

2025 Payroll AI Adoption Report

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Introduction

Artificial intelligence (AI) is reshaping the way organisations operate. Yet in payroll, one of the most critical functions in any business, AI adoption remains in its early stages. Sponsored and supported by The Access Group, Australian Payroll Association has undertaken this industry first Payroll AI Adoption Survey to establish a clear baseline of where the profession stands today, what barriers exist and how organisations can prepare for the future.

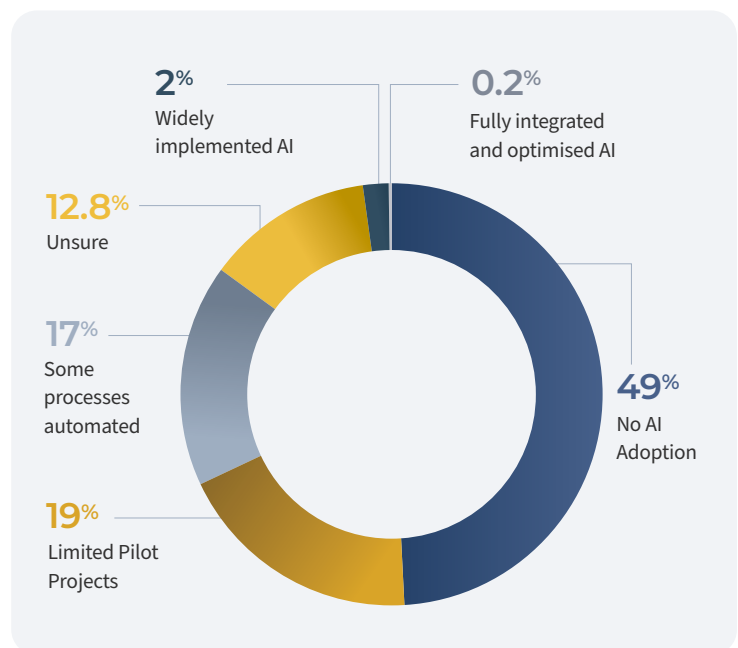
Based on data collected in August 2025 from 856 employers, this report reveals both significant challenges and enormous opportunities in payroll AI. While adoption is still emerging, there is strong recognition of AI's potential to reduce errors, strengthen compliance, detect fraud and boost efficiency.

AI Adoption

Overall Adoption

AI adoption in payroll remains in its infancy, with the survey revealing that nearly half of organisations (49%) report no adoption at all. A further 19% are experimenting through pilot projects and 17% have begun to automate some processes. However, only 2% have reached the point of widespread implementation.

These findings demonstrate a clear disconnect between the potential of AI in payroll and its current application. For most organisations, AI in payroll is still viewed as a future opportunity rather than a current reality, highlighting both the scale of untapped potential and the need for greater investment in building the right skills, upgrading systems and increasing staff confidence.



Adoption by Company Size

Adoption by organisation size is led by

Enterprise Organisations (1,000+ Employees)

which are the most likely to be running pilots or have some automation in place (46%). However, even at this scale, enterprises report significant barriers, particularly a lack of internal knowledge and skills, as well as resistance to change among staff. This indicates that while resources and investment capacity give larger employers a head start, capability gaps still slow progress.

Large Organisations (250–1000 Employees)

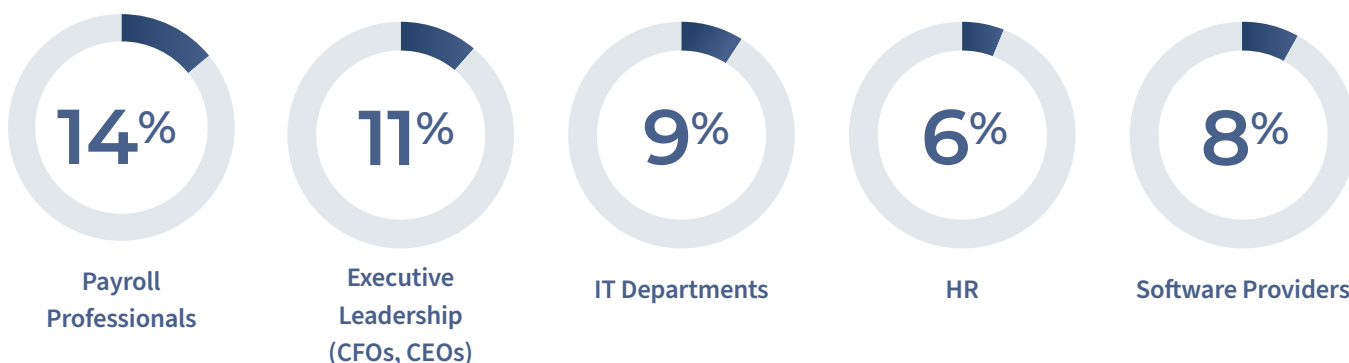
show a mixed picture, with some moving into early adoption but the majority remaining cautious. Many in this group appear to be testing AI in contained areas while holding back from wide scale deployment, reflecting both opportunity and hesitation.

