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# SINGLE TOUCH PAYROLL

PHASE 2



**SINGLE TOUCH PAYROLL (STP)** is an Australian Government initiative to reduce employers' reporting burdens to multiple government agencies. With STP, employers report employees' payroll information to Australian Taxation Office (ATO) each time they pay employees through STP-enabled software. Payroll information reported includes:

- Salaries and wages
- Pay As You Go (PAYG) withholding
- Superannuation

In the Budget 2019–20, it was announced that ATO would expand the data collected through STP, which is commonly called as STP Phase 2. The mandatory start date for STP Phase 2 reporting was January 01, 2022. The STP reporting can be done by employer themselves or through service providers who have STP Phase 2 enabled software and are known as Digital Service providers.

ATO gave an option to apply for deferrals applications by no later than October 31, 2021, if the employers or the DSPs needed additional time to develop and deliver their STP Phase 2-enabled software products and services. Each application was assessed by ATO before providing deferrals. More details on deferral are covered in further sections.

In this article, the impact, obligations and other relevant details for employers have been covered regarding STP Phase 2.

## WHAT HAS CHANGED WITH STP PHASE 2?

The key changes to the STP report include:

- **Disaggregation of gross**

Remuneration is now to be reported as separately itemised components (Income Types) that have a common definition, rather than a specific definition per Income Type.

- **Employment and taxation conditions**

There are many factors that influence how employers manage employees in the payroll. These include:

- Employment basis
- The information on employees' TFN declaration
- Details of when and why employees leave

Employers currently provide this information in different ways and on different forms. Phase 2 streamlines this process by including the information in the STP report.

- **Income types**

In STP Phase 1 also employers provide the type of income employees receive, however, with STP Phase 2, the reporting of income types is made more flexible to identify the different payments made to employees with specific tax consequences, making it easier for employees to complete their individual income tax return.



- **Country codes**

In some cases, employers are required to report a country code in STP 2 report, like when an employer makes a payment to an Australian resident working overseas.

- **Child support garnishees and child support deductions**

Employers have an option to include child support garnishees and deductions in STP 2 report. This will reduce the need to give separate remittance advices to the Child Support Registrar.

- **Reporting previous Business Management Software IDs and Payroll IDs**

Employers also get the option to provide ATO with previous Business Management Software IDs (BMS ID) and Payroll IDs in STP 2 report. This might occur when the business structure or software is changed, and the previous records are not finalised. Providing this information will help ATO reduce and fix issues with duplicate income statements for employees in ATO online services.

Further details are covered in the reporting section of this article.

## **HOW DOES STP PHASE 2 ADVANTAGE EMPLOYERS?**

STP Phase 2 streamlines employer interactions. Its key advantages include:

- Employers no longer have to send to ATO the employees' tax file number (TFN) declarations.
- If using a concessional reporting option, such as for closely held payees or for inbound assignees, employers can report it by using appropriate income types.
- In case of Lump Sum e-payment, employers don't need to provide Lump sum e-letters to their employees and can include the amount and the period it relates to in the STP 2 report.
- If software or employee's payroll ID is changed, employers can report it in STP 2 report, if the solution has this functionality, and this will fix issues with duplicate income statements for employees in ATO online services through myGov.
- ATO will also share payroll information reported through STP 2 in near real-time with Services Australia.
- Employers need not provide separation certificates when employees leave. The date and reason an employee leaves will be in the STP 2 report.
- Child support deductions or garnishees (or both) can also be voluntarily reported through STP 2. This reduces the need to send separate remittance advices to the Child Support Registrar.

## WHAT ARE THE RESOURCES AVAILABLE TO UNDERSTAND AND IMPLEMENT THE STP 2 CHANGES?

ATO has provided resources to help employers and DSPs understand the changes and prepare. These include:

### For Employers:

- A factsheet outlining the key changes of STP Phase 2 reporting
- A checklist to consider what employers need to do
- Detailed reporting guidelines which outline the STP Phase 2 reporting requirements

These are available at:

<https://www.ato.gov.au/Business/Single-Touch-Payroll/News,-events-and-resources/> ;

### For DSPs:

The STP service is called Payroll Event (PAYEVNT) and STP enabled product will be required to be built using the 2020 package, PAYEVNT.0004 2020, for STP Phase 2.

The Employer Obligations page on the Standard Business Reporting website contains the following key technical documents:

- **Business Implementation Guide (BIG):**  
This Guide is a key document for digital service providers (DSPs) to refer to when implementing their solutions.
- **Message Structure Tables (MST) and Validation Rules:**  
These artefacts must be used in conjunction with the information provided in the final BIG.



