



# Single Touch Payroll Phase 2

This guide will provide you with an overview of Single Touch Payroll (STP) Phase 2, what you can do to prepare and how Xero will support you during this transition phase.



## What is STP Phase 2

Single Touch Payroll or STP, is a way of reporting your employees' salaries, wages, tax withheld and superannuation to the ATO with each payrun.

The next phase; STP Phase 2 will expand these reporting requirements and make it easier to provide specific employee information to the ATO and other government agencies like Services Australia. The mandatory start date for Phase 2 reporting was 1 January 2022 unless a deferral is in place.



## Benefits of STP Phase 2

STP Phase 2 has many benefits for employers and employees including;

- automating Tax File Number declarations straight to the ATO
- employers are no longer required to provide Lump Sum E letters to employees
- streamline requests between the ATO and Services Australia making it easier for employers/employees to interact with agencies like Centrelink and Medicare.



## STP Phase 2 deferral

The ATO set a mandatory reporting start date of 1 January 2022. Xero has worked closely with the ATO to secure a deferral.

Xero partners and customers will be covered by this deferral until 31 December 2022. You can find a copy of the deferral letter via the STP Phase 2 Information hub when you access Xero Payroll.



## What's not changing

While you'll need to start reporting more information to the ATO, some things will stay the same, such as:

- the way you file your pay run to the ATO
- the due date of your report
- the types of payments that are to be reported
- tax and superannuation obligations
- end of year finalisation requirements.



# Single Touch Payroll Phase 2

## What's available now in Xero Payroll

### Termination reason

A termination reason can be selected when processing an employee's final pay. This reason is not currently included in the report, but when Xero is STP Phase 2 ready, this will be included.

[More information to process a final pay for redundancy or termination](#)

### Lump Sum E Tax year

STP Phase 2 requires these payments to be reported within the tax year they originated in before finalising an employee's records. This removes the need to provide employees with Lump Sum E letters.

[More information on Lump Sum E payments](#)

### Lump Sum W

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 these lump sum payments were reported as gross payments.

[More information on Lump Sum W](#) (ATO Website)

### Bonuses and commissions

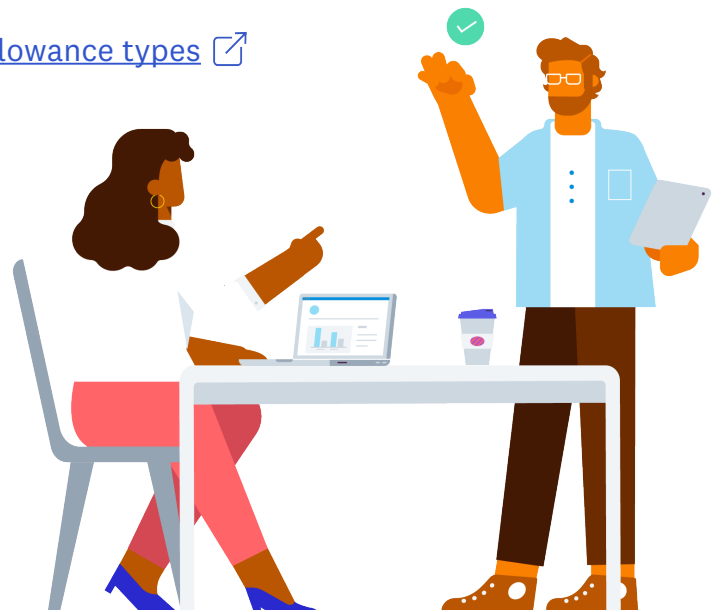
There might be times when you pay some employees bonus and commission payments, which are typically paid as a lump sum. Previously they were reported as part of gross payments, but for STP Phase 2 they'll be reported separately.

[More information on bonuses and commissions](#)

### Allowance types

All allowances will need to be reported separately to the ATO as part of Phase 2 reporting.

[More information on allowance types](#)





# Single Touch Payroll Phase 2

## Changes that are coming

The report that you send to the ATO currently includes a gross payment amount for your employees. This amount is made up of many different pay types like ordinary earnings and leave. Because some of these are treated differently for social security and tax purposes, more detail is required to be sent in the report.

Let's explore some of these changes below. You can also find more information on what's changing on the [ATO's website](#) . Visit [Xero Central](#) for more information on STP Phase 2.

### Feature

### Key change

#### Tax File Number (TFN) declaration

TFN declarations will be sent to the ATO via STP Phase 2 reporting, removing the manual requirement to send copies to the ATO.

#### Tax codes

Your STP Phase 2 report includes a six-character tax treatment code for each employee. The tax treatment code is an abbreviated way of telling the ATO about factors that can influence the amount you withhold from payments to your employees.