Small and Medium Organisations (1–250 Employees)

report the highest levels of no adoption (53%). For these businesses, cost constraints and low internal knowledge are the most likely barriers. While interest exists, the challenges of resourcing and confidence mean AI adoption is not yet a priority.

Drivers of Adoption

Survey results show that payroll teams are the leading drivers of AI adoption, with 14% of respondents crediting payroll professionals as the initiators. Other groups play smaller roles:

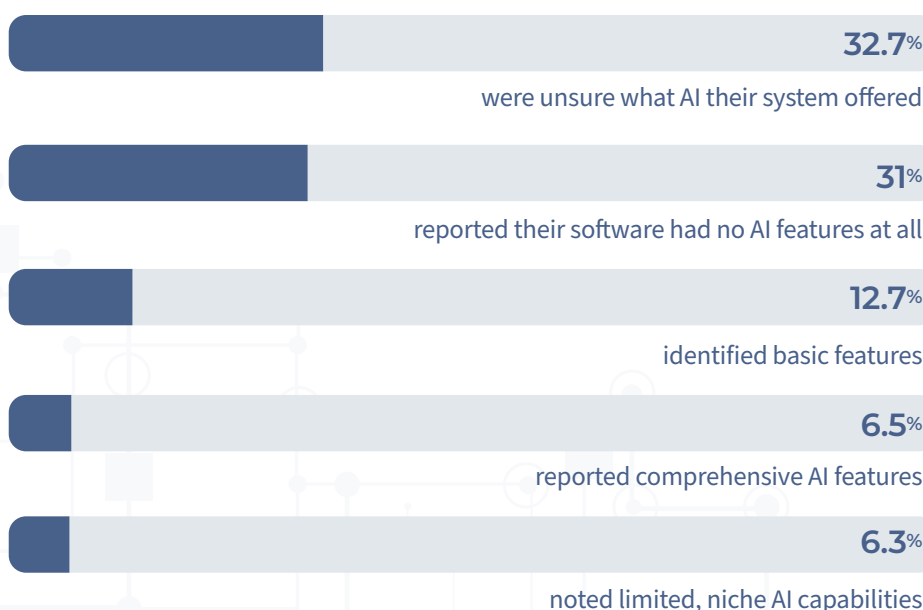


Importantly, almost 49% of organisations reported that AI has not been adopted at all with a further 6% unsure who drives it. This pattern highlights that payroll AI adoption is primarily bottom up, emerging from operational teams rather than being mandated at the executive level. Payroll professionals are identifying day-to-day inefficiencies and pushing for solutions, while leadership is not yet treating payroll AI as a strategic priority.

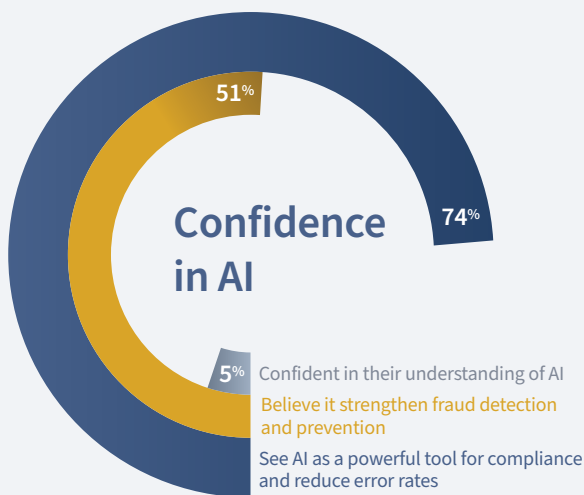
Software Providers' Role

When asked about their payroll software's AI features, respondents revealed a significant knowledge and capability gap:

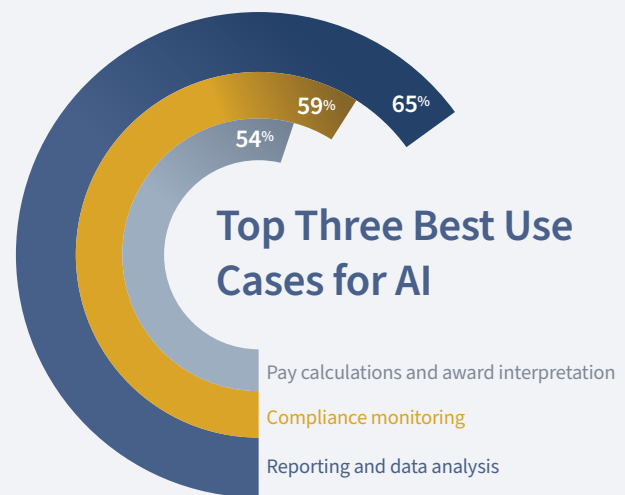
This suggests that while some vendors are embedding AI into their products, end-users either don't know it exists or don't recognise how to use it effectively. Providers may be over-marketing AI capability without ensuring customers understand or can apply it.



Understanding & Confidence in AI



Payroll professionals recognise AI's potential but remain cautious in their outlook. While 74% of payroll professionals see AI as a powerful tool to enhance compliance and reduce errors rates and over half (51%) believe it is best positioned to strengthen fraud detection and prevention, confidence levels remain low. Only 5% describe themselves as very confident in their understanding of AI's potential application in payroll, with almost two-thirds sitting in the low to no confidence range.



When asked about the best use cases for AI, respondents identified reporting and data analysis (65%), compliance monitoring (59%), and pay calculations and award interpretation (54%) as the top three tasks where AI could deliver the greatest improvements.

There is a clear misalignment between perception and reality. Payroll professionals see AI as a catalyst for delivering smarter and more strategic payroll outcomes. They want to move beyond hindsight driven processes toward foresight and predictive intelligence supported by machine learning. AI is expected to enable proactive decision making and strengthen key risk areas such as compliance management and fraud detection.

Current adoption remains focused on basic automation of data handling and routine system tasks. Closing this gap will require targeted education to build capability and confidence, along with vendor solutions that directly address payroll's compliance priorities. The growing alignment between professional expectations and technological progress creates strong potential for rapid adoption as knowledge and system readiness improve.

Challenges & Concerns in Payroll AI Adoption

Data Privacy & Compliance Risks

The survey makes clear that data privacy and security (71%) and compliance and audit risk (38%) remain the most pressing concerns for payroll professionals when it comes to AI. Payroll systems manage highly sensitive personal and financial data and the introduction of AI heightens fears around:

01

Data Privacy Breaches

Uncertainty about where data is stored and how it may be used or exposed by AI tools.

02

Regulatory Compliance

Concerns that automated decision-making could misinterpret legislation or awards leading to compliance failures.

This reflects payroll's risk first culture, where confidence in adopting new tools is directly tied to assurances around governance, auditability and compliance safeguards.

Skills Gaps

A recurring challenge highlighted is 46% of respondents have a concern with the lack of AI internal knowledge or skills gap within the payroll team. Many respondents indicated they lack the technical knowledge to:



**Understand how AI works
in payroll systems**



**Evaluate vendors' claims
about AI functionality**



**Confidently manage
AI-driven outputs**

This gap contributes to the broader low confidence levels seen across the survey and reinforces the need for targeted training and industry wide education initiatives.

Resistance to Change

Resistance to AI adoption remains an issue. While not universal, a significant number of respondents reported some or strong resistance within their organisations.

This resistance is both cultural and practical: staff worry about job displacement, while managers question whether AI will genuinely deliver more accurate or cost-effective results than current processes.

Without strong change management, early AI initiatives risk being seen as disruptive rather than enabling.