- **Operational Framework Requirement:**  
The DSP Operational Framework establishes how ATO provides access to and monitor the digital transfer of data through software. Before a DSP's product can be whitelisted, it must meet the requirements of the DSP Operational Framework.
- **ebMS3/AS4 Client messaging:**  
The ATO have developed an ebMS3/AS4 messaging standard extending on the Standard Business Reporting (SBR) initiative to simplify business to government reporting obligations.

## WHAT HASN'T CHANGED WITH STP PHASE 2?

While an employer will need to report additional information in the STP 2 report, there are many things that will stay the same, such as:

- Tax and Super obligations
- End-of-year finalisation requirements
- The types of payments that are reported
- The process to submit STP report
- The due date





## HOW TO TRANSITION FROM STP PHASE 1 TO STP PHASE 2 REPORTING?

As employers report year-to-date (YTD) information through STP, it means they need to have relevant data available from the start of the financial year in order to report in the new STP Phase 2 format. There can be circumstances where it won't be possible for some employers to have all this data available if they are transitioning to STP Phase 2 in the middle of a financial year. For this situation, ATO has introduced 2 concessional methods to assist employers in transition to STP Phase 2 reporting, as under:

### A. The hybrid disaggregate method

In STP Phase 1, employers reported a single gross amount which was made up of several different payment types. In STP Phase 2, many of these need to be separately reported. Using this method, employers do not need to separate the gross amount already reported through STP Phase 1 into its STP Phase 2 disaggregated components. This means that, for the remainder of the financial year of transition, STP reporting is a hybrid between STP Phase 1 and STP Phase 2.

### B. The replacing Payroll IDs method

The payroll solution will generate STP report by ABN, branch and BMS ID. ATO uses this combination of information, together with the Payroll IDs reported, to identify when they need to display a separate income statement to the employees. Accordingly, ATO will display a separate income statement for each combination.

This means changing the Payroll IDs for the employees is a way to separately finalise STP Phase 1 reporting and restart from zero using STP Phase 2 because a separate income statement will be displayed for each.

## HOW IS YEAR-END FINALISATION DONE DURING THE TRANSITIONING PHASE?

Employers need to make a finalisation declaration by July 14 each year. It is possible that an employer has got STP 2 deferral till June 30, 2022, only and has to report through STP Phase 2 from the tax year 2022-23. In such case, there can be an overlapping period of July 01 to July 14, 2022, for which both STP 1 and STP 2 reports are to be submitted. Here, an employer would have 2 alternatives:

1. Either to complete year-end finalisation by June 30, 2022
2. To get further deferral for STP 2 so as to avoid any overlapping

## HOW TO REPORT EMPLOYMENT AND TAXATION INFORMATION THROUGH STP PHASE 2?

There are many factors to help employers work out the correct amount to withhold from the employees' pay. These may be based on information they provide in their Tax File Number (TFN) declaration or withholding declaration, or their employment information. Employers must now report this information in each STP report, reflecting any changes to their employment basis.

By including this information in STP report, in most cases, employers will no longer need to send TFN declarations to ATO or provide employment separation certificates when the employees leave.

- **TFN Declaration Forms**

When employers start reporting through STP Phase 2, the employment and taxation information in the STP report will replace sending TFN declarations to ATO. However, employers can continue to send TFN declarations to ATO if it supports other business processes, such as establishing an employment relationship before requesting stapled super fund details.

- **Income types**

Each amount an employer pays to an employee will now be assigned to an income type, and amounts assigned to multiple income types throughout the year will be reported. The income types used for STP Phase 2 are:



- SAW (salary and wages)
- CHP (closely held payees)
- WHM (working holiday makers)
- FEI (foreign employment income)
- IAA (inbound assignees to Australia)
- SWP (seasonal worker programs)
- JPD (joint petroleum development area)
- VOL (voluntary agreement)
- LAB (labour hire)
- OSP (other specified payments)

- **Country Code**

An employer must report a country code when he makes payments to employees with the following income types:

- Foreign employment income (FEI)
- Inbound assignees to Australia (IAA)
- Working holiday maker (WHM)

It is mandatory to report a country code where it is required and 'Not Applicable' can't be reported.



- **Disaggregation of gross**

In STP Phase 1, the gross amount reported contained different types of amounts depending on the particular income type. This approach has changed in STP Phase 2 and all payment types are now reported consistently for each income type. Instead of reporting a single gross amount, employers will now separately report:

- Gross
- Paid leave
- Allowances
- Overtime
- Bonuses and commissions
- Salary sacrifice
- Directors' fees
- Lump sum W

There are rules about which separately reported amounts can be included against each income type.

