

***Regulation Impact Statement:* REDUCING SUPERANNUATION COMPLIANCE COSTS FOR SMALL BUSINESS**

The Problem

The Role of Small Business in the Superannuation Guarantee System

Small business plays a pivotal role in the compulsory superannuation system. Over 90 per cent of employing businesses in Australia are small businesses with less than 20 employees.¹ As at June 2013, small businesses employed 4.5 million workers, accounting for around 43 per cent of all private sector non-financial employment.²

The primary objective of compulsory superannuation is to improve potential retirement income. However, the benefits of compulsory superannuation for employees need to be balanced against the costs imposed on businesses in complying with their superannuation obligations.

Like all employers, small businesses are required to make superannuation guarantee (SG) contributions for their employees. Employers have a range of responsibilities in relation to superannuation that commence when they first employ someone. As at 30 June 2014, around 97 per cent of businesses were small businesses³.

It is well established in the literature that compliance costs fall disproportionately on small businesses with fewer staff and less expertise and time to deal with sometimes complex and changing rules.⁴ While larger businesses have higher compliance costs than small business, the compliance burden as a proportion of turnover or per employee is much more significant for small business. This is because some compliance costs are costs that do not vary appreciably with firm size, so called 'fixed' costs, and because other compliance costs, while increasing with output, do so at a decreasing rate, creating economies of scale.⁵ For example, there are gains from specialization when a large firm hires one or more expert staff whose sole responsibility is regulatory compliance.

¹ Australian Bureau of Statistics (2015), Counts of Australian Businesses, including entries and exits, June 2010 to June 2014 – 8165.0

² Australian Bureau of Statistics (2013), Australian Industry 2011-12 June 2007 – 8155.0, Table 2.1, ABS Statistics

³ Australian Bureau of Statistics (2015), Counts of Australian Businesses, including entries and exits, June 2010 to June 2014 – 8165.0

⁴ McKercher M., Hodgson H. and Walpole M. 2006, 'Final Report: Scoping Study on the Costs of Compliance of Small Business' Australian School of Taxation, University of NSW

⁵ Lignier P., and Evans C., 2012 'The rise and rise of tax compliance costs for the small business sector in Australia' Australian School of Taxation, University of NSW

The existence of such economies confers competitive advantages on larger businesses as their relative costs decline, which may affect the growth, birth and survival of small firms.

Employers' Obligations under the Superannuation Guarantee Law

Like all employers, small businesses are required to make SG contributions for their employees. Employers have a range of responsibilities in relation to superannuation that commence when they first employ someone.

To comply with these obligations, small businesses need to calculate their employees' superannuation entitlements and ensure that that entitlement is paid into a complying superannuation fund by the required date.

Administrative obligations imposed on employers under the SG legislation which impose a compliance cost burden on businesses include:

- Determining if the employee is eligible to choose the superannuation fund their contributions are paid to;
- Providing a choice of fund form to eligible employees;
- Establishing a superannuation account with the employer's default fund for those employees who do not provide their employer with details of their chosen account;
- Passing on an employee's tax file number to their superannuation fund if the employee notifies their employer of the number;
- Working out if they have to pay super, that is, whether their workers are:
 - Contractors paid wholly or principally for labour, in which case they are considered an employee for SG purposes and are entitled to SG contributions under the same rules as employees;
 - over 18 and their salary and wages are over \$450 for the month; or
 - under 18 and work more than 30 hours per week and are paid \$450 or more (before tax) in salary or wages in a month.
- Calculating how much to pay based on their employees' ordinary time earnings (OTE), or as specified under an award which can require contributions in excess of those required under the SG law;
- Paying contributions to employees' chosen funds or, if the employee has not chosen a fund, to the employer's default fund, at least four times a year;
- Keeping records showing the amount of super paid for each employee and documents used to calculate the amount of super paid;

- Keeping records for up to five years to show choice was offered to eligible employees and how any reportable superannuation contributions were calculated; and
- Lodging an SG Charge statement and paying the SG Charge amount if contributions are paid late.

In addition, state and federal awards may require contributions in excess of those required under the SG law while under the Fair Work law employers are also required to report either accrued or actual contributions on pay slips.

Treasury has recently undertaken consultation with a broad range of stakeholders across sectors and industries to better understand the superannuation compliance cost concerns of small business owners. Stakeholders indicated that the greatest compliance burden arises on engagement of a new employee. The SG compliance burden is exacerbated for employers with high staff turnover and relying on paper-based systems and whose employee contributions are spread over a number of different funds. The burden is further exacerbated in industries where there are large numbers of temporary residents employed for short periods and typically not re-engaged. However, delivery of superannuation contributions data and the associated payment from employers to superannuation funds have to be electronic for all businesses by 1 July 2016.

Small business employers indicated that explaining the need to start up a superannuation account can be a time consuming and frustrating experience in circumstances where the employee may have no understanding of Australia's superannuation system and very little interest in accumulating savings for their retirement.

Many employers report that once they have established their employees' superannuation accounts the periodic payments—generally monthly or quarterly — are relatively straightforward and not particularly onerous.

Based on a national random sample survey undertaken in 2011, the Australian Taxation Office (ATO) estimates that the aggregate compliance cost imposed by the superannuation obligations on businesses with an annual turnover of less than \$2 million is in the order of \$370 million per year, or around \$900 per business.

The policy objective is to meet the Government's election commitment to reduce the superannuation compliance burden faced by small business employers to help level the playing field between small and large business. The options developed to meet this commitment should provide compliance costs savings to all employers including small businesses. The recommended options will particularly benefit businesses that employ seasonal workers including those in the agriculture, hospitality and retail sectors.

The Need for Government Action

The mandatory payment of superannuation contributions for employees under the SG legislation is a core part of Australia's retirement income system. However, in addition to the direct cost of paying superannuation contributions for their employees, employers also face administrative costs in complying with the legislation. It is these administrative costs that the Government is seeking to reduce for businesses; in particular small businesses, that disproportionately bear these compliance costs, often because of their reliance on seasonal workforces.

Given the compliance burden associated with the compulsory superannuation system, revising the current SG obligations could be part of the solution to reducing the compliance burden faced by employers.

Also, the Government made an election commitment to reduce superannuation compliance costs for small businesses.

As a first step in meeting this commitment the ATO took over responsibility for running the Small Business Superannuation Clearing House (SBSCH) from the Department of Human Services from April 2014.

As a second step, the Minister for Small Business and the former Assistant Treasurer announced that there would be an extensive stakeholder consultation process so the Government could better understand superannuation compliance cost concerns of small business and develop further options to reduce these costs.

Further background regarding the SBSCH Changes

As noted above, a first step in meeting the commitment to reduce small business superannuation compliance costs, responsibility for the SBSCH was transferred to the ATO on 1 April 2014.

