

Regulation impact statement –
Extending single touch payroll to
small business employers

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Background

1. The Single Touch Payroll initiative was announced by the Minister for Small Business and Assistant Treasurer, the Hon Kelly O'Dwyer MP, on 21 December 2015. The initiative supports the Government's commitment to simplify tax and superannuation business reporting.
2. Single Touch Payroll requires the use of Standard Business Reporting (SBR) enabled software to digitally report Pay-As-You-Go (PAYG) Withholding and superannuation contributions information to the Australian Taxation Office (ATO). This information is created and reported concurrently with other payroll functions undertaken by employers, e.g. generating a payslip and creating a file for transmission to financial institutions to pay employees. The use of Single Touch Payroll reduces duplication and record keeping requirements for employers and introduces streamlined processes associated with hiring new employees, by providing digital services for completion of tax file number (TFN) declarations and Superannuation standard choice forms.
3. Single Touch Payroll was legislated in the *Budget (Omnibus) Savings Act 2016* and is being progressively implemented through a staged transition approach. Employers of any size may voluntarily commence transitioning to Single Touch Payroll from 1 July 2017. Large employers (with 20 or more employees) are required to report via Single Touch Payroll from 1 July 2018.
4. The expansion of Single Touch Payroll to small business (employers with 19 or fewer employees) was announced by the Minister for Revenue and Financial Services, the Hon Kelly O'Dwyer MP, on 29 August 2017.
5. The inclusion of small business will assist the ATO to take earlier action to protect honest small businesses that do the right thing and support those who may begin to struggle with meeting their obligations. In particular, those small businesses who do not fully comply with their PAYG Withholding and superannuation obligations enjoy a significant competitive advantage over those that do fully comply. Single Touch Payroll will also allow the ATO to identify and support, much earlier, those small businesses who are struggling to comply.
6. Government will also gain greater visibility over the compliance behaviour of small business in respect of paying their PAYG Withholding and superannuation guarantee (SG) obligations and of employees in respect of possible benefits fraud or overpayment.

Small business population

7. The small business population is a large, diverse market made up of approximately 750,000 employers employing approximately 3.8 million employees. In payroll terms, small business can be broken down into the following size segments¹:

¹ This data is sourced from ATO employer records and may differ slightly than ABS data due to timing and classification differences. 'New entrants' (27,492) are new employers who have recently registered or become visible to the ATO in the current period and do not yet have a known size profile. They are excluded from the detailed profiling analysis which follows.

Number of employees	Percentage of small business population
1-2 employees	44%
3-4 employees	16%
5-9 employees	19%
10-19 employees	17%
New entrants	4%

Current small business employee reporting requirements

8. Small business employers are currently required to comply with a number of reporting obligations relating to their employees. A snap shot of these include:
9. When hiring a new employee, they are required to provide their ABN and default superannuation fund details to enable their employee to complete a paper based Superannuation standard choice form and TFN Declaration form.
10. When paying employees, the small business employer must:
 - Calculate the tax that applies to their income and report and pay it to the ATO at a later date (generally quarterly).
 - Calculate superannuation contributions and report and pay these to superannuation funds on behalf of the employees at a later date (minimum quarterly).
11. In addition, small business employers are also required to:
 - Calculate, report and aggregate PAYG Withholding amounts 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 withheld (annually).
 - Register for a PAYG Withholding role with the ATO (new employers only).
12. 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 small businesses to put in place systems and processes to reconcile data created at the payroll event and to collate these for reporting to the ATO and superannuation funds.

1. What is the Problem?

13. Reform of small business employers' compliance with their employee tax and superannuation reporting obligations will reduce their compliance costs and regulatory burden, improve PAYG Withholding and SG contributions compliance and improve Government service delivery. These problems are examined in detail below:

High compliance costs and regulatory burden

14. To comply with their employee tax and superannuation reporting obligations, small businesses are required to undertake a range of ongoing lodgements with the ATO and other government agencies and entities that are often not aligned with each other. These processes often separate the calculation, reporting and payment requirements of small business which give rise to duplication in the employers reporting obligations, increasing their compliance costs and regulatory burden. For instance, the regulatory burden for employers to comply with their reporting and lodgment of tax withheld from employees was estimated to be approximately \$2.5 billion in 2011.

