Jobs and employment types

Work out if you're an employee or contractor, what to do when you leave the workforce or go overseas for work.

Working as an employee

Find out about specific rights and obligations you have as an employee and general information about starting a job.

Working as an independent contractor

Check if you're an independent contractor or employee and if you need to register for an ABN or certain tax roles.

Working overseas

Australian residents working overseas must be aware of their tax obligations before they leave Australia.

Employee or contractor - what's the difference

Check if you're an employee or independent contractor and how you should be receiving your income.

Paying tax on multiple sources of income

Avoid unexpected tax bills if you have income from multiple sources.

Sharing economy and tax

How to determine if your activities are part of the sharing economy and the impact on your super and tax.

Personal services income

Find out if you are receiving personal services income (PSI) and if the PSI rules apply to you.

QC 27102

Working as an employee

Find out about specific rights and obligations you have as an employee and general information about starting a job.

Last updated 11 June 2024

On this page

Employee rights and obligations

When you're working as an employee, you must pay income tax on payments you receive from your employer. Your employer deducts tax from your pay and sends those amounts to us.

Your rights and obligations may change, if you:

- leave or change jobs
- have income from more than one job
- work overseas
- are a working holiday maker
- leave the workforce (retire).

At the end of the income year, you need to lodge a tax return. When you lodge a tax return you include how much money you earn (income) and any expenses you can claim as a deduction.

You may receive a refund after claiming any deductible expenses.

Starting your job

When you start a job, you need to make sure that you:

- have or **apply for a tax file number** (TFN) – without a TFN you pay more tax on your income
- complete a **TFN declaration**
- **choose a super fund** where your employer can pay your super contributions.

We produce tax tables and calculators to help your employer work out how much to withhold from your payments. You can also use the Tax withheld calculator to check how much tax should be withheld from your pay.

What your employer must do

Your employer withholds tax on your behalf from your salary or wages and, in most cases, pays super into your super account. Your employer uses your TFN declaration to work out how much tax to withhold from your pay.

Most employers now report your income, tax and super information at the same time they pay you. This reporting is called Single Touch Payroll (STP).

Your **income statement** will include the tax and super information your employer reports to us. Most employers have until 14 July to finalise their data, they will let you know if there are any delays in the finalisation of your income statement.

You need to link your myGov account to the ATO to access your income statement. If you don't have a myGov account you will be able to contact us for a copy.

Some employees receive fringe benefits as part of a **salary sacrifice arrangement**. Fringe benefits are a non-cash benefit either you or an associate, such as your spouse or children, receive because of your employment. Your employer usually provides these benefits or sometimes your employer's associate or a third party under an arrangement with your employer provide the benefit.

Your employer should provide a workplace free of unlawful discrimination and promote diversity. If you're a working parent, have carer responsibilities or a disability, you should discuss ways your employer can support you. To find out more about these responsibilities, see Australian Human Rights Commission.

Paying tax on your income

You pay income tax on most sources of income including:

- your salary and wages
- most Centrelink payments
- investment income you receive from rent, bank interest or dividends
- profits from selling shares or property
- income from your business.

The amount of income tax and the tax rate you pay depends on your circumstances and how much you earn. The more you earn, the higher your rate of tax.

Your employer and other payers use the information you provide on your tax file number declaration to work out how much tax to withhold.

A simple way of working out how much tax should be withheld from your pay is to use the Tax withheld calculator.

You can also use the **PAYG withholding tax tables** to calculate the amount that should be withheld from your pay.

If you're an Australian resident, the first $18,200 you earn is usually tax free. You can choose to **claim the tax-free threshold** when you complete your TFN declaration.

If you earn income from more than one source (for example, from a second job or a taxable pension) you need to tell your second payer to withhold tax at the higher rate. You can tell the payer by selecting the 'no tax-free threshold' rate on the TFN declaration. If you don't have tax withheld at the higher rate you might have a tax debt (bill) to pay when you lodge your tax return.

If you want to know the amount of tax you will be liable for over the full year, see **Tax rates – Australian residents**.

Australian residents may also pay the Medicare levy. This is generally 2.0% of your taxable income in addition to the tax withheld from your income. The Medicare levy helps fund some of the costs of Australia's public health system known as Medicare.

You also need to include on your TFN declaration if you have a debt for a:

- Higher Education Loan Program (HELP)

- Student Start-up Loan (SSL)
- Australian Apprenticeship Support Loan (AASL) (formerly Trade Support Loan (TSL))
- VET Student Loan (VSL)
- Student Financial Supplement Scheme (SFSS).

Depending on how much you earn, you may have to make repayments on this debt as part of your income tax payment.

Most employees need to lodge a tax return each year. You may be eligible to claim deductions for expenses you directly incur in earning your employment income. However, you can't claim the cost of normal domestic or private expenses.

Super contributions

Your employer may also need to pay super contributions into your super account for you.

When you start working you should:

- choose a super fund where your employer can pay your super contributions
- make sure that your super fund has your TFN, this will
  - minimise the tax you pay on your super contributions
  - ensure they accept the contribution payments
  - make it easier for you and them to keep track of your super accounts.

If you're eligible to choose a super fund, you can do so using the **Superannuation (super) standard choice form**. Your employer may give you this form when you start employment.

From 1 November 2021, your employer may have an extra step to take to comply with choice of fund rules if you don't choose a super fund. They may need to request details of a 'stapled super fund' from the ATO.

A stapled super fund is an existing super account which is linked, or 'stapled', to an individual employee so that it follows them as they change jobs.

If you change jobs or have more than one job, be sure to **keep track of your super**. Having multiple super accounts could mean you are paying fees you are unaware of, which could reduce your retirement savings.

Use the **YourSuper Comparison Tool** to compare super products and choose a super fund that meets your needs.

While you are working

While you are working your day to day working arrangements may include understanding and making choices about:

- receiving cash for the work you do
- salary sacrifice arrangements
- employee share schemes
- workplace giving programs.

Tax-free threshold

What is the tax-free threshold and how to claim it, including if you're an Australian resident for part of the year.

Receiving cash for work you do

If you're paid in cash, check you are getting the correct amounts and that your employer is paying super.

Access your income statement

How to find your income statement in ATO online services through myGov or the ATO app.

Varying your PAYG withholding

When and how you as an employee or payee can vary your rate of PAYG withholding.

Leaving your job

Work out which type of payment you'll receive when leaving your job and the tax you'll pay on unused entitlements.

Leaving the workforce

If you're leaving the workforce because you are retiring, there are

Salary sacrificing for employees

Find out what salary sacrificing is, how to set up an effective arrangement and the tax implications of an arrangement.

Workplace giving programs for employees

Find out what a workplace giving program is, how to donate, and responsibilities your employer has.

Worker entitlement funds

If you are a member of a worker entitlement fund, you need to be aware of the tax treatment of payments from the fund.

Reportable fringe benefits for employees

Find out if fringe benefits you receive are reportable and may affect your obligations and government benefits.

QC 43436

Tax-free threshold

What is the tax-free threshold and how to claim it, including if you're an Australian resident for part of the year.

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On this page

What is the tax-free threshold

The tax-free threshold is the amount of income you can earn before you pay tax. Most Australian residents can claim tax-free threshold on the first $18,200 of the income they earn in the income year.

Claiming the tax-free threshold reduces the amount of tax withheld from your income.

The tax-free threshold is equivalent to earning:

- $350 a week
- $700 a fortnight
- $1,517 a month.

How to claim the tax-free threshold

Your income may be from one or more payers, such as an employer or government agency or work you do under an Australian business number.

If you're an **Australian resident for tax purposes** you can claim the tax-free threshold each income year.

You can choose to claim or not claim the tax-free threshold on the **tax file number (TFN) declaration** you give to your payer (including Centrelink).

If you choose to do so:

- you will not pay tax where your income is under $18,200
- your payer will withhold tax when you earn above $18,200.

Find out what to do if you have **multiple jobs or change jobs** during the income year.

If you are an Australian resident for part of the year

If you are an Australian resident for tax purposes during the income year, you will receive a part-year tax-free threshold.

The part-year tax-free threshold has 2 components:

- a flat amount of $13,464
- an additional amount up to $4,736 pro-rated – we work on the number of months you were in Australia during the income year, including the month you arrived.

If you're a non-resident for the full income year, you can't claim the tax-free threshold. This means you pay tax on every dollar of income you earn in Australia. Find out about the **Tax-free threshold for newcomers to Australia**.

Multiple jobs or change of job

When to claim the tax-free threshold if you have multiple jobs or payers, or change job during the income year.

QC 102465

Multiple jobs or change of job

When to claim the tax-free threshold if you have multiple jobs or payers, or change job during the income year.

Last updated 11 June 2024

On this page

Your income and the tax-free threshold

Your income may come from one or more payers at the same time. Payers include employers, government agencies, or work you do as a sole trader.

You can choose to claim or not claim the **tax-free threshold** ($18,200) on the income you earn.

If you claim the tax-free threshold:

- you will not pay tax where your income is under $18,200
- your payer will withhold tax when you earn above $350 per week, $700 per fortnight or $1,517 per month.

When to claim the tax-free threshold

If you have more than one payer at the same time, generally, you only claim the tax-free threshold from one payer. Usually, you claim the tax-free threshold from the payer who pays you the highest salary or wage.

You may receive your income from 2 or more payers at the same time, if you:

- have a second job or more than 2 jobs
- have a regular part time job and also receive a taxable pension or government allowance
- are working under an ABN as a contractor, sole trader or other business structure.

Second job or payer

Where you have more than one payer and expect to earn above $18,200 from all sources, you should advise your other payers to withhold tax from your income at a higher rate. This is the 'no tax-free threshold' rate.

You will need to complete and lodge a **PAYG withholding variation application**. Your request should be in writing but you can send it as an email request, a paper or online form.

Doing this reduces the chance of you having a tax debt (tax bill) at the end of the income year. See, **Why you may receive a tax bill**.

Change of job during the income year

If you change jobs during the income year your previous employer stops paying you. This means you will no longer be claiming the tax-free threshold from them. You can claim the tax-free threshold from your new payer even if you have claimed it from your previous employer.

To choose whether to claim the tax-free threshold from your new employer complete a tax file number (TFN) declaration. Your payer will work out how much tax to withhold from their payments to you.

We will work out your total tax payable at the end of the income year when you lodge your tax return.

Example: changing jobs

Hamid has just completed his university degree and has found a job as a graduate in the public service. During December and

January Hamid keeps working at his part time job in a café until he starts in a graduate position in February.

He has claimed the tax-free threshold from his café job from July to January. When he quits his café job and starts his graduate position he claims the tax-free threshold from his new employer from February.

Tax withheld from all income sources

When you lodge your tax return we assess all the income you earn and the tax withheld amount. Sometimes the total tax withheld may be more or less than the amount you need to meet your end-of-year tax liability, if:

- your income is $18,200 or less, you can claim the tax-free threshold
- too much tax is withheld, it may result in a tax refund
- too little tax is withheld, you may receive a tax bill to pay the difference.

Depending on your circumstances, you can request a change to the amounts of tax withheld from your income. This will help you to match your end-of-year tax liability more closely.

If your income is $18,200 or less

If you're certain your total income for the income year from all your payers will be $18,200 or less, you can choose to claim the tax-free threshold from each payer.

If you do this and your total income later increases to above $18,200, you'll need to provide one of your employers with a **withholding declaration**. The withholding declaration will advise them you want to stop claiming the tax-free threshold from that payer.

