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Single Touch Payroll Project
Australian Taxation Office

Email: SingleTouchPayroll@ato.gov.au

Dear Sir / Madam

Single touch Payroll discussion paper

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to your request for feedback on the Single Touch Payroll discussion paper.

About ASFA

ASFA is a non-profit, non-politically aligned national organisation. We are the peak policy and research body for the superannuation sector. Our mandate is to develop and advocate policy in the best long-term interest of fund members. Our membership, which includes corporate, public sector, industry and retail superannuation funds, plus self-managed superannuation funds and small APRA funds through its service provider membership, represent over 90% of the 12 million Australians with superannuation.

General comments

ASFA notes from information on the ATO's website that the ATO has been consulting on this initiative with software engineers and the payroll industry since July 2014. Separately we have been advised by the ATO that consultations have actually been taking place for more than two years.

In explaining the project the ATO states that:

The payroll process could allow businesses to simultaneously fulfil their reporting and payment obligations electronically in real time e.g.

- fulfil reporting obligations associated with employee commencement or employee release
- calculate payroll obligations, pay staff and issue pay slips
- fulfil "employer based" reporting and payment obligations (for example PAYGW, super contributions and payment summaries) thus removing the need for employers to separately report and pay these obligations on monthly, quarterly and annual cycles

The proposal also provides the platform to improve other employer obligations (eg paid parental leave, state payroll taxes).

Desired outcomes of engagement

- To develop an understanding of industry impacts and issues
- Industry input to high level design options
- Shared understanding to ongoing engagement for the design and implementation of STP

ASFA's initial concern is that, despite acknowledging that the processing of employer superannuation obligations formed part of the project scope, it is only recently that an attempt has been made to engage formally with the superannuation industry with respect to this project.

In recent years the superannuation industry has been going through extensive change, including the implementation of mandated data standards for the electronic exchange of superannuation payments and data between employers and superannuation funds.

Given that the ATO has regulatory oversight of the adoption of the data standards, and is the standards setter, ASFA finds this lack of early engagement both surprising and disappointing.

ASFA's second concern is the apparent narrow scope of the project with respect to payroll deductions. The consultation paper focus on payments to the ATO (PAYG withholding) and superannuation contributions (the ATO has regulatory responsibility for SG compliance) the paper ignores other payroll related activities. For example, absent from the examples of "employer based" reporting are such items as:

- payroll tax
- workers compensation insurance premium payments
- child support
- paid parental leave,
- salary packaging arrangements and
- employee requested payroll deductions for items such as health and other insurance premiums and home loan repayments.

ASFA considers that if 'single touch' truly is the goal then the above items, and any other payments that flow directly out of payroll systems or are based on payroll information, should be contemplated and considered in the technical design.

As an initial comment on the proposed implementation timeframe, based on ASFA's experience with the implementation of SuperStream and the provision of ATO on-line supporting services we consider that if the project requires the provision of ATO IT services, the proposed commencement date of 1 July 2016 is overly optimistic.

Whilst the consultation paper sets out the basic objectives of the proposal, we note the absence of a clearly articulated business case, milestones and deliverables. ASFA finds this omission disturbing given the significant reliance on private sector involvement in program outcome delivery and that the project has been endorsed by the Minister for Small Business.

ASFA is also concerned that the paper also does not clearly articulate the underlying assumptions or business rules that will be adopted. For example, in SuperStream there is a fundamental rule that all payments and the associated data are lined by a unique payment reference number. However in the section headed *Single Touch Payroll reporting capability* the suggestion is that the ATO will be notified of the super contribution amounts that the employer *will* pay. Reporting proposed future payments is merely an acknowledgement of an employer liability and does not overcome the existing problem of employees being notified on payslips of an SG entitlement that may or may not actually be paid by the employer. ASFA is unsure as to whether the absence of fundamental business rules in the consultation paper does or does not reflect a lack of detailed analysis.

A final, and major, concern is the advice in recent days that the Single Touch Payroll proposal extends to the payment by superannuation funds of PAYG withholdings on benefit payments to the ATO on an as-deducted basis. PAYG withholdings on superannuation benefit payments (pension payments and lump sums made from income streams as well as lump sums from accumulation accounts and income protection insurance benefit payments) are not a payroll function. That is,

they are not related to an employer/employee relationship but are a part of a superannuation fund's benefits administration function. Extending the project scope to these withholdings may also impact on insurance companies.