[More information on tax treatment codes](#) (ATO website)

#### Paid leave

You will now need to separately report paid leave payments made to your employees in your STP Phase 2 report.

[More information on paid leave](#) (ATO website)

#### Cashed out leave

A new workflow is being developed for leave that's cashed out rather than an employee taking time off.

[More on employee setup](#) (ATO Website)

#### Salary sacrifice

Salary sacrifice 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.

[More on salary sacrifice](#) (ATO Website)




## Advisors

### What can you do to get ready?

The best thing you can do for yourself and your clients is to stay informed. We'll keep you updated as the roll out progresses, so you're equipped to support your clients through the transition.

Advisors can prepare by:


- Reading the [ATO employer reporting guidelines](#) 
- Keeping up to date by checking the STP Phase 2 Information Hub via the Single Touch Payroll menu in Xero
- Preparing an action plan for your own practice
- Creating an action plan with clients on how to best support them through the transition.

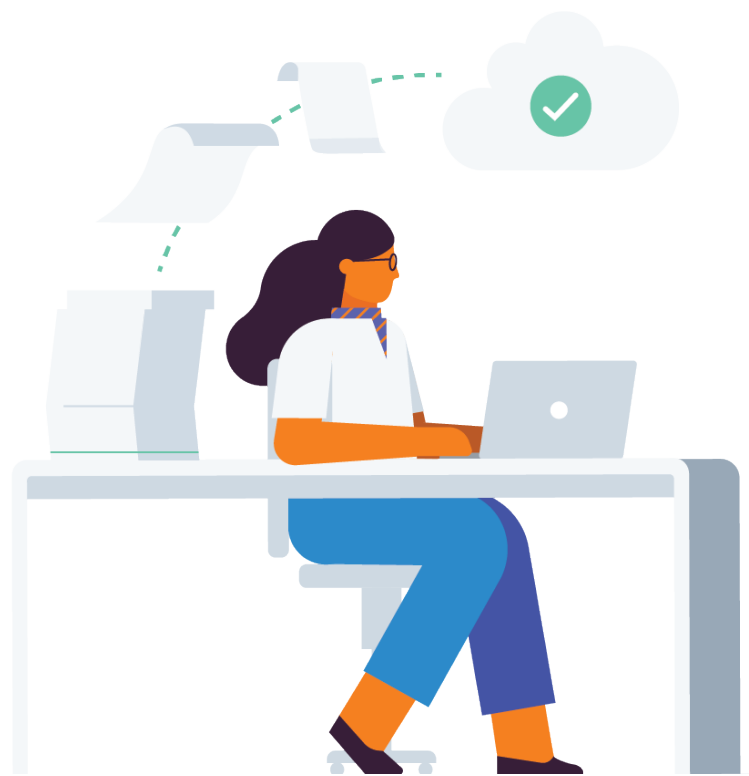
## Employers

### What do these changes mean for my business?

Although you will need to provide the ATO with more information about your employees, the way you submit your pay runs won't change. We'll keep you updated on any changes that need to be made and when.

### What can you do to get ready?

- Read the [ATO STP employer reporting guidelines](#) 
- Keep up to date by checking the STP Phase 2 Information Hub via the Single Touch Payroll menu in Xero
- Implement a transition plan with your advisor
- Review your pay codes and current allowances within payroll
- Consider the impact of changes to salary sacrifice reporting.





# Confidently prepare for STP Phase 2 checklist

This checklist will help you navigate Single Touch Payroll (STP) Phase 2 in Xero Payroll.

For any extra help you need, check out [Xero Central](#), contact the ATO or your advisor or professional association.

## Step one: stay informed

Understanding the changes to employee information you report, is key to ensuring you remain compliant with STP reporting.

ACTIVITY	COMPLETE	N/A
<b>Xero guide to STP Phase 2</b>		
Download the <a href="#">Xero guide to STP Phase 2</a> .		
<b>STP Phase 2 Information Hub</b>		
Check the latest product updates and what's currently under development.		
<ul style="list-style-type: none"><li>• Go to the Payroll menu and click Single Touch Payroll.</li><li>• Select STP Phase 2 tab.</li></ul>		
<b>Xero Blog</b>		
Read the announcements; <ul style="list-style-type: none"><li>• <a href="#">Small business customers</a></li><li>• <a href="#">Xero advisors</a></li></ul>		
<b>Australian Tax Office website</b>		
Learn more about <a href="#">Single Touch Payroll Phase 2</a> .		
Learn more about your <a href="#">reporting obligations</a> .		

## Notes





# Confidently prepare for STP Phase 2 checklist

## Step two: review your pay items<sup>1</sup>

Now you're aware of the changes for STP Phase 2, it's time to review your existing pay items. While some pay item changes are not yet mandatory, they're available now for you to use.