Example: income of $18,200 or less

During the 2023–24 income year Jeff has a:

- taxable pension of $384.61 per fortnight ($10,000 for the income year)
- part-time job earning $307.69 per fortnight ($8,000 for the year).

Jeff claims the tax-free threshold on his pension and no tax is withheld during the year.

If Jeff doesn't claim the tax-free threshold through his employer for his part-time job, $64 per fortnight would be withheld.

Assuming that Jeff doesn't have other income, his taxable income for the income year will be $18,000. His tax payable at the end of the income year would be nil ($0). He would receive a refund of the total tax withheld when he lodges his 2024 income tax return.

If Jeff expects to receive the same income for the next income year, he could choose to claim the tax-free threshold for his part-time job as well through his employer, so that no tax is withheld from payments made to him. He can do this by completing a withholding declaration and providing it to his employer.

If too much tax is withheld

If your income is more than $18,200 and too much tax was withheld in the income year, you can apply to reduce the amount of tax withheld from your payments.

You will need to complete and lodge a **PAYG withholding variation application.** Your request should be in writing but you can send it as an email request, a paper or online form.

When we receive your application, we'll calculate the variation amount and provide your payers with new instructions for withholding your tax.

You should only apply for this variation if you're certain of your income amounts and are disadvantaged by the current withholding rates.

Example: too much tax withheld during the year

Sue has 2 jobs during the 2023–24 income year. As a part-time retail sales assistant, she earns $615.38 per fortnight ($16,000 for the income year). She also works in a restaurant earning on average $384.62 per fortnight ($10,000 for the income year).

Sue claims the tax-free threshold from her retail employer and has no tax withheld.

As Sue doesn't claim the tax-free threshold from her restaurant employer, $82 per fortnight is being withheld. In total $2,132 was withheld for the income year.

Since Sue doesn't have any other income, her tax payable or refundable when she lodges her tax return would be calculated as follows:

Taxable income	$26,000
Income tax payable on $26,000	$1,482
Less, Low income tax offset	$700
Plus, Medicare levy	$0
Total tax and Medicare levy	**$782**
Credit for total tax withheld	$2,132
Tax refund due to Sue	**$1,350**

The tax refund of $1,350 arises because too much tax was withheld from Sue's income from her employers during the income year.

If this situation is likely to continue, Sue can apply to us for a withholding variation to reduce the amounts of tax withheld. So, Sue will receive extra net pay during the income year, rather than receiving a large tax refund at the end of the income year.

If too little tax is withheld

Sometimes the total tax withheld from your payments may be too little to cover your tax liability for the income year.

To avoid an end-of-year tax debt, you can ask one or more of your payers to **increase the amount they withhold** from your payments. You will need to complete and lodge a **PAYG withholding variation application.** Your request should be in writing but you can send it as an email request, a paper or online form.

Example: too little tax withheld

Pierre receives a taxable pension and has a part-time job. Over the course of the 2023–24 income year, he receives:

- $30,000 from the pension – Pierre's payer applies the tax-free threshold to his fortnightly payments
- $30,000 from the part-time job – Pierre's employer applies no tax-free threshold to his fortnightly payments.

Pierre's tax withheld is:

Income type	Taxable annual	Fortnightly income	Fortnightly tax withheld

	income		
Pension	$30,000	$1,153.84	$106.00
Part-time job	$30,000	$1,153.84	$272.00
Total	$60,000	$2,307.68	**$378.00**

At the end of the income year, the total tax withheld from Pierre's income will be $9,828 ($378 × 26).

When Pierre lodges his tax return for the income year, the actual amount of income tax he has to pay, or tax refundable to him, will be calculated as follows:

Taxable income	$60,000
Income tax payable on $60,000	$9,967
Less, Low income tax offset	$100
Plus, Medicare levy (2% of $60,000)	$1,200
Total tax and Medicare levy	**$11,067**
Credit for total tax withheld	$9,828
Tax payable	**$1,239**

Pierre will have a tax debt of $1,239 as insufficient tax was withheld during the income year.

Pierre can ask one or both of his payers to withhold extra tax to cover the shortfall. Alternatively, he can put money aside to ensure that he can pay his tax bill when it falls due.

QC 50527

Receiving cash for work you do

If you're paid in cash, check you are getting the correct amounts and that your employer is paying super.

Last updated 11 June 2024

What you need to do

Your employer may pay your wages to you in cash (or with a cash cheque), rather than into your bank account. Paying wages in cash is legal.

Some businesses deliberately use cash transactions (for example, pay their employees 'cash-in-hand') to avoid meeting their tax and employee responsibilities.

If your employer is paying you cash, you:

- must declare the cash as income when you lodge your tax return
- should still receive a payslip showing all your earnings and the amount of tax your employer takes out (withholds)
- should receive an income statement at the end of the income year that shows your full earnings and the amount of tax your employer takes out
- should check your employer is making super contributions
- should check your employer is paying (at least) the correct award wages – refer to Fair Work Ombudsman
- should check your employer is taking tax out of your pay – this helps to make sure you don't end up with a large tax bill
- should check your employer's workers compensation insurance covers you in case of an accident.

Use our:

- **Tax withheld calculator** to help you work out if your employer is taking enough tax from your pay
- **Am I entitled to super?** tool to work out if you should get super contributions.

Declare your tips

Cash tips are income, regardless of how you receive them. It makes no difference if tips come from your employer or direct from customers.

You may share tips between employees that come from a collection by all workers (like in a tip jar).

If you receive cash tips, you must declare them in your tax return at **Allowances, earnings, tips, directors fees etc.**

QC 27111

Access your income statement

How to find your income statement in ATO online services through myGov or the ATO app.

Last updated 11 June 2024

On this page

How you receive your income statement

Your employer will provide you with your end of year statement as either:

- an income statement – if your employer reports to us through Single Touch Payroll (STP)
- a payment summary – if your employer is **not** yet reporting through STP they will continue to provide you with a payment summary by 14 July.

Your employer should let you know if you will receive an income statement or payment summary. You should talk to them if you are unsure.

Your employer doesn't have to give you a payment summary if they report through STP.

Your income statement is available to access in ATO online services through myGov or the ATO app. If you don't have a myGov account, you will need to **create a myGov account and link it to the ATO**.

Most employers have until 14 July to finalise their data. Your employer will let you know if there are any delays in the finalisation of your income statement.

If you have more than one employer

If you have **more than one** employer, you may receive both an income statement and a payment summary. You will need to check that income from your payment summary is in your tax return. Your payment summary details may pre-fill for you if you lodge online, otherwise you need to enter it manually.

Incorrect income statement

If your income statement information is incorrect, you should contact your employer (or employers). If they have made an error, they can usually correct it.

Find out what you can do if you have a **lost or missing or incorrect payment summary**.

Income statements through ATO online services

If your employer is reporting through STP, you will receive an income statement.

You can [find your income statement in ATO online services] through myGov or the ATO app.

Your income statement will show your year-to-date:

- salary and wages
- tax that has been withheld
- super.

You will need to wait until your employer marks your income statement as **'Tax ready'** before you prepare and lodge your tax return.

Employers have until 14 July to finalise their data.

It is important that you don't use any information that is not marked **'Tax ready'** as your employer may finalise your income statement with different amounts.

If you lodge before the statement is **'Tax ready'**, you may have to amend your tax return.

We will send a notification to your myGov inbox when all of your income statements are **'Tax ready'**.

You will need to speak to your employer if after 31 July **your income statement is not tax ready** in ATO online services.

Find your income statement in ATO online services

To find your income statement, you can either sign in to:

- ATO online services through myGov
- ATO online services through the ATO app.

ATO online services through myGov

If you're accessing ATO online services through myGov, you need to:

- sign in to myGov
- select **ATO online services**
- select **Employment**
- select **Income statement**.

On the screen you will see your income from your employer or employers for the income year, and the tax that has been withheld.

ATO online services through the ATO app

If you're accessing ATO online services through the ATO app, you need to:

- login to ATO online services in the app
- select **Employment**
- select the **income year**.

If you can't access your information through ATO online services, you can **contact us** for a copy of your income statement information.

Get your income statement from your tax agent

Your tax agent will be able to access your income statement or payment summary information through either:

- their software
- Online services for agents.

Your agent will need to wait until the income statement has been marked as **Tax ready** to prepare and lodge your return.

Employers have until 14 July to finalise their data, they will let you know if there are any delays in the finalisation of your income statement.

We will send a notification to your myGov inbox when all of your income statements are **Tax ready**.

Income statement not tax ready

What to do if your employer hasn't finalised the data for your income statement and marked it as Tax ready.

Lost or missing payment summary

What to do if your employer hasn't provided you a payment summary or you can't find it.

Incorrect reportable employer super contributions

How to correct an income statement or payment summary if compulsory super is reported as reportable super contributions.

QC 58694

Income statement not tax ready

What to do if your employer hasn't finalised the data for your income statement and marked it as Tax ready.

Last updated 11 June 2024

On this page

Keeping your records

If your income statement is not tax ready

When your employer finalises your tax and super details it will show the status **Tax ready**. You can use the information in your income statement when it is **Tax ready**.

You will see a red box in ATO online services that says **Not tax ready** if your data hasn't been finalised by your employer. You will need to speak to your employer to find out when they will finalise your statement.

If your employer is unable to make your income statement **Tax ready**, they will need to provide you with a payment summary. If your employer is no longer in business you will need to **estimate your income** and withholding details and include this in your return.

Not tax ready and your tax return

We recommend waiting until your income statement is **Tax ready** before preparing and lodging your tax return. This is because the amounts may change when your employer finalises your income statement.

If you choose to lodge your tax return before your income statement shows tax ready, you will need to review your information and any amounts that are available through pre-fill. You will need to confirm the information is correct before you submit your tax return.

Remember, if you choose to use information from your income statement before it is tax ready to lodge your tax return:

- your employer may finalise your income statement with different amounts
- you may need to **amend your tax return** and additional tax may be payable.

Receiving both an income statement and a payment summary

If you receive both an income statement and a payment summary from the same employer, you will need to check with them which you should use. They may each contain different income amounts.

If you have more than one employer

If you have more than one employer you may have more than one income statement or payment summary. You might also receive an income statement from one employer and a payment summary from another.

You will need to check that the income from all income statements and payment summaries are in your tax return. If you lodge your tax return with myTax **you can pre-fill this information**.

You will still need to check that the information is all there and correct. You might need to enter it manually or adjust the details if they are incorrect.

Keeping your records

In order to prepare and lodge an accurate tax return and support the claims you make, you need to **keep thorough records**.

You need to be able to show how you arrived at the income and tax withheld figures. In some cases, you may need to provide written evidence of how you work out the figures, if we ask you.

QC 16580

Lost or missing payment summary

What to do if your employer hasn't provided you a payment summary or you can't find it.

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On this page

Changes to payment summaries

Most employers now report your income and pay your tax and super directly each pay day through Single Touch Payroll (STP).

You may not receive a payment summary from your employer if they are reporting through STP. Instead, you get an **income statement** through ATO online services in myGov.

There is no requirement for your employer to give you a payment summary if they report through STP. If your employer is **not** yet reporting through STP they will continue to provide you with a payment summary by 14 July.

If you have **more than one** employer, you may receive both an income statement and a payment summary.

Lost, missing or destroyed payment summary

If your payment summary is lost, missing or destroyed you can get the information you need by:

- requesting a copy from your employer or payer
- requesting a letter from your employer or payer stating details of your income and the amount of tax withheld
- using the **prefilling service** to automatically load your payment summary and other information into your tax return using myTax
- reviewing your payslips, timesheets and bank statements.

