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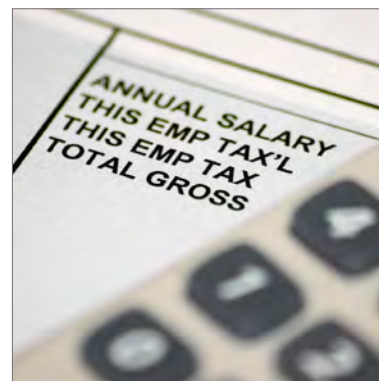
Company payroll

A company payroll is the sum of all the relevant financial records associated with salaries, wages, bonuses, commissions and entitlements; for example, leave, long service leave, and statutory and voluntary deductions. The term 'payroll' includes all employees who receive a regular salary, wage or some other form of compensation for work performed.

The difference between salary and wages

The terms 'salary' and 'wages' are often used interchangeably, though they are different.

A salary is a form of periodic payment (weekly, fortnightly or monthly) from an employer to an employee, which may be specified in an employment contract where the person is paid a specific amount for a year. They may work 35, 40 or more hours per week, or more when necessary. When a salary earner takes leave, they are paid their standard weekly salary based on their annual salary.



A wage is a payment from an employer to an employee based on an hourly rate and the number of hours worked. In general, a wage earner working more than a set number of hours per week or on a particular day, such as a public holiday or Sunday, can be paid overtime rates and thus earn extra money in a pay period. When a wage earner takes leave, they are either not paid, in the case of a casual worker, or are paid a pro rata based on the average hours worked per week, in the case of a permanent part-time employee.

Gross income for employees

Some employees are paid a salary, while others are paid a wage based on the hours they work or the products or services they produce. Others can be compensated for the work they do based on commissions; for example, a real estate salesperson may receive payment based on the number of sales they make. These different options for each member of staff must be handled appropriately so that each employee receives the correct gross payment for the pay period in question, be it a week, a fortnight, a month or some other time frame. A company must therefore be able to obtain the required information in relation to the basis on which a person is to be paid. Such instruments include time sheets, rate of pay, employment contract and the person's tax file number declaration form.

Deductions from gross income

Once an employee's gross pay (income) is determined for a pay period, any deductions need to be calculated. Deductions can be in the form of statutory deductions, such as PAYG withholding for tax; or voluntary deductions, such as union fees, charitable donations or voluntary additional superannuation (super) contributions.

Many deductions can be based on personal circumstances; for example, having more than one job, family situation (affecting family tax benefits, child support payments, etc.) and union membership. This information must be collected so the deductions are authorised and appropriate amounts can be determined. This involves documentation being completed, with personal information being provided by the employee to the employer and the payroll department or manager.

Security procedure	Approach
Computer passwords	All access to personal employee information should be password protected. If an individual employee has access to their personal information or pay information online, this should also be password protected.
Ensuring security of passwords and keys	<p>Passwords should be changed or required to be changed on a regular basis; for example, every three months.</p> <p>Keys should be numbered and protected through 'not to be copied' mechanisms and a tracking system. Lost or missing keys should initiate a change in locks and a replacement of keys.</p>
Backup files and storage off-site	All employees' files and information along with all relevant payroll information relating to employees and the organisation must be backed up in a manner that minimises or eliminates potential loss of information. Copies of backup files should also be stored off-site to ensure files are available if something occurs to the organisation's filing system and the original files are destroyed.
Employees providing secure bank details	Payment of salary, wages or other remuneration is usually conducted through secure bank transactions. Bank details provided by employees should be signed as true and accurate by the employee to ensure the funds are being transferred into relevant and secure accounts. This bank information should be stored securely within the organisation.
Keeping payroll documents secure	The form of the documents could be hard copy or electronic. Payroll documents should be stored in a secure environment accessed only by authorised personnel.
Restricting access to electronic files and locking away paper-based confidential information	Access is managed through safe storage on computer systems with password access only. Hard-copy material is kept in a locked filing room or similar facility with a security key or other access procedures.

Other security considerations

Here are some other security considerations that need to be addressed within an organisation's payroll system.

Maintaining security and confidentiality of employees' details

Any personnel of an organisation who have access to employees' details should be bound by a confidentiality statement. Employees who have access to their own details should only gain access via password protection and, in the case of access to hard-copy information, after their identity has been confirmed.

