PAYG withholding tax on international payments

If your business is making payments in the form of foreign salaries, interest, dividend payments or royalties then those payments are subject to PAYG withholding tax under Australian tax law.

All Australian businesses are required to withhold and remit tax revenue to the ATO, and the Australian Government has expanded PAYG rules to incorporate international payments in the form of interest, dividends and royalties.

So if you're making payments to foreign nationals, how do the PAYG rules affect your business?

PAYG Withholding Tax for foreign payments

The PAYG rules for international payments are generally similar to normal PAYG obligations in Australia.

Any international payments need to be included as part of your Business Activity Statement lodgements in the period in which they fall and any taxes remitted to the ATO within the normal period allowed. This entails the following obligations:

- Be registered for PAYG withholding
- Withhold amounts form payments
- Report and pay withheld amounts to the ATO
- Issue payment summaries to payees and report annually to the ATO.

The accrual of interest or royalties doesn't necessarily give rise to a withholding liability, however when an international payment is made to an account or loan account it is considered to fall under the PAYG rules and a withholding tax liability occurs. Income tax deductions generally cannot be claimed until the tax has been remitted.

Documentation is vital. Your business needs to be able to clearly show how payments are made, the facts surrounding any interest, royalty or dividend payments and the circumstances in which those international payments are made.

This will ensure that your business stays on the right side of the ATO and avoid significant penalties that may be imposed if your payments come under the scrutiny of the tax office.

Withholding tax rates for different types of payments

The rates mentioned below are subject to the operation of the double tax treaties.

Interest

Interest withholding tax is 10% irrespective of the country that the recipient is resident and is imposed when the interest is paid or credited.

Dividends

When gross, unfranked dividends are paid to a non-resident, a withholding tax of 30% is imposed. The withholding tax does not apply when the dividend is franked or considered to be conduit foreign income.

Royalties

Royalties generally attract a withholding tax of 30% when the royalty is paid or credited.

Special regime for payments to foreign entertainers and athletes etc

There are some industry-specific withholding payments that also attract withholding tax, such as entertainment and sports. Some examples of payments subject to foreign resident withholding include, but are not limited to:

- appearance payments
- award for player of the series
- bonuses
- endorsement fees
- expense reimbursements
- match payments
- performance fees
- preparation fees
- sponsorship
- fees received for giving a speech or sports commentary
- non-cash benefits, including value of significant prizes received such as a motor vehicle or holiday.

Where payments have been made to a foreign-resident company, businesses must withhold tax at the Australian company tax rate, which is currently 30%. When a payment is made to an individual, the marginal rates for non-residents apply.

The amount to be withheld could be different if the payee has a variation from the ATO, which should be applied before any payments are made.

Do you need to withhold tax?

If you're not sure about your obligations for PAYG and international payments, please contact Matt Zhou on 02 9957 4033 or drop us an email to enquiry@batescosgrave.com.au. You can also find out more information about International tax issues on our website.

Contact Us
Bates Cosgrave Chartered Accountants
Ground Floor, 123 Walker Street North Sydney NSW 2060
PO Box 497 North Sydney NSW 2059
Tel: 02 9957 4033 Fax: 02 9964 0610 email: enquiry@batescosgrave.com.au