- **Allowances**

In Phase 1 reporting, some allowances are reported separately and some are reported as part of Gross.

Employers will now need to report all allowances separately in STP Phase 2 report across most income types.

- **Exempt foreign employment income**

Any amount paid to an employee that is exempt foreign employment income must be reported as exempt foreign employment income even if they are the only income paid to the employee for the financial year. This is a new reporting requirement for STP Phase 2. It was not required to be reported under previous reporting phases such as STP Phase 1 or payment summaries.

If the employee's foreign service qualifies as exempt foreign income, it is not subject to withholding and must be reported in STP Phase 2 against the income type SAW as exempt foreign income.

- **Salary Sacrifice**

If an employee has an effective salary sacrifice arrangement, employers previously would have reported post-sacrifice amounts to ATO. This changes as part of STP Phase 2. Employers now need to report pre-sacrifice amounts, as well as reporting salary sacrifice separately.

- **Paid leaves**

Employers will now need to separately report the following leave payments made to the employees in STP Phase 2 report:

- other paid leave (paid leave type O)
- paid parental leave (paid leave type P)
- workers' compensation (paid leave type W)
- ancillary and defence leave (paid leave type A)
- cash out of leave in service (paid leave type C)
- unused leave on termination (paid leave type U)





- **Lump sum W (return to work payment)**  
A return to work amount is paid to induce an employee to resume work. For example, to end industrial action or to return from working for another employer. This is a new category of lump sum payments which is being introduced as part of STP Phase 2. Previously, they were reported as gross and not separately identified.
- **Tax that has been withheld or paid**  
An employer is required to withhold amounts from payments considered in STP report and pay the amount that is withheld to ATO. In some cases, an employer may also need to pay tax to a foreign government or tax authority, and these should be included in STP report.
- **PAYG withholding**  
Employers must report the amounts withheld from payments made to employees. One must include separate YTD amounts withheld from each income type (and for income types that require a country code, for each combination of income type and country code).

- **Foreign tax paid**

If an employer has paid amounts to an employee that are reported against the FEI income type, there are rules for reporting foreign employment income. One of these rules is that one must report the amount of foreign tax paid or required to be paid to a foreign government or authority.

This amount must be included in the STP reporting during the same financial year as the payment is reported even if the foreign tax is not actually paid until after the end of the Australian financial year.

### **ARE YOU STP PHASE 2 READY?**

To support the software providers and employers, ATO designed an approach to STP Phase 2 which is flexible, reasonable and pragmatic based on the business readiness and individual circumstances.

If a Digital Service Provider's (DSP) solution got ready by January 01, 2022, it started Phase 2 reporting. If a DSP's solution was not ready by January 01, 2022, but if it could start Phase 2 reporting before March 01, 2022, it was considered to be reporting on time. Digital service providers (DSPs) who needed more time to make the changes and update their solutions to support STP 2 could apply for a deferral for their customers.



If a DSP is granted a deferral, it will cover their customers as well. Employers using their product do not need to apply for their own deferral and till the deferral ends, however, these employers must continue to meet the current STP Phase 1 reporting obligations until they transition to STP Phase 2 reporting.

If one can start reporting from the next pay run after the DSP's deferral expires (or earlier), there is no need to apply for more time, however, if an employer is not ready and hasn't started STP reporting, it can ask ATO for a deferral by:

- a) Logging in to Online services for business and selecting Employees then STP deferrals and exemptions, or
- b) Phoning 13 28 66.

A registered tax or BAS agent can also request the deferral for employers.

There won't be penalties for genuine mistakes for the first year of Phase 2 reporting until December 31, 2022. This includes employers who have already started Phase 2 reporting.

### **WHAT TO TELL THE EMPLOYEES?**

Employees should be made aware of the following changes:

- Employers are no longer required to provide employees with a payment summary for the information reported and finalised through STP
- Employees can access their year-to-date and end-of-year income statement online through myGov or talk to their registered tax agent

- 'Income Statement' is the new term for their payment summary
- To wait until their income statement is 'Tax ready' before lodging their tax return
- To check their personal details and if necessary, update with both the employer and the ATO
- The way employees get their payment summary has changed with STP Phase 2
- They should set up their myGov account

### **HOW DOES STP PHASE 2 ADVANTAGE EMPLOYEES?**

The major advantages to employees will be:

- It will make tax filing easier for the employees as the types of income they've received will be pre-filled on their individual income tax return appropriately
- Prompt intimation of errors made by employees
- STP information allows Services Australia to understand their customers' recent employment and income history – this helps them assist customers to repay any money owed



## FREQUENTLY ASKED QUESTIONS

Below mentioned are some of the most important FAQs released by ATO that may help in resolving doubts around STP 2 reporting.

