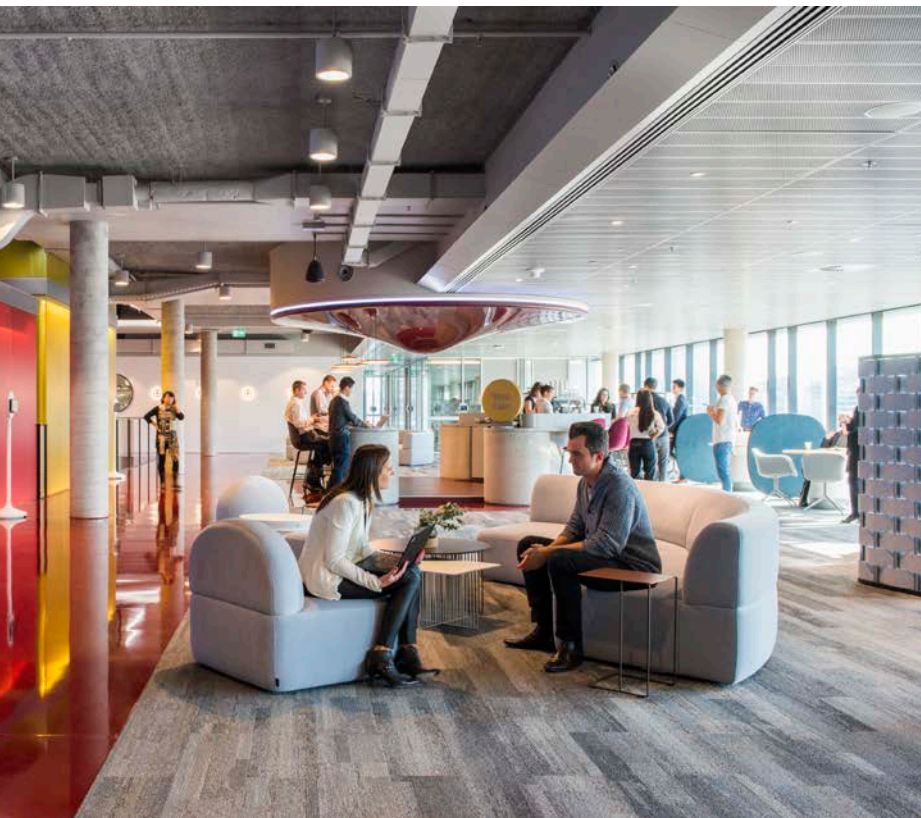# *The Power of Payroll*

How is the changing
regulatory environment
impacting payroll?

Increasing
transparency, privacy
and portability

Unlock the power of
payroll data through
analytics and
visualisation

Are you ready for the
future of payroll?

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The Power of Payroll

I recently heard someone define themselves as a "Payroll processor", and I thought that term really didn't do them justice. Computers process things. Machines process things. Most of the food I like is processed...

What did that person do? They were responsible for managing one of the largest data sets in their company. Even more, the data set that they managed affected every employee in their company. Directly. If they didn't manage that data set correctly, then people quit.

On 1 July 2018, the Australian Tax Office will initiate Single Touch Payroll and with that, a regulator is making it clear the value that it sees in the Payroll data set. And it is not alone - most of Fair Work's audit activity and findings come from reviewing Payroll data sets.

In the UK, they've been running their version of STP for 5 years. The HMRC (the U.K. version of the ATO) has called it "the biggest change to PAYE since 1944". They're processing 100 million transactions every month and have said that RTI (real time reporting of Payroll) is "Our richest and largest single source of customer data".

In addition to the regulators, STP will provide employees with real time visibility of their data. That ability for employees to review and question their Payroll data on a daily basis is going to mean Payroll functions are either going to need more support or a robust and user-friendly Employee Self Service functionality.

The value that the authorities see in the Payroll data set, and the visibility that employees will receive from STP, creates an opportunity for Payroll functions to benefit from a step-change in the expectations that Management will have of them.

Management will want to know what Payroll is disclosing to the authorities (we have already seen a heightened level of interest in Payroll from Tax functions). In addition, the improved visibility from real time reporting in a Payroll's data function has appeal - imagine Management being able to receive real time dashboard access and insight into modelling such as gender diversity, wage costs and compliance benchmarking.

