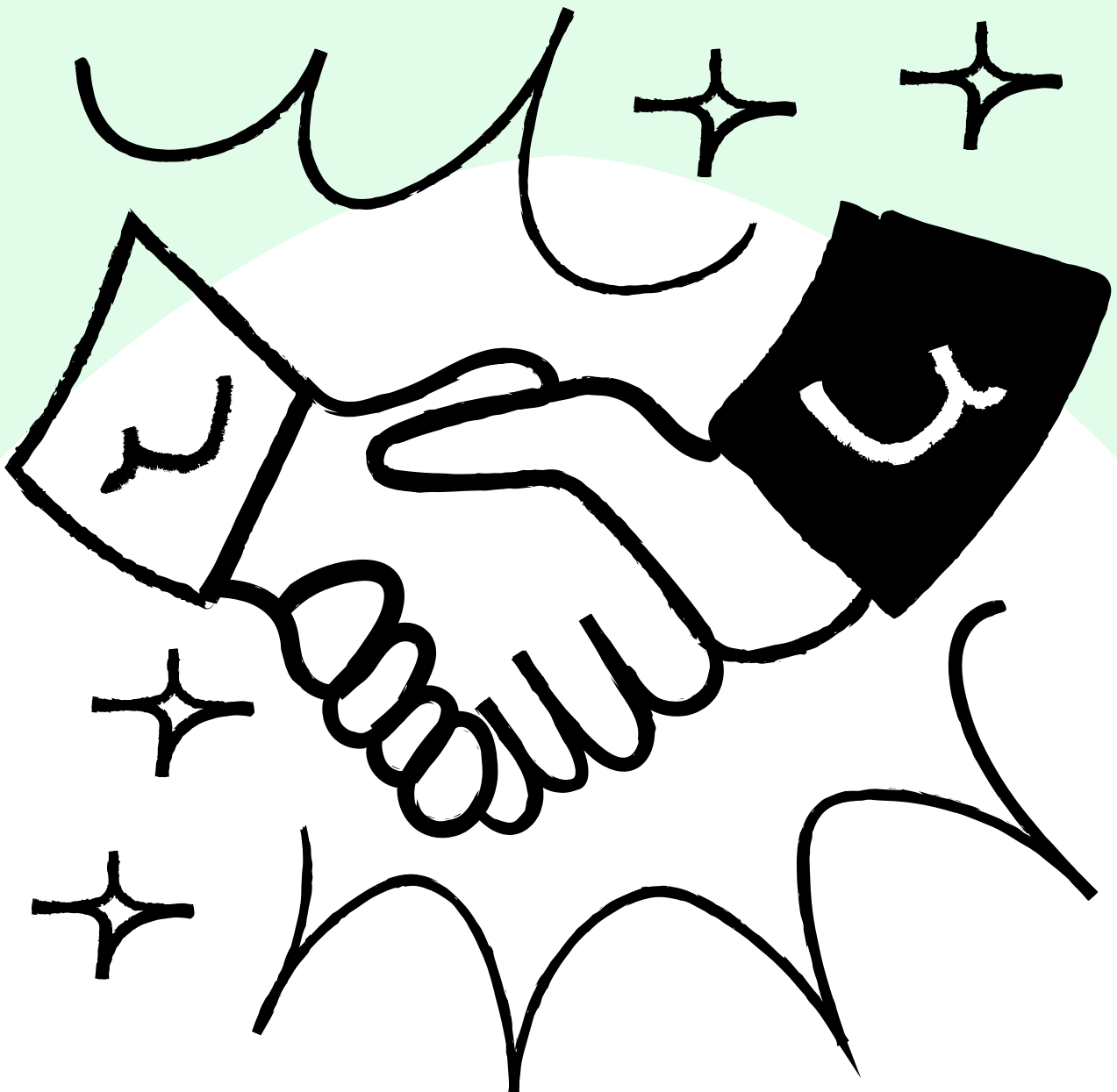
