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RE: Single Touch Payroll discussion paper

Dear Sir/Madam,

Thank you for the opportunity to provide comments as part of the consultation process in relation to the proposed introduction of 'Single Touch Payroll'. Following a review of the discussion paper, we have provided feedback below on questions we felt appropriate for us to make comment on.

We have not commented on questions 2, 4, 7, 10, 12, 13 and 14 as we do not have the specific expertise to make valid comments in these areas.

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

For employers that are already using a software option for their payroll system, we believe the reduction in red tape will be minimal. These payroll software packages already automate many of the procedures (e.g., preparation of annual payment summaries, calculation of withholding that applies to staff wages and calculation of quarterly superannuation obligations) that are considered "onerous paperwork" in the discussion paper.

However, employers that are not currently using a software option for their payroll processing will obviously be most affected, and the amount of red tape will be increased. These employers generally have a small number of employees and currently do not use a software option, in part, due to their perception that it is a level of sophistication they do not require. Increasing the level of interaction with the ATO to every payroll cycle, rather than every month (or more typically every quarter) will increase the red tape burden for these employers.

We believe the largest reduction in red tape is in respect of removal of the paperwork required to document the commencement and cessation of employment of an employee. We welcome an introduction of an electronic version of the TFN declaration, and believe that information required for other purposes (e.g., Superannuation standard choice and Superstream) could be incorporated into a single electronic document and collected simultaneously as part of an employee induction process for employers. We note that this will require some changes to the underlying documents, as current versions of the TFN declaration and Superannuation standard choice form require signatures from both the employer and employee.

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

For the same reasons as discussed in our response to Question 1 above, we believe the long run red tape reduction for employers will be minimal (or lead to an increase for employers not currently using software for their payroll administration).

Employers not currently using payroll software will be required to pay for additional costs previously not required, and such small businesses can least afford the increase in compliance costs. Additional costs perceived for such employers could include the cost of purchasing software, computer hardware and paying for BAS agents to meet their new payroll obligations.

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?

PAYG Withholding

It is the cash flow consequences of the Single Touch Payroll system that we see as having most detrimental impact on employers. Cash flow and creditor management is a daily consideration for many businesses, large and small. Although paying the PAYG withholding at the payroll cycle may “smooth out the cash flow spikes” that currently exist, it discounts the difficulties that businesses face on an ongoing basis.

The cash flow requirements of a business are not linear. There will be times during a monthly/quarterly tax reporting period where greater cash flow stresses are felt, and the more frequent payments proposed by the discussion paper will lead to an undue increase in these stresses. Most businesses are aware they need to set aside amounts to pay their PAYG withholding shortly after the end of the tax reporting period.

We accept the ATO do not want to be perceived as a low-cost finance provider for Australian business, but other business creditors also bear the burden of unpaid liabilities. If employers are forced to pay their PAYG withholding obligations to the ATO every payroll cycle, that potentially leaves other creditors of the employer unpaid in the meantime. Effectively, the ATO is ‘queue-jumping’ and the director penalty regime already provides the ATO a recourse that other creditors do not have.

It is for these reasons that we do not support a change from the current cycles (i.e., twice-weekly, monthly or quarterly) of making payment of PAYG withholding amounts to the ATO. We believe Single Touch Payroll’s reporting of the withholding amounts at the time of the payroll event will achieve the goal of reporting information on a timely basis. Making payment to the ATO at the same time will provide nil to minimal relief from employer paperwork, while putting businesses under undue cash flow pressure.

Superannuation Guarantee

Although protecting employees against employers that do not meet their superannuation obligations is undoubtedly at the forefront of the proposed changes, we believe the reporting function within Single Touch Payroll will be enough to target such employers. Under the proposed reporting function superannuation payable during a quarter will be reported to the ATO.

Rather than requiring SG payments to be made each and every payroll cycle, our view is that quarterly SG payments should remain. These quarterly payments can also be reported to the ATO to be matched against amounts reported at the relevant payroll events to identify whether employers are meeting their SG payment obligations.

For similar reasons discussed above in our concerns with being required to pay PAYG withholding every pay cycle, our view is the increased cash flow pressure placed upon employers from being required to make more regular SG payments is unnecessarily severe compared with any reporting benefits the system provides. A system that provides the reporting benefits without this cash flow pressure would be our preferred option.

In response to the cash flow pressures from the increased regularity of PAYG withholding and SG payments, employers may have the incentive to behave in a manner that is unintended given the goals of Single Touch Payroll. For example, we foresee that many employers would look to change the regularity of payments they make to employees (e.g., moving from weekly or fortnightly to monthly pay cycles) just to avoid the additional payments they need to make to the ATO and various superannuation funds. This impact on employees cannot be ignored, and is certainly not in line with the objectives of Single Touch Payroll.

Question 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?

Despite being of the belief the red tape reductions for employers has been overstated in the discussion paper, the NTAA is supportive of many of the reporting features Single Touch Payroll provides.

Although not specifically discussed in the discussion paper, we would assume that any SG reporting to the ATO would be done simultaneously with reporting contributions to an employee's superannuation fund for SuperStream purposes.