Specific event-linked allowances

A specific event allowance is based on actions linked to the standard payroll process; for example, an overtime meal allowance.

Payment of these allowances is usually triggered by the payroll system based on correlation with other details entered; for example, overtime meal allowances would be triggered by the work hours input for an employee. The substantiation in such cases is the time sheet or recorded hours of work.

Specific claimable allowances

A specific event or activity claimable allowance is based on an application and approval process for the allowance or reimbursement of expenditure. Payment of these allowances would be subject to the submission of an allowance claim form or online completion of an application process. Employees or claimants may need to provide documentation such as receipts or other evidence that substantiates the eligibility for the allowance or expenditure to be reimbursed.

Substantiation policies and procedures

To ensure that procedures guarantee the substantiation of claims for allowances, it is essential to establish clear policies and procedures in relation to the payment of each allowance.

These policies and procedures should encompass:

- a clear definition of the allowance
- explanations of the basis for the allowance; for example, award, legislation, contract or agreement
- applications of processes for receiving the allowance or claiming the allowance
- documents that are required to substantiate claims; for example, an application form downloaded from the intranet
- approval/authorisation requirements; for example, a completed application form must be signed by the employee's manager.

Implications of allowances

It is important to be aware that the different allowance types may be treated differently in relation to superannuation contributions, state payroll taxes (which vary between states and territories) and federal withholding taxes. A payroll manager should review the relevant state payroll legislation to determine the applicability of the various allowances and the implications on the organisation's payroll processes. For example, consider the following information:

- Superannuation guarantee liabilities – implications of various allowances on the superannuation guarantee can be found on the Australian Taxation Office (ATO) website at: www.ato.gov.au/business

ATO

Australian Taxation Office (ATO)

ATO regulations apply to all organisations that operate in Australia and employ and pay people. When managing a payroll, you need to understand Commonwealth tax and superannuation obligations involving contractors and employees, PAYG withholding, superannuation, employment termination payments, redundancy payments, fringe benefits tax, employee allowances, non-profit organisations, workplace giving and record keeping. Each of these will affect the setup and maintenance of a payroll system and the control of information and reporting requirements.

The Corporations Act and laws

The *Corporations Act 2001* (Cth) is the principal legislation regulating companies in Australia. It regulates matters such as the formation and operation of companies, whether companies have to pay payroll tax, duties of officers, takeovers and fundraising.

Most of the information provided by this Act is dealt with at a higher organisational level than those responsible for managing the payroll. Speak to your supervisor if you are unsure about this aspect and need to know more.

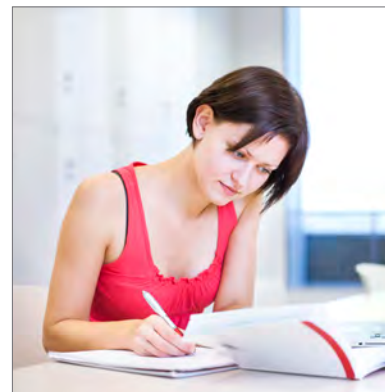
Fringe benefits tax (FBT)

A fringe benefit is a payment to an employee in a different form to salary or wages and may be liable to tax. Organisations must declare such payments and remit the relevant tax if applicable. Internal policies and procedures need to be defined for managing fringe benefits and appropriate controls need to be in place for the recording and authorisation of fringe benefits and relevant reporting to the ATO.

Higher Education Loan Program (HELP)

People who have opted to fund their tertiary education through HELP or HECS since 1988 repay their debt when they are in the workforce and their income through wages or salary reaches a certain threshold. For example, for the 2015-16 financial year, debtors must start repaying their loans when their repayment income is above \$54,126; this is the sum of taxable income plus any total net investment loss, total reportable fringe benefits amounts, reportable super contributions and exempt foreign employment income. These payments are part of the PAYG deduction.

Payroll staff or other relevant people need to be aware of the thresholds, calculate appropriate PAYG withholding and maintain appropriate confidentiality of employees' details. However, some information (such as a person's foreign income) is unlikely to be held by an employer; therefore, a greater responsibility falls on the individual to determine the appropriate tax to be withheld.



