client alert | explanatory memorandum

December 2025/January 2026

CURRENCY:

This issue of **Client Alert** takes into account developments up to and including 24 November 2025.

Heading overseas? Centrelink and the ATO might need to know

If you're planning an overseas holiday, especially if you currently receive Centrelink or other government payments, a little prep will help you enjoy your trip without payment surprises or tax headaches.

Government payments

Different government payments have their own rules about whether, and for how long, they're paid while you're outside Australia. Short trips for most families are usually fine, but longer absences can reduce, pause or stop certain payments. You must also keep meeting the usual eligibility tests (residency, income and assets) while you're away.

For instance:

- *Age Pension:* Generally, you can continue receiving your Age Pension while overseas, but there may be changes to your payment rate after six weeks and after 26 weeks abroad.
- *Disability Support Pension (DSP):* You can receive DSP for up to 28 days in a 12-month period overseas. Extended stays may require special approval.
- *Family Tax Benefit:* Payments usually stop after six weeks overseas. Exceptions can apply for Defence Force or Federal Police members on designated overseas duty.
- *JobSeeker and Youth Allowance:* These payments typically stop as soon as you leave Australia unless you have an approved reason, such as a family crisis or medical treatment. Youth Allowance or Austudy may continue if the time overseas is an approved part of your Australian course.

So, before you book that itinerary, tell Services Australia about your travel plans. Use myGov, the app, the relevant phone line or a service centre visit to share your dates, destination and reasons for travel. If you're seeking an approved absence, such as for part of a study course or for medical treatment, ask what proof you'll need. Update any other changes that might affect eligibility while you're away too, like your income, assets or care arrangements. It's a good idea to report even short overseas trips to avoid possible overpayments that you'd need to repay, or even penalties. And remember to keep records of any approvals you get or evidence you provide.

While you're away, keep an eye on your plans. If your return's delayed or you decide to stay longer, let Centrelink know straight away. Australia's border movement data is shared with Services Australia, so unreported travel changes can trigger a review or overpayment. When you get home, check that any paused payments restart and your rates look right.

Tax considerations

The tax side is simpler. A short holiday doesn't usually change your Australian tax residency, so nothing special happens to your tax just because you travelled. Your Centrelink payments are taxed the same way they are at home, and you'll lodge your next tax return as usual. There's no extra "travel tax", and if a payment pauses while you're overseas, you'll just have less taxable income for that period.

Longer absences are different: if you're going to be overseas for many months or moving, talk to us about residency, reporting arrangements and student loan obligations. For example, Australians with HELP/HECS who expect to be overseas for six months or more generally have to notify the ATO and keep contact details current.

Source: www.servicesaustralia.gov.au/going-overseas
www.ato.gov.au/individuals-and-families/coming-to-australia-or-going-overseas

The ATO's new draft rules could change your holiday home tax claims

Do you own a holiday home that you sometimes rent out? The ATO has just released draft guidance that could change how you claim your holiday home rental income and expenses.

The ATO has withdrawn its decades-old guidance on holiday home rentals and released new draft rulings that modernise these rules. The changes reflect current law and court decisions, specifically targeting situations where properties are used mainly for personal holidays but owners still claim substantial tax deductions.

The underlying tax law contains an "integrity rule" for leisure facilities like holiday homes. This rule prevents you from deducting expenses for a property that's essentially for your personal use. The new draft guidance clarifies how to determine if your property's considered a holiday home under the integrity rule, and how much you can legitimately claim.

The ATO's proposed guidance is in three drafts. The first is a taxation ruling that explains how you should declare rental income and claim deductions for rental properties, including holiday homes. It addresses common scenarios like renting to family or friends at reduced rates, and sets out when a property is a "holiday home" for tax purposes.

The other drafts are practical compliance guidelines. They outline what the ATO considers fair and reasonable methods to split expenses between income-producing use and private use; for example, if your holiday home's rented out half the year and you use it for the other half, you can claim roughly 50% of general costs like interest, utilities and insurance as deductions.