Between 1 April 2014 and 31 March 2015 the number of new small business registered with the SBSCH increased by 36,856 employers, with a total of 95,161 employers registered to use the service as at 31 March 2015. As the ATO continues to promote the service to small business clients, this trend is expected to continue.

The SBSCH is a free online clearing house service which is currently available for small businesses with 19 employees or less. The SBSCH allows employers to send all of their employees' superannuation contributions' data and payments in one transfer, the SBSCH then distributes the payment based on each employee's choice of fund. The ATO is best placed to increase the take up rate of the clearing house as they have access to data on who is eligible for this free service.

The purpose of the SBSCH is to minimise the time and paperwork in paying contributions to numerous superannuation funds. As SG obligations can be satisfied in a single transaction, red tape and compliance costs are reduced for small businesses.

Options for reducing the superannuation compliance burden on small business

Given the various administrative obligations imposed on employers by the SG legislation, there is a broad range of options that could be implemented to reduce the superannuation compliance burden.

Addressing certain aspects of the superannuation compliance cost burden would require radical change to the current structure of the SG system and/or could reduce employees' entitlements. Options of this nature are not considered practical. For example, to address the compliance costs created from having different superannuation obligations apply under an industrial award to those applying under the SG law, would require removing superannuation from awards. This would represent a major change to the current industrial relations landscape and could result in some workers having their current entitlements reduced.

Options considered in detail following an initial round of consultation for reducing the superannuation compliance cost burden imposed on small businesses are set out below.

Option	Description
1.	Status quo
2.	Expand access to the SBSCH to also include small businesses with annual aggregated turnover below the small business entity turnover threshold (currently \$2 million).
3.	Remove the obligation on employers to offer temporary resident employees a choice of fund.
4.	Remove the obligation on employers to re-offer choice of fund when funds merge
5.	Allow small businesses to make contributions for temporary residents directly to the ATO.
6.	Increase the \$450 SG monthly income exemption threshold for small businesses employing temporary residents.

Likely Net Benefits of Options

Option 1: The Status Quo

Under this option, there would be no additional changes to the current SG or SBSCH arrangements. There are, however, other changes already in train or that have been foreshadowed which are expected to reduce the current superannuation compliance cost burden on employers in the future.

Current Reform Initiatives

The SuperStream reforms that are currently being phased-in are expected to significantly reduce superannuation compliance costs, including for small business employers.

Once fully implemented, SuperStream will deliver a range of benefits to employers that will address a number of the irritants identified by stakeholders during consultation. These benefits include: creation of a unified set of data standards that apply across funds and the opportunity to deliver all data through a single electronic channel, regardless of how many funds businesses' employees contribute to. This is expected to result in less time spent dealing with employee data issues and fund queries; greater automation and reduced cost of processing contributions and payments; and more timely flow of information and money in meeting their superannuation obligations. Small businesses start transitioning to SuperStream from 1 July 2015.

The ATO is also continuing to develop initiatives aimed at reducing compliance costs for employers through the use of digital platforms. These initiatives have the potential to build on the SuperStream benefits and deliver further compliance cost savings to employers when engaging new staff and making super contributions.

Migration to a digital platform is a number of years away and is likely to require a number of legislative changes. Superannuation compliance cost savings will depend on the final policy design, however, they are potentially significant.

While retaining the status quo would meet the policy objectives it provides no additional compliance cost savings over what has already been agreed to in the short term. (A RIS was prepared for the SuperStream changes when the legislation was introduced and hence compliance costings for these initiatives have previously been prepared). In addition, the timing of possible longer term savings is unknown. Thus this option would not be consistent with the Government's objective of developing further options in the near-term to reduce compliance costs. However, in developing other options, the impacts of these changes should be taken into account.

Regulatory Burden and Cost Offset Estimate Table – Status Quo

Average annual regulatory costs (from business as usual)				
Change in costs (\$ million)	Business	Community organisations	Individuals	Total change in costs
Total, by sector	\$-	\$-	\$-	\$-
Cost offset	Business	Community	Individuals	Total, by source

Average annual regulatory costs (from business as usual)				
(\$ million)		organisations		
Agency	\$ -	\$ -	\$ -	\$ -
Are all new costs offset?				
<input type="checkbox"/> Yes, costs are offset <input type="checkbox"/> No, costs are not offset <input checked="" type="checkbox"/> Deregulatory—no offsets required				
Total (Change in costs – Cost offset) (\$ million) = \$0				

Option 2: Expand access to the small business superannuation clearing house to all small businesses with annual aggregated turnover below the small business entity turnover threshold (currently \$2 million), regardless of whether they have less than 20 employees or to businesses with less than 20 employees

As at 30 September 2014, approximately 782,000 employers were eligible to use the SBSCH however, as of 31 March 2015 only 95,161 employers were registered. A December 2012 customer satisfaction survey found that 98 per cent of respondents rated their overall satisfaction with the SBSCH as either 'extremely satisfied' or 'satisfied'.

Given the reduction in compliance cost benefits available to small businesses who utilize the SBSCH, there would be compliance costs benefits from greater take-up of the clearing house service.

During consultation, stakeholders indicated that key reasons for low take-up of the SBSCH were:

- a lack of awareness of the service;
- a preference for software solutions which enable SG to be paid without having to manually enter contribution details for individual employees (users of the SBSCH have to manually enter employee contributions each quarter); and
- breaching the employee threshold either temporarily due to peak workloads or because a business employs more than 19 casual staff.

The Government has already taken steps to address lack of awareness of the SBSCH by transferring responsibility for the clearing house to the ATO.

As small employers have an established relationship with the ATO and known and familiar channels of communication, the ATO is well-placed to leverage these to promote awareness and, as noted above, this has already increased take-up of the SBSCH service. Take-up is expected to continue to increase as the ATO continues to promote the SBSCH.

It is not considered necessary to develop options to address low take-up for those businesses who have already adopted an alternative software solution as these businesses are unlikely to benefit from reduced compliance costs from switching to the SBSCH.

Option 2 is therefore aimed at addressing low take up by employers who temporarily breach the employee threshold. For businesses hiring seasonal employees, the current eligibility criteria can be problematic since the employee threshold (less than 20 employees) can be temporarily exceeded by employers, even though their workforce is normally under the threshold. This change provides a greater degree of certainty for businesses with workforces that may temporarily fluctuate above the employee cap. Likewise, a turnover based threshold is expected to make it easier for these businesses to self-assess their eligibility and encourage greater use of the SBSCH.

Also, by enabling small businesses that are close to the current employee threshold to continue to use the SBSCH in circumstances where they breach the existing threshold, small businesses will reduce their compliance costs. Otherwise, after exceeding the employee cap, employers are faced with the compliance burden of switching to commercial or software systems to process their superannuation guarantee obligations. Both the expanded and continued access to the SBSCH will reduce the commencement costs of hiring a new employee for these small businesses and encourage take up by small businesses.

