



Move to Single Touch Payroll Phase 2

This guide is here to help you navigate the transition to Single Touch Payroll (STP) Phase 2 in Xero Payroll. For any extra help you might need, visit [Xero Central](#), contact the ATO, or **reach out to your advisor or a professional association**.

About Single Touch Payroll

Under STP Phase 2, the Australian Government requires all employers to report additional information through STP on or before each payday. This information will include details such as an employee's employment or income type and the reason for any cessation of employment.

Xero has been granted a deferral on the start date of STP Phase 2 reporting which applies to all new and existing customers. This means that all customers reporting STP using Xero Payroll have until 31 March 2023 to report their first STP Phase 2 pay run.

Xero's transition to STP Phase 2 has been broken down into three stages that are available now in all Xero organisations. We encourage you to complete each transition step as soon as possible to ensure there is plenty of time to check and correct all payroll data.

Step one - Update employee records



[Click here to watch the video](#)

How it works

The first step enables the transition of existing payroll employee records to STP Phase 2 compliance. Each employee record requires:

- **Employment type** – whether the individual is an employee or contractor.
- **Income type** – how the individual is paid, such as salary and wages or closely held payee.
- **Employment basis** – whether the individual is full-time, part-time, or casual.
- **Tax scale** – the PAYG tax scale category that determines how much tax should be withheld for an employee.

To complete step one:

- 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.
- Under Step 1, click **Update employee profiles**.
- In the **Action required column**, you'll see an Update details for STP2 message for any employees you need to update.
- Select **Update** next to each employee record to start the transition tool and update their details.
- In the **Select employment type** section, select the employee's employment type: Employee or Contractor.





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- In the **Select income type** section, select the employee's income type: Salary and wages, Closely held payee, Working holiday maker, Non-employee, Labour hire.
- In the **Tax scale** section, select the employee's tax scale: Regular; Actors, variety artists and other entertainers; Horticulturalists and shearers; Seniors and pensioners.
- Select **Save and continue** to confirm the updates to the employee's profiles.
- If you haven't already, invite the employee to Xero Me. In the Email field enter your employee's email, then click Invite.
- Select **Back to employees** and follow the steps for the next employee.

Once you've updated all existing employees' profiles, go to Payroll, Single Touch Payroll, then STP Phase 2 to access the STP Phase 2 portal. Under Step 1. 'Update employee profiles', select **Mark as Done**.



TIP

Payments made to contractors are not mandatory to report under STP. If you currently process payments to contractors outside of payroll through accounts payable, you should continue to do so under STP Phase 2.

Check out these Xero Central resources for more:

- [Set up an employee for STP Phase 2](#)
- [Set up a contractor for STP Phase 2](#)
- [Set up a working holiday maker](#)
- [Process closely held payees](#)

Step two - Replace earnings pay items



[Click here to watch the video](#)

How it works

For step two, assign ATO reporting categories to your existing earnings pay items from the **Payroll settings** or access the pay item transition tool from the **STP Phase 2 portal**.

Before you begin step two, make sure you mark step one as complete in the STP Phase 2 Portal. Also, ensure there are no draft timesheets or pay runs before beginning this step.

To complete step two:

1. 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.
2. Under Step 2, click **Replace pay items**.
3. In the Pay items tab, review the **Earnings Category** column to check each pay item 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.



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- 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 one of the following ATO reporting categories for STP Phase 2:
 - Ordinary time earnings
 - [Allowances](#)
 - [Bonuses and commissions](#)
 - [Directors' fees](#)
 - [Paid parental leave](#)
 - [Overtime](#)
 - [Lump sum W](#)
 - [Workers' compensation](#)
- From the drop down menu, select the appropriate reporting category for the selected pay item. Then, select **Next**.
- Any pay templates that use the replaced pay item need 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**.
- Review the updates and click **Confirm** to replace the pay item and update the pay templates.
- 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.
- 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**.



Pay items that already have the correct earnings category assigned in Payroll settings do not need to be replaced. For example, if Ordinary hours has a category of Ordinary Time Earnings, this will not need to be updated.

Check out this Xero Central resource for more: [Reporting categories for STP Phase 2](#).

Set up all purpose allowances

With STP Phase 2, all purpose allowances must be disaggregated, meaning they're reported separately to the employee's hourly or ordinary earnings rate.

The allowances that your employees are entitled to depend on the award that applies to them. Use the Fair Work's [pay and conditions tool](#) to find the allowances that apply for the industry.