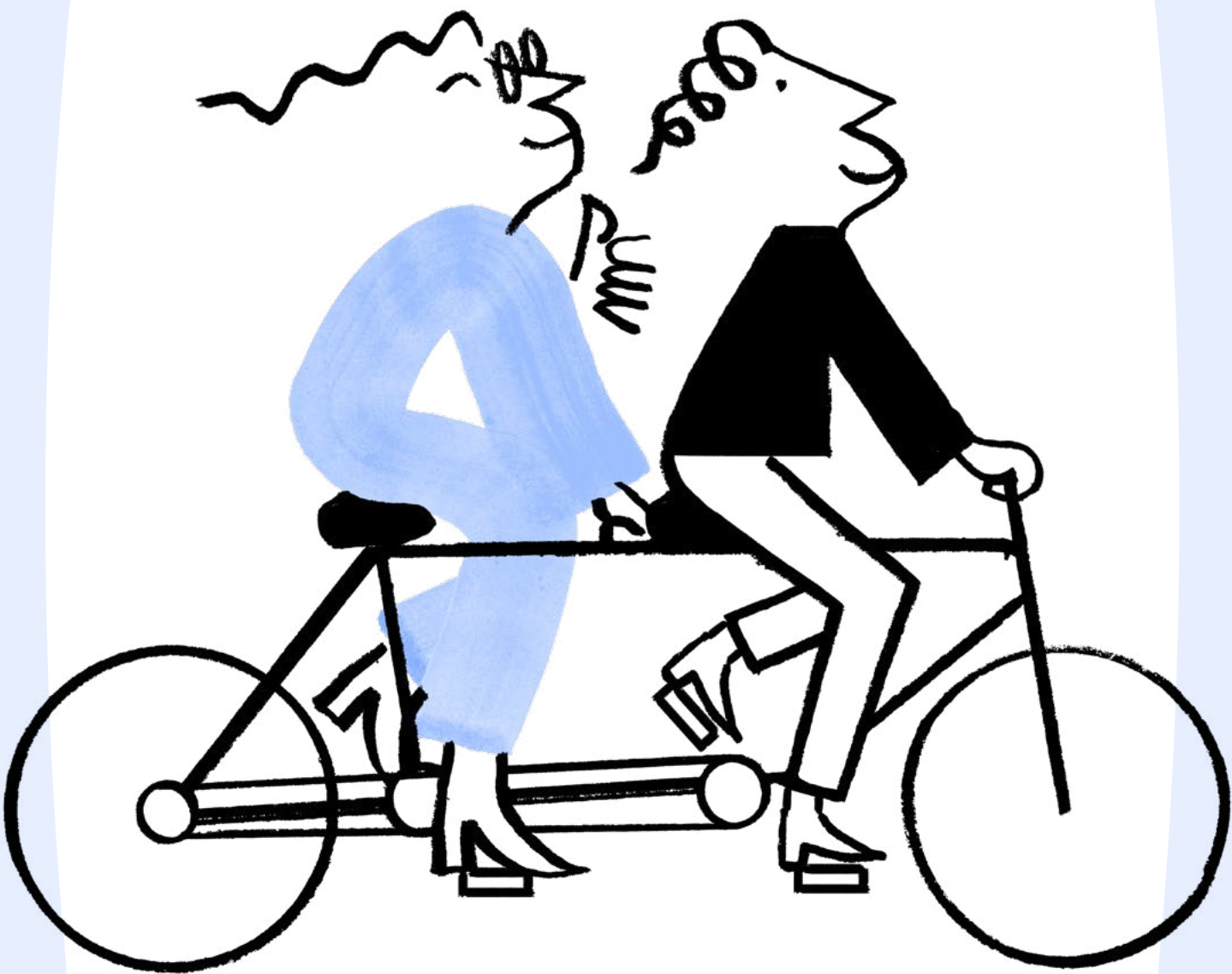