This option expands the number of employers eligible to use the SBSCH by 27,500⁶. It also aligns the SBSCH ATO definition of small business with the one which is used for a range of small business concessions (the small business entity turnover threshold), reducing the potential for confusion. Under this option all small businesses below the threshold would be eligible to use the SBSCH. Currently, any small business that employs more than 19 employees does not have access to the service.

Expanding eligibility for the SBSCH is unlikely to have any significant impacts on the Government's fiscal position. The estimated cost of expanding access to the SBSCH is \$2.6 million over the forward estimates (2014-15 to 2016-17).

In theory, Government provision of a free clearing house service could constitute unfair competition for commercial providers. However, this service is not thought to create unfair competition to the commercial based providers as only an additional 3,600⁷ small businesses (or around 13 per cent) are estimated to start using this service out of the 27,500 additional eligible businesses. This low rate is because the SBSCH historically has had a low take-up, which may be

⁶ Details of how this estimate was derived are set out in Attachment A

⁷ Details of how this estimate was derived are set out in Attachment A

partially attributable to commercial based providers offering additional services. These services (such as banking, registration of new members etc.) make business operations less time intensive than using the SBSCH.

While this proposed expansion is modest, it specifically targets small businesses that usually face higher compliance costs, especially if businesses are using paper based systems. Expanding this service would also assist small businesses transition to electronic data and payments of superannuation that are mandatory by 1 July 2016.

In the longer term, demand for the SBSCH is expected to decline as the SuperStream reforms have increased the attractiveness of a number of free or very low-cost clearing house services offered by superannuation funds and the further development of payroll software that enables employers to pay their SG for all their employees in one transaction.

Hence, it is anticipated this option would not create unfair competition for commercial clearing house services.

A quantitative assessment of the compliance costs was undertaken using a methodology that was consistent with the Regulatory Burden Measurement (RBM) framework that has been agreed with the OBPR. It was assessed that expanding eligibility in this way would result in an annual compliance cost saving of \$1.22 million. Details of how this estimate was derived are set out in Attachment A.

Regulatory Burden and Cost Offset Estimate Table – Option 2

Average annual regulatory costs (from business as usual)				
Change in costs (\$ million)	Business	Community organisations	Individuals	Total change in costs
Total, by sector	-\$1.23	\$0	\$0	-\$1.23
Cost offset (\$ million)				
	Business	Community organisations	Individuals	Total, by source
Agency	-	-	-	-
Are all new costs offset?				
<input type="checkbox"/> Yes, costs are offset <input type="checkbox"/> No, costs are not offset <input checked="" type="checkbox"/> Deregulatory—no offsets required				
Total (Change in costs – Cost offset) (\$ million) = -\$1.23				

Option 3: Remove the obligation to offer choice of fund to temporary residents

On engagement, employers are required to provide employees with a choice of fund form for eligible employees. This requirement can become particularly burdensome for employers that employ large numbers of temporary residents to cover peak workloads, for example in hospitality and in the agriculture sectors.

In many countries, employees are not entitled to access any pension/superannuation benefits until they retire or until after they have been contributing to the system for several years. Temporary residents are thus often likely to come to Australia with very little interest in ensuring that a fund is properly established as many will have no expectation of being able to access the savings on departure from Australia. In Australia, however, temporary residents are able to claim their superannuation when they depart.

Under this option, the compliance costs with employing new staff would be reduced by removing the obligation to offer temporary residents a choice of fund; however, employers would still be required to act on an employee's choice of fund if the employee provides all the necessary information. This option was raised by small business farmers during consultation.

This proposal acknowledges the concerns of all small businesses that employ temporary residents without creating labor market inequities. The benefits of this option would be a reduction in compliance costs for employers as they no longer have the compliance cost burden of providing certain employees with a choice of fund form and the need to spend time trying to explain the importance of completing the form and how to do so.

Although this option may appear to ease the compliance burden from having to make payments to multiple funds, these costs savings will be diminished when the SuperStream reforms are fully implemented. With the introduction of SuperStream, the compliance costs associated with sending employee data to multiple funds are expected to be insignificant. Under SuperStream there is no difference in the data requirements for an employer in contributing to one fund as opposed to contributing to many funds as under SuperStream all data can be delivered through a single electronic channel to a single destination, regardless of how many funds their employees contribute to. SuperStream was implemented from November 2014 for medium and large businesses and will commence for small business from 1 July 2015 with all businesses expected to be compliant by 1 July 2016.

The compliance costs to employers of making payments to multiple funds are also expected to be small for most employers. Payment of superannuation has to be electronic as of 1 July 2016 for all businesses. There are also a number of free or very low cost clearing house services available to employers of all sizes which facilitate the delivery of data and associated payments to multiple

superannuation funds. In addition to these are a number of low-cost software solutions on the market which also provide this service. Also, the SBSCH will be of assistance to small business employers who make these payments.

This proposal could also reduce the costs on temporary residents associated with choosing a superannuation fund and completing a choice of fund form. Many temporary residents however, are already unlikely to choose their own fund or complete the choice of fund form and thereby effectively opt for their employer's default fund. To the extent this is the case, the benefits of this option for temporary resident employees would be reduced.

Overall, as a result of this option, commencement costs on the employer would be reduced upon engaging an employee as employers no longer have to provide a standard choice form. Employers avoid liability to the choice shortfall penalty in respect of their temporary resident employees.

Although this option may result in compliance cost savings for employers, this option may result in the proliferation of multiple accounts for temporary employees as they are no longer prompted to choose a superannuation fund. This would occur when temporary residents work for more than one employer and they fail to provide subsequent employers with details of an established account. As a result, the temporary employee's superannuation balance will be reduced on departure as a result of multiple fees being charged. However this is likely to be the current situation for many temporary residents as many do not exercise choice.

On balance, it is considered that this option would meet the objective of reducing the superannuation compliance burden for businesses. In particular, this option will benefit small businesses employing temporary residents; the majority of employers in the hospitality (92 per cent) and agricultural (97 per cent) sectors are small business⁸. However, this benefit is not expected to be significant.

A quantitative assessment of the compliance costs of removing the obligation to offer temporary residents a choice of fund was undertaken using a methodology that is consistent with the Regulatory Burden Measurement (RBM) framework that has been agreed with the OBPR. It was assessed that removing the obligation on employers to offer choice of fund to temporary residents would result in a small compliance cost saving. Details of how this estimate was derived are set out in Attachment A.

