

## HOW TO EFFECTIVELY MANAGE TAX FOR FOREIGN NATIONAL EMPLOYEES WORKING IN AUSTRALIA

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### **Why is this important?**

Many companies recruit staff from overseas in order to fill particular skill requirements. It is important to have a good understanding of the interaction of the tax and visa rules as well as the types of benefit that can be provided tax effectively to minimise the overall cost of the assignment in Australia.

### **What to do**

Seek the services of a tax adviser with specialist experience in dealing with expatriates. The tax rules can be complicated and the adviser needs a reasonable understanding of the interaction of Australian tax rules with those in the foreign country.

The following is a brief checklist of the tax issues that you and your employee should consider when planning the assignment in Australia.

#### **1. Tax residency status**

This is a key determinant of liability to taxation in Australia. As a general rule, an employee coming to live and work in Australia for at least six months will become a tax resident in Australia. As a general rule, a tax resident of Australia is liable to Australian tax on world-wide income and capital gains. If tax is paid on that income in the country where the income or gain arises, the foreign tax may be claimed as an offset to reduce the amount of Australian tax payable on the income/gain. Complex rules can apply to any controlling or beneficial interest that the employee may have in a foreign company or trust and specific advice should be sought prior to commencement of the assignment.

Employees in Australia for a shorter period may not become tax resident, in which case only Australian source income is subject to Australian tax. This would include all earnings for services performed in Australia. Non-residents do not benefit from the tax-free threshold and are liable to

Australian tax at the rate of 32.5% on the first \$80,000 of taxable income.

## **2. Special rules applicable to temporary residents**

If the employee is in Australia on a temporary resident visa and does not have a spouse who is an Australian citizen or permanent visa holder, the employee is liable to Australian tax only on employment income earned while holding the temporary resident visa and any Australian source investment income. Foreign source income and capital gains are exempt. Certain New Zealand citizens can also qualify for this concession.

## **3. Structure of salary package**

Certain benefits can be provided tax-free on relocation including:

- a. Direct costs of the relocation – airfares, shipment of goods, temporary accommodation for a very limited period, storage of household goods
- b. Capital costs of selling and then buying a home within two years of the move
- c. Rent of temporary accommodation for up to 12 months while actively looking to buy a home in Australia
- d. Services of a relocation consultant.

## **4. Australian superannuation**

Australian superannuation contributions are generally mandatory for employees working in Australia except for certain very senior executives on temporary resident visas and other limited situations. When a temporary resident employee permanently departs Australia the funds can be withdrawn, subject to a final 38% withholding tax on the taxable component of the lump sum.

## **5. Capital gains tax**

Individuals who become tax resident (and permanent resident) in Australia are deemed to acquire any assets that they own outside Australia at their market value at the date residency starts. This means that any unrealised gain in value (or loss) prior to residency commencement is outside the Australian tax net. If the asset is sold while residing in Australia, any increase in value from date of arrival is subject to Australian tax.

## **6. Other considerations**

There are a number of other non-tax issues you should also consider for your expatriate employee including:

- a. The most appropriate visa, having regard to the tax consequences
- b. Insurance cover
- c. Private health cover

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## Where to go for help

You should always seek professional advice prior to implementing any tax planning strategy to ensure that it is correctly carried out and is relevant to your particular situation.

## Hunt Strategic Advisors

A boutique, Sydney CBD based firm of highly qualified professionals - Accountants, Tax Advisors and Auditors - dedicated to partnering with their clients, understanding their individual needs and tailoring advice accordingly to ensure their future financial success, with a priority of always providing quality client service. To find out more about how Hunt Strategic Advisors can help you, simply call 1300 347 952 and ask for David Hunt.

## About David Hunt

David Hunt is a Chartered Accountant and Fellow of the Taxation Institute of Australia. He has a Bachelor of Business degree majoring in accounting and a Master of Taxation degree from Sydney University where he obtained a distinction average.

David commenced his career at Industrial Equity Limited (IEL) in the 1980s and worked in the accounting division of Chase Manhattan Securities in London before completing his undergraduate degree and commencing with Peter H Hunt & Associates (renamed Hunt Professional Group) in December 1992. He became a partner of the firm on 1 July 2000 and acquired majority share of the firm by 2007. David has since gone on to form Hunt Strategic Advisors.

David's significant experience and expertise are in the following areas:

- Tax effective business structures
- Capital gains tax
- Employee share schemes
- International taxation
- Family business advising
- Self-managed super fund gearing
- Superannuation and retirement planning
- Estate planning

Often sought after for press commentary on current taxation matters, David has spoken on numerous occasions as the key note speaker to audiences as private bankers, lawyer associations and member based organisations.

David is advisor and confidante to some of the most senior executives in Australia and is highly regarded by many institutions and small to medium enterprises and associations.

David is happily married with three children. His interests include all sport, particularly rugby, rugby league, golf and tennis.

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