the reasonable travel and overtime meal allowance expense amounts for the 2021-22 income year?*
- TR 2021/1 *Income tax: when are deductions allowed for employees' transport expenses?*
- TR 2020/1 *Income tax: employees: deductions for work expenses*
- TR 98/5 *Income tax: calculating and claiming a deduction for laundry expenses*

QC 51680

# Travel allowances

Check what the PAYG withholding implications are on travel allowances.

**Last updated** 24 September 2025

## What is a travel allowance

Travel allowance is a payment made to an employee to cover accommodation, food, drink or incidental expenses they incur when they travel away from their home overnight in the course of their duties. Employees need to keep records of their travel expenses.

## When PAYG is withheld

Allowances folded into your employee's salary or wages are taxed as salary and wages and tax has to be withheld, unless an exception applies.

You include the amount of the travel allowance in the allowance box on your employee's payment summary.

## When PAYG isn't withheld (the exception)

An exception to withholding PAYG from travel allowance applies if 4 conditions are met:

1. You expect your employee to spend **all** of the travel allowance you pay them on accommodation, food, drink or incidental expenses.
2. You show the amount and nature of the travel allowance **separately** in your accounting records.
3. The travel allowance is **not** for overseas accommodation.
4. The amount of travel allowance you pay your employee is less than or equal to the reasonable travel allowance rate.

If the exception applies, you:

- **don't** withhold tax from the travel allowance
- **don't** include the amount of the travel allowance in the allowance box on your employee's annual payment summary
- only include the allowance on their relevant payslip.

If the first 2 exception conditions are met **but** you pay your employee a travel allowance above the reasonable travel allowance rate (condition 4), you need to:

- withhold tax from the **amount that exceeds** the reasonable travel allowance rate
- include the total amount of the travel allowance in the allowance box on your employee's payment summary.

For more information, see TR 2004/6 *Income tax: substantiation exception for reasonable travel and overtime meal allowance expenses*.

## Allowance for overseas accommodation

You are always required to withhold tax from a travel allowance for overseas accommodation. You must include the amount of the travel allowance in the allowance box on your employee's payment summary.

## Reasonable travel allowance rate

Each year we publish the amounts we consider reasonable for claims for domestic and overseas travel allowance expenses to the ATO Legal database. For more information see:

- TD 2025/4 *Income tax: what are the reasonable travel and overtime meal allowance expense amounts for the 2025–26 income year?*
- TD 2024/3 *Income tax: what are the reasonable travel and overtime meal allowance expense amounts for the 2024–25 income year?*
- TD 2023/3 *Income tax: what are the reasonable travel and overtime meal allowance expense amounts for the 2023–24 income year?*

## How to report allowances

Check the relevant Single Touch Payroll (STP) employer reporting guidelines to see how to report these payments through STP:

- STP Phase 1 employer reporting guidelines – allowances
- STP Phase 2 employer reporting guidelines – allowances

QC 18645

# Withholding variations

A payee may request a variation to increase or decrease the amount of tax you withhold from payments you make to them.

**Last updated** 11 June 2025

## Payee circumstances

Each payee's circumstances are different, and some payees may find that the amount withheld using the tax tables is either too much or too little when compared to their actual end-of-year tax liability.

Your payee may want to vary the rate of withholding so that they do not:

- have too much tax withheld – a downward variation
- receive a large tax bill at the end of the year – an upward variation.

## Upward variation

A payee may ask you to increase the amount you withhold from payments to them – for example, to cover tax they will be liable to pay on investment income.

If you agree to this, both you and your payee will enter into a written agreement (in any form that suits your business) to have additional tax withheld. No additional records are required.

Where your payee has an upward variation in place it does not apply to non-assessable payments.

For more information, see Tax table for additional amounts to withhold as a result of an agreement to increase withholding (Schedule 14).

## Downward variation

Your payee must get our approval to reduce the amount you would normally withhold. They need to complete a PAYG withholding variation application.

This usually happens only in special circumstances where your employee can show that the withholding rate will result in them having more tax withheld than is required to cover the total tax they will need to pay in the year. For example, they might expect to have tax deductible expenses which will reduce their taxable income. Note: Salary sacrifice amounts are not subject to the varied tax rate.

You cannot vary the withholding rate until you receive an official variation notice from us.

A variation notice can only be withdrawn by us. If your payee wants their variation notice withdrawn before the expiry date, tell them to write to us at the address on their approval letter.

