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Submission: Single Touch Payroll Discussion Paper

Executive Summary

ABSIA is of the opinion that a start date of 1ˢᵗ July 2016 is unrealistic given that at this time the scope of Single Touch Payroll (STP) has not been finalised. It is unlikely to be finalised for several months, with the supporting legislation to take even longer. Software developers will require a clear 12 month period from the passing of legislation before the introduction of STP; this is a message that has been delivered to government repeatedly.

The ABSIA Single Touch Payroll (STP) proposal is split into two separate sections:-

1. The replacement of the Tax File Number Declaration and the Choice of Superannuation Fund form into a single service. This is a sensible proposal subject to the method(s) of implementation. However, ABSIA feels that for STP to provide real value to the employer, the original proposal raised 5 years ago needs to be implemented. This entails all processes associated with the addition of a new employee to be automated in one single process.

2. The sending of payroll data and potentially the payment of PAYG and Superannuation at the time of finalising the payrun. ABSIA feels that the determination of whether this proposal is workable depends on the final scope of STP. If the date of payment is separated from when payroll data is lodged, the problems caused by reconciliation issues are likely to outweigh any benefits

The inclusion of STP into our payroll software will put a significant cost onto developers which our members will not be able to recover from our customers as it will be perceived by their consumers to be a "compliance update".

There are significant other issues detailed below which do not appear to have yet been fully considered. These include cash flow, rounding issues, superannuation threshold and adjustments (including negative amounts). These need to be clarified very quickly for the success of the project.

What is ABSIA?

ABSIA is the Australian Business Software Industry Association and was formed to represent the business software industry at the highest level. Its vision is that as the premier association, we support and represent all the stakeholders in the software community, advocating a thriving software industry and providing leadership to the global digital economy.

ABSIA aims to serve all stakeholders that form the totality of Australian Business Software Industry, including business software developers and service providers, all-of-Government, corporations, SMEs and individual consumers, as well as other industry associations.

We represent business software developers at many levels including with the Australian Taxation Office, Department of Prime Minister & Cabinet, Treasury, State Revenue Offices and on a number of forums including SuperStream, Small Business Liaison Group, Business Advisory Forum, Tax Practitioners Board, *Reinventing the ATO* committees, SBR Board, SuperStream committees and various working groups.

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Submission Details

Software developers have been aware of the Single Touch Payroll proposal for at least two years following a presentation given to the Software Developers Consultative Group (SDGC) at the March 2013 meeting. At that time the proposal was detailed as follows:-

1. The replacement of the *Tax File Number Declaration* and the *Choice of Superannuation Fund* form into a single service.

2. The sending of payroll data and the payment of PAYG and Superannuation at the time of finalising the payrun.

The second part of the scope of STP now appears to be under debate, with discussion as to whether the payment of PAYG and Superannuation will take place as the same time as the sending of the data. Without the alignment of the timing of data and payment, much of the benefit of Single Touch Payroll is lost. STP is being promoted by the Government as a Red-tape Reduction

measure however it has the potential to be quite the opposite if not handled correctly.

The issue of bringing forward the payment of PAYG and Superannuation to be made with each payrun is likely to cause significant cash flow issues for a large number of employers. This is recognised by ABSIA and it is noted as a significant hurdle to be addressed. ABSIA is currently preparing a survey for its software developer members to send out to their business clients to identify the full extent of the impact of this measure.

ABSIA would also like to point out on behalf of its members that there will be a significant additional workload placed on all payroll software developers and it is unlikely that there will be any ability for payroll software vendors to re-coup these costs from the end-users. STP will be seen as a "compliance issue" by the users of our software and therefore something that we should provide as part of the payroll software offering.

In specific response to the questions that have been raised in the consultation document:-

1. **Would Single Touch Payroll reporting reduce or increase red tape costs for business in the long run?**

This depends on the scope of what is included in STP. If data and payments are separated then red tape may increase significantly.

2. **What is the estimated size of this red tape cost reduction/increase?**

If payments are included, then the annual reconciliation required at the time of creating payment summaries at financial year end will be eliminated. This reconciliation would take place at each payrun and any issues would be much easier to resolve. However, one factor which has not yet been quantified is what the cost of doing more reconciliation every week would be to every employer.