PAYG Withholding and SG non-compliance

15. The current administration of PAYG Withholding and superannuation has some well-known drawbacks. By separating the pay day and reporting event, the current regime creates room for errors and unnecessary reconciliation. Also, by encouraging reliance on end-of-year reconciliation (by both small business and the ATO), it introduces up to 12 month delays in recognising under-reporting and payment problems.
16. Small businesses that fail to meet their PAYG Withholding and SG requirements 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 to super funds, 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.
17. Under the existing PAYG Withholding system, long delays can arise between the payroll event and the reporting and payment of PAYG Withholdings. This is because small businesses can lodge and remit PAYG Withholding amounts quarterly. As a result of the delay small businesses experiencing cash flow management difficulties can fail to meet their obligations in a timely manner, or at all.
18. Recent estimates indicate that around \$2.5 billion per year is not paid in compliance with the SG obligation of employing entities. The incidence of non-compliance with SG is highest amongst small business employers and the incidence of liquidation (where SG cannot be recovered at all) is almost exclusively a small business problem.
19. At present the ATO only has limited oversight of whether small businesses are meeting their SG obligations. The ATO also only receives information on SG payments on an annual basis. Without visibility of what employees are owed and contributions made to funds, it is very difficult for the ATO to take actions to enforce compliance with SG.
20. Current reporting arrangements mean there can be a lag of up to 14 months in the reporting of contributions that employers have paid. This delay was identified by the Superannuation Cross-Agency Working Group's report into SG non-compliance as a key barrier to the ATO's work to

improve compliance with SG. Delays in reporting requirements create further lags in ATO compliance action. The mechanism for recovering unpaid superannuation is the superannuation guarantee charge (SGC), a tax liability imposed on employers who do not pay their SG obligations. However, only 48 per cent of the total SGC raised against non-compliant employers is collected by the ATO, often because the employer is insolvent by the time this liability arises. By decreasing the lag time in reporting, the ATO can undertake compliance actions early, before non-compliant employers become insolvent.

21. Due to the delays in the reporting of SG contributions and the lack of ease with which employees are able to monitor the payment of SG contributions, employees are often unaware about potential unpaid SG entitlements, resulting in significant delays in the reporting of complaints to the ATO.
22. The most significant impacts of not having a real-time reporting system applying to all employers in relation to SG compliance are:
 - The lack of a level playing field for businesses in relation to reporting and payment of their SG obligation – some would have a reporting obligation, others would not, while still other businesses can continue avoiding payment with little chance of detection.
 - The continued lack of visibility for the ATO of SG compliance by small business – the ATO currently receives no employer data from a small business except in response to an investigation as a result of an employee complaint.
 - Unacceptable time lags in the existing limited compliance activity by the ATO (usually 12-16 months after a non-payment has been reported by an employee which makes recovery efforts cumbersome, a big financial burden for employers and often too late to effect a remedy).
 - The consequential loss of retirement savings for employees in these non-complying businesses (potentially 9.5% of wages/salary p.a. compounded over an employees' working life).
 - The future cost to government of having to supplement the aged pension for these employees.

Inefficient Government service delivery

23. 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 agencies², 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 experiences³.
24. 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

² Australian Public Service Commission, *Capability Review Australian Taxation Office*, 2013.

³ EY Sweeney, *Digital Nation: State of the Nation 2014*, 2014.

technology such as Single Touch Payroll, which streamlines processes by aligning reporting requirements with natural business payroll processes, would improve existing service delivery as well as reduce red tape. For example, in terms of reporting, small business employers currently use multiple channels to:

- Send the ATO approximately 900,000 TFN declarations every year.
- Issue approximately 3.8 million annual payment summaries to employees.
- Complete approximately 1.6 million PAYG Withholding only activity statements.⁴

25. Employees currently:

- 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 to complete their tax return.
- 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.