There are products on, and being introduced into, the market that can help with these changing expectations - cloud based systems that link Payroll, HRIS and time and attendance products, visualisation tools that can make sense of the data. But the presence of data isn't the challenge - it's understanding the data that adds the value.

And this is where Payroll specialists really come into their own. Payroll specialists don't just process Payroll. They understand it. They understand the nuances and complexities of it. They understand that Payroll will always have outliers and quirks, because, try as we may, people make Payroll different.

And that's why the robots won't take away Payroll jobs. Because robots don't handle quirks and nuances. In fact, it's the opposite. Rather than Payroll being worried that robots will take away our jobs,

Payroll should be celebrating this increased focus on data. Well, that is once we get through the increased workload that will come during the transition period, arising from data matching, ATO queries and employee queries. For a while, Payroll functions will need more support. As a comparison, the HMRC estimated that, in the U.K., it cost employers an additional £282m above BAU to manage their transition to Real Time Reporting.

Payroll professionals should be upskilling themselves in basic, accessible, data visualisation tools, such as Qlik and Tableau, going to conferences that demonstrate new technologies, building a network with fellow Payroll professionals and doing Payroll training and certification courses.

Payroll is now viewed by the regulators as the source of truth, and those regulators are introducing technology that digitises Payroll into data that management can analyse. Payroll professionals control and understand that data. The potential for Payroll to be a valued contributor to management discussions has never been greater.

This is the power of Payroll.
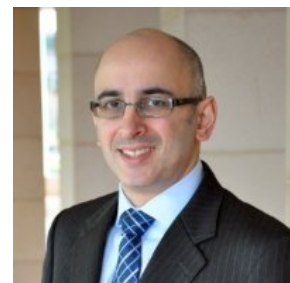
Rohan Geddes
National leader,
Payroll Consulting practice
PwC Australia

Legislative obligations impacting Payroll

Payroll is the recipient of, or provider to, many regulators and third parties.

Whilst often not officially accountable, Payroll is expected to be aware of, and administer, these obligations on behalf of the organisation.

The depth and breadth of knowledge expected of a Payroll Manager is significant. Payroll Managers are sought out by employees and management for advice. This expectation that Payroll has the answer has increased exponentially with the growing role of regulators over the past ten years.

Management need to be aware of these obligations and safeguard the organisation by ensuring their Payroll Managers are equipped with the right people, processes, technology, governance and controls.

Questions to ask

- Does your Payroll function need additional training or resources to meet certain obligations?

- Are you confident that all legislative requirements are being addressed?

- Are all Enterprise Agreements, Awards and contractual obligations being implemented accurately?

- Is Payroll able to produce required reporting quickly and easily?

- How do you manage all of these obligations and where can efficiencies be gained?

- What processes can be automated?

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Third Party Providers
- Car leasing
- Health Funds
- Social Clubs
- Memberships
- Charities
- Share plan administration
- Packaging/Benefits
- Child Care
- Parking
- Union fees
- Insurances (TPD, Life, SCI)

Privacy Act
- Treatment of personal details – access and storage
- System Data Security
- Retention of wage details
- System Access

Court orders
- Subpoena for records
- Garnishment of wages

Common Law
- Individual Employment Contracts
- Human Rights Commission

Australian Bureau of Statistics
- Compulsory reporting eg Average Weekly Earnings

Enterprise Agreements and Modern Awards
- Classification of Employees
- Wages, hours, overtime and penalties
- Allowances
- Conditions
- Leave Entitlements

Fair Work Commission and Fair Work Ombudsman
- National wage case
- National Employment Standards
- Modern Awards
- BOOT
- Unfair Dismissal
- Test cases e.g. Penalty rates, casual overtime
- Enforcement

Workers Compensation
- Premiums
- Payments to injured workers
- Return to work
- Statutory limits
- Wages Declarations
- Suitable duties

Department of Immigration
- Visa Obligations
- Wage limits
- Right to work check
- Record keeping
- Notification
- Training costs

Company Reporting
- Board Reports
- Annual Report
- Demographics
- Workplace Gender Equality Agency

Superannuation
- APRA & ASIC
- SuperStream Reporting
- Choice of Fund
- Default Funds
- Clearing houses