## How to lodge a downward variation

To lodge online for individuals, sign in to myGov and select:

1. ATO
2. Tax
3. Manage
4. PAYG withholding variation

To lodge online for tax agents, go to Online services for tax agents and select:

5. Lodgments
6. Client forms
7. PAYG withholding variation.

If you cannot lodge online, you will need to order a paper application by either:

- visiting online ordering and searching for NAT 2036 (or NAT 2036NI if you're a Norfolk Island resident)
- phoning our automated self-help ordering service on **13 28 65** and asking for the NAT number you need.

## Starting and finishing dates

If we approve a downwards variation, the varied rate or amount of withholding will start from the next available payday after you receive the notice of withholding variation from us.

The variation finishes on the date shown on the letter you receive from us. To continue to have varied or reduced tax withheld from payments after this date, another variation application must be lodged at least 6 weeks before the expiry date.

If you receive more than one variation notice for an employee, the most recent notice supersedes all previous notices. Keep a copy of the variation notice with your business records for 5 years. For more information, see PAYG withholding – varying your PAYG withholding.

## Class variations

If a group of your payees want an identical variation, you can apply for a class variation on their behalf. For example, your payees' withholding may be too high if they are paid an allowance and it is reasonably expected that their expenses in relation to that allowance will be deductible in their tax returns.

You may apply for a class variation if **all** of the following apply:

- The allowance can reasonably be expected to be spent for the intended purpose.
- The payees can reasonably be expected to spend an amount at least equal to the amount of allowance paid.
- The expenses relating to the allowance can reasonably be expected to be deductible on assessment at the end of the financial year.
- The variation is for 6 or more employees.

You need to ensure that the information you give us is correct on behalf of all the payees included in the request.

If there are fewer than 6 payees, each payee must apply for the variation on their own behalf using the PAYG withholding variation short application (NAT 5425).

### How to lodge a class variation

You can submit the request for a class variation by letter, displayed on your company letterhead.

You must include the following information:

- the nature or type of business undertaken by the organisation
- the type of allowance payment being made and the expense the payment is intended to cover
- the amount of allowance to be paid to each payee
- a declaration stating the proportion of the allowance that is expended as business use
- list of payee names and tax file numbers
- basis of employment or contract for each of the payees
- duties of the payees
- the number of payees the application intends to cover.

Send the letter to:

**Australian Taxation Office**
**PO Box 3010**
**PENRITH NSW 2740**

## What to do when you receive a variation notice from us

If you receive a notice from us, you need to ensure the notice is correctly addressed to you and correctly identifies the payee.

You may receive one of the following and will need to act accordingly:

- **Notice approving the downward variation** – apply the varied or reduced rate of tax to the correct payment type from the payee's next available payday until the expiry date.
- **Withdrawal notice** – stop applying the varied rate of tax from the payee's next available payday and revert to withholding in accordance with the relevant tax tables.

### Example 1: class variation notice for all workers

You receive a class variation notice for all the workers of ABC Pty Ltd, and the prescribed rate of withholding has been varied to

15% of the gross payments listed as salary and wages.

John, one of your payees, is paid a salary of $1,500 fortnightly.

Applying the varied rate on the notice would result in a fortnightly withholding of $225 ($1,500 × 0.15 = $225).

### Example 2: variation notice for one employee

You receive a variation notice for Tim, one of your payees. The rate of withholding has been varied to 18% of the gross payments listed as salary and overtime.

Tim is paid fortnightly. In a single pay period, Tim received:

- salary of $5,000
- overtime of $189
- a bonus payment of $1,000.

The bonus payment is not covered by the variation notice, so you will need to calculate the amount to withhold from the bonus payment separately using the Tax table for back payments, commissions, bonuses and similar payments.

Calculation of withholding:

- Salary: $5,000 × 18% = $900 (varied rate)
- Overtime: $189 × 18% = $34 (varied rate)
- Bonus: $1,000 × 38.5% = $384 (normal scheduled rate)

**Total withholding = $1,318**

## Medicare adjustments

If your employee advises you that they are liable for Medicare levy surcharge or entitled to a reduction in or exemption from the Medicare levy, they will need to complete the Medicare levy variation declaration. You will then need to adjust the amount you withhold from payments to the employee to take into account this change.