⁸ Australian Bureau of Statistics (2015), Counts of Australian Businesses, including entries and exits, June 2010 to June 2014 – 8165.0

Regulatory Burden and Cost Offset Estimate Table – Option 3

Average annual regulatory costs (from business as usual)				
Change in costs (\$ million)	Business	Community organisations	Individuals	Total change in costs
Total, by sector	-\$21.96m	\$ -	\$ -	-\$21.96m
Cost offset (\$ million)	Business	Community organisations	Individuals	Total, by source
Agency	\$ -	\$ -	\$ -	\$ -
Are all new costs offset?				
<input type="checkbox"/> Yes, costs are offset <input type="checkbox"/> No, costs are not offset <input checked="" type="checkbox"/> Deregulatory—no offsets required				
Total (Change in costs – Cost offset) (\$ million) = -\$21.96m				

Option 4: Remove the obligation on employers to re-offer choice of fund when funds merge

Employers are currently required to provide eligible employees a standard choice form when funds merge. This proposal would remove this obligation and therefore reduce compliance costs on employers and reduce the risk that they will be exposed to the choice shortfall penalty without taking the right to choose a fund away from eligible employees.

Fund mergers occur periodically. In the 2010-11 income year around 35 superannuation funds merged although the number of employers and employees affected by these mergers is unknown.

While employers would generally be advised of a merger many employers, particularly small business employers are unlikely to be aware that they have an obligation to re-offer their eligible employees a choice by providing them with a standard choice form in this situation. This can expose employers to a choice shortfall penalty. This option would therefore reduce SG compliance costs for employers as they no longer have a positive obligation to reoffer choice (and potentially deal with the compliance burden of changed preferences) while also protecting employers from the risk of inadvertently incurring the choice shortfall penalty.

This option would benefit all employers that have employees that belong to funds that have merged, not just small businesses. Around 120,000 employers are expected to have their compliance costs reduced from this change. The 120,000 was estimated by extracting from ATO data bases the count of employers who made employer contributions on behalf of employees into funds

who merged in the 2009-10 income year. More recent data was not readily available from the super business line when the estimate was being completed. Another income year of merger data was checked and gave similar outcomes to the 120,000 listed.

This option is not seriously detrimental to the choice of superannuation fund framework for employees as the obligation to re-offer choice on employers is onerous given that the *Corporations Act 2001* already provides a framework for notifying members of superannuation funds about 'material changes' or 'significant events'. Accordingly, under this proposal members would continue to be alerted to the fact that their benefits will be transferred to another fund. Should an employee wish to exercise a choice of fund they could still do so by providing their employer with the details of their chosen fund in writing. Employers would be required to act on the choice but would no longer have the compliance burden of taking positive steps to ensure employees had a choice of fund after a merger. However, the broader implications are that only at the margin it could lead to less employees exercising choice when two funds merge.

A quantitative assessment of Option 4 was undertaken using a methodology that was consistent with the Regulatory Burden Measurement (RBM) framework that has been agreed with the OBPR. It was assessed that this option would result in a small compliance cost saving from not having to re-offer and process choice forms in circumstances where funds merge. Details of how the compliance cost estimate was derived are provided in Attachment A.

Regulatory Burden and Cost Offset Estimate Table – Option 4

Average annual regulatory costs (from business as usual)				
Change in costs (\$ million)	Business	Community organisations	Individuals	Total change in costs
Total, by sector	-\$23.20m	\$0	\$0	-\$23.20m
Cost offset (\$ million)	Business	Community organisations	Individuals	Total, by source
Agency	\$-	\$-	\$-	\$-
Are all new costs offset?				
<input type="checkbox"/> Yes, costs are offset <input type="checkbox"/> No, costs are not offset <input checked="" type="checkbox"/> Deregulatory—no offsets required				
Are all new costs offset?				
<input type="checkbox"/> Yes, costs are offset <input type="checkbox"/> No, costs are not offset <input checked="" type="checkbox"/> Deregulatory—no offsets required				
Total (Change in costs – Cost offset) (\$ million) = -\$23.20m				

Option 5: Allow small businesses to make contributions for temporary residents directly to the ATO

Under this proposal, small business employers employing temporary residents would be able to meet their SG obligations by paying their contributions to the ATO rather than to employees' superannuation funds. Payment to the ATO would be via the small business superannuation clearing house. Employers would still be able to choose to pay SG for their temporary resident employees to a fund. Variations of this proposal were put forward during consultation.

This option would reduce the compliance costs on small businesses associated with engaging temporary residents by removing the obligation on employers to offer choice of fund to temporary residents who may only stay for a few weeks or months. This will mean that there will be reduced compliance costs on small business employers when a temporary resident commences employment with them. As payment would occur through the SBSCH, this would not impose additional compliance costs for the small business employers that are already using this system. The reduction in compliance costs, while benefiting all businesses that employ temporary residents, would be greatest for small businesses that employ large numbers of temporary residents and/or have high staff turnover. Typically, these workforce demands are experienced by businesses in the hospitality and agriculture sectors and, as noted above, the vast majority of employers in these sectors are small businesses.

Temporary residents are entitled to the SG as it is equitable that they be able to build their retirement savings while working in Australia. The payment of SG to temporary residents also prevents labour market inequities. However, the Government recognises that as these individuals will generally not retire in Australia, they should be allowed to claim their SG when they depart.

Superannuation can be claimed by temporary residents after they have permanently departed Australia and can also be claimed from the superannuation fund before it is transferred to the Australian Taxation Office (ATO). Withholding tax, generally at the rate of 35 per cent, is also applied to this amount. This tax rate is higher than the 15 per cent tax rate that is generally applied to SG amounts for Australian citizens and permanent residents. This ensures that the concessional tax system is directed towards individuals that are likely to retire in Australia.

If the superannuation of a temporary resident is unclaimed, it becomes payable to the ATO. This occurs when the individual ceases to hold a temporary visa, has left Australia, and at least six months have passed without claiming superannuation from their superannuation fund.

In practice, many temporary residents do not claim their superannuation on leaving Australia. As at 30 June 2014, the ATO held \$575 million (or 792,800

accounts) in temporary resident unclaimed superannuation. This was an increase of \$35 million (or 203,800 accounts) compared to the previous year.

The payment of superannuation contributions for temporary residents direct to the ATO would make it easier for temporary residents who may otherwise have to claim monies from multiple funds. This must be balanced against the consideration that paying superannuation direct to the ATO would mean that temporary residents would receive less earnings on their contributions as funds claimed from the ATO receive interest at a rate equivalent to the inflation rate whereas fund earnings rates are typically higher. However, by the same token balances would not be eroded by fees and insurance premiums being deducted. Where temporary residents currently have multiple accounts because they do not exercise choice, this option may not leave temporary residents any worse off.

Superannuation funds would lose fee revenue under this option which could result in offsetting increases in fees on the accounts of permanent residents. However, superannuation funds would have the burden of paying unclaimed temporary resident superannuation to the ATO reduced. Some compliance burden would remain as employers would still have the choice of paying temporary resident superannuation to a fund.