You no longer require a statutory declaration where you don't have a copy of your payment summary.

If you are unable to get accurate information from these sources, you will need to estimate your income and withholding details. Include the estimates in your tax return.

Use our gross pay estimator, to help you estimate your income. This will give you an estimate of your gross pay using your net pay for a particular pay period, either weekly, fortnightly or monthly.

Gross pay estimator

Incorrect payment summary

If your payment summary information is incorrect, you should contact your employer (or employers). If they have made an error, they can usually correct it.

If you find your payment summary

If you find your payment summary and haven't lodged your tax return, make sure you use the amounts shown on your payment summary.

If you have already lodged your tax return and the amounts on your payment summary are different, you must **request an amendment to your tax return**.

Keeping your records

In order to prepare and lodge an accurate tax return and support the claims you make, you need to **keep thorough records**.

You need to be able to show how you arrived at the income and tax withheld figures. In some cases, you may need to provide written evidence of how you work out the figures, if we ask you.

QC 72681

Incorrect reportable employer super contributions

How to correct an income statement or payment summary if compulsory super is reported as reportable super contributions.

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On this page

Reportable employer super contributions

Some employers incorrectly include compulsory super amounts as reportable employer super contributions on their employees' income statements or payment summaries. This includes:

- super guarantee contributions
- industrial agreement (award) super contributions.

Reportable employer super contributions should only include additional super contributions made by an employer, for example, the super contributions made on behalf of an employee under a salary sacrifice arrangement.

What to do if the super amounts are incorrect

If you have compulsory super amounts incorrectly included on your income statement or payment summary, and:

- you haven't lodged your tax return, you can ask your employer to correct that figure
- have lodged your tax return, you lodge an amendment to your tax return.

Lodge an amendment to your tax return

If you have already lodged your tax return with the incorrect information, you may need to **lodge an amendment request**. Lodge an amendment if any of the following apply to you:

- Seniors and pensioner tax offset
- Superannuation contribution on behalf of your spouse tax offset
- Invalid and invalid carer tax offset
- Zone tax offset when claiming dependants
- Deduction for personal superannuation contributions
- Employee share scheme
- Liable for Medicare levy surcharge
- Entitled to superannuation co-contribution
- Higher Education Loan Program (HELP), Student Financial Supplement Scheme (SFSS), Student Start-up Loan (SSL) or Trade Support Loan (TSL) (Australian Apprenticeship Support Loans (AASL) from 1 January 2024) debt
- Benefits from or have to pay amounts to Centrelink or Child Support Agency
- Non-commercial business losses
- Low income super contribution for the 2016–17 and prior income years
- Low income superannuation tax offset for 2017–18 and future income years.

QC 23296

Varying your PAYG withholding

When and how you as an employee or payee can vary your rate of PAYG withholding.

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Understanding withholding variations

Varying your rate or amount of withholding helps to make sure that the amount withheld during the income year meets your end-of-year tax liability.

If your circumstances warrant a withholding variation, you will need to work out if the variation is:

- an upwards variation
- a downwards variation.

Upward variations

An upwards variation increases the amount of tax that is withheld from your payments.

You can ask your payer to increase the amount they withhold from your income. You may do this where you expect to have a tax amount to pay at the end of the income year.

Example: upward variation

Since retiring, Keith receives an annual superannuation pension income of $25,000. He also receives interest on his term deposit.

Keith estimates his interest will be $1,000. So, he estimates taxable income will be $26,000 ($25,000 + $1,000 = $26,000).

Keith can apply for a withholding variation to have tax withheld at the rate he estimates his taxable income will be. In this case, $26,000.

How to apply for an upward variation

You can arrange an upward variation by:

- entering into an agreement with your payer to vary the rate or amount of withholding. Your request should be in writing and can be in any format.
- completing a *Withholding declaration* online through ATO online services, see **Access and complete employment forms in ATO online.**

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

Downward variations

The Commissioner of Taxation may allow under tax law the variation of the amount a payer withholds from a withholding payment, to meet the special circumstances of a particular case or class of cases.

A downward variation reduces the amount of tax you would normally have withheld from your payments. For example, you may want to apply for a variation if the normal rate of withholding leads to a large credit at the end of the income year because your tax-deductible expenses are higher than normal.

The granting of a variation doesn't mean that we have accepted the tax treatment of the income and deductions in your application.

We assess your actual tax liability when you lodge your income tax return. You must **keep records** of your relevant income and expenses for a minimum of 5 years. We will issue a notice with the starting and finishing dates of a downward variation. Your notice will also advise if you have been granted a multi-year downward variation.

Your payer can't vary the withholding rate until they receive an official variation notice from us.

Find out what you need to do if you have a change of circumstances or want a class variation for you and your work colleagues.

Example: downward variation for allowance

Sue is a salary and wage earner who uses her own vehicle for work purposes. Her payer pays her an annual motor vehicle allowance of $10,000.

Sue estimates that her annual tax deduction for car expenses will be $9,000.

Sue can apply for a downwards variation so that her payer will withhold tax from only $1,000 of her allowance.

Example: downward variation for taxable income

John, a real estate salesperson receives his payments on a commission basis. He also owns a rental property and receives rental income.

John's annual gross income from his only payer is $45,000. He estimates that his rental property loss will be $15,000.

John estimates his taxable income will be $30,000 ($45,000 – $15,000 = $30,000).

John can apply for a downwards variation to have his payer calculate his withholding rate according to the taxable income of $30,000.

Processing times

The processing time for an application depends on the method you use to lodge your application.

If you lodge:

- online – within 28 days
- by paper – within 56 days.

You need to lodge a **PAYG withholding variation application** with us to request a downwards variation.

Before you lodge a variation

We will only process your application for a downwards variation if you:

- lodge all required tax returns and activity statements, or lodge a non-lodgment advice for tax returns in prior years
- did not receive a debit assessment on your last tax assessment (if you also had an approved withholding variation for that year)
- don't have any outstanding tax debt owning to the Australian Government
- don't have any outstanding debts under any other Acts we administer.

We may seek more information from you before or after your application is processed. If you fail to provide this, we may not be able to approve your application.

We process your application using the information you provide. It is your responsibility to make sure that you give us enough information to allow us to work out a withholding rate to meet your end-of-year tax liability.

Starting and finishing dates of a downward variation

If we approve your application, the varied rate or amount of withholding will start from the next available payday after your pay office receives the notice of withholding variation from us.

Your 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, you must lodge another variation application – at least 6 weeks before the expiry date.

Multi-year downward variations

We may issue a variation for allowances for more than one year. The date on the letter we send after we process your application will show if the variation is for more than one year.

Change of circumstances

You must complete a new application and advise us of any change in your circumstances during the income year. For example, when you sell a rental property, or your taxable income changes to the extent that you will receive a debit assessment of $500 or more.

Class variations

If you and your work colleagues want an identical variation, your payer can apply for a class variation on your behalf. For example, you and your colleagues' withholding may be too high if you receive an allowance and reasonably expect that your expenses in relation to that allowance will be deductible.

Your payer can apply for a class variation if all of the following apply:

- the allowance can reasonably be expected to be spent for the intended purpose
- you 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 income year
- it is for 6 or more payees.

If there are fewer than 6 payees, each payee must apply for a variation by completing and sending to us either a:

- PAYG withholding variation application for allowances or study and training support loans
- PAYG withholding variation application.

QC 19428

Leaving your job

Work out which type of payment you'll receive when leaving your job and the tax you'll pay on unused entitlements.

Last updated 11 June 2024

On this page

Reasons for leaving your job

You may leave your job as the result of termination or redundancy. In these circumstances, payments you receive are:

- Employment termination payments (ETP) – a payment made as the result of termination that includes amounts for some unused entitlements like sick leave or rostered days off, payments in lieu of notice or a gratuity or a 'golden handshake'.

- Redundancy payments – a genuine or non-genuine redundancy payment is a type of ETP that you receive for a specific reason.
- Payments for accrued leave.

Tax on unused entitlements when you leave a job

The tax you pay on unused leave, termination of employment or redundancy payments may be different to the tax you pay on your normal income. The tax you pay depends on both:

- the reason for leaving the job
- any unused entitlements you may have accrued, such as long service leave or sick leave.

If you receive any lump sum payments from your employer for unused annual leave or long service leave, you may pay tax at a lower rate than your other income. These lump sum payments will appear at either 'Lump sum A' or 'Lump sum B' on your income statement or payment summary.

Employment termination payments for employees

Find out why you may receive an employment termination payment (ETP), how it is taxed and which amounts to report.

Redundancy payments

Certain redundancy payments are tax-free up to a limit depending on your years of service with that employer.

QC 27125

Employment termination payments for employees

Find out why you may receive an employment termination payment (ETP), how it is taxed and which amounts to report.

Last updated 11 June 2024

On this page

What is an ETP?

When you leave work or change jobs, you may receive several lump sum payments. The tax you pay on these lump sum amounts is different to the tax you pay on your normal income. One lump sum may be an employment termination payment (ETP).

Your ETP amount may include:

- payments for unused sick leave or unused rostered days off
- payments in lieu of notice
- a gratuity or 'golden handshake'
- an employee's invalidity payment for permanent disability
- compensation for loss of job or wrongful dismissal
- **genuine redundancy payments** or early retirement scheme payments that exceed the tax-free limit
- certain payments made after the death of an employee
- the market value of the transfer of property (less any consideration given for the transfer of this property).

If you receive an ETP from a person's employer because of the cessation of their employment due to their death, see **Death benefit employment termination payments**.

ETPs **don't** include:

- lump sum payments for unused annual or long service leave
- the tax-free part of a genuine **redundancy payment** or an early retirement scheme payment
- superannuation benefits (for example, a **lump sum or income stream** from a super fund)

- foreign termination payments.

You may also pay tax on these amounts at a concessional rate.

You will receive one or more **end of year statements** that show the amounts you receive and the tax withheld. Use this information to complete your income tax return.

Tax treatment of an ETP

You usually pay a lower rate of tax on ETPs, if you receive the payment within 12 months of your termination.

ETPs have up to 3 tax treatments:

- **Tax-free**, if part of the payment is for invalidity or work done before 1 July 1983.
- **Concessionally taxed** up to a certain limit, known as a cap.
- Taxed at the top marginal rate of 47% on the amount over the relevant cap.

The rate of tax you pay depends on the components of payment you receive, see **How ETP components are taxed**.

For an ETP you receive more than 12 months after termination of employment, find out how **the 12-month rule** affects the tax you pay on the ETP.

You can't roll over your ETP to your superannuation.

Your ETP end of year statement and your tax return

What to do when you receive your income statement or payment summary for your employment termination payment (ETP).

How ETP components are taxed

Find out how tax applies to the components of your employment termination payment (ETP).

The whole-of-income cap and your tax

Find out how the whole-of-income cap affects the amount of tax

The 12-month rule

What the 12-month rule for employment termination payments is and when it applies.

Death benefit employment termination payments

A payment you receive from a person's employer after their death is a death benefit employment termination payment.

QC 27127

Your ETP end of year statement and your tax return

What to do when you receive your income statement or payment summary for your employment termination payment (ETP).

Last updated 11 June 2024

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What you will receive

Your employer will give you one or more **income statements** or payment summaries that shows the amounts you receive and the tax withheld.

We use the code on your income statement or payment summary to work out which cap to apply and the correct rate of tax for your situation. **ETPs are concessionally taxed** up to the cap.