## Increased number of pay periods in a year

In some financial years, payees who are paid:

- fortnightly will have 27 paydays for the year instead of the usual 26
- weekly will have 53 paydays for the year instead of the usual 52.

As the calculations for withholding tax are based on the normal number of pays in a year, the extra pay may result in insufficient amounts being withheld. You should let your payees know when this happens so they can ask you to withhold an additional amount. Such a request should be in writing, in any format that suits your business.

If any of your payees want to further increase the amounts withheld, they will need to request an upward variation.

Details of the additional amounts to withhold are included in the tax tables.

For more information, visit:

- Schedule 1 – Statement of formulas for calculating amounts to be withheld
- Tax withheld calculators

QC 27068

# Repayment of overpaid amounts

How to deal with overpayments to a payee that occur in the current financial year or a previous financial year.

**Last updated** 11 June 2025

## If you overpay a payee

If you overpay a payee you must decide if they are required to repay the amount.

If you decide that the payee:

- is not obliged to repay the overpaid amount – you do not need to do anything. Note: employees of state or Australian government department or agency are required to repay the overpaid amount.
- has to repay the overpaid amount – the action you need to take depends on whether the overpayment is identified in the same financial year or a later financial year.

If the employee is obliged to repay the overpaid amount, fringe benefits tax (FBT) may apply if you:

- allow the employee time to repay the overpaid amount
- waive the employee's obligation to repay the overpaid amount.

See Fringe benefits tax – a guide for employers (NAT 1054) for more information.

## Overpayment in a previous financial year

If you overpay a payee in a previous financial year and realise in a later year, you can't recover the amount withheld from the payment from us. The employee will have to repay the overpaid amount to you. They will need to repay the **gross** amount, which includes:

- the overpaid amount received
- any tax amount withheld.

### Example 1: Overpayment relating to previous financial year

An employee is normally paid $50,000 salary per year. However, the employee received an overpayment of $20,000, of which $3,000 was withheld as tax.

The employee is required to repay $20,000 to you from their after-tax income.

The employee will likely need submit an amended income tax return.

If 2 or more years have elapsed since we issued the payee's notice of assessment, the payee can request an objection to a time limit to amend an assessment.

### Amending payment summaries

You can't change the information on a PAYG (pay as you go) withholding payment summary after you have given it to the payee or provided your annual PAYG summary statement to us. You will need to correct the mistake.

If the overpayment occurred in more than one year, you need to issue amended payment summaries for each relevant financial year.

See Correct a mistake or amend a return – PAYG withholding payment summaries for more information.

## Overpayment in the same financial year

If an overpayment is identified in the same financial year it is paid, the employee will only need to repay the **net** amount of the overpaid amount. The net amount is the amount received by the payee.

The overpaid amount can be repaid in the same financial year or a subsequent financial year.

Details of the overpayment should **not** be included on the employee's PAYG payment summary.

### Example 2: Repayment in the same financial year

An employee normally receives wages of $3,200 per month. In October 2014 you found out you incorrectly paid them an amount of $4,200 in September 2014, which is an overpayment of $1,000. An amount of $200 was withheld from the overpayment amount with the employee receiving the remaining $800. If the employee agreed to repay the overpayment by 30 June 2015, the employee is only required to repay $800.

### Example 3: Repayment in a subsequent financial year

An employee normally receives wages of $3,200 per month but you incorrectly paid them an amount of $4,200 in March 2014, which is an overpayment of $1,000. An amount of $200 was withheld from the overpayment amount with the employee receiving the remaining $800.

You and the employee agreed that the amount was to be repaid over two instalments, being June 2014 and September 2014. The employee is only required to repay $800. The 2014 and 2015 financial year payment summaries do not reflect the overpaid or repaid amounts.

When you provide payees with time to repay an overpaid amount, fringe benefits tax may apply. See Fringe benefits tax – a guide for employers (NAT 1054) for more information.

## Reporting the overpaid amount

If you identify the overpayment amount in the same financial year, you will need to ensure that the correct amounts are shown on the PAYG payment summary issued to the employee. Do **not** include details of the overpayment.

You will need to correct any affected activity statements to reduce the withholding and wage figures.

If you are a large withholder reporting electronically, you reduce your next payment by the relevant withholding amount.