A guide to paying your staff correctly



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Foreword

I often get asked why I started Employment Hero and it always comes back to being passionate about our mission – I want to help make employment easier and more valuable for everyone.

I started my career in Sydney's finance scene and after that, moved to the UK to work with startups. When I moved back to Australia, I found my way into employment law which I found incredibly rewarding. However, along the way I learned a few fundamental truths – no one starts a business to be an employer, and most are ill-equipped to manage the responsibilities of employment and payroll legislation.

Australian employment and payroll laws are incredibly complex – possibly the most complex in the world – and the reality is if you're an employer and you get it wrong, there can be disastrous implications. When I was an employment lawyer, I saw this happen time and time again. I was sick of seeing hard-working small businesses lose everything just because they didn't know any better. With SMEs making up 97% of businesses in Australia, they're the backbone of our economy and yet are often left to figure things out by themselves.

We all know that underpayment of employees is a trending topic right now. In recent years, the Fair Work Ombudsman (FWO) has cracked down on these businesses and are now taking a no-tolerance approach to those who underpay their employees. There's never been a more important time for Australian businesses to make sure they're paying their employees compliantly.

We want you to empower you to feel confident when it comes to paying your team in accordance with current legislation. That's why we wrote this guide, to help you do just that. Read it, bookmark it, share it and reach out – we're always up for a chat.

Ben Thompson



**CEO & Co-Founder
of Employment Hero**

Let's go back to basics. What is payroll and how does it work in Australia?

Payroll refers to the people who work at a company and the amount of money they are entitled to be paid for the work they have completed. In Australia, employers are required to pay payroll tax on the wages paid to employees if they're over the tax-free threshold. However, payroll tax rates and thresholds differ for each state and territory and are calculated on the wages an employer pays each month.

Whether you employ one person, or one hundred people, the same rule applies to all businesses when it comes to payroll – be compliant or face strict penalties. However, when you're a small or medium sized business, you most likely don't have the luxury of having in-house or external professionals helping you manage your payroll function. So, how can you ensure you're doing the right thing? That's where the Government has stepped in and made it easier to report on payroll, with Single Touch Payroll (STP).

What is single touch payroll (stp)?

[Single Touch Payroll \(STP\)](#) is a newly created initiative from the Australian Government to help reduce employers' reporting burdens to government agencies. It allows you to automatically report your employees' payroll information directly to the Australian Taxation Office (ATO) each time you process their pay.

STP was introduced in 2018 as a way to encourage small businesses to be more compliant in the way they report superannuation and PAYG instalments to employees.

The ATO states that payroll information includes:

- Salaries and wages
- Pay as you go (PAYG) withholding Superannuation

It's important you keep up to date with STP updates to ensure you're remaining compliant. You can find the latest information about STP on the [ATO website here](#).



Quinn's Hero Tip

Did you know that if you're using [Employment Hero Payroll](#), then [STP compliance](#) will automatically be rolled out for you? At Employment Hero, we've been working hard to implement STP to meet the ATO's specifications.



How does payroll tax work in Australia?

If you operate a business in Australia with over 20 employees, chances are you're paying payroll tax. Even if you're only paying wages (salary, bonuses etc.) in one state or territory, this self-assessed tax can do your head in. But if you're paying employees across multiple states and territories, things can get very complicated – and fast.

In Australia, payroll tax is paid to each state and territory individually, all of which have their own thresholds, rates and exemptions, as well as their own remittance schedules (yearly, monthly etc). To make things even more complicated, each state and territory's thresholds are decided on total Australian wages, not just those paid in their own state or territory. Lost yet? Wouldn't blame you – payroll tax is one of the most misunderstood taxes in Australia.

[You can find more information about payroll tax and view the thresholds for each state and territory here.](#)

STP and Payroll tax: a winning combination (for state revenue)

STP has made it much easier for each state and territory's revenue office to identify what wages are being paid and where. And with payroll tax being the biggest tax levied by state and territory governments, we expect to see revenue offices all around the country to start pulling up businesses not paying up. Revenue NSW pursued over 4,000 payroll tax investigations in 2019/2020, with 79% over those investigations finding underpayments totalling almost \$170 million.

With more and more Australian businesses hiring remote employees, payroll tax seems like a disincentive to grow as a business, especially interstate. And while payroll tax may seem unnecessarily convoluted, it's also being used by some states and territories to [identify and penalise wage theft](#).

A professional employment organisation (or a PEO) takes care of all the relevant paperwork so you can stop wasting time on tasks that aren't generating revenue. After all, hiring your first interstate employee should be an exciting time for your business, not a headache.

[Learn more about Employment Hero's PEO service here.](#)

Our Global Teams solution allows you to find and hire the best talent, no matter where in Australia – or the world they're located.

Global Teams is an all in one solution that can help you attract, hire, manage, pay, motivate and reward your interstate teams together, in one secure, cloud-based platform. It allows businesses of all sizes to easily hire anyone, anywhere in the country and world.

What is Global Teams?



All in one solution

Global Teams provides an all in one solution that can help attract, hire, manage, pay, motivate and reward your local team together.



Access the best talent

Post job ads anywhere in the country and world to attract the perfect candidate for your business in over 54 countries.



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When can non-compliance occur?

Australia has one of the most complex payroll systems in the world, so it's no surprise that we continually see and hear of businesses getting it wrong. Between payroll tax, STP, Modern Awards and other payroll jargon, it can be confusing to know if you're paying your employees correctly.

