



Single Touch Payroll Phase 2: Pay Items

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Single Touch Payroll Phase 2 changes will be rolled out across the Xero platform in three stages. This information pack covers stage two, transitioning your existing pay items, and will help you prepare your payroll data in Xero to meet the new reporting requirements for STP Phase 2. It covers what you need to know, what you need to update and answers common questions to help you get ready.

About Single Touch Payroll

Single Touch Payroll or STP is an Australian government initiative to reduce the compliance burden on businesses who report pay details to multiple government agencies. Businesses can report pay details directly to the ATO using STP enabled software. Xero has secured a deferral on the compliance date with the ATO until 31 March 2023 for all Xero customers lodging STP through Xero Payroll.

STP Phase 2

STP Phase 2 makes data available to additional government agencies. The information required as part of your STP submission will be more granular and cross functional across the government agencies, with the intention of reducing the amount of separate reporting that needs to be completed.

Changes to Xero for STP Phase 2

We're making changes to Xero Payroll to help you meet these new reporting requirements. These changes will be rolled out across the Xero platform in three stages throughout the year, with stage one and two changes already available in Xero Payroll:

- **Stage one:** This stage of the transition to STP Phase 2 is live now, you must update your existing payroll employee profiles first to meet the new Phase 2 filing criteria.
- **Stage two:** New earnings categories are available in Xero Payroll so you can identify and update pay items with the new earnings categories for STP Phase 2.
- **Stage three:** Paid leave will be broken down into additional subcategories. We'll let you know when this stage is available in Xero Payroll.





Single Touch Payroll Phase 2: Pay Items

Stage two: replace your pay items

What you need to know

STP Phase 2 requires you to report the individual components that make up an employee's pay, rather than reporting just a single gross amount. You will now report on the following individual components:

- Gross
- Bonuses and commissions
- Directors' Fees
- Allowances
- Salary sacrifice
- Overtime
- Lump sum payments
- Paid parental leave
- Workers' compensation

Disaggregating Gross

Phase 1

STP Phase 1 - you report an aggregated total of YTD gross income amounts.



Phase 2

STP Phase 2 - moves to a model of reporting disaggregated gross income, aligned to the way different payment types are categorised.



Xero has built a transition tool that will assist you with seamlessly replacing your existing pay items with new pay items to meet STP Phase 2 reporting requirements.

We've been rolling-out changes to Xero Payroll for a while in preparation for STP Phase 2, it's likely some of your pay items may already have the correct reporting category assigned. If so, these pay items do not need to be replaced.

We recommend reviewing your pay items carefully to ensure they have the appropriate earnings categories assigned. If you have all purpose allowances to be updated, check out this [Xero Central link](#).

Important: You need to update your existing employee profiles ([Stage one](#)) before you update pay items (Stage two).



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Stage two checklist



Remove draft pay runs as you won't be able to replace a pay item if it's included in a draft pay run.

TASK	COMPLETE	N/A
UPDATE PAY ITEMS		
Click Payroll, Single Touch Payroll , then STP Phase 2 to access the STP portal. You'll see an overview of the key steps to updating your payroll data to be STP Phase 2 compliant.	<input type="checkbox"/>	<input type="checkbox"/>
Under 'Step 2. Replace pay items', click Replace pay items . Important: You must update all employee profiles first (step 1), and mark that step as complete before commencing with Step 2.	<input type="checkbox"/>	<input type="checkbox"/>
In the Pay items tab, review the Earnings Category column to check each pay item (Earnings Name column) has the correct earnings category assigned to it based on the new STP Phase 2 requirements e.g Ordinary hours has a category of Ordinary Time Earnings.	<input type="checkbox"/>	<input type="checkbox"/>
To replace a pay item, click the overflow menu (three dots) and select Replace to start the transition tool. Update each pay item one at a time to assign the appropriate earnings categories. The following types of income need to be replaced with the appropriate earnings categories for STP Phase 2:		
<ul style="list-style-type: none"> • Allowances • Bonuses and commissions • Directors' fees • Paid parental leave • Overtime • Lump sum W and E payments • Workers' Compensation payments 	<input type="checkbox"/>	<input type="checkbox"/>
Note: You can't replace a pay item if it is included in a draft pay run.		
From the drop down menu, select the appropriate earnings category for the selected pay item. Then, select Next .	<input type="checkbox"/>	<input type="checkbox"/>
Any pay templates that use the replaced pay item needs to be updated. Select the tick boxes next to any employees that use these pay templates so Xero can automatically update these with the new pay item. Select Next .	<input type="checkbox"/>	<input type="checkbox"/>
Review the updates and click Confirm to replace the pay item and update the pay templates.	<input type="checkbox"/>	<input type="checkbox"/>
Click Pay item settings to go back to the Pay items tab and follow the same until all relevant pay items have been replaced and the correct earnings categories assigned.	<input type="checkbox"/>	<input type="checkbox"/>
Once you've updated all existing pay items, go to Payroll, Single Touch Payroll , then STP Phase 2 to access the STP portal. Under Step 2 Replace pay items select Mark as done .	<input type="checkbox"/>	<input type="checkbox"/>