Department of Human Services
- Child Support
- Employment Separation Certificates
- Confirmation of Employment
- Paid Parental Leave

Australian Taxation Office
- PAYG Withholding
  - Weekly Tax
  - Fortnightly Tax
  - Monthly Tax
  - Termination Tax Rules
  - Backpay/Bonus Tax
  - Allowances
  - Reimbursements
- PAYG Withholding (cont'd)
  - BAS Instalment Activity
  - Single Touch Payroll Reporting
  - Tax file & Variations
  - HELP/SFSS
  - Remote location concessions
- Fringe Benefits Tax
- Employee Share Plans
- Foreign income
- Shadow Payroll
- Bonus/Commission tax
- Global Mobility – LAFHA, residency
- Expat Administration
- Payment Summaries and year end reporting
- Reportable Superannuation

Office of State Revenue
- Payroll Tax
- Grouping
- Tax free/taxable allowance amounts

Long Service Leave Acts
- NSW
- Qld
- NT
- WA
- SA
- Vic
- ACT
- Tas

A change in control?

Single Touch Payroll;

Superannuation Integrity Package;

Fair Work (Protecting Vulnerable Workers) legislation;

Notifiable Data Breaches Scheme;

General Data Protection Regulation.

These are all legislative changes that have been introduced over the last twelve months and bring with them tools which can be used by the authorities to promote compliance, create analytical insight and protect data.

However, these new pieces of legislation also have the combined effect of not only giving employees visibility and control over their Payroll data, but also providing employees with the avenue and, in fact, the encouragement to query their data with their employers and the authorities. This change in control could have a permanent impact as to how Payroll functions are viewed and managed.

The concept of data being something that employees may own and control is relatively new from a Payroll perspective.

Before SuperStream, if an employee wanted to check their super balances they generally needed to cross-check their pay slips with their superannuation account balances on a period to period basis. The introduction of Single Touch Payroll as of 1 July 2018, gives employees the ability to monitor and actively manage both their tax and their superannuation balances by making the data available and accessible. Armed with this insight, employees are being encouraged to review and query their data in real time.

Employees are also being made aware of the value of their data through data privacy changes such as the Notifiable Data Breaches Scheme, in Australia, which sets out the requirements for a business (or an employer) to advise the Office of the Australian Information Commissioner (OAIC) of a data breach.

The more significant data privacy breach rules, however, are the European General Data Protection Regulations (GDPR), which came into play in May 2018. These rules extend to all Payroll records and carry with them significant changes to the concept of managing data from a Payroll perspective including having processes in place to satisfy an employee's "right to be forgotten", or to allow the data to be portable from employer to employer. Although the GDPR rules are European, they will still affect many Australian employers. It is also likely that the GDPR rules will set a new bar in relation to data privacy, which other countries will follow (the UK has already indicated they will initiate their own GDPR rules, post-Brexit).

What does the GDPR mean for Payroll?

The GPDR impacts every entity that collects, holds or uses European personal data both inside and outside of Europe for **EU-based employees and customers.**

Expanded scope
- More entities will be regulated
- Data processors regulated
- Non-EU entities regulated
- New data protection principles
- New data will be regulated

Higher sanctions, litigation risk & costs
- Expanded enforcement powers
- Fines up to 4% annual global turnover
- Compensation claims
- Class actions
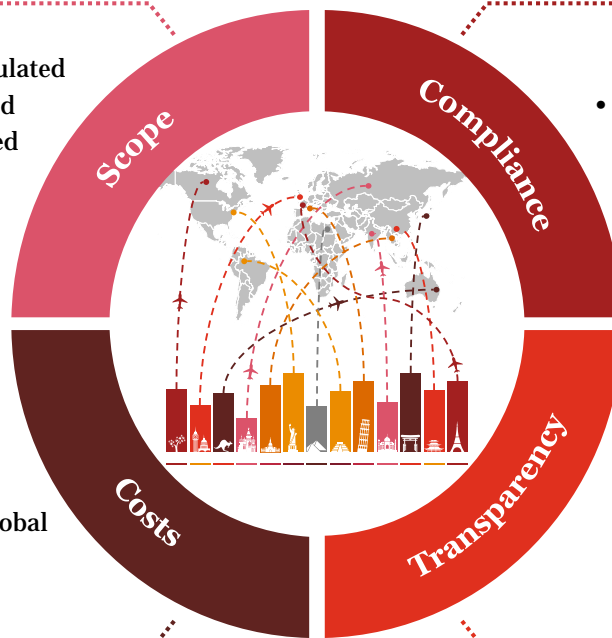
More Compliance duties
- Privacy by Design
- Privacy Impact Assessments
- Accountability
- Right to be Forgotten
- Data Portability
- Data protection Officers
- Data Security