26. 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 and different systems. These types of problems are experienced across all sectors of government, and opportunities exist to use Single Touch Payroll to support increased agency connectedness and as a result a more seamless end to end experience for citizens interacting with Government.

Benefits of a mandated real-time reporting process

27. The benefits of a mandated system accrues to a range of parties, including:

- Businesses who currently comply with the law will benefit by way of eliminating unfair competition and the creation of a more level playing field.
- All businesses will also benefit by way of near real-time feedback by the ATO about their compliance status - thus facilitating continuous correction and updates without running the risk or burden of compliance action.
- Most small businesses will benefit from simplified end of year reporting which arises from the elimination of payment summaries having to be provided to employees.
- Employees benefit through increased retirement savings (where they are currently missing out) and being given visibility on a near real-time basis to check their tax and superannuation status online (via myGov).

⁴ 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.

- Government benefits through being able to undertake effective compliance action in relation to an employer's legal obligations, in protecting future-retirement savings of individuals, reducing the future burden of pensions on the Commonwealth budget, and reduced reporting burden on businesses.

2. Why is Government action needed?

28. Government intervention will address the failure of the current regulatory regime to achieve its compliance objectives, as demonstrated by the significant and ongoing employer non-compliance with SG, and to transform reporting of employee tax and superannuation reporting obligations to a digital, real-time basis. The latter will align reporting to government of tax and superannuation with normal payroll functions undertaken by employers (rather than it being on different timelines) thereby reducing duplication of effort and record-keeping.
29. Without regular and accurate information on superannuation obligations owed to employees, it is difficult for the ATO to undertake timely action to enforce SG compliance. As the ATO's case data indicate that small business account for the majority of SG non-compliance, it is important that businesses with less than 19 employees are also subject to the same reporting requirements as larger employers.
30. Government intervention will also help address the free-rider affect that arises from employers 'choosing' not to comply with the law, thereby gaining cash flow and cost advantages over competitors. Not having real-time information restricts the detection of non-compliance.
31. A mandate for all employers is also expected to lower the cost of payroll software adoption due to industry scale effects and innovation in business models (such as more cloud based software and other product offers). Some software vendors already have free or low cost entry products/offers with more expected to emerge if a mandate is legislated.

3. Policy options

32. The following policy options have been considered:
 - Option 1: Status quo. Under this option, no action would be taken by the Government and the existing reporting process would continue.
 - Option 2: Require employers to report their employee tax and superannuation obligations at the time of the payroll event. The employer would also be provided with the option to make voluntary payments if they choose.
 - Option 3: Require employers to report their employee tax and superannuation obligations at the time of the payroll event and make mandatory payments at the same time.

Option 1: Status Quo

33. Under Option 1 there would be no change to the current reporting process with small business employers able to voluntarily implement Single Touch Payroll.

Option 2: Real-time reporting of employee tax and superannuation obligations with the option to make voluntary payments

34. Option 2 involves employers utilising SBR-enabled software to digitally report employee tax and superannuation obligations information to the ATO at the same time the employer pays their employees and superannuation funds. In effect, it provides an automated, streamlined

processing of employer related obligations simultaneously with the natural cycle of the employer's payroll event.

Option 3: Real-time reporting of employee tax and superannuation obligations with mandatory payments

35. Option 3 also involves employers using SBR-enabled software to digitally report their employee tax and superannuation obligations information at the time the employer pays their employees and superannuation funds. However Option 3 also requires mandatory real-time payment of the obligations arising from the report.

4. Impact analysis and regulatory costing analysis

Impact analysis

36. 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 and superannuation reporting obligations as an extension of their natural payroll process. The size and scale of the changes implemented through Single Touch Payroll are unlikely to occur independently of government action.
37. The primary impact to the community on extending Single Touch Payroll to small business employers is through reduced compliance costs for small 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.

