



## Engaging a worker

Your tax and super obligations when hiring and paying workers and when you stop employing one or all of your workers.

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Check the registrations you need and how to set up your business before hiring your first worker.

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Work out a worker's final pay and entitlements when they leave your business.

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Detailed information about engaging a worker.

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# Before you hire your first worker

Check the registrations you need and how to set up your business before hiring your first worker.

**Last updated** 13 November 2024

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**Media:** Tax basics for small business - Before a worker starts  
<http://tv.ato.gov.au/ato-tv/media?v=bi9or7ornzkwex>  (Duration: 03:00)

## Set up Online services for business

Most of your employee or payee reporting and transactions can be completed online through our [Online services for business](#).

If you're new to our online services, you'll need to set up your Digital ID, such as myID first. You can then link your Digital ID to your business using Relationship Authorisation Manager (RAM).

Find out how to do this in [Accessing online services with Digital ID and RAM](#).

## Confirm you have STP-enabled software

All employers should be reporting payroll information through [Single Touch Payroll \(STP\)](#).

Check that your business software is STP-enabled, so you can report your employees' payroll information to us each time you pay them. Payroll information includes salary and wages, pay as you go (PAYG) withholding and super.

If you already use STP, take a look at [STP reporting issues and errors](#). This information will help you report correctly.

## Register for pay as you go (PAYG) withholding

If you employ workers, you must register for [PAYG withholding](#). You must register before your first payment that is a [payment you need to withhold from](#). This applies even if you don't withhold any amount from a payment made.

## Set up your business to pay super

As an employer, you need to [set up your business to pay super](#) on behalf of your eligible workers. This includes selecting a default super fund and choosing an approved method to make payments.

Employers must pay workers' superannuation guarantee contributions to super funds through [SuperStream](#).

## Register for fringe benefits tax

If you'll be providing fringe benefits to your employees or their associates, and have a fringe benefits tax (FBT) liability, you must [register for FBT](#).

## State and territory payroll tax

You may also need to register for state and territory payroll tax – see [business.gov.au](https://business.gov.au) [↗](#). You'll only need to do this if your total payments to employees and certain contractors exceed the threshold. Thresholds and tax rates vary between states and territories.

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## Hiring a new worker

How to determine whether your worker is an employee or independent contractor, and forms for new employees to complete.

**Last updated** 23 January 2025

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## Determine your worker's classification

You must firstly determine whether your worker is an employee or independent contractor.

It's important to do this as it affects:

- your tax, super and other obligations (such as worker's compensation insurance)
- your worker's entitlements.


To classify your workers, you need to consider the whole working relationship. Some key things to remember include:

- An employee works for you in your business, while an independent contractor is running their own business.
- Apprentices, trainees, labourers and trade assistants are always employees, never independent contractors.
- You may still have to pay super for independent contractors if their contract is principally for labour.
- It's against the law to wrongly treat an employee as an independent contractor, so you need to check that you've got it right.

When determining a worker's classification, you also need to consider other key [differences between employees and independent contractors](#).

## Confirm they can work in Australia

You'll need to confirm that your new worker is legally allowed to work in Australia. Australian citizens, permanent residents and New Zealand citizens are legally allowed to work in Australia.

If you believe your worker is a foreign national (other than a New Zealander), you must confirm they have a visa with permission to work. More information about employing overseas workers is on the [Department of Home Affairs](#)  website.

## Working holiday makers

If you're hiring someone on a working holiday visa (subclass 417 or 462), you must also [register as an employer of working holiday makers](#). You need to do this before paying them.

## Tax and super obligations

When inducting your new employee, you need to ask them to complete the following forms:

- [Online commencement forms](#)
- [Tax file number declaration](#)
- [Standard choice super form](#).

This will allow you to work out how much tax to withhold, and how much super to pay them.

### Online commencement forms

New employees can complete their online commencement forms by logging in to [ATO online services](#) (linked to their myGov account). This is an alternative to your employee completing a *Tax file number declaration* and *Superannuation standard choice form* to obtain their details.