If payment is not included, each month or quarter when payments are made there would be reconciliation issues to resolve. The extent of this does depend on the exact method by which data will be sent, for example, would superannuation information be sent to each superannuation fund with each pay or only when payment is made?

This is an important question as all superannuation funds have built a reconciliation system around the SuperStream Payment Reference Number (PRN) and this operates on the basis of one payment matched to

one remittance advice (as per the SuperStream Standards). Changing this to a many-to-one relationship will have a major impact on the superannuation industry for both APRA and SMSFs.

3. Would Single Touch Payroll real-time reporting and payment reduce or increase red tape costs for business in the long run?

In the long term there will be easier reporting for businesses, which has the potential to offset the cost of making payments sooner. Noting that there may be a cost to a business caused by the reduced cash flow, for example, a business may have to borrow money to cover the earlier payment of PAYG and superannuation.

4. What is the estimated size of this red tape cost reduction/increase?

The answer to this depends heavily on the nature of the business involved, their cash flow situation and the number of employees (for example, many retail businesses may employ a large number of casual staff working only a few hours per week). ABSIA is therefore unable to give a meaningful answer to this question.

5. What impact would the more frequent PAYG withholding and super payments have on your cash flow position, and how could this be mitigated?

ABSIA believes that this depends on the nature of the business. A retail business with predominantly cash sales is likely to have less cash flow issues, whereas a business receiving payments 30 to 60 days after the issue of an invoice may have significantly increased cash flow problems. This issue has had only superficial treatment to date by the ATO and has a potentially disastrous effect on the Australian economy.

It seems there is a perception that these funds are held in trust for the employee, however this is not the reality. This revenue is derived from the efforts of the business and is then dispensed to pay overheads when they are due. In the case of payroll, the money derived from sales is paid to cover wages in three stages – net pay to employees, PAYG to the ATO and Superannuation to the funds. The employer has a legal obligation to make these payments on specified dates and is fully entitled to use his sales revenue for any other business purpose in the interim period.

Some of the anticipated effects of the change outlined by ABSIA members are detailed below:

- A retail business claims it will have to reduce its stock holding, which could reduce sales which could reduce its ability to hire staff
- Another retail business makes over $1 million per annum by paying suppliers early and taking settlement discounts. Moving 40% of its payroll costs forward by a month on a permanent basis may mean it will have to curtail this practice. This would therefore incur a cost of one million dollars per year. It also has a ripple-on effect through the economy by delaying payments to its suppliers, who in turn will delay payments to their suppliers
- A significant part of the workforce is paid by labour hire firms and they generally pay the staff weekly, however in the realities of business life the labour hire firms are not paid by their client for 30 to 60 days. Correspondence received by ABSIA from this industry indicates that it may have to resort to debt financing with the advent of STP which will squeeze profit margins greatly

ABSIA feels that the effect on business cash flow has not been analysed sufficiently by the ATO to date as there has been limited evidence released other than some simple charts. A more in-depth and realistic analysis will be required.

6. Are there any additional reporting and/or payment functions that you would like to see included in the design of the Single Touch Payroll?

To make Single Touch Payroll work properly, it must include data for all payments made out of a payroll system which may include Payroll Tax, Child Support, garnishee payments etc.

ABSIA feels that this is a critical part of STP as the initial premise of STP was to streamline the process of "on-boarding" a new employee. There is a perception that this focus has moved towards ensuring employers pay their PAYG and Superannuation early.

7. What transitional arrangements would businesses require to adopt Single Touch Payroll reporting and/or payment capability (including mitigation of the initial transition impact on cash flow of moving to paying tax and super at the payroll event)?

A business expecting to have cash flow issues should be able to apply for short term funding from the government to mitigate the negative cash flow. This could be scaled back over a number of years until being phased out, for example, in year one a 90% loan is provided, in year two a 70% loan, in year three a 50% loan, etc. After five years, each business pays all PAYG and Superannuation on the payment due date and businesses have had plenty of time to adjust to the new cash flow requirements.