However, although this option would provide some compliance costs savings, the overall compliance cost reduction on employers under this option is expected to be negligible. With the introduction of SuperStream, the compliance costs associated with sending employee data to multiple funds are expected to be insignificant.

The compliance costs to employers of making payments to multiple funds is also expected to be small for small businesses. Payment of superannuation has to be electronic as of 1 July 2016 for all businesses. There are a number of free or very low cost clearing house services available to employers of all sizes which facilitate the delivery of data and associated payments to multiple superannuation funds. In addition to these are a number of low-cost software solutions on the market which also provide this service. Also, the SBSCH will be of assistance to small business employers who make these payments.

Overall, it was assessed that this option is not likely to offer a material improvement in the SG payment processes for employers as it is unlikely to reduce the administrative burden for small businesses employing temporary residents, rather it offers an alternative SG payment mechanism.

Regulatory Burden and Cost Offset Estimate Table – Option 5

Average annual regulatory costs (from business as usual)				
Change in costs (\$ million)	Business	Community organisations	Individuals	Total change in costs
Total, by sector	\$-	\$-	\$-	\$-
Cost offset (\$ million)	Business	Community organisations	Individuals	Total, by source
Agency	\$ -	\$ -	\$ -	\$ -
Are all new costs offset?				
<input type="checkbox"/> Yes, costs are offset <input type="checkbox"/> No, costs are not offset <input checked="" type="checkbox"/> Deregulatory—no offsets required				
Total (Change in costs – Cost offset) (\$ million) = \$0				

Option 6: Increase the SG monthly exemption threshold for small businesses employing temporary residents

Under this option the compliance burden on small business employers associated with employing temporary residents who are employed for only a short period would be reduced by increasing the SG exemption threshold for these workers from \$450 to \$2,000 per month. This would reduce the number of temporary resident employees for whom employers would be required to pay SG contributions by an estimated 44,000 employees.

Under the current SG exemption threshold, employers are typically required to pay SG after an employee has worked for as little as 3 days⁹. Whereas under this proposal, in the horticultural industry at award wages a threshold of \$2,000 would mean that employers would not have the compliance burden of registering new temporary resident employees with a fund or offer choice if they only worked for two weeks.

In addition to reducing the compliance costs associated with employing temporary residents, this proposal would reduce the direct costs of employing temporary residents especially in industries where there is a high turnover of employees.

As a general principle, superannuation obligations should have a neutral effect on the decision to hire employees, whether at particular wage rates or whether the employee is a temporary or permanent resident.

⁹ Based on \$20 ordinary times earning per hour with an 8 hour day

Furthermore, policy options should seek to ensure that no less favourable terms and conditions of employment are applied to temporary residents than Australian residents performing equivalent work. This would be consistent with the objective of the temporary work (skilled) visa (subclass 457) programme that genuinely skilled workers are brought into Australia to address labour shortages where an employer cannot find an appropriately skilled Australian.

A cost of this option is that it would distort the labour market for low income earners by making temporary residents more attractive to employ than Australian workers. It may also encourage employers to convert full-time jobs into multiple part-time jobs.

- For example, a \$2,000 per month exemption threshold would mean any temporary resident employee who works three days per week on the National Minimum Wage (NMW) would not be eligible for SG contributions.
- A temporary resident who earns the equivalent of the full-time NMW across multiple part-time jobs may not be eligible for SG contributions, despite being eligible if they earn the same income from a full-time job.
- There would be a significant remuneration 'cliff' as wages approach the \$2,000 threshold, which could lead employers to rearrange work schedules to avoid paying SG contributions.

A quantitative assessment of increasing the SG exemption threshold for small businesses employing temporary residents was undertaken using a methodology that is consistent with the Regulatory Burden Measurement (RBM) framework that has been agreed with the OBPR. It was assessed that while this option may provide employers with less direct financial costs it would result in a small increase in compliance costs as adopting different SG obligations for resident and temporary resident employees would add complexity to existing payroll processes. Details of the how the compliance cost estimate was derived are provided at Attachment A.

Regulatory Burden and Cost Offset Estimate Table — Option 6

Average annual regulatory costs (from business as usual)				
Change in costs (\$ million)	Business	Community organisations	Individuals	Total change in costs
Total, by sector	\$1.45m	\$0	\$0	\$1.45m
Cost offset (\$ million)	Business	Community organisations	Individuals	Total, by source
Agency	\$-	\$-	\$-	\$-

Average annual regulatory costs (from business as usual)
Are all new costs offset? <input type="checkbox"/> Yes, costs are offset <input checked="" type="checkbox"/> No, costs are not offset <input type="checkbox"/> Deregulatory—no offsets required
Total (Change in costs – Cost offset) (\$ million) = \$1.45m

Consultation Plan

Consultation was undertaken in three phases.

Phase one and two were completed in 2014. Consultation via a targeted process was undertaken in two phases directly through meetings with stakeholders.

Phase three involved a further two week public consultation on draft legislation for options three and four.

Phases One and Two

The initial round of consultations in April 2014 sought views specifically on the SBSCH and more generally on the superannuation compliance cost concerns of small business.

Stakeholders consulted included:

- A small sample of small business owners from a range of industries including, hospitality and catering, retail, service delivery, professional services, horticulture including a hotelier, an accountant, an antique dealer and a publican;
- Associations representing industry and small business more generally;
- Commercial superannuation clearing houses and software developers;
- Accounting body associations; and
- Superannuation industry bodies.

In the second round of consultation in July and August 2014 a number of options to address the concerns were tested with stakeholders.

Additionally, stakeholder views were sought from members of the ATO's:

- Small Business Liaison Group meeting on 8 April 2014, and
- the Superannuation Industry Relationship Network on 18 February 2014.

Phase One and Two Consultation: Stakeholder views on options two to six

Option 2: Expand access to the small business clearing house to all small businesses with annual aggregated turnover below the small business entity turnover threshold (currently \$2 million), regardless of whether they have less than 20 employees or to businesses with less than 20 employees

In general, bodies that discussed this option favoured the expansion of eligibility for the SBSCH using the \$2 million threshold. The key rationale for supporting this change was there can be fluctuating numbers of employees, especially in industries such as hospitality. However, it was noted that alternatives to the SBSCH are available commercially. For example, some default funds offer free clearing house services and there are commercial clearing house providers as well that offer this service. Due to this, the SBSCH seems to serve the lower end of the market of small businesses.

Industry associations, a superannuation body and an accounting body supported removing the less than 20 person threshold, one association in particular noting it is easy to employ more than 19 employees in peak periods but few small businesses would have a turnover greater than \$2 million. However, it was also noted that as industry funds can have their own clearing house facility, there might be little benefit in practice from expanding the SBSCH for some segments of the market.

