MEDIA RELEASE

Xero State of Payroll Report¹: ‘Biggest change since GST’ set to boost the Australian economy by over $1.3 billion a year

- Xero State of Payroll Report indicates small businesses currently using digital payroll software report decreased errors, savings in time and money, and increased employee satisfaction.
- Current state of payroll: Challenges of transition to digital payroll are significant, with one in five still using pen and paper for payroll.
- One in three business owners have cancelled or held off hiring new employees due to concerns around political instability

SYDNEY, 12 FEBRUARY 2019 – Legislation passed today making it mandatory for small businesses to adopt digital payroll systems could unlock an additional 1 million hours of business productivity per week, boosting the economy by over $1.3 billion annually, according to research by Xero, the global small business platform.²

Single Touch Payroll (STP) law currently makes it compulsory for businesses with 20 or more employees to digitally report payroll details to the ATO. With the STP law amendment now approved in Parliament, it will become mandatory for all employers in Australia to adopt a compliant payroll solution, typically software-based, from 1 July this year.

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¹ The research was carried out via a quantitative online survey developed and hosted by CoreData. Data was collected between 11 December 2018 and 2 January 2019 through CoreData’s panel of Australian business owners with fewer than 50 employees, excluding those who are self-employed. A total of 511 respondents completed the survey and these responses formed the basis of the analysis. Cookies and internal data checking were used to reduce potential duplicate entries.

² The research found switching to payroll software saves small business owners with 1-19 employees an average of 2.7 hours per week each. There are 361,121 small businesses across Australia with 1-19 employees that are not yet using payroll software. If all these businesses switch to payroll software, they would collectively save 962,157 hours in payroll processing time per week, or 50,032,187 hours per year. Based on the average hourly wage of a bookkeeper/payroll administrator of $27, this equates to $1.35 billion in time saved.
State of Australia’s payroll practices

The introduction of STP legislation is expected to push more businesses towards adopting payroll software, which small business owners who have already taken this step report has saved an average of 3.1 hours per week, according to the Xero research.

The large-scale migration of payroll reporting to digital platforms in Australia is expected to provide a $1.3 billion productivity dividend in FY19, in the form of 1 million hours saved per week in payroll processing alone.

Trent Innes, Managing Director of Xero Australia, said: “The move to STP is the biggest legislative change for small businesses since the introduction of the GST in 2000 and it will usher in a new era of digital connectivity for Australian businesses.

“The Australian government has been working with digital software providers and advisers to keep pace with small business innovation at a national level. As a result, digital connectivity is transitioning from a small business nice-to-have to a have-to-have.

“Technology is empowering people to take more control over their business, operate with more accuracy, security and efficiency – and by doing so creating a greater impact for themselves, their community and their economy,” he said.

Payroll politics

Xero’s State of Payroll Report also reveals the impact of political uncertainty on business confidence, with one third of small businesses (32%) reporting that they had delayed or cancelled hiring new employees in the last 24 months due to concerns around political stability.

And these concerns appear to be lingering - more than one third of businesses in the Xero report (36%) reported that they were planning to hold off on hiring new employees in 2019 for reasons of political instability.

One in three business owners (33%) said that the party elected to power in the 2019 Federal Election would influence their hiring decisions.

“Clearly, the political climate affects small businesses’ confidence to grow. The upcoming Federal election is a chance for both parties to show that they understand how important small business is to the Australian economy,” Mr Innes said.
**Benefits of going digital**

The research showed small businesses who have gone digital are reaping the benefits, with one in three (30%) of these firms saying profitability had increased.

Three in four (76%) businesses surveyed said digitising payroll had freed up time and mental space for them to work on their business rather than in it, while three quarters (77%) reported that it had reduced payroll errors.

In a finding that suggests the STP legislation will flow through to improved business productivity across Australia, more than half (51%) of business owners surveyed by Xero who have already implemented a digital solution said that the change was helping their business save money.

However, one in five (21%) were still using pen and paper to manage their payroll, likely contributing to the nearly 2 million payroll errors made every year by small businesses.

**Barriers to digital adoption**

Despite the benefits of specialised payroll software, the Xero report shows that two in every ten (19%) small businesses with digital payroll systems currently are using software that is not STP-compliant.

According to Mr Innes, simply installing a desktop or cloud-based payroll system will not automatically mean a business owner has met their compliance obligations.

“Business owners should speak to an advisor or their payroll provider to ensure they’re compliant. If you are an employer, make sure that your payroll software is STP-ready and that its STP reporting function is actually enabled,” he said.

**Industries and digital readiness**

The Block’s Dan Reilly, who co-owns interior design and construction business Red Door Project with wife Dani Wales, says that managing payroll digitally for their employees has been a time-saver.

“I love working with my hands, but not everything has to be done manually. We digitised our payroll when we first launched RDP and couldn’t imagine having done it any other way. It’s quick and straightforward and gives us much more time to focus on the business,” says Dan.
“For us complying with STP will be easy - we’re already using an STP-compliant solution so come 1 July, we’ll just switch that on and start transmitting data to the ATO in real time.”

According to Xero’s report, small businesses involved in construction and agriculture are the most reliant on manual payroll reporting today, with one in three of these businesses (32% and 34% respectively) saying they still use pen and paper for managing their payroll.

“When we started using Xero in 2016 we were a little worried about how difficult it would be,” Dan says.

“I’m definitely not a natural computer expert but both Dani and I were surprised at how easy it was. The construction industry is often behind the curve when it comes to adopting certain technology but it’s actually really simple.”

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About Xero
Born in the cloud, Xero is a beautiful, easy-to-use platform for small businesses and their advisors. The company has 1.6 million subscribers in over 180 countries and a thriving ecosystem, seamlessly integrating with over 700 apps. Xero won Technology Provider of the Year at the British Small Business Awards in 2016 and was rated by Canstar Blue as Australia’s best accounting software in four consecutive years from 2015 to 2018.