Option 1: Status Quo

38. This option would not involve any Government action.
39. The current reporting requirements will continue to result in high compliance costs and regulatory burden on employers, as well as continue the limited visibility for the ATO to monitor PAYG Withholding and SG compliance.
40. The primary incentive for small business employers voluntarily adopting Single Touch Payroll is the benefit of automating their payroll function and ancillary reporting obligations. Many small businesses (around 40%) already have payroll software and will find that their payroll software supplier is providing a compliant Single Touch Payroll version for them to use at no extra cost. Other incentives include time savings due to the reduction in reporting requirements such as preparation of the PAYG payment summary annual report, and nearer to real-time interactions and feedback with the ATO on their compliance status.
41. The remaining 60% of small business employers are unlikely to take up Single Touch Payroll voluntarily due to their current lack of payroll software or their preference to work in a non-digital environment. Small employers choosing not to adopt Single Touch Payroll would avoid the initial implementation costs, estimated to be in the order of \$140-\$250 in off-off costs per business and \$50 per month. These costs are gross and do not account for offsetting benefits if Single Touch Payroll was to be implemented.
42. It is expected that over time the number of small businesses using software will increase as more products become available and this will aid to reduce their overall administrative burden. However, the specific compliance costs of PAYG Withholding is estimated to be \$2.3 billion annually and affects all small businesses involved in this regime. Even with software, small

business employers often need to reconcile the amounts calculated each pay against the businesses' PAYG Withholding reporting and payment cycle. They also need to reconcile annual amounts in order to provide an employee with their annual PAYG Payment Summary and lodge the PAYG payment summary annual report with the ATO.

43. There would also remain a significant risk of continuing non-compliance by employers with their SG obligations as reporting real-time information to the ATO would be voluntary.

Option 2: Real-time reporting of employee tax and superannuation obligations with the option to make voluntary payments

44. Option 2 directly addresses the core problems identified while not impacting on the cash flow of small businesses.
45. While this option will require small business to undergo an initial modest amount of effort and upfront cost in order to implement the Single Touch Payroll reporting system, it is expected that over time, small business will benefit from a significant reduction in compliance and reporting costs. This includes pre-filing of data provided on the Single Touch Payroll report into an employer's activity statement and removal of the obligations to provide employees with annual payment summaries and to provide an annual PAYG payment summary statement to the ATO. Additional benefits include time-savings tied to increased electronic transactions and self-service for employees that would be introduced with Single Touch Payroll.
46. Real-time reporting will also increase SG compliance by providing the ATO with increased visibility to monitor the payment of employee entitlements. This would enable the ATO to identify non-compliance by employers earlier and better inform affected employees. This will also increase community confidence in the integrity of the Superannuation system and that employee entitlements are being protected. Complying employers will also feel confident that they are operating in a level playing field.
47. Employees will be expected to benefit from Single Touch Payroll through not only timely, reliable and accurate reporting of their entitlements but visibility of this information through their myGov account at any time during the financial year. This will help them to make informed decisions on their tax position prior to lodging their annual tax return. Through myGov, the ATO will also be able to display to the employee a list of their existing superannuation accounts allowing them to easily notify their employer of an existing account as their fund of choice. This is expected to reduce the number of new superannuation accounts created and benefit the employee by reducing the amount of fees they incur.
48. There may be additional impacts to accounting and small business software designers and providers. Software designers and providers may incur some costs to ensure their software is compatible with Single Touch Payroll. Software designers may encounter financial difficulties if their systems are not compatible with Single Touch Payroll, businesses would inevitably replace non-compliant payroll software with compliant software.
49. Government will benefit from reduced costs of paper TFN and payment summary handling, a reduction in the number of SG Employee Notifications and investigations and better targeting of non-complying employers in respect of both their PAYG Withholding and SG obligations.