Computer records

Control procedures

- Implement and maintain a file backup process
- Establish off-site storage as appropriate
- Establish and test the backup recovery process

Example: an organisation's control measures

Cecilia has been appointed to the position of payroll manager for a medium-sized company. After reviewing the control measures in place in the department, she implements some changes to increase the level of protection and security. These measures include the following:

- No payroll staff member is to take any action on the system regarding information on their file (the system has an audit trail and therefore this can be monitored easily).
- Files containing hard-copy documentation and records on any staff member in the payroll department are to be separately stored in her office and thus not available to staff without her authority.
- Cecilia's payroll file is to be kept by the deputy CEO and his authorisation is required for access to it.
- Passwords are to be changed every three months for all payroll personnel with access to the system and old passwords not an option for three years.
- The assigned responsibility for departments to each payroll officer will be rotated every 12 months in February so that they do not have authorisation over the same area or people for more than a year.

Practice task 3

Write a report on the control measures currently in place for safeguarding the financial resources of your organisation (or one you are familiar with), particularly managing the payroll. If appropriate, refer to any relevant policies that are in place. As part of preparing this report, discuss the control measures that exist with relevant staff in the organisation and identify any aspects that could be considered a risk. The report should be no more than 1½ pages long.

continued ...

Written agreement

Here are some other components that will make a written agreement between the employer and the employee.

Leave

Leave information for all types of leave, including leave taken, leave balance, a copy of any agreement to cash out accrued leave, the rate of payment for the leave and when the payment was made

Superannuation

Employee's paid superannuation (excluding payments to a defined benefit fund), including amount paid, pay period, date/s paid, the name of super fund and the reason super was paid into the fund (for example, a record of the employee's super fund choice and the date that choice was made)

Termination of employment

If an employee or employer terminates the employment, they must record the name of the person who terminated the employment and the reason why the termination took place; for example, by consent, by notice, summarily or in some other form

Guarantee of annual earnings

If the employee has been provided with a written guarantee of annual earnings for an amount over the high income threshold

Records management standard

Some organisations will have a policy in place that is a commitment to compliance with Australian or international standards in relation to managing records. The relevant standard is AS ISO 15489:2004 Records Management.

Example: set up a payroll system

A businessman recently bought three companies with the intent of merging them into a single entity. Each of the three companies had approximately 120 employees. All administrative systems, policies and procedures will be redeveloped into a new approach replacing all prior systems. Currently, each of the smaller companies has its own systems, policies and procedures for the day-to-day operations and other operations, including payroll management.

continued ...

Topic 2

Prepare payroll data

To produce a payroll and thus pay employees, key information is required to enable the payroll system to operate. Information relating to industrial awards or contracts and details regarding legislative requirements must be sourced and correctly entered into the payroll system.

Details regarding voluntary deductions must be collected from employees and entered alongside government statutory deductions. All data must be provided to the processing system in order to produce the payroll.

In this topic you will learn how to:

- 2A Use nominated industrial awards, contracts and government legislation to calculate gross pay
- 2B Calculate statutory and voluntary deductions using government and employee documentation
- 2C Provide payroll data to the payroll processor for calculation within designated time lines

Other entitlements

Here are some other entitlements that need to be addressed within organisational payroll requirements.

Termination payments
In the event that employment is terminated, an employee may be entitled to certain payments under an award or by agreement. These are called eligible termination payments.
Time sheets
Time sheets provide a record of the hours worked by an employee during a specified pay period.
Long service leave
Long service leave is a period of paid leave granted to an employee in recognition of a long period of service to an employer. Entitlements for long service leave are provided for in the relevant legislation.
Overtime
Overtime is an extra payment for work performed above that of the standard spread of ordinary hours. It is commonly paid at the rate of time-and-a-half for the first two or three hours and double time thereafter, but this is subject to the terms and conditions under which a person is employed.
Penalty rates
Penalty rates are an extra payment paid for ordinary hours worked late, on weekends or public holidays.

Example: impact on payroll

Ingrid, the CEO, is negotiating with her staff through an enterprise bargaining process on the payment of salary and wages under an award. She accepts a small increment in the salary of 0.5 per cent for all the staff on the proviso that the organisation moves to a fortnightly pay period; this would reduce the overall time for entering data and preparing the payroll, and reduce the hard-copy storage requirements.

As a result, all time sheets and other documentation has to be updated and the system reconfigured to cope with fortnightly pay runs, and therefore the calculation of fortnightly gross pays with an increase in the award rates paid to employees.

continued ...