A business representative body questioned whether the 19 employees rule was a barrier to using the SBSCH. By contrast another industry association suggested raising the \$2 million threshold to \$5 million. However, Treasury's view is that the \$2 million threshold remains appropriate as it aligns the SBSCH ATO definition of a small business with the one which is used for a range of small business concessions as noted earlier.

Option three: Remove the obligation to offer choice of fund to temporary residents

Stakeholders consulted expressed mixed views on the removal of the obligation to offer choice to temporary residents. An industry association expressed support for this option but further expressed a preference for temporary employees not to be paid SG at all and noted that 'backpackers' seemed to be aware of SG and some came ready with details of their choice of fund. Another industry association also supported the introduction of measures to reduce the burden of having to pay SG for temporary residents, including this option, but noted by contrast this option may provide only limited benefit as temporary residents do not usually engage with their superannuation.

Based on data from the ATO, Treasury still is of the view that many temporary employees remain disengaged from their superannuation and do not claim it upon departure from Australia.

A superannuation organisation noted the problem of technical and unintentional breaches by employers as well as the potential for creating two classes of employees. Financial and accounting bodies advised that this approach may result in a proliferation of funds and that some temporary residents may open a superannuation account alongside a bank account when they come to Australia.

Option four: Remove the obligation on employers to re-offer choice of fund when funds merge

There was strong support for this option from stakeholders consulted. The requirement to reoffer choice when funds merge was seen by the majority of stakeholders consulted as an onerous requirement.

In particular, a superannuation organisation noted that the notification obligations under the *Corporations Act 2001* already provided members with a signal to change funds should they wish to and that employers may not realise they have a requirement to reoffer choice in this situation. One primary industry and one accounting body also expressed support for this change, on the basis that it was unreasonable.

A financial organisation by contrast did not support this change and expressed a view that re-offering choice on merging provides a timely opportunity to remind employees of their right to choose. A hospitality industry organisation noted that mergers would be unlikely to happen in practice in their industry.

Option five: Allow small businesses to make contributions for temporary residents directly to the ATO

Stakeholders consulted generally did not favour the payment of contributions to the ATO. Financial, accounting and industry organisations viewed this change as unnecessary. They submitted this change would not make their processes easier as they already have systems in place to facilitate the payment of superannuation. It also treated employees differently.

Instead this option may have the undesired effect of increasing compliance costs as employers would have another destination and process for making SG payments on behalf of certain employees — temporary residents. In particular there were concerns around the cost to the ATO of making this change as well as the costs of upgrading software to accommodate this change.

Option six: Increase the SG monthly exemption threshold (currently \$450) for small business employing temporary residents

Stakeholder views on the benefits of increasing the SG threshold for temporary residents were mixed. While some favoured the proposal on the grounds that it

would reduce the direct cost of employing temporary residents and associated compliance costs, others submitted that having different thresholds for different employees would add complexity.

An accounting software company submitted that they are anecdotally aware that most employers pay SG contributions from the first dollar for simplicity's sake, while an accounting organisation submitted that multiple thresholds would just add complexity. By contrast, a superannuation association supported abolishing the \$450 threshold altogether to increase the adequacy of superannuation.

By contrast, a hospitality association noted that increasing the \$450 threshold would reduce the compliance burden on business and supported any option that reduced the burden of having to pay the SG to temporary residents, especially as many temporary residents do not claim their SG upon departing Australia. It was also noted that as the hospitality award specifies that SG be paid from \$350 a month, the primacy of the legislation over the award would need to be established.

Consultation: Phase three: Public consultation on options three and four

Phase three involved a two week public consultation on draft legislation to implement options three and four. Stakeholders that had previously participated in phases one and two were contacted directly by Treasury and invited to participate.

Eight submissions were received from phase three of the consultation:

- Two submissions were received from a primary production industry association
- Two submissions were received from government organisations (one Australian, one overseas)
- Two submissions were received from superannuation industry associations
- One submission was received from a business representative organisation
- One submission was received from a financial consulting organisation

Submissions supportive of options three and four

Four submissions indicated support for the measures, with two of those submissions offering conditional support.

From these submissions, one primary industry association indicated unqualified support for this measure as did one government organisation, as it would simplify small business and employer requirements around choice.

One superannuation industry association supported this measure on the basis that superannuation protections are retained such as the ability to consolidate

multiple accounts. Importantly, the proposed changes to the choice regime consulted on would not impact on these protections or the ability of temporary residents to choose a superannuation fund. The other superannuation industry association did not oppose the measures.

The submission from the business representative organisation supported the measures but had concerns about the compliance costs upon implementation if a temporary resident became a permanent resident. The submission's view of the proposed legislation was that if this event occurred the employer would be in breach of the choice regime and a choice shortfall penalty could be incurred. However, under the legislation, a change in an employee's status would not re-trigger the choice provisions and make the employer liable for the choice shortfall penalty. This is because the employee's status upon commencement of employment is what triggers whether a standard choice form has to be provided or not.

Submission that supported option four

A submission from a primary industry association that was ambivalent about option three still expressed support for option four. However, no specific reasons were given other than there was general support to reduce red tape and the compliance burden for small businesses.

Submissions ambivalent about option three

One submission from a government organisation did not indicate support or otherwise of the measures; rather clarification was sought on the operation of the measures.

A submission from a primary industry association and superannuation association expressed ambivalent views on option three (choice of fund form not required for temporary residents) of the proposed legislation. The submission from the primary industry while supporting measures to reduce red tape raised concerns with compliance costs over determining whether an individual was a temporary resident or not. A submission from a superannuation industry association did not oppose the measure but noted the importance of consistency in treatment of employees, the desirability of preventing multiple accounts and that simplification may be more readily address through the implementation of single touch payroll.

To address the concern from the primary industry association Treasury has taken steps to inform the ATO of this issue, with the purpose of feeding into the ATO's consideration of its educational strategies about employer and business obligations to temporary resident employees. However, employers are already checking whether an employee is a temporary resident or not using the Department of Immigration and Border Protection's Visa Entitlement Verification Online program (VEVO).

Likewise, Treasury is aware of issues concerning consistency of treatment and the avoidance of the proliferation accounts of employees. However, on balance, Treasury's view is that option three will overall reduce red tape and the possibility of incurring choice shortfall penalty for businesses if they do not comply with the choice requirements. Likewise, in supporting option three, Treasury took into account that there is already likely to be a high degree of disengagement with superannuation and that removing this requirement will have little impact on the proliferation of superannuation accounts.

Submission that did not support option three

The submission received from a financial consulting organisation did not support option three. This was on the basis of the proliferation of multiple accounts this option may cause as well as concerns that temporary employees were denied a choice under the legislation. Likewise, concerns were also raised about liability for the choice shortfall penalty where an employee changes their status from a temporary resident to a permanent resident.