They also introduce a traffic-light system of risk zones. "Amber" covers medium-risk scenarios where you rent the property but also use it personally for a significant part of the year. "Red" covers high-risk arrangements where the property's mostly used by you or your family, with infrequent or non-commercial rentals. If you're in the red zone, the ATO will suspect the property is mainly a lifestyle asset rather than a genuine income-producing investment, and will be more likely to investigate or challenge your claims.

Getting deductions right

Properly splitting your expenses between personal and rental use (called "apportioning") is crucial to getting your deductions right. The draft guidance includes approved apportioning methods. For example, under the simplest, time-based approach, if your property is rented 70 days out of 350 days available, you can claim 20% of yearly costs.

Key points to remember:

- days when you, your family or friends use the home for free count as private use;
- you can only claim deductions where the property's genuinely available for rent at market rates;
- if you rent to family or friends below market rates, deductions are typically limited to your rental income; and
- expenses that are 100% because of renting can be claimed in full.

Transitional arrangements

While these rules are drafts right now, the ATO plans to apply them retrospectively once they're finalised, with a transitional compliance approach for arrangements in place before 12 November 2025. This should give you time to adjust without immediate penalties.

What to do now

Although these are draft rules, they signal a tougher ATO stance on holiday home claims. Take an honest look at your holiday home usage and review your past claims. Improve your record-keeping by maintaining a log of rental periods, vacant periods and personal use dates. We can help assess how the rules might affect your specific circumstances and ensure you're maximising your legitimate deductions while staying compliant with the ATO's expectations.

Most importantly, don't wait until these rules become final. The ATO is being clear about its intended approach, and proper planning now can help you avoid unwelcome surprises later.

Source: www.ato.gov.au/law/view/view.htm?docid=%22DTR%2FTR2025D1%2FNAT%2FATO%2F00001%22
www.ato.gov.au/law/view/view.htm?docid=%22DPC%2FPCG2025D6%2FNAT%2FATO%2F00001%22
www.ato.gov.au/law/view/view.htm?docid=%22DPC%2FPCG2025D7%2FNAT%2FATO%2F00001%22

FBT and tax considerations for end-of-year parties and gifts in your business

As the end-of-year season approaches, it's a great time to celebrate with your employees and show appreciation for their hard work throughout the year. However, it's essential to understand the potential tax implications, particularly concerning fringe benefits tax (FBT), when planning holiday entertainment or gifts for employees.

Understanding FBT on holiday celebrations

FBT is a tax employers pay on certain benefits provided to their employees or employees' associates (like family members). When planning a festive gathering, such as a Christmas party, it's crucial to determine if your event might attract FBT. Here are some key points to consider:

- *Location and attendees:* If your party is held on business premises during a working day and is only for current employees, you generally won't have to pay FBT on food and drinks. However, if the event is off-site or includes employees' associates, you might need to consider FBT, unless the cost per person is under $300 and deemed a minor benefit.
- *Entertainment and gifts:* If you provide gifts alongside the party, remember that gifts under $300 per person can also qualify as minor benefits, exempting them from FBT. However, if gifts exceed this amount, FBT may apply.
- *Including your clients:* Costs related to clients attending your event are not subject to FBT. This means you can invite clients without worrying about FBT implications for their expenses.

Calculating the taxable value of entertainment

When it comes to calculating FBT on entertainment-related benefits, you have a few options:

- *Actual value method*: This method involves calculating the actual cost of the entertainment provided to employees and their associates. If non-employees are involved, you need to apportion the costs accordingly. For example, if you host a dinner where employees and clients are present, only the portion related to employees is considered for FBT.
- *50:50 split method:* If you hire or lease entertainment facilities (such as a corporate box or function room), this method allows you to allocate 50% of the total entertainment leasing expenses to FBT, regardless of whether it's for employees, clients or others. This can simplify calculations but might not always be the most cost-effective approach.
- *Meal entertainment valuation:* If the entertainment involves meals without recreational activities, you can use meal entertainment valuation methods. Options include the 50:50 split or the 12-week method, where you track meal costs over a period and determine the taxable portion related to employees. Both of these options are based on your expenditure on all meal entertainment for all people during the FBT year.

