Foreign income of Australian residents

Detailed information about international tax for business and the foreign income of Australian residents.

Employees who work in a foreign country

How to report income for your Australian resident employees who are working in a foreign country.

9988981

Employees who work in a foreign country

How to report income for your Australian resident employees who are working in a foreign country.

24 April 2023

Foreign source income

Earnings have a foreign source when the:

- work is performed offshore and foreign tax was paid
- business paying the person is located offshore
- work was not incidental to work performed in Australia.

Generally, earnings don't have a foreign source where an employee:

- attends a conference
- travels for work
- undertakes the work as an incidental part of their Australian activities.

Exempt foreign employment income

Some foreign source income is exempt from tax. For example, some payments for foreign services that relate to certain development projects, and charitable or government activities are exempt from tax.

If your employee's earnings aren't exempt foreign employment income, you will need to withhold tax from payments made to them. Your employee should include non-exempt earnings in their tax return as assessable income. They may also be entitled to a foreign income tax offset for amounts of foreign tax paid.

If your employees usually live and work in Australia and temporarily work in a foreign country, there is no change to your pay as you go (PAYG) withholding, fringe benefits tax (FBT) and super guarantee obligations.

If their work in a foreign country is extended, you need to consider existing advice on these issues. If you are unsure about your obligations, you can contact us.

Reporting foreign employment income

You should report your employee's foreign employment income through Single Touch Payroll (STP) if any of the following apply:

- You have withheld and paid foreign tax to a foreign government on behalf of your employee.
- Your employee is in any foreign country for a consecutive period of at least 60 days. The period of 60 consecutive days commences at the time that the employee starts work in the foreign country. This period includes non-working days and will end if the employee returns to Australia.
- The earnings have a foreign source.

How you report depends on whether you're using **STP Phase 1** or **STP Phase 2** reporting.

If you can't report this income through STP, you will need to provide your employee with a **PAYG payment summary – foreign employment**.

You do not need to issue a payment summary to a foreign resident who is employed by you in a foreign country and works in a foreign country.

Example: counting the 60 days

Kai is an accountant who goes to the USA to work with his current company's parent company. He continues to be paid by his Australian employer. Kai's duties with the foreign country are unrelated to the work that he performs for his Australian employer.

Kai works with the parent company from 22 February 2019 to 16 May 2019. During this time returns to Australia for the period 20 April to 27 April 2019.

Although Kai is in the USA for more than 60 days, he is not there for a consecutive period of more than 60 days. Kai's employer determined the earnings had a foreign source.

Example: when earnings are from a foreign source

Renee's Australian employer sends her to Hong Kong for 2 weeks to finalise an important acquisition. While in Hong Kong, Renee is offered an opportunity to stay for a further 4 weeks by an affiliate company.

Although this work is unrelated to her duties in Australia, her Australian employer agrees to continue to pay her. They see it as a good opportunity to develop Renee's professional skills and the relationship with the affiliate.

For the initial 2-week period, Renee's employer determines that her earnings do not have a foreign source. However, Renee's employer determines that her earnings in the following 4-week period do have a foreign source.

Accounting for foreign tax

You should reduce the PAYG withholding if:

- your employee's foreign earnings are assessable in Australia
- you pay tax to a foreign government on their behalf.

It should be reduced by the Australian dollar equivalent of the amount of tax paid to the foreign country.

You do not need to withhold any further amount, if the tax paid to the foreign government is equal to or greater than the amount you would have otherwise withheld for Australian tax purposes.

Use the **tax tables** to work out how much to withhold from payments you make to your employee.

> Example: calculating Australian tax
>
> Norman is an Australian resident who has been sent to work in Papua New Guinea for 4 months from July 2019. Norman is paid in local currency, the Papua New Guinea kina, by his Australian employer. He receives K3,850 weekly, and. K1,413.26 is required to be withheld for Papua New Guinea income tax.
>
> Norman has claimed the tax-free threshold for his Australian employment but is not eligible for any tax offsets. He does not have a Higher Education Loan Program or Student Financial Supplement Scheme debt. He is not entitled to leave loading.
>
> In this example, the exchange rate for converting Papua New Guinean kina to Australian dollars is 2.36.
>
> He calculates the Australian tax as follows:
>
> - **Step 1**: Convert the earnings in K to A$
>   - K3,850÷2.36 = $1,631.36
>
> - **Step 2**: Calculate the Australian amount to be withheld from the amount calculated at Step 1, using the relevant PAYG withholding tax table
>   - Amount to be withheld from $1,631 = $401

- **Step 3**: Convert the amount withheld and paid to the foreign country to A$
  - K1,413.26÷2.36 = $598.84

- **Step 4**: Reduce the amount calculated at Step 2 by the amount calculated at Step 3
  - Amount to be withheld $401−$598.84 = 0.

As the amount of tax paid to the foreign government is greater than the amount that would have been withheld for Australian tax purposes, no further withholding is required.

Reporting accrued leave

You will be required to report an employee's leave as foreign employment income, if the leave is accrued while the employee worked in a foreign country. This is regardless of whether the earnings are exempt from tax.

Example: reporting leave accrued overseas

Suresh works for her Australian employer in Fiji for a period of 12 weeks. Her employer determines the earnings from this period of foreign employment are required to be reported as foreign employment income as she was in Fiji for 84 consecutive days.

During this time, Suresh accrues one week of annual leave. She will need to report that week's leave, when taken, as foreign employment income.

Fringe benefits tax (FBT)

If you provide a fringe benefit to your employee, you may also be required to:

- record the value of the benefit, if
- the grossed-up value exceeds $2,000 in a fringe benefits tax year.

You must report the grossed-up taxable value of those benefits through STP or their payment summary for the corresponding financial year.

Follow our steps to help you work out the **reportable fringe benefits**.

Superannuation

Generally, if you pay an employee, you'll also be responsible for their super. This includes if:

- you are an Australian resident employer
- your Australian resident employee is employed outside Australia.

If you don't meet your **super guarantee obligations**, you may have to pay penalties and a general interest charge.

If you have not correctly provided super guarantee for an employee (because you did not contribute the right amount to the super fund by the due date or did not meet their choice of fund) you must lodge and pay the super guarantee charge to us.

You must continue to meet your superannuation obligations in Australia for an employee you send to temporarily work in another country. You may also be required to pay super (or equivalent) in the other country.

However, if you send an Australian employee to work temporarily in a foreign country that Australia has a **bilateral social security agreement** with, you may be able to apply for a certificate of coverage so you won't have to pay super in both countries.

22115

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.

Copyright notice