Create a separate allowance pay item with the [appropriate type](#) for each allowance included in the all purpose amount. You can also select to include the allowance to be included in the calculation of overtime and paid leave rates.

Current pay item

Ordinary Hours	\$20/hr
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Disaggregation

Ordinary Hours	\$19/hr
Industry allowance	\$1/hr





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1. Click the organisation name, select Settings, then click Payroll settings.
2. Select the Pay Items tab.
3. Select Earnings on the left, then click Add and select Allowance.
4. Name the allowance and select the relevant type.
5. Select **Rate per Unit** or **Fixed amount** as the Rate Type.
6. For **Rate per Unit**, enter the same **Type of Units** that's entered for the employee's ordinary earnings rate (eg Hours).
7. Select an expense account.
8. If Superannuation Guarantee (SG) contributions are not applicable on this item, select the Exempt from Superannuation Guarantee Contribution checkbox.
9. If the allowance needs to be included in the calculation of Overtime rates, select **Contributes towards overtime rate**.
10. If the allowance needs to be included in the calculation of paid leave rates, select **Contributes towards annual leave rate**.
11. Click Add.
12. If you want to use the allowance pay items regularly, you can [add them to the employee's pay template](#).

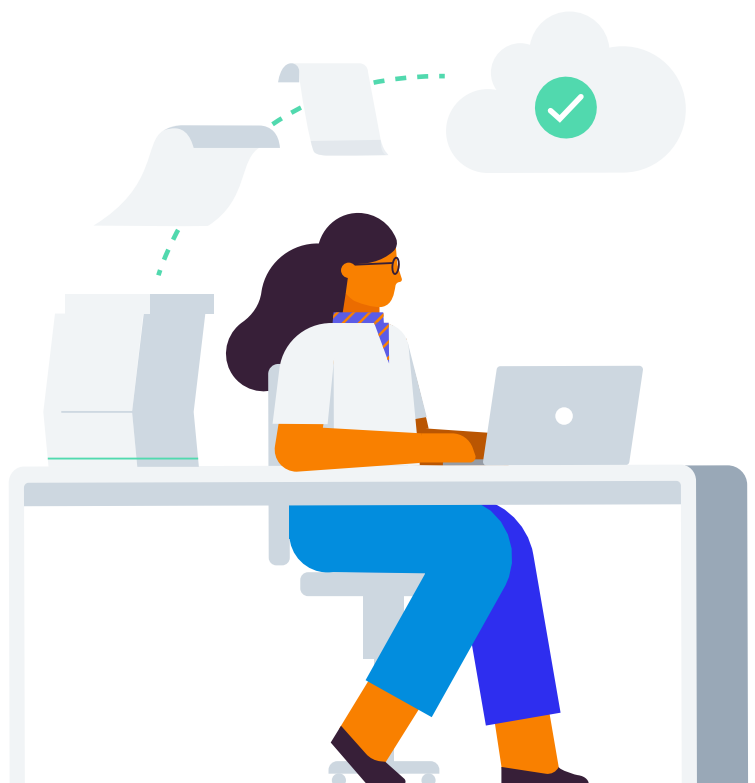


TIP

If the employee is eligible to receive [leave loading](#), the all purpose allowance will be included in the calculation of leave loading if the **Contributes towards annual leave rate** checkbox is selected.

Check out these Xero Central resources for more:

- [About allowances](#)
- [About all purpose allowances](#)





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Step three - Update leave pay items



[Click here to watch the video](#)

How it works

You need to assign a leave category to each of your active leave pay items in your organisation. The category determines how the payment is reported to the ATO through STP Phase 2.

In the Payroll settings, review all leave categories that have been set up and identify which paid leave pay items are missing a category.

To complete step three:

1. Click the **organisation name**, select **Settings**, then click **Payroll settings**.
2. Select the **Pay Items** tab, then click **Leave** from the side menu.
3. Click the menu icon for the pay item and select **Edit**.
4. Select the **Leave Category** for the pay item, then click **Save**.
5. Follow the same until all relevant pay items have been replaced and the correct leave categories assigned.
6. Once you've updated all existing leave pay items, go to **Payroll, Single Touch Payroll**, then **STP Phase 2** to access the STP portal. Under Step 3 Assign leave categories select **Mark as done**.



TIP

[Paid parental leave](#) and [worker's compensation](#) payments must be reported to the ATO using earnings pay items in Xero and so won't be available to select as a leave category in step three.

Check out this Xero Central resource for more: [About paid leave categories](#).





