CLASSIFICATION: UNCLASSIFIED

REGULATION IMPACT STATEMENT: SINGLE TOUCH PAYROLL

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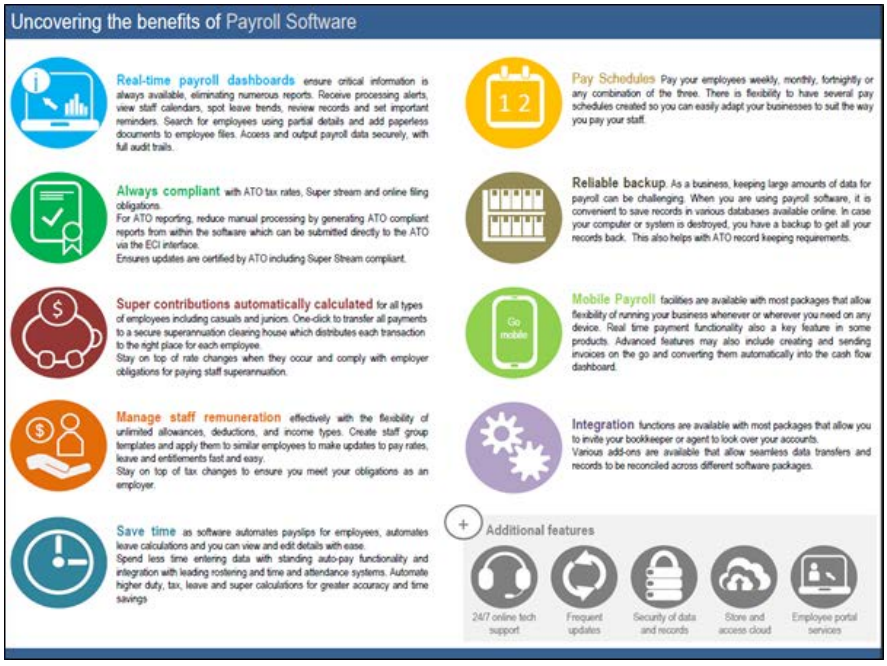
REGULATION IMPACT STATEMENT: SINGLE TOUCH PAYROLL

1. BACKGROUND

The Single Touch Payroll initiative was announced by the Minister for Small Business, the Hon Bruce Billson MP, and the Assistant Treasurer, the Hon Josh Frydenberg MP, on 28 December 2014[1], supporting the Government's commitment to reduce red tape by $1 Billion per year[2].

The Single Touch Payroll proposal requires the use of compatible Business Management Software to report information in the required format for digital transmission to the ATO. This information would be created and reported concurrently with other payroll functions, e.g. generating a payslip and creating a file for transmission to financial institutions to pay employees.



Single Touch Payroll is expected to reduce duplication and record keeping requirements. This proposal would see progressive implementation, through a staged transition approach, for real time reporting and voluntary real time payments for businesses reporting their PAYG Withholding and superannuation contributions. In addition, Single Touch Payroll will streamline processes associated with bringing on new employees, by providing digital services for completion of tax file number (TFN) declarations and Superannuation standard choice forms.

1 The Hon Josh Frydenberg MP, Assistant Treasurer and The Hon Bruce Billson MP, Minister for Small Business, Joint Media Release, *Cutting red tape for employers through Single Touch Payroll*.

2 *The Australian Government Annual Deregulation Report*, 2014.

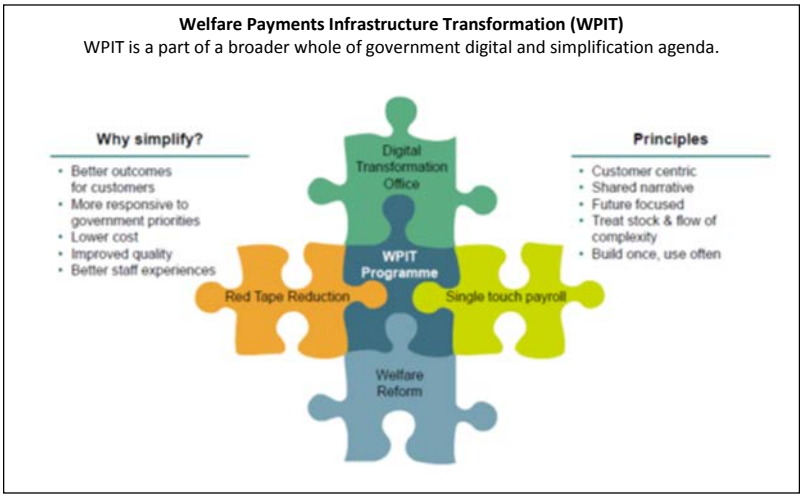
Employers will automatically report from their compatible Business Management Software packages or through payroll providers, at the time they pay their employees thereby reducing the effort traditionally associated with meeting employer obligations.

Single Touch Payroll will assist the ATO to take earlier action to protect honest businesses that do the right thing and to support those who may begin to struggle with meting their obligations. In particular, those businesses who do not fully comply with their PAYG Withholding and superannuation obligations enjoy a significant competitive advantage over those that do fully comply and single touch payroll will allow us to identify and support those who are struggling to comply much earlier.

There are flow on compliance effects for other agencies. Single Touch Payroll creates opportunities to provide additional efficiencies across government when sharing real-time information in the future. (e.g. individuals would not need to notify DHS of the change in their income as it is reported at the time of the payroll event).

The recently announced Welfare Payments Infrastructure Transformation (WPIT) project has seen the benefits of the Single Touch Payroll proposal and identified it as a key link and dependency in delivering WPIT and the broader whole-of government digital and simplification agenda.[3]

Welfare Payments Infrastructure Transformation (WPIT)
WPIT is a part of a broader whole of government digital and simplification agenda.



Phase 1 of Single Touch Payroll lays the foundation for this future expansion of benefits, and is a core component of the broader agenda to make it easier for individuals and businesses to transact with government.

A proposal to leverage Single Touch Payroll for real time reporting of payroll data to other agencies is anticipated to be developed by the end of 2016 for federal agencies (Phase 2 of this project) and by the end of 2017 for states and territories (Phase 3 of this project).

Under the ATO's Enabling Digital by Default initiative, there will be a fully integrated digital experience for all entities, allowing digital as the default manner of interacting with the ATO (exchange of information and payments). This will be phased in from July 2016.

3 Department of Human Services, *Outcomes from Simplification Workshop,* June 2015

2. PROBLEM

At the highest level this proposal contributes to addressing three key problems:

- The high cost for business in complying with their tax and superannuation reporting obligations – see 2.1 'Cost of compliance for business'
- Inefficiencies in government service delivery – see 2.2 'Inefficient government service delivery', and
- Weaknesses in the Federal Budget position due to non-payment of tax and superannuation obligations and costly modes of service delivery – see 2.3 'Budget improvement'.

2.1 COST OF COMPLIANCE FOR BUSINESS

Current employer reporting requirements require businesses to undertake a range of ongoing lodgments with the ATO and other government agencies and entities. These reporting requirements are often not aligned with each other, and there is a separation between the calculation, reporting and payment requirements, all of which give rise to duplication.

Obligations relating to reporting and lodging tax withheld from employees represent a high overall regulatory burden for employers[4]. The costs of complying with the PAYG Withholding system are estimated to be about $2.5 billion in 2011.[5]

The ATO data for the cost to employers of withholding employee income tax is supported by other studies. For example, a 2010 research paper presented to the 2012 Tax Administration Conference, *'The rise and rise of tax compliance costs for the small business sector in Australia'*[6], found the average compliance cost of smaller businesses in withholding tax from employee salaries to be around $3,100[7] per annum back in 2010. Multiplying this cost by the estimated 811,000 businesses in Australia today, indicates an annual compliance cost to smaller Australian business of around $2.5 billion (based on 2010 dollars).This figure is potentially much higher today.

When taking on a new employee, employers must provide their ABN and default Superfund details to enable their employee to complete a Superannuation standard choice form and TFN Declaration form.

4 The Treasury, *Stocktake of Regulation: Final Report*, 2015.

5 ATO sourced data.

6 Lignier, Philip and Evans, Chris, *The Rise and Rise of Tax Compliance Costs for the Small Business Sector in Australia*, 2012. available at: http://www.google.com.au/url?url=http://www.charteredaccountants.com.au/~/media/Files/Industry%2520topics/Tax/Current%2520Issues/The%2520rise%2520and%2520rise%2520of%2520tax%2520compliance_September2012.ashx&rct=j&frm=1&q=&esrc=s&sa=U&ved=0CBQQFjAAahUKEwiQyfv814HHAhWhxqYKHfkKBKU&usg=AFQjCNEKd_OQfi5ApmDOUM-2_l8mle06gQ

7 Represents 'mean' value.

When paying employees, the employer must:

- calculate the tax that applies to their income and report and pay it to the ATO at a later date (generally quarterly, but can be as often as weekly)
- calculate superannuation contributions and report and pay these to superannuation funds on behalf of the employees (minimum quarterly).

In addition, employers are also required to:

- calculate, report and pay PAYG Withholding to the ATO (generally monthly or quarterly) via an activity statement.
- prepare a report for the ATO summarising the year's salary and tax withheld for employees (annually).
- provide each employee with an individual summary of income and tax (annually).
- register for a PAYG Withholding role with the ATO (new employers only).

Currently PAYG Withholding obligations are reported and paid to the ATO up to three months after payment of the employee wages and salaries upon which they are based (payroll events). Superannuation guarantee amounts must be paid to superannuation funds at a minimum 28 days after the end of a quarter. This delay requires businesses to put in place systems and processes to reconcile data created at the payroll event and collate these for reporting to the ATO for PAYG Withholding obligations and to superfunds for superannuation contributions.

Whilst some commercially available payroll software packages can automate much of this process, for many small and medium businesses this remains predominately a manual process or is outsourced to bookkeepers or tax agents.

Over time, the Government's Digital Transformation Agenda is expected to improve the regulatory burden for business. However, providing a digital option to fulfil obligations does not automatically reduce regulatory burden. The burden is reduced by streamlining the actions an employer needs to take (i.e. where obligations can be met by doing their normal business process). Without Government and ATO intervention to help develop and implement compatible processes and systems these improvements will not occur and consequent savings will not be realised.

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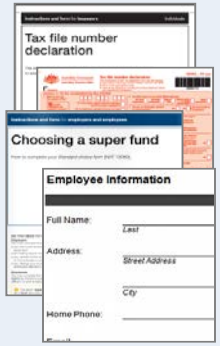
The extent of the current regulatory burden for employers is illustrated below.