Greater transparency required
- Explicit Constant
- Privacy Policies
- Stakeholder consultations
- Breach Notification

(Circular diagram labelled: Scope, Compliance, Transparency, Costs)

So, data is becoming more visible and auditable through STP. While GDPR and the Notifiable Data Breaches (NDB) scheme are lifting the standards around the value of data, portability, privacy and data protection are now important business imperatives.

But that by itself is unlikely to be enough to create a step change in attitudes around data. The other changes that will drive this are increased compliance approaches that are capturing the media's attention. The Government, having identified that around a third of Australian workers are being underpaid their superannuation entitlements, is pouring money into Superannuation Task Forces to pursue employer non-compliance, and changing the laws to allow the ATO to communicate directly with employees where there is a non-disclosure.

The Fair Work Ombudsman, Natalie James, has long followed a strategy of using the media and public pressure to effect change. In her words: "If businesses close their eyes to what is going on, and we find workers are being exploited, then know we will be asking the question – who contributed to what's happened here? And when we ask these questions, others – community groups, unions and the media will be asking them too."

And the strategy is working. There is heightened media focus, more headlines, and a growing awareness from employees that they can check their Payroll data and that they have avenues to query what they're seeing. If employers are lucky, those queries go to management; if employers are out of luck those queries go to the regulators and an audit is initiated (potentially publicly).

So, where does that place the Payroll Function of the Future?

We see a shift in the value of data sitting within Payroll – not just from an analytics perspective, but also from a compliance perspective.

And we see the auditors of that data not just being the regulators, but also being employees themselves.

If this is to be the new environment, questions must be asked by Management as to what support is being provided to the Payroll function to ensure that the custodians of this valuable, auditable data are properly resourced in terms of technology, training and processes.

From analogue to digital

Unlocking the power of Payroll data

The Payroll function is the custodian of enormously rich datasets. When properly interrogated, analysed and visualised, this data can reduce the risk of fraud, error or omission within a Payroll function, and more importantly, can deliver powerful commercial opportunity and insights to leadership.

The complexity of extracting, reconciling and combining multiple, disparate datasets (such as master data, rosters, time and attendance and payslip data) from Payroll systems has in the past prevented the efficient analysis and navigation of this valuable data. This is no longer the case.

Data analytics and visualisation has changed the game.

Advanced algorithms, sophisticated simulation and machine learning techniques are now used to bring together multiple datasets to be explored in one place.

Data visualisation enables navigation of large data sets by sight in order to understand patterns and trends (eg unusual overtime, over and under payments, ghost employees, business unit benchmarking), and to explore individual transactions (eg individuals paid after termination date, long service leave payments to new employees, individuals with negative or large leave balances).

Early identification and quantification of Payroll problems and implementation of a corrective action plan will improve the quality, efficiency and effectiveness of Payroll processes.
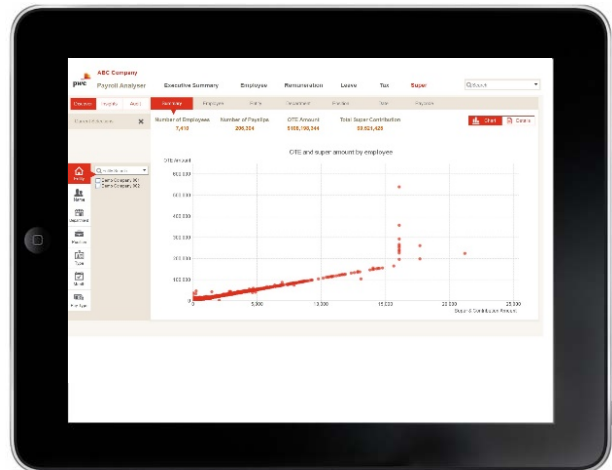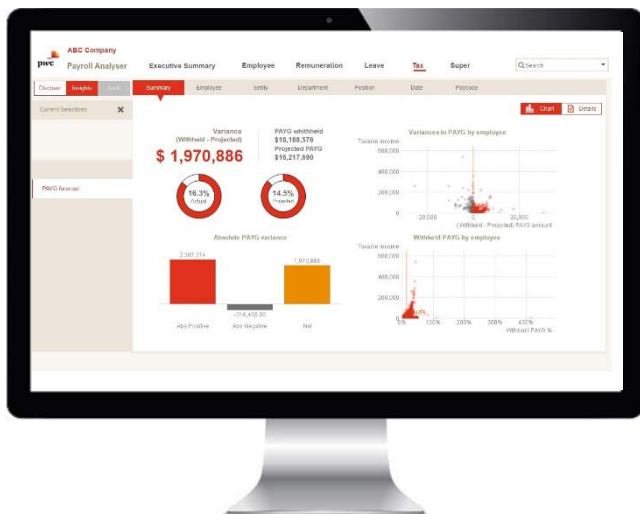