See also

- TD 2008/9 – *Income tax: are amounts mistakenly paid as salary or wages to employees (or as income support payments or worker's compensation amounts to persons), to which they are not beneficially entitled, but are obliged to repay, 'ordinary income' under section 6-5 of the Income Tax Assessment Act 1997?*
- TD 2008/10 – *Fringe benefits tax: where an employer recognises they mistakenly paid to their employee an amount that the employee is not legally entitled to, but is obliged to repay, and afterwards allows the employee time to repay the amount, is there a*

*'loan benefit' under subsection 16(1) of the Fringe Benefits Tax Assessment Act 1986*?

- TD 2008/11 – *Fringe benefits tax: where an employer mistakenly pays to their employee an amount that the employee is not legally entitled to, but is obliged to repay, does the employer's subsequent waiver of that obligation constitute a 'debt waiver benefit' under section 14 of the Fringe Benefits Tax Assessment Act 1986*?

QC 16338

# PAYG withholding for external administrators and trustees of bankrupt estates

This is a guide for administrators and trustees about their PAYG withholding obligations.

**Last updated** 1 July 2025

You have pay as you go (PAYG) withholding obligations if you make payments to employees in your appointment to any of the following roles:

- liquidator
- receiver
- receiver and manager
- voluntary administrator appointed under the *Corporations Act 2001*
- administrator of a deed of company arrangement
- trustee of a bankrupt estate.

PAYG withholding will also apply to payments you make:

- to current or former employees of an entity under external administration
- to former employees of a bankrupt estate

- to a supplier who has not quoted an Australian Business Number (ABN).

## Apply for an ABN

You may need to apply for a separate Australian Business Number (ABN) for a:

- business under administration – If the entity under external administration does not have an ABN, you will need to apply for a separate ABN. If the entity has an ABN, you may use this ABN after arranging for a separate branch number to be attached to the entity's ABN.
- bankrupt estate – you need to apply for a separate ABN (where the estate is entitled to an ABN) for each estate where you act as trustee.

See Business or company registrations for information on applying for an ABN.

## Register for withholding

You must register for pay as you go withholding if you need to withhold tax from payments to workers and other businesses.

## Work out the amount to withhold

You are required to withhold amounts from payments you make to:

- current or former employees of an entity under external administration
- former employees of a bankrupt estate.

To work out how much to withhold from payments:

- use the information the employees have given you on their Tax file number declaration and, if applicable, Withholding declaration
- refer to Table 1: PAYG withholding and reporting for payments made by administrators and trustees.

If you don't have a copy of a Tax file number declaration for an employee, they must complete a new one. You will need to complete

the 'payer' section and send the original of the completed declaration to us within 14 days. You must also keep a copy for your records.

If a previous employee of the entity in administration or bankruptcy gives you a Withholding declaration to claim a tax offset, or to advise you of changes to their residency status and tax-free threshold, you are not required to send it to us. However, you must keep the completed Withholding declaration with your records for 5 years.

**Table 1: PAYG withholding and reporting for payments made by administrators and trustees**

| Item | Type of payment | Applicable tax table or withholding rate | Relevant payment summary |
|---|---|---|---|
| 1 | Current salary or wage payments made to employees, including payments for leave paid when the leave is taken, for the period **after** the date on which the administrator or trustee was appointed. | • Weekly tax table<br>• Fortnightly tax table<br>• Monthly tax table | PAYG payment summary – individual non-business (see note 3) |
| 2 | Back payment of wages, including unpaid amounts of leave already taken (and including underpayment of wages over any period) that accrued **before** the date on which the administrator or | Withhold at 32% | PAYG payment summary – individual non-business (see note 3) |

| | | | |
|---|---|---|---|
| | trustee was appointed. | | |
| 3 | Back payments of wages, including unpaid amounts of leave already taken (and including underpayment of wages over any period) that accrued **after** the date on which the administrator or trustee was appointed. | Schedule 5 – Tax table for back payments, commissions, bonuses and similar payments | PAYG payment summary – individual non-business (see note 3) |
| 4 | Unused annual leave and long service leave. | Withhold at 32% | PAYG payment summary – individual non-business (see note 3) |
| 5 | A genuine redundancy payment or early retirement scheme payment which is within the tax-free limit, which includes a:<br>• payment for unused rostered days off<br>• gratuity or golden handshake<br>• taxable payments made after | Withhold Nil (see note 1) | |

| | | | |
|---|---|---|---|
| | the death of an employee. | | |
| 6 | Part of a genuine redundancy payment or an early retirement scheme payment that exceeds the tax-free limit. | Withhold at 32% | PAYG payment summary – employment termination payment (see note 2) |
| 7 | Long service leave. | Withhold at 32% | PAYG payment summary – individual non-business |
| 8 | Payment for a supply where no ABN is quoted (this does not include dividend payments made to employees). | Withhold at 47% | PAYG payment summary – withholding where ABN not quoted |