Important considerations

- *Recordkeeping:* It's essential to maintain accurate records of all entertainment expenses, including costs (total and per-person), recipients and the calculation methods you've used. This documentation supports your FBT calculations and ensures compliance.
- *Tax deductions and GST credits:* Generally, if your event is exempt from FBT, you cannot claim income tax deductions or GST credits for the associated costs. This is important to keep in mind when budgeting for your celebrations.
- *Gifts to clients:* If you're giving gifts to clients, it's important to note that these are typically not subject to FBT. However, you may be able to claim a tax deduction for such gifts, provided they aren't classified as entertainment.

Understanding these key aspects of FBT and tax considerations for holiday entertainment and gifts can help you enjoy the festive season with your team without unexpected tax liabilities. If you're ever in doubt, consulting with your tax professional can provide additional peace of mind.

Source: www.ato.gov.au/businesses-and-organisations/small-business-newsroom/fbt-and-festivities-what-employers-need-to-know

Payday superannuation is law: make sure you're ready

The "payday super" legislation, now passed by Parliament, significantly changes how superannuation will be paid. From 1 July 2026, employers must pay their employees' super contributions within seven business days of payday, replacing the quarterly system.

The reforms strengthen the superannuation system by helping the ATO to enforce the law and identify employers not making contributions, while benefiting employees through more frequent contributions that will grow and compound over their working life.

How we got to payday super

Currently, employers generally remit superannuation guarantee (SG) contributions quarterly. Contributions for a quarter are due by the 28th of the following month. This quarterly cycle has been associated with persistent unpaid and late super. Government impact analyses and ATO estimates put unpaid SG in the billions of dollars per year, with employees often discovering missing super only after significant delays, or when employers become insolvent.

In May 2023, the government announced its intention to require employers to pay super concurrently with salary and wages from 1 July 2026. The central idea was that every pay cycle would carry the corresponding super contribution, rather than employers building up SG liabilities until the end of the quarter. The goals were to reduce unpaid super, get contributions invested earlier and more consistently, and make it easier for employees and the ATO to see problems quickly.

Treasury refined the design throughout 2023 and 2024, and draft legislation was released in March 2025.

The Bill as introduced (October 2025)

In October 2025, the government introduced the payday super Bill into Parliament. Broadly, the Bill included four key changes.

First, it proposed to replace quarterly SG payments with a requirement to pay super at the same time as salary or wages, meaning that every weekly, fortnightly or monthly pay run would trigger its own SG contribution obligation.

Second, it proposed to allow a short window for processing, with contributions counted as "on time" if the employee's fund received them within seven business days after payday (or 20 business days in certain specific circumstances, such as where an employee changes super funds or a new employee commences). This is designed to accommodate clearing houses and banking processes while still being a substantial tightening of the previous timetable.

Third, it included a redesign of the SG charge regime to better fit a pay-cycle model and to increase the consequences of non-compliance. Unpaid or late SG would give rise to the SG charge more quickly. Interest and administration components were recalibrated to ensure employees are fully compensated for the delay, and the framework deliberately targeted repeated or deliberate non-compliance with escalating penalties. The long-term intent was to make "catching up later" much more expensive than paying on time.

Fourth, the Bill included amendments intended to simplify employee fund choice and onboarding. The idea was to make it easier for employees to nominate an existing fund when they start a new job and for employers to obtain correct fund details promptly, reducing delays in getting contributions to the right place.

The Act as passed (November 2025)

Parliament passed the payday superannuation legislation in early November 2025. The core elements remained intact:

- commencement on 1 July 2026;
- alignment of SG contributions with each pay cycle;
- the seven-business-day period for contributions to arrive in funds (and 20 business days for certain situations); and
- the strengthened SG charge and penalty rules.

During Parliamentary debate, the focus turned to implementation issues such as the compliance burden for small businesses, transitional arrangements and the role of the ATO in monitoring.

The final law includes transitional administrative settings, including the phase-out of the ATO Small Business Superannuation Clearing House (SBSCH). There is no change to the start date or the basic requirement to pay super at or around payday.

