Canada's Need for ePayroll

NATIONAL PAYROLL INSTITUTE

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Executive summary

The circumstances facing Canada's labour market once again illustrate the need for the federal government to deliver on its initiative to develop a near real-time payroll reporting ecosystem. – Peter Tzanetakis, President and CEO, National Payroll Institute

As Canada's economy braces for the shocks of threatened US tariffs, the federal government is considering financial relief for businesses and workers in impacted sectors.

Such targeted relief highlights another missed opportunity by not having the federal government's ePayroll initiative already in place. During the COVID-19 pandemic, employers responded to over 600 government announcements (federal and provincial) that impacted the administration of their payroll, including complicated and confusing Temporary Emergency Wage Subsidy (TEWS) and Canada Emergency Wage Subsidy (CEWS) applications. ePayroll would have facilitated the seamless integration of payroll data, reducing the need for additional administrative procedures, and enhancing the overall efficiency of the relief measures. This was the case in the UK and Australia, two jurisdictions that already had near real time payroll reporting in place.

The ePayroll project, an initiative by the Government of Canada, aims to modernize payroll reporting by introducing a "tell-us-once" approach to reduce redundancy and ensures data integrity. By reporting payroll information every pay cycle and harmonizing across multiple government departments, the goal of ePayroll is to streamline processes, enabling faster and more accurate service delivery, and thereby benefiting the Canadian economy. As such, it should remain a government priority.

As a trusted advisor to government, the National Payroll Institute ("Institute") has been asked to provide its expert input on how streamlined payroll reporting can improve accuracy and efficiency while reducing the administrative burden on employers.

The Institute's research on global examples has yielded examples of how the implementation of near real-time payroll reporting has proven successful, following a co-design approach with employers, payroll service and software providers, and other key stakeholders, in particular associations representing the payroll profession.

By leveraging these successful models, and the current commercial payroll systems employers and their representatives currently use, ePayroll can harmonize reporting to the Canada Revenue Agency, Service Canada, and Revenu Québec, driving significant improvements for employers, employees, and government alike.

The Institute will continue advising government on how to introduce a made-in-Canada approach to ePayroll to help ensure the government has access to accurate and timely payroll and employment reporting, not only for emergency relief, but for the Employment Insurance Program and other income-tested social assistance programs that are ongoing.

What is ePayroll?

According to the CRA, the vision for ePayroll in Canada is a service through which Canadian employers can securely send payroll, employment, and demographic information to a protected Government of Canada repository. Government departments and agencies could then access the information when they need it for programs and services without having to go back to employers to ask for the information repeatedly.

Some expected benefits of an effective ePayroll approach include:

- reducing the administrative burden on Canadian employers and businesses
- improving speed and accuracy in delivering government services and benefits, such as employment insurance benefits and future wage subsidies, to Canadians through access to more accurate and up-to-date employment data

It is important to note that ePayroll is not a payroll processing system to be run by the government. Canadian employers will still be free to choose the payroll processing system that suits them.[1]

Infostructure already exists

Employers' commercial payroll systems already possess the information required by the government to comply with current end of year, or end of employment requirements, i.e., the T4 and Record of Employment (ROE). In fact, every employer across Canada is responsible for reporting this data according to specific data fields on the T4 and ROE.

Small employers have the exact same requirements and often employ the services of third-party payroll service providers, accountants, or bookkeepers who then file on behalf of the employer using their own payroll software.

To enable the Canada Revenue Agency (CRA) and Service Canada to gain a further knowledge of the data available using existing commercial payroll software, the Institute has proposed that some of its members, within the next year, begin to share natural payroll and employment data. This "sandbox" of data could be shared under one of the following:

- A Memorandum of Understanding between the CRA and the employer/Payroll Service and Software Provider (PSSP) where existing payroll data be shared on a going forward basis, to provide an established number of example payrolls over the course of 52 weeks.
- Sanitized data with employee names and SINs removed before sharing.
- Non personalized data based on realistic payroll scenarios, which can be determined between CRA, Service Canada and the Institute's subject-matter experts.

Note: None of the above sandbox options require any legislative, regulatory, or technology changes.

