Membership Engagement on ePayroll: **Response to CRA's What we learned Report**

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NATIONAL PAYROLL INSTITUTE

National Payroll Institute Response to CRA's What we learned (ePayroll) Report

As a trusted advisor to government, the National Payroll Institute ("The Institute") was asked by the Canada Revenue Agency and other federal government departments to participate in ePayroll[1] consultations and roundtables held across Canada. The Institute welcomed the publication of the CRA's What we learned Report, and took the opportunity to engage our ePayroll Technical Task Force to analyze and provide commentary on the CRA's findings. The Task Force, comprised of subject matter experts representing employers and Payroll Service and Software Providers (PSSP), make the following recommendations to government to effectively move the project forward and to mitigate risks associated with the government's transformational ePayroll initiative. (A brief explanation of each recommendation begins on the following page of this report).

1. Establish and follow ePayroll Guiding Principles
2. Eliminate the T4 and ROE at the same time
3. Continue stakeholder consultations
4. Use existing payroll system technology to reduce implementation risk, cost to employers and industry, and negative public perception
5. Continue promoting digital efficiencies and security of data
6. Avoid competing priorities during implementation
7. Enable legislation to promote efficiency, privacy, and compliance
8. Examine the need and use of employee/employer portals
9. Change the name "ePayroll"

Establish and follow ePayroll Guiding Principles

Earlier in the project, the Institute developed a set of 6 guiding principles for ePayroll − including **government unity, stakeholder engagement, benefits to employers and workers, implementation cost transparency, public buy-in, and a piloted and phased approach to implementation** (see Appendix A). The government accepted these in principle, and should now use these to formalize, share, and operationalize these guiding principles, against which all design and implementation decisions should be made.

[1] The ePayroll project is a Government of Canada initiative to modernize how employers send payroll, employment, and demographic information to government departments and agencies. Currently, employers send payroll information to the government at a particular time, such as when they issue a T4 slip, or a Record of Employment (ROE) for employment insurance. Employers often provide the same information to multiple government departments and agencies. Using near real-time payroll reporting, the goal of ePayroll is to reduce the administrative burden for Canadian employers and streamline the delivery of government benefits and services.

Eliminate the T4 and Record of Employment at the same time

Generally, employers currently navigate within a single payroll system to file both the T4 and Record of Employment (ROE). To achieve the Minister of National Revenue's mandate to reduce employer administration and have businesses of all sizes benefit from an ePayroll reporting system, employers must not be expected to maintain duplicate reporting requirements. Therefore, the elimination of the T4, Record of Employment, Request for Payroll Information, Report on Hirings, and Relevé 1 (through alignment with Revenu Québec), must happen at the same time. The government must allow enough time to implement the right solution the first time, while being receptive to making changes from lessons learned in the pilot phase. International best practices should be leveraged to avoid foreseeable issues.

Continued stakeholder consultations

It is important for the CRA to gain a thorough understanding of current payroll reporting requirements prior to working on ePayroll solutioning, otherwise it runs the risk of increasing employer burden rather than decreasing if it. It is imperative to the success of ePayroll that the Institute and PSSPs continue to be viewed as key stakeholders and advisors on technological solutioning toward a modern platform that is user friendly. PSSPs, as the biggest enablers of ePayroll, must be consulted with on technology, communication to employers, and the timing of implementation, piloting, and a realistic phasing-in period. PSSPs have been very clear in their request that any future solution provide the opportunity for extensive testing.

As a trusted advisor to government, the Institute must be consulted before any potential solution, or prototype thereof, is presented to other stakeholders.

Use existing payroll system technology to reduce costs to employers and industry, lower implementation risks, and mitigate negative public perception

Any ePayroll solution must reduce the administrative burden on employers, and not add to it. The same is true about financial burden. While initial costs are likely, these should be mitigated by having an ePayroll solution act as an interface with the employer's existing payroll system. These costs can be expected to smooth out and be further offset with savings through the simultaneous elimination of T4s and ROEs.