Option 3: Real-time reporting of employee tax and superannuation obligations with mandatory payments

50. Option 3 will have similar benefits as provided under Option 2. However, Option 3 requires mandatory real-time payment of employee tax and superannuation obligations at the time the report is lodged which will alter the current reporting and payment cycles currently in effect.
51. Altering this payment cycle to real-time may disrupt cash flow in small businesses resulting in additional financial pressure and have negative effects on the economy.
52. More frequent payment of superannuation obligations will not necessarily improve compliance with SG. It has not been identified as a significant driver of non-compliance. Non-compliant small business employers often cite cash flow problems as the major reason for their failure to pay employees' superannuation entitlements. By disrupting cash flow arrangements, this option may actually worsen compliance with the superannuation guarantee for smaller employers.
53. Option 3 would give rise to significant enforcement difficulties for the ATO, potentially making compliance more difficult for small businesses. Each employer would have a different time period over which superannuation obligations accrue – potentially a different period with respect to different employees – instead of the currently uniform quarterly period. The ATO would need to record these different periods and monitor compliance at a more granular level. These differential obligation periods would be administratively cumbersome and would likely occasion significant confusion among employers and advisers. It could also incentivise employers to pay their employees less frequently, which is not an intended policy outcome.

Cost of compliance

54. An important policy problem this proposal intends to address is the administrative burden/cost of compliance on small businesses who must comply with the PAYG Withholding regime. The implementation of real-time reporting will benefit small businesses who will receive an overall reduction in compliance costs.
55. The details and estimates from the ATO's Small Business Pilot indicate the real-time reporting system of Single Touch Payroll will have a material impact. Overall, the proposal will create an initial implementation cost across affected small businesses but has considerable potential to produce on-going annual savings or reductions in compliance costs of the taxation and superannuation systems. Although only limited direct benefits are expected for small employers overall, the change will bring major improvements to system integrity and transparency while also creating a building block to enable further government reporting reduction in years to come.
56. Through real-time reporting under Single Touch Payroll employers will provide salary and wages information (including ordinary times earnings and superannuation liability data) at the same time as they undertake their payroll process. In addition the frequency with which superannuation funds report contribution data to the ATO will be increased. This will give the ATO real-time visibility of SG liabilities and will enable the ATO to continuously monitor SG shortfalls at the employer and employee level. The ATO may be able to monitor SG payment patterns for changes, identify potential non-compliance and provide early support to businesses that may be struggling. The ATO would also be able to implement preventative

messages for employers, such as: ‘nudge’ strategies, SMS payment reminders; or early contact when a predicted payment is missed.

57. Single Touch Payroll also addresses an underlying non-compliance problem by creating a common, reliable reporting obligation for business while reducing aspects of the compliance burden. In essence, it is impossible to move to ‘real-time’ reporting linked to the pay day event in a manual world. The costs on all parties would be prohibitive.

Regulatory costing analysis

Option 1: Status quo

58. By its nature, this option would have no regulatory or compliance costs for small business, government or the community, with the existing framework continuing unchanged.
59. As this option does not involve changes to the status quo, the regulatory costing is zero.

Option 2: Real-time reporting of employee tax and superannuation obligations with the option to make voluntary payments

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	-\$176m	-	-	-\$176m

60. Real-time reporting of employee tax and superannuation obligations streamlines the actions a small business employer needs to take (i.e. where obligations can be met by doing their normal business process). Reduced regulatory burden over time includes:
- Improvements to the payment summary process.
 - Pre-filling of PAYG Withholding information into the Business Activity Statement.
 - Commencement forms being completed online by employees with more reliable data for employers.
 - A level playing field when it comes to paying tax and superannuation.
61. 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. Single Touch Payroll has been made possible by the convergence of advances in payroll and related software technology, the growing digital capabilities of government and a commitment by government to lighter touch regulatory approaches.
62. Small business has shown substantial growth in acquiring a wide set of basic digital capabilities, particularly over the last five to seven years. The combination of computers, new mobile devices, internet access, electronic payment options and web-based transactions provide multiple pathways by which businesses can and are adapting to digital modes of work. The majority of small businesses now operate at least some part of their business over the internet or with the use of in-house software tools. Many also partner with others who assist with these tasks on their behalf. This increased digital capability will assist small business transition to Single Touch Payroll.