Your employee must complete their online commencement forms within 28 days of starting. Once submitted, the information is sent directly to us.

Your employee will need to print out the employee tax details summary and give it to you. You **don't** send the printed form to us. Instead, you simply input the information into your payroll software, so they're set up and ready to be paid.

### Tax file number declaration

Your employee's *Tax file number declaration* tells you:

- their tax file number (TFN)
- their residency status
- whether they have any government study loan debts
- whether they are claiming the tax-free threshold.

You'll need these details to work out how much tax to withhold from payments you make to them.

Your employee can complete a *Tax file number declaration*:

- through [Online services](#)
  - your employee will need to print the employee tax details summary and return it to you
  - you keep the printed copy and don't send it to us
- on paper by ordering the [Tax file number declaration](#) – if you don't use STP Phase 2-enabled software, you must lodge the *Tax file number declaration* to us within 14 days after it is signed by your employee or completed by you.

If your employee doesn't provide you with their TFN or claims a valid exemption, you must withhold at the top rate of tax (plus Medicare).

## Standard choice super form

Most employees and some independent contractors are entitled to choose their own super fund for their super guarantee payments.

To enable them to do this, you'll need to provide them with a [Superannuation standard choice form](#) (NAT 13080).

If your new employee doesn't choose a super fund, you may need to ask us to provide details of their [stapled super fund](#).

If your employee gives you their TFN, you must provide it to their super fund. You need to do this the next time you make a payment for them, or within 14 days of receiving it, whichever is later.

## Hiring through a labour firm



As an employer, it's your responsibility to protect the welfare of your workers. This includes a worker you engage through a labour hire firm.

If your business has a contract with a labour hire firm, then they're responsible for pay as you go (PAYG) withholding, super guarantee contributions and fringe benefits tax obligations.

See more information on the [Fair Work Ombudsman](#)  website.

## Other support when hiring workers

When hiring workers for the first time, you can also use tools and checklists available at [business.gov.au](https://business.gov.au):

- [Hiring employees checklist](#) 
- [Employment contract tool](#) .

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## Obligations when people work for you

Work out how much tax and super you need to pay on behalf of a worker, and how to report and lodge.

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## Single Touch Payroll

Each time you pay your employees, you'll need to report their tax and super information to us through [Single Touch Payroll \(STP\)](#) enabled payroll software.

This includes:

- salaries and wages
- amounts withheld
- super guarantee liability information.

STP was expanded from 1 January 2022. Unless your digital service provider has informed you, they've been granted a deferral or you've applied to us for a delayed transition, you should be reporting expanded information through STP Phase 2 enabled software. For more information, see [Employer STP Phase 2 checklist](#).

By 14 July each year, you'll also need to check your information is correct and make an [end-of-year finalisation declaration through STP](#). This is an important end of year obligation and ensures your employees have the right information they need to lodge their income tax return.

[How you report](#) your payroll information to the ATO depends on your situation and the payroll software you use. Our STP [Get ready checklist](#) will guide you through the steps so you'll be ready to start reporting to help you send your first STP report to us successfully.

## Small employers – closely held (related) employees

If you are a small employer (19 or fewer employees) with [closely held \(related\) employees](#) you can choose to report:

- actual amounts paid to closely held employees on or before the date of payment
- actual payments made to closely held payees quarterly
- a reasonable amount quarterly.

You must still report the amounts paid to other employees (also known as arm's length employees) on or before each payday.

Additionally, if you have both closely held and arm's length employees, you'll need to make an end-of-year finalisation declaration through STP for:

- closely held employees by 30 September each year, however
- you must still make a finalisation declaration for your arm's length employees by 14 July.

If you only have [closely held \(related\) payees](#), you have until the due date of the closely held payee's individual income tax return to make a finalisation declaration for a closely held payee. This is usually 31 October.

## Worker classification

When hiring a worker, you must determine if they are an [employee or independent contractor](#).

It's important because:

- it affects your tax, super and other obligations
- penalties and charges may apply if you get it wrong.