Additionally, payments made to employees who are liable to pay child support often require employers to withhold an additional amount from the employee's net salary to pay to the Department of Human Services ('DHS'). Where the employer is unable to withhold the amount advised by DHS, due to it leaving the employee an amount lower than their protected earnings amount, a form ('Child Support Deductions Report') needs to be completed and sent to DHS. Hopefully, the Single Touch Payroll can also remove the need of this paperwork by sending the information required by DHS at the time of the payroll event.

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

The commencement of employment provides the best opportunity to gather all required information from employees at a single point in time. We believe any software solution should provide all of that required information in a single screen. That is, all what is currently required for the TFN declaration, superannuation standard choice, child support information and other applicable information can be completed in a single screen opened in front of the employer and employee.

Question 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?

Given that the NTAA's preferred option is for SG payments to remain quarterly, we believe the current time periods that apply to the choice of fund rules should also remain.

If SG payments are to be paid every pay cycle as proposed in the discussion paper, the employer should not be required to make SG payments until the earlier of when the employee has provided details of their own superannuation fund or a designated period of time (e.g., one month). If the employee has not provided details of their preferred superannuation provider during that period of time, the employer will commence making contributions to their default fund.

Any SG that accrued during the period between the commencement of employment and when the superannuation fund details are provided by the employee (or expiry of designated period of time, if earlier) should be paid as part of the next payroll cycle.

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

The movement into Single Touch Payroll will obviously be a huge shift in practice for many employers, so we would expect the Commissioner's discretion to be exercised generously in both the reporting and payment aspects of the new regime.

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

The NTAA is of the view that the transitional approach should be extended, and be in line with a three-tier approach, rather than a two-tier approach reflected in the discussion paper. Our preferred transitional approach is outlined below (adapted from the discussion paper), and is in line with the size of withholder types currently adopted by the ATO.

	July 2016	July 2017	July 2018	July 2019	July 2020
Employers with withholding greater than \$1 million	Employers strongly encouraged to transition to the Single Touch Payroll environment	Employers required at law to operate in a Single Touch Payroll environment Penalties may apply for those that don't Generous exemptions may apply to delay the start date for some employers	Employers expected to be operating in a Single Touch Payroll environment Exemptions may apply in exceptional circumstances		
\$25,001 to \$999,999 withheld	Employers are able to transition to the Single Touch Payroll environment	Employers strongly encouraged to transition to the Single Touch Payroll environment	Employers required at law to operate in a Single Touch Payroll environment Penalties may apply for those that don't Generous exemptions may apply to delay the start date for some employers	Employers expected to be operating in a Single Touch Payroll environment Exemptions may apply in exceptional circumstances	
\$25,000 or less withheld	Employers are able to transition to the Single Touch Payroll environment	Employers strongly encouraged to transition to the Single Touch Payroll environment	Employers required at law to operate in a Single Touch Payroll environment Penalties may apply for those that don't Generous exemptions may apply to delay the start date for some employers	Employers expected to be operating in a Single Touch Payroll environment Exemptions may apply in exceptional circumstances	Employers expected to be operating in a Single Touch Payroll environment Exemptions may apply in exceptional circumstances

This transitional approach reflects the fact that smaller employers will see the biggest jump in their reporting obligations under the Single Touch Payroll environment. There are still many employers that do not currently use software for their payroll needs. It is these employers, who would be most prevalent in the less than \$25,000 withheld range, that need the most support in making the change to a more automated system.

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

Again, very small employers will feel the biggest impact on their payroll system needs. And in many cases will result in software being required to be purchased when it has not previously been necessary for some. To avoid this additional cost to some small businesses, we suggest there to be an exemption for businesses in the less than \$25,000 category that only employ associates (e.g., family members) of the employer.

From a policy perspective, penalties associated with the SG are mostly aimed at ensuring employees are protected when they ordinarily do not have control over their employer-supported superannuation. Although the SG system obviously does require contributions be made on behalf of related employees, we see the more important problem is where employers fail to meet their obligations in respect of arm's-length employees that are expecting to receive that minimum superannuation support. It is those employers that are consciously avoiding their superannuation obligations in respect of arm's-length employees that will be best targeted by the benefits of the reporting requirements of Single Touch Payroll.

Other concerns

In addition to the specific questions asked in the discussion paper, we would like to take this opportunity to raise some concerns regarding the move into Single Touch Payroll:

1. How the Single Touch Payroll system will deal with mistakes. An increased regularity of PAYG withholding and SG payments will lead to an increased prevalence of mistakes made with these payments. Will there be a streamlined process of recovering overpayments made by employers?
2. Will the Single Touch Payroll system extend beyond employers? For example, will pension or lump sum payments made by superannuation funds (which may require PAYG to be withheld) need real-time reporting and payment? Self managed superannuation funds, in particular, will encounter a greater deal of administrative red tape if Single Touch Payroll extends to capture superannuation payments. This is also in addition to requirements already faced with the introduction of SuperStream.

Thank you for your time.

Yours Faithfully



Geoff Boxer
CEO

National Tax and Accountants' Association