Insurance

Employees may request that money is deducted from their salary and wages to cover private health insurance. Such deductions are forwarded to the relevant insurance entity by the employer on behalf of the employee.

Workplace giving

Some organisations have workplace giving programs, where employees can contribute to the programs from their salary and wages through the payroll system. Money deducted is sent to the relevant charities by the employer. The employee must give permission for this to occur; they receive notification of such donations at the end of the financial year as these are a valid tax deduction when preparing their tax return.

Personal superannuation contributions

Employees have the right to make additional contributions to their nominated superannuation funds from their gross pay. These requests must be in writing to verify the deduction and provide authority for the deduction to be made.

Other deductions

Subject to an organisation's policies and procedures, salary sacrifices and salary packaging may incur deductions where fringe benefits are identified. The employee may have negotiated a contribution from their salary and wages to cover some or all the FBT attached to the fringe benefit they gain from packaging their salary or wages.

Deductions taken from employees' gross pays are not kept by the organisation but are sent by the employer to the appropriate payee.

Payroll levies for the organisation

Organisations must keep track of the total payroll details since they will be liable for certain levies. These include the superannuation levy and payroll tax.

The superannuation levy obliges employers to pay superannuation on behalf of their employees. The legislation and regulations regarding superannuation payments change from time to time, so make sure you stay up to date by regularly checking the ATO website for any changes that will affect your organisation's payroll.

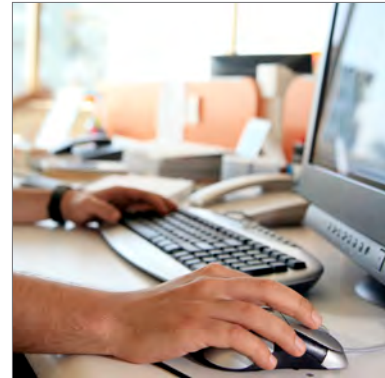
Payroll tax is a state tax that is determined by the collective wages and salaries paid to employees by an organisation. You need to find out whether your organisation is required to pay payroll tax and the current payroll tax rate.



Key organisational time lines

Organisations are obligated to pay their employees on time and, depending upon the award or enterprise bargaining agreement in place, penalties may apply for late payment to employees. Therefore, the preparation and completion of the payroll is a high priority. Due to these strict time lines, you must make sure that you keep within the time frame allowed to prepare the payroll.

The deadline for running the payroll on whatever system is in place in an organisation will be dependent on the deadline for the production of the cheques or electronic transfer files of salary and wages for each of the employees. It is standard that a pay period will finish a number of days before the payment of salary and wages occurs and the funds are with the employees.



Other payroll deadlines

As well as the time lines for preparing and processing pays, there are other deadlines you must know about. Here are specific payments that are underpinned by organisational payroll deadlines.

ATO

The ATO issues time lines for the submission of tax file numbers, PAYG withholding, termination payments, superannuation contributions and business activity statements.

TFN declaration

When engaging a new employee, the employer must meet certain time lines. A new employee must be provided with a TFN declaration form that is completed and returned to the employer, who completes Section B of the form. The TFN declaration needs to be lodged with the ATO within 14 days after the form is signed by the new payee (new employee). The form must be kept by the organisation as part of the employee's records. If an organisation does not know an employee's TFN, it must withhold tax at the highest marginal rate.

PAYG withholding

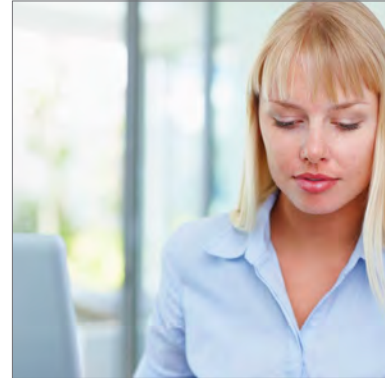
Any tax withheld by an employer must be submitted to the ATO every three months in line with the dates set by the ATO. The amounts to be transferred to the ATO are reported on the business activity statement (BAS).

3B

Reconcile salaries, wages and deductions in accordance with organisational policy and procedures

It is important that the payroll is checked for errors before authorisation is sought to finalise the payroll and issue payments to employees and any other authorised parties. Computerised payroll systems can be configured to identify possible discrepancies.

