



The 4 Most Common Payroll Mistakes Employers Make – And How To Avoid Them



Content

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Introduction	3
Mistake #1: Using Out-of-Date Technology to Run Your Payroll	3
Small Businesses	3
Larger Businesses	3
Mistake #2: Not Recognising Payroll as Both a Finance and HR Function	4
Mistake #3: Failing to Stay Up-to-Date With Changes in Payroll Law	5
Mistake #4: Ignoring Risks and The Potential Costs Associated With Getting It Wrong	6
Risk Area 1: Superannuation Breaches	6
Risk Area 2: Long Service Leave Breaches	7
Risk Area 3: Tax & Termination Pay Breaches	8
Risk Area 4: Underpayment of Staff	8
How To Avoid Payroll & Compliance Mistakes	9
Invest In Your Payroll Software	9
Hire The Right Payroll Professionals	10
About Lucent Advisory	11

Introduction

Whether it's your first employee or your hundredth, payroll compliance matters. It's not just about paying your staff: under Australian law, payroll covers hiring and firing, salary entitlements, leave entitlements, bonuses, and more. It's also directly linked to PAYG, payroll tax, superannuation, and accounting.

With so much to cover, it's no wonder that businesses of all sizes find it challenging to navigate payroll laws and follow industry best practices. Mistakes are costly – and it's not just small businesses that are making them.

The George Calombaris payroll scandal is just one recent example: the former MasterChef judge was found to have underpaid staff at his restaurants to the tune of \$7.8 million. Aside from having to pay back his employees and a \$200,000 fine, Calombaris and his Made Establishment company have suffered significant reputational damage as a result of their mistake.

Australian payroll law is complex, and avoiding similar mistakes is not simple. This eBook will help you navigate the complexities of managing your payroll and reveal the most common mistakes employers make – and how best to avoid them.



Mistake #1: Using Out-of-Date Technology to Run Your Payroll

The complexity of the payroll process means that using software to help you is almost mandatory. Unfortunately, many businesses use out-of-date software that does not reflect the payroll requirements of modern business and leaves them open to making mistakes.

Small Businesses

Small to medium-sized businesses typically run their payroll through accounting packages such as MYOB or Xero. Unfortunately, the payroll features in these (and many other) accounting packages are minimal.

They lack manager-level access to approve and create timesheets and leave requests, location-based job costings, and advanced payroll reporting.

They're also labour intensive, don't have award interpretation or employee scheduling, and lack many other key features.

Larger Businesses

The outlook isn't any better for larger businesses, many of whom are still using software developed decades ago. These platforms are difficult to customise, lack automation, and are a drain on internal servers and resources.

They are also costly to implement and are limited in their ability to integrate with other platforms. Unless you have already integrated your payroll system with your accounting system, you will either need to pay for integration, manipulate CSV files, or manually enter your payroll data for your accounts.

The Importance of Modern Payroll Software

Advances in payroll software have significantly increased the level of automation for repeatable rule-driven tasks and improved businesses' ability to safeguard their compliance obligations.

Using the right tools not only provides greater efficiency, increased speed, and improved integration but also helps you process payroll correctly. Access to the best platform could be the difference between a business surviving or perishing, particularly in high-growth situations where scalability is essential.

The best options available today are cloud-based payroll platforms that can scale to suit any size of business. They're affordable and offer automation, built-in compliance, and modern APIs (application programming interface) – which means they interface with other systems such as Xero, MYOB, QuickBooks, and more



Mistake #2: Not Recognising Payroll as Both a Finance and HR Function

Australia has one of the most complex payroll environments in the world. Despite this, many SMBs pass off the important payroll function to their Finance Officer or Administration/Practice Manager. These individuals are rarely experts in payroll.

The issue is that most businesses try to answer the question “is payroll a Finance or HR function?” by picking one of the two and then sticking with it. What these businesses fail to realise is that payroll is both. It requires the expertise of both a trained and qualified Finance Manager or Accountant and a Human Resources Specialist.

A Finance Manager/Accountant has the following relevant knowledge and skills:

- Working with numbers
- Interpreting taxation laws and legislation and keeping up with changes and updates
- Company superannuation
- Budgeting and monitoring expenses
- Managing the chart of accounts
- Analysing financial data

While a Human Resources Specialist will have a better understanding of:

- Company policy around paying staff
- Interpreting modern awards, entitlements, and other employee-related legislation such as terminations of employment
- Keeping abreast of legislation changes and updates
- Best practice concerning staff remuneration
- Dealing with privacy laws and confidentiality
- Dealing with equality regarding pay

When businesses lump payroll in with either Finance or HR, they miss out on the skills and knowledge of the other department – this ‘blindness’ to key issues is a source of many errors.

Businesses must recognise that payroll a specialised occupation. Successful operation requires the combined input of an experienced and qualified Finance Manager/ Accountant and HR Specialist.