Option 3: Real-time reporting of employee tax and superannuation obligations with mandatory payments

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	-\$210m	-	-	-\$210m

63. Option 3 will have similar benefits to Option 2 as they both involve the real-time reporting of employee tax and superannuation obligations. The difference in the reduction in regulatory cost between the two options is a result of the change to the payment cycle. Option 2 provides for voluntary payments while Option 3 requires mandatory real-time payment at the time the employer lodges their report relating to their employee tax and superannuation obligations. Reporting and payment at the same time provides less regulatory burden for employers through fewer reporting points.
64. Although it is calculated approximately 750,000 small businesses would be affected by the proposal, the ATO Small Business pilot and associated research confirms that most small businesses will find they can implement Single Touch Payroll with a relatively modest amount of effort and cost. Costs include software and subscriptions and management time/effort to get through the setup process. Advisory costs are not included in these scenarios and would add substantially to the upfront costs if borne by the employer.
65. Based on an ATO May 2017⁵ survey of payroll software businesses in the small business market, monthly subscription rates for a typical micro business (less than 5 employees) range from a low of \$0-\$12, medium \$13-\$58 to a high of \$59-\$99. Single employee businesses have rates at around a 50-60% discount to these ranges, while rates for small business with 5 or more employees are roughly 1.5-2 times these range estimates.

Status of the RIS at major decision making points

66. In September 2015, the ATO prepared a RIS for the Single Touch Payroll initiative that focused on, and recommended, the mandating of large employers to report under Single Touch Payroll from 1 July 2018. This RIS has been prepared for the decision that extended Single Touch Payroll to small business from 1 July 2019.

5. Consultation plan

67. Since the announcement of the Single Touch Payroll initiative on 28 December 2014, significant stakeholder consultation has been completed.⁶ This consultation, along with the ATO Small Business pilot, has informed the development of the policy options considered in this proposal.

⁵ <https://lets-talk.ato.gov.au/20076/documents/37846>

⁶ Detail of previous consultations is contained in the Regulation Impact Statement certified on 13 November 2015.

The small business pilot

68. The ATO conducted a pilot, commencing in the second half of 2016, on the deregulation benefits of Single Touch Payroll to small business employers. The findings of the pilot were released publicly on 29 September 2017.
69. For the pilot, the ATO engaged 138 small business employers along with software solution providers and tax practitioners in a range of pilot tests, simulations, prototyping exercises and interviews. The pilot was designed to test the concept of Single Touch Payroll on reporting payroll obligations for small business employers.
70. The pilot objectives were to:
 - Understand the impact of Single Touch Payroll on the small business user experience.
 - Identify and confirm cost/benefits of Single Touch Payroll for small businesses.
 - Identify any blockers or constraints that might prevent small business from realising these benefits and how these might be overcome.

Pilot findings

71. Overall the participants were largely positive towards the concept of Single Touch Payroll, identifying:
 - Most participants could update to Single Touch Payroll with little impact on their current processes.
 - Single Touch Payroll would save time and make reporting obligations easier.
 - Those participants who don't currently use software had concerns about completing online tasks themselves, leading to the potential for some small business employers having to increase their reliance on their tax practitioner.
 - Paper based reporters will incur a cost to move to Single Touch payroll as well as face a learning curve to implement digital interactions.
 - Some participants expressed concerns about the ability for small business employers to use technology and data safely in a digital environment.

Targeted consultation

72. Targeted consultation on the extension of Single Touch Payroll to small business was subsequently held with stakeholders in Sydney on 16 October 2017 and in Melbourne on 17 October 2017. Stakeholders represented a variety of sectors including payroll, accounting, bookkeeping, tax advisory and small business.
73. Consultation focused on ensuring that the current Single Touch Payroll legislation enacted for large employers is suitable for small business scenarios. The views of stakeholders are summarised below:
 - Stakeholders agreed with the expansion of Single Touch Payroll and the benefits that it will deliver in the long term, including increased visibility of SG and enabling employees to keep track of real-time employment related income and superannuation contributions.
 - Stakeholders agreed with the findings and recommendations in the ATO's pilot report.