Source documentation, such as time sheets and claims for allowances with substantiation, should have been authorised by the relevant supervisor or designated person as part of the process of preparing payroll data. Control measures should be in place to safeguard an organisation's financial resources and this incorporates those measures outlined in Topic 1C.



Effectively, all documentation that provides data or information into the calculation of a person's gross pay should have been approved for data entry into the system. Similarly, any documentation that relates to deductions from the gross pay should have been approved by a relevant authority in the organisation; for example, the TFN declaration or the authorisation of an employee's request to deduct additional tax, union fees or contributions to workplace giving.

Make relevant data adjustments

Information regarding pay rates and entitlements is initially input into the payroll system on commencement of employment. Adjustments to pay rates and terms and conditions of employment that occur across the board or are time-driven are also generally supported by the payroll system. Such events can include:

- a change in pay rates or terms and conditions due to new enterprise bargaining agreements or a change in award rates of pay
- a change in taxation rates or the Medicare levy rate
- the anniversary of employment and progression to the next increment on the pay scale
- the achievement of a qualification or certificate that changes the applicable pay scale.

Adjustments that affect payroll

Adjustments to information that affects the payroll will occur when an individual's circumstances change or the individual takes action that results in a change to their payroll calculation.

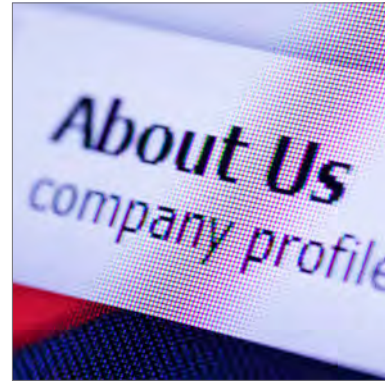
When there have been changes, it is good practice to have the data checked against source documentation by an independent person; that is, not the same person who entered the information. Some organisations will have data entered twice by two separate people in an attempt to identify inconsistencies and avoid errors.

Example: pay advice slip

East Point Supplies				
Pay advice slip				
Company ABN:				
Employee no:	Date of payment:		Pay period ending:	
Employee's name:				
Employment status: (full time, part time, casual)				
Wages, allowances and overtime		Hours	Rate	Amount
Wages	Standard hours			
Wages	Overtime rate 1			
Wages	Overtime rate 2			
Allowance 1				
Allowance 2				
Public holidays				
Payment summary		This pay		Year to date
Wages				
Allowances				
Gross pay				
PAYG tax				
Deductions				
Net pay				
Deductions		Amount		
PAYG tax				
Superannuation				
Total deductions				
Health fund				
Other deductions				
Superannuation guarantee levy				

Internal support information

Many organisations will place information on internal websites to assist employees in understanding the methods of calculating the various components that make up their net pay. For those employees without access to the intranet, hard documentation can be provided in the form of brochures. Many organisations provide new employees with such information as part of their orientation or induction materials.



Support from the ATO

The ATO publishes a significant range of materials that can assist organisations in their corporate responsibilities in relation to determining the net pay of employees, as well as materials that can assist individuals in understanding the process and all the elements that need to be taken into account. The ATO website also has details of where additional or updated information can be found.

You may need to refer to the ATO website for a suitable response to the following questions.

Tax questions

Why is tax taken from my pay?

How much tax should be taken from my pay?

Online tax calculator

The ATO provides an online tax calculator that can calculate the amount of tax that should be withheld based on information regarding the employee provided by the employee themselves or by a relevant person in the organisation. These calculators cover most of the basic situations.

The online version of the tax withheld calculators for the current financial year, information on how to use them and an explanation of terms can be found on the ATO website, at www.ato.gov.au. These calculators can be used online without the need to provide any personal identification details.

There are two main calculators:

- Tax withheld for individuals calculator
- Voluntary agreement calculator

4. Outline a procedure you follow when a discrepancy occurs when reconciling salaries, wages or deductions.

Part B

Read the case study, then complete the tasks that follow.

Case study

Jacinta is the payroll manager for a legal firm in a metropolitan area and is aware that many of the people working for the company have significant HELP debts. Jacinta herself has a HELP debt from when she completed her tertiary studies a few years ago.