Mistake #3: Failing to Stay Up-to-Date With Changes in Payroll Law

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Australian payroll law is not only notoriously complex, but it is also changed and updated every year. Many payroll mistakes come down to a lack of understanding of how payroll law has changed. These businesses who are ‘living in the past’ perform payroll using outdated rules and practices. Unfortunately, there are no allowances for accidental mistakes – you get fined all the same.

This often comes down to two factors: **time and expertise.**

Businesses who using non-payroll specialists to do their payroll are vulnerable to both. Firstly, these team members have limited expertise in payroll, which means that they are less likely to understand how changes in the law affect your business.

Secondly, employees with multiple responsibilities that stretch far beyond payroll have minimal time to stay on top of changes. They're too busy doing 50 other tasks you've set them.

Together, these two factors put your business on a collision course with payroll law: you're almost certain to make a mistake. Companies must recognise the importance of payroll and invest in an appropriate team to manage it. Often, the most effective way to do this is to outsource payroll to a team of experts.



Mistake #4: Ignoring Risks and The Potential Costs Associated With Getting It Wrong

The Fair Work Commission and ATO treat payroll non-compliance very seriously, regardless of whether the breach was intentional or not. It's not uncommon for businesses to receive hefty fines as a result of non-compliance, and there have been thousands of cases where this has occurred. Businesses must be aware of potential risk areas, the most common of which are:

Risk Area 1: Superannuation Breaches

Generally, if you pay an employee more than \$450 before tax in a calendar month, you will need to calculate superannuation on top of their wages. Depending on the type of superannuation, the amount will either be paid in addition to their pay (an employer expense) or deducted from their pay (a deduction).

The minimum you must pay is called the superannuation guarantee (SG). The SG is currently 9.5% of an employee's ordinary time earnings (OTE). OTE is usually the amount your employee earns for their ordinary hours of work. This includes commissions, shift loadings and allowances but does not include overtime payments.*

The Fair Work Act's definition of ordinary hours for workers not under an award or agreement caps them at 38 hours. If you can't determine the normal hours of work (such as for casual workers), the actual hours the employee works will be their OTE.

*To calculate superannuation properly, you must understand what is and isn't considered OTE. The ATO has put together a great checklist to aid with your calculations. The content is by no means exhaustive and is for general guidance only, but it does include allowances, expenses, leave, termination payments, and bonuses.

[VIEW THE CHECKLIST](#)

Once you've got OTE covered, things get easier.

To calculate superannuation, multiply your employee's OTE for the quarter by the SG rate (or the percentage you use if you're paying super at a higher rate). Once you have the correct calculation, you must ensure you pay according to the following rules:

- You must pay the superannuation guarantee at least four times per year by the quarterly due dates.
- You must pay the SG into a complying super fund. Most employees are eligible to choose which fund you pay into.
- If you don't pay the SG on time, you may have to pay the superannuation guarantee charge.

Superannuation Example: Chloe

During the second quarter of the 2017– 8 financial year (1st October – 31st December 2017), Chloe's OTE was \$16,700 (gross salary).

The super contribution Chloe's employer had to pay was:

$\$16,700 \times 9.50\% = \$1,586.50.$

Please Note: If you make super contributions under an award, check that they are enough to satisfy both the award and the SG.

Under current legislation and as detailed above, we calculate superannuation at a rate of 9.5% of gross salary and wages. This rate will be increased by 0.5% on 1 July 2021. Further increments of 0.5% will apply annually up to 2025-26 when the superannuation guarantee will be set at 12%.

Risk Area 2: Long Service Leave Breaches

Leave accrual and long service leave is another area where compliance issues are common. Long service leaves forms part of the National Employment Standards (NES). The NES apply to all employees covered by the national workplace relations system, regardless of any award, agreement, or contract. If there are no award or agreement terms regarding long service leave, the entitlement to long service leave comes from State and Territory laws.

Depending on the relevant State/Territory law or industrial instrument (such as an award or agreement), an employee may be entitled to long service leave after a period of continuous service, ranging from seven to fifteen years with the same or a related employer.

Untaken long service leave is usually paid on termination, although this can depend on the circumstances of termination. Depending on the relevant law or instrument, an employee may be eligible for a pro-rata payment on termination after a minimum period of five years of continuous service.

As you can see, it's complicated. Failing to ensure you treat employees correctly in this area can come back to haunt you later on.

Risk Area 3: Tax & Termination Pay Breaches

Termination payments and ETPs (employee termination payments) are complex, and many employers fail to calculate them correctly. Part of the problem is that many businesses are still following outdated rules that were put in place 5+ years ago but have now been superseded.

Failing to calculate these payments correctly often results in a tax bill at the end of the year. Additionally, if you are under-taxing your employees, you may not be meeting your PAYG withholding obligations, which could result in a fine.