Given that the risk of superannuation funds defaulting on PAYG withholding remittances to government is negligible, this expansion of project scope seems to be more about an earlier receipt of revenue than an attempt to resolve other problems.

The superannuation industry is currently in the middle of re-engineering its administration system to maximise the benefits from the implementation of SuperStream, gearing up for changes to the SuperStream Message Implementation Guides and is also considering the ATO's SBR2 roadmap. Inclusion of superannuation PAYG withholdings in the Single Touch Payroll project would add an unacceptable level of risk to the implementation of these current large scale industry projects.

ASFA urges that no firm commitment be given to including superannuation fund withholding payments in the Single Touch Payroll projects scope until extensive and detailed consultation has been undertaken with the superannuation industry and a full cost benefit analysis has been undertaken.

ASFA suggests that the Single Touch Payroll project be subject to further rigorous analysis, including a review of the proposed scope and detailed mapping of the activities required of both the private and public sectors.

Responses to specific questions

The responses below are based on the content of the consultation paper. That is, they address the questions from the perspective of an employer's payroll operations and the proposed increased frequency of superannuation contribution payments but not the myriad of issues that will follow from the proposal that the project would also cover PAYG withholdings from superannuation benefit payments.

ASFA considers that PAYG withholdings from superannuation benefit payments should be subject to a separate consultation paper and process.

In responding to the questions posed in the consultation paper, ASFA is working on the assumption that there would be no disturbance to the arrangements under which superannuation funds receive SuperStream compliant messages through channel A. That is, ASFA is working on the assumption that there is no proposal to change the current legislated requirement for employers to comply with the Superannuation Data and Payment Standards nor to the method by which they are required to comply.

Single Touch Payroll reporting capability

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

Single Touch Payroll has the potential to significantly reduce red tape costs and other business costs associated with payroll providing what is delivered provides a comprehensive payroll processing solution.

However, it also has the potential to produce both costs and benefits for other entities. For example, if the proposal for more frequent superannuation contributions is adopted then employees' would benefit as contributions would be received and invested earlier. However, the increased transaction flows would also result in increased processing costs for the recipient funds.

ASFA considers it essential that the Single Touch Payroll design for paying contributions replicates existing SuperStream processes. If not, superannuation funds would face significant costs in adapting their newly installed arrangements.

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

It is difficult to estimate the size of the cost reduction for employers without more information on the scope of what is proposed to be delivered. For example, if Single Touch Payroll does not cater for all deductions and transfers which can legitimately be made from an employee's remuneration then the employer benefits will be limited as a significant processing workload would be retained.

The quantum of any benefits would also be dependent on the existing capabilities of an employer's payroll system.

Single Touch Payroll real-time reporting and payment capability

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

It is conceivable that, in the long run, real-time reporting and payment capability could reduce red tape costs. However, the extent to which costs may be reduced is dependent on the completeness of the solution offered.

Ideally, the solution should allow for the embedding within payroll systems of process rules and facilitate integration across the value chain. Such an outcome would improve data quality, reduce error levels and minimise reverse workflows.

It should be noted that for businesses which also offer superannuation products there may be increased costs in moving to a single touch payroll platform due to the disruption of existing internal efficient superannuation contribution arrangements.

As stated in the paper, where fees charged are transaction based, increased frequency of transactions, particularly in the superannuation space, will result in increased costs in the short term. Where the burden of these cost increases will fall depends on the commercial arrangements between funds and contributing employers. However, countering this, in the longer term the introduction of Single Touch Payroll may see the emergence of new market players with more efficient and lower cost payroll solutions.

A significant unknown is the proposed transaction pricing for the banking system's New Payments Platform.

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

The red tape cost impact is unquantifiable at this stage.

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

For superannuation funds, more frequent contributions would result in a smoothing of cash inflows.

However, should employers be concerned at the impact on cash flows then a potential outcome of alignment of payments with payroll cycles may be a shift from fortnightly to monthly cycles.

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?