Regardless of why non-compliance occurs, penalties are severe. Whether you're unaware of the error or intentionally committing wage theft, consequences will apply. As we said before, the Fair Work Ombudsman (FWO) is taking a zero-tolerance to underpayments.

Here are some common reasons why non-compliance occurs in SMEs.

A gap in payroll knowledge

Many small businesses aren't qualified payroll professionals, however choose to process payroll themselves without help or advice from professionals. Knowing the ins-and-outs of paying your employees is a complex task, and this is where we see employers end up in hot water.

At the end of the day, no one starts a business to become an employer.

For many, it's something that naturally happens, so how are you supposed to know the complexities of payroll tax and compliance when you bring your first employee on board? How do you know which Modern Award they fall under or how can you compliantly calculate penalty rates with no prior experience?

There's never been a more important time to ensure you're across payroll information if you're processing it in-house, or engage with an external professional who can help.

Looking for ways to upskill? We suggest looking at the [Australian Payroll Association](#) or engaging separate advice. If you're looking for external assistance, [Employment Innovations](#) can help.

Incorrectly classifying employees under modern awards

A Modern Award is a set of terms and conditions relating specifically to employment, on top of the National Employment Standards (NES). It states employees' entitlements relating to, for example, pay, hours of work, rosters, breaks, allowances, penalty rates and overtime. It's no secret that Modern Awards are complex, and it's no secret that they can be easily misinterpreted.

Picture this scenario

You employ a team of warehouse staff for a retail company. They don't operate forklifts and their role involves picking, packing and shipping out small items. They work Saturdays and some late nights. You employ three full-time, two part-time and six casual employees (who have all worked there for over one year). Your casual employees frequently work overtime during the week which involves late nights, followed by early morning starts.

With so many things to consider in this scenario, how can you feel confident you're paying your team correctly? How do you know that you've calculated overtime, casual loading, meal allowances and other penalties in accordance with the correct Modern Award?

Have you left enough time between those working late night overtime shifts and their shifts in the morning, and if not, are you compensating them correctly?

Even if you get the penalty rates correct, what happens if you incorrectly classify your team under the wrong Modern Award? Do they fall under the **General Retail Industry Award 2020** or **Storage Services and Wholesale Award 2020**? It's questions like these that make you realise how complex the Australian payroll system is, and with the crackdown on non-compliance, you can't afford to get it wrong. It's time to skill up to bring it in-house, use payroll software, or let an expert do it for you.

To help you find out what Modern Award your employees fall under, you can view the [FWO Find My Award tool here](#).



Quinn's Hero Tip

Did you know that Employment Hero Payroll has over 45 Modern Awards built-in? We're here to help businesses be more confident they're doing the right thing. You can also automate most of the payroll decision-making processes with custom rule sets. This includes overtime rules, conditional pay rules, allowances, penalty rates and auto-pay increases. Our implementation experts will work with you to make sure your payroll rules are tested and set up for your business needs, making payroll management as easy as possible.

Inadequate record keeping

Still using old school pieces of paper to log your employees working hours? This opens you up to a realm of problems if your business was subject to an audit by the FWO, and you could not produce complete and up-to-date records for the Fair Work Inspector (FWI).

In today's digital age, there's no reason for inadequate record keeping. With so many software options available to help manage payroll, timesheets and your employees' time and attendance in-house, there's no excuse for not having the correct records of your employees.

To record start, end and break times for your team, a clock in, clock out system is an easy option to implement. It's straightforward to set up, easy for your team to get the hang of and all of the information is stored online. Simple!

But this doesn't just apply for those who work shifts. If you pay your Modern Award covered employees a salary or flat rate of pay, you will not be exempt from having to keep track of their hours of work. We'll talk a bit more about annualised salaries a bit later on...

Incorrect set up of your payroll system

Setting up your payroll system correctly from day one is the most crucial part of your payroll process. If you get this wrong from the very beginning without realising, this can spell disaster years down the track when the error comes to fruition.

And it's not just assigning the correct Modern Award for your employees.

There's a myriad of other areas that are crucial to get right – superannuation, HECs repayments, public holiday loading, leave accrual, allowances and a range of other various penalty rates under any Modern Award.