Notes:

1. The tax free amount of a genuine redundancy includes only those amounts which exceed the amount that the individual would have been paid upon a normal termination. It may or may not include amounts for payment in lieu of notice. Unused leave cannot be tax free. For the tax-free threshold for the year in which the payment is made, refer to the Tax table for employment termination payments (ETP).
2. An ETP includes the part of a genuine redundancy payment or early retirement scheme payment that exceeds the tax-free threshold.
3. A back payment which accrued within 12 months of the date of payment should be included in 'Gross payments' on the payee's payment summary.

A back payment which accrued more than 12 months before the date of payment, which is $1,200 or more, should be shown at 'Lump sum payments' label **E**. If the amount is less than $1,200 then include it in 'Gross payments' on the payee's payment summary.

### Variations

An employee may apply to us for a reduction in the amount to be withheld from their payments. We will approve individual variations when the standard rate of withholding will be too high for that person's final tax liability. If we grant a variation, we will send you a notice telling you what is required.

There may also be situations where a group of employees with the same circumstances need to obtain a variation to the rate of withholding. In these cases, you may apply for a class variation for these employees.

### Suppliers quoting ABNs when dividends are paid

If you make a payment representing a dividend to a recipient who is a creditor (other than an employee), you must withhold 47% from the payment if it relates to a supply and the recipient fails to quote their ABN. This also applies to any ongoing business transactions made by the trustee. See Statement by a supplier not quoting an ABN for more information.

### Employees with a debt to the employer and an amount offset before payment

Laws dealing with insolvency and bankruptcy require that certain debts are offset before the claim being made by the creditor. By law, the employee is permitted to claim only the net amount (if any) of wages that remain after taking into account amounts the employee owes the employer. You should calculate the amount to withhold based on this net amount, that is, after any offset has occurred.

## Paying and reporting withheld amounts

If you have withheld tax amounts from payments you make to your payees, you need to pay and report the withheld amounts to us and meet other reporting requirements.

## Complete payment summaries

You have to give each of your payees a payment summary showing how much you paid them for the financial year and how much you withheld from the payments.

You may have to complete various types of payment summaries depending on the types of payments you've made throughout the financial year.

## Annual reporting

At the end of each financial year you must lodge a PAYG withholding annual report.

## Records you need to keep

You must keep all records that explain your PAYG withholding transactions for at least 5 years.

Records must be in English or in a format that can be converted into English.

If your records are not in writing (for example, you keep them in an electronic format on a computer), they must be in a format that is readily accessible.

You may choose to store electronic images of your business paper records, as long as the electronic copies:

- are a true and clear reproduction of the original paper records
- can be retrieved and read by us at any time.

You do not have to keep original paper records once you have stored an electronic copy of them.

The PAYG withholding records you must keep include:

- wages records, including payment records
- employment declarations (for employees working for you before 1 July 2000), tax file number declarations and withholding declarations
- copies of payment summaries and payment summary statements, or electronic annual reports

- employment termination payment records (or eligible termination payment records)
- records of Personal Services Income (PSI) you have attributed
- voluntary agreements
- statements by a supplier where no ABN was quoted
- records of amounts you withheld where no ABN was quoted
- annual reports of PAYG withholding where no ABN was quoted.

QC 56708

# Withholding from a foreign resident employee

Foreign resident PAYG withholding and how it affects non-residents receiving specific payments from Australian payers.

**Last updated** 29 September 2025

A foreign resident is someone who is not an Australian resident for tax purposes.

The withholding requirements for foreign resident employees are similar to those that apply to Australian workers. However, a foreign resident:

- can't claim the tax-free threshold
- is subject to special rates of withholding.

It is your responsibility to check if your foreign resident employee can legally work in Australia. The Department of Home Affairs (Home Affairs) has an online verification tool you can use to check visa conditions.

Foreign resident employees need to complete a tax file number declaration form so their payer can work out how much tax to withhold from the payments they make.