ETPs can comprise a tax-free component and a taxable component. Depending on the type of ETP, the concessional tax treatment may be limited to the smaller of:

- **The ETP cap** - The top rate of tax applies to amounts paid in excess of these caps. The ETP cap amount for the 2019–20 income year is \$210,000. This amount is indexed annually.
- **The whole-of-income cap** - The whole-of-income cap amount for the 2019–20 income year is \$180,000, which is not indexed. This cap is reduced by any other taxable income payments your employee receives (e.g., salary or wages you have paid them). In some cases, you may need to include an ETP in the taxable payments when working out the whole-of-income cap.

Risk Area 4: Underpayment of Staff

This is the most common mistake employers make and is often the result of a misinterpretation of an award or the National Employment Standards (NES).

When a breach of the NES or a modern award involves a monetary amount, such as underpayment of wages or leave entitlements, an employee, or a workplace inspector on his/ her behalf, may sue for recovery of the payment in an eligible court.

Underpayment of wages claims must be made within six years of the date that the payment became due. This is reduced to three years for unpaid Long Service Leave claims. Not only may you be directed to backpay monies owing, but you may also be fined tens of thousands of dollars. As in the case of George Calombaris, you may also suffer damage to your reputation.

Underpayment Case Example: Fair Work Ombudsman v Ohmedia Melbourne Pty Ltd [2015] FCCA 50

In this example, the employer (Ohmedia) had an arrangement with a third party, Lycamobile, to recruit and provide staff to promote Lycamobile's products. Ohmedia and one of its directors, Mr Zhou, employed 45 casual employees to perform work for Lycamobile across a 3-and-a-half-week period.

Thirty-seven of the 45 workers were not paid for the work that they performed in that time. The remaining eight workers were paid less than the prescribed minimum rate of pay. The total amount underpaid to the 45 employees for the 3-and-a-half-week period was \$59,145.43.

The Court ordered Ohmedia to rectify the underpayments to each of the employees (which, remarkably, it hadn't yet done, despite the matter having taken some three years to proceed to judgment) and ordered a total aggregate penalty against Ohmedia of \$85,000 and against Mr Zhou personally in the amount of \$15,000.

As you can see, these are sizeable penalties for a string of offences spanning only a 3-and-a-half-week period, although the fact that Ohmedia hadn't rectified the issue at the date of the judgment didn't help.

How To Avoid Payroll & Compliance Mistakes

There are only two ingredients required to ensure you safeguard your company's payroll: the right payroll software and knowledgeable payment professionals.

Invest In Your Payroll Software

Your priority should be to find a payroll platform that will save time, promote compliance, empower employees, and show real-time costs.

A good payroll platform will:

- 1. Offer Employee Self-Service** – This feature allows employees to log in and update their personal details, complete online timesheets, and leave requests. Managers can review and approve employees' rostered shifts and timesheets.
- 2. Include a Pay Conditions Engine** – This functionality provides the ability to create and manage your own unique set of pay rules. This allows you to automate conditions such as penalties, allowances, overtime, and rostered days off.

3. Include Built-In Modern Awards – This feature removes tedious manual calculations of pay conditions and allows true automation of all pay rate calculations, allowances, and leave accruals.

4. Hold Your Data in The Cloud – Cloud-based platforms offer flexibility, automatic software updates, and security. They are affordable and eliminate the drain on your internal server.

5. Offer Comprehensive Reporting – Powerful reports allow you to make informed decisions.

Hire The Right Payroll Professionals

As we established earlier in this eBook, you need both HR and accounting knowledge to perform payroll effectively. If you are not able to provide that mix of skills in your own team, you should consider outsourcing to a payroll outsourcing provider who has both HR and accounting professionals on their team.

Outsourcing your payroll and compliance to a reputable Australian provider will free up your time and reduce your risk of non-compliance (and the costs associated with it).

When you employ dedicated professionals to service your payroll and compliance requirements, you ensure that your payroll risk is minimised. Your professionals will ensure your processes and systems are kept up to date with Australian legislation and avoid any significant errors or pay discrepancies that could incur penalties.

There are many benefits to outsourcing your payroll. Not only will you reduce your cost, reduce your risk, and increase efficiency, but you and your employees will also have more time to focus on your core business functions.

“We had been trying to find a quick and reliable way of processing payroll in-house without sacrificing employee access via the web.

Now our payroll is more streamlined and allows employees to have more buy-in at a processing level. Lucent Advisory are knowledgeable, committed, and supportive.”

Greg Hayes, Torque Control

About Lucent Advisory

Lucent Advisory has worked with businesses just like yours for over thirteen years. Our skilled team comprises tax agents and accountants, human resource professionals, payroll specialists, and more.

One of the most trusted names in payroll advice and compliance, Lucent Advisory takes pride in our accuracy and wealth of knowledge. We embrace cutting-edge technology to ensure all your processes are well-structured, automated, and utilise the latest cloud technology. This saves on storage space, improves record keeping, and provides more accessible data.

Lucent Advisory is the only firm in Australia that offers payroll outsourcing that is 100% supported by HR and Accounting professionals. By outsourcing your payroll and compliance to one of Australia's leading advisory firms, you will not only free up your time, but you will also have more control over all your internal processes.

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