



Xero Submission

Securing Australians' superannuation

3 November 2023

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Retirement, Advice and Investment Division
The Treasury
Langton Crescent
PARKES ACT 2600

BY EMAIL: paydaysuper@treasury.gov.au

Dear Ms Hau,

Xero submission: Securing Australians' superannuation consultation

Xero welcomes the opportunity to make a submission to the 'Securing Australians' superannuation' consultation.

Xero is Australia's leading provider of cloud accounting software for small businesses, existing to make life easier for our customers. Our software makes running a business simple, using technology to streamline previously manual tasks including the payment of employee wages and superannuation. For tasks outside our core offering, Xero's ecosystem of over 1,000 cloud-based applications connect businesses with the digital tools to optimise their operations. Today, Xero is an ASX50 company with more than 1.56 million small business customers in Australia, and over 3.7 million small business customers globally.

While Xero supports the policy intent of the payday super proposal, the policy design must take into account the environment businesses operate within today. A policy that places additional pressure on small business cash flow risks business exits and lower employment, undermining the ultimate intention of the policy.

Should the Treasury team wish to discuss Xero's submission in further detail, please feel free to contact our APAC Head of Government Experience Angus Capel at angus.capel@xero.com.

Yours sincerely,

Henrietta Thomas

Xero EGM, Policy, Compliance & Legal Operations

External(np)



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Submission

Introduction

Xero is a provider of small business payroll and superannuation payment at a significant scale. Xero's technical feedback to the payday super proposal is included in the submission from our industry association DSPANZ. In this short submission, Xero seeks to provide some additional context to inform the policy design process.

General feedback

Xero strongly supports the policy intention of the payday super proposal. We agree employers deliberately neglecting to meet their obligation to pay super guarantee (SG) contributions is not acceptable. We also agree the SG should be paid as soon as is feasible, so the benefits of compound interest accrue with the employee. Feasibility however is determined by the operating environment, which Xero seeks to highlight in our submission. Xero supports COSBOA's suggestion for a set of thorough regulatory impact statements (RIS) to inform the policy design process.

Maximising outcomes

Rapid identification of under or non-payment of SG is the crucial deliverable of the proposal. In an ideal scenario, an employer will be aided by nudges and prompts within existing business systems that a SG payment date is approaching. Once the payment is made, the employer should receive confirmation that funds have been deposited into an employee's super account, or that there is an error that needs to be addressed, within existing business systems and in close to real time. Simplicity for the user attempting to meet their SG obligations ensures an employee receives their SG and relieves an employer from penalty due to inadvertent error. It will also allow for the ATO to identify businesses who have failed to pay SG or underpaid SG. Delivering this integrity reform may eclipse that of more frequent SG distributions, while avoiding complexity outlined below.

Natural systems

The "employer payment" and "due date" models will place significant extra administrative obligations upon employers. A process today executed as few as four times per year today may be required 52 times per year (if not more) upon finalisation of payday super. In Xero's view this is a very high burden to place upon small employing businesses in particular, which are navigating privacy, cyber security and industrial relations changes in a rising cost environment.

Both models as proposed are likely to result in employers changing their behaviour. More than half of all employers with up to 10 employees report weekly payroll payment today. A rational employer response to SG payments moving to each pay run for example, would be to minimise pay run frequency as much as possible.



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Moving to monthly payment from weekly would require a change in behaviour from a significant number of employees.

Cash flow

Xero strongly advises the Treasury to engage with small business stakeholders to intimately explore the effect payday super may have on small business cash flow. Xero research released in June 2023 showed over a quarter of small businesses have had to use personal savings to keep their business afloat, while one third of small business owners have been unable to pay themselves¹. Xero is ideally placed to inform this discussion through our Small Business Insights (SBI) program which analyses the aggregated and anonymous data from hundreds of thousands of small business customers.

Xero's SBI research found cash flow challenges were common for most small businesses in 2021. On average, in Australia small businesses were cash flow negative for 4.2 months of the year. One in five small businesses experienced more than six months of negative cash flow². Possible reasons for troubled cash flow include almost half of all invoices to small businesses being paid late, rising business input costs and seasonality³. Policy decisions that reduce the ability for small businesses to manage bumpy cash flow - and even penalise them through expedited application of an SG charge - will likely lead to business exits.

Today, a small business has three months to plan for its SG payment, which provides some flexibility to manage invoices that are paid late by suppliers. However, increasing the SG payment cycle will essentially remove this flexibility. It is Xero's strong view that accelerating SG payment frequency is only feasible when late payments are an anomaly, not the norm.

Conclusion

To conclude, Xero supports the policy intention of the payday super proposal but a range of areas require careful consideration to reduce the impact of unintended consequences. In particular, Xero believes efforts to reduce late payments are required to complement payday super reforms, or the cash flow implications of the policy could directly result in business exits. Thank you again for the opportunity to provide feedback, and Xero looks forward to continuing to engage with the Treasury to help design this important policy.

¹ <https://www.xero.com/au/media-releases/xero-study-reveals-small-business-cash-flow-woes0/>

² <https://www.xero.com/blog/2022/07/cash-flow-challenges-affecting-small-businesses/>

³ <https://www.xero.com/content/dam/xero/pdfs/xsbi/cash-flow-challenges-facing-small-businesses-part2.pdf>