## Independent contractors working for you

If your worker is an independent contractor, you'll have different obligations than if they were an employee.

You must:

- withhold tax from payments you make to independent contractors if they:
  - don't quote their ABN to you, or
  - have a voluntary agreement with you to withhold tax from their payments.
- pay super guarantee for independent contractors if they meet the [extended definition of 'employee'](#) – for these independent contractors, even if they provide you with their ABN, you'll need to pay [super guarantee](#).

## Independent contractors and end of financial year

When you withhold tax from payments you make to independent contractors because they didn't quote their ABN to you, at the end of the financial year you'll need to:

- advise them of the amount you withheld from those payments through a completed form [PAYG payment summary – withholding where ABN not quoted](#) by 14 July
- include the payments in your [PAYG withholding where ABN not quoted – annual report](#) and lodge the report with us by 31 October.

If you withhold tax from payments you make to independent contractors because they have a voluntary agreement to withhold tax, you can voluntarily report those payments through STP.

If you choose not to report those payments through STP, at the end of the financial year you'll need to:

- advise them of the amount you withheld from those payments through a completed form [PAYG payment summary – business and personal services income](#) by 14 July
- include the payments in your [PAYG withholding payment summary annual report](#) and lodge the report with us by 14 August.

If your worker is an independent contractor, you may also need to lodge a [taxable payments annual report \(TPAR\)](#) each year, detailing the payments you've made to them for their services.

## Withholding amounts from payments

Each time you pay your worker, you're required to withhold a portion of their pay for tax. This is called pay as you go [\(PAYG\) withholding](#).

By withholding tax, you're helping your worker meet their end-of-year tax liabilities.

You'll need to pay the amount withheld and report the amount withheld to us both:

- through your STP-enabled payroll software, and
- on your [business activity statement \(BAS\)](#).

How often you need to pay and report on activity statements depend on whether you're a:

- [small withholder](#)
- [medium withholder](#)
- [large withholder](#).

You'll need to collect PAYG withholding amounts from payments you make to a worker, including if they're:

- an employee (this includes if they're a director)
- an independent contractor with a voluntary agreement or who don't quote their Australian business number (ABN).

The amount of tax you withhold will depend on your worker's individual circumstances.

For example, there are different withholding rates for:

- [working holiday makers](#)
- workers hired under the [Pacific Australia Labour Mobility \(PALM\) scheme](#).

It's important to withhold the right amount of tax from payments you make to your worker.

To do this, use:

- accounting or payroll software
- the details on your employee's completed *Tax file number declaration*
- our [tax tables](#)

- our [online tax withheld calculator](#).

## Super guarantee

You need to calculate and pay [Super guarantee \(SG\)](#) for your eligible workers at least 4 times a year – payment due dates occur quarterly on 28 October, 28 January, 28 April and 28 July at the [correct rate](#).

Super is not another tax or government revenue, it is your workers' entitlements. Paying super is an important part of being an employer, as it provides for your workers in their retirement.

Our [super guarantee annual employer compliance results](#) demonstrates that we recognise the importance of super and the role it plays.

Most employees are eligible for super, and you must pay super for some contractors too if they meet additional eligibility requirements. You'll need to consider your employment contract and working arrangement for each worker and [work out if you have to pay super](#).

You'll also need to know the amount of super to pay and when, and how and where to start [paying super contributions](#). It's important to:

- offer eligible workers their [choice of super fund](#) and in some situations, you may need to request their [stapled fund](#) details from us
- make sure your payroll and accounting systems are up to date to ensure they correctly calculate the amount of super you need to pay using the [correct rate](#).

It's important to pay super for your workers [on time](#).

## If you miss a due date

By law, we can't extend the due date to pay. If you don't pay the right amount of super for your workers on time and to the right fund, you'll need to lodge a super guarantee charge (SGC) statement and pay [the SGC](#) to us.

Calculating the SGC is different to calculating the SG contributions you pay when you pay on time as it is based on salary and wages. Salary and wages are similar to OTE but also include any overtime payments.