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FAQS

STP Phase 2

When do I need to be STP Phase 2 compliant?

Xero has secured a deferral on the compliance date with the ATO until 31 March 2023 for all Xero customers lodging STP through Xero Payroll. Changes will be rolled out across the Xero platform in three stages throughout the year to help you meet this deadline.

What isn't changing to the way I report in STP Phase 2?

While you will need to report additional information in your STP report, there are many things that aren't changing, such as:

- The way you lodge your STP report.
- When STP reports are due. They are still due on or before pay day unless you are eligible for a reporting concession.
- The types of payments that are in-scope for STP reporting.
- Taxation and superannuation obligations.
- End of year finalisation requirements.

Who has to comply with STP Phase 2?

All Australian businesses making payroll payments will need to report on the additional data required for STP Phase 2.

Can I start submitting tax number declaration forms through Xero?

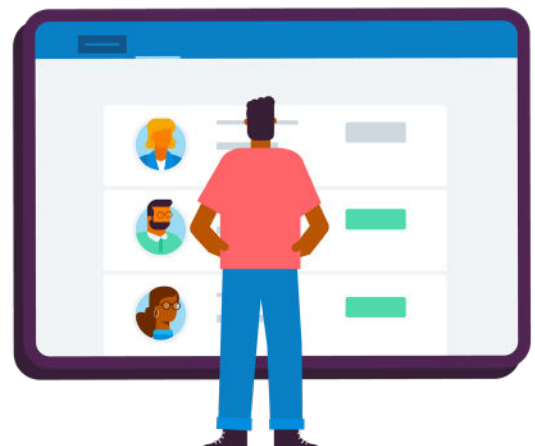
When Xero Payroll is STP Phase 2 ready, STP filings will act as the 'notification' of the TFN declaration to the ATO. Until that time you will need to continue transmitting the declaration to the ATO. Your obligation to retain and secure a signed TFN declaration on file does not change.

I only recently converted to Xero – can I still receive the deferral?

Yes, all customers reporting STP through Xero Payroll are eligible for the deferral date of 31 March 2023.

Is there an ATO guide for employers?

Yes, the ATO has detailed information on STP Phase 2 changes [here](#).





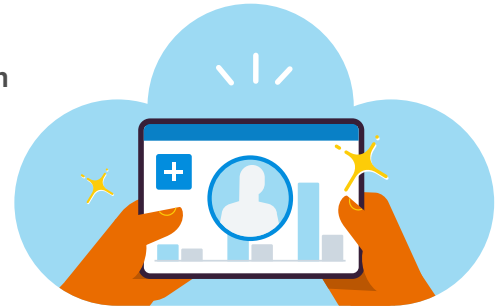
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Where can I find ATO deferral evidence?

You can download the deferral evidence letter from the **Single Touch Payroll** page in Xero

1. From the **Payroll** menu, select **Single Touch Payroll**
2. Select the **STP Phase 2** tab
3. Click **Read the ATO deferral** to download a copy of the letter



Is there a way to update my payroll data in bulk?

Due to the complexity of STP Phase 2, Xero hasn't been able to build an option to update payroll data in bulk. We've focused on changes that make your STP Phase 2 transition as easy as possible, from updating employee records, applying the correct earnings categories to pay items and breaking down leave types.

Will this change how I report STP data to the ATO right now?

Not yet – all Xero Payroll customers will continue to report STP Phase 1 for the time being. The roll out of STP Phase 2 pay items and updates to the employee setup process in Xero Payroll will not affect reporting or any YTD values sent to the ATO.

Xero Payroll will continue to report employees' pay as a gross amount until you have completed all three stages of the STP Phase 2 transition.

