SML Bookkeeping & Tax

PAYG Withholding for Employers

KS-004

What employers need to understand about withholding tax from employee payments.

TOPIC	PREPARED BY	FORMAT
Small business education	SML Bookkeeping & Tax	Knowledge Sheet

Key message

PAYG withholding is the system employers use to withhold tax from wages and certain other payments, then report and pay those amounts to the ATO. It is not an extra tax on the employer, but it is an important employer obligation that must be handled accurately through payroll and BAS reporting.

PAYG withholding - employer workflow

1 **Register**
Confirm the business is registered for PAYG withholding before paying employees.

2 **Calculate**
Use payroll software or ATO tax tables to calculate withholding.

3 **Report**
Report wages and withholding through payroll reporting and BAS as required.

4 **Pay**
Pay withheld amounts to the ATO by the required due date.

What is PAYG withholding?

PAYG withholding helps employees meet their income tax obligations across the year. Employers withhold an amount from salary and wages, then report and pay it to the ATO.

When does it apply?

- The business pays employees, directors or certain contractors under withholding rules.
- The business has registered or is required to register for PAYG withholding.
- Payroll is processed through software, STP or another approved workflow.
- The withheld amount is usually reported to the ATO through BAS or other reporting obligations.

Records to keep

- Employee details and Tax File Number declarations.
- Payroll reports showing gross wages, tax withheld and super.
- Payslips and Single Touch Payroll records.
- BAS lodgement records and payment confirmations.

Common mistakes to avoid

- Paying employees before payroll setup is complete.
- Using outdated tax tables or manual estimates.

- Confusing PAYG withholding with PAYG instalments.
- Failing to reconcile payroll reports with BAS figures.

Example

A cafe hires two casual employees. Before the first pay run, the owner should confirm PAYG withholding registration, collect employee onboarding details, set up payroll correctly, and report wages through Single Touch Payroll.

Common Questions

Is PAYG withholding the same as PAYG instalments?

No. PAYG withholding relates to amounts withheld from payments such as wages. PAYG instalments usually relate to prepayments of a business or individual tax liability.

Can payroll software calculate withholding?

Yes, software can help, but payroll settings and employee details must be accurate.

Where is PAYG withholding reported?

It is commonly reported through payroll reporting and BAS, depending on the business obligations.

Reference Sources

Source	Used for
Australian Taxation Office	PAYG withholding registration, reporting and payment obligations.
Fair Work Ombudsman	Employment records, payslips and wage-related context.
Xero / MYOB	Practical payroll processing and software reporting context.

Important note

This Knowledge Sheet provides general information only. It does not take into account the full circumstances of any business. Speak with SML Bookkeeping & Tax before making tax, payroll or compliance decisions.