If the code is **O** or **P**, your ETP is subject to the **whole-of-income cap**. This means if you earn more income after you leave work, you may pay more tax on your ETP when you lodge your tax return.

Your income statement or payment summary may also show a tax-free component. This is not assessable income. You do not need to include this amount in your tax return.

What you need to do

At the end of the income year, you will receive an income statement if your employer reports electronically. Otherwise, you will receive a PAYG payment summary.

Use the information in your income statement or payment summary to prepare your tax return.

Find out what to do if you receive a:

- income statement
- PAYG payment summary.

Income statement

Once your employer finalises your tax and super information in **Single touch payroll** (STP), we will pre-fill your tax return and display the information as **Tax ready** in myGov.

Your income statement will include all lump sum amounts, taxable components, tax withheld and tax codes.

You can **access your income statement** in myGov. Make sure you review the pre-fill information before you submit your tax return.

PAYG payment summary

If your employer is not using STP, you will receive one or both of

- PAYG payment summary – individual non-business
- PAYG payment summary – employment termination payment.

PAYG payment summary – individual non-business

If you receive a *PAYG payment summary – individual non-business* (also known as a group certificate) you will need to declare the following amounts in your tax return:

- Lump sum A or B – unused annual leave and long service leave. These amounts are not part of your ETP, but you may pay tax on them at a concessional rate.

- Lump sum E – payments that relate to earlier income years and return-to-work payments.

You don't need to declare in your tax return amounts on your payment summary at:

- Lump sum D – tax-free component of a genuine redundancy or early retirement scheme payment.

This tax-free component is not part of your ETP and is not assessable income.

PAYG payment summary – employment termination payment

If your employer gives you a *PAYG payment summary – employment termination payment* it must be within 14 days of the payment date.

Your payment summary will show:

- the taxable component of your ETP
- the tax withheld
- a code for the type of ETP.

You will need to enter each of these amounts at Employment termination payments (ETP) in your tax return.

QC 72757

How ETP components are taxed

Find out how tax applies to the components of your employment termination payment (ETP).

Last updated 11 June 2024

On this page

Tax treatment of an ETP

ETPs are generally fully taxable although in some cases they may also contain a tax-free amount.

After any tax-free amount is deducted from your payment, the balance is the taxable component. The taxable component of your ETP will be concessionally taxed up to certain limits, known as caps. The 'whole-of-income cap' or the 'ETP cap'.

Any amount over the relevant cap will be taxed at the top marginal rate of 47% (45% plus Medicare levy of 2%).

Tax-free amount

A tax-free amount relates to:

- a **pre-1983** component of employment
- an **invalidity** component
- the **tax-free element of a genuine redundancy**.

The tax-free component is **not**:

- assessable or exempt income (it is tax free) in all cases
- an amount you need to report in your return.

Taxable component

The type of termination payment will determine which cap applies to the taxable component and will fall into one of 2 payment categories:

- excluded
- non-excluded.

Excluded payments

The term 'excluded payments' refers to the following types of payments:

- genuine redundancy or early retirement scheme payments that exceed the tax-free limit
- invalidity
- compensation for personal injury, unfair dismissal, harassment or discrimination
- death benefit termination (see **Death benefit employment termination payments**).

The taxable component of these payments will be concessionally taxed up to the 'ETP cap'.

Non-excluded payments

The term 'non-excluded' may include the following payments:

- a ‘golden handshake’
- non-genuine redundancy payment
- severance pay
- a gratuity
- payment in lieu of notice
- unused sick leave
- unused rostered days off.

These payments are concessionally taxed up to the smaller of the ETP cap or the whole-of-income cap after they are reduced by your other amounts.

Your ETP is subject to the **whole-of-income cap**, if the code on your end of year statement is **O** or **P**.

Concessional rates and caps

The concessional tax rate is:

- 17% if you reach your **preservation age**
- 32% if you have not reached preservation age, up to the relevant cap.

Amounts above the caps are taxed at the top marginal rate of 47% (45% plus Medicare levy of 2%) – see **Table A: Withholding rates for ETPs.**

The **ETP cap amount** for the 2023–24 income year is $235,000. This amount is indexed annually.

The **whole-of-income cap** is $180,000, this amount is not indexed. This cap is reduced by any other taxable income payments you receive in the income year.

The whole-of-income cap and your tax

Find out how the whole-of-income cap affects the amount of tax you pay on an employment termination payment.

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When the whole-of-income cap applies

Your employer can tell you whether the whole-of-income cap applies to your ETP. Alternatively, if you've received an income statement or *PAYG payment summary – employment termination payment* from your employer, check the ETP code. If the code is **O** or **P,** the whole-of-income cap applies to your ETP.

If the whole-of-income cap applies to your ETP and you earn more income in the same income year you may need to pay more tax when you lodge your tax return. For example, if you get another job or earn investment income.

How the whole-of-income cap works

The whole-of-income cap is $180,000 minus other taxable income you earn throughout the income year. This amount is not indexed.

The taxable component of your ETP is taxed at either 17% or 32% up to your whole-of-income cap.

Any amounts over the whole-of-income cap are taxed at the top marginal tax rate (47%).

Example: Whole-of-income cap

Percival is a 51-year-old crane operator who earns $100,000 in wages. He decides to retire from his job in December 2023. Percival's employer pays him an ETP of $8,000 for unused rostered days off.

When working out the tax on Percival's ETP, his employer does the following:

Step 1: Calculates his whole-of-income cap as $80,000 (that is, $180,000 minus other taxable income of $100,000 wages).

Step 2: Calculates tax. As Percival's $8,000 ETP is less than his whole-of-income cap of $80,000, his employer taxes the whole $8,000 at 32%, which is $2,560.

Percival's income statement or *PAYG payment summary – employment termination payment* will show:

- the date of payment
- taxable component of $8,000
- tax-free component of $0
- total tax withheld of $2,560
- ETP code **O** indicating it is an ETP subject to the whole-of-income cap.

How earning more income could affect your tax

Your employer withholds tax from your ETP based on the taxable income they paid you before you left work. If you earn other taxable income in the same income year – for example, if you get another job – you may pay more tax on your ETP when you lodge your tax return.

This is because the other taxable income you earn will reduce your whole-of-income cap further.

Example: Earning more income

Percival finds a new job as a crane operator in February 2024. He earns $75,000 in wages before the end of the income year.

He lodges his 2024 tax return and includes the details of his ETP using the information on his income statement or *PAYG payment summary – employment termination payment*.

We calculate Percival's whole-of-income cap using the taxable income he earned throughout the income year:

- $180,000
- minus $100,000 wages from his first job
- minus $75,000 wages from his second job

- equals $5,000 whole-of-income cap.

This means only $5,000 of Percival's $8,000 ETP is taxed at 32%. The remaining $3,000, which is over his whole-of-income cap, is taxed at the top tax rate. The additional tax owing on his ETP is:

- $5,000 at 32% = $1,600
- plus $3,000 at 47% = $1,410
- minus $2,560 tax withheld by his first employer
- equals $450.

Percival will receive a notice of assessment with an additional amount of $450 tax owing.

You can avoid the situation shown in this example. Before you earn other income and before the end of the income year, you can:

- seek professional advice from your tax agent or financial planner (visit the Tax Practitioners Board to find a registered tax agent)
- consider having additional tax withheld from wages from your second job to cover any increase of tax due to your ETP.

QC 72747

The 12-month rule

What the 12-month rule for employment termination payments is and when it applies.

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On this page

What is the 12-month rule

To receive concessional tax treatment an employment termination payment (ETP) must generally be paid within 12 months of termination.

You include payments outside the 12-month period in your assessable income and pay tax at your marginal tax rates.

The 12-month rule doesn't apply to the taxable component of genuine redundancy payments and early retirement scheme payments.

A payment that is made more than 12 months after termination can still be an ETP in the following circumstances:

- payments are covered by a legislative determination
- an exemption is granted.

Payments covered by a legislative determination

Check whether we've made a legislative determination that applies to your circumstances.

We have made legislative determinations that a termination payment received more than 12 months after termination of employment is to be treated as an ETP in any of the following circumstances:

- the delay is due to legal action that began within 12 months of the termination, provided the legal action concerned the entitlement to the payment or the amount of the entitlement
- the payment is made by a liquidator, receiver or trustee in bankruptcy of an entity that was otherwise liable to make the payment and the date of appointment of the liquidator, receiver or trustee is no later than 12 months after the termination of employment
- a payment is received from a redundancy trust in some cases.

For more on the tax determinations, see:

- ETP 2019/1 *Income Tax: Employment Termination Payments Redundancy Trusts (12-month rule) Determination 2019*
- ETP 2018/1 *Income Tax Employment Termination Payments (12-month rule) Determination 2018*

An exemption is granted

If you receive a termination payment more than 12 months after your employment was terminated, you can write to us and ask us to treat that payment as an ETP. This also applies if you receive an ETP due to the death of another person.

You need to provide enough information for us to work out whether the 12-month rule should be waived for a termination payment you receive.

You should include information about all of the following:

- the termination of the employment, including any dispute in relation to the termination
- the payment
- the person making the payment
- any other relevant circumstances.

To apply for an extension of time, you need to write to us and include all the relevant information (as above). There is no specific form to use.

Send your completed request to:

Australian Taxation Office
PO Box 3100
PENRITH NSW 2740

QC 72746

Death benefit employment termination payments

A payment you receive from a person's employer after their death is a death benefit employment termination payment.

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On this page

Death benefit payment components

A death benefit employment termination payment (ETP) may have a tax-free and a taxable component.

The tax treatment of the taxable component depends on whether:

- you're a dependant of the deceased
- the payment exceeds the ETP cap.

ETP cap for death benefits

We index the ETP cap each year. The ETP cap in 2023–24 is $235,000.

The death benefit ETP cap amount is independent of the life benefit ETP cap amount. This means payments that count towards one cap will not count towards the other.

Meaning of dependant

You're a dependant of the deceased if, at the time of their death, you were one of the following:

- a surviving spouse
- a former spouse
- a child of the deceased who is less than 18 years old
- any other person who was financially dependent on the deceased
- any person who had an interdependency relationship with the deceased.

A **spouse** of the deceased includes another person (of any sex) who:

- was in a relationship with the deceased as registered under a prescribed state or territory law
- lived with the deceased on a genuine domestic basis in a relationship as a couple, although not legally married.

A **child** of the deceased includes:

- an adopted child, stepchild or ex-nuptial child
- a child of the deceased's spouse
- a child of the deceased within the meaning of the *Family Law Act 1975* (for example, a child who is considered to be a child of a person under a state or territory court order giving effect to a surrogacy agreement).

An **interdependency relationship** includes:

- a close personal relationship between two people who live together, where one or both provides for the financial and domestic support and personal care of the other

- a close personal relationship between two people who live together but do not satisfy one or more of the requirements mentioned in the previous dot point due to either or both of them suffering from a physical, intellectual or psychiatric disability.

Payment to a dependant

If you receive the ETP directly and not through a trust, tax is withheld (including Medicare levy) on the payment as follows:

- The tax-free component of the death benefit will not be subject to tax.
- The amount of the taxable component up to the ETP cap will be tax-free.
- Tax is withheld at 47% on the amount of the taxable component above the ETP cap.

You should receive a *PAYG payment summary – employment termination payment* from the deceased's former employer.

The taxable component above the ETP cap is the amount the employer will report on the payment summary.