Under the legislation temporary employees are not denied a choice of fund. Instead, the legislation removes the prompt of choice from the employer but they still must accept the employee's choice if the temporary resident wishes to exercise choice.

Treasury has also explained above how option three does not result in a proliferation of accounts and that there is not a danger that an employer can incur the choice shortfall penalty if they change their status from a temporary resident to a permanent resident.

What are the best options from those considered?

Three options are recommended: options two, three and four. These options were assessed to have the highest net benefit to small businesses compliance costs.

Option two: expand access to the SBSCH

Option two was selected as a preferred option as it will assist more small businesses meet their superannuation obligations, especially if they are using paper based systems (although all superannuation payments must be electronic by 1 July 2016). Stakeholders in general favoured the expansion of the eligibility threshold for the SBSCH. This option will prevent small businesses from being technically excluded from the SBSCH if they employ temporary staff that cause them to exceed the current 19 employee threshold. In general this will not create unfair competition issues for the private sector as the SBSCH tends to operate in the lower end of the market that is outside the sphere of most private sector clearing houses.

Option three: removing the obligation to offer superannuation choice of fund to temporary residents

Option three was recommended by Treasury as it would cut red tape for small business and reduce the risk that an employer would incur the choice shortfall penalty.

There were concerns raised during consultation that this option could be a hassle for small businesses if they got it wrong by exposing employers to the choice shortfall penalty, create two classes of employees and may result in the proliferation of accounts for temporary residents.

However, on balance, Treasury decided to still proceed with recommending this option as the benefits to small businesses of reduced red tape were viewed to outweigh the potential detriments of this proposal. This was based on the assumption that many temporary residents do not engage with their superannuation there would be in practice, no material change to small businesses except removing a burdensome requirement that can expose small business owners to the choice shortfall penalty if they do not offer choice. New Zealand residents would also be included in the exclusion of temporary residents from the prompt of choice as well so as not to cause confusion for employers. Also, if an employer is unsure of an employee's status they can still provide a choice of fund form if they wish to do so. Temporary residents that do remain engaged with their superannuation can still actively nominate a superannuation fund. Importantly, a change in the status of the employee's residency from temporary to permanent would not expose the employer to the choice shortfall penalty.

Option four: removing the obligation to re-offer choice of fund when funds merge

Option four removes the obligation on employees to re-offer choice of fund when the funds merge. This option had strong support from stakeholders. This requirement was seen as an onerous one on employers especially as there are notification requirements under the *Corporations Act 2001*. Also, another factor in the decision to implement this option is that employers can be liable for the choice shortfall penalty if they do not reoffer choice (many employers may not be aware of this obligation). Removing this obligation reduces the red tape for small businesses for an obligation that in practice is unlikely to have real practical benefits for employees.

Synergies between option three and four

Another reason why options three and four were recommended by Treasury were that these two options together would lead to synergies in reducing compliance costs for small business. These options will work together to make the choice regime for superannuation easier to understand and comply with. It

will also sensibly target the choice regime to when choice is genuinely an issue for employees who are likely to retire in Australia.

Total compliance costs:

The total compliance costs savings for options two, three and four is \$46.4 million in annual savings.

Options not recommended

Options five and six were not recommended by Treasury. A key reason for this was that option five did not result in a material change in compliance costs on small business employers while option six resulted in an increase in compliance costs.

Further, most stakeholders consulted did not support option five. Option 5 would required employers to upgrade their payroll software. There was also a risk that this option may increase complexity and costs for employers who would be required to make superannuation contributions through two parallel processes: one for their Australian resident employees and one for their temporary resident employees.

Likewise, option six was also not recommended due to the risks of increasing complexity for employers by introducing two thresholds to make superannuation guarantee payments.

Implementation

Legislative implementation

Expanding the SBSCCH eligibility does not require legislative change as the eligibility threshold is a policy decision. As a result, there are no legislative implementation issues with this expanded eligibility commencing from 1 July 2015.

Option three and four require simple legislative changes. Legislation will progress through Parliament as a Winter T Bill, ahead of the proposed commencement date of 1 July 2015.

Communications Strategy

The Minister for Small Business publicly announced options two, three and four in a media release dated 26 November 2014. This media release altered business about these changes, as did the public consultation on the draft legislation for options three and four that occurred in April 2015.

The Australian Taxation Office (ATO) will also communicate these changes through various mediums and channels that are outlined below.

*SBSCH - Expanded eligibility criteria*Approach

The ATO will communicate the change in eligibility requirements alongside SuperStream communication activities.

Promotion of the SBSCH will continue to accompany topical employer superannuation messages wherever possible. SBSCH messaging will be included alongside SuperStream activities, SG rate and date communications and general business as usual messages for small business through the following channels:

- ATO external publications including the ATO app, the Small Business Newsroom and the Tax Practitioner Newsroom
- ATO employer super web content
- Web banners on the ATO's website in the Business and Super segments to coincide with Super Guarantee quarterly cut off dates
- ATO Social media program
- Relevant third party public relations opportunities

Target audiences

- Eligible employers
- Third parties including superannuation funds, tax practitioners, industry associations

*Choice of Fund changes*Approach

Promotion of the changes will involve working messages into existing web content and use natural channels and opportunities where possible. Only a small proportion of employers are expected to be affected by these changes and communication will be through the following channels:

- ATO external publications including the ATO app, the Small Business Newsroom and the Tax Practitioner Newsroom
- ATO employer super web content
- Web banners on the ATO's website in the Business and Super segments
- ATO Social media program

Target audiences

- All employers with super guarantee obligations
- Employers in industries most likely to employ workers on temporary working visas
- Key employer intermediaries and stakeholders, including tax professionals and funds

Ongoing monitoring of outcomes to reduce small business compliance costs

A benchmark for determining the success of option one in reducing compliance costs for small business will be the level of the uptake of the SBSCH. Currently it is estimated that around 3,600 businesses or 13 per cent will use the clearing house as a result in the expansion of eligibility. If significantly more businesses use the SBSCH, this option will be particularly successful at reducing the superannuation compliance costs of small business. It will also mean that this option is of particular assistance in helping small business adjust to the move to electronic regulatory requirements implemented by SuperStream and the requirement that all superannuation payments must be electronic from 1 July 2016.

Options three and four are not particularly suited to a benchmarking as they remove a regulatory requirement from employers concerning the choice regime. However, feedback from stakeholders indicates that these options will generally be well received and assist in making the regulatory environment easier to comply with.

Attachment A

Compliance Cost Estimates

The estimated compliance cost impacts of the options considered have been arrived at using a methodology that was consistent with the Regulatory Burden Measurement (RBM) framework that has been agreed with the OBP.