PSSPs stand to be most affected by technological costs related to implementing ePayroll, training employer clients, and maintaining system requirements. Those costs can at least be partially mitigated by leveraging existing system technologies. The government must also be mindful of downstream needs across government departments, to avoid additional costs for added future development needs.

Employers and PSSPs have reiterated the importance of ensuring that data sent through an ePayroll system be as natural as possible to the payroll software, to avoid manipulation and added administrative burden, thus lowering implementation risk. Employers go through verification, validation, and internal auditing prior to processing payroll. To ensure coherence, any corrections or adjustments to ePayroll data must flow from the payroll system as the source. The ePayroll portal must be a reflection of data transfer, not a source of data manipulation. Updates cannot be made directly within an ePayroll portal. At no time should the data contained in ePayroll be in discrepancy with the data in the payroll system.

The implementation of ePayroll should be as seamless as possible to employees, including the continued use of their employer's payroll system without having to rename every employers' specific earnings and deduction codes. The privacy and security of personal information is currently maintained during the year-end and end of employment cycles through the employer filing of T4s and ROEs. Ensuring that the same level of data security will be maintained through ePayroll and through existing employer payroll systems will mitigate negative public perception and concern.

Continue promoting digital efficiencies and security of data

Not all employers currently use the services of a PSSP for reporting. As such, an ePayroll solution must address:

- The digitally challenged (employers that don't currently use payroll technology): Through the introduction of Single Touch Payroll (STP) in Australia, PSSPs offered low or no cost solutions to small employers to not only enable them to comply with STP reporting requirements, but also provide simple payroll processing solutions that helped streamline and modernize employer processes.

- The digitally excluded (employers that don't currently have access to the Internet): The federal government should continue to enhance Internet coverage in remote areas.

- The digitally unwilling (employers that don't want to use payroll technology): the recent decrease to the paper filing limit of T4s from 50 to 5 slips should reduce the digitally unwilling to micro employers.

Avoid competing priorities during implementation

Having the government avoid competing programming requirements during the implementation phase was critical to the success of near real-time payroll reporting implementation, according to the Digital Service Providers Australia New Zealand (DSPANZ). While employers and their PSSPs anticipate annual updates (e.g. changes to Canada Pension Plan (CPP) contribution rates) and can incorporate such changes with minimal impact, the introduction of additional reporting requirements for newly adopted government programs, new taxable benefits, or major tax changes can be quite disruptive. This has been the case with the new dental benefit plan T4 and T4A boxes, as well as the removal of the Payroll exemption under FINTRAC. This level of disruption would jeopardize the ePayroll project during its implementation period. The Institute's ePayroll Task Force confirmed that the government must hold off on any such major changes during a reasonable implementation phase of ePayroll.

Enable legislation to promote efficiency, privacy, and compliance

Throughout the CRA's consultations and roundtables, the question of employee consent was brought up, as reflected in the CRA's report. The Institute has reminded the government that consent is not currently required for the sharing of employee information on the T4, and no individual is permitted to opt out of having their T4 information shared with government at any time during the year. This should be no different in an ePayroll environment, and supporting legislation should provide clarity on the reporting requirements of near real-time payroll and employment information.

Additionally, employer consent to report to government through ePayroll must not be required. ePayroll must be made mandatory for all employers, whether through their PSSP or potential future government portal.

Examine the need and use of Employee/Employer Portals

<u>Employee Portal</u>

Careful consideration should be given before the decision is made to develop an employee ePayroll portal. Employers and their payroll professionals must remain the experts of all things related to an employee's unique payroll data. Individuals reviewing their payroll data in ePayroll should not be expected to rely on the government to provide answers on questions relating to payroll. It must be made clear that such questions continue to flow to the current or previous employer.

<u>Employer Portal</u>

An employer portal, if deemed necessary, should illustrate information at a high level only. It must not give the employer access to their employees' data regarding other employment income sources, employment or income history, as this would be a breach of privacy and security of information. Considering the sensitive nature of the information, any employer portal must also allow employers to assign security access based on an employer-determined individual need-to-know basis.