Payment to a non-dependant

If you receive the ETP directly and not through a trust, tax is withheld (including Medicare levy) on the payment as follows:

- The tax-free component of the death benefit will not be subject to tax.
- Tax is withheld at 32% on the amount of the taxable component up to the ETP cap.
- Tax is withheld at 47% on the amount of the taxable component above the ETP cap.

You include the taxable component in your assessable income.

Payment to the trustee of a deceased estate

If the payment goes to the trustee of a deceased estate, the trustee pays tax on the death benefit ETP. Tax is withheld in the same way it would be if the payment was made to a dependant or non-dependant. The exception is that the Medicare levy (2% for 2023–24) does not apply.

The trustee of the deceased estate will receive *a PAYG payment summary – employment termination payment* from the deceased's employer.

The payment summary will show both the tax-free and taxable components of the ETP.

QC 50514

Redundancy payments

Certain redundancy payments are tax-free up to a limit depending on your years of service with that employer.

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On this page

Genuine redundancy

A genuine redundancy payment is a payment made to you as an employee if your job is abolished and you no longer have a job. This means your employer has made a decision that your job no longer exists, and your employment is to be terminated.

Redundancy payments are a type of employment termination payment (ETP).

Your genuine redundancy payment is:

- **tax-free up to a limit** depending on your years of service
- concessionally **taxed as an employment termination payment (ETP)** above your tax-free limit
- taxed at your usual **marginal tax rate** for any amount above **certain caps.**

The tax-free amount of a genuine redundancy is not part of your ETP. Your employer will report any lump sum amounts on your income statement or *PAYG payment summary – individual non-business*.

Any amount over the tax-free limit is part of your ETP.

Changes to genuine redundancy and early retirement scheme payments

On 29 October 2019, changes to the age employees can access concessional tax treatment for **genuine redundancy and early retirement scheme payments** became law. The age-based limit of 65 years old has changed to the age pension age. You can check the age pension age on the Services Australia website.

This change applies to payments made to employees who are dismissed or retire on or after 1 July 2019.

Non-genuine redundancy

A non-genuine redundancy occurs when as an employee:

- your dismissal is because you reach normal retirement age
- you're age pension age or older on the day of dismissal
- you're leaving voluntarily
- you're leaving on termination of your contract
- your dismissal is for disciplinary or inefficiency reasons.

You pay tax on a non-genuine redundancy as part of your **ETP**. This means you generally pay tax at a lower rate than your normal income, if the payment doesn't exceed **certain caps**.

Amounts you include from a genuine redundancy

Depending on your employment conditions, a genuine redundancy payment may include:

- payment in lieu of notice
- severance payment of a number of weeks' pay for each year of service
- a gratuity or 'golden handshake'.

Any payments that meet the conditions of a genuine redundancy are tax-free up to a limit, depending on your years of service with your employer.

The tax-free limit is a whole dollar amount plus an amount for each year of service you complete in your period of employment with your employer. Indexation changes the tax-free limit on 1 July each year.

Your employer will report the tax-free amount as a lump sum on your income statement or *PAYG payment summary – individual non-business*.

Amounts you exclude from a genuine redundancy

You need to exclude the following payments from a genuine redundancy payment:

- salary, wages or allowances owing to you for work done or leave already taken for work completed
- lump sum payments of unused annual leave or leave loading paid on termination of employment
- lump sum payments of unused long service leave paid on termination of employment under a formal arrangement
- payments made in lieu of superannuation benefits.

QC 27128

Salary sacrificing for employees

Find out what salary sacrificing is, how to set up an effective arrangement and the tax implications of an arrangement.

Last updated 11 June 2024

On this page

What is salary sacrificing?

Salary sacrificing is also known as salary packaging or total remuneration packaging. You and your employer agree for you to receive less income before tax and in return your employer pays for certain benefits of similar value for you. This means you pay less tax on your income.

A salary sacrifice arrangement reduces your taxable income, meaning you may pay less tax on your income.

We don't provide advice on entering or rejecting a salary sacrifice arrangement. You should seek financial advice before entering into a salary sacrifice arrangement.

Benefits you can include in the arrangement

There is no restriction on the types of benefits you can include in a salary sacrifice arrangement. The important thing is that these benefits form part of your remuneration. The benefits replace what you would otherwise receive as salary.

Fringe benefits

Some of the benefits you can include in a salary sacrifice arrangement are fringe benefits. Your employer will have to pay FBT on the value of the benefit they provide you. If your employer has to pay FBT, they may ask you to make an employee contribution to reduce the FBT they have to pay.

Common fringe benefits include:

- cars
- goods
- shares
- payment of your expenses for loan repayments, school fees and childcare costs.

Example: Salary sacrifice of a motor vehicle

Sam earns $65,000 a year and is considering entering into an effective salary sacrifice arrangement.

Under this arrangement, his employer will provide the use of a $35,000 car and pay all the associated running expenses of $11,500. The $11,500 running expenses includes registration, which is GST-free.

The GST-exclusive value of the car expenses is $10,509. A flat statutory rate of 20% applies for FBT purposes, regardless of the distance travelled.

The salary packaging provider calculates that:

- the taxable value of the car fringe benefit will be $7,000 (which is the cost of the car multiplied by the statutory rate, in this case $35,000 × 0.20 = $7,000) and
- Sam will sacrifice
  - $17,353 if no employee contributions are made
  - $4,145 if employee contributions of $7,000 are made.

The following table illustrates how salary sacrificing and employee contributions work, by comparing the net disposable income for Sam in 3 scenarios for 2023–24:

1. no salary sacrifice arrangement
2. a salary sacrifice arrangement without any employee contributions
3. a salary sacrifice arrangement where employee contributions are provided.

Comparing net disposable income for 3 salary sacrifice scenarios

Calculation	1. Salary only (no packaging)	2. Salary + car (without employee contributions)	3. Salary + c (with emplo contributio
Annual remuneration	$65,000.00	$65,000.00	$65,00
Less salary sacrifice	nil	$17,353.00	$4,14
Taxable income	$65,000.00	$47,647.00	$60,85
Less income tax (2023–24 rates)	$11,592.00	$5,952.28	$10,24
Less 2% Medicare	$1,300.00	$952.94	$1,21

Income after tax and salary sacrifice amount	$52,108.00	$40,741.78	$49,39
Less employee contribution	nil	nil	$7,00
Less car expenses	$11,500.00	nil	
Net disposable income	$40,608.00	$40,741.78	$42,39
Reportable fringe benefits amount for employee's income statement or payment summary	nil	$13,207.60 (car fringe benefit taxable value of $7,000 × 1.8868)	

Exempt benefits

Your employer won't have to pay FBT on exempt benefits, such as:

- a portable electronic device
- computer software
- protective clothing
- a briefcase
- a tool of trade.

Super

Salary sacrificed super contributions under an effective salary sacrifice arrangement are considered to be employer contributions. These are not fringe benefits if your employer pays them to a complying super fund.

Entering an effective salary sacrifice arrangement

We don't provide advice on entering or rejecting a salary sacrifice arrangement. You should seek financial advice before entering a salary sacrifice arrangement.

To have an effective salary sacrifice arrangement, you must:

- enter the arrangement before you perform the work
- have an agreement between you and your employer
- have no access to the sacrificed salary.

An effective salary sacrifice arrangement can't include salary and wages, leave entitlements, bonuses or commissions that you accrue before you enter an arrangement.

Expenses paid with direct debits from your pay are not salary sacrificed.

If the arrangement doesn't meet the requirements of an effective salary sacrifice arrangement, you pay tax on the benefits as assessable (or taxable) income at the time you receive the benefit.

The Fair Work Commission regulates employment agreements and conditions.

Agreement between you and your employer

There should be an agreement between you and your employer. The contract is usually in writing but may be verbal.

Subject to the terms of any contract of employment or industrial agreement, you can renegotiate a salary sacrifice arrangement at any time.

Your contract of employment should detail your remuneration, including any salary sacrifice arrangement.

No access to sacrificed salary

You can't access the salary amount you sacrifice for the period of your arrangement. If you don't receive a fringe benefit and it is cashed out, the amount becomes salary and you pay tax on the amount as normal income.

How salary sacrifice affects tax, super and government benefits

Under a salary sacrifice arrangement, you should pay less tax than you would have without an arrangement. However, before entering into a salary sacrifice arrangement you should consider impacts and associated costs. This includes either:

- the amount to be sacrificed and any surcharges
- having the benefits reported on your income statement in myGov or payment summary.

A salary sacrifice arrangement may affect:

- the Medicare levy surcharge
- study and training support loan compulsory repayments
- some tax offsets
- child support payments
- some government benefits.

Your **salary sacrificed super** contributions are additional to your super guarantee entitlements. Your employer must still pay your full super guarantee entitlements as though there was no salary sacrifice.

You will not be able to claim a tax deduction for an expense your employer pays for as part of your salary package.

QC 27113

Workplace giving programs for employees

Find out what a workplace giving program is, how to donate, and responsibilities your employer has.

Last updated 11 June 2024

On this page

What is a workplace giving program

A workplace giving program is a simple way to regularly donate to charities or organisations eligible to receive tax deductible donations. These organisations have a deductible gift recipient (DGR) status.

Your employer must ensure the participating charities or other organisations have ongoing DGR status. You can check the DGR status of an organisation at ABN Look-up: Deductible gift recipients.

If your employer offers workplace giving, you can choose your preferred charities from a selection and the amount to donate. Your employer then pays the donation directly to the charities each payday.

What happens if you get involved

To be involved both you and your employer must agree to participate. Your employer will then start collecting the donation amount from your pay each payday.

The workplace giving program does not affect the way your gross income, super guarantee payments or fringe benefits are worked out.

There is no minimum or maximum contribution required to participate. However, you must claim the total through your tax return. This is regardless of whether you have been getting payday tax benefits for your donations.

You claim a deduction for workplace giving donations in the same way you claim **gifts and donations** you make directly to DGR charities in your tax return. If you donate on a regular basis, you can **estimate the tax savings**.

Example: employee workplace giving

Jane works in the advertising industry and earns $65,000 per annum.

Through a recent marketing campaign, Jane becomes interested in donating to a local animal shelter. She looks into entering a workplace giving program her employee has set up with the shelter. However, she is unsure of the tax implications.

Jane's fortnightly income is $2,492. She wants to make a regular fortnightly donation of $15. Under workplace giving, her employer will take this out of her pay and reduce the amount of tax taken out each fortnight.

Jane estimates that this will reduce her tax payable by $4 a fortnight or $104 per annum. She also won't have to worry about keeping receipts and can simply claim a tax deduction equal to the amount of donations in her payment summary.

Your employer's responsibilities

Your employer may ask if you want to participate in their **workplace giving program**. They should provide you with:

- a list of the charities involved in your workplace giving program
- whether there will be a minimum donation amount per pay
- details of whether they will reduce the amount of tax withheld from your pay to account for the amount donated each pay.

At the end of the income year, your employer will include the total amount you donated to charities in your income statement, payment summary, a letter or an email.

QC 27123

Worker entitlement funds

If you are a member of a worker entitlement fund, you need to be aware of the tax treatment of payments from the fund.

Last updated 11 June 2024

How worker entitlement funds operate

Worker entitlement funds recognise the transitory nature of employment in certain industries, for example, the building and construction industry. If you are a member of a worker entitlement fund, you need to be aware of the tax treatment of payments from the fund.

These funds provide benefits to employees who would normally receive benefits on termination of employment under the terms and conditions of their employment. Many awards and enterprise agreements recognise the use of the funds.