Employers and advisers therefore now have reasonable certainty: from the first pay on or after 1 July 2026, super must move with payroll, not with the old quarterly calendar.

ATO Small Business Superannuation Clearing House

One of the most tangible changes arising alongside payday super is the closure of the SBSCH. For years, the SBSCH has allowed small employers (broadly, those with fewer than 20 employees or turnover under $10 million) to make a single quarterly payment to the ATO, which then distributed contributions to employees' funds. That model suited infrequent, bulk payments, but it is not well aligned with a pay-cycle system.

From 1 October 2025, the SBSCH closed to new users. It will cease operating altogether from 1 July 2026. Existing eligible employers can continue to use it up to the end of the 2025–2026 year, but they cannot rely on it for super contributions relating to pay days on or after 1 July 2026. After mid-2026, there'll be no option to route contributions through the ATO's free clearing service.

What this means for employers

Businesses need a clear understanding of what's changing and when. Up to 30 June 2026, the existing SG framework, including quarterly due dates, continues to apply. From the first pay run on or after 1 July 2026, however, each pay carries an SG obligation that must be met promptly. The contribution is considered on time only if the fund receives it within seven business days of the wage payment. Waiting until the end of the month or end of the quarter to "catch up" will no longer be within the law. At the same time, the SG rate (12%) and basic coverage rules are not fundamentally altered by these reforms; the real shift is timing and enforcement.

It's important for businesses to take this opportunity to ready their payroll and payment processes. A useful question is, "If you had to pay super every pay cycle tomorrow, could your current processes cope?" If the answer is no (or not without manual workarounds), there's work to do. That may include confirming that payroll software calculates SG correctly on each pay, checking whether the software can generate SuperStream-compliant payment files or connect directly to a clearing house, and deciding when in the pay cycle super payments will actually be initiated. For some employers, it will make sense to process the super payment file on payday; others may schedule it for the following business day, bearing in mind the seven-day deadline.

Cash flow is another aspect to consider. Under payday super, employers will move from paying four large super instalments per year to paying many smaller instalments. The total outgoing amount is the same, but the timing is different. Some businesses, especially those with tight or seasonal cash flow, may need to revisit their internal cash-flow planning.

Small businesses that have been using the SBSCH will need to identify and implement an alternative arrangement. There are currently three main pathways:

- integrated payroll or accounting software that includes SuperStream-compliant payment functionality;
- employer portals and clearing houses offered by super funds; and
- commercial clearing house services.

Many businesses will already have access to one of these options, but others will need to register, set up bank accounts and employer details, and migrate their employee data.

Ongoing compliance after 1 July 2026

From 1 July 2026, payday super becomes business as usual. For employers, ongoing compliance will revolve around paying each cycle on time, keeping accurate records and dealing promptly with errors.

Each pay run will involve calculating SG for each eligible worker, transmitting the contribution electronically with the required data, and ensuring that the fund receives it within seven business days (or 20 business days in certain situations). Employers will need internal routines to make sure this happens; for example, assigning responsibility to a payroll officer, scheduling payment runs and building in checks that the payments sent match the amounts recorded in payroll.

Record-keeping obligations will remain familiar. Employers will continue to provide payslips showing the super amount accruing for each pay. Their systems should keep a clear audit trail of contributions: who was paid, how much, for which period, to which fund and on what date. Many clearing houses and payroll systems already produce reports that can be used for this purpose. Given the ATO's increased ability to compare fund-reported contributions with payroll and Single Touch Payroll (STP) data, having clean internal records will help resolve any discrepancies quickly.

When errors occur, whether because of a missed pay cycle, incorrect fund details or a processing failure, the updated SG charge rules will generally apply more quickly. If a payment has been late or missed, employers will usually need to lodge an SG charge statement and follow the ATO's processes to rectify the issue. Prompt self-correction is likely to be looked on more favourably than waiting for the ATO to detect the problem.