[1] Source: [The ePayroll project - Canada.ca]

Current challenges and costs to businesses

Currently, employers must transform the natural payroll data that already exists in their payroll systems to meet government reporting requirements. This process is costly for employers, with compliance now accounting for over half of payroll professionals' work in Canada. According to the 2020 Cost of Employer Compliance and Public Policy study by PwC, an annual amount of over $900M is spent by employers collectively to administer current T4 and ROE reporting requirements.

According to a 2024 survey of National Payroll Institute members with over 3,700 responses, only 17% of respondents indicated a concern with the idea of ePayroll, the majority of which only having heard of the initiative through the survey. The majority of respondents expressed excitement over ePayroll, believing that it will result in greater efficiency.

Lessons learned through Covid-19

The federal government could have prevented billions in overpayments of COVID-19 support benefits through a more efficient administration of the Temporary Emergency Wage Subsidy (TEWS) for Employers, the Canadian Emergency Wage Subsidy (CEWS), and the Canada Emergency Relief Benefit (CERB).

The Auditor General's Report 10—Specific COVID-19 Benefits concluded that, due to the lack of timely data at the time of application, $4.6 billion was paid to ineligible recipients and a further $27.4 billion in payments needed further investigation. The report's key recommendation:

- In order to improve its efficiency of delivering benefit programs, the Canada Revenue Agency, with the collaboration of Employment and Social Development Canada, should pursue the development and implementation of a real-time payroll system with clear timelines and deliverables.

Real-time payroll information is critical to supporting Canada's economy; therefore, so is the development of ePayroll. As such, the government needs to continue to keep this initiative as one of its priorities.

International lessons

The development of near real-time payroll reporting is not novel. The Institute has conducted thorough research of jurisdictions that have a functioning "ePayroll" in place, including the UK, Australia, and Ireland. Summarized in Appendix A, these three countries have experienced reduced administrative burden on employers and government, and streamlined delivery of employee provided social benefits, through the introduction of their own versions of ePayroll.

Harmonization with Revenu Québec

Revenu Québec has also identified the Institute as a trusted advisor as they explore options of introducing their own *paie électronique* near real-time payroll reporting.

Whereas the federal Budget 2024, which included an unfunded "commitment" for the implementation of an ePayroll solution to reduce the reporting burden on Canadian businesses, while improving how benefits are provided through the Employment Insurance and tax systems, Quebec's Expenditure budget 2024-2025 - Detailed list of infrastructure projects - 2024-2034 Québec Infrastructure Plan confirmed $222.4M in authorized funding which includes paie électronique.

It is imperative that federal and Quebec real-time reporting is aligned, both in terms of core data requirements and the timing of integration. Employers use their payroll systems to pay employees, including Quebec employees, once per payroll run. It is therefore critical that employers not be required to maintain two different systems to maintain and report on to CRA and RQ.

Building on Phase 1

The CRA and Employment and Social Development Canada have completed Phase 1 of the ePayroll project following its Budget 2021 allocation of $43.9M over three years. While no financial commitment was made in the 2024 Budget, the Institute is hopeful that the 2025 Federal Budget will build on the government's prior commitment and priority to establish ePayroll, by committing an explicit budget and resources to Phase 2. With Phase 1 wrapped up, the timely allocation of resources to Phase 2 is critical to ensuring that the ePayroll project proceeds in a timely manner and can eventually benefit Canadian businesses, employees, and government.

Without the timely allocation of funding to Phase 2 of ePayroll, the project will continue to stall needlessly. While COVID-19 was an impetus for recognizing how ePayroll as an innovative tool can better the delivery of services and payments to Canadians, progress will be lost if the government does not quickly allocate further resources to the implementation of ePayroll to keep the project alive.

Guiding Principles

At the beginning of Phase 1 consultations, the Institute developed a set of Guiding Principles (see Appendix B) to support discussions among its members, the federal government and RQ to explore the key issues surrounding the implementation of ePayroll in Canada. These Principles continue to apply.

Recommendations

1. That the federal government allocate funding for Phase 2 of ePayroll consultations and co-development to continue.
2. That employers begin to voluntarily share natural payroll data with the CRA and Service Canada by 2026 as part of a Phase 2 “Sandbox.”
3. That CRA and RQ resume collaborations to ensure alignment of ePayroll/paie électronique reporting requirements.
4. That the federal and Quebec governments follow the Institute’s Guidling Principles to address present and possible issues (Appendix B).