ACTIVITY	COMPLETE	N/A
<b>Pay Items - Earnings</b>		
<p>Check the Earnings Category column to ensure you have the correct category assigned to each earnings rate e.g an allowance has a category of Allowance.</p> <ul style="list-style-type: none"><li>• Note down any earnings rates that need changing.</li><li>• Mark any earnings rates no longer required as <a href="#">inactive</a>.</li></ul>		
<b>Earnings - Allowances</b>		
<p>Allowances are reported under their own allowance type e.g travel, meal, tools etc. If you pay allowances, review your existing set up.</p> <ul style="list-style-type: none"><li>• Select each allowance and review the type.</li><li>• Update the type (if required). For detailed information on allowance types, <a href="#">click here</a>.</li><li>• If an allowance has a type of Other; assign a category from the category drop down list.</li><li>• Add new allowance pay items (if required). For detailed information on adding a pay item, <a href="#">click here</a>.</li></ul>		
<b>Earnings - Bonuses and Commissions</b>		
<p>Bonuses and commissions must be reported as a separate pay item as part of Phase 2. If you pay bonuses or commissions, review your existing set up.</p> <ul style="list-style-type: none"><li>• Check the earnings category is set to Bonuses and Commissions.</li><li>• If you need to change the category, <a href="#">add a new bonuses and commissions pay item</a> with the correct category. Then mark the incorrect pay item as <a href="#">inactive</a>.</li></ul>		

## Notes



# Confidently prepare for STP Phase 2 checklist

## Earnings - Directors' Fees

COMPLETE N/A

Directors' fees must be reported as a separate pay item as part of Phase 2. If you pay directors' fees, review your existing set up.

- Check the earnings category is set to Directors Fees.
- If you need to change the category, [add a new directors' fees pay item](#) with the correct category. Then mark the incorrect pay item as [inactive](#).

## Earnings - Lump sum E & W

Lump sum pay items must be reported separately as part of STP Phase 2. If you pay lump sum amounts, review your existing set up.

- Check that the earnings category is set to the applicable lump sum category e.g Lump Sum E or Lump Sum W
- If you need to change the category, add a new lump sum pay item with the correct category. Then mark the incorrect pay item as [inactive](#).

For detailed information on adding Lump sum E payments, [click here](#).

For detailed information on adding return to work payments (Lump sum W), [click here](#).

## Pay Items - Deductions

Check the Deduction Category column to ensure you have the correct category assigned to each deduction, e.g Union fees have a category of Union / Association Fees.

- Note down any deductions that need changing.
- Mark any deductions no longer required as [inactive](#).

## Deductions - Other / None

If you pay deductions, review your existing set up.

- Select each deduction pay item and review the PAYG checkbox. This field can no longer be edited when a deduction is in use in payroll.
- If you need to change the PAYG checkbox, [add a new deduction pay item](#) with the correct PAYG option. Then mark the incorrect pay item as [inactive](#).

## Notes





# Confidently prepare for STP Phase 2 checklist

## Step three: review your employees

Phase 2 reporting requires more details about your employees. This means how you onboard a new employee will change, in particular in the Employment and Taxes tabs. Get ready for these changes by reviewing key details below.

ACTIVITY	COMPLETE	N/A
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For each employee check the following details;

### Employment tab

- Check their start date, classification and ordinary earnings rate. Update if required.

For more information on setting up an employee's Employment tab, [click here](#).

### Taxes tab

- Check their employment basis has the correct option selected e.g a full time employee should have "Full-time employment" selected.
- Check if their residency status has the correct option selected e.g if your employee is a working holiday maker, then select "Working Holiday Maker" from the drop down.

For more information on setting up an employee's Taxes tab, [click here](#).

### Pay template tab

In step 2, you reviewed your pay items. If you made any changes, go ahead and update your employees' [pay templates](#) so the changes appear in the pay run.

## Notes







# Confidently prepare for STP Phase 2 checklist

## Step four: have a conversation

As you've learned, there are a lot of changes coming in the way businesses report employee details. Bringing your employees on this journey is just as important as you being across these changes yourself.

Take the time to chat with your employees about the changes they can expect to see now and in the coming months.

For example, if you're required to report an allowance separately like tools, and you have an employee who is eligible for this allowance, let them know they can expect to see this on their payslip as a separate allowance line item. Don't forget you can add a message to employee payslips in the pay run.

For more information on adding a message to payslips, [click here](#).



### Notes

## Step five: update employee documents<sup>!</sup>

Start to think about the types of employee documents you ask employees to complete; either when they start with your business or when their circumstances change.

- Do these documents need updating to include any of the changes for STP Phase 2 reporting?
- Do you need to update any internal process documents?
- Do you need to provide extra training to support your payroll team through this change?

**Use the space below to note down any that come to mind.**