A positive feature of a potential employer portal could include dated and detailed notification of Pensionable and Insurable Earnings Review (PIER) discrepancies without the expectation of immediate action. The current PIER process does not provide employers with the per-pay period details of the perceived discrepancy. This could enable employers to make corrections before the actual year-end closes.

Change the name "ePayroll"

Consultations and roundtable discussions have consistently shown that the name "ePayroll" is not representative of what the intended solution is expected to be. It is imperative that the name of the project be changed to eliminate the misinterpretation that ePayroll will be a payroll processing solution, and better reflect this as a payroll and employment reporting ecosystem.

Role of the National Payroll Institute and its members

The Institute's organizational membership includes small, medium, and large employers, as illustrated in the following by employer size:

CATEGORY	Number of Employer Members
Under 200 employees	4,021
200-599 employees	1,193
600-999 employees	300
1,000-1,599 employees	226
1,600 employees and up	474
Total Organizational Members	**6,214**

Together with employer clients from its Payroll Service and Software Provider members, the Institute represents over 500,000 organizational payrolls.

As a trusted advisor to the federal government, the Institute has been a key stakeholder on this initiative and has been involved in many consultations with the CRA, ESDC, and RQ since 2002, and should continue in this capacity.

Appendix A – National Payroll Institute's Recommended ePayroll Guiding Principles

Unified government voice

Government must speak with a unified voice, both within federal departments, and across provincial / territorial boundaries. This includes the need to harmonize the technology used and processes deployed (including data coding standards[1]) so that employers are not burdened with duplicated activities.

Engage key sector leaders

The project should be co-created with employers, key employer associations and PSSPs through their expert representatives, including the National Payroll Institute.

PSSPs now manage about half of the payroll data that is ultimately reported to government, which is an unusually high percentage relative to other countries. In addition to having the data that government desires access to, they also have extensive experience in managing the government / employer interface, since that is part of their core business, and in process change management in a diverse client base.

Benefits employers and workers

Processes should be designed so that the work of analysis and interpretation is done by those who are expert in an area. If government and employers have exactly the same information, then it should be government that analyses the implications of employment data for their programs, and not employers, as is currently the case (e.g., for Employment Insurance reporting). This has the potential to eliminate a great deal of error and delay in allowing workers to access benefits.[2]

Workers and beneficiaries should realize faster and more reliable delivery of benefits through the expedited determination of program eligibility. They should also have a single point of access to view information submitted on their behalf by employers.

[1] T4 and RL-1 forms and their summaries report data based on a "paid in period" logic, whereas the Record of Employment (ROE) requires some data to be reported on a "paid in period" logic, and other data to be reported on a "with respect of a period" logic, both on a single form.

[2] A Digital Payroll solution that leverages current PSSP technologies would reduce administrative burden by eliminating the need for forms or processes that are currently in place to compile payroll data after it has been manipulated to fit the different reporting logic of various forms. Reliance on un-manipulated, natural payroll information improves data quality and integrity, by reducing/eliminating human error caused by misinterpretation of current reporting requirements.

Implementation cost transparency

Beyond the direct government project costs, employer transition and operational costs should be acknowledged by government up front. These costs would include the development and training on new processes, and costs from various vendors to provide the necessary software and services to operate them on an ongoing basis. These costs could be partly offset by reductions in employer compliance requirements (e.g., eliminating the need for employers to complete Records of Employment).

Significant upfront transitional costs for employers and development costs for PSSPs will need to be carefully quantified and offset to some degree through existing mechanisms (e.g., technology tax credits, accelerated write-offs) or new ones.

Public buy-in is essential

Develop a transparent program design and review process to build support, ensure that project benefits are clearly articulated, and that challenges are acknowledged and addressed.

Pilot, then proceed in a phased implementation

The scope of the initiative, and the potential impact on the broad Canadian economy, calls for a carefully phased pilot and implementation plan.

Look for early wins leveraging those employers and sectors that are best able to move ahead quickly (i.e., larger employers, who are more likely to benefit from having access to state-of-the-art technology and the resources to focus on this implementation).