

Lombardi Partners Bulletin

STP Phase 2

During the 2019-20 Federal Budget, the Government announced that Single Touch Payroll (STP) will be expanded, requiring employers to report additional payroll information (known as STP Phase 2).

STP Phase 2 aims to reduce the reporting burden for employers who need to report information about their employees to multiple government agencies, whilst supporting the administration of the social security system.

Under STP Phase 2, all employers are required to report additional information through STP on or before each payday. This information will include details such as income or payment type and the reason for any cessation of employment.

The official start date for STP Phase 2 reporting is 1 January 2022 and you will be compliant as long as you commence reporting prior to 1 March 2022, unless a deferral applies.

What are the key changes?

Under STP Phase 2, you will need to report additional information to the ATO including:

- **TFN declarations** - Currently, these declarations capture details on employment type (full time, part time or casual) and different tax factors that influence PAYG withholding, like a HELP debt, as well as the TFN itself. This will all be included in your STP report via an automated six-character tax treatment code for each employee and means TFN declarations will no longer need to be sent to the ATO after collection.
- **Termination reason** - The reason why someone leaves a business will need to be provided in your STP report, such as if it was voluntary or a redundancy. This means no more employee separation certificates.
- **Employment basis** - Previously optional, it will become mandatory to report an employee's work type. This includes full-time, part-time or casual, along with new categories like labour hire, volunteer agreement or non-employee.
- **Income stream collection** - Phase 2 will require employers to break down payments into more detail under a new grouping called income stream collection:
 - **Income types** - Where before income was classified under one label, in Phase 2 each amount paid to an employee will now be assigned to an income type. These include salary and wages, closely held payees (e.g. family members), working holiday makers, and labour hire, among others.
 - **Country code** - You will have to include a country code for employees who report to tax jurisdictions outside of Australia. This is most relevant for businesses with staff on certain visas (like working holiday) as you will need to provide their home country.

- **Disaggregation of gross payments** - Currently, STP reports include a gross (total) amount which is the sum of a number of payment types. This will now be broken into more detail to include: allowances (all must be separate); bonuses and commissions; directors' fees; overtime; paid leave; salary sacrifice. Paid leave will also be categorised using leave type codes.
- **Salary sacrifice** - Since these contributions can no longer be used to reduce ordinary earnings or count towards superannuation obligations, they need to be separately reported in STP. You can no longer report the post-sacrificed amount via payroll.
- **Lump sum E payments** – This is used when you make lump sum payments for back pay from previous income years. Previously, it was shown on a separate line item in an employee's payment summary. In Phase 2 it must be included in STP reports before finalising an employee's records. This will remove the need to provide employees with Lump Sum E letters.

What do you need to do?

Check with your accounting software provider if they are ready for STP Phase 2 reporting and whether an automatic deferral has been granted.

- If your accounting software is ready for 1 January 2022, you should aim to start Phase 2 reporting before 1 March 2022, unless a deferral applies. Contact your accounting software provider for further guidance.
- If your accounting software is not ready for 1 January 2022 or you are unable to report by 1 March 2022, you may need to apply for a deferral. Please contact us to discuss your options.

For clients reporting through Xero, an automatic deferral has been granted meaning you have until 31 December 2022 to report your first STP Phase 2 pay event. Xero is currently working closely with the ATO to update their software to comply with STP Phase 2 requirements. We'll communicate as soon as these updates become available.

For more information, please refer to the following links:

[Expanding Single Touch Payroll Phase 2](#)

[Single Touch Payroll Phase 2 employer reporting guidelines](#)



Contact Us... if you would like to discuss

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