Making better decisions faster

Beyond supporting reliable compliance and efficient Payroll operations, the true value of analysing 100% of your Payroll data in a visualisation engine lies in the opportunities and insights that can be delivered to leadership.

Leading data analytics and visualisation empowers:

- Strategic workforce optimisation – scheduling and rostering your workforce in a manner that meets business needs, is legally compliant and reduces costs.

- Predictive analysis – using actual data to inform strategic planning about future recruitment and training needs, performance management and labour cost.

- Scenario planning and modelling of future enterprise agreements – forecasting the impact of proposed scenarios on your future labour cost and assessing whether terms of a proposed agreement will satisfy the Fair Work Better off Overall Test using actual data for every employee.

- Accurate and data-driven forecasting of labour costs – identifying when overtime and penalty rates are most commonly consumed ensuring more accurate information is provided to finance for budgeting and cash flow purposes.

Questions to ask

- To what extent is your leadership relying on actual employee data insights to drive strategic workforce decisions?

- Do you have a data strategy in place, and what specific objectives exist for payroll data and analytics?

- How confident are you about the current accuracy of your payroll function?

- Are you reliant on generic reports from individual people systems or do you have the ability to efficiently consolidate and explore 100% of your payroll data?

- What processes do you already have in place for the independent review and testing of your payroll data and processes?

- Do you have confidence that you are meeting your Fair Work obligations?
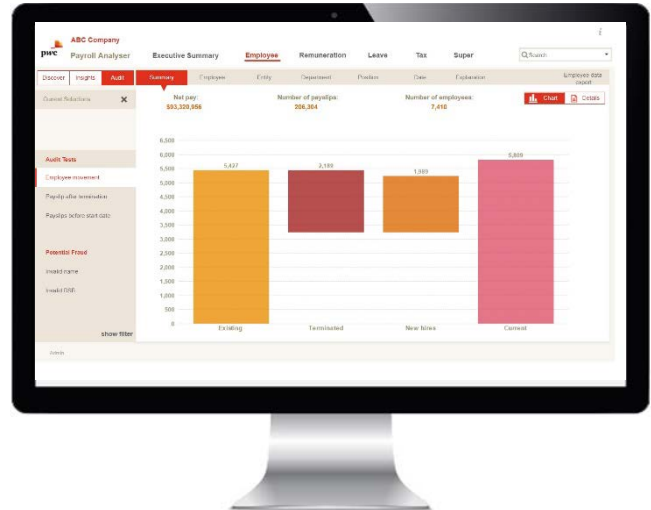
Our view

The payroll function holds the key to powerful commercial insights that can drive strategic workforce decisions. The volume and complexity of payroll data is no longer a barrier. Companies should seize the opportunity to explore their payroll data, identify and resolve areas of risk or non-compliance and more importantly, inform critical decisions regarding workforce strategy.

Will Single Touch Payroll increase your compliance costs? A global view.

As compliance becomes more complex and more costly, making sure that data is 'right' first time has never been more important.

When Australia implements Single Touch Payroll on 1 July 2018, it will become the latest country to implement a system that allows for real time reporting of employment tax related data from Payrolls to the tax authorities in an electronic format. It is worth considering, therefore, some of the experiences of other countries who have embarked on similar journeys.