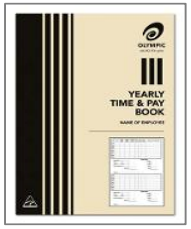
ONBOARD NEW STAFF

- Get TFN details
- Get Super choice details
- Get bank details
- Record details
- Store records



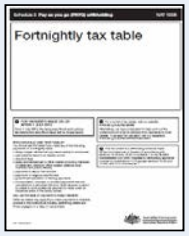
CALCULATE & RECORD SALARY / WAGES

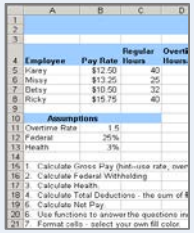
- Calculate gross pay
- Calculate Leave
- Record salary / wages
- Store records



CALCULATE PAYGW TAX FOR ATO

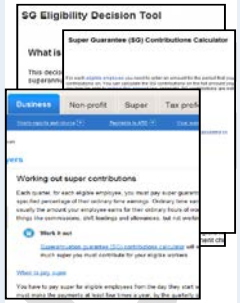
- Calculate PAYGW
- Record PAYGW
- Store records





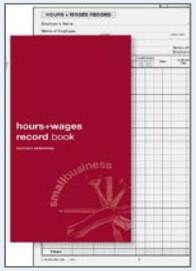
CALCULATE STAFF SUPER

- Calculate Super
- Record Super
- Store records



PAY STAFF SALARY / WAGES + ISSUE PAYSLIPS

- Make payments
- Prepare payslips
- Issue Payslips
- Store records



PAY STAFF SUPER

- Make super payments to funds
- Prepare reports
- Store records

Clearing house

REPORT & PAY PAYGW TAX

- Fill out Business Activity statement
- Lodge statement
- Pay PAYGW tax to the ATO

ANNUAL REPORTING

- Fill out Employee payment summaries
- Complete Annual report for ATO
- Reconcile records

2.2 INEFFICIENT GOVERNMENT SERVICE DELIVERY

Inefficiencies in government service delivery have been widely acknowledged. *'Citizens often struggle to identify and use the various services offered by the Australian Government and its providers, and businesses have to cope with an ever increasing regulatory and reporting burden. The best public services in the world are integrating and simplifying the delivery of services, streamlining transactional services and making better use of online communication'*[8].

Technological advances have resulted in changing community expectations. Citizens already expect a certain level of service based on their existing digital interactions with private businesses, and they bring those expectations to their interactions with government. People want more personalised, accessible and reliable services from government agencies[9], however it is clear that there is a gap between expectations and current government service delivery. In the process of moving to digital services, government needs to provide solutions that go above and beyond the boundaries of traditional systems. In the 'Digital Australia – State of the Nation 2014' report government ranked as the worst business sector in terms of digital sector experiences[10].

Looking more specifically at the current experience of employers and individuals interacting with the tax and superannuation systems, it becomes clear that better use and adoption of technology would improve existing service delivery as well as reduce red tape. For example, in terms of reporting, employers currently:

- Send the ATO approximately 2.9 million TFN declarations every year
- Issue 1.9 million annual paper payment summaries to employees
- Complete approximately 1.6 million PAYG Withholding only activity statements[11]

There are approximately 16 million employees employed by approximately 811,000 businesses in Australia. Under the current system these employees:

- have very little visibility of their cumulative tax obligations and superannuation entitlements throughout the year
- have to wait several weeks after the end of the financial year for pre-fill data to be available
- often do not realise they have paid too little or too much tax until they complete their tax return
- may be unaware of their cumulative income position to determine correct entitlements to welfare payments.

Every time an individual commences new employment they complete a paper TFN declaration and Superannuation standard choice form. This requires the employee to complete their personal information and find out the details of the superannuation fund they wish to use. In addition, employees often have to notify multiple government agencies in respect to their employment (i.e. to receive welfare benefits etc).

8 Department of the Prime Minister and Cabinet, *Ahead of the game: blueprint for the reform of Australian Government administration*, 2010, p.33.

9 Australian Public Service Commission, *Capability Review Australian Taxation Office*, 2013.

10 EY Sweeney, *Digital Nation: State of the Nation 2014*, 2014.

11 ATO 2014 data. Based on 236, 640 clients lodging 1.6 million PAYGW only activity statements where an employer is on a monthly cycle for PAYGW but a quarterly cycle for other obligations. STP will eliminate these monthly PAYGW only activity statements but the quarterly activity statement obligations for GST will remain.

The above is only a micro example of the existing inefficiencies in service delivery, relying largely on manual processes across government agencies to meet day to day employment obligations. These types of problems are experienced across all sectors of government, and opportunities exist to use technology to support increased agency connectedness and as a result a more seamless end to end experience for citizens interacting with Government.

It should be noted that one of the barriers for enhancing government service delivery through the use of digital platforms is that without regulation there is less incentive for businesses to make the time to change current business practices. Competing demands means that people will often tend to keep doing things the same way unless there is a requirement or strong incentive to change. For example, to encourage uptake of digital service offerings many commercial companies now charge their clients who choose to receive information in paper format (i.e. paper statements) whilst providing services free to those who choose to receive them digitally[12]. In addition, initial consultation with software developers indicates they would not be supportive of investing in product development to make their software compatible with digital platforms offered by Government unless they are assured of a viable market.

2.3 BUDGET IMPROVEMENT

The 2015-16 Budget Papers note that while the budget deficit will narrow over the forward estimates period, more work is required to improve the budget position over the medium term.[13] Businesses that fail to meet their PAYG Withholding and superannuation obligations contribute to a weaker budget position in several ways. Failing to pass on tax withheld from employees to the ATO undermines revenue collections while failing to make superannuation payments on behalf of employees potentially increases future budget outlays through higher pension payments, than might otherwise be the case. Inefficient administration results in administration costs that might otherwise be avoided.

Under the existing PAYG Withholding administration, long delays can arise between payroll event and the reporting and payment of PAYG Withholdings, particularly for smaller employers who are only required to lodge and remit PAYG Withholding amounts quarterly or in some cases, annually. Businesses experiencing cash flow management difficulties can fail to meet their obligations in a timely manner, or at all.

12 Australian Communications and Media Authority, *Bills for telecommunications customers*.

13 The Australian Government, *Budget Strategy and Outlook*, Budget paper no. 1, CanPrint Communications Pty Ltd, 2015.

Australia stands out internationally as having some of the longest lag times between employees being paid and taxes being remitted to the Government. This may be a contributing factor to the significant collectable debt owed by businesses. In addition, the ability for the ATO to identify that a business is in trouble and provide early assistance is compromised. In a January 2014 analysis of the collectable debt owed by micro and small/medium enterprises[14], the following outstanding activity was identified:

Outstanding Lodgments[15]	Total number of Micro and SMEs	% of enterprises with collectable debt	Total debt ($m)
None	7,798,866	5%	$5,367
1	219,374	20%	$868
2 - 5	192,342	28%	$1,164
6 +	168,880	41%	$1,024
Total micro and small/medium enterprises with an outstanding debt	8,379,462	7%	$8,422

There is a strong correlation between the number of outstanding lodgments and the proportion of businesses in a debt situation. Under the current lodgment arrangements, The ATO has no visibility of outstanding debt until an Activity Statement lodgment occurs. 20% per cent of businesses that have missed one lodgment have a debt, compared with only five per cent of businesses who have lodged on time. Further, ATO analysis indicates that the likelihood of successful debt collection decreases as the time between the debt arising and action by the ATO increases.[16] Earlier detection of a non-lodgment could improve revenue collections.

More timely reporting of these obligations could be expected to contribute to an increased business awareness of pending obligations. The Institute of Chartered Accountants in its May 2014 submission to the Board of Taxation, noted a number of benefits from closer alignment of business tax payment arrangements including:

- *Reducing the timeframe in which funds which rightly belong to the Government (e.g. PAYG Withheld from employee pay packets) are held by a small business in a bank account which generates income for the business - a benefit not enjoyed by other businesses*
- *Reducing the risk that such funds may be used inappropriately by the small business (e.g. to meet private expenses)*
- *Enabling the ATO to obtain better real time data indicating whether a small business is experiencing difficulty in meeting its tax payment and lodgment obligations (i.e. warning signs)*
- *The impact of electronic remittance and lodgment procedures to streamline compliance*
- *To foster improved, efficient, business-like practices within the small business sector.*[17]

Any reduction in Commonwealth agency operating costs improves Australia's budget position.

3. WHY IS GOVERNMENT ACTION NEEDED?

14 Micro enterprises are those with annual turnover up to $2 million and small/medium enterprises with annual turnover between $2 million and $250 million.

15 Data represents only 'active' micro and small/medium enterprises.

16 ATO debt collection statistics for 2012-13 indicate approximately 50% of debt is cleared where the age range of the debt is between 1 and 30 days old.

17 Institute of Chartered Accountants Australia, *submission to the Board of Taxation on tax impediments facing small business*, 2014, p.12-13.

As noted above, employers are currently spending in excess of $2.5 billion annually in meeting their PAYG withholding obligations. Real time reporting of PAYG Withholding and superannuation contributions to the ATO will significantly reduce red tape costs for the community. It will also improve government service delivery, improve integrity in PAYG Withholding collections and superannuation obligations. Improved employee commencement procedures will also contribute to these outcomes. The option to pay PAYG Withholding amounts at the payroll event will provide a further opportunity for employing businesses to reduce red tape, improve their cash flow management and potentially increase their visibility of the underlying financial status of their business.

These outcomes will not be delivered without government investment due to a need to build the supporting infrastructure within government. The red tape reduction benefits to business will not be fully realised without suitable compatible Business Management Software or an affordable intermediation service. I In the absence of widespread take up, the cost of delivering this initiative is likely to outweigh the benefits expected from reduced compliance costs and improved service delivery.

Prior experience in initiating change, indicates Single Touch Payroll needs a lever to drive change and the best lever is Regulation. Regulation will ensure widespread employer participation in the Single Touch Payroll initiative, without it, it will be very difficult to get 'buy-in'. Australian experience with SBR and e-tax suggests an approach based on voluntary opt-in will not achieve sufficiently high take up rates in a timely manner to ensure commercial development of software.

In addition, without Regulation and full participation by all businesses in Single Touch Payroll, the long term benefits:

- sharing real time information with other Government agencies (Phase 2 of the project)
- sharing real time information with states and territories (Phase 3 of the project), and
- making it easier for individuals and businesses to transact with government

cannot be realised.

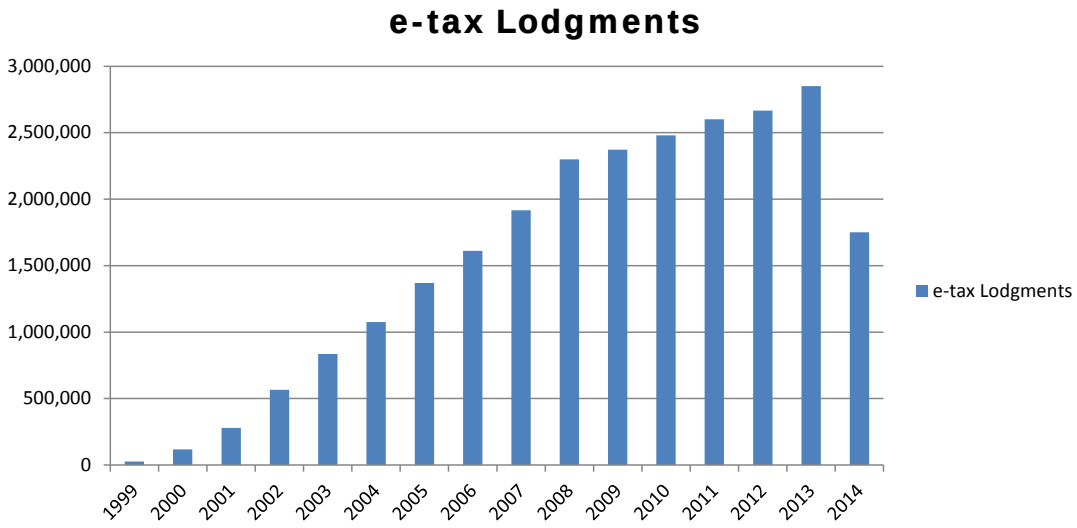
Business operators are time poor and many suffer 'change inertia' preferring to persist with status quo unless things are not working. Standard Business Reporting (SBR) was introduced in 2010 to save businesses time by collecting *'the right information, for the right government report'*[18] directly from an employer's business software. Despite its potential benefits for business, since SBR was introduced, just 21,000 businesses have used SBR to interact with government[19]. One of the most commonly quoted reasons for the slow take up of SBR is the lack of comprehensive accounting software available on the market[20].