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Appendix

The information provided in these tables is based on the actions that can be made in Xero Payroll. Please speak to your advisor or refer to the ATO's website if you're unsure.

Understanding income types

Use the table below to understand the **Employment** and **Taxes** selections that can be made for each income type in Xero Payroll.

	Salary and wages	Closely held payee	Working holiday maker	Labour hire	Non-employee
Ordinary earnings rate	Available	Available	Available	Available	Not available
Tax file number (TFN)	Available	Available	Available	Available	TFN is required for non-employees until STP Phase 2 filing commences
Tax scale	Available	Available	Defaults to Working holiday maker	Available	Defaults to Australian resident
Withholding variation	Available	Available	Not available	Available	Not available
Study training and support loans	Available	Available	Not available	Not available	Not available
Tax-free threshold	Available	Available	Not available	Available	Not available
Other tax offset claimed	Available	Available	Not available	Available	Not available
Upwards variation	Available	Available	Not available	Available	Not available
Leave loading	Available	Available	Available	Not available	Not available





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Understanding reporting categories

Use the table below to work out which reporting categories you need to assign to your earnings pay items. You can [learn more about the reporting categories](#) on the ATO's website.

ATO reporting category (Phase 1)	ATO reporting category (Phase 2)	Description of reporting category
Allowance - Car Allowance - Transport Allowance - Travel Allowance - Meals Allowance - Laundry Allowance - Other	Allowance - Car Allowance - Transport Allowance - Travel and accommodation Allowance - Meals Allowance - Laundry Allowance - Other Allowance - Tools Allowance - Tasks Allowance - Qualifications	<p>This includes payments you make to cover your employees' work-related expenses.</p> <p>For allowances that don't sit into any of the main categories, assign them to Allowance - Other.</p> <p>Learn more about the different allowance types in Xero Central.</p>
Ordinary time earnings (Gross payments)	Ordinary time earnings Overtime earnings Bonuses and commissions Directors fees	<p>Ordinary time earnings (OTE) includes amounts that you pay to employees through STP, and are not separately itemised.</p> <p>Overtime earnings include payments for work performed beyond ordinary hours of work.</p> <p>Bonuses and commissions include payments to reward for performance, service or for meeting a specific goal.</p> <p>Directors fees include payments made to the director of the company or a member of the committee of management, including expenses incurred as a company director.</p>
Lump Sum A* (Termination & Redundancy)* Lump Sum B* Lump Sum D* *These are default pay items that can be entered in an employee's final payslip on termination	Lump Sum A (Termination & Redundancy) Lump Sum B Lump Sum D Lump Sum W Lump Sum E	<p>Lump sum payments may include payments such as:</p> <ul style="list-style-type: none"> • Redundancies • Payments in lieu of notice • Payments of annual leave on termination. <p>Lump Sum W includes payments made for return to work amounts given to an employee.</p> <p>Lump Sum E includes payment made for an amount of back payment that accrued, or was payable, more than 12 months before the date of payment and is greater than or equal to the Lump sum E threshold amount (\$1,200).</p> <p>Learn more about lump sum payments on the ATO's website.</p>



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Understanding pay item compatibility

The following table shows the earnings categories that can be reported for each income type in Xero Payroll.

Income type	Salary and wages	Closely held payee	Working holiday maker	Labour hire	Non-employee
Gross (Ordinary time earnings)	Yes	Yes	Yes	Yes	No
PAYG Withholding	Yes	Yes	Yes	Yes	No
Paid leave	Yes	Yes	Yes	No	No
Allowances	Yes	Yes	Yes	No	No
Overtime	Yes	Yes	Yes	No	No
Bonuses and commissions	Yes	Yes	Yes	No	No
Directors' fees	Yes	Yes	No	No	No
Salary sacrifice	Yes	Yes	Yes	No	No
Lump sum payment	Yes	Yes	Yes	No	No
Employment termination payment	Yes	Yes	Yes	No	No

Understanding leave categories

Use the table below to understand how the leave categories available in Xero Payroll are reported to the ATO with STP Phase 2.

Reporting code	Leave category
Other paid leave (Type O)	Annual Leave Compassionate and Bereavement Leave Family and Domestic Violence Leave Long Service Leave Personal (Sick/Carer's) Leave Rostered Day Off Special Paid Leave Study Leave Time Off In Lieu
Ancillary and defence leave (Type A)	Community Service Leave Defence Reserve Leave Jury Duty Leave