The SGC is more than the super contribution you would have otherwise paid to the employee's fund and is not tax deductible. You may also face additional penalties, which can be up to 200% of the SGC.

## Calculating how much super you need to pay

The minimum superannuation you must pay for each eligible employee is the SG rate applied to their [ordinary time earnings \(OTE\)](#). You need to be aware of what the [SG rate](#) is at the time of the quarter you are paying for.

Make sure you know what payments are counted as OTE.

We have provided [examples](#) to help you work out how much super to pay. You can also use the [SG contributions calculator](#).

## Learn more about super guarantee

To understand the importance of super guarantee and how to meet your super obligations, complete the [Super guarantee employer obligations course](#).

## Fringe benefits tax

[Fringe benefits tax \(FBT\)](#) is a tax you pay on certain benefits you provide to an employee, including their family or other associates. It's separate from income tax and is calculated on the taxable value of the fringe benefit.

There are different types of fringe benefits that you can provide to your employee. Some common examples include:

- allowing an employee to use a work car for private purposes
- providing an employee car parking
- paying an employee's gym membership
- reimbursing an expense incurred by an employee, such as school fees.

When providing fringe benefits to your employee, you'll need to self-assess your FBT liability for the FBT year (that is, 1 April to 31 March).

If you have an FBT liability, you must lodge an FBT return and pay the amount of FBT you owe for the FBT year. If you prepare your own FBT

return, your lodgment and payment due date will be 21 May. If you use a tax agent, the due date may differ.

If the due date falls on a weekend or public holiday, you can lodge and make payment on the next business day. For more information, refer to [Fringe benefits tax return 2024](#).

If you provide an employee certain fringe benefits exceeding \$2,000 in an FBT year, you must report the grossed-up taxable value of those benefits, known as [reportable fringe benefits](#), on their payment summary or through STP.

## Calculating FBT

To work out [how much FBT](#) you have to pay, you 'gross-up' the taxable value of the benefits you've provided. This reflects the gross salary your employees would have to earn, at the highest marginal tax rate (including Medicare levy), to buy the benefits themselves. The FBT you owe is the grossed-up amount multiplied by the FBT rate.

Make sure you are aware of what [FBT exemptions and concessions](#) you can use to reduce your FBT liability.

If you were required to pay FBT of \$3,000 or more in the past financial year, then you need to lodge your [BAS](#) and pay quarterly FBT instalments. This will reduce the amount you have to pay when you lodge your FBT return. If you overpay, you will receive a credit.

## When a worker leaves

When an employee or independent contractor [stops working for you](#), you still have obligations and may need to:

- make employment termination payments
- report those payments to us
- meet SG obligations
- meet FBT obligations.

## Key dates

It's important you stay on top of your reporting, lodgment and payment due dates. If you don't, it could cost you money in penalties.

To easily see when your lodgments and payments are due and to action them seamlessly, use the [ATO app](#).

If you're a small business, our calendar of key dates will help you lodge and pay on time – see these in the [Small business newsroom](#).

Alternatively, visit [Due dates for lodging and paying](#). We recommend pencilling these in your calendar, so you don't forget.

Note: even if you report PAYG withholding through STP, you still need to report the same amounts on your activity statements and pay the amount owed.

## **If you miss a due date**

We understand that unexpected life events can make it hard to meet your employer obligations, and so we have support available to help you.

For example, we offer eligible [businesses and not-for-profits](#):

- an extra 2 weeks to lodge and pay their quarterly activity statements, and to receive and lodge them online
- [payment plans](#) – depending on the amount owing, you can propose a payment plan through our online services.

If you're experiencing financial difficulties, see [support for your situation](#).

By law, we're unable to extend the payment due date for your employee's super. If you miss the quarterly due date, you'll become liable for the SGC.

This means you'll need to:

- lodge an SGC statement to us within a month of the quarterly due date
- pay the SGC to us.

By lodging an SGC statement by the due date, you'll avoid additional penalties. If you can't pay in full, we'll work with you to set up a payment plan.