18 Standard Business Reporting, *Benefits for business*.

19 UK Revenue & Customs, *HMRC launches package of help for micro businesses*, Taxanalysts article, 2013. available at: http://services.taxanalysts.com/taxbase/tni3.nsf/(Number/2013+WTD+237-22?OpenDocumentandLogin

20 Evans, Chris, Tran-Nam, Binh, Zakowska, Hanna, *Standard Business Reporting: short term pain for long term gain?*, 2013.

A similar case occurred when the ATO introduced the *e-tax* client and server software in 1999, providing an option for individual taxpayers to self-prepare their income tax returns and securely lodge them with the ATO over the internet. In the first year, only 27,000 lodgments were received through this digital channel. The uptake by self-preparers grew steadily over the following years[21], to the point where it was the major digital product for self-preparers until the introduction of myTax in 2014. However, it took many years for this growth to take place.



The SBR and e-tax experience is in contrast to an environment where the ATO has made it difficult for clients not to interact with them digitally.

In 2013, the ATO announced electronic funds transfer as the digit default manner in which tax refunds would be provided to individuals. Three million people supplied their bank details and moved away from cheque refunds that year, with only three complaints received (0.0001%)[22].

In 2014, the ATO announced myGov as the digit channel for individual taxpayers preparing electronic income tax returns using *e-tax* or *myTax.* As at 31 October 2014, over three million clients had created a myGov account and linked it to the ATO. This is the largest ever adoption of an enduring online credential in the shortest possible time in Australia's public sector history**.**

The financial services industry's superannuation, wealth and investment management electronic commerce (swimEC) program was developed jointly by the superannuation and managed funds industries, to assist employers paying superannuation contributions to multiple superannuation funds when Superannuation Choice was introduced in 2005. While swimEC was a worthy initiative, the adoption of the standards was low across the industry because they were not mandatory.[23] As part of the Government's response to the Governance, Efficiency, Structure and Operations of Australia's Superannuation System (The Cooper Review), a Super Reform program of work included the introduction of SuperStream. SuperStream provides a consistent, reliable electronic method of transacting linked data and payments for superannuation. Consultation across the super industry confirmed that the mandating of the standard through regulatory change was necessary to support a successful implementation and transition approach.

21 ATO sourced data.

22 ATO sourced data.

23 Australian Government, *Super System Review: Final Report – Part Two: Recommendations Packages, 2010*

The United Kingdom has seen success with the implementation of Real Time Information, a key government program launched by HM Revenue and Customs in April 2013 and requires employers to report in real time (at the payroll event). The United Kingdom found that mandating real time reporting has been the key driver for migration[24]. As at December 2013, more than 99% of Pay As You Earn (PAYE) records were successfully being reported in real time. Almost 93% of all employers, and nearly 99% of employers with 10 or more employees, were using the new process to send PAYE information about their employees in real time, and the majority are finding the new system easy to use[25].

4. OPTIONS CONSIDERED

Consideration was given to a number of options in the formation of this policy proposal.

The following three options have been explored through continual consultation with the community:

Option 1: Leave the current processes in place.

Option 2: Mandatory real time reporting of tax and superannuation obligations for all employers at the time of the payroll event, with the option to voluntarily make payments in real time.

Option 3: Mandatory real time reporting and mandatory real time payment of tax and superannuation obligations for all employers at the time of the payroll event.

Consideration was also given to voluntary real time reporting and voluntary real time payment of tax and superannuation obligations for all employers at the time of the payroll event. However, as per discussion in 'section 3 – why is Government action needed?', a low take up rate will not realise the longer term benefits for improved government service delivery. Preliminary consultation will software developers indicated they will not invest in product development without a guaranteed market, further adding to the non-viability of the option. Due to the cost of implementation, ongoing running of multiple systems, low user take up as per SBR experience and lack of commercial support by software developers, this option was ruled out prior to further consultation with the community.

Although option 1 results in no direct change, it is expected that over time the number of businesses using software will increase and this will certainly aid to reduce the overall administrative burden for business. However, the specific compliance costs of PAYG Withholding is about $2.5 billion annually and affects all businesses involved in this regime. Even with software, employers often need to reconcile the amounts calculated each pay against the businesses' PAYG Withholding reporting and payment cycle (weekly, monthly, quarterly or annually). They also need to reconcile annual amounts in order to provide an employee their annual PAYG Payment Summary and lodging the PAYG payment summary annual report with the ATO. Single Touch Payroll is a specialised, purpose built system requiring changes to the systems and processes of businesses, software developers and the ATO to enable business to automatically fulfil their PAYG Withholding reporting obligations as an extension of their natural payroll process (see options 2 and 3). The size and scale of the changes implemented through Single Touch Payroll are unlikely to occur independently of Government or ATO action.

Options 2 and 3 would utilise compatible Business Management Software (BMS) to report information in the required format for digital transmission to the ATO. This information would be created and reported concurrently with other payroll functions, e.g. generating a payslip, creating a file for transmission to financial

24 HM Revenue and Customs, Research Report 'RTI Employer Messaging Research.

25 *HMRC launches package of help for micro businesses,* loc. cit.

institutions to pay employees etc. In effect, it provides an automated, streamlined processing of employer related obligations simultaneously with the natural cycle of the payroll event.

Businesses would be reporting PAYG Withholding information at the time the payroll event occurs and no longer required to report this information on activity statements, produce annual payment summaries for employees in relation to payroll data reported through Single Touch Payroll or provide a payment summary annual report to the ATO. Businesses will still be required to calculate and report other tax obligations to the ATO (generally monthly or quarterly) via an activity statement.

Businesses will continue to provide superannuation contributions to Superannuation funds in accordance with the SuperStream payment and data requirements, but under Single Touch Payroll, payroll employers will also report superannuation contribution information to the ATO when contributions are paid to the super fund.

To eliminate the requirement for annual payment summaries where businesses have an obligation to include reportable fringe benefits amounts (currently reported on annual payment summaries), the information would be reported digitally through Single Touch Payroll to the ATO, prior to 30 June following the end of the FBT year (30 March). This is a change for businesses as they currently have until 14 July to provide this information.

Individual employees will have visibility of their payroll related information through their myGov account at any time during the financial year, positioning them to make informed decisions on their tax position prior to lodging their annual tax return. They will also be able to view their annual payment summary online at the end of the financial year (past and current) from all employers in one place at one time.

In addition a new streamlined process for individuals commencing employment will also be introduced. Individuals will either complete their TFN declaration and Superannuation standard choice forms using myGov (referred to as retail onboarding) or directly in their employer's payroll BMS (referred to as wholesale onboarding). Employers will advise their new employees about which method to use based on their business practices. This replaces the need for employees to complete the following paper forms:

- Tax file declaration [NAT 3092]
- Superannuation standard choice form [NAT 13080]
- Withholding declaration [NAT 3093]
- Withholding declaration - upwards variation [NAT 5367]
- Voluntary agreement for PAYG withholding [NAT 2772]

Under the retail onboarding option, the ATO would provide a secure online service using myGov where individuals could supply details including their TFN declaration and super choice information to their employers. As the employee is known to the ATO when they use their credentials and authenticate (log-on) in myGov, some information could be pre-filled by the ATO for employee validation. Employers would receive this validated information via a secure channel directly into their BMS. As the information is already validated and would not need to be rekeyed into the payroll software, the administrative burden for employers is somewhat reduced. Additionally, the associated reduction in errors would reduce reverse workflows and unnecessary ATO contact, while improving the integrity of ATO data holdings that are also consumed by other government agencies.

Under the wholesale onboarding option, individuals could supply their TFN declaration and super choice information directly into their employer's BMS, allowing employers to send this information to the ATO.

The ATO will provide Department of Human Services (DHS) with data as under current law. A future phase of Single Touch Payroll will investigate changes to the data provided to DHS as well as benefits to other government agencies (federal, state and territory).

An analysis of each of the considered options is provided in the following table:

Key: ✓: **capability available** **X : capability not available** **P: capability is possible if employer chooses to 'opt-into' Single Touch Payroll and voluntarily report and/or pay.**	**Option 1:** Leave the current processes in place	**Option 2:** ***Mandatory*** real time reporting of tax and superannuation obligations at the time of the payroll event, and the option to ***voluntarily*** make payments in real time.	**Option 3:** ***Mandatory*** real time reporting and ***mandatory*** real time payment of tax and superannuation obligations at the time of the payroll event.	**Alternate option ruled out prior to further consultation:** ***Voluntary*** real time reporting and ***voluntary*** payment of tax and superannuation obligations at the time of the payroll event
Onboarding				
Retail onboarding (via myGov) ***Employee*** can complete their TFN declaration and Superannuation standard choice forms via myGov account (form pre-populated with personal data held by ATO). They can also view the status of their onboarding request via myGov.	X	✓	✓	P
Retail onboarding (via myGov) ***Employer*** can retrieve employee onboarding forms (both TFN declaration and Superannuation standard choice forms) via the ATO and receives the information directly into their Business Management System (BMS).	X	✓	✓	P
Wholesale onboarding (via BMS) ***Employee*** can complete their TFN declaration and Superannuation standard choice forms via employer's BMS. They can also view the status of their onboarding request via myGov.	X	✓	✓	P
Wholesale onboarding (via BMS) ***Employer*** can store their ABN and default fund details within their BMS (if software has capability) and submit the electronic TFN declaration directly to ATO via their BMS.	X	✓	✓	P
PAYG Withholding and Superannuation obligations				
Employer to ***report*** payroll related information to ATO digitally utilising compatible Business Management Software at the time of the payroll event.	X	✓	✓	P
Employer to ***pay*** PAYG Withholding liability to ATO and superannuation liability to the superfund at the time of the payroll event.	X	P	✓	P
Obligation to provide payment summary to employee and annual payment summary report to ATO at end of financial year is removed.	X	✓	✓	P
Employee can view payroll related data and annual payment summary online via myGov.	X	✓	✓	P

