



Queensland Government

Queensland Treasury Response to Commonwealth Grants Commission Draft Report Attachment 2

Payroll Tax

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SUMMARY OF QUEENSLAND'S POSITION

Queensland broadly supports the Commission's Payroll Tax assessment proposed in the Draft Report. Compensation of Employees (CoE) data is an appropriate broad indicator to assess payroll tax revenue. Queensland supports updating the tax-free threshold annually in line with the Australian average tax-free thresholds to ensure the assessment remains contemporaneous.

The Commission's proposed methodology removes the adjustment for the agriculture, forestry and fishing (AFF) industry, but introduces an adjustment to account for the earnings of higher education institutions that are liable for payroll tax.

An adjustment to make the CoE data more comparable with a second data set is viewed by Queensland as a data adjustment rather than a disability. A disability materiality threshold of \$10 per capita does not seem appropriate, a \$3 per capita materiality threshold appears more appropriate, because the Commission is simply making a data adjustment to improve the comparability of two data sources. The treatment of AFF does not appear to be consistent with the Commission's treatment of diplomatic and consular vehicles in the Motor Taxes assessment as a data adjustment, not a disability.

Queensland's Position on Key Issues

Queensland considers that the Payroll Tax category should be finalised on the basis outlined in the Draft Report with the exception of;

- reconsidering the appropriate threshold for