Firmer action will be taken for those unwilling to meet their super obligations. We will raise an additional penalty, known as a '[Part 7](#)



[penalty](#) which can be up to 200% of the SGC payable amount, if you **don't**:

- lodge the SGC statement by the due date, or
- engage with us.

## Resources for employers

A good knowledge of your obligations as an employer is essential for getting your tax and super right.

For a summary of the information on this page, see our [Employer obligations factsheet \(PDF, 138KB\)](#)

Learn about the services a tax practitioner can provide you to assist with meeting your employer obligations on the [Tax Practitioner's Board website](#) [↗](#).

## Subscribe to our channels

We have different ways to communicate to you depending on what type of business you are. You should subscribe to our [newsrooms](#) and follow us on [social media](#) to make sure you are kept informed.

## Join our webinars

We regularly hold webinars to help you understand your obligations as an employer. Watch recordings of previous webinars and other informational videos on our [atoTV webinar channel](#) [↗](#).

## Keep up to date with changes

Changes to legislation happen often and, in some cases, can take effect retrospectively. To make sure you are on top of your obligations, it's important to keep your payroll and accounting systems up to date and have regular discussions with your tax professional.

## Keep good records

Keeping [employment and contractor records](#) is an essential part of running your business and helps you to claim all your deductions.

Records will vary depending on whether your worker is an employee or a contractor, so it's important you know the difference before you hire.

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# When a worker leaves your business

Work out a worker's final pay and entitlements when they leave your business.

**Last updated** 10 February 2025

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## Payments made on termination

When your employees leave your business, they can be paid several types of 'lump sums' that are taxed and reported differently to normal income. These may include:

- employment [termination payments](#)
- unused leave payments
- tax-free and genuine redundancy payments.

## Fringe benefits tax (FBT)

If you've provided an employee with fringe benefits and they are leaving your business, you'll need to:

- [calculate your FBT](#) provided to your employees, and
- include it in your [FBT return](#) at the end of each FBT year (1 April to 31 March).

## Super guarantee

You'll need to calculate and pay super guarantee (SG) on any final salary and wage payments that form part of your employee's ordinary time earnings.

To avoid paying the [super guarantee charge \(SGC\)](#), you'll need to pay these SG contributions by the next [quarterly due date](#).

Employment termination payments and unused leave payments don't form part of an employee's ordinary time earnings. So you don't need to calculate and pay SG on these amounts.

## Finalising STP data

Let us know your STP reporting for an employee is complete by [finalising your STP data](#).

You can finalise an employee's STP information any time throughout the year. You will be exempt from issuing a payment summary for amounts reported and finalised through STP.

Your employees can access their 'tax ready' income statements in **ATO online services**, through **myGov**, when preparing to lodge their tax return.

## When you're no longer hiring workers

Once you stop hiring workers, you need to make sure you've met all of your final payment and reporting obligations.

**Last updated** 22 February 2022

If you stop hiring workers, you'll need to finalise all of your employer tax and super obligations.


Your obligations may vary [when workers leave your business](#). This depends on whether the worker is an employee or contractor. Director penalties can apply for unpaid super guarantee and PAYG withholding liabilities your business has incurred.

You'll need to work out your worker's final payment and pay within 7 days of the employment ending. These may include entitlement payments, employment termination payments and employee tax payments.

Once you've finalised your worker's entitlements, you should:

- [cancel your PAYG withholding registration](#)
- finalise your FBT obligations by completing either a:
  - final [fringe benefits tax return](#) – if you need to pay FBT or if you've paid FBT instalments for the current year
  - [fringe benefits tax – notice of non-lodgment](#) – if there are no payments to be made or instalments to be refunded.

There are no special requirements for your super guarantee obligations.

You'll also have other responsibilities to your employees, including providing notice and finalising payments. A range of information to help you manage employees when you sell or close your business is available at [business.gov.au](https://business.gov.au) .

There are other obligations you may need to consider when [Changing, selling or closing your business](#).

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## **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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