Confidence in Technology Readiness

When asked about their payroll systems' ability to integrate AI effectively, confidence levels were generally low to moderate, with many respondents either not confident or unsure that their current technology stacks are ready. This reflects integration challenges, as many legacy payroll platforms were not built for advanced analytics or machine learning, along with vendor limitations, where users report either a lack of AI features or uncertainty about what their systems actually offer. Combined with resistance to change and concerns over data privacy and compliance, this lack of confidence helps explain why adoption remains limited despite strong recognition of AI's potential.



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Future Outlook for Payroll AI

Planned Investments

The survey results reveal that while actual adoption of AI in payroll remains low, there is clear momentum building toward investment over the next 12–24 months. Currently, 10% of organisations report that they are actively planning or implementing AI projects, signalling that early adopters are beginning to move from exploration to action. A further 28% are engaged in discussions or considering future investment, suggesting growing awareness of AI's potential even if concrete plans are not yet in place. However, a significant proportion of organisations remain undecided or cautious, reflecting ongoing concerns around cost, skills and system readiness.



Enterprise organisations (1000+ employees) are more likely to be actively planning investments, reflecting both greater resources and pressure to modernise.



SMEs (1–250 employees) show the lowest levels of planned investment, likely constrained by cost and limited vendor solutions tailored to their scale.



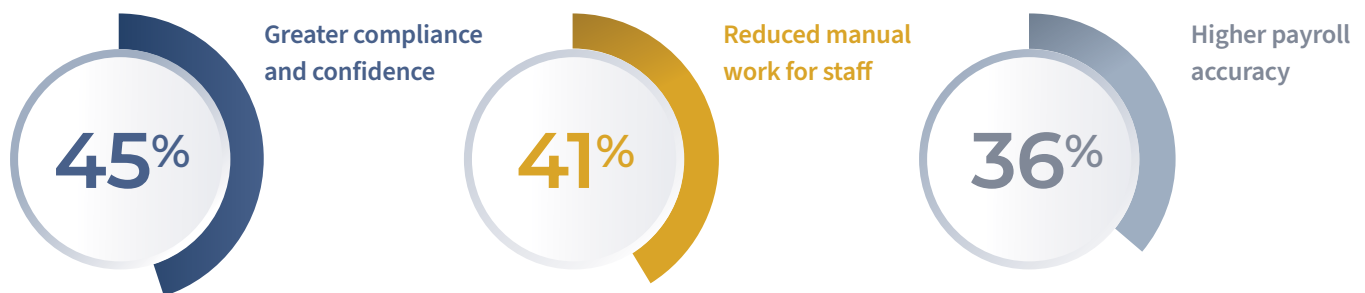
By industry, finance, professional services and technology-related sectors are leading the investment curve, while manufacturing, retail and logistics remain hesitant.

Signalling that payroll AI adoption is likely to remain uneven with larger, compliance heavy industries moving first and smaller or cost sensitive sectors following later.

Expected Benefits

Respondents outlined several desired outcomes from AI adoption, indicating that organisations view payroll AI mainly through a pragmatic, risk focused lens and prioritising efficiency and compliance ahead of transformative change.

Top 3 Expected Outcomes



Transformation Expectations

When asked about the potential impact of AI over the next five years:

A relatively small group expect major transformation, where AI significantly reshapes payroll.



Most respondents anticipate a moderate transformation, with incremental improvements in accuracy, efficiency and governance.