Jacinta is aware that the minimum repayment threshold for HELP debts will be lowered at the start of the next financial year, which is only two months away. This will affect many staff members' net pay from July, as well as their individual tax positions at the end of the financial year. After speaking with her supervisor, Jacinta decides that it would be prudent to provide a briefing report on the implications to the staff and send a memo to all employees with a HELP debt indicated on the payroll system.

The key reason for doing this is that many employees are likely to either complain that the staff in payroll did something wrong, or want an explanation. Given that the staff are very busy, she knows that the memo to the relevant people must be no more than one page long and must include the implications of the change and possible options for minimising the impact.

Jacinta's approach is proactive because it may save significant time later when employees approach her office. le text

1. Investigate the implications of the HELP repayment changes on the ATO website, at www.ato.gov.au, or any other sources of information you might find. Record your main findings.

4A

Process declaration forms for employees

You need to follow the requirements laid down by the ATO for processing declaration forms for all employees.

As previously discussed, the tax file number (TFN) declaration form is critical for both the employee and the employer. The declaration form must be submitted within 14 days of an employee starting work. If it is not supplied, the employee is taxed at the highest rate.

The TFN declaration form

The TFN declaration form has two sections: Section A must be completed by the employee and Section B by the employer.

An employee must provide the following information:

- Tax file number – if they do not have one then they must apply for one on a separate application or claim an exemption
- Full name
- Whether there has been a name change since last advising the ATO
- Date of birth
- Home address in Australia
- Basis of payment – the employee's employment status; for example, full time, part time, casual
- Australian residency status for tax purposes – if the employee is not an Australian resident, the employer is required to withhold tax at a higher rate

Changes in TFN declarations

An employee's circumstances may change. If such changes affect the deductions that need to be made in relation to salary and wages, then another TFN declaration form should be completed.

Such changes can include:

- reaching the age of 18 or earning a wage or salary that no longer enables an exemption
- taking on a second job elsewhere and changing their tax-free threshold to a different employer
- becoming liable for a HELP debt, having commenced study towards a tertiary qualification and utilised HELP
- changes in circumstances such that there is a change in eligibility to claim a tax offset.

Employer or payer declaration

When a completed TFN declaration is submitted by an employee (Section A), the employer is required to complete the payer's section of the declaration (Section B).

If an existing employee's circumstances change and they submit a new form, the most recent one will override any previous declarations. The TFN declaration form is a duplicate form; the original must be sent by the employer to the ATO within 14 days of hiring the employee, while the duplicate is kept by the employer in the employee's file.

4B

Calculate and transcribe group tax amounts, and make payments

The main requirement for determining group tax amounts is the reporting and payment of PAYG withholding amounts and FBT amounts to the ATO. Both of these are determined by the terms and conditions of employment for each employee of an organisation.

Employers are not required to perform cumbersome calculations when deducting tax from an employee's gross pay, as the ATO has produced a schedule of tax instalments for weekly, fortnightly or monthly payrolls. These are known as PAYG withholding tax tables, and include weekly rates for PAYG, a 'ready reckoner' for tax offsets and weekly tax tables for the HELP and the SFSS. The tables are available on the ATO website, which also has a PAYG withholding calculator that you can access.



Calculate PAYG withholding

The amount of tax deducted from an employee's gross pay is calculated according to the information provided by the employee on the TFN and withholding declaration forms. People are required to pay different amounts of tax according to how much they earn, the allowances they receive, the claims they make and the various debts they have to the Federal Government, such as HELP and SFSS.

The different rates of tax for each income level are known as marginal tax rates. The Medicare levy of 2.0 per cent of annual gross income is added to each of these rates.

If an employee does not provide an employer with their tax file number, the employer is required to deduct tax at the highest marginal rate, plus the Medicare levy.

To obtain the amount of tax to be deducted from an employee's gross pay, you must have all the information provided by the employee on the TFN declaration form and the withholding declaration form, as well as the employee's gross pay.

Weekly tax table

You should obtain a copy of the weekly tax table from the ATO, or ask your trainer to provide you with a copy. To use the PAYG withholding tax tables, you need to be familiar with the following aspects of the tables:

- The gross pay is listed in column 1.
- Columns 2 and 3 show the taxation deduction amounts for each gross pay.
- If the tax-free threshold is claimed, tax must be applied using column 2.
- If an employee does not claim the tax-free threshold, tax must be applied using column 3.
- When determining the applicable tax amount, you must ignore any cents in the gross pay amount. For example, \$526.01 and \$526.99 should both be read as \$526.00.

