



Ascender

# Ready for Single Touch Payroll?

What the new legislation means for your business

Payroll is about to go through a significant legislative change on 1 July 2018, with the introduction of Single Touch Payroll (STP). This will apply to businesses with 20 or more employees first, whilst being optional for those that have 19 or less employees until 1 July 2019. So whether you're a small start-up or a fast growing entrepreneurial enterprise it will impact you sooner or later.

The new legislation is a change in the way the Australian Government requires businesses to report payroll information to the Australian Taxation Office (ATO). Moving forward, employers are required to share payroll information with the ATO at the same time they pay employees. This information includes salaries and wages, deductions, pay as you go (PAYG) withholding and super information.

The idea behind it is the ATO will be able to receive real-time visibility over the accuracy and timeliness of businesses' payroll processes after each pay run event. The Commissioner will have access to even more information to perform data-matching and determine more efficiently if all Superannuation Guarantee Charge ('SGC') and PAYG withholding obligations are being met.

While this will improve and speed up reporting, like with any new system or process, there will no doubt be learnings along the way. Payroll service providers may also be able to help here. Many will provide reporting capabilities, showing all information reported to the ATO, allowing errors to be identified and rectified before the end of the financial year.

# How do I submit the data?

The whole introduction of STP is part of the Government's digital first strategy and requires businesses to either partner with payroll service providers, leverage payroll software with STP gateway capabilities or source a third-party gateway (think of it as a data translator) to submit payroll information digitally.

This has led to a lot of businesses panicking about being prepared, with scaremongers in the industry taking it as an opportunity to spruik a new software product, upgrade or consultancy service.

Are you compliant? Are you STP ready? Have you prepared for the new legislation? Does your software report to the ATO? These questions are floating around the industry looking for unwitting customers to come to the provider asking them to make them ready.

The reality is that while some smaller start-ups and payroll software providers are progressing with the rollout, for bigger software providers, as well as entrepreneurs with larger workforces there are added complexities that are currently being worked through in collaboration with the ATO. So for the majority of businesses, it's impossible to be fully prepared.

The technical specifications and guidelines for STP are still being finalised by the ATO. Meanwhile, payroll software service providers continue to adapt and integrate changes based on current specifications.

The processes are in place and once the final specifications have been shared, it will be all hands on deck to get products finalised by July 1st.

# What do I need to consider then?

With STP only being four months away (or a year and four months for those with less than 20 staff), there's still a couple of things your business can do whilst you wait.

## 1. Count your staff



Firstly, by 1st April you will need to do a headcount of the number of employees on your payroll. That includes full time, part time, casual, overseas and seasonal employees. This will identify whether you need to adhere to the new legislation this year or next.

## 2. Check your software



Next up on the list is your software. If you're on a cloud-based payroll software, you'll probably be ok as any new product developments or upgrades can be easily deployed online.

But, if you're using an on-premise or legacy, highly customised solution, you might be in for a bit of a shock. These systems may require a bit more tweaking than their cloud counterparts, as they are often interwoven into other pieces of software. In order to be compliant with STP, the information and data they provide may need to be changed in order to comply.

It's best to speak directly with your payroll service provider to see if the platform you're using will be automatically compliant or if there are extra steps required by your business to comply.

## What do I need to consider then?

### 3. Work out deployment timeframes



Many service providers will be looking to update you to their latest offering to ensure you are STP compliant by 1st July 2018. While many employers may receive the update, there will likely be many who will not be able to update their systems on time due to complexities of running on-premise and/or potentially having highly customised environments.

The important thing here is not to panic. STP is being introduced to help businesses, so the ATO may be in a position to grant a deferral if it looks like the business or service provider isn't going to be ready.

### 4. Pick your provider



STP requires employers to use an ATO Whitelisted STP Gateway provider to translate data into an acceptable format and communicate back and forth with the ATO. The good news is that some payroll service providers will offer this as part of their offering but others will require you to go through a third party directly. So it's advisable to check what your payroll service provider has planned.

Engaging a third party for these services results in another agreement that needs to be put into place and another supplier to add to your preferred supplier list. If you go down the third party route, you will also need to think about integration into their systems. With only four months to go, this could be a significant stress on your IT department – if you're lucky enough to have one. If looking for a third-party provider, make sure they comply and have the security policies in place that the ATO will ask for, such as ISO27001.

### 5. Stay up to date



STP deployment is picking up speed, so its best to keep an eye out for updates via the ATO's [STP website](#) for any changes.

For now, that's as far as you can go without knowing exactly what will be required. Payroll software providers are working with the ATO closely to get the details finalised and it will be a race to finish over the coming months. What we do know is that it is coming and will be legislation come 1st July 2018.

# So what will be the impact on my business?

Let's imagine for the moment that we're all up to speed and compliant with STP. The question on everybody's lips is what will this mean for my growing business?

In theory, digitising the process should streamline payroll tax reporting for businesses. The problem is, this requires payroll administrators to be experts at categorising and maintaining the accuracy of their data. If any mistake is made, it gets reported to the ATO in real-time with the ATO then tasked to work with employers around discrepancies in their data.

At least for the first year, we're going to see overheads on both businesses and the ATO as businesses adjust. According to the Australian Payroll Association's 2017 Payroll Benchmarking Report, the average error rate for ASX100 companies as a percentage of total payslips is approximately 0.5 per cent – that's a correction of \$3.95 million payroll errors annually. Not an insignificant figure.

So, getting your data and categorisation right is going to be vital if you don't want continued back and forth with the ATO. This is going to be a particular issue for weekly pay runs, where the timescales to correct are short.

These operational impacts may drive change in the industry around reducing the frequency of payroll events minimising the overhead in managing STP. We are already seeing these pay cycles being reduced and any additional time required to process these payments will further incentivise businesses to move towards longer pay cycles.

The impacts then could be substantial and making sure you have the appropriate processes in place will be critical. For now, all businesses can do to prepare for STP is to do a headcount, see if your payroll software will be compliant, understand if a deferral will be applicable and work out if your payroll software provider will provide a STP gateway or if you need to seek out a third party provider.

Other than that, at the moment, it is a bit of a waiting game.

Article by Brad Stockman, Senior Product Analyst at payroll and human capital management software solutions provider Ascender.

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