Given every business will have cash flow issues from this development; it would be likely that every business would require a loan. This will be a challenge as the loan evaluations would be based on future projections rather than fact.

ABSIA feels that moving the payment of GST back a few months would go a long way to help.

8. Are there any other opportunities to streamline the employment commencement process?

Obtaining an employees bank details, Tax File Number and Superannuation fund information are the main difficulties for businesses currently. The ability to also send down an employee's address and next of kin information (with the employee's consent) has the potential to assist this process. The ATO already holds the majority of this information (including bank account details) and so if this can be provided to an employer reducing the requirement for the employee to supply this information, this would be extremely beneficial.

9. Under the Single Touch Payroll real-time reporting and payment capability, how should the payment of SG for new employees be managed to ensure they have sufficient time to make an informed investment decision?

Unless an employee is entering the work force for the first time, they will almost certainly have an existing superannuation fund. It is very important that an employer has a clear decision from an employee as to which fund they wish to use at the commencement of employment. A pay may occur very soon after the start of employment (for example, the author of this submission was once paid on the second day of employment) and by this time the superannuation fund must be known as this information is required to be displayed on the pay advice per Fair Work requirements.

If an employee does not have an existing fund, they can use the employers default fund until such time as they have had an opportunity to take suitable financial advice. Alternatively, an employee with no fund could have the money sent to the ATO as a short term measure until they have selected a fund. After selection, the ATO could pass the money on to the selected fund and advise the employer where future superannuation payments should be made. This would avoid the employer having to have a default fund (which no employees may use), this becomes another red tape reduction.

A hasty or temporary solution has the potential to have a massive impact on superannuation funds – the rollovers generated as a consequence of STP could be a major overhead for funds to absorb.

10. Are there any other opportunities to streamline the notification to the super fund, the ATO and DHS that employees have ceased employment?

Notifications must be handled from the ATO with them passing information on to other government departments. All the details required by government (at all levels) must be handled in one reporting file. One issue that should also be covered is the issue of the termination of an employee due to death and making it an obligation of the employee's superannuation fund to accept payment of superannuation after death. At present some superannuation funds will refuse these payments causing an additional burden for an employer.

11. Under what circumstances should the Commissioner of Taxation use his discretion in the administration of penalties?

The commissioner should always have discretion in the administration of penalties an employer who has a system issue or other unforeseen circumstances which causes a delay in sending data or payment is not unnecessarily penalised.

12. If you are not currently using software to process payroll, what are the costs and barriers you face when acquiring software?

As software developers we are already likely to have our own payroll systems.

Like all employers we will be faced with the costs of change management and the implementation of STP. These are as yet unidentified due to little available information about the technology platform or the actual business requirements for STP. Given the uncertainty around the separate implementations of the AS4 standard for SBR and SuperStream, this may be costly for all employers.

13. Do you expect the costs of acquisition/subscription will be outweighed by the cost-saving from automated payroll reporting?

This is primarily a question for a very small business not currently using any payroll software. Systems are likely to be available at low cost covering a business with a few employees and they are likely to find that their burden in doing payroll is reduced overall by using a software package rather than a manual process.

However again, there may be costs faced with change management and the implementation of STP as outlined above.

14. If you are currently using software, what are the costs and challenges you foresee in upgrading to compatible software?

This question is not directly applicable to software developers; however software developers will bear significant costs in training and implementing STP for their clients.

15. Is the above transition approach achievable for business? Are there any other support/transition options that should be considered?

This question is not applicable to software developers.

16. Under what exceptional circumstances would employers face a significant barrier to implement Single Touch Payroll that they should be exempt?

For Single Touch Payroll to work well, it should be compulsory for all employers. There must be no exceptions otherwise the whole process becomes undermined.

Software providers, particularly cloud based solutions, are generally reluctant to make too many options available to their clients. Multiple options creates confusion with clients, additional help desk loads and higher development costs.