- Stakeholders expressed the need for no cost/low cost software being available to help small business transition to Single Touch Payroll.
- Stakeholders agreed with the recommendations in the small business pilot report that deliberate non-compliant small businesses should be required to comply with Single Touch Payroll from 1 July 2019 and not be given a 12 month grace period from penalties if they fail to report.
- Stakeholders expressed the view that new employers (that become employers after 1 July 2019) should be given a 12 month grace period from penalties from the date they become an employer and are required to report under Single Touch Payroll.
- Stakeholders would prefer to see increased education and support promotions rather than a one-off financial incentive to encourage the early adoption of Single Touch Payroll. This included setting up webinars, forums and temporary support centers to help small employers understand their reporting obligations.
- Stakeholders want certainty that real-time payment of tax and superannuation obligations will not be mandated as this will cause significant cash flow difficulties to small business, resulting in many businesses failing due to financial pressures.
- Overall stakeholders were supportive of the framework for small business.

6. Option selection/Conclusion

74. Following extensive consultation to date, Option 2 is recommended. This option provides the best balance between quantitative and qualitative benefits.
75. Option 3 has very little, if any, community support and is considered burdensome and not achievable due to cash flow issues of mandatory payment at the time of reporting. Mandatory payment is likely to have a significant negative impact on the economy through financial pressure on small business resulting in business failures. In addition it is likely to increase SG non-compliance. As a result this option is not recommended.
76. Overall the benefits to employers under Option 2 include improvements to the employee commencement and reporting effort, leveraging the employer's payroll process wherever possible, earlier and more helpful intervention by the ATO in helping small business manage emerging cash flow issues and the compliance benefits which will flow from a more level playing field. Employees will gain new transparency over their PAYG Withholding tax position and superannuation contributions as reported by employers each pay day. These longer term benefits are expected to offset the initial costs to implement Single Touch Payroll over time.

7. Implementation and evaluation/review

77. The extension of the Single Touch Payroll initiative to small business employers 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 Single Touch Payroll for large employers, and other complex initiatives such as SuperStream, will be beneficial and inform how the transition is administered.
78. Amendments will be required to the Single Touch Payroll legislation to support employee-level event-based reporting for small business employers. This will align the timeframes for reporting

- with the payroll event and to support the reporting of superannuation information to the Commissioner of Taxation.
79. The proposed phased implementation will assist small businesses transition to Single Touch Payroll. The transitional approach will comprise a legislative mandate requiring implementation of Single Touch Payroll with:
- An operative date of 1 July 2019 from which small business employers must comply;
 - A transition-in period of 2 years including a voluntary take-up period of 12 months leading up to 1 July 2019, followed by a grace period from failure to lodge penalties for the next 12 months;
 - A non-flexible start date of 1 July 2019 for small businesses with a substantial and repeated history of poor compliance with SG or PAYG Withholding (i.e. no grace period applies).
80. The ATO, in collaboration with industry and community stakeholders, will develop and deliver a pro-active, well targeted communications, help and support campaign with particular focus on small businesses with:
- Less than 5 employees and not already working with payroll or reporting software.
 - Little or no digital capability.
 - In rural/remote areas where digital connectivity may be a constraint.
 - Infrequent or irregular employment arrangements.
81. The ATO will continue its work with software developers; innovative solution providers and intermediaries to ensure that a range of low cost/no cost solutions for reporting under Single Touch Payroll are available in the market for micro businesses.
82. Small business employers will need suitable compatible Business Management Software (BMS) or an affordable intermediation service in order to experience the red tape reduction benefits of Single Touch Payroll.
83. Small businesses will continue to provide superannuation contributions to superannuation funds in accordance with the SuperStream payment and data requirements, but under Single Touch Payroll, small business employers will also report superannuation contribution information to the ATO as part of the payroll event.
84. 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.
85. In addition, a new streamlined digital service for individuals commencing employment will be introduced. Individuals will be able to complete their TFN declaration and Superannuation standard choice forms using myGov or directly in their employer's payroll BMS. Small business 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]
86. Under the myGov option, individuals could supply payroll details including their TFN declaration and super choice information to their employers online. 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.
87. At the end of the transition-in period for small business employers the ATO, in conjunction with the Australian Small Business Family Enterprise Ombudsman, will review the size and composition of non-complying businesses with Single Touch Payroll to determine appropriate strategies for government to consider to encourage compliance for any business struggling to make the transition.