I've noticed some other new additions in payroll relating to Phase 2 – can I use them now?

Not yet – all Xero Payroll customers will continue to report STP Phase 1 for the time being. The roll out of STP Phase 2 pay items and updates to the employee setup process in Xero Payroll will not affect reporting or any YTD values sent to the ATO.

Xero Payroll will continue to report employees' pay as a gross amount until you have completed all three stages of the STP Phase 2 transition.

- Bonuses and commissions: Previously these were reported as part of gross payments, but will need to be reported separately for STP Phase 2.
- Directors' Fees: These must now be reported separately for STP Phase 2.
- New allowance types: Allowances for task, tools or qualifications must be reported under new labels in STP Phase 2.
- Lump sum W (return to work) payments: A return-to-work amount is paid to encourage an employee to return to work – this was previously reported as part of gross payments.
- Lump sum E payments: A lump sum payment for back pay from previous income years.

You can now add a reason for termination to an employee's record, removing the need for an employment separation certificate to be issued.



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As leave needs to be reported separately, can I enter leave opening balances into Xero with STP Phase 2?

Yes, we'll make changes to allow leave opening balances to be added to the employee opening balances page.

What impact will switching from STP Phase 1 to STP Phase 2 reporting in the middle of the financial year have on aggregated and disaggregated earnings amounts?

As Xero's payroll users will be moving to STP Phase 2 reporting within a financial year, there will be both aggregated and disaggregated earnings information. The ATO will not need you to do anything to finalise the aggregated amounts or retrospectively change the YTD totals for gross or disaggregated earnings.

Where can I find more information?

- Visit the STP2 Portal in Xero Payroll
- [Learn more at Xero Central](#)
- [Learn more at the ATO](#)

Pay items

When do I have to move my existing pay items to be STP Phase 2 compliant?

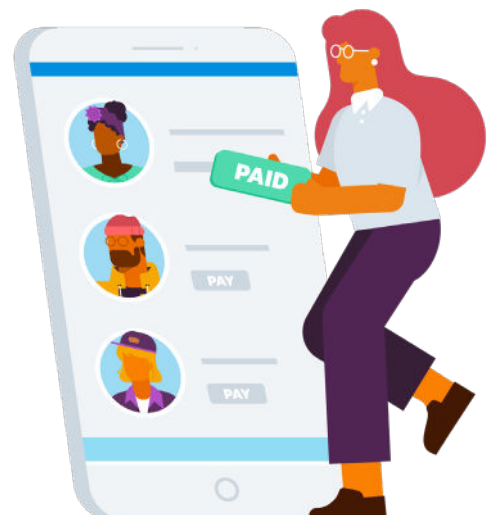
We recommend updating and replacing your pay items in Xero Payroll as soon as practicable. To make the process as simple as possible, use Xero's pay item transition tool to help you migrate old pay items to the new STP Phase 2 earnings categories which will automatically update the appropriate employee pay templates.

I can't see the Replace option in pay item settings?

You need to complete [Stage 1 - updating your existing employee profiles](#), once you've marked that step as complete in the STP2 Portal the Replace option will become available to you in pay item settings.

Will I have an audit trail of the pay item updates?

Yes, when you confirm your pay item updates using the transition tool, you can download a summary of these updates as a CSV file.





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What happens to pay items I replace with new STP defined items?

Each existing pay item will be marked as inactive and a new pay item (with the appropriate earnings category) will automatically update the affected employees' pay templates. Existing YTD figures for inactive pay items will now show under 'Other previous earnings' on your employees' payslips.

Does the pay item transition tool automatically update pay items in draft or unprocessed timesheets?

The transition tool won't automatically update draft or unprocessed timesheets with the new pay items. You'll need to manually replace inactive pay items with the new pay items in each draft or unprocessed timesheets, or timesheet template.

What allowance types can I now report through STP Phase 2?

The allowance types which will be reported through STP Phase 2 are:

- Car
- Laundry
- Task
- Transport
- Meals
- Qualifications allowance
- Travel
- Tools
- Other (Allowance types not listed)

For more information on defined allowances in Xero Payroll, [click here](#).

Now that allowances and ordinary earnings are reported separately, does this change how I allocate annual leave and leave loading?

There is no change to your existing leave allocation processes in Xero Payroll. We will be releasing changes to annual leave and leave loading in the FY23 financial year, and will share more details about the new process then.

Notes