All estimates are grounded in the qualitative assessment which establishes all the key changes that are likely to occur. Estimates are based on the time spent by affected taxpayers or businesses in complying with the changes across a set of key compliance activities. The model draws its time estimates from compliance cost surveys, ATO market research and compliance cost statistics drawn from the analysis of time-box data from key tax forms. All estimates are validated using available benchmarks.

The compliance costings set out below assume that business costs do not change under the status quo and are based on a calculation of a wage rate plus uplift of business on costs, which totals \$65.45 per hour. This rate is part of the standard OBPR-approved methodology used by the ATO.

Additional assumptions used to derive the compliance cost estimates for the various options are detailed below. The assumptions used in the compliance cost estimate are developed using actual business survey data.

Option 2: Expand access to the small business superannuation clearing house to all small businesses with annual aggregated turnover below the small business entity turnover threshold (currently \$2 million), regardless of whether they have less than 20 employees

The compliance cost estimate is based on the following assumptions:

- The ATO estimate of 3,600 businesses that take-up the option to use the SBSCH is based on ATO business registration data, SBSCH reports, and employer characteristics including turnover and employee numbers.
- Treasury estimated around 27,500 businesses could potentially use the SBSCH once eligibility was expanded to all businesses with turnover less than \$2 million, regardless of whether they employ fewer than 20 employees. The count includes business who lodged a tax return from 2009-10 onwards, who have an active ABN status, who have a non-zero turnover and who operate as a company, partnership, trust or sole trader only.
- Consequently, this leads to approximately 13% of eligible businesses taking up the option to use the SBSCH under the proposed eligibility conditions.

- Implementation cost is anticipated to be minimal as it involves learning about the SBSCH, its benefits and the registration process which is straightforward and easy to understand.
- Decreases in ongoing compliance costs are estimated to flow from the following:
 - Using the SBSCH will simplify record keeping as the system is able to retain individual employee's data, payment preferences and payment histories.
 - One single payment via the SBSCH instead of multiple payments which will reduce costs and time.
 - Savings from transaction costs charged by private clearing houses.
- The increase in the hours involved during the implementation phase is estimated to be 2.5 and the reduction in the hours involved is estimated to be 5.5 for micro employers.

Option 2	\$	\$m
Estimated compliance costs	Per business	Total
Start-up (allocated over 10 years)	16.20	58,316
Ongoing (p.a.)	-358	-1,287,074
Net annual cost	-341.80	-1,228,758

Option 3: Remove the obligation to offer choice of fund to temporary residents

The compliance cost assessment for this option assumes the following:

- Approximately 30,900 employers (based on the number of employer sponsors under subclass 457 in 2011) and 10,100 employers of New Zealand residents would be affected by the change (data sourced from Department of Immigration and Border Protection data cubes titled Overseas Arrivals and Departures 2013-14 to 30 June 2014).
- There would be decreases in some ongoing compliance costs flowing from:
 - employers no longer being required to complete and process the choice of fund forms;
 - employers now not having to engage with as many superfunds; and
 - Reduced time spent on making separate payments to different super funds for temporary employees.

- The reduction in the hours involved is estimated to be 3.9 for the small and medium employers (90% of the total affected population) and 46.4 hours for the large employers (10% of the affected population).
- The larger reduction in compliance activity for large business reflects their larger number of employees, but also the tendency for large business to have a more distributed work task allocation than smaller businesses. That is, multiple sections involved in the compliance process such as group tax sections, payroll, personnel and finance. So in these businesses more people are involved, thus a bigger reduction in compliance.

Option 3	\$	\$m
Estimated compliance costs	Per business	Total
Start-up (allocated over 10 years)	0	0
Ongoing (p.a.)	-535	-21,964,697
Net annual cost	-535	-21,964,697

Option 4: Remove the obligation on employers to re-offer choice of fund when funds merge

The compliance cost assessment for this option assumes the following:

- Approximately 120,000 employers would be affected by the change.
- The 120,000 was estimated by extracting from ATO data bases the count of employers who made employer contributions on behalf of employees into funds who merged in the 2009-10 income year. More recent data was not readily available from the super business line when the estimate was being completed. Another income year of merger data was checked and gave similar outcomes to the 120,000 listed.
- There would be decreases in some ongoing compliance costs flowing from not having to provide a 'choice of fund' form to all employees whose funds undergo a merger or acquisition.
- The reduction in the hours involved is estimated to be 0.9 for the micro employers (57% of the total affected population) 3 hours for small and medium employers (40% of the total population) and 37.1 hours for large employers (3% of the affected population). This gave an average reduction per employer of \$192.

Option 4	\$	\$m
Estimated compliance costs	Per business	Total
Start-up (allocated over 10 years)	0	0
Ongoing (p.a.)	-193	-23,202,282
Net annual cost	-193	-23,202,282

Option 5: Allow small businesses to make contributions for temporary residents directly to the ATO

This option has been assessed as being unlikely to offer any material change in the SG payment processes for employers as it is unlikely to reduce the administrative burden for small businesses employing temporary residents, rather it offers an alternative SG payment mechanism. Accordingly, the compliance costs are assumed to be unchanged.

Option 6: Increase the SG monthly exemption threshold for small businesses employing temporary residents

The compliance cost assessment for this option is based on the following assumptions.

- Approximately 9000 employers assumed to be affected by the change.
- Option six is effectively a subset of option three. Option three is for all employers of temporary resident employees, whereas option six is for only small businesses with temporary resident employees earning between \$450 and \$2,000 in a month. So this option has a lower number of employers than option three.
- There is no data available on the number of businesses who employ temporary residents. The ATO have assumed that each employer has around 5 temporary resident employees, and so the employer numbers are generated from the employee numbers.
- Implementation costs would be incurred as a result of:
 - employers of temporary residents needing to learn about the change;
 - affected employers needing to evaluate what the change in thresholds means to them and whether they wish to continue to pay current levels of SG to their temporary resident employees or change to the new threshold;
 - affected employers possibly needing to purchase a software upgrade if they are using an automated payroll system; and

- Systems changes to flag an employee as a temporary resident and procedural changes to recognise the addition of a new SG threshold when SG liabilities are being calculated.
- Increases in on-going compliance costs are anticipated as a result of:
 - Employers needing to keep up to date with the status of their employees over time;
 - The introduction of a second SG threshold which would mean procedures will be more complicated for employers, particularly those who do not have fully automated systems.
- The increase in the hours involved during the implementation phase is estimated to be 12.9 for all employers. The increase costs incurred on an ongoing basis are 1.2 hours per employer.

Option 6	\$	\$m
Estimated compliance costs	Per business	Total
Start-up (allocated over 10 years)	84.20	757,911
Ongoing (p.a.)	76.60	689,679
Net annual cost	160.80	1,447,590