Key: ✓: **capability available** **X : capability not available** **P: capability is possible if employer chooses to 'opt-into' Single Touch Payroll and voluntarily report and/or pay.**	**Option 1:** Leave the current processes in place	**Option 2: *Mandatory*** real time reporting of tax and superannuation obligations at the time of the payroll event, and the option to ***voluntarily*** make payments in real time.	**Option 3: *Mandatory*** real time reporting and ***mandatory*** real time payment of tax and superannuation obligations at the time of the payroll event.	**Alternate option ruled out prior to further consultation: *Voluntary*** real time reporting and ***voluntary*** payment of tax and superannuation obligations at the time of the payroll event
	Option 1: Leave the current processes in place	**Option 2: *Mandatory*** real time reporting of tax and superannuation obligations at the time of the payroll event, and the option to ***voluntarily*** make payments in real time.	**Option 3: *Mandatory*** real time reporting and ***mandatory*** real time payment of tax and superannuation obligations at the time of the payroll event.	**Alternate option ruled out prior to further consultation: *Voluntary*** real time reporting and ***voluntary*** payment of tax and superannuation obligations at the time of the payroll event
Positive and negative aspects of the options	***Pros*** • Changes will emerge as a result of the broader digital agenda which will see the majority of businesses transacting electronically with the ATO by 2018. ***Cons*** • Existing regulatory burden is not reduced for employers (i.e. reporting and onboarding) • Does not promote efficiencies through cross agency sharing of real time reported information.	***Pros*** • Cutting red tape for businesses - $2.0 billion over 10 years. (aggregate of Phase 1) • Creates a foundation for increased efficiency across government through cross agency sharing of real time reported information. • Creates a foundation for a modern taxation system. • Protecting employee tax and superannuation contributions by providing early visibility of employers not meeting their obligations. • Increased ability for ATO to pre-fill information to streamline tax return preparation. • Simplifies the onboarding process and reporting	***Pros*** • Cutting red tape for businesses - $2.6 billion over 10 years. • Creates a foundation for increased efficiency across government through cross agency sharing of real time reported information. • Creates a foundation for a modern taxation system. • Provides incentive for business compliance through monitoring of employer response to tax and superannuation reporting and payment obligations. • Protecting superannuation and government revenue. • Increased ability for ATO to pre-fill information to streamline tax return preparation. • Simplifies the onboarding process and reporting	***Pros*** • A further gradual update/increase of digital services will encourage employers to move to new software over time. • Employers will gradually choose to transact digitally once they can see the benefits of doing so (i.e. similar to the e-tax experience). ***Cons*** • Broader government service delivery benefits and the improved integrity in the PAYG Withholding

Key: ✓: **capability available** **X : capability not available** **P: capability is possible if employer chooses to 'opt-into' Single Touch Payroll and voluntarily report and/or pay.**	**Option 1:** Leave the current processes in place	**Option 2: *Mandatory*** real time reporting of tax and superannuation obligations at the time of the payroll event, and the option to ***voluntarily*** make payments in real time.	**Option 3: *Mandatory*** real time reporting and ***mandatory*** real time payment of tax and superannuation obligations at the time of the payroll event.	**Alternate option ruled out prior to further consultation: *Voluntary*** real time reporting and ***voluntary*** payment of tax and superannuation obligations at the time of the payroll event
		obligations for employers. • Provides opportunities for business to manage cash flow at a time suitable to their business model through voluntary payments. • Increase community engagement with super accounts by making it easier for employees to see their current superannuation funds when on-boarding via myGov. • Employees are more aware of their cumulative income position to determine correct entitlements to welfare payments through visibility of their payroll information online via myGov. • Employer obligations to provide employees with an annual payment summary and the ATO with annual payment summary statement are removed ***Cons*** • Does not provide any additional protection of superannuation payments as there is no change to the	obligations for employers. • Evens out cash flow associated with the payment of tax and superannuation obligations. • Increase community engagement with super accounts by making it easier for employees to see their current superannuation funds when on-boarding via myGov. • Employees are more aware of their cumulative income position to determine correct entitlements to welfare payments through visibility of their payroll information online via myGov. • Employer obligations to provide employees with an annual payment summary and the ATO with annual payment summary statement are removed ***Cons*** • Some businesses may experience cash flow difficulties.	and superannuation systems will not be realised in the absence of widespread uptake of real time reporting. • Potential lack of commercial support and investment in product development without a guaranteed market. • Opportunities for voluntary take up may be impacted due to lack of market solution for software. • Does not promote a level playing field - early visibility of employers not meeting their employee tax and superannuation contributions is limited to only those employers who choose to report at the payroll event. • Employee and employer benefits from simplified onboarding will not be realised if employer does not participate

Key: ✓: **capability available** **X : capability not available** **P: capability is possible if employer chooses to 'opt-into' Single Touch Payroll and voluntarily report and/or pay.**	**Option 1:** Leave the current processes in place	**Option 2:** ***Mandatory*** real time reporting of tax and superannuation obligations at the time of the payroll event, and the option to ***voluntarily*** make payments in real time.	**Option 3:** ***Mandatory*** real time reporting and ***mandatory*** real time payment of tax and superannuation obligations at the time of the payroll event.	**Alternate option ruled out prior to further consultation:** ***Voluntary*** real time reporting and ***voluntary*** payment of tax and superannuation obligations at the time of the payroll event
		superannuation payment cycle.		• Employees will not be able to see payroll information via myGov unless employers participate.

5. IMPACT ANALYSIS - WHAT IS THE LIKELY NET BENEFIT OF EACH OPTION?

The primary impact of Single Touch Payroll on the community is through reduced compliance costs for business and individuals when interacting with government, both in its own right and as a foundational investment toward more seamless interactions between the community and government.

These compliance costs are the most significant and readily estimated impacts. Other impacts include:

- Businesses will be impacted through earlier detection of those employing businesses that are not meeting their tax and superannuation obligations, which will support a more level playing field. The role of compatible Business Management Software in delivering the Single Touch Payroll experience, will also impact upon software providers, intermediary service providers.
- Greater automation in the delivery of payroll related information from businesses to the ATO, will contribute to changes in the business environment, in which tax professionals and other business service providers find themselves. However, contribution to this change from Single Touch Payroll is of itself unlikely to be material given the broader evolution of the digital economy.
- Employees will have greater certainty over their remuneration as real time reporting will provide the ATO with earlier visibility of employers who are not meeting their superannuation obligations and position the ATO to take earlier action. Individuals as taxpayers will benefit through increased collection of income tax revenue payable under the existing PAYG Withholding laws, lower costs in administering the PAYG Withholding system and, in the future, a reduced call on pensions as a result of improved employer compliance with superannuation payments.

5.1 COST OF COMPLIANCE

An important policy problem this proposal intends to address is the administrative burden/cost of compliance on Australian businesses who must comply with the PAYG Withholding regime.

The details and estimates indicate Single Touch Payroll will have a material impact on affected businesses. Overall, the proposal will create an initial implementation cost across affected businesses but has considerable potential to produce on-going annual savings or reductions in compliance costs of the taxation and superannuation systems.

Regulatory Burden and Cost Offset Tables

Below are the tables for regulatory burden and cost offset estimates for each option:

Option 1: Do Nothing – maintain status quo

Note: under status quo the existing compliance cost burden of PAYG withholding is about $25 billion.

Average net annual regulatory costs/savings (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? □ Yes, costs are offset □ No, costs are not offset ✓ Deregulatory—no offsets required				
Total (Change in costs – Cost offset) ($ million) = $0				

Option 2: Stage 1 – Mandatory real time reporting of tax and superannuation obligations for all large employers (with 20 or more employees) with the option to voluntarily make payments in real time. All other employers can opt in voluntarily.

Note: Voluntary involvement could reach 30% of smaller employers . This would increase on-going savings to about $135million and net savings to about $105 million (over a 10 year period).

Average net annual regulatory costs/savings (from business as usual)				
Change in costs ($ million)	Business	Community organisations	Individuals	Total change in costs
Total, by sector	-$55m	-	-	-$55m
Cost offset ($ million)	Business	Community organisations	Individuals	Total, by source
Agency	-$55m	-	-	-$55m
Are all new costs offset? □ Yes, costs are offset □ No, costs are not offset ✓ Deregulatory—no offsets required				
Total (Change in costs – Cost offset) ($ million) = $0				

Option 2: Stage 2 – Mandatory real time reporting of tax and superannuation obligations for all employers with the option to voluntarily make payments in real time.

Average net annual regulatory costs (from business as usual)				
Change in costs ($ million)	Business	Community organisations	Individuals	Total change in costs
Total, by sector	-$230m	-	-	-$230m
Cost offset ($ million)	Business	Community organisations	Individuals	Total, by source
Agency	-$230m	-	-	-$230m
Are all new costs offset? □ Yes, costs are offset □ No, costs are not offset ✓ Deregulatory—no offsets required				
Total (Change in costs – Cost offset) ($ million) = $0				

Option 3: Mandatory real time reporting and payment of tax and superannuation obligations for all employers

Average net annual regulatory costs (from business as usual)				
Change in costs ($ million)	Business	Community organisations	Individuals	Total change in costs
Total, by sector	-$265m	-	-	-$265m
Cost offset ($ million)	Business	Community organisations	Individuals	Total, by source
Agency	-$265m	-	-	-$265m
Are all new costs offset? □ Yes, costs are offset □ No, costs are not offset ✓ Deregulatory—no offsets required				
Total (Change in costs – Cost offset) ($ million) = $0				

COMPLIANCE COST IMPACTS

Compliance costs can be reduced when certain characteristics allow taxpayers to[26]:

- standardise and automate business compliance processes
- integrate with existing business systems
- minimise manual adjustments and processes.

Single Touch Payroll draws on these characteristics to improve the level of automation and the consequent reduction in or elimination of manual effort by better integrating PAYG Withholding compliance processes with the existing payroll cycles of employers. Single Touch Payroll continues a wider movement to streamline and automate processes and systems using technology.

The extent of implementation impacts will vary. Many businesses involved in PAYG Withholding processes use digital systems that are potentially well aligned with this proposal.

In terms of implementation impacts, the acquisition of new or enhanced digital systems are also being driven by the Government's SuperStream standard which is requiring a shift by no later than 30 June 2016; as well as the recently announced "Enabling Digital by Default" initiative to make digital systems the default means of interacting with Government agencies.

Single Touch Payroll however, is a specialised, purpose built system involving software developers , businesses and the ATO to produce one integrated system and supporting processes to automatically handle PAYG withholding obligations as an extension of the natural payroll process. This is not likely to occur without Government and ATO intervention.

It is intended that a pilot will be conducted in the latter half of the 2016-17 year to identify implementation issues for businesses and potential strategies to support them to transition to a Single Touch Payroll environment. By trialling this prior to widespread implementation it enables:

- the identification and resolution of problems
- the identification of appropriate support mechanisms required for transaction
- the development of an appropriate transition timeframe.

A similar pilot was conducted in the UK and was found that the 'pilot boosted confidence that the process worked well and provided evidence that it would reduce administration burdens for employers'[27].

The timing of taxation payments can have impacts on a business's cash flow and can arise where employers remit PAYG Withholding earlier. For some businesses cash flow impacts could be substantial. Option 2 mandates real time reporting at the time of the payroll event with the option to voluntarily make payments in real time. This option removes any potential cash flow impacts, except where employers choose to voluntarily alter their payment profile.

26 See for example, ATO, Cost of Compliance Research, Summary Report, prepared by Newspoll, 2012

27 HM Revenue and Customs, *The Real Time Information Pilot*, 2013. available at: https://www.gov.uk/government/publications/the-real-time-information-pilot

5.2 OPTIONS ANALYSIS

The table below considers the impacts of:

- Option 1 – 'Leave the current processes in place'
- Option 2 – 'Mandatory real time reporting of tax and superannuation obligations for all employers at the time of the payroll event, with the option to voluntarily make payments in real time.
- Option 3 – 'Mandatory real time reporting and mandatory real time payment of tax and superannuation obligations for all employers at the time of the payroll event'.

The impacts rely on the proposed approach having an initial pilot and progressively transitioning different sized businesses into Single Touch Payroll.

