



**RECRUITMENT AND CONSULTING
SERVICES ASSOCIATION
AUSTRALIA & NEW ZEALAND**

**Submission to the Australian Tax Office
Response to Single Touch Payroll Discussion Paper**

**Submission of
The Recruitment and Consulting Services Association (RCSA)**

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Recruitment & Consulting Services Association Ltd
RCSA Head Office
PO Box 18028 Collins Street East
Victoria 8003
T: 03 9663 0555
E: info@rcsa.com.au
W: www.rcsa.com.au

Introduction

The Recruitment and Consulting Services Association (RCSA) is the peak body for talent management and workforce solutions in Australia and New Zealand. Formed in 1996 the RCSA boasts a national membership of over 3,000, all of which are drawn from a diverse range of organisations and individuals including small owner-operator businesses, listed and non-listed Australian companies and Australia's large multinational corporations.

Members of the RCSA provide an extensive range of employment services including:

- On-hired employee services;
- Contracting services (including on-hired independent contractors and direct contracting);
- Recruitment services (including Job Network services); and
- Employment consulting services (including workplace relations and OHS consulting services).

RCSA membership is focused on promoting positive outcomes for business, workers and workplace relationships across Australia. The RCSA sets the benchmark for recruitment and on-hire industry standards through representation, education, research and business advisory support. All RCSA member organisations and Individual members agree to abide by the ACCC authorised RCSA Code for Professional Conduct.

RCSA members work first hand with the Fair Work Act and Modern Awards on a day to day basis. Their knowledge, understanding, interpretation and support of the aims of the Act are evident in dealings that they have with their clients and employees on a day to day basis.

RCSA strongly supports the notion that a progressive and pragmatic approach to on-hire worker service provision in Australia is, and will continue to be, a key element in the achievement of the right balance for the Australian economy and community.

RCSA Code for Professional Conduct

RCSA has a [Code for Professional Conduct \(the Code\)](#) which is authorised by the ACCC. In conjunction with the RCSA Constitution and By Laws, the Code sets the standards for relationships between members, best practice with clients and candidates, and general good order with respect to business management, including compliance. Acceptance of, and adherence to, the Code is a prerequisite of membership. The Code is supported by a comprehensive resource and education program and the process is overseen by the Professional Practice Council, appointed by the RCSA Board.

The Ethics Registrar manages the complaint process and procedures with the support of a volunteer Ethics panel mentored by RCSA's Professional Practice barrister. RCSA's objective is to promote the utilisation of the Code to achieve self-regulation of the on-hire worker services sector, wherever possible and effective, rather than see the introduction of additional legislative regulation.

RCSA Member Service Categories and Terminology

RCSA believes that the absence of precise terminology is contributing to the confusion and lack of accountability among any non-compliant element of the industry. RCSA has been instrumental in developing and promoting the following categories of services and terminology, with a view to identifying the various forms of third party employment and contracting services.

Put simply, the term 'labour hire' is now used to describe most atypical forms of employment and is no longer descriptive of genuine on-hire employee services, which results in misinformation, misrepresentation and ultimately harbours both intended and unintended non-compliance. See the following diagram for RCSA definitions and service categories along with additional information which provides some context around on-hire worker services.

Please refer to the following RCSA Categories of Service attached as appendix 1.

On-Hire Work in Context

The following information is provided for the purpose of outlining the characteristics and size of the on-hire industry to the Australian economy:

1. The on-hire employment industry is a significant contributor to the Australian economy

Research completed by the Australian Bureau of Statistics and IBIS World indicates that the on-hire services industry generates revenue in excess of \$20 billion within Australia, more than that of accounting services and more than that of legal services.

2. On-hire firms are direct employers

On-hire firms directly employ workers and then on-hire those workers to client companies on a short or medium term basis in return for an inclusive hourly or set fee.

3. The on-hire industry is among the largest employers or workers in Australia

Members of the RCSA and firms in the employment services sector employ in excess of 475,000 workers (FTE) in Australia, and on any single day over 325,000 workers (FTE) are placed into work by an RCSA member and companies in the employment services sector¹.

4. Business is more productive and competitive because of the use of on-hire workers

RMIT University research found that 76% of organisations using on-hire workers were more productive and competitive as a result.²

5. Most on-hire employees employed by RCSA Members are either skilled or professional workers

RMIT University research found that 61% of RCSA on-hire employees are skilled or professional workers with the remaining 39% being semi-skilled or unskilled.