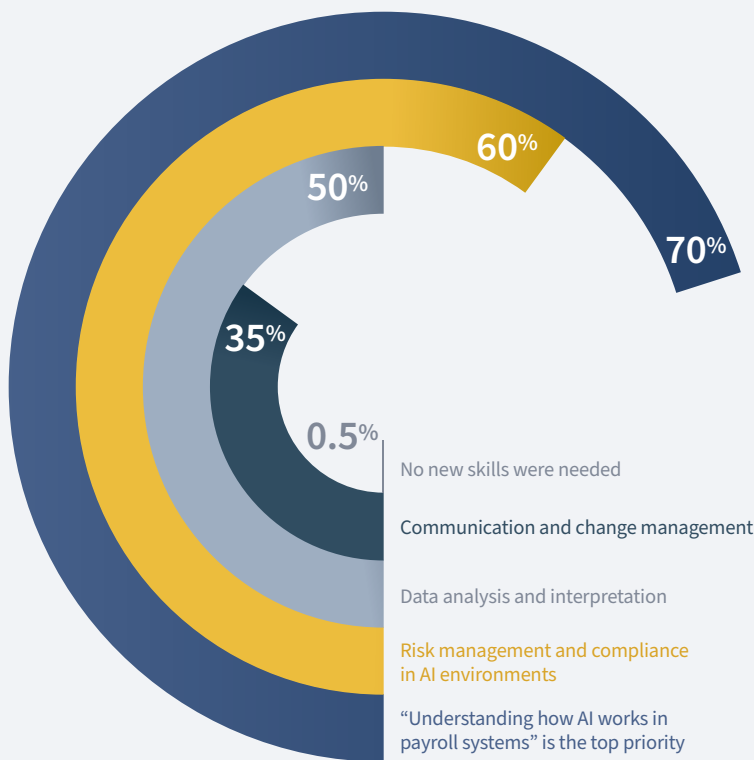


A minority foresee only minor or no transformation, reflecting continued scepticism in some quarters.



This suggests that payroll professionals believe AI will change how payroll operates, but expectations are tempered and practical. The prevailing view is that AI will enhance rather than replace payroll professionals, particularly in compliance heavy environments.

Professional Development



The survey highlights a significant skills gap that organisations must address to enable effective payroll AI adoption. Payroll professionals clearly recognise the capabilities required, with 70% identifying “understanding how AI works in payroll systems” as the top priority, followed by risk management and compliance in AI environments (60%), data analysis and interpretation (50%) and communication and change management (35%). Strikingly, only 0.5% of respondents felt no new skills were needed, underscoring widespread acknowledgement of the capability gap.

Beyond technical literacy, respondents emphasised the importance of critical thinking and oversight, ensuring that professional judgement remains central when interpreting AI driven outputs and that legislation and award interpretation are correctly embedded. They also noted the value of change management and communication skills to help payroll leaders guide teams through AI driven transitions and reduce resistance.

Recommendations for Organisations and Vendors

For Organisations

The survey findings highlight that most payroll teams are at the early stages of AI adoption, with confidence and capability still developing. To move forward, organisations should:



Invest in Skills and Training

Build AI literacy within payroll teams, focusing on compliance, risk management and data analysis.



Embed Change Management

Address cultural resistance by communicating that AI is designed to augment, not replace, payroll professionals.



Start Small, then Scale

Build AI literacy within payroll teams, focusing on compliance, risk management and data analysis.



Engage Leadership

Elevate payroll AI from an operational experiment to a strategic initiative by involving CFOs, HR directors and executives.

For Vendors

Payroll software providers play a critical role in shaping AI adoption. To build trust and uptake, vendors should:



Close the Awareness Gap

Many respondents were unsure whether their systems had AI features. Vendors must provide clearer communication, training and demonstrations.



Prioritise Compliance-focused AI

Align solutions with payroll's top concerns: data privacy, compliance monitoring and fraud detection.



Build Transparency into Tools

Explain how AI-driven recommendations are made with auditability and controls that reassure payroll teams and executives alike.



Partner on Capability Development

Support clients with training, guides and case studies that make AI accessible and relevant.



Closing Remarks

As payroll professionals, we have always stood at the intersection of compliance, accuracy, and trust. This report confirms what many of us already know, while the adoption of artificial intelligence in payroll is still emerging, its potential to transform the way we work is extraordinary.

The insights gathered here reflect an industry that is ready to evolve but also one that must do so deliberately, with a strong foundation of governance, skills, and confidence. Payroll teams are already leading the early charge, identifying opportunities to reduce errors, strengthen compliance, and increase efficiency. But to fully realise the benefits of AI, we must close the skills gap, address privacy and compliance concerns and demand more clarity and partnership from technology providers.

This is not a moment to wait and see, it's a moment to shape the future of payroll. AI will not replace payroll professionals, it will elevate the work we do, allowing us to focus on strategic outcomes and ensure people are paid correctly, every time.

At Australian Payroll Association, we are proud to support payroll professionals and employers on this journey. Together, we can build a future where payroll remains not just accurate and compliant, but smarter, stronger, and more resilient than ever.

Tracy Angwin

Founder and Non-executive Director,
Australian Payroll Association



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