Impact	Option 1 Leave the current processes in place	Option 2 Mandatory real time reporting and voluntary real time payment of tax and superannuation obligations for all employers at the time of the payroll event		Option 3 Mandatory real time reporting and real time payment of tax and superannuation obligations for all employers at the time of the payroll event
		Stage 1	Aggregate Stage 1 & Stage 2	
Net compliance cost savings	No change to compliance costs and no direct savings. Existing compliance cost burden would remain unchanged. This is about $2.5 billion and over 10 years would amount to about $25 billion.	Over 10 years the aggregate impact could be a potential saving of about $900 million. This results from the streamlined TFN declaration and Superannuation standard choice form for new employees, as well as automated reporting of PAYG Withholding.	Over 10 years the aggregate impact could be a potential saving of about $2 billion. This results from the streamlined TFN declaration and Superannuation standard choice form for new employees, as well as automated reporting of PAYG Withholding.	Over 10 years the aggregate impact could produce a potential saving of about $260 million per year. These savings are produced from the streamlined TFN declaration and superannuation standard choice form for new employees, automated reporting and payment of PAYG Withholding and Superannuation obligations.
Implementation cost for businesses	No implementation costs to businesses.	The potential implementation cost could be about $300 million which would be spread over a two to three year period. Changing and adapting record keeping systems will be the major driver. These are likely to include additional fees to account	The potential implementation cost could be about $670 million which would be spread over a two to three year period. Changing and adapting record keeping systems will be the major driver. These	The potential implementation cost could be about $670 million which would be spread over a two to three year period. Changing and adapting record keeping systems will be the major driver representing about $620

Impact	Option 1 Leave the current processes in place	Option 2 Mandatory real time reporting and voluntary real time payment of tax and superannuation obligations for all employers at the time of the payroll event		Option 3 Mandatory real time reporting and real time payment of tax and superannuation obligations for all employers at the time of the payroll event
		for changes to software; but for some smaller businesses there is likely to be a need to upgrade the digital systems they are using.	are likely to include additional fees to account for changes to software; but for some smaller businesses there is likely to be a need to upgrade the digital systems they are using.	million of the compliance costs. These are likely to include additional fees to account for changes to software; but for some smaller businesses there is likely to be a need to upgrade the digital systems they are using.
On-going annual savings for businesses	No on-going annual savings for businesses. Over time, some businesses may realise savings as a result of moving to digital interactions aligned to the Government's Digital Transformation Agenda.	Potential on-going annual savings could be about $135 million per year. Predominately from recordkeeping system improvements. These will emerge from the streamlining and greater automation of the withholding process. However, tangible savings will also emerge from forms particularly as some key forms will be substantially reformed – e.g. TFN declarations and Superannuation standard choice forms.	Potential on-going annual savings could be about $295 million per year. Predominately from recordkeeping system improvements. These will emerge from the streamlining and greater automation of the withholding process. However, tangible savings will also emerge from forms particularly as some key forms will be substantially reformed – e.g. TFN declarations and	Potential on-going annual savings could be about $330 million per year. Predominately from record keeping system improvements. These will emerge from the streamlining and greater automation of the withholding process. However, tangible savings will also emerge from forms particularly as some key forms will be substantially reformed – e.g. TFN

Impact	Option 1 Leave the current processes in place	Option 2 Mandatory real time reporting and voluntary real time payment of tax and superannuation obligations for all employers at the time of the payroll event		Option 3 Mandatory real time reporting and real time payment of tax and superannuation obligations for all employers at the time of the payroll event
			Superannuation standard choice forms.	declarations and superannuation standard choice forms.
Cash flow	No new impacts or implications to cash flow for businesses.	Businesses will report in real time but real time payment will be optional. Cash flow impacts vary particularly for smaller businesses as there are implications from benefits to hold money longer so it can be invested or used in the business; or pay sooner and avoid debt and tax payment issues. By making it optional the business will be able to decide the best approach that meets their needs.	Businesses will report in real time but real time payment will be optional. Cash flow impacts vary particularly for smaller businesses as there are implications from benefits to hold money longer so it can be invested or used in the business; or pay sooner and avoid debt and tax payment issues. By making it optional the business will be able to decide the best approach that meets their needs.	Businesses will report and pay in real time. This could present cash flow issues which have not been fully factored into the net savings shown above. Cash flow impacts can vary considerably particularly for smaller businesses. They will lose the use to the funds but more frequent payment can help smaller businesses manage their cash, debt and tax payment position better. Unlike Option 2, this will be mandatory. The impact from cash flow has the potential to materially

Impact	Option 1 Leave the current processes in place	Option 2 Mandatory real time reporting and voluntary real time payment of tax and superannuation obligations for all employers at the time of the payroll event		Option 3 Mandatory real time reporting and real time payment of tax and superannuation obligations for all employers at the time of the payroll event
				erode the value of on-going savings and the net impact shown above.
Impact differences across market segments	No new impacts to market segments.	It is anticipated that employers with less than 20 employees who decide to opt in will make up about $70 million per year in savings, whilst those employers with 20 or more employees make up approximately $65 million per year in savings. This is largely through the streamlining of TFN declarations and Superannuation standard choice forms, and automation of reporting obligations for PAYG Withholding. However, smaller businesses will have proportionately larger implementation costs. Cash flow impacts will not be relevant as real time payment is not mandated.	Employers with less than 20 employees make up about $230 million per year in savings, whilst those employers with 20 or more employees make up approximately $65 million per year in savings. This is largely through the streamlining of TFN declarations and Superannuation standard choice forms, and automation of reporting obligations for PAYG Withholding. However, smaller businesses will have proportionately larger implementation costs. Cash flow impacts will not be relevant as real time payment is not mandated.	Affected micro businesses will make up about $195 million in savings, small and medium businesses $65 million per year and large $70 million. This is largely through the streamlining of TFN declarations and Superannuation standard choice forms, automation of reporting obligations for PAYG Withholding, and more even cash flow management. However, micro business will have about $420 million in implementation costs – largely from the need to upgrade their systems to deal with Single Touch Payroll.

Impact	Option 1 Leave the current processes in place	Option 2 Mandatory real time reporting and voluntary real time payment of tax and superannuation obligations for all employers at the time of the payroll event		Option 3 Mandatory real time reporting and real time payment of tax and superannuation obligations for all employers at the time of the payroll event
		Affected businesses will be able to choose to opt in if it fits their needs.	Affected businesses will be able to choose to opt in if it fits their needs.	Cash flow impacts could be a problem as real time payment is mandated and potentially eroding the net savings from this option.

5.3 ECONOMIC AND SOCIAL IMPACTS

SOFTWARE DEVELOPERS

In a mandated environment, Single Touch Payroll will greatly affect the software developer stakeholder group. It requires them to play a crucial role in the development of the required software, allowing software developers to engage with various businesses and understanding their needs and demands. Software developers may need to potentially remodel their business to facilitate increased demand of their product and provide support required for upgrades and first time users. Through early engagement, software developers have indicated they are not willing to invest in developing compatible software unless there are publicly announced mandatory timelines, communication and legislations.

TAX PROFESSIONALS AND PAYROLL PROVIDERS

Tax Professionals will potentially see a reduction in the resources required to assist their clients in meeting PAYG Withholding obligations in the future. While this may mean a reduction in the demand for professional services to complete this work, it is anticipated that practitioners will shift their business model away from simplified tax conformance, in favour of value added services, both in terms of functional and advisory services.

Single Touch Payroll will have limited direct impacts on payroll providers. Their ability to make payments to employees on behalf of their clients (businesses) could potentially be hindered if those businesses are adversely affected by Single Touch Payroll. Some businesses already send payroll providers data automatically however, business processes for payroll providers could potentially become easier if businesses move to a digital environment and information is automatically transmitted to payroll providers, removing the need for them to manually key data.

EMPLOYEES

The wellbeing of employees will increase as a result of more streamlined processes for providing employment commencement information to their employer, as they will have more time to devote to the things they value. Employees will have greater visibility (via ATO Online) of their remuneration with information from all their employers provided in one place, better positioning them to make informed choices about their employment decisions and having greater certainty about their retirement income position. On behalf of the employees, the ATO will be able to take action earlier where employers fall behind in meeting employee superannuation obligations.

Employees will also experience improved timeliness in the availability of pre-fill information to streamline tax return preparation. It will no longer be necessary to wait for businesses to report annual income to pre-fill tax returns, supporting the future direction of automated tax returns

GOVERNMENT AND THE COMMUNITY

Improved business compliance in meeting PAYG Withholding and superannuation obligations and more efficient delivery of government services, will improve the budget position to the benefit of present and/or future taxpayers.

Improved compliance with PAYG Withholding contributions will increase tax revenue collections from the existing tax base. This assumes that a business' failure to meet its PAYG Withholding obligation is not merely shifted to an alternative tax obligation, such as income tax. Improved compliance with superannuation

contributions will result in higher superannuation balances for some employees at retirement and a lesser reliance on the Age Pension.

More cost efficient administration of the tax system will also contribute to a stronger budget position. The preferred option for Single Touch Payroll is estimated to reduce administration costs in the order of $135 million per annum for phase 1, stage 1 reaching $295 per annum once full implementation of phase 1 is complete (noting that phase 1, stage 2 is subject to a future business case). As a foundational investment, Single Touch Payroll will support further efficiencies in the cost of government service delivery through the provision of real time employment and employee remuneration information.

The requirement to interact digitally, increases support for the Government's e-Government and Digital Economy policy and provides a foundation to increase efficiency across government through cross agency sharing of real time reported information.

5.4 FUTURE OPPORTUNITIES

Initial consultation with government agencies reveals opportunities to assist with reducing the cost of compliance to businesses and individuals through the collection and sharing of a broader range of payroll data elements. Single Touch Payroll reporting of PAYG Withholding and superannuation contributions provides the foundation for these whole-of-Government opportunities.

Some key examples include:

- Under Single Touch Payroll, real time employment information could be made available to the Department of Human Services (DHS) to significantly improve the administration of the welfare and child support systems. This Department's proposed Welfare Payment Infrastructure Transformation Program would leverage Single Touch Payroll to reduce the reporting burden on welfare recipients and child support clients whilst reducing the size and frequency of incorrect payments.
- The Department of Employment outsources job placement contractors who are currently required to verify the employment of scheme participants, which involves obtaining evidence, conducting interviews and collation and submission of data. At approximately 400,000 placements annually, the Department estimates there are potential savings to the sector if employment could be verified using data collected via Single Touch Payroll.
- The Department of Immigration and Border Protection require holders of certain classes of visas to self-report on earnings and time spent working. This creates a burden on individuals and a burden on the Department to manage the data. Single Touch Payroll could eliminate this burden and ensure the data collected is accurate, however it should be noted business software would need to capture this information.
- The Australian Bureau of Statistics indicates enhanced data available through Single Touch Payroll could be used to generate a new economic indicator to help identify turning points in the business cycle more efficiently. There is also opportunity to improve the quality of non-response imputation and survey outputs in the areas of employment participation which will improve the overall quality of reports produced and used by decision makers.

The Government has requested that a proposal to leverage Single Touch Payroll for real time reporting of employment data to other federal agencies be presented by the end of 2016 (Phase 2 of this project), and by the end of 2017, options be developed for extending the sharing of real time reporting of employment data with states and territories (Phase 3 of this project).

Single Touch Phase 1 lays the foundation for these longer term benefits.

6. Consultation

The ATO conducts a four-phase approach to consultation and co-design.