The following article was prepared as part of the PwC 2018 Paying Taxes Report and discusses both the beneficial impact that the tax authorities are realising from the efficiency of their audits and also the impact on the cost of compliance for employers.

International experience indicates that the shift to real time reporting is increasing costs for the employers that have to comply with the requirements and manage the risks associated with providing greater volumes of data to the tax authorities.

This experience matches the concerns that are being raised in Australia.

While Single Touch Payroll should generate better reporting of data from businesses' Payroll functions to the tax authorities in the long run, it will also require both a shift in the expectations of employers as to the quality and reliability of the data provided by Payroll and also an increased level of engagement with Australian tax authorities who will shortly have far more data available to them to explore and question than ever before.

The future of compliance

Every year we see reductions in the time organisations have to comply, largely as a result of improvements in information technology, especially in the upper and lower middle income economies.

There is a question however as to whether the time to comply might start increasing soon due to a global trend towards real time reporting of data to tax authorities in electronic format.

Whilst the majority of these changes are currently aimed at larger businesses there is every indication they will also apply to smaller businesses over time, including businesses similar to the case study company.

In our experience, the shift to real time reporting is increasing costs for those taxpayers that have to comply with these requirements and manage the risks associated with providing greater volumes of data to the tax authorities. This may reduce in the long term as technology improves and the changes become embedded in 'business as usual' processes, but due to the increasing number of requirements and the differences between tax administrations, this will take some time.

Direction of tax authorities

What's already happening?

While true real-time data collection is currently limited to a small number of tax authorities and taxes, many tax authorities already collect large amounts of historical data through online filing. This enables tax authorities in countries such as Mexico and Russia to take advantage of the benefits of e-auditing, where data is both collected and scrutinised electronically, as both an anti-corruption measure and in driving up the tax base and driving down taxpayer error. Developments in technology and data analytics techniques are rapidly increasing the efficiency of e-auditing, for example, for every $0.50 that the Mexican tax authorities invested in e-auditing in 2012, they received $50 in tax revenue. In 2016, $50 of revenue was received through just $0.27 of investment and they aim to decrease this to $0.22 in future[1].

E-auditing, along with advances in and easier adoption of technologies to obtain, verify and analyse taxpayer data, has led to a significant increase in data driven obligations being pushed onto taxpayers. This is manifesting itself in a move from 'traditional' tax returns through historic data reporting to real time reporting requirements.

The information sent to tax authorities allows them to:

- Profile taxpayers against expectations, analyse tax patterns, and plan for and target future tax audits.

- Conduct forensic audits, run tests to identify non-compliance and highlight areas to probe further.

- Compare, contrast and benchmark against both confidential data, and publicly available big data, across different taxes and with tax authorities in other countries. This can encompass enterprise-wide data of a financial and non-financial nature e.g. travel records and so is of great significance to many businesses,

Combine this with:

- an increasing number of requirements to publish or at least have a tax strategy e.g. in the UK and Spain,

- increasing expectations from tax authorities for companies to be able demonstrate an appropriate tax control framework is in place and, in some cases that it is in line with tax strategies, and

- stricter criminal penalties for errors arising from a lack of appropriate controls e.g. Germany.

And it's easy to see that the cost of meeting these data requirements (which differ from territory to territory) and managing the associated risks, in an increasingly complex environment, is only going to keep rising as the consequences of getting it wrong become more serious both financially and reputationally for taxpayers.

Making sure that data is 'right' first time has never been more important.

How should businesses respond?
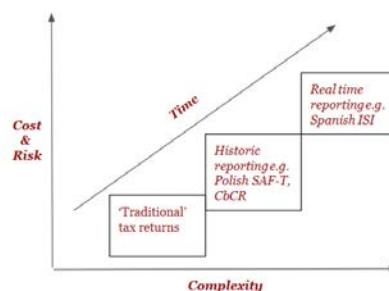
Over the coming years we anticipate that the numbers of countries where the tax authority requests periodic extracts of information will increase and real-time requests for information will become increasingly commonplace.

Understanding the minimum data standards required and the tests that will be performed by the tax authorities on the data provided is key for businesses, as is understanding the relevant comparisons and reconciliations possible due to the accessibility of information.