Workplace giving

Where organisations have a workplace giving arrangement, it is common for a number of charities to be dedicated recipients of funds on a regular basis. The funds are contributed from the salary and wages of employees who have agreed to contribute. The employers and staff can determine who receives the donations, but the recipient must be eligible to receive tax-deductible gifts.

Money must be transferred to the nominated charities in accordance with any designated time lines.

Example: deal with employee contributions

A spate of natural disasters in Australia and overseas plus regular requests from major charities encourage some employees to suggest a workplace giving program, as many employees feel guilty for not having cash to contribute at work or find the endless requests for support distracting. Miriam and Sinead ask if a program can be set up where employees can donate a fixed amount per pay or a percentage of their gross pay, and that the organisation will contribute 80 per cent of the weekly funds to designated charities with the other 20 per cent being stockpiled for contributions to emergency relief when needed and in accordance with the preferences expressed by contributing employees. The scheme and list of recipients is to be reviewed every two years.

The scheme is approved and incorporated into the payroll system. Contributions made to the various charities and relief efforts over time are recognised by the receiving agencies, often by letter or poster. These documents are placed in a display cabinet in the main lunchroom.



Practice task 13

Write a briefing report for your supervisor or trainer that identifies the entities that the organisation forwards money to, where that money has been deducted from employees' salaries or wages through the payroll system. Detail the frequency of these payments for each recipient.

continued ...

4E

Prepare and reconcile employee PAYG payment summaries

Payment summaries (formerly referred to as group certificates) are issued to employees by their employer at the end of each income year. The payment summary shows the total amount of income earned by that employee, how much tax was withheld and the period of employment. It could also include allowances, lump-sum payments and the value of fringe benefits provided to the employee (called the reportable fringe benefits amount). Details of fees paid to a union or professional association are documented, as well as any workplace giving amounts if these are deducted through the payroll.

If the payroll is being outsourced, the payroll company will prepare these forms based on details supplied by the organisation.

A copy of the PAYG payment summary should be with the employee no more than 14 days after the end of the financial year. The original is provided to the ATO and a copy kept by the employer.

End of payroll year checks and processes

Here are the steps that should be undertaken after the final pay for the year has been processed in order to check the details that will be appear on the relevant PAYG payment summaries.

Employee details

Using the relevant employee's files or reports from the payroll system, check the following:

- Name and address
- Date of birth
- Tax file number
- That the employee was active in the organisation during the year
- Termination date if the employee 'exited' during the year

Employee entitlements

- Print the relevant report/s (for example, payroll entitlement balances) and check them for accuracy.
- Ensure that any entitlements that can carry over will do so with the appropriate indicator/s.

Summary

1. A TFN declaration form must be completed for all employees in accordance with the ATO requirements. This is a critical document for both the employer and employee in that it provides authority for the employer to deduct (withhold) tax at the appropriate rate and not the required maximum marginal rate if the employee has no TFN. A new TFN declaration can be completed and lodged with an employer if there is a change in the employee's circumstances.
2. To claim reductions in the amount of tax the employee pays, a withholding declaration form must be completed in accordance with the ATO requirements.
3. Deductions made from salaries and wages can be statutory or voluntary. The employee must have given permission to the employer to withhold the relevant amounts for forwarding to the relevant or nominated creditors. Deductions taken from employees' gross pays are not kept by the employer, but must be sent by to the appropriate payee within designated time lines.
4. The main government recipient of deductions from gross pay is the ATO as the result of statutory deduction, with some other government organisation receiving money through enforced deductions; for example, Centrelink or the Child Support Agency.
5. Payments to government authorities for PAYG withheld and FBT must be made in accordance with the schedules set by the ATO or other entities. They are reported using the BAS.
6. Voluntary deductions need to be forwarded to a wide range of entities, subject to the organisation's policies and the wishes of individual employees. Entities may include unions, superannuation funds, vehicle leasing organisations or professional associations.
7. An end of financial year set of checks and reconciliations of payroll should be undertaken prior to the issuance of PAYG payment summaries.
8. PAYG payment summaries must be produced and provide to employees in accordance with the ATO guidelines and time lines.