Additional Comments

ABSIA wishes to raise the following points that need to be considered during the implementation of Single Touch Payroll. Whilst some of these may effectively argue against points already raised in this submission, they are issues that need to be discussed as the scope of STP has not yet been finalised:-

Superannuation Threshold

Currently an employee needs to earn a minimum of $450 in a calendar month before the Superannuation Guarantee (SG) is payable by an employer. This threshold was introduced at the time SG Super was introduced in 1992 and when SG superannuation was at a rate of 3% to stop extremely small amounts of superannuation from having to be paid.

With the rate of SG superannuation now being 9.50% and earnings levels much higher, the $450 threshold is now outdated. To assist with the smooth implementation of STP it is suggested that the threshold of $450 should be removed as it may have the effect of causing uncertainty where an employee is shown on a pay slip to have SG accruals in the early part of a month only for these to not be paid if the threshold has not been reached by month end.

One suggestion is to replace the $450 threshold with a once one-off threshold of $1,000 so that an employee who only works for an employer for a very short period (eg a few days) does not have to be set up superannuation. Once the threshold has been passed, all additional salary and wages will attract SG. The removal of the $450 threshold will also mean that casual employees working only a few days each month for a given employer will still receive superannuation and have the opportunity start to build up some meaningful superannuation.

Negative pay amounts caused by adjustments

It is often found that after a payrun has been completed that there are some problems with the pay. This can lead to adjustments both positive and negative needing to be made. If all payroll details have been sent, and potentially also been paid, how will these adjustments be processed, particularly if they result in a negative adjustment to an amount that has already been to a third party?

One ABSIA member has reported that one client reversed a payrun for almost 1,000 employees over 20 times in a single day. This situation would have resulted in 50,000 transactions going to the ATO. Will the ATO systems cope with this? Has there been consideration of situations such as these?

Payroll Bureaus

Many employers use the services of a payroll bureau rather than calculate salaries and wages themselves. As part of the service provided, many bureaus also pay the employees and then claim back the amount of the payments made from the employer. In this respect they are providing a level of financing to employers. If PAYG and Superannuation now have to be paid as part of STP, this will put a considerable additional cost burden on the bureaus which they may be unable to meet.

Monthly Reporting

Has monthly reporting been considered as an option instead of reporting and the making of payments of PAYG and superannuation at the time of the pay taking place? In New Zealand, each employer is obliged to create an Employer Monthly Schedule which details information for each employee in

respect of pay amount, tax withheld, student loan repayments, child support and KiwiSaver (superannuation) contributions from both employer and employee. An EMS was also introduced in Fiji from the start of 2013.

Monthly reporting allows for employee pay details to be finalised at the end of each month, adjustments to be processed and reconciliations made prior to the reporting date. It achieves most of the objectives of STP whilst eliminating many of its disadvantages. For large withholders, an interim payment or payments of PAYG can continue be made as happens in New Zealand.

Multiple Pay Frequencies

Many employers will pay employees on different frequencies. Some staff may be paid weekly, some fortnightly and some on a monthly basis. For these employers, Single Touch Payroll may become a challenge as they will have to finalise pays on multiple occasions each month.

There is also the issue of payruns made outside the normal pay cycle. This can occur for example with the payment of a bonus, a termination payment made to an employee who has ceased employment or when a payment (eg overtime) was omitted from the original pay.

The cash flow issues associated with STP may result in employers moving their employees to monthly pays instead of weekly or fortnightly.

Superannuation Paid Through the Small Business Clearing House

Small employers (ie employers with fewer than 20 employees), can make use of the Small Business Clearing House (SMBCH) for superannuation payments. At present, the entry of details of the amounts to be paid for superannuation are entered manually through the Small Business Clearing House website. For Single Touch payroll to work, the Small Business Clearing House must be able to accept a file showing the payment details.

Building an interface to the SMBCH would be a large and expensive exercise for most software developers.

Transition to Single Touch Payroll Part Way Through a Financial Year

Consideration must be given to what will happen when an employer transitions to STP part way through a financial year. Does this mean that a Payment Summary must still be issued to an employee for that part of the year when they were not paying through STP? This may cause many questions from employees when their Payment Summary does not match their pay for the year. This problem can be reduced by the inclusion of Year to Date (YTD) information within the reporting details sent each pay. This allows

for an employer to start using STP at any time during a financial year and not have to produce a payment summary covering only part of a year.