All taxpayers need to consider:

- How to respond to the data challenge today - specifically current compliance obligations and how to manage an ever increasing speed of adoption e.g. Lithuania introduced SAF-T (Standard Audit File for Tax) in just two months from the date of the initial announcement.

- How to deal with the increased real time obligations and scrutiny of the future - many organisations are looking to develop a proactive and scalable strategy to address the issue. This will need to encompass actively improving the quality of tax data, ensuring processes are productive, using technology effectively and mitigating the exposure to penalties and reputational risk.

The Payroll Manager in 2018

*Tracy Angwin, CEO,
Australian Payroll Association*

Long gone are the days where the most important task of the Payroll team was handing out cash filled envelopes at the pay window once a week.

With ever changing State and Federal regulatory environments and heavy financial and reputational penalties for Payroll errors, employers are asking for more from their Payroll professionals.

No longer are employers looking for skills such as the ability to extend timesheets, day to day operational Payroll processing and the understanding of a particular Payroll product.

Those employers who understand the potential value of a best practice Payroll function are looking for a strategic understanding of how Payroll can contribute to operational and financial goals of the employer, those who can confidently present Payroll data and strategy to executives, have a holistic understanding about a range of Payroll and attendance technology, are a good cultural fit with outstanding customer service ethic and a Payroll team that have completed a competency based qualification.

It is difficult for any employer to identify the competency of a Payroll team member before they are on their team. While Payroll knowledge assessments go some way to test the technical understanding of a potential candidate, increasingly there is a recognition that Payroll professionals of the future must continue to invest in their personal development to remain effective.

There is a role for employers to invest in this development. This might include ensuring that the Payroll team attend Payroll Manager Forums, annual End of Year Seminars, Fundamentals or Masterclass Payroll training, and ensuring the team are sent to annual conferences. This is where they can keep up to date with not only legislative changes but Payroll technology, new Payroll delivery strategies and meet industry colleagues to research how other organisations are meeting the Payroll challenges of the day.

There should also be an expectation that Payroll professionals invest in themselves. According to Australian Payroll Association's 2018 Payroll Benchmarking Study, only 8.9% of surveyed Payroll professionals have completed a competency based qualification (either Certificate IV in Payroll Administration or Diploma of Payroll Management). At a time when employers are recruiting Payroll professionals who have the willingness and curiosity to learn and understand how their performance in the Payroll office can affect other parts of the organisation, Payroll professionals who have completed either the Certificate IV in Payroll Administration or the Diploma of Payroll Management offer a differentiated perspective.

Further information on Payroll training and qualifications can be found through various organisations including PwC's alliance partner, Australian Payroll Association, www.austpayroll.com.au
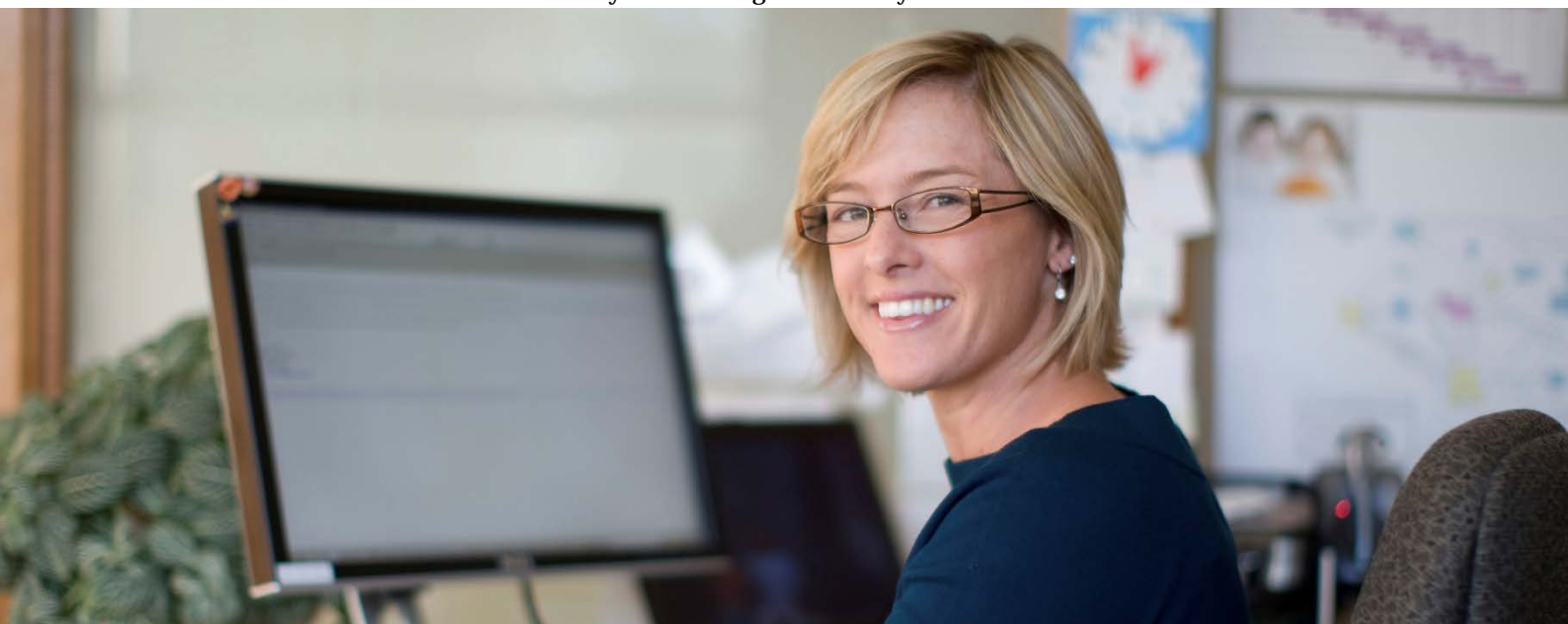
Conclusion