As stated above, ASFA considers that a complete solution is desirable and achieving this would require the inclusion of other functions such as payroll tax, workers compensation insurance, child support, paid parental leave, and salary packaging arrangements.

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)?

For most employers, the move from the current to the new arrangements will result in a bringing forward of payment obligations. However, for some employers, those large remitters on a twice weekly payment cycle, it would appear that under event based reporting they would pay on a much less frequent cycle, perhaps monthly in some cases.

Whilst for those who will be required to pay more frequently this will be a one-off event, the quantum of the brought-forward payment liabilities could have a significant impact on many businesses.

It is suggested that consideration be given to addressing the problem by, for those employers moving to more frequent payment dates, aligning the transition in commencement dates with the employers current reporting framework and permitting employers to pay the final PAYG withholding debt under the existing arrangements over the remainder of the financial year.

For example, a medium employer could enter the system on 1 July and pay their July debt by 30 June the following year. A medium employer entering in November would pay their November debt by June the following year. Similarly, a small employer entering the new system in the September quarter would pay their debt for the quarter accumulated under the old system by the following 30 June. Consideration could be given as to whether these deferred debts should be paid off as a lump sum at the end or progressively during the remainder of the financial year.

Commencing employment

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

ASFA notes that the emphasis is on the employee supplying their details electronically through an on-line government portal. ASFA questions this focus. If the aim is to provide a complete single Touch Payroll solution then this suggests that the employee interface should be directly with the employer's payroll solution which in turn would interface with a government portal. Such an employee centric approach would facilitate the provision of enhanced services to employees whilst still meeting the fundamental objectives of the program. For example an employee could directly interface with the payroll solution to update payroll deductions etc. which would further reduce the administration burden on employers.

Separately, there exist significant differences between employee data given to/held by employers and member data held by superannuation funds. These differences should be resolved at the commencement of the employment process and this could be achieved by careful system design that facilitated interactions between employee payroll portals, payroll systems, superannuation fund administration systems and ATO online services. While designing such interactions will require a robust design process within an agreed consultation framework and will require considerable time to design develop and implement, they have the potential to produce significant economic benefits to all parties involved in the process.

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?

ASFA considers that the system design should contemplate and accommodate the legislative timeframes for both the provision of information to the employer and the timeframe for SG payment. ASFA can see no reason why a payroll system could not be designed so as to operate under both sets of rules such that it can recognise unpaid SG entitlements and, if necessary, pay those to the employer default fund before the statutory deadline.

Cessation of employment

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

ASFA has not identified any further opportunities.

Administration of penalties

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

ASFA considers that the Commissioner of Taxation should use his discretion to not impose a penalty, or to impose a penalty at a reduced rate, where the non-compliance can be attributed to matters that are reasonably beyond the control of the employer. Such matters would include the failure of software, the unavailability of supporting ATO services and the failure to provide, or the incorrect provision of, information by an employee.

Software

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

No comment

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

Whether or not the cost saving from automated payroll reporting outweighs the costs of acquisition/subscription will depend on the completeness of the payroll solution delivered.

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

The principal challenge will be whether the current payroll system can be upgraded to accommodate the Single Touch payroll requirements. If it cannot, then costs will be incurred in moving existing employee information to any new payroll platform. However this should be a one-off cost that could be recovered over time through more efficient processing. There is also the prospect that new payroll offerings that support Single Touch Payroll may be cloud-based, with the prospect of being cheaper than existing payroll service offerings.

Transition options

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

Based on our SuperStream experience with the delivery of ATO supporting services and vendor software, ASFA does not consider the proposed timetable to be achievable, particularly given the narrow consultation conducted to date.

ASFA considers that a minimum further 12 months of extensive consultation and design work is needed before the project will be in a position to make a judgment on what is an appropriate implementation time frame and path.

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

ASFA considers that while universality of adoption should be the goal, new business start-ups may face implementation challenges to the extent that a limited time-based exemption from compliance may be warranted.

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If you have any queries or comments regarding the contents of our submission, please contact Robert Hodge, Principal Policy Adviser on (02) 8079 0806 or 0442 009 113 or by email to rhodge@superannuation.asn.au.

Yours sincerely

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