Rounding of Reported Amounts

Current reporting requirements for a payment summary and the associated data sent to the Australian Taxation Office truncate the cents from all reported amounts. This is of no consequence for an annually reported amount. If cents are truncated for each pay, this will add up to a significant discrepancy over the course of a year leading to more reconciliation issues and the under reporting of income.

Payment Summary Reporting Requirements

As part of Single Touch Payroll, ABSIA suggests there also be a review of what actually needs to be reported. On the current Individual Non-Business payment summary, certain allowances have to be itemised. For the Foreign Employment payment summary, the itemisation of allowances is not required. This is an area where there needs to be consistency of reporting requirements.

If a payment summary is no longer required, can the requirement to issue any form of part year payment summary also be eliminated.

Payments made outside Payroll Software

There are a number of situations where the payments of staff, PAYG and superannuation are made outside the payroll software and the payroll software is completely unaware of the payments. Some of these situations are:

- Employer uses a payroll bureau which pays the payroll net pay to the employees directly, but leaves the payment of the PAYG and superannuation to the employer to do directly
- Employer uses a payroll system which is different to their accounting system. In this situation the payroll data is all held in one system and summary reports are generated which are usually fed into the accounting system manually for payment. The two systems are generally not interfaced in any way.
- Large ERP systems often operate in silos. In other words, while a company may be running a high end ERP system the payroll/HR department may have nothing to do with the accounting department and the two ERP modules do not necessarily interface seamlessly

Dual model software development
It has been suggested that the software developers should all build a dual solution for STP, one which deals with direct payments in the specification and another which deals without direct payments being included. ABSIA feels that this is an extraordinarily expensive road to take for its members, particularly when the software to be developed will generate zero revenue.

SuperStream 2

There is a challenge with the concurrent development of the MIG for SuperStream version 2 which is tentatively to be implemented in the same time frame as STP.

Requiring software developers to develop SuperStream 2 at the same time as STP and dealing with two ATO groups at the same time may be an extremely difficult for software providers to handle, let alone their clients to implement.

There is a further question as to the ability of the superannuation fund managers and their registry systems to accommodate changes at this rate.

SBR 2

In addition to SuperStream 2, there is also the use of SBR 2 to be considered. The take-up rate of SBR 2 at this point by software developers is even less than SBR 1 and as STP is dependent on this; it is another major piece of technology to be absorbed by the industry.

Tax Practitioners Board

The ABSIA board met recently with the Tax Practitioner's Board (TPB) and the TPB wants the software developers to build a digital signature//declaration facility into their software for all lodgements made for STP.

This is another significant piece of work for software developers tied to STP.

ebMS 3.0 AS4

This messaging technology is being put forward as the cornerstone of STP. However, the government, despite significant resistance from some members of the software community has overseen the development of two AS4 standards:

- The ATO has paid $100 million dollars to have a vendor specific version of AS4 built for SBR2
- Concurrently, the ATO has been directly involved in the oversight of the development of the AS4 standards for SuperStream

The two implementations are not compatible and there is a view that the SBR implementation is not strictly in conformance with the standard. This is not an ABSIA view but a view expressed by experts which is being presented to the SuperStream gateway Governance Group on 12th March.

Given that this technology is key to STP, this will be an additional hurdle for software developers who do not want to be supporting two standards of AS4.

Overall Project

As expressed above, Single Touch Payroll for a software developer is much more than just Single Touch Payroll. It consists of the following:-
- Single Touch Payroll
- Standard Business Reporting 2 (SBR2) which has not yet been fully implemented by any software provider
- SuperStream2 - the MIG is still only at draft stage
- Digital signature/declaration to meet the requirements of the Tax Practitioners Board (TPB). ABSIA is still waiting on the requirements from the TPB.
- Multiple AS4 standards (this conversation is only just beginning)

The current deadline of July 2016 is not realistic. If we are not careful it could turn into a recipe for disaster.