Phase	Intent	Status
Phase 1 - Preliminary consultation and assessment activities	Discuss the Single Touch Payroll concept at a high level, deliver an overview of how Single Touch Payroll would work, and discuss the changes to business processes for the purpose of identifying issues, impacts and opportunities for improvements.	Completed
Phase 2 - Consultation	• Explore any gaps in the understanding of the current environment, systems, processes, irritants and needs • Test aspects of the future client experience designs – i.e. design principles, key design assumptions and hypotheses • Identify and understand which assumptions/hypotheses clients may find problematic (and why?) and may require additional assistance to migrate across.	This phase has been divided into two stages: ***Stage 1:*** Consultation on all options (see Section 4 – 'Options considered') - completed April 2015. ***Stage 2:*** Further consultation on Option 2: Mandatory real time reporting and voluntary real time payment - currently underway (as at July 2015).
Phase 3 - Co-design activities	Focus on the co-design activities that will bring the community into the design of our services, processes and products that underpin the future experiences. Software developers are engaged in this phase to explore high level design considerations concurrently with Phase 2 consultation as described above.	Initial co-design activities have commenced and will be ongoing
Phase 4 - Usability testing	Usability testing activities that will test product interfaces at the task process level. This will be across the user groups identified in Phase 2.	Initial usability testing activities have commenced and will be ongoing

6.1 PHASE 1 CONSULTATION OUTCOMES

Phase 1 – Preliminary consultation and assessment activities

Preliminary consultation and assessment activities were conducted utilising existing forums and networks to inform Single Touch Payroll design principles and early concepts.

The following forums and networks were included in phase 1 preliminary consultation activities:

- Small business
- Software developer
- Payroll providers
- ATO Tax Practitioner Advisory Group
- Business Activity Statement Agent Advisory Group
- Small Business Liaison Group
- Software Industry Partnership Office
- Software Relationship Management Group
- A number of government departments

The key findings from this phase were:

- Businesses are generally ready to engage in Single Touch Payroll, but some will require significant support and education to make the change.
- Software developers indicated there was recognition that pricing and product range would need to allow accessibility for all types of businesses.
- A long lead time would be required to allow development of product and strong engagement in the design process was essential. The learning from the United Kingdom experience could be incorporated in an Australian design so as to improve the product development process.
- It was clear that developers will not invest in building compatible software unless there is a clear roadmap which includes publicly announced timelines and assurance a digital environment will be required.

6.2 PHASE 2 CONSULTATION OUTCOMES

Phase 2 consultation has been divided into two stages.

Stage 1 - consultation included the following:

- Targeted consultation
- A public discussion paper inviting community comment
- A Round Table discussion chaired by the Small Business Minister.

Targeted consultation has included:

- Individuals: A total of eight individuals were involved in a focus group interview of which all started a new job within the previous six months.
- Businesses: A total of 10 business participants, from various industries and of various sizes were involved. Participants were either business owners or the payroll officer of a business.
- Tax professionals: A total of 20 tax professionals, with business clients from various size practices were involved, including 10 BAS agents and 10 Tax agents.
- Superannuation funds: A total of 4 APRA-regulated superannuation funds were involved.

Public discussion paper

Following the announcement of Single Touch Payroll on 28 December 2014, the community was invited to respond to a discussion paper outlining the Single Touch Payroll proposal. The paper was published on ato.gov.au and included three potential Single Touch Payroll options:

- Option 1: Leave the current processes in place.
- Option 2: Mandatory real time reporting of tax and superannuation obligations for all employers at the time of the payroll event, with the option to voluntarily make payments in real time.
- Option 3: Mandatory real time reporting and mandatory real time payment of tax and superannuation obligations for all employers at the time of the payroll event

The discussion paper also included the streamlining of TFN declarations and superannuation standard choice forms.

The formal consultation period for the discussion paper ran from 12 February 2015 to 6 March 2015. 135 written submissions were received in response to the Single Touch Payroll discussion paper.

Round Table discussion

A Small Business Roundtable meeting was held on 14 April 2015.

A number of key themes arose in the feedback received from stage 1 consultation as outlined in the table below.

Themes	Stage 1 - Consultation Feedback
Cost to business – financial	The cost relating to the purchase of software and compatible hardware was raised, particularly by small businesses. Small business also raised costs incurred by more frequent reliance on intermediary services such as bookkeepers, tax agents and BAS agents. Larger businesses raised concern around the costs involved in large scale change within their organisations, including staff training, business process changes and costs associated with upgrading software and IT systems. The superannuation industry also indicated that an increased number of payments will lead to increased processing and administrative costs, which could potentially be passed on to members. Numerous suggestions were made that software (for small business at a minimum) should be provided by the Government, without cost.
Cost to business - time	Reducing the complexity of payroll and superannuation obligations and whole of government data sharing is seen as a significant step forward in the Government's intention to reduce red tape and associated costs for business. However, feedback also highlighted the initial time outlay to implement the new changes, particularly in terms of learning how to use new software and transition existing business processes.

Cash flow	The majority of small business participants indicated that cash flow impacts would be problematic if they were required to make real time payments. For example, seasonal businesses with uneven revenue, 30 or 60 day trading terms, and negative cash flow industries such as the building industry.
Transition	A phased transition approach was highlighted as preferable by most participants, and generous lead times and flexibility during implementation were identified as crucial. There was also feedback that suggested Single Touch Payroll should be opt in for small business rather than mandatory. Some responses indicated they would like government incentives for small businesses to transition.
Support	Effective educational material and support from the ATO and software providers was highlighted as crucial for successful implementation. Participants indicated a need for real time support to be provided via a variety of channels including: • phone • face-to-face • on-line • education packs.
Adjustments and errors	Payroll adjustments are a common occurrence for business. The ability to make adjustments, including negative adjustments, has been highlighted as a crucial feature which needs to be considered during design.
Communication	Effective, clear and frequent communication was highlighted as crucial for successful implementation. Businesses want to know what is expected of them and when. They want fixed timelines, once they are announced.
Onboarding employees	Employee onboarding and cessation concepts were welcomed by a majority of participants, who can see value in streamlining these processes.

Following careful consideration of the views expressed during the stage 1 consultation, the Minister for Small Business released a further press release on 10 June 2015 advising the Government *" recognises the cash-flow implications for business of real time payments, and will therefore only be consulting further on real time reporting and voluntary real time payments as an option…With this in mind we have asked the Treasury and the ATO to continue to consult with the business community and the software industry on the scope and timing for the Single Touch Payroll initiative and the feasibility of conducting targeted pilots from July 2016."*[28]

This clear Government guidance has led to the refinement of the proposal, with ongoing consultation now focusing on:

- Real time reporting with the option to voluntarily pay at the time of the payroll event

28 The Hon Bruce Billson MP, Minister for Small Business, Media Release, *Government moves to get Single Touch Payroll right*, 2015.

- Timing of transition to real time reporting
- Simplifying the process of bringing on new employees through streamlining TFN declaration and superannuation standard choice forms
- Feasibility of a pilot with a focus on, but not limited to, small business in 2016.

***Stage 2* – June 2015 Consultation**

The ATO, in conjunction with the Treasury, commenced stage 2 consultation in June 2015, engaging with the community across a variety of audience groups.

The key findings are outlined below.

Themes	Stage 2 – June Consultation Feedback
Single Touch Payroll Scope	• Removal of real time payments was met with a positive response and has alleviated cash flow concerns, in particular for small business. • Support for the move to digital interactions rather than paper. • Benefits could be seen for business in removing payment summaries and annual payment summary reporting. • Some businesses still see Single Touch Payroll as an additional compliance cost which would increase red tape. However, businesses would still participate because of the benefit to employees and because Single Touch Payroll provides a fairer and more transparent environment. • Concerns were raised around the cost for custom software, in particular for large business. • Transitional thresholds/segments should be aligned where possible to SuperStream. • It was suggested that small withholders (<$25,000 annual PAYG Withholding) or possibly micro business be exempt from Single Touch Payroll as there is not as much value added from this segment being included. • General satisfaction around an extended lead time and staged transition approach.
Single Touch Payroll Pilot	• There was overall support of a Single Touch Payroll pilot. In particular, it will provide the opportunity for businesses to test ease of use and how to manage errors and corrections. • Will validate if the Single Touch Payroll proposal does align with the natural business processes • Software developers indicate that it would be best to avoid pilot participation with business from complex industries such as the health industry. Software developers stated that a resolution of the messaging format is required before progressing further and a delay with a decision may prevent participation in the pilot. • The pilot should be used to determine if small businesses should be exempt from Single Touch Payroll. • It was suggested that a spectrum of small businesses should be included in the pilot, including those who do not currently utilise Business Management

	Software (BMS). • Businesses would like to participate in the design of the pilot.
Transition and implementation	• Suggested timeframes to allow for transition range from 2-5 years. • Lead time should be 12 months from changes in law not from the media release. • It was suggested that small withholders (<$25,000 annual PAYG Withholding) be transitioned last as they are the most resistant to change. • Businesses would like to see a review period in place of roughly three years, where the ATO will measure Single Touch Payroll impacts. • Consideration of other major releases eg. Standard Business Reporting 2, to ensure Single Touch Payroll implementation does not occur at the same time. • A voluntary transition approach may build momentum through early adopters. • Businesses will be reliant on when software developers are ready to roll out. • The transition into Single Touch Payroll should be based on when the software provider is ready rather than withholding thresholds. • A large concern is the support provided in the initial transition period, specifically if errors are made.
Communication and support	• Members will need a clear outline of what Single Touch Payroll is. Some concern regarding the details and how it will work • Single Touch Payroll has little meaning to the average person, need for clarification of the benefits of Single Touch Payroll and the pilot can be an opportunity to demonstrate this • Participants indicated they prefer certainty through legislation and a public announcement. • Many businesses/representatives felt they had been listened to. • There is going to be a need for effective software which is affordable in the market place and some organisations have even called for ATO to provide this. • Adequate support must be provided for entities (usually large) that use custom built (in house) software. • The ATO portal and other government services (such as myGov) need to be reliable, ready for businesses owners to interact with at their own leisure. Many do not have the time to deal with delays.

The Roundtable on 24 June 2015 highlighted the need for additional consultation with large business.

***Stage 2* – July 2015 Consultation**

After the second Roundtable concluded 24 June 2015, the ATO was asked to undertake further consultation with the Business Council of Australia, additional large employers and software developers to seek management's views rather than functional payroll views on the Single Touch Payroll concept and hear any concerns.

14 consultation sessions were conducted between 23 July and 31 July 2015 with:

- Business Council of Australia
- Industry representative of large business
- Software Developers

The key themes discussed were around the support and commitment of the Single Touch Payroll concept, transition, costs and a low or no cost software solution.

The overwhelming thread through all the conversations emphasised:

- certainty of legislation (co-designed with business) with no future changes
- clarity in technical specifications (co-designed with developers) with no future changes.

A summary of the key themes is provided below.

Themes	Stage 2 – July Consultation Feedback
Support	Overall, the concept of real time reporting was well received. Large business and software developers see real, long term benefits to employees, Government and the community. Generally, large business don't see a lot of benefit for them as they already have quite automated/electronic payroll processes, however they do see the benefits to smaller businesses not already using software. As part of the Single Touch Payroll value proposition to business, Government should consider easing other reporting burdens by the inclusion of other obligations such as state payroll taxes and GST (proposed Single Touch Payroll future state). Some participants believe STP may increase the current burden on employers, due to more frequent reporting.
Transition	12-18 months seems to be the general "lead time" businesses will require to transition. July 2017 and July 2018 transition dates were discussed and there were no objections to these dates as long as their software upgrade is available. Adequate lead time is required to allow businesses time to rigorously test their software before 'going live'. Throughout transition and beyond, businesses want certainty they will not be penalised if honest mistakes are made and reported in real time. They have stressed that an appropriate solution to amend/adjust should be made available.
Cost to business	In general, large businesses are willing to bear the costs involved in upgrading their

	software as long as these costs passed on from the Software Developers aren't too high. Businesses are interested in working with the ATO to co-design legislation. This will enable the ATO to have business insights and will help limit implementation costs. Costs incurred by large business in the short term won't see return on investment. However, they see longer term return on investment if future Single Touch Payroll phases are implemented.
Onboarding employees	Employee on-boarding is a stand out feature for both large business and software developers. The current processes are viewed as cumbersome, so streamlining is welcomed.
Software	Most software developers indicated they won't commit to building a product until legislation is passed. Some software developers are reluctant to discuss the concept of providing low cost options until they have the complete specifications. One software developer indicated they would be willing to explore the possibility of building the ATO an entry-level solution.