- **Will STP 2 replace the need for SuperStream reporting?**

Employers are still required to meet their SuperStream obligations.

- **Some systems have allowances mapped to Gross for back pay adjustments. What will happen with these?**

This will depend on whether it is back pay for a prior financial year or current financial year. If the backpay amount is for a period exceeding 12 months and if the dollar figure is greater than \$1,200, it will need to be reported in Lump Sum E to ensure the correct tax rates and offsets are applied. If the amount is not Lump Sum E, it should be reported in the disaggregated components that make up that back pay.

- **Does tiering need to be reported in each pay report?**

For the Medicare Levy Surcharge tiers, tax treatment codes need to be reported each pay event.

- **When an employee is terminated, employed somewhere else and rehired, the individual is employed with 2 employers three times. How does the previous payroll ID work for YTD data?**

The ATO identifies unique YTD records for the payee based on the key IDs reported. Each unique combination of ABN/Branch/BMS ID/Payroll ID creates a unique record for that payee (TFN) and is stored against that individual's record in ATO systems.

The ATO displays the payee data, grouped by ABN/Branch/BMS ID/Payroll ID. If data is received for the taxpayer where any of these key indicators change, then a separate record is created and displayed.

- **If one employee has been missed from STP reporting for a period, how is that to be managed?**

The employer can either perform an update event to include the employee or include their correct YTD values in the next submit action.

- **If an employer identifies a mapping issue for a prior FY, can he update the prior FY update event at the time of finalising the current FY?**

Payers can amend finalised data that has been reported through STP up to five years after the end of the financial year using an update event.

- **If the same record is submitted twice, how do we correct duplicates?**

If the ATO receives the same submission twice, with the same submission ID and not flagged as a Full File Replacement (FFR), ATO will reject the duplicate.

If the same file is sent twice with different submission IDs, then the child records are correct. Only the parent total (payer data) is incorrect.

- **Is there a final pay flag in the employee data?**

A payer is required to make a declaration to the ATO that they have provided all the information for each payee for a financial year. This is done by providing the finalisation indicator as a part of a payee's STP report. A final event indicator may be provided in a submit or update action.



## FREQUENTLY ASKED QUESTIONS (FAQ) ABOUT SINGLE TOUCH PAYROLL (STP) PHASE 2:

[https://www.ato.gov.au/Business/Single-Touch-Payroll/Expanding-Single-Touch-Payroll-\(Phase-2\)/Common-STP-Phase-2-reporting-questions-and-mistakes/](https://www.ato.gov.au/Business/Single-Touch-Payroll/Expanding-Single-Touch-Payroll-(Phase-2)/Common-STP-Phase-2-reporting-questions-and-mistakes/)

(Source: Australian Taxation Office Website)



## NEWS, EVENTS AND RESOURCES ABOUT SINGLE TOUCH PAYROLL (STP) PHASE 2:

<https://www.ato.gov.au/Business/Single-Touch-Payroll/News,-events-and-resources/>

(Source: Australian Taxation Office Website)



### HOW CAN RAMCO HELP YOU WITH STP 2 REPORT?

Ramco Magna 2.2 is one of the pioneer software products which have met the DSP Operational Framework security requirements provided by ATO and it got whitelisted for STP 2 reporting in September 2021.

Ramco has been successfully reporting for many customers through STP Phase 2 ever since. Though STP 2 reporting is quite flexible but there can be many minute details and technical considerations to be kept in mind. Timely and accurate STP reporting can keep the huge penalties at bay. Businesses across Australia rely on Ramco's cloud payroll services to streamline their payroll management processes. Ramco's next-gen Global Payroll platform helps the employers in timely STP reporting and also keeps you updated with constantly coming payroll updates. With integrated Core HR, Time & Attendance and Expense modules, Ramco offers payroll software that can be deployed on cloud, on premise or as a managed services offering.





## ABOUT RAMCO

Ramco systems offers multi-country payroll solutions for 100+ countries across the globe with 60 countries across Asia Pacific, Middle East and Africa region in Ramco's platform and 40+ countries across Europe and North America with partnerships with in-country providers.

Organisations can deploy Ramco solution on-cloud, on premise or leverage as a managed service. With the latest industry innovations involving AI & ML, RPA and automation embedded in the product, Ramco HR & Payroll also leverages chatbots, voice and facial recognition-based workforce management. Ramco has also been awarded the 'Payroll Innovation Award, 2021' by Global Payroll Association while also being regularly featured as a Leader in Nelson Hall's NEAT Matrix or Quadrant Solution's SPARK Matrix for MCP solutions, among others.



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