Employers contribute to the funds to assist in satisfying their obligations when employees leave their employment. Typically, employers contribute to the funds at some point in each pay cycle. When you terminate your employment with your employer, the fund makes a payment to you. The amount you receive from the fund is offset against the amount your employer pays you under your employment agreement or industrial award.

Approved worker entitlement funds meet certain criteria under fringe benefits tax (FBT) legislation and receive concessional FBT treatment. For more guidance, see **FBT guide: 20.9 Worker entitlement contributions**.

Payments from worker entitlement funds

Awards and industrial agreements requiring employers to make periodic payments into worker entitlement funds establish entitlements for employees.

By entering into employment arrangements, it is the employer's obligation to make contributions. Subject to the conditions of the fund being met, employees can access the benefits. In general, the entitlements exist independent of whether termination is due to voluntary termination, dismissal or dismissal because of genuine redundancy.

For tax purposes, certain criteria must be met before we consider a payment made upon termination of employment as a **genuine redundancy payment**. If the amount is a genuine redundancy payment, the amount for concessional treatment is the excess of what the employee could receive in consequence of a voluntary termination.

It is unlikely payments from worker entitlement funds meet the criteria for genuine redundancy payments under the tax laws. This is because entitlements aren't necessarily contingent on dismissal due to genuine redundancy. It is also unlikely the payment the employee receives is over or above what they would receive due to voluntary termination. Where the criteria aren't met, the concessional treatment given to genuine redundancy payments can't apply.

Payments from worker entitlement funds usually receive concessional treatment as **employment termination payments** as termination of employment is generally a condition. This occurs so long as the criteria for those payments are met.

You need to ensure you complete your tax return correctly so that payments from worker entitlement funds receive the appropriate tax treatment.

For more redundancy payment information, see:

- **TR 2009/2** *Income tax: genuine redundancy payments*

- **CR 2010/40** *Income tax: payments from Redundancy Payment Central Fund No 2 and Redundancy Payment Approved Worker Entitlement Fund 2*

QC 27307

Reportable fringe benefits for employees

Find out if fringe benefits you receive are reportable and may affect your obligations and government benefits.

Last updated 11 June 2024

On this page

What are reportable fringe benefits?

If you receive fringe benefits with a total taxable value of more than $2,000 in a fringe benefits tax (FBT) year (1 April to 31 March), your employer will report this amount to us.

Some benefits don't have to be reported to us.

To find out which benefits are excluded, and how your employer calculates the amount to report, see **Reportable fringe benefits**.

Reportable fringe benefits amount

The amount your employer reports is known as your reportable fringe benefits amount (RFBA).

Your RFBA is 'grossed-up' to reflect the pre-tax income you would have had to earn, at the highest marginal tax rate (plus the Medicare levy), to buy the benefits yourself.

You aren't taxed on your RFBA. It is included in income tests for some government benefits and obligations.

Your RFBA will be shown on either your:

- income statement in ATO online services through myGov
- payment summary.

Completing your tax return

If you lodge your tax return through a tax agent or online through myTax, you generally don't have to do anything. Your pre-filled tax return should include any RFBA.

If you lodge a paper tax return, you include your RFBA at label **IT1**.

Reducing your reportable fringe benefits amount

You can reduce your reportable fringe benefits by:

- cashing out benefits – arranging with your employer to replace your fringe benefits with cash salary
- making employee contributions out of your after-tax income towards the cost of the benefits – for example, you can make an employee contribution towards a car fringe benefit by paying for some of the operating costs
- changing the benefits you receive to things that are exempt from FBT, such as work-related items.

Employment finished between 1 April and 30 June

If you finish employment between 1 April and 30 June, and receive fringe benefits during this time, your employer will report your RFBA for the income tax year ending on 30 June in the following year.

Consequences of having a reportable fringe benefits amount

How your reportable fringe benefits amount affects eligibility and income tests for government benefits and obligations.

QC 58427

Consequences of having a reportable fringe benefits amount

How your reportable fringe benefits amount affects eligibility and income tests for government benefits and obligations.

Last updated 11 June 2024

How the reportable fringe benefits amount is used

Your **reportable fringe benefits amount (RFBA)** is the 'grossed up' value of fringe benefits you received from your employer (or employers).

You aren't taxed on your RFBA. However, it is used to determine:

- your liability for the Medicare levy surcharge
- your child's adjusted taxable income, which affects whether they are considered a dependant for Medicare levy purposes
- your entitlement to the private health insurance rebate
- whether you are liable for **Division 293 tax** for superannuation contributions
- your eligibility for the government co-contribution for personal super co-contributions you made
- your eligibility for the low-income super tax offset for **concessional** (before tax) super contributions that you or your employer pay into your super fund
- whether you can offset your business loss against other income (non-commercial losses)
- if you are entitled to reduce your employee share scheme discount
- the amount you must repay against your debt for
  - Higher Education Loan Program (HELP)
  - VET Student Loans (VSL)

- Student Financial Supplement Scheme (SFSS)
- Student Start-up Loan (SSL)
- ABSTUDY Student Start-up Loan (ABSTUDY SSL)
- Australian Apprenticeship Support Loans (AASL) (formerly Trade Support Loans (TSL))

- your entitlement to a tax offset for
  - contributions you made to your spouse's super
  - invalid and invalid carer
  - zone or overseas forces
  - Medicare levy surcharge (lump sum payment in arrears)
  - seniors and pensioners
- your eligibility for family assistance payments, including
  - Family Tax Benefit Part A and Part B
  - Child Care Subsidy (from 2 July 2018)
  - Child Care Benefit for approved care (prior to 2 July 2018)
  - Parental Leave Pay
  - Dad and Partner Pay
- your child support obligations.

Example: RFBA used to work out the amount of HELP to repay

Olivia has a Higher Education Loan Program (HELP) debt of $10,000.

Olivia estimates her taxable income will be $60,000 in 2023–24. Based on this taxable income, Olivia would have a compulsory HELP repayment of $1,200.

However, in 2023–24 Olivia also expects to receive fringe benefits from her employer with a reportable fringe benefit amount (RFBA) of $17,000. The RFBA isn't taxable, but it is added to Olivia's taxable income to determine her 'repayment income', which is the amount used to work out how much Olivia will need to repay towards her HELP debt.

If Olivia receives an RFBA of $17,000, then her HELP compulsory repayment estimate is worked out as:

Taxable income + RFBA

$60,000 + $17,000 = $77,000

This means Olivia would have a HELP **compulsory repayment** of $3,080 for 2023–24.

Example: RFBA used by Services Australia for Child Care Subsidy

Elijah's taxable income is $100,000 for the 2023–24 income year. Elijah's employer provides him with a car fringe benefit with a taxable value of $3,500. Elijah also receives a housing fringe benefit with a taxable value of $1,000. These fringe benefits are both reportable.

The taxable value of Elijah's fringe benefits is $3,500 + $1,000 = $4,500. The grossed-up taxable value of these benefits is $8,490 ($4,500 × 1.8868 (the lower gross-up rate for 2024)).

This means Elijah has a reportable fringe benefits amount (RFBA) of $8,490.

Elijah receives the Child Care Subsidy from Services Australia. When Services Australia works out how much Elijah is entitled to, they include both his taxable income and his RFBA:

$100,000 + $8,490 = $108,490

Services Australia will use the income amount of $108,490 to work out Elijah's CCS entitlement.

Employees of FBT-exempt organisations

If you're an employee of one of the following organisations, 53% of your RFBA is taken into account to determine your eligibility for family assistance and youth income support payments:

- public benevolent institution
- health promotion charity
- public or not-for-profit hospital
- public ambulance service.

The full amount of your RFBA is used to determine your eligibility for other payments.

QC 58436

Working as an independent contractor

Check if you're an independent contractor or employee and if you need to register for an ABN or certain tax roles.

Last updated 11 June 2024

On this page

What you need to know

It's essential to find out what your tax and super obligations will be when you start work as an independent contractor. Knowing these obligations from the start can save you time, money and stress later on.

As an independent contractor, you can be:

- an individual (sole trader) or
- working in your own company, partnership, or trust.

You might call yourself an independent contractor, sub-contractor or a 'subbie'.

As an independent contractor, you're starting or running your own business, therefore you:

- need an Australian business number (ABN)
- need to choose a business structure
- may need other business tax registrations, such as GST
- need to pay tax and super
- need to know if your income is subject to the rules for personal services income
- are not entitled to paid leave if you get sick or injured
- may have to pay the cost to fix anything you damage in the course of your work

- may also have to pay the costs incurred by someone else if you cause an accident on someone else's property.

If you're an independent contractor in the building and construction industry, you must also lodge a **taxable payments annual report** (TPAR).

Check if you are an employee or independent contractor

Independent contractors have different tax and super obligations to employees. Use, **employee or independent contractor – what's the difference** to check whether you should be an employee or independent contractor.

You can also review **common myths about being an independent contractor** which may help you work out your work type and position.

QC 43442

Working overseas

Australian residents working overseas must be aware of their tax obligations before they leave Australia.

Last updated 11 June 2024

Australian residents working overseas need to be aware of their tax obligations before they leave Australia. Such as, if you have a higher education study or training support loan, you have an **obligation to repay these while overseas**.

You must declare all **foreign and worldwide income**, even if you pay tax in the country where you earn the income. This is because as an Australian resident for tax purposes you pay tax on your worldwide income. This includes:

- if you provide a **foreign service** in a foreign country you need to include the foreign earnings in your tax return
- declaring **exempt foreign employment income** in your tax return – we use this information to work out the amount of tax you have to pay on your taxable income.

When you pay tax on foreign income in the country you earn it, you may be able to **claim a foreign income tax offset**.

The easiest way to declare your foreign income while overseas is online. If you have a myGov account and you **link to the ATO**, you can access your account from overseas to:

- prepare and lodge your tax return
- manage and check your super
- manage your contact details and other tax obligations.

You should check if there is a **bilateral social security agreement** with the country where you are working. Australia has these with a number of countries. They can affect your superannuation.

Foreign service and foreign earnings

Foreign service is service Australian residents provide in a foreign country as an employee or an office holder.

QC 33247

Foreign service and foreign earnings

Foreign service is service Australian residents provide in a foreign country as an employee or an office holder.

Last updated 11 June 2024

On this page

Work out if you're an employee

You are an employee if you are a person who works:

- for a government or an authority of a government

- for an international organisation
- as a member of a disciplined force.

If you earn fees for independent services you provide overseas you're not an employee or an office holder in the foreign country.

Service on a **ship in international waters** is **not foreign service** because international waters do not form part of the territory of a foreign country.

What are foreign earnings?

Your foreign earnings include income you earn such as:

- salary and wages
- commissions or bonuses
- allowances
- income you receive under the employee share scheme provisions.

You will need to include any foreign income from working overseas that is subject to tax as assessable income in your tax return in the year you earn it.

You may be able to claim a foreign income tax offset for amounts of foreign tax you pay, when you lodge your tax return.

Foreign earnings **don't** include:

- continuing pensions, annuities or superannuation payments
- foreign termination payments
- the tax-free amount of a genuine redundancy payment or an early retirement scheme payment
- payments made as an advance loan, restraint of trade payments or payments for personal injury
- transfers between superannuation funds.

A payment can still qualify as foreign earnings even if it is paid in Australia or not derived at the time you worked overseas – however, the payment must be attributable to a period of foreign service.

Income from certain types of foreign employment and approved overseas projects may be exempt from tax.

Australia has tax treaties with more than 40 jurisdictions.

