

E-GUIDE

# Payroll compliance for small business

(Australia 2026)



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Clear, Australian-focused guidance for SME owners and managers on payroll obligations, record-keeping, and avoiding underpayments.

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# Executive summary

Payroll compliance is one of the most critical — and challenging — responsibilities facing Australian small businesses. Employers must ensure employees are paid correctly, on time, and in accordance with modern awards, enterprise agreements, and workplace laws.

Many payroll compliance issues arise not from deliberate underpayment, but from complexity. Modern awards contain detailed rules around pay rates, penalties, overtime, allowances and leave, and even small payroll errors can accumulate into significant liabilities over time.

Australian regulators have increased enforcement activity around wage underpayment, with a strong focus on small and medium businesses. Investigations frequently examine payroll records, time and attendance data, and how pay calculations were performed.

For Australian SMEs, strong payroll compliance reduces financial risk, builds trust with employees, and supports sustainable business growth.

# Key findings

Our review of Australian payroll enforcement trends highlights six key insights for small businesses.



## Accuracy is essential

Even minor payroll errors can create underpayment risk



## Intent does not excuse mistakes

Good intentions do not override legal obligations



## Awards drive payroll outcomes

Payroll compliance starts with award understanding



## Records are critical

Incomplete records increase exposure in disputes



## Errors compound over time

Small issues often grow into large liabilities



## Regulatory scrutiny is increasing

Payroll compliance remains a top enforcement priority

# \$1B+

## in underpayments

recovered by the Fair Work Ombudsman since 2018, with payroll errors a leading cause of non-compliance.\*

\*Source: Fair Work Ombudsman Annual Reports

# What payroll compliance means

Payroll compliance refers to meeting all Australian legal obligations relating to paying employees.

## This includes:



Paying at least the minimum rate



Applying penalties and overtime correctly



Paying leave and loadings accurately



Making superannuation contributions



Withholding and reporting tax correctly



Keeping accurate payroll records

### Important

Payroll compliance is ongoing — not a one-off setup task.

### The bottom line

Payroll compliance is a legal requirement. Non-compliance can result in back-pay claims, penalties, and reputational damage — regardless of intent.

# Who payroll obligations apply to

Australian payroll laws apply broadly across all types of businesses and employment arrangements.

## Australian payroll laws apply to:



All employers, regardless of size



Full-time, part-time and casual employees



Most employees covered by awards or agreements

## Payroll obligations apply even when:



Employees are salaried



Hours are consistent



Payroll is outsourced

### Key point

Responsibility for compliance always remains with the employer.

# Common payroll compliance risks

Small businesses most often fall into non-compliance due to these common issues:

1

## **Incorrect award selection**

Applying the wrong award to employees based on assumptions rather than actual duties

2

## **Misclassified employees**

Assigning employees to incorrect classification levels, resulting in wrong pay rates

3

## **Missed penalty rates or overtime**

Failing to apply correct penalties for weekends, public holidays, or overtime thresholds

4

## **Inaccurate time records**

Poor time tracking that leads to incorrect hours being paid

5

## **Errors in leave accruals**

Incorrectly calculating leave balances and entitlements

6

## **Manual payroll adjustments**

Ad-hoc changes that introduce errors and inconsistencies

These issues often go unnoticed until a complaint or audit occurs.

# Pay rates and classifications

Minimum pay rates are determined by the applicable award, employee classification level, and employment type.

## Minimum pay rates are determined by:



The applicable award



Employee classification level



Employment type (full-time, part-time, casual)

### Common issue

Misclassification is a common cause of underpayment. Classification levels must reflect the employee's actual duties and responsibilities — not just job titles.

## Pay rates should be reviewed when:

Roles change

Skills increase

Business operations evolve

Regular review of classifications and pay rates is essential to maintaining payroll compliance.



# Penalties, overtime and loadings

Penalties and overtime rules vary widely by award and are among the most frequent sources of payroll errors for SMEs.

## Penalties can depend on:

Time of day

Day of week

Public holidays

Consecutive hours

Roster changes

## Additional complexity:



Casual loadings



Leave loadings

### Most common error area

These components are among the most frequent sources of payroll errors for SMEs.

Manual calculations and inconsistent rostering often lead to errors in penalty and overtime calculations. Automated systems can help ensure correct rates are applied.

# Leave, super and other entitlements

Payroll compliance includes correctly managing a range of employee entitlements beyond base pay.

## Payroll compliance includes correctly managing:



Annual leave and leave loading



Personal/carer's leave



Public holidays



Superannuation contributions



Termination payments

### Common risk area






Errors in leave balances or super calculations can trigger regulatory action and employee disputes.

These entitlements must be tracked accurately and paid correctly throughout employment and at termination.

# Payroll records and reporting

Employers must keep accurate payroll records to demonstrate compliance.

## Employers must keep accurate payroll records, including:

-  Gross and net pay
-  Pay rates and classifications
-  Hours worked
-  Leave balances
-  Superannuation contributions

## Records must be:

Accurate

Legible

Retained for the required  
period

### Key risk

Poor records significantly increase risk during audits.

# Practical actions SMEs are taking

Compliant Australian SMEs focus on these four key areas:

1

## Confirming award and classification accuracy

Ensuring payroll calculations align with awards.

2

## Linking time records to payroll

Reducing manual data entry and errors.

3

## Reviewing payroll regularly

Checking for patterns and anomalies.

4

## Documenting payroll processes

Creating clear, repeatable systems.

### Start with accuracy, then improve consistency

You don't need to fix everything at once. Focus on getting the fundamentals right first.

# 12-month outlook: What to expect

Over the next year, Australian SMEs can expect:



## Continued underpayment investigations

The Fair Work Ombudsman continues to prioritise wage compliance.



## Increased scrutiny of payroll records

Accurate records are increasingly expected as baseline evidence.



## Greater expectations around proactive compliance

Waiting for problems to emerge is no longer acceptable.



## Less tolerance for informal practices

Good intentions do not excuse non-compliance.

Payroll compliance will remain a major regulatory focus for the foreseeable future.

# Final thoughts

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Payroll compliance is complex, but it is manageable with the right understanding and systems.

**Businesses that prioritise payroll accuracy reduce risk, strengthen employee trust, and create a more resilient operation.**

Good payroll practices protect both employers and employees.

# Our sources

This guide draws on Australian regulatory and research sources including:

1

## **Fair Work Ombudsman**

Workplace compliance and enforcement guidance

2

## **Fair Work Commission**

Modern awards and pay rate determinations

3

## **Australian Taxation Office**

Tax withholding and superannuation obligations

4

## **Safe Work Australia**

Workplace health and safety guidance

5

## **Australian Bureau of Statistics**

Employment and workforce data

Always refer to official guidance for current obligations. This guide provides general information only and does not constitute legal or financial advice.



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