Along with providing valuable business insights, the consultation sessions also enabled us to capture a range of comments we heard during these discussions.

The below table provides a snapshot of comments and sentiments made by a variety of segments.

Small Employers:	*"I currently do use a payroll software package. I am positive about the STP concept and am keen to see the benefits for my business."* *"Why hasn't this happened already? This should help people stay on top of their obligations and will be good for businesses who are trying to do the right thing – as long as they are able to keep up."* *"I need to ensure there is enough support and communication with ATO and software providers before and during the pilot and after hours".*
Large Employers	*"STP concept makes perfect sense and is logical."* *"Make sure you allow appropriate time to be implemented properly."*
Software Developers	*"We are very supportive of the STP initiative, we think it is very sellable to business."* *"I'm most excited about the benefit STP brings with removing the end of year hump which our help desks receive regarding payment summary end of year reporting."*

Industry Associations	*"The removal of real time payments has eliminated almost of all our concern."* *"We think a pilot to test the benefits is a good idea."*

7. Recommended solution

7.1. RECOMMENDATION

Option 3 (mandatory real time reporting and payment) is estimated to deliver greater compliance cost savings to business and overall benefit to the community than the status quo or Option 2 (real time reporting and voluntary real time payment). Consequently, in accordance with the Government's RIS requirements Option 3 would be the recommended option.

Throughout consultation employers repeatedly voiced strong concerns about the cash flow impacts of real time payment, particularly in the transition period when payments are brought forward. Given that around 90% of the compliance cost benefit of Option 3 comes from the streamlining of reporting arrangements and improved procedures for engaging employees, an implementation approach focused on securing these benefits of single touch payroll, with optional real time payment, (Option 2) would also deliver significant benefit to the community.

8. IMPLEMENTATION AND EVALUATION

8.1 IMPLEMENTATION

Single Touch Payroll is subject to the Department of Finance's ICT Two Pass Review process and Gateway Review process.

The Single Touch Payroll initiative will be managed using established program and project management methodologies and governance arrangements applied in the delivery of all Government initiatives administered by the ATO. The ATO's experience in implementing other complex initiatives such as SuperStream will be beneficial and inform how the transition is administered.

Legislative change will be required to support employee-level event-based reporting, to align the timeframes for reporting with the payroll event and to support the reporting of superannuation information to the Commissioner of Taxation.

The proposed phased implementation will assist businesses to transition to Single Touch Payroll. Employers will have a minimum period of 12 months within which they can transition. Their transition will be supported by communications, change and stakeholder engagement plans that ensure the community have the opportunity to contribute to the design of support structures and frameworks and are supported during the change.

8.2 TRANSITION APPROACH

Taking into account the feedback from consultation activities, the ATO will progressively implement the Single Touch Payroll initiative by leveraging compatible Business Management Software and payroll providers to report PAYG Withholding automatically as part of the payroll event.

The transition approach will comprise of 2 separate stages:

Stage 1

Pilot
From January 2017, the ATO will conduct a pilot with a focus on small and medium business (SME) with the inclusion of large business that elect to participate. The pilot will provide opportunity:

- for businesses to test the ease of use of Single Touch Payroll and champion the product.
- to help establish the full extent of the red tape reduction benefits expected from implementation.
- to inform future transition arrangements for small businesses with less than 20 employees. (see Small Employers Transition below).

The full scope of the pilot will be developed through co-design activities with key stakeholders

Early Adopters
From July 2017, the Single Touch Payroll system is anticipated to be available for businesses who wish to start using Single Touch Payroll. The ATO will provide the ability and support for early adopters to commence Single Touch Payroll reporting with voluntary payments.

Large Employers Transition
From July 2018, the ATO will support the transition for larger employers with 20 or more employees. Large employers will be able to transition during a 12 month period at a time suitable to their business model.

Large Employers Mandated
All employers with 20 or more employees (100,000 businesses, approximately 13 million employees) will be required to report using Single Touch Payroll from 1 July 2019. The Single Touch Payroll initiative will seek legislative change to support this.

Stage 2

Small Employers Transition
A decision on whether to mandate real time reporting for small employers with less than 20 employees (710,000 businesses), and the timeframes for transition, will be subject to a further decision by Cabinet before the end of 2017 and will be informed by the outcomes of the pilot. A subsequent RIS and business case will be developed for this stage of the transition.

8.3 RISK MANAGEMENT

As part of the ATO's project management approach, a risk log has been created that contains all risks and will remain active over the life of the project to ensure identified risks are assessed and managed appropriately. See Appendix B for the extract from the risk log which shows the risks with a residual rating of red only.

8.4 EVALUATION

A formal benefits management plan is in place for the Single Touch Payroll project. The following table highlights the key outcomes to be measured.

Title	Description
Adoption of STP by in-scope employers.	The level of adoption of STP by in-scope employers. This will include early adopters and those that transition within their prescribed transition timeframes.
Increased automation of data processing through ATO systems	Consolidation of processing systems means that more data will be available in the same place (Integrated Core Processing) allowing improved business processes and increased automation. Electronic reporting of payroll and on-boarding information will enable increased automation of data processing.
Increased availability of prefill information to streamline tax return preparation	More data will be available to employees earlier to prefill their tax returns because their employers will have been reporting throughout the year.
'More time for business' – Decreased time taken for employers to meet payroll reporting and payment obligations	Employers will have more time available due to the reduction in administrative burden delivered by STP NB: Payment of PAYGW and SG at the time of the payroll event will be on a voluntary basis only.
Decreased the operational costs for the ATO	Increased digital interactions and reduced manual workloads will decrease operational costs for the ATO.

Benefits are not expected to be realised until full deployment of the solution and transition of each business group.

8.5 RIS PROCESS

On 23 December 2014 the then Minister of Small Business and the then Assistant Treasurer announced the Government will cut red tape for employers by simplifying tax and superannuation reporting obligations through Single Touch Payroll. At the time, an early assessment RIS was not available contrary to best practice.

APPENDIX A: RISK LOG

SINGLE TOUCH PAYROLL RISK REGISTER

The following table is an extract from the Single Touch Payroll risk log which shows the major risks associated with the Single Touch Payroll project.

Key	Summary	Description	L&C	Risk Mitigation	Remedial L&C
STP-434	Short timeframes for law changes may lead to legislative changes not being made prior to implementation leading to delayed or partial implementation.	Timeframes for drafting and enacting of law changes are very tight for pilot. Largest issue is for onboarding in the pilot year.	Likely - Very High	Working with OPAL and Treasury to maintain current view of timelines to ensure the project is able to meet short turnaround times.	Likely - Very High
STP-449	The inherent complexities in the software systems used by many large employers may prevent or delay transition of some large employers and government agencies to STP	Many large organisations utilise a range of integrated and interfaced software systems. Changes to these systems require complex and lengthy testing and assurance processes which may mean they have difficulty complying with mandatory compliance dates. This will delay benefits for this cohort, including some government sector organisations.	Likely - High	Consultation to be pursued with large business. Working with software providers to co-design solution.	Likely - High
STP-462	Without law changes in pilot year the ATO may not be able to transmit employee data from retail onboarding leading to delayed benefits and a user experience that does not align with STP intent	Without the proposed law changes during the pilot year, which would allow The Commissioner to provide information from retail on-boarding to the employee's STP employer, the ATO may not be able to transmit information from retail on-boarding to the employer. Initial advice is that the employee would need to print the form to provide to the employer. OPAL will be seeking urgent general counsel advice on this matter.	Likely - High	Exploring additional options to either progress law change via other initiatives or look at interpretation or exemptions. Likelihood of this risk eventuating has reduced due to pilot commencing in 2017 – allowing several months between the current anticipated legislative change timeline and commencement of the pilot.	Likely - High

Key	Summary	Description	L&C	Risk Mitigation	Remedial L&C
STP-495	A delay in the decision on which STP Message Format will be used may delay project deliverables	A delayed decision of messaging format for STP may lead to delayed take-up by software developers and reduced STP take-up. This delay will also place pressure on ATO EST to be able to develop the relevant STP Product Specific MIG, being the core artefact needed to assist developers in the build.	Likely - Very High	Continuing to escalate severity of risk and impact with decision-makers.	Likely - Very High
STP-496	If a choice is made to use simple XBRL file format there may be risk to project delivery due to it being an unproven solution	A decision to use Simple XBRL may impact delivery of the STP project, as there are aspects that have not been proven. This includes whether streaming and validation can occur using a standard XML parser as well as processing and throughput impacts.	Unlikely - High	Monitor and support EST testing effort.	Unlikely - High
STP-503	Failure to develop a seamless transition strategy may lead to poor user experience, delayed take-up and reduced benefits	A failure to develop a seamless transition strategy may lead to a poor user experience, delayed take up and reduced or delayed benefits.	Even Chance - Very High	Significant focus on consultation activity with all impacted segments to understand difficulties in transition. Education program to be designed and implemented to support transition. Working with software developers to co-design a user-friendly product that meets employer needs for reporting in real time at the payroll event.	Even Chance - Very High
STP-513	The Enterprise Data Hub (EDH) may not be delivered in time for the pilot preventing STP data capture capability and delaying Pilot go-live	Smarter Data and Data and Analytics stakeholders have expressed some concern over the forecasted timing of decisions that will facilitate the funding of the EDH. The timing places pressure on the EDH delivery schedule. Current delivery timeframes are within project timeframes, especially given the pilot will not commence until early 2017, however a delay in any of the above would likely also result in a delay of the Pilot.	Even Chance - Very High	Pursuing multiple funding options to ensure funding is available based on broader corporate requirement for infrastructure. Check points on development activity to be scheduled to ensure readiness for pilot.	Even Chance - Very High

Key	Summary	Description	L&C	Risk Mitigation	Remedial L&C
STP-524	If ASFP does not deliver as scheduled in December 2016 a number of projects will be impacted which may require build and/or schedule change resulting in increased costs.	ASFP is scheduled to move Activity Statement financials from AIS to ICP in December 2016. This is a requirement for STP to deliver a pilot in early 2017. Delayed delivery of ASFP will require re-work and will have schedule and cost impacts.	Even Chance - Extreme	Regular meetings with ASFP and EST Program/Project Managers to maintain understanding of current status. Issues identified and escalated as appropriate.	Even Chance - Extreme
STP-540	If Accounting Program of Work (APOW) does not deliver as scheduled in November 2015 a number of projects will be impacted which may require build and/or schedule change resulting in increased costs	APOW is scheduled to convert all period and assessment details for Activity Statement accounts to ICP, create the role/period/assessment to support Activity Statement generation and processing, forecasting account periods, and support due date calculation and processing of deferred due dates in ICP. ASFP builds on these deliverables, and requires the foundational elements from APOW to be delivered first. Likelihood of this risk has been reduced due to delay of ASFP to December 2016 allowing greater contingency. Any delay to APOW beyond current ASFP timelines will impact ASFP and STP deployment.	Unlikely - Extreme	Continued monitoring through dress rehearsals and early escalation of issues.	Unlikely - Extreme
STP-552	The extent and impact of defects resulting from the deployment of ASFP may result in the system becoming unusable. Therefore a decision will need to be made whether a rollback is required or external processing being at risk.	Depending on the extent and impact of defects resulting from deployment of ASFP, may make the system (or associated systems) unusable. This will require a decision to be made whether deployment is rolled back if critical business functionality or external processing is at risk.	Even Chance - Very High	Successful deployment of ASFP into ICP is a dependency for deployment of DPR for PAYGW liabilities. Director Penalties could be deployed for SGC but this would result in limited realisation of benefits. If ASFP is rolled back, Director Penalties for PAYGW would continue using manual legacy processes.	Even Chance - High