For more information, see:

- TR 2013/7 *Income tax: foreign employment income: interpretation of subsection 23AG(1AA) of the Income Tax Assessment Act 1936*

- TD 2012/8 *Income tax: what types of temporary absences from foreign service form part of a continuous period of foreign service under section 23AG of the Income Tax Assessment Act 1936*

Annual leave while working overseas

Annual leave that you accrue while you are working overseas is still taken to be foreign earnings from foreign service where you both:

- work for an Australian employer
- are not paid until you take the leave (even after you return to Australia).

If your period of foreign service qualifies you for exemption from Australian tax, your leave payment is also exempt. This is the case even if you receive the payment while you are in Australia. Other leave payments, such as long service leave you take after your foreign service ends, may also be exempt.

Supplements paid under the Australian Staffing Assistance Scheme

Under the Australian Staffing Assistance Scheme (ASAS) or a similar arrangement, you usually receive a base salary as well as a supplement.

You pay tax on the base salary in the foreign country. Your supplement amounts are taxable by Australia and exempt from tax in the foreign country. However, the supplement (in common with the base salary) is still considered to be foreign earnings you derive from foreign service.

The supplement is exempt from Australian tax if the other earnings from your foreign service are also exempt.

QC 17198

Employee or independent contractor - what's the difference

Check if you're an employee or independent contractor and how you should be receiving your income.

Last updated 10 April 2024

On this page

Check if you’re an employee or independent contractor

There are 6 key things to check to help you work out if you're an independent contractor or employee.

1. Ability to delegate or sub-contract the work
   Who can do the work?
2. Basis of payment
   How is your payment calculated?
3. Equipment, tools and other assets
   What do you need to do your work and who provides such items?
4. Commercial risks
   If you make a mistake, who pays to have it fixed?
5. Control over the work
   Who has the right to tell you how, when, and where you do your work?
6. Integration
   Are you seen to be a part of the business or separate?

If you are working as an apprentice, labourer, or trainee you will always be an employee for tax and super purposes.

You need to know as an **employee or contractor the different tax and super obligations you need to meet.**

These **common myths about being an independent contractor** will help you work out your work type and classification.

We tell you **what to do if you think you're an employee.**

Employees

As an employee, you:

- can't pay someone else to do the work you are contracted to perform, meaning you cannot delegate or subcontract your work to someone else
- receive payments

  - for the time (normally hours or shifts) you work
  - for each item or for each activity you do
  - on a commission basis
- usually have work hours set by an agreement or award
- use tools, equipment or other assets that either
  - your employer (engaging business) gives you to do your work
  - you provide to do your work, but the business you work for gives you an allowance or pays you back for the cost of the items
- receive paid leave – for example, sick, annual, recreation or long service leave
- don't personally pay for mistakes you make performing your work, the business you work for is responsible if you make a mistake and they pay for the cost of fixing it
- follow any reasonable work requests your supervisor or the business you work for makes
- are seen to be part of the business and are not independent from it.

Independent contractors

As an independent contractor, you:

- can delegate or subcontract the work you are engaged to perform to another person and are responsible for paying that person for the work they undertake on your behalf
- receive all or the majority of the amount of your quote once you finish the work (to an agreed standard)
- supply an invoice to the engaging business before they pay you
- bring to the job all or most of the things (tools, equipment and materials) you need to do your work
- have to buy or hire your tools of trade or any equipment you need to do the work at your own expense
- do not receive paid leave – for example, sick, annual, recreation or long service leave
- are responsible for fixing your own mistakes at your own expense
- can do the work in any way you like as long as you complete the work to an agreed standard, or to the specific terms in your contract or agreement

- could be operating your own business independently – meaning you complete the tasks or services as agreed to in your contract or agreement and are free to accept or refuse extra work.

Employee or contractor - tax and super obligations compared

A guide to the tax and super obligations when working as an independent contractor compared to an employee.

Common myths about being an independent contractor

Check out these common myths to help you decide if you're an independent contractor or employee.

What to do if you think you're an employee

What you can do if you think you are an employee even if your employer calls you an independent contractor.

QC 43437

Employee or contractor - tax and super obligations

A guide to the tax and super obligations when working as an independent contractor compared to an employee.

Last updated 11 June 2024

The table below outlines the main tax and super obligations a business has when you're working for them as an independent contractor compared to working as an employee.

Comparison of independent contractors and employees for you and the business

As an independent contractor	As an employee

You: • put money aside to cover the tax owed from your contracting work (or you have a voluntary agreement for the business to take tax out of payments they make to you) • complete and lodge activity statements you get from the ATO • report and pay GST on an activity statement if you are registered • keep records of your income (including invoices you issue) and business expenses • complete your tax return and the business and professional items schedule using your records • look after your own super unless you are contracted mainly for your labour • provide your own business insurances, including personal income protection for yourself and workers' compensation for anyone working for you • put money aside to pay for any holidays or if you get sick • work out if you are receiving personal services income.	**You:** • provide your tax file number (TFN) to your employer by filling out a TFN declaration and the employer withholds tax from your salary and wages • keep records for any work-related expenses • complete your tax return using the payment summary or income statement from your employer(s) and other information provided by the ATO's pre-filling service to assist you • can choose which super fund your employer super contributions are paid into.
The business: • pays you for the work you do based on the working arrangement, generally after you have submitted an invoice.	**The business:** • pays you your wages or salary on a weekly, fortnightly, or monthly basis • withholds tax from the money they pay you and sends it to us • provides you with a payment summary after the end of the financial year

	- makes super contributions as required into your super fund - pays you any sick leave, annual leave and any other leave you may entitled to - provides workers compensation and insurances - provides pay and conditions as required by the Fair Work Ombudsman.

QC 43440

Common myths about being an independent contractor

Check out these common myths to help you decide if you're an independent contractor or employee.

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On this page

You must have an ABN to work

Just because a job advertisement says you must have an ABN doesn't mean that you will automatically be an independent contractor. Even if you have an ABN, you may not be an independent contractor for every job you do. You may not be an independent contractor at all.

Some businesses advertise jobs as 'must have ABN' as a way of lowering their costs.

The work is only for a day or 2

The length of a job or how often you work does not determine if you're an independent contractor or an employee. Depending on the tasks and the working arrangements, short-term work can be employment.

Both independent contractors and employees can:

- be casual or temporary
- be on call
- do infrequent work
- work busy periods
- do short jobs, specific tasks and projects.

These arrangements alone don't determine whether you're an independent contractor or an employee.

You want to be an independent contractor

Just because you want to be an independent contractor doesn’t mean the business you are working for can engage you as an independent contractor. It's not just about what you want – it's the working arrangement you agree to that is important.

If your working conditions meet all the criteria of being an employee, but the business treats you as an independent contractor, they can face penalties and charges. These charges apply for not meeting their employer tax and super obligations.

The business decides you're an independent contractor

Some businesses don't understand the differences between being an independent contractor or an employee. As such the business can get the working arrangement wrong.

It is the terms and conditions in your working arrangement that determine if you're an employee or independent contractor. That is, what you agree to. A business can't just decide to treat you as an independent contractor.

Everyone else in the industry has to have an ABN

Just because everyone in an industry treats their workers as independent contractors doesn't mean that you'll be an independent contractor. If you're an employee for tax and super purposes, your boss can't choose to treat you as an independent contractor.

You have a contract

If your working conditions meet all the criteria of being an **employee**, you are legally an employee.

If you enter into a contract with the business you work for specifying that you're an independent contractor, this makes no difference to the true nature of the working relationship. The use of the terms 'independent contractor' or 'contractor' within the contract will not:

- override the real employment relationship or change you into an independent contractor
- change the tax and super obligations the business must meet on your behalf.

If the business you work for should be treating you as an employee, you don't have to wait until the arrangement ends to make the change. You can:

- talk to the business
- seek legal advice
- get help from the Fair Work Ombudsman.

QC 43439

What to do if you think you're an employee

What you can do if you think you are an employee even if your employer calls you an independent contractor.

Last updated 11 June 2024

On this page

What you can do

Some businesses and business owners might not know that they risk penalties for incorrectly treating their employees as independent contractors. However, some employers use this as a deliberate tactic to try and avoid their responsibilities.

A business that wrongly treats its employees as independent contractors gets an unfair advantage over others who are doing the right thing. You can report this to us anonymously to help stop unfair business practices.

You can follow the steps below to find out about what you can do if:

- the job is described as contracting, but it looks more like being an employee
- you have been an independent contractor, but the job changes and now you think you might be an employee.

Steps you can take

1. Talk to the business (employer) to make sure you understand all the terms and conditions of your working arrangement.
2. Check the terms and conditions in your written contract (if you have one).
3. Ask your employer to read **Employee or independent contractor – what's the difference** – often a business that is asking workers to apply for an ABN simply doesn't understand the differences.

Additional support you can access

You can have a look at the information on the Fair Work Ombudsman website to help you understand:

- more about working arrangements
- how working arrangements affect you
- your entitlements and responsibilities.

If you sign a contract, consider whether you need to re-negotiate the terms and conditions.

Getting legal advice can help you to understand what you are agreeing to and what you can or can't change. Even if you have a written agreement, it doesn't necessarily make it legal for tax and super purposes.

QC 43441

Paying tax on multiple sources of income

Avoid unexpected tax bills if you have income from multiple sources.

Published 29 May 2024

On this page

Multiple employers and tax-free threshold

If you receive **income from more than one job**, you should only claim the tax-free threshold from one employer. A common mistake is to claim the tax-free threshold from multiple employers.

Any income you earn, whether from an employer, government agency or work you do under an Australian business number (ABN), counts towards your tax-free threshold.

If you are an Australian resident for tax purposes, you’re entitled to the tax-free threshold of $18,200. This means you can earn up to $18,200 each year without paying tax.

In some situations, your employer will not withhold tax from your income because they don't expect you to earn over $18,200 from what they pay you throughout the year.

If you have more than one employer in an income year, your combined income may be more than the tax-free threshold.

Claiming the tax-free threshold from multiple employers

You may not have had enough tax withheld throughout the year if:

- your total income is above $18,200 from all employers, and
- you have claimed the tax-free threshold from more than one employer.

This means you may receive a tax bill to pay the difference. This will be due as a lump sum payment at the end of the financial year.

How to avoid a possible tax bill

To avoid the possibility of having to pay tax at the end of the financial year, you should only claim the tax-free threshold from one employer. If you need to let an employer know that you would like to discontinue applying the tax-free threshold from your pay, you can advise them by completing a **Withholding declaration** form.

Study or training support loan with multiple employers

If you change or have multiple jobs during the financial year, you need to tell your employer about your study and training support loan.

You will have compulsory repayments if:

- you have a study loan when you lodge your tax return, and
- your repayment income is above the minimum repayment threshold.

We calculate this automatically when you lodge.

To help reduce the likelihood of an unexpected tax bill, make sure your employer is withholding additional amounts from your salary and wages to cover your compulsory repayment. If they're not, complete a **Withholding declaration** form to let them know to withhold these amounts.

Your **study and training support loan** repayment is based on:

- your taxable income (including income from all jobs), plus
- any total net investment loss
- total reportable fringe benefits amounts
- reportable super contributions
- exempt foreign employment income.

Your employer calculates your repayments based on their expectation of your income. If your income significantly differs from their expectations, your repayment rate may be higher and will be due as a lump sum payment at the end of tax time. This may be the case if you are working multiple jobs or have other income.

Making voluntary repayments

You can make **voluntary repayments** to reduce your loan amount at any time. However, you will still have a compulsory repayment or overseas levy to pay if:

- you still have a debt, and
- your repayment income is above the minimum repayment threshold.