# When to withhold tax

If you are a resident employer, you:

- are required to withhold tax for foreign resident employees performing services in Australia
- may be required to withhold tax for foreign resident employees performing services outside Australia.

If you are a foreign resident employer, you may be required to withhold tax for foreign resident employees for services provided in Australia.

## Payments to foreign resident employees for services performed in Australia

You are required to withhold amounts when making payments to foreign resident employees performing services in Australia.

It is not compulsory for foreign resident employees to have a tax file number (TFN). However, without a TFN, your payee can't:

- lodge a *PAYG foreign resident withholding variation (FRWV) application*
- lodge an Australian tax return
- apply online for an Australian business number (ABN).

Also, it will be more difficult for us to look up and discuss your employee's tax records with them.

The employee may also be liable for more tax if they do not provide a TFN to you.

Where the payment is to an individual foreign resident, you should withhold at the foreign resident rates in the weekly, fortnightly or monthly tax tables. However, special withholding rates apply to payments if they are in relation to:

- working holiday makers
- employee payments under the Seasonal Worker Programme and Pacific Labour Scheme

- employee payments under the Pacific Australia Labour Mobility scheme
- Gaming junkets, entertainment and sport activities or construction

## Payments to foreign resident employees for services performed outside Australia

You may be required to withhold amounts when making payments to foreign resident employees performing services outside Australia.

Whether you are required to withhold will depend on an analysis of the individual circumstances of the employee.

If the payment relates to entertainment, sports, construction or gaming junket activities then withholding would be required unless one of the following applies:

- a tax treaty applies which places the 'taxing right' in another country
- the income being received is exempt income.

Withholding is unlikely to be required for payments that aren't related to entertainment, sports, construction or gaming junket activities. However, there are some circumstances where withholding may be required.

If the income is Australian-sourced and assessable and there is a tax treaty providing Australia a taxing right, withholding may be required.

If there is no tax treaty between Australia and the country of tax residency of the employee, then withholding may also be required for Australian-sourced income, unless that income is exempt income.

If you are uncertain whether withholding is required, you can contact us or speak to a registered tax professional.

## Foreign resident employer paying foreign resident employees for services provided in Australia

If you are a foreign resident employer, you may be required to withhold amounts when making payments to foreign resident employees performing services in Australia.

Whether you are required to withhold will depend on an analysis of the individual circumstances of the employees.

If the payment relates to entertainment, sports, construction or gaming junket activities then withholding would be required unless one of the following applies:

- a tax treaty applies which places the 'taxing right' in another country
- the income being received is exempt income.

Withholding is unlikely to be required for payments that aren't related to entertainment, sports, construction or gaming junket activities. However, there are some circumstances where withholding may be required.

If the payment relates to income that is Australian-sourced and assessable and there is a tax treaty providing Australia a taxing right, withholding may be required.

If there is no tax treaty between Australia and the country of tax residency of the employee, then withholding may also be required for Australian-sourced income, unless the income is exempt income.

If you are uncertain whether withholding is required, you can contact us or speak to a registered tax professional.

## Withholding when a payee does not quote an ABN

If a payee is required to supply you with an Australian business number (ABN), and they don't, you must withhold the top rate of tax from the payment.

In limited circumstances they do not need to supply you with an ABN. These include when the:

- income is exempt
- payee is not required to pay tax due to a tax treaty
- payee is a foreign resident and does not carry on an enterprise in Australia.

Where the foreign resident payee believes they don't need an ABN, you still need to consider whether you are required to withhold from the payment. The payee may also need to apply for a variation.

The withholding requirements where an ABN is not quoted take precedence over foreign resident withholding requirements. Therefore,

if you have withheld because an ABN was not quoted, you do **not** also withhold under foreign resident withholding rules.

It is your responsibility to be satisfied that you do not need their ABN.

### Making a payment in a foreign currency

To make a payment in a foreign currency, you need to calculate the equivalent Australian dollar value at the time you make the payment.

After converting the foreign currency payment to Australian dollars, you then calculate the amount to withhold at the required rate.

For more information, visit Translation (conversion) rules.

## Reporting and paying

When and how you report and pay withholding amounts to us depends on whether you are a small, medium or large withholder.

To determine this, we look at how much your total withholding is, or is likely to be, each year.

If you withhold from payments to a foreign resident, you have specific end-of-year reporting obligations. For more information, visit Paying and reporting withheld amounts.

QC 18617

### Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

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