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PEOPLE SOLUTIONS

Fact Sheet

Are you paying your staff correctly?

To review the webinar associated with this fact sheet, visit https://youtu.be/Lkh_XxhQuZ0

It's been in the news a lot recently – large and prestigious organisations have been found to have seriously underpaid their employees, sometimes going back years. If these businesses with dedicated payroll staff and internal HR departments can get it so wrong, what hope do small business owners have?

The good news is that with good knowledge and proper systems, it is not difficult to ensure that your staff are being paid correctly, and below are the key factors you need to be aware of to meet your obligations.

Award obligations – pay rates, allowances, penalty rates, shift work, overtime

The first thing to have good knowledge of is what, if any, award or registered agreement covers your staff. Employees of most private businesses are covered by the federal Modern Award System, and each award sets out who is covered by the award, levels and classifications, rates of pay for each level and classification, ordinary hours of work, how shift work and overtime function, allowances, any special leave entitlements and methods for consultation and dispute resolution. You can find the full list of modern awards on the [Fair Work website](#).

Questions to ask yourself:

- Is my employee covered under an award?
- What is their classification and level under that award? Is this assessed correctly?
- What is their base rate of pay according to that classification and level, their age, and their role in my business (e.g are they an apprentice or trainee, or receive piece rates or commissions).

When calculating pay under the awards, you need to ensure that shift and overtime penalty rates are calculated on each shift individually, rather than on total hours over the pay period. This is often an area where employers make mistakes in calculating pay, so pay close attention to this.

Questions to ask yourself:

- Do my employees work within the ordinary hours of the day, and ordinary hours of work specified in the award, or do they work "shifts" outside of those hours?
- Are their hours being recorded correctly, so that the right penalty rates can be applied?
- Do I understand how the penalty rates are to be applied? i.e. time and a half for the first two hours and double time thereafter, proper public holiday rates, long shifts, etc.

Allowances are another area easy to misunderstand and apply incorrectly. These include things like laundry allowance for washing uniforms at home, shoe allowance for required footwear, dirty work allowance for particularly messy jobs outside of normal practice, and so on.

Questions to ask yourself:

- Are you aware of what allowances your staff may be entitled to under their award?

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- Are you calculating these allowances correctly? i.e. are they to be paid per shift, per week, per hour, per kilometre, etc

There is a great pay calculator tool available on the Fair Work website called the [Pay and Conditions Tool](#) which can give you an indication of whether you are paying your staff correctly.

What other information helps me pay my staff correctly?

- Accurate timesheets – these are required even for full-time salary staff
- Rosters
- Written records of any agreed changes to rosters

So that you can ensure that the calculation of pay for each work period or shift is done correctly, it is essential to keep accurate rosters of when staff are allocated to work, and associated accurate time sheets of when they did actually work.

My staff aren't covered by an award – what do I do?

The National Minimum Wage and the National Employment Standards apply when an employee is not covered by a modern award. Of course, these both apply to employees covered under awards as well.

My workplace has a registered agreement – what do I do?

Registered agreements function in much the same way as Awards – ensure you are familiar with the terms of the agreement and ask yourself the same questions as above in relation to how to calculate correct pay. Registered agreements have to meet the Better Off Overall Test – this means that employees covered by the registered agreement must be better off overall than if they were covered by their regular award. With ongoing changes in awards, it's important to check the BOOT regularly as if the award provisions are now more generous, they will apply instead of the registered agreement.

Superannuation and tax

You are required to withhold income tax from the wages/salary you pay to your employees and pay that directly yourself to the tax office. From 1 July 2019, all employers should now be using the single touch payroll system to report employee payroll information to the Australian Tax Office.

Employers are obliged to pay superannuation contributions of 9.5% of an employee's ordinary time earnings if the employee is paid more than \$450 gross per month and is:

- Over 18; or
- Under 18 and works more than 30 hours a week

Payment of superannuation applies to full time, part time and casual employees, and includes temporary residents, and has to be paid at least every three months. Some awards and registered agreements also have extra super requirements, so make sure you're well aware of the provisions of the relevant awards.

Ordinary time earnings include:

- Ordinary or normal hours worked, or for casual workers, actual hours worked;
- Over-award payments

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- Commissions
- Shift loadings
- Annual leave loadings
- Allowances
- Bonuses.

It doesn't include overtime payments.

There is a maximum earnings level that employers need to pay super on. For example, in 2020-2021 if your employee earns more than \$57,090 per quarter, you only need to pay super on that amount and not on anything above it.

What happens if I do the wrong thing?

Getting it wrong can be a very expensive exercise for your business:

1. You'll likely need to pay a payroll auditor to comb back through your records to check exactly how much employees have been over- or under-paid
2. For overpayments, you will need to manage the communication with your employees to retrieve that money, and do it lawfully.
3. For underpayments, you'll need to repay the owed money to employees (whether currently employed or not) and don't forget your super and tax obligations!

What do I do now?

- Ask yourself the questions above to test your knowledge and understanding of how your employees should be paid
- Run a test employee or two through the Fair Work pay calculator tool to see whether your base assumptions are right, and then use those numbers to calculate a pay period from scratch to test whether the assumptions and calculations are correct in your payroll software.
- If you're not sure what to do, or you're worried that you might have made mistakes in the past, seek professional advice. Businesses who actively rectify mistakes do better!

Need help? Contact Pinnacle People Solutions for tailored advice and support for your business by email to admin@pinnaclepeoplesolutions.com.au or call 1300 856 231

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