Earning salary or wages and income as a sole trader or on online platforms

You can take steps to avoid an unexpected tax bill if you earn salary or wages (from an employer), and you also:

- run a business as a sole trader (self-employed), or
- provide services through an online platform.

How to prepay tax on business income

If you are an employee, your employer will withhold tax each payday and send it to us. If you are self-employed, you are responsible for the tax you owe on your self-employed income.

To avoid an unexpected tax bill, you can prepay tax on this income throughout the year using pay as you go (PAYG) instalments. If you don't use PAYG instalments, you will be required to pay the entire amount as a lump sum at tax time.

Example: not prepaying tax from sole trader income

Martin works at a supermarket during the week and carries on a business running a market stall selling handmade dog collars on Sundays.

The supermarket withholds money from his pay and sends it to us. While Martin reports the income from his market stall at tax time, he doesn’t prepay the tax owing on it.

This means he will have a lump sum tax bill owing from the income he earned from his market stall at tax time.

Example: prepaying tax on sole trader income

Shelly works at a shoe shop during the week. She also carries on a business of selling handmade jewellery online as a sole trader. The shoe shop withholds tax every payday and sends it to us.

Shelly has requested to start paying voluntary PAYG instalments and enters the PAYG instalment system. She makes regular payments to us based on her expected income from selling her jewellery online.

If Shelly earns less than she has estimated from selling jewellery, we will refund the excess PAYG instalments she has made throughout the year.

If she makes what she expects from selling jewellery, then she will have paid enough tax. If she earns more, she will need to pay extra at tax time, but her tax bill will be smaller and more manageable than if she had not made PAYG instalments.

Benefits of prepaying tax

Taking steps to prepay tax throughout the year can help you smooth out your cashflow and avoid a large tax bill. You can prepay your tax through **PAYG instalments**.

Study or training support loan with employment and self-employment

You need to make **compulsory repayments** if:

- you have a study loan when you lodge your tax return, and
- your repayment income is above the minimum repayment threshold.

Repayment income is calculated based on:

- your taxable income (including all income from employment and from self-employment), plus
- any total net investment loss
- total reportable fringe benefits amount
- reportable super contributions
- exempt foreign employment income.

Any additional income you earn from self-employment activities will increase the amount of your compulsory payment at tax time. The amount your employer is withholding from your salary and wage income to pay compulsory repayments will not account for this.

Example: study and training support loan

Tony works at a hardware store throughout the week and earns $65,000 annually. He also creates online content for a video sharing platform. He expects to earn $20,000 from these activities this financial year.

Tony has a study and training support loan. His employer withholds money each payday and sends it to us. He is required to repay 2.5% (or $1,625) of the $65,000 he earns towards his loan from his employment income.

Tony does not make any withholding arrangements for the income that he earns from his online content. At tax time, Tony will owe tax on the $20,000 and need to pay more based on his combined income.

With the additional earnings, his repayment income is $85,000. This has a higher repayment rate of 5% (or $4,250). Tony will be required to make a higher compulsory repayment towards his study and training support loan when his tax return is processed.

If you have not made arrangements to prepay tax on your self-employed income:

- your repayment income may be higher
- the amount withheld from your salary and wages by your employer won't cover the additional compulsory repayment amount.

This will increase your compulsory repayment, and you will be required to pay a larger amount when your tax return is calculated.

Include study and training support loan on PAYGI

Your **study and training support loan** can be included when you organise to prepay your tax on your self-employment income through **PAYG instalments**. This will help you avoid a large tax bill when you lodge your tax return.

Medicare levy

The Medicare levy is paid in addition to the tax you pay on your taxable income. It is 2% of your **taxable income**.

We calculate your **Medicare levy** when you lodge your income tax return. The amount of tax your employer withholds from your salary or wages usually includes an amount to cover the Medicare levy.

However, if you have not made arrangements to prepay tax on your self-employment income:

- your taxable income may be higher
- the amount withheld for Medicare levy from your salary and wages by your employer won't cover the additional Medicare levy payable.

This means you will need to pay some of your Medicare levy as a lump sum when your tax return is calculated.

If you voluntarily enter **PAYG instalments** or you are required to pay PAYG instalments, the instalment amount will help reduce any additional Medicare levy you are liable to pay.

Earning income from investments

Investing in crypto assets

Transactions involving **crypto assets** are usually subject to the same tax rules as other assets.

The most common use of crypto is as an investment. If you receive earnings from your crypto assets from staking rewards, airdrops and DeFi arrangements (similar to bank interest), you need to declare this income, even if you still hold the crypto asset.

When you dispose of your crypto assets, you need to convert your crypto into Australian dollars before calculating your capital gain or loss.

Capital Gains Tax (CGT) is the tax you pay on profits from **disposing of assets** like shares and crypto assets. If you meet certain conditions, a **CGT discount** may apply.

A capital gain or a capital loss from the disposal of a crypto asset needs to be included in your tax return. Taxpayers who do not keep good records or consider the tax implications of their crypto transactions could be unprepared for an unexpected bill when their tax return is processed.

How to work out and report CGT on crypto

Watch our video on **How to work out and report CGT on crypto**.

Other investments

You need to be aware of your tax obligations if you earn income or make a capital gain or loss through the sale of other **investments** such as:

- a rental property
- shares
- exchange traded funds (ETFs).

ETFs provide investors with a standard distribution statement (SDS) that details what needs to be declared on their tax return. When an investor disposes of units, the SDS will show the capital gains or losses made from the sale of the units which also need to be included in their tax return.

Managed funds also provide investors with a statement with details of what needs to be declared on their tax return.

You must show any income or credits you receive from any trust investments on your tax return. Your distribution advice or statement from the trust will show what you need to include on your tax return.

Authorised by the Australian Government, Canberra.

QC 102121

New to tax and super

If you are new to the tax and superannuation system this information will help you start your tax and super journey.

Last updated 18 July 2024

On this page

Why we have tax

The Australian Taxation Office (ATO) collects taxes for the Australian Government. The taxes we all pay fund community services, such as:

- health care
- education
- roads and train lines

- the Australian Defence Force
- welfare and disaster relief.

Having the services we all value depends on everyone paying the right amount of tax.

Media:Your income
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiun8giu9f
This animation was developed from a story by high school student Felicity Pollard.

Starting your first job

Congratulations! When you start working, you need to know if you are an **employee or independent contractor**.

You may also need to:

- **apply for a tax file number (TFN)** (it's free)
- **complete a TFN declaration** for your employer.

If you are **starting your own business**, you will need to **apply for an ABN** (it's free).

Your income

If you have an employer, they pay your salary or wage to you. They will also withhold any tax and send it to us. Your payslips will show how much tax is withheld.

If you earn income in other ways – such as through online activities, sharing economy, or interest from investments – you will need to include this income in your tax return. If tax is not withheld during the year, you can work out how much tax you should be putting aside using our:

- **tax tables**

- tax withheld calculator
- how much tax should I pay on a second job.

Claiming the tax-free threshold

If you're an Australian resident, the first $18,200 you earn is tax-free, this is known as the **tax-free threshold.** You can claim the tax-free threshold on the TFN declaration you give your employer.

If you have more than one employer, you generally only claim the tax-free threshold from the employer that is paying you the highest amount.

Superannuation

When you start your first job this is usually when you **get started with super**.

You can usually choose which super fund your employer makes payments to, they will give you a **Superannuation standard choice form**.

The **YourSuper comparison tool** is a simple way to compare MySuper products and help you choose a super fund that meets your needs.

From the time you get a super account it's a good idea to regularly review it to make sure you are receiving the correct **super from your employer** and that everything is in order.

To help you do this and take control of your super, we have the **super health check.** It's 5 simple yet important checks you can complete at any time but we suggest you do this each year at tax time when you are completing your tax return.

Medicare and private health insurance

Most Australians will pay the **Medicare levy** when they start earning income. You may get a reduced Medicare levy, or pay no Medicare levy at all, depending on your income or circumstances.

If you have private health insurance, you may be able to get some of your premiums back through the **private health insurance rebate.**

If you don't have private health insurance, you may also need to pay the **Medicare levy surcharge** on top of the Medicare levy, but it depends on your income.

Media:Claiming the tax-free threshold
http://tv.ato.gov.au/ato-tv/media?v=bi9or7od7oq6a3

Access ATO online services

You can manage your tax and super in one place by using our online services.

You first need to **create a myGov account and link it to the ATO.**

Media:Superannuation
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiubfo8e4m

Lodging your first tax return

The income year in Australia runs from 1 July to 30 June. You then lodge your tax return with the ATO. There are 3 ways you can **lodge your tax return**.

Your tax return works out your **taxable income**. Once you have lodged, we calculate how much tax you should pay on your taxable income, less the amount your employer has already sent to us. If your employer:

- withheld more that you owe, you will receive a refund

- withheld less than you owe, you will receive a tax bill to pay.

There are a number of reasons **you may receive a tax bill**, and you may be able to avoid getting one in the future.

Media:Medicare and private health insurance
https://ato.vudoo.io/embed/79136286612
A **transcript of this video** is available.

Access your income statement

At the end of the income year your employer will provide you with an end of year statement known as an income statement. Your income statement will show your tax and super information. You **access your income statement** through ATO online services.

Claiming deductions

You can claim some of your **expenses as deductions** in your tax return.

Deductions reduce your taxable income, which in turn reduces the amount of tax you need to pay.

You need to keep records that support any deductions you claim in your tax return. The **myDeductions** tool in the ATO app can help keep track of your:

- work-related expenses (such as vehicle trips)
- general expenses (such as gifts and donations).

Help to lodge

Help is available with lodging your tax return and other services through our free **Tax Help program**, if you earn around $60,000 or less a year and have simple tax affairs. If you are not eligible for Tax Help you may qualify for assistance from a **National Tax Clinic program**.

Study and training support loans

If you are entering higher education, a trade apprenticeship or other training program, you may be eligible for a study or training loan from the Australian Government to help pay for your studies.

Each year your loan will be indexed, increasing how much you owe. There are 2 ways you can repay your loan:

1. When your income is above the repayment threshold, you will make a compulsory repayment in your tax return.
2. You can make voluntary repayments at any time to reduce your balance faster.

It’s important that you let your employer know you have a study or training loan, so they can withhold the right amount of tax from your pay.

Media:Access your income statement
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiuncjh54m

Protect your information

It's important to protect your personal information.

Remember:

- Only share your TFN with your employer and your tax agent (if you use one) and don’t let anyone else use it.
- Don’t share your myGov sign in details or other passwords with anyone.
- Don't include your TFN, passwords or other personal information in emails.

If you think a message or phone call claiming to be from the ATO isn’t genuine, you can verify or report a scam online.

Media:Claiming deductions
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiubfurqiw

Help and support we provide

We have help and support available to help you meet your tax obligations, this includes:

- ATO app – you can download the **ATO app** it's a simple and easy way to access and manage your tax and super on the go.
- Our free Work Ready Course to help you to:
  - understand the meaning of tax and super, how they work and why they are important
  - develop the skills to become work-ready and successfully navigate Australia's tax and superannuation systems
  - understand the responsibilities of businesses in relation to tax and super.
- ATO Community – answers to questions about tax and super. For information you can rely on, look for answers marked 'ATO certified response'.
- Tax and super information for:
  - **People with disability**
  - **Aboriginal and Torres Strait Islander peoples**
  - **Other languages.**

QC 63023

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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