¹ Ciett Economic Update 2015

² Brennan, L. Valos, M. and Hindle, K. (2003) *On-hired Workers in Australia: Motivations and Outcomes* RMIT Occasional Research Report. School of Applied Communication, RMIT University, Design and Social Context Portfolio Melbourne Australia

Background to RCSA Submission

The RCSA fully supports the Government's initiative to reduce the amount of red tape for employers and business. As a majority of RCSA members are small to medium businesses these initiatives will provide a welcome relief. In response to the questions raised in the consultation paper, the RCSA has consulted with its members and has provided answers to questions in several areas.

The RCSA does however have a number of concerns about the proposal to move the payment of PAYG and SG to a Single Touch Payroll from July 2016 which are highlighted in the Principles of this submission below. The payment and reporting of PAYG and SG when employees are paid will present considerable impacts for RCSA members and impose a further and onerous burden on their businesses.

Key Principles of the RCSA Submission

The RCSA has identified several key principles it believes require reconsideration prior to the proposal for Single Touch Payroll proceeding:

1. The negative impact for RCSA members on cash-flows as a result of this proposal will be significant. The period between the payment of wages to an on-hire employee and the collection of payment from a client for those on-hire services currently averages 30 to 90 days.

RCSA does not subscribe to the Government's belief that changes to the frequency of PAYG and SG payments will reduce the number of days before invoices are paid. This is not reflective of market trends, in fact in the current environment clients are actively seeking to extend payment terms and are incorporating these trading terms in Service Level Agreement and RFP's.

2. Currently small businesses have until 28 days after the quarter to pay PAYG and similar deferral for SG. These have been established for many years to help small business SURVIVE. The move towards Single Touch Payroll, whilst deferred, is far more onerous on small businesses which are least able to generate sufficient working capital.

Without wanting to appear alarmist, the RCSA believes it seems inevitable there will likely be an increased level of failure among SME on-hire businesses and, indeed, all small business. The proposed changes are likely to encourage these employers to move to fortnightly or monthly payroll in order for these businesses to survive.

3. 62 per cent of RCSA members are primarily small to medium sized enterprises. RCSA believes the proposed changes will directly impact the willingness and capacity of SME on-hire firms to maintain their current level of on-hire workforces.

This also raises significant concerns for the RCSA as the risk arises of on-hire employees being forced into employment relationships which erode the protections currently offered to these workers.

While RCSA members abide by the RCSA Code for Professional Conduct ([view the code](#)) of which ethical and legal practices in the engagement of labour are key principles, not all on-hire firms are created equal.

RCSA is concerned this proposal may result in unlawful practices by non-member firms in the engagement of labour and will drive unlawful labour firms underground through practices such as engaging workers as independent contractors in order to transfer PAYG and SG responsibilities to workers.

RCSA believes the adoption of Single Touch payroll is also likely to act as a disincentive for SME on-hire businesses to employ casual staff. This may lead to increased unemployment particularly amongst the young and most vulnerable for which on-hire work is a frequently utilised as an immediate pathway to the workforce.

4. RCSA does not believe sufficient consideration has been given to the practical implementation of Single Touch Payroll for SME on-hire firms, nor in the proposed transitional arrangements and timeline.

Comment from RCSA member, national on-hire firm:

Re: Costs of reducing red tape,

With 3 pays a week, it will increase processing time with paying tax and super 3 times a week. Super will need to be remitted 12 times a month compared to the 1 time which is the current process. There are obvious competitive advantages to offering frequent payroll cycles by recruitment firms, but this proposal will have a significant impact on this offering.

Re: Costs of reducing red tape,

Companies have already been burdened with extra costs to ensure their systems are Super Stream compatible. There will now be a further cost to ensure system compatibility with the proposed changes.

5. The RCSA calls on the ATO to consult further and more broadly with industry and employers most affected by the proposed changes. The RCSA has not been consulted regarding this proposal, which we would have expected, given RCSA on-hire member firms collectively employ approximately 250,000 workers and is among the nation's largest employers.

RCSA response to Consultation Questions

The RCSA has consulted with its members and provides answers to the following questions.

Would Single Touch Payroll reporting reduce or increase red tape costs for business in the long run?

RCSA is concerned the burden of compliance administration and cost that will accompany the proposed Single Touch Payroll system will in the long run provide no reduction in red tape for the on-hire businesses or our members. This assessment is based on the very limited information available about the proposal, the indicated design for a software system and the means by which that system may interface with existing software systems.

What impact would the more frequent PAYG withholding and super payments have on your cash flow position, and how could this be mitigated?