Imagine if you've been paying a team of 50 employees \$2 per hour under the minimum wage for five years? Think about how much you'd be required to pay back, and not to mention the implications surrounding leave entitlements, superannuation and penalty rates! Let's also not forget that some employers could now face prison time for wage theft...

When it comes to setting your payroll system, we can't stress how important it is to seek professional advice and invest in payroll software that can help you streamline your processes.



Quinn's Hero Tip

Did you know Employment Hero has a Clock Me In feature that employees can access from our mobile app or a central iPad location? Employment Hero Payroll will create their timesheets and carry them automatically across to payroll, eliminating the need to chase missing data and reducing the risk of human error. We've even got a geotagging feature that shows where your employees were on a map when they clocked in and clocked out. Nifty, right?



Things to consider when paying your staff

Pay your employees for the hours they've worked. Pay your employees for the job that they've completed.

Sounds simple, right?

The reality is that Australian employment and payroll law can be easy to get wrong. That's why we continually see prominent Australian companies getting caught up in underpayment scandals.

Whether you're new to the payroll world or have been processing payroll for years, we've rounded up the most important things to consider when paying your staff.

Ensure pay conditions are outlined in the agreement including if there are any outer limits such as agreed hours of work

First things first – before you start processing payroll, you should ensure that all employees have been issued a contract of employment. This is to protect both you and the employee and outline the terms of employment. It will serve as a basis for their entitlements and state the Modern Award they're covered by (if it applies to their role).

Prioritise staying up to date with award changes (e.g. subscribing to fair work update emails)

The payroll industry is an ever-changing industry. New legislation, new minimum pay rates (announced by the Fair Work Commission around June each year), and new requirements for Modern Awards occur frequently, so it's important you know the changes, especially if you're processing in-house. You also want to keep your employees in the loop when changes occur, especially if it outlines changes to their pay rates and entitlements. We suggest sending an email to your team when changes to pay, entitlements or penalty rates occur.

If you're looking to stay in the loop with payroll and employment legislation updates, we suggest you subscribe to the FWO email list.

[You can subscribe to FWO updates here.](#)

Ensure you're up to date with any tax, superannuation obligations and legislation changes

Similar to the above, it's crucial that people processing payroll are up to date with tax requirements, superannuation obligations and legislation changes. With changes constantly occurring, we suggest attending formal training sessions at least once per year. This can help keep you up to date on changes, as well as informed on payroll best practices.

With new, strict penalties now applying for the individual processing payroll (as well as the employer), there's never been a more important time to get, (and stay), up to date with the industry.

Looking for ways to gain confidence with your payroll processing? We suggest looking at the [Australian Payroll Association](#) who offer specific training on payroll. Alternatively, if you're looking to seek external advice, get in touch with [Employment Innovations](#) who can help.



Quinn's Hero Tip

Did you know that Employment Hero can help you manage the entire employee lifecycle right from the application and interviewing process? Digitally onboard your new hires, send contracts and policies to sign virtually, keep audit trails, and pay your team with ease.

Adhere to all record keeping requirements outlined by the FWO

All records relating to payroll must be kept for a period of 7 years. The FWO states that information required to be kept includes:

General

- Employer's and employee's name
- Employer's ABN (if any)
- Employee's commencement date
- Whether the employee is full-time, part time, or casual
- Whether the employee is permanent or temporary

Pay

- Pay rate paid to the employee
- Gross and net amounts paid
- Any deductions from the gross amount
- Details of any incentive-based payment, bonus, loading, penalty rate, or other monetary allowance or separately identifiable entitlement paid

Hours of work

- Any penalty rates or loadings paid to employees for overtime hours worked, including:
- The number of overtime hours worked by an employee during the day
- When the employee started and finished the overtime hours
- The hours an employee works
- If the employee is a casual or irregular part-time employee who is paid based on time worked
- A copy of the written agreement if an employer and employee have agreed to an averaging of the employee's work hours

Leave

- Any leave taken
- How much leave an employee has
- If an employee is able to cash out annual leave, the employer has to keep:
- A copy of the agreement to cash out the amount of leave
- A record of how much was paid, the amount of leave cashed out and when the payment was made

Under an award, if an employer agrees for an employee to take annual leave in advance, the employer has to keep a copy of the agreement. The agreement has to say the amount of leave taken and the day the leave starts.

Superannuation contributions

- Amount paid
- Pay period
- Date(s) paid
- Name of super fund
- Reason the employer paid into the fund (e.g. a record of the employee's super fund choice and the date they made that choice)

If employers pay a defined benefit interest into a defined benefit fund, employers don't have to include these contributions in the record.