Has the Payroll function ever been as important as it is at the moment?

Two years ago, PwC's Payroll Consulting Practice released our first flagship piece of thought leadership – Making Payroll Pay. At the time, we challenged the perception that the objective for Payroll was a simple one – pay your employees accurately and on time.

Our call to the market was to recognise that Payroll, as one of the most critical functions in any workforce, shouldn't be governed by a mantra of "No news is good news ... ". We disagreed that Payroll should be seen as a low risk function, generally automated or outsourced. Instead, we called for a change towards a continuous improvement mindset that supports Payroll and we promoted Payroll's ability to add true value.

Two years on, a shift in the regulatory environment means that Payroll can no longer be called low risk. Fair Work has become far more proactive and reputational damaging headlines abound.

Separately, the government is legislating to respond to concerns that employees are not receiving their fair superannuation entitlements. Meanwhile, data privacy is likely to become a bigger issue as the EU raises the benchmark with stringent and far reaching privacy laws that will directly impact Payroll.

All of these changes have one common factor – the data that underpins the risk and sets up the reviews sits in, or has passed through, Payroll.

Then, in July 2018, the ATO will usher in what could potentially be the most significant change to have occurred to Payroll in Australia – the enactment of Single Touch Payroll (STP). STP digitises the data flow between employers and the authorities, tapping into the significant volumes of information that sits within Payroll. Greater analytics will be applied to this new flow of data out of Payroll functions, with greater promises (and greater expectations) of insight.

At PwC, we have a vision to raise the profile and potential of Payroll. Organisations have a responsibility to ensure employees receive their correct entitlements and we believe that Payroll plays a critical role in maintaining trust between employees and the organisation.

We believe that Payroll functions have the ability to deliver real insight and value into an organisation and that this opportunity has never been more prevalent than right now.

Meanwhile, Payroll functions are a greater source of risk and opportunity for employers than they have ever been.

PwC's Payroll Consulting practice is passionate about Payroll and we are pleased to release this latest piece of thought leadership.

We hope that you have enjoyed reading The Power of Payroll and that it will give you food for thought about the opportunities and risks that Payroll faces now and into the future.

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Payroll Consulting practice

Our Payroll Consulting practice helps Payroll teams navigate their complex role via industry events, online information, thought leadership, consulting and our annual roadshow.

To ensure you receive updates and invitations, register online to join our Payroll Managers forum **www.pwc.com.au/payroll.**

To review information on Single Touch Payroll, or to register to receive updates, please visit **www.pwc.com.au/stp.**

If you need any assistance with your Payroll operations, please contact your local Payroll Consulting practice representative.

www.pwc.com.au/payroll