



The Institute of Public Accountants

Single Touch Payroll discussion paper

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Partnership beyond numbers



IPA INSTITUTE OF PUBLIC
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Submission on Reforms to the Taxation of Employee Share Schemes exposure draft legislation

The IPA is a professional organisation for accountants who are recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 26,000 members nationally and in over 51 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. Over two-thirds of our members work in, or with small business and SMEs and are recognised as the trusted advisers to these sectors.

The IPA welcomes the opportunity to make a submission to the Single Touch Payroll discussion paper. Australian businesses are being moved to a digital-by-default approach, as part of a digital transformation process that the Government has initiated to drive more services across the digital platform. Single Touch Payroll is seen as an example of how the ATO is gradually going to move businesses to a digital approach.

Our comments are somewhat limited, given the short time frame in which to provide a response. However, despite the short time frame we received significant responses from our small practitioner member base who primarily service small business. This indicated that the proposal is a sensitive issue for our members. Our submission encompasses the feedback received on the single touch payroll proposal.

The IPA is broadly supportive of changes which reduce compliance costs and burdens particularly on small businesses. This initiative has the potential to reduce

the compliance burdens associated with payroll and super reporting for some employers but not all employers, particularly those in the small business sector. Regulatory burdens tend to affect small businesses disproportionately and this initiative will have a negative impact on compliance costs for the SME sector.

We acknowledge that the benefits of reducing the time lag between the payroll event and reporting can lead to administrative improvement in processes. Reducing this lag will result in the employer not having to handle and supply identical information on multiple occasions, thereby reducing administrative processes. The use of Standard Business Reporting (SBR) enabled software as the digital channel to report payroll information to various government agencies can lead to further enhancements in super reporting and payment obligations. We also acknowledge that this initiative will lead to improvements in the identification of employers who do not pay employee super payments which can go undetected for some time. A lot of administrative effort is wasted chasing unpaid super that is delayed or in extreme cases never paid due to the insolvency of the business, which is unfair on employees. Improved visibility of employee super entitlements and payments will enable the ATO to better manage businesses to ensure they meet their employee super obligations.

This initiative can also streamline TFN declarations and Super Choice forms by providing digital services to simplify the process of bringing on new employees. Often employees provide the employer with incorrect information, so there are efficiencies to be gained if information provided can be verified.

The automatic reporting of payroll information will eliminate the need for employees to report PAYG withholding amounts in their activity statements throughout the year and employee payment summaries at year end.

Whilst this initiative has the potential to reduce the compliance burdens associated with payroll and super reporting for some employers, it will do the opposite for mainly smaller employers.

Whilst we are broadly supportive of the proposed changes on businesses with the means to comply, we are concerned about the significant impacts the changes will impose on other employers, particularly small businesses that employ less than 10 employees which this submission will refer to as micro businesses. In the short term it has the capacity to increase red tape and business costs. There are already enough compliance burdens related to employing staff, which we will not elaborate on. According to the ABS data, around 61% of actively trading small businesses are non-employing, while around 28 per cent have between one and four employees and 10 per cent between 5 and 19 employees. Without addressing the transitional impacts of forcing these micro businesses into a digital by default environment, we could be adding to the significant impediments that this sector are already facing. Our members have discussed this initiative with their small business clients and the overwhelming majority have expressed mostly negative feedback with some suggesting that they would sack their staff and return to becoming sole proprietors of their business.

As a significant contributor to employment, the impacts of imposing more red tape on this sector should not be ignored as there is likely to be adverse consequences unless proper compensatory measures are undertaken to mitigate some of the impacts. The small business sector will not take kindly to the digital by default approach which is being sold to them as a red tape reduction.