What this means for employees

From 1 July 2026, employees should start seeing super contributions credited to their accounts after each pay rather than quarterly. Their payslips will continue to show SG amounts, and it will become easier for them to compare what appears on the payslip with what appears in their super fund or myGov. The reforms are designed to reduce the risk that months of super go unpaid without detection, and to improve long-term balances by getting money into funds sooner.

It will continue to be important for employees to keep their super fund details up to date with their employer, particularly when starting a new role, and to periodically check their super statements. Beyond that, the onus is squarely on employers to comply with payday super, not on individual employees to manage the system.

Source: www.ato.gov.au/about-ato/new-legislation/in-detail/superannuation/payday-superannuation
www.ato.gov.au/businesses-and-organisations/super-for-employers/payday-super/about-payday-super

Super on government-funded paid parental leave: year-end planning

The Australian Government will begin paying superannuation contributions from 1 July 2026 for individuals receiving government-funded paid parental leave from 1 July 2025. This aims to improve retirement outcomes for parents, particularly women, who often experience reduced superannuation growth when they take time out of the workforce for parenting.

Although these contributions are fully government funded and administered, paid parental leave super has important implications for business owners' year-end planning. Understanding how the rules operate will help you prepare for workforce needs, budgeting and employee wellbeing.

What changed from 1 July 2025?

Paid parental leave super now applies for parents of children born or adopted on or after 1 July 2025. The government contributes superannuation to the employee's nominated fund at the superannuation guarantee rate of 12% (plus an interest component).

These super contributions are not paid at the same time as the paid parental leave income. Instead, the ATO will pay them after the end of the financial year in which the parent received paid parental leave income. The first contributions are expected from July 2026, covering paid parental leave received during 2025–2026.

The contributions are taxed within the fund at 15% and count towards the individual's concessional contributions cap, in the same way as employer superannuation guarantee contributions.

Why this matters for business owners at year-end

Employers aren't required to fund or process these super contributions, but paid parental leave super still affects financial and workforce planning.

Workforce costs and retention planning

Government-funded paid parental leave super doesn't appear in your payroll costs. However, as employees become more aware of paid parental leave super, some employers may choose to pay super on employer-funded parental leave or expand existing entitlements to stay competitive. These decisions can influence remuneration strategy and budgets for 2026–2027.

Attracting and retaining employees

Paid parental leave benefits – including how employers top up or complement the government scheme – are increasingly visible to job seekers and staff. As you review year-end HR reports, check whether your parental leave offering remains competitive and clearly communicated.

Staff planning and communication

Employees who have taken or planned paid parental leave during 2025–2026 may ask whether they'll receive super on paid parental leave, when it will be paid, and how it interacts with their existing super and caps. Clear internal guidance helps managers and HR answer questions confidently and plan for staffing and backfill arrangements.

Compliance clarity

There's potential for confusion between employer-funded super (currently paid at least quarterly and not compulsory on employer-funded parental leave) and government-funded paid parental leave super paid annually by the ato to recipients of government-funded paid parental leave. Ensuring your policies and communications clearly distinguish between these two streams can help reduce misunderstandings.

How business owners can prepare

Business owners can take practical steps before 30 June 2026.

Review policies and documentation

- Update parental leave, HR and payroll policies to reflect that superannuation is paid on government-funded paid parental leave by the government, not the employer.
- Clarify whether your business pays additional super on employer-funded parental leave.

Brief HR, payroll and managers

- Ensure HR and payroll teams understand the timing of paid parental leave super contributions so they can answer employee questions accurately.
- Provide talking points or FAQ lists for managers.

Incorporate into planning

- As you plan year-end reviews and 2026–2027 budgets, consider whether you wish to enhance parental leave as part of your attraction and retention strategy.
- Factor any changes into cash flow forecasts and HR plans.

Encourage accurate super details

- Remind employees who've taken or are planning paid parental leave to keep their super fund details up to date with Services Australia and your payroll records. This helps reduce delays when the ATO begins paying paid parental leave super after year-end.

Source: www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/super/growing-and-keeping-track-of-your-super/how-to-save-more-in-your-super/government-super-contributions

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