Key	Summary	Description	L&C	Risk Mitigation	Remedial L&C
STP-564	RPAT_Information and Communications Technology	The proposal involves a large amount of data being provided by almost every employer in the country every time they complete their payroll. As such, there will be a significant increase in the number of transactions and the amount of data being collected. The ATO's systems will need to be available and stable at all times (24x7).	Likely - Very High	The STP solution includes: • a new data hub to receive the data, • the required interfaces with existing ATO systems, in order to subsequently receive the data into ATO systems • a display of some elements for employees via ATO Online and myGov. The ATO's Data and Analytics initiative will bring together STP data with other ATO data holdings, to create an asset which can be used to enable strategic and tactical decision-making, as well as support the improvement and delivery of services. The scope of the ICT effort for this project is significant. Program management arrangements are in place to plan and execute each component. A delivery partner has been engaged for the program and additional resources are able to be accessed via contract arrangements. Estimates of work have been provided well in advance allowing time to identify resource needs early. STP will also involve the consolidation of systems requiring conversion of client data. This involves complex data migration and links between internal systems. A road map of dependent IT functionality has identified components to be delivered and the required staging of these. Volume projections have been calculated and factored into the design and costing. The external implementation will be phased so that volume of transactions increases over time to ensure the IT solution can meet the capacity demands. Transaction volume estimates will continue to be reassessed to ensure system stability.	Likely - High

Key	Summary	Description	L&C	Risk Mitigation	Remedial L&C
				Existing systems, channels and infrastructure are being reused wherever possible. The pilot in early 2017 will enable information to be gathered about the end-to-end functioning of the system to inform changes, if required, prior to broader roll-out. The Data and Analytics initiative is subject to the ATO's Program management governance regime including its risk management systems. Conversion design and build is taking place through a number of drops to ensure suitability of design. A shutdown/ramp up strategy will be developed using expertise from previous projects requiring conversion. There are a number of conversion runs that will be executed and contingency plans and rollback strategies will be in place.	

Key	Summary	Description	L&C	Risk Mitigation	Remedial L&C
STP-565	RPAT_Market	The mandating of STP for the vast majority of employers will mean they will need to acquire contemporary SBR-enabled payroll software or engage an intermediary. Research indicates 82% of businesses (2.1 million) use business management software. The percentage of employers (811,000) that use software is expected to be higher due to the increased complexity of payroll and the fact that employers are generally more advanced than non-employer businesses. Most employers do not have SBR-enabled software; however this is a requirement for STP. This impact is likely to be greater for small-medium enterprise markets as larger businesses are likely to already be using some kind of software. In addition, businesses will need to change their internal business processes to adapt to the Single Touch Payroll environment, including re-training staff. Process changes might include the method and frequency of reconciliation activities and the way new staff members are onboarded (using streamlined TFN declaration and Super Choice processes) Software developers are impacted by the requirement to develop commercially viable solutions and upgrades in a relatively short timeframe to meet the July 2017 start date for early adopters. The early 2017 pilot will also require one or more software developers to have developed a product to enable employers to report at the payroll event. Software developers and other third party providers have indicated that it is the right strategic direction and they have the capacity/capability to deliver these changes; however they need: • early notification of the design specifications, • early notification of the timeframes for delivery and transition; and • a mandated policy setting for employers in order to create a viable market. Some software developers, who provide highly customizable offerings, have indicated a longer transition period may be required for their clients due to the complexity.	Likely - High	The SuperStream initiative mandates electronic data standards requiring SBR-enabled software, has already increased employers' and intermediaries' digital readiness and will continue to do so. The availability of cloud-based software solutions increases the availability of affordable software for businesses that are currently operating a manual business model. There are currently some base-level free software products in the market, and the project has costed work associated with outsourcing the development of a basic product to enable employers to report at low/no cost. Consultation and communication have been occurring already and will continue throughout the pre-implementation period to ensure employers and their intermediaries fully understand the changes required so they can effectively change their business models. The SuperStream initiative has resulted in the development of robust networks between the ATO, employers and the superannuation industry, which are being utilised for STP and provide the ATO with a good understanding of the business community and the support it will require. The timeframes allow adequate time for re-training, particularly since the Government announcement has provided an indication of the impending change. As a contingency, the ATO will look to fund the development of a low/no cost solution for this purpose. Compliance areas will be providing direct support through a number of channels and using a range of products. The ATO has developed a partnership arrangement to co-design the STP solution with software developers. This arrangement will remain in place through design, testing, piloting and implementation. It mitigates the risk of an ATO design presented to developers requiring re-work. The STP proposal seeks the mandate required to	Likely - High

Key	Summary	Description	L&C	Risk Mitigation	Remedial L&C
				mitigate commercial risks associated with an opt-in approach to STP. The proposed phased implementation approach will reduce the market impact of STP implementation.	

Key	Summary	Description	L&C	Risk Mitigation	Remedial L&C
STP-566	RPAT_Stakeholders	There are a significant number of stakeholders, including government, employers, employees, payroll providers, software developers, superannuation funds, financial institutions and other Commonwealth agencies. Through early consultation, it is known that most are supportive of the general concept; however each will likely have particular areas of concern. For example, business groups will be focused on the impacts of transition and ensuring no additional burden is placed on them. Software Developers want to ensure the design is fit for purpose and does not change during the implementation. Software developers have expressed some concern around the volume and frequency of government initiatives requiring development effort over the next five years. Few software developers will commence development activity without a formal government position and legislation to support it. Support is required from the software developer community to enable an effective pilot and inform the future implementation design for STP.	Likely - High	The stakeholder engagement team will coordinate ongoing consultation activities with key stakeholders to maintain strong relationships and insights into how STP is being received in the community. The relationship with the Software Developer Working Group will evolve from one of co-design during the design and build phases of the project to one focusing on continued improvement based on experience during the pilot, subsequent deployment and feedback from clients. Information will be supplied to software developers as early as possible to support their development efforts and encourage participation in the pilot that will identify further areas to improve the client experience. Stakeholder groups will be engaged through varied communication channels over targeted time periods depending on the stage of the transition to STP. The relevant business areas of the ATO will engage with their specific stakeholder groups such as intermediaries and superannuation funds. As a project aligned with the ATO's Reinvention Program, the governance structure will support outcomes being aligned to a broader program of work to improve the client experience. Internally, a range of business readiness activities will be undertaken to ensure internal stakeholders are aware of changes due to STP. This will be targeted based on the different phases of transition.	Likely - High

Key	Summary	Description	L&C	Risk Mitigation	Remedial L&C
STP-567	RPAT_Timing Constraints	For ease of transition, it would be desirable to align the implementation start date with the beginning of a new financial year. Software developers indicate they require a lead time of 12-24 months to develop products and services and ensure their customers (employers) have the time to prepare for the change. Software developers have been involved in the co-design of the STP solution and will have the opportunity to participate in a pilot to be conducted in early 2017 prior to a voluntary implementation period commencing from July 2017 and transition of employers with more than 20 employees from July 2018. This pilot will inform the transition strategy for remaining employers. Implementation of STP requires legislative change to align obligations to the payroll event date, and the legislative schedule will be difficult to manage within the required timeframes, with software developers needing certainty regarding the exact nature of the law changes in order to design compliant solutions. There is also risk around the extended delivery timeframe from the pilot being held in early 2017 and roll out to all employers not proposed to complete until the end of the 2019-20 financial year.	Likely - High	Ongoing consultation and the partnership arrangement with software developers will ensure maximum lead times are provided for both solution development and employer and community readiness activities. The Government announcement has provided certainty regarding the commencement date for reporting. The subsequent decision regarding transitional arrangements will provide further certainty that will support product development. The current transition approach includes an early adoption year (2017-18) that will enable software developers and the community to become familiar with the concept and its operation prior to requiring their transition. Work has already commenced on drafting instructions for the law changes required, and the Treasury and the ATO have provided resources to focus specifically on STP. The partnership with software developers means early thinking regarding the law changes can be shared with the developers early in the design cycle. The risk associated with the extended delivery timeframe will be mitigated by ongoing consultation with stakeholder groups, particularly partnership arrangements with software developers and industry groups.	Likely - Medium

CLASSIFICATION: UNCLASSIFIED

Key	Summary	Description	L&C	Risk Mitigation	Remedial L&C
STP-568	RPAT_Dependencies	Policy and legislative change is required for this initiative to progress. We will be dependent on software products and offerings being developed for employers to take up the service, even with the legislative requirement. Enabling Digital by Default - proposes law change and system enhancements that will enable the ATO to require taxpayers to interact digitally, and the scope includes all inbound information and payments given to the ATO, which encompasses STP reporting and payments, if included. As for STP, time pressures regarding the legislative changes required are an issue for this initiative. Authentication and authorisation - This project will deliver a single suite of credentials and an integrated authorisation solution that individuals interacting with the all government agencies will be able to use to authenticate across all channels, regardless of the entity they are acting on behalf of. This will support the interchange of employee data known to the ATO between ATO, employer and employee. Data and Analytics - development of an enterprise data hub and specific analytics models to support differentiated treatment and tailored services to the community. SBR2 - allows enhanced communication load between business and government. This new technological channel is required to support the additional transaction load due to STP.	Likely - High	The ATO and Treasury will work closely together to ensure Single Touch Payroll is included on the legislative program well in advance of the transition commencement dates. Where external factors prevent an appropriate lead-time ATO will return to Cabinet with a recommendation to delay the commencement start date or extend the transition window. The ATO has formed a partnership arrangement with the software developer community to ensure maximum lead times are provided for both solution development and employer and community readiness activities. In the event, Enabling Digital by Default legislation is delayed, explicit changes will be made through the Single Touch Payroll legislation to ensure benefits can be realised. Where other projects deliver functionality required by the STP solution, the business and IT projects will liaise closely with project sponsors, release sponsors and project managers to ensure understanding of relationship, alignment of schedules and monitoring and reporting arrangements. The Contemporary Digital Services Program Office has been established to support individual projects in identifying and manage cross-project dependencies.	Likely - High

Key	Summary	Description	L&C	Risk Mitigation	Remedial L&C
STP-627	RPAT_Government priority	On 28 December 2014, the Government announced it will cut red tape for employers by simplifying tax and superannuation reporting obligations through Single Touch Payroll (STP). This aligns to the overarching Government commitment to build a stronger more productive economy with lower taxes by reducing the regulatory burden on Australian businesses and specifically by cutting red tape for the community by $1 billion a year. Single Touch Payroll is now part of the Digital Transformation Agenda and is designed to provide a better user experience for individuals and businesses transacting with government, by reducing red tape and increasing efficiency of government service delivery.		The ATO and Treasury will continue to provide Government with accurate information regarding the development of the project, ensuring that announcements to the community are reliable and realistic.	Even chance - High