Individual flexibility agreements

If an employer and employee agree to an individual flexibility agreement under an award or registered agreement, a record must include both:

- A copy of the written agreement
- A copy of any notice or agreement to terminate the flexibility agreement

Guarantee of annual earnings

- The guarantee
- The date the guarantee was cancelled (where applicable)

Ending employment

- How the employment was terminated e.g by agreement, summarily, or in some other way (specifying details)
- If notice was provided and, if so, how much
- The name of the person who terminated the employment.

Transfer of business

- Where there has been a transfer of business, the old employer has to give the new employer records of any transferring employee. The new employer also has to ask for employment records from
- The old employer for any transferring employee who becomes an employee within three months of the sale.

Source: [FWO Record-keeping](#)

Important: Time and wages records also have to be readily accessible to a FWI, legible, and in English.

For more information on record-keeping requirements, visit the [FWO website here](#).



Quinn's Hero Tip

Employment Hero can give you the compliance confidence you need. We're employment law and payroll experts who are obsessed with keeping up to date with the latest legislation.

Implement payroll software you are confident will help keep you up to date

Did you know that payroll software can help you stay compliant? Understanding and complying with complex Modern Awards can be one of the biggest challenges facing small to medium businesses, but that's where software can help.

Many payroll systems have Modern Awards built-in to help make award interpretation easy. Ensuring you're Single Touch Payroll (STP) compliant and accurately reporting all relevant information like start, end, and break times has never been easier with the help of payroll software. Many providers also keep up to date with changes to legislation and automatically update when they're introduced.

Regularly review the setup of your payroll system to ensure it is set up correctly

Like we said earlier, one of the most important parts of payroll is ensuring it's set up correctly. Incorrect setup can lead to huge discrepancies (and disaster) later down the line – especially if you're a growing business and have lots of employees on your books. The initial configuration of your payroll should take everything into account such as record-keeping, Modern Awards, superannuation, penalty rates, allowances, taxes, overtime, and auto-pay increase – and you should be reviewing this often.

Ensure you're across annualised salaries if it applies to you and your employees

The Fair Work Commission recently made a decision which added or amended annualised salary provisions under 22 Modern Awards from 1 March 2020 onwards.

These changes were an important reminder for employers that paying their Modern Award covered employees a salary (or flat rate of pay) does not remove their obligation to pay these employees for each hour they work. 'Setting and forgetting' a Modern Award covered employee's salary and not keeping track of hours worked exposes you to a real risk of underpaying.

We recommend contacting [Employment Innovations](#) if you require further advice on paying your Modern Award covered employees an annualised salary.



Quinn's Hero Tip

Thinking about going digital? Let our implementation experts help! Employment Hero will work with you and your business to ensure your payroll needs are met and everything is set up for your business needs. The result? Payroll management is now a breeze!



Pay your team in real time with InstaPay

Did you know that 21% of Australians don't have access to \$500 in case of emergency? This could force them to rely on expensive short-term cash solutions and high-interest payday loans.

That's why we've developed InstaPay to give people access to their earned wages when they need it. InstaPay allows employees to access a portion of their earned wages before their official payday – giving the power back to your employees.

How does Instapay impact your payroll?

InstaPay does not impact your payroll or admin processes. Employment Hero has set up a pool of funds behind the scenes. When an employee requests an InstaPay, we pay them from these funds. When you conduct your pay run, we insert a payroll deduction and direct the already accessed wages back into the pool. It's that simple!

Employees, whose employers use Employment Hero Payroll, can access between \$100 and \$250 per week from their wages whenever they want for a nominal flat fee.



About Employment Hero

Employment Hero is the smarter way to manage people, payroll and productivity for SMEs with big ambitions.

Employment Hero empowers SMEs by providing automated solutions to help launch them on the path to success by powering more productivity every day.

Employment Hero services over 200,000+ businesses, collectively managing over 1,000,000+ employees.

Employment Hero is launching employers toward their goals, powering more productive teams and taking employment to rewarding new heights.

Our features include:

Award interpretation

Work engine rules

Dynamic rostering

Roster templates

Shift bidding

Budgeting rules

Clock in

Real time reporting

Automated reporting tools

Automated pay runs

Over 45 Modern Awards

And so much more...

For more information on how we can help transform your business [book a demo](#) today.



WORK EASY

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