In response to the discussion paper we provide the following comments below:

Increase compliance costs to micro business

- Many small businesses with less than 10 employees are not using computer software to perform payroll functions. This initiative will increase the cost of doing business and imposes more administrative burdens on micro businesses in the short term for the following reasons:
 - Firstly there is the cost of the initial outlay to purchase both hardware and software. Many small businesses rely on simple manual cash books to run their business and use a wage book or excel spreadsheet

for payroll purposes. This has proven to be a more cost effective alternative as the outlay to maintain these records is considered negligible. In the case of payroll software, some businesses find that the cost to purchase such software in order to pay a small number of employees is unwarranted when they can manage this process quite easily manually. The cost of purchasing, maintaining and employing someone to input data into a software package is considered prohibitive. Also some business owners are not computer literate. Some rely on intermediaries such as bookkeepers to attend to this duty to consolidate the data into software packages after the event. It would not be common for these intermediaries to attend to this duty for each and every pay date, instead performing this task perhaps once a month. The use of bookkeepers to perform this function each and every pay cycle will add to business costs. Some feedback we received suggested that some employers will revert to the cash economy and pay their employees cash in hand.

- Additionally there is the constant upgrading of software and training in the use of the software.
- The cost of procuring a reliable 24/7 internet service, assuming this service is available. Many locations do not have a reliable internet service which makes the use of cloud software not an option. Outside the major urban areas internet and mobile coverage is limited, unreliable and problematic.

Increased time commitment

- The one thing many small businesses complain about most is the lack of spare time to undertake administrative duties. We are constantly reminded that many micro small business owners already sacrifice personal and family time to meet reporting requirements.

Increased frequency of reporting

- Increase frequency of reporting compared to current system. Businesses will be required to report after each payroll cycle which will increase the frequency

of reporting exponentially. For example a business which reports PAYG withholding quarterly, will go from four reporting cycles to 52 contacts of information. If the business already reports monthly, it will go from 12 BAS and one lot of payroll summaries to 52 returns if it pays its employees weekly. If the business relies on intermediaries to perform these administrative tasks, then this would drive up business costs. Will banks and superfunds charge additional amounts due to increase in frequency of payments?

Availability of cloud based systems

- The discussion paper makes onerous assumptions about the availability and affordability of cloud base payroll application software. Many business owners particularly in regional areas do not have access to a reliable internet service provider to access cloud based applications. Some business owners are against the use of cloud based software applications for a multitude of reasons and will only use a desktop application.

Impact on cash flow

- If the remitting of PAYG withholding and SG for employees needs to happen at the same time employees are paid their salary and wages, then this will have adverse cash flow consequences. Most small businesses use the current delay between the payroll cycle and their tax and super obligations to manage the cash flow of their business. If the PAYG withholding and SGC must be made at the same time that payroll is processed it will bring the payment forward to weekly, fortnightly or monthly, from in most cases quarterly. This moves the pecking order of payments and may have consequences for other creditors of the business and/or the viability of the business. It is already well documented that access to finance for small business is a significant issue. Also what happens if there is only enough money to pay wages and salaries? Will businesses pay staff their net pay but not actually process the payroll until they have the funds to pay the tax and SGC. How do errors get corrected if already reported electronically?

- Some businesses receive a GST credit when they lodge their BAS which effectively offsets some of their PAYG withholding liability. The proposed changes will see the payment of PAYG amounts ahead of the receipt of the GST credit, placing extra pressure on cash flow.
- In addition to the more frequent cash outflows associated with each payroll cycle, there will also be the initial transitional impact of paying the PAYG withholding and super for the last reporting period at the same time as moving their tax and super cycle.
- Some businesses need flexibility in the amount they pay. For example a medical practitioner operating through a company needs to adjust the salary paid to ensure that most of the profit is paid out by year end, which could entail retrospective adjustments. How can such businesses retrospectively adjust pays after the end of the year?
- There is already a growing level of unpaid tax debt owed to the ATO from the small business sector. If remittances are aligned to the time when employees are paid, what will this do to the level of debt already owed?

This initiative over time has great potential to significantly improve current administrative processes around payroll. Imagine if employers were linked seamlessly to TFN, choice of superannuation fund and bank account information stored on an employees my tax account. Most of the immediate benefits unfortunately will accrue to larger employers that have established systems and dedicated staff to handle such changes.

Whilst we acknowledge that implementation of single touch payroll will be staggered for different size businesses, a one-size-fits-all approach will create significant problems for the small micro business sector that would need to be addressed to curtail the regressive impact on compliance costs.

The IPA welcomes the opportunity to discuss further any of the matters we have put forward in our submission. Please address all further enquires to me (tony.greco@publicaccountants.org.au or 0419 369 038).

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