The negative impact of this proposal on cash-flows for RCSA members will be significant. In brief, on-hire firms direct employee workers and then on-hire those worker to client companies on a short or medium term basis in return for an inclusive hourly or set fee. As a direct employer, the on-hire firm is responsible for the payment of PAYG withholding, SG and other statutory charges as is the case with any direct hire employee.

Currently small business has until 28 days after the quarter to pay PAYG and similar deferral for SG. These have been established for many years to help small business SURVIVE. The move towards Single Touch Payroll, whilst deferred, is far more onerous on small business that is least able to generate sufficient working capital.

Of principle concern to RCSA and its members is the impact this proposal will have on cash flows and the likely additional cost incurred by SME on-hire businesses through early payment of PAYG and SG payments. The proposal does not acknowledge the period of up to 90 days that transpires between the payment of wages to an on-hire employee and the collection of payment for those on-hire services.

Under this proposal on-hire firms will incur PAYG and SG costs within three to four days of the commencement of the collections cycle. It is likely a number of SME on-hire firms will not have the capital base to fund early payment of PAYG and SG, thereby forcing an on-hire firm to incur unnecessary new costs to finance these payments on behalf of the ATO.

The following information has been provided by RCSA members to illustrate this point:

- RCSA members advise that payment to an on-hire worker is made within 3 to 4 days of completion of an assignment or at the end of the working week.
- The average terms of payment from users of on-hire services is between 30 days and 90 days. This is influenced by trading terms within Service Level Agreements, trading conditions in particular industry sectors and individual relationships or agreements.
- The period between payroll for a worker and collection of payment is therefore between 26 days and 86 days.
- An SME on-hire firm is unique in they will be required to now remit PAYG and SG at the time of sale (ie: invoicing) rather than on receipt of payment. This is similar to other sectors such as professional services.
- For those on-hire firms that utilise debtor financing services to assist in managing their cash-flows, the average period of debtor financing for payroll is currently 20 days. This will on average increase to between 26 days and 86 days under a proposed Single Touch Payroll.
- Debtor financing currently costs between 2 per cent and 2.5 per cent of total payroll per month. This an additional cost for SME's and a further disincentive to direct employment.

It is likely a number of SME on-hire firms will not have the capital base to fund early payment of PAYG and SG, thereby forcing an on-hire firm to incur unnecessary new costs to finance these payments on behalf of the ATO. The proposition that businesses would be able to smooth out the cash flow spikes that previously existed does not reflect the reality of the payroll cycle and payment cycle for an on-hire firm.

This proposal is expecting SME employer on-hire firms to remit PAYG and SG payments independent of any consideration of the realities of the collections cycle. This is an unacceptable impost on SME's and a deterrent to SME on-hire employers to continue to employ more Australians.

Comments from RCSA member, national on-hire firm:

Re: Payment terms,

With PSA clients, the average payment terms are 49 days. Working with high volume PSA clients will have a significant impact with the proposed changes, as there is always pressure on margins and payment terms during contract negotiations.

Re: SG payments and reconciliation,

Detailed super reconciliations are undertaken before payments of super are made. With the proposed system, these reconciliations cannot be done until after the fact. This makes it a reactive approach rather than proactive approach which is not the preferred business model.

Under the Single Touch Payroll real-time reporting and payment capability, how should the payment of SG for new employees be managed to ensure they have sufficient time to make an informed investment decision?

The proposed Single Touch Payroll will not allow sufficient time for workers to make an informed decision about which superannuation they choose. This is opposite to the objectives of the government in its design of Super Stream, as employees will be required to potentially make uninformed decisions, opt into a default fund, and then likely incur further costs to transfer SG balances to their fund of choice once they have had sufficient time to consider that decision.

Comments from RCSA member, national on-hire firm:

Re: Choice of Superannuation fund choice and early wage payments,

The new process will not allow new candidates the time to make an informed decision on which super fund they want to opt into. Collecting super information is already a drawn out process (especially with the particular requirements of Super Stream), and if super needs to be remitted when a candidate is paid it limits the decision making process and collection of information for the candidate. Also, no super details will mean no pay to candidates either which will cause angst.

The RCSA would welcome the opportunity to discuss further the characteristics of the on-hire industry and how they relate to this proposal. We thank you for the opportunity to make this submission and invite any questions to be directed to:

Steve Granland

CEO , Recruitment and Consulting Services Association

Level 3, 63 Exhibition Street

Melbourne Victoria 3000

Appendix 1 – RCSA Categories of Service

