

# Employer Fact Sheet

## STP Phase 2



### Purpose Of This Guide

This guide was produced to assist you in understanding what is involved in dealing with a new payroll reporting system (STP 2) recently introduced by the Australian Government. This Guide is intended to provide an overview of what is involved with the new system. It should help you decide how you would like to approach it for your business and what role (if any) you would like us to play.

### What Is STP 2?

Single Touch Payroll Phase 2 (STP 2) is a sweeping change to the existing Single Touch Payroll (STP) system that has been in operation for a few years now. The government require you to adopt STP 2, it is not optional. There are some minor efficiency gains for employers and informational gains for employees, but the key outcome is the sharing of payroll data with a number of other government departments to improve delivery of government services; initially Services Australia and the Child Support Agency but potentially Fair Work Australia and others over time. In order to achieve the objectives of STP 2 a huge amount of additional information needs to be accurately extracted from payroll systems and transmitted with each pay run.

### Effect on employers?

The fundamental basis of STP 2 is that more payroll data is being transmitted to more government departments who will rely on that data for their proper administration. Employee circumstances will be shaped by this data and employers are obligated to ensure its accuracy.

In order to meet the challenge of transmitting correct payroll data there are two broad challenges for employers to overcome:

1. **Payroll Software:** The payroll software challenge will largely be addressed for you when your chosen payroll software supplier has been approved by the ATO to transmit STP 2 data. This means that your software will come pre-configured with the available labels and codes to operate STP 2.
2. **Payroll Skills:** There are a range of skills required to properly operate STP 2 compliant payroll software. Firstly, there is a working knowledge of your chosen payroll software. Next, there is the bookkeeping and organizational skills to efficiently process a payroll. You also need a working knowledge of the available STP 2 labels and codes; and there are quite a lot of these available in a process the ATO call disaggregation. Finally, and most importantly, there is a payroll knowledge base (terminology, legislation, employer obligations etc) to properly select STP 2 labels and codes when processing payroll.

A good analogy here is that the STP 2 compliant Payroll Software is your shiny new car and Payroll Skills is your license to properly operate it; you need both.

The necessary payroll skill requires an understanding of what information is sought in each of the STP 2 labels. There are quite a lot of labels and codes that need to be correctly chosen from to properly process payroll under STP 2. Here is the list:

- Employment Basis – 7 codes
- Employment Category – 10 codes
- Medicare Surcharge – 3 tiers
- Cessation Type – 7 codes
- Tax Treatment – 9 codes
- Medicare Levy Exemption/Reduction – 2 codes

- Study & Training Support Loans – 2 codes
- Paid Leave Types – 6 choices
- Salary Sacrifice – 2 types
- Eligible Termination Payments – 8 types
- Superannuation Entitlements – 3 codes
- Income Stream Types – 10 choices
- Allowance types – 10 choices
- Lump Sum – 6 types
- Deductions – 4 types
- Reportable Fringe Benefits – 2 types

Some of the options chosen in STP 2 payroll processing affect your employee's Services Australia entitlements, Child Support Agency position or income tax outcome, so care needs to be exercised in understanding the different codes selected.

## Implementing STP 2 - Checklist

To properly implement STP 2 we suggest you work through the following checklist:

- **Implementation Timetable:** STP 2 is operative from 1 January 2022 and your implementation date is driven by two things: The readiness of your chosen software and your operational preparedness to implement STP 2; set a timeline that captures both. From March onwards you will need an extension if you have not implemented STP 2. Extensions are available if your software provider is not ready, or you or your BAS Agent need more time to implement STP 2 in your business.
- **Payroll Software:** Select your Payroll Software (DSP\*) to implement STP 2; (\*ATO acronym: DSP = Digital Service Provider). All existing mainstream payroll suppliers have indicated they are or will be approved STP 2 DSPs with the ATO. Your DSP will keep you informed as to software availability and each will provide guidance on operation of their software. Familiarize yourself with the operation of the new features inherent in their STP 2 software.
- **Inform Your Employees:** Your employees will be impacted by STP 2, many will be unfamiliar with it. We have prepared a Fact Sheet that explains what STP 2 means for your employees from their perspectives. You are free to distribute it to them to assist their understanding.
- **Assign Payroll Roles:** There are two key roles to assign:
  - **Implementation** of STP 2 across your business: Employee payroll files need to be properly configured in terms of the STP 2 codes and labels. If commencing part way through a financial year you will need to select either the Replace Payroll ID or Hybrid methods. Procedures need to be established around capturing the correct employee payroll data to be able to operate the new software. A methodical and considered approach to set up and configuration of STP 2 will get you off on the right foot.
  - **Continued Payroll Processing** of your business's payroll: You need to assign personnel, employed (or contracted), that possess the necessary payroll and software skills that will be capable of properly processing your payroll.

## Supporting My Clients

My approach to STP 2 has been to embrace the challenge. I am aware that it is a much more complex undertaking than the original version of STP, so I have undertaken the necessary training and have the back-up resources in place to support my clients depending on their chosen approach to STP 2. I realise that some clients may be confident in dealing with it alone, whereas others may seek differing levels of support ranging from help with implementation and ad hoc troubleshooting up to full-service payroll options.

From here I suggest we meet and consider your best approach to STP 2. Based on your desired approach we will tailor a solution that suits you. Our agreed scope for the assignment will then be embodied in a fresh Engagement Letter so that we have a clear understanding of who is doing what and there are no expectation gaps.

We look forward to assisting you in formulating a successful approach to STP 2.