Appendix A: Global Examples (UK, Australia, Ireland)

United Kingdom
According to HM Revenue and Customs' Real Time Information programme - post implementation review report, Real Time Information (RTI) was the biggest change implemented to Pay As You Earn (PAYE) since 1944. The report shared the following economic results following the first year of RTI:

- savings of £64m for HMRC
- savings of £672m from reduced tax credits overpayments due to fraud and error and in year income discrepancy
- a one-off cash flow benefit to the Exchequer measured at £813m
- a net saving in administrative burden for employers of £292m per annum
- £292m one-off and transitional costs for employers
- £307m for HMRC to implement RTI

Australia
It took Australia three years to develop their Single Touch Payroll (STP) system, which has been cited by the Australian Taxation Office (ATO) Deputy Commissioner Emma Rosenzweig as streamlining reporting by employers about their employees to multiple government agencies, saving time, money and red-tape, letting employers focus on their business.

According to the ATO "Building on STP's first phase of streamlining the way employers report payroll and superannuation information to the ATO, STP phase 2 will assist in the administration of social security for citizens in a more efficient, accurate and timely manner."

Ireland
In the article PAYE reporting in real-time, Chartered Accounts Ireland described the PAYE Modernization reporting that came into operation on 1 January 2019 as "the most significant reform of the administration of PAYE since its introduction in 1960." Ireland's Revenue agency used a co-design approach and engaged extensively with employers, payroll professionals, tax practitioners, tax and accountancy bodies, business representative organisations and payroll software developers.

"As a result, real-time PAYE reporting is seamlessly integrated into the payroll system, bringing significant streamlining of business processes and a reduction in administrative burden and costs for employers. The co-operation of the various stakeholders in collaborating with Revenue to deliver PAYE Modernisation was central to the success of the project."

A more recent article, Transforming taxation: tracking the revolution in revenue collection, explains how the country's tax authority receives automated data feeds from every employer's payroll system providing accurate and real-time information while eliminating the risk of errors as companies produced their annual reports. According to the article, Revenue received an additional €70m in the first year of PAYE Modernization "purely from getting the data in real time."

Appendix B: ePayroll Guiding Principles

The following guiding principles have been developed to support discussions among the National Payroll Institute, its members, the federal government and Revenu Québec to explore key issues surrounding the implementation of ePayroll in Canada.

1. **Unified government voice**
   Government must speak with a unified voice, both within federal departments and across provincial and territorial boundaries. This includes the need to harmonize processes so that employers are not burdened with duplicated activities.

2. **Engage key sector leaders**
   The project should be co-created with employers, key employer associations, and Payroll Service and Software Providers (PSSP) through their expert representatives, including the National Payroll Institute.

   A digital payroll solution that leverages current PSSP technologies would eliminate the requirement to manipulate natural payroll information to fit the different reporting logic of various forms currently required. This would also improve data quality and integrity, by reducing or eliminating human error caused by the misinterpretation of current reporting requirements.

   PSSPs now manage about half of the payroll data that is ultimately reported to the government, which is an unusually high percentage relative to other countries. In addition to having the data that the government desires access to, they also have extensive experience in managing the government / employer interface, since that is part of their core business within a diverse client base, including small, medium, and large employers in all sectors across Canada.

3. **Benefits employers and workers**
   Processes should be designed so that the work of analysis and interpretation is done by those who are experts in an area. If the government and employers have the same information, then it should be a 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. Workers and beneficiaries should realize faster and more reliable delivery of benefits through the expedited determination of program eligibility.

4. **Employer transition and operational costs should be acknowledged by the government upfront**
   Beyond the direct government project costs, employer transition and operational costs should be acknowledged by the government upfront. 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, T4s, and RL-1s).

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., tax credits, accelerated write-offs) or new ones.

5. **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. Transparent program design that considers all stakeholders will assist in making the initiative a more successful one. By recognizing the challenges and addressing stakeholders' concerns, the federal government will be able to garner greater public buy-in.

6. **Pilot, then proceed in a phased implementation**
   The scope of the initiative, and the potential impact on the broad Canadian economy, call for a carefully phased pilot and implementation plan. Through a phased implementation, the government can assess for early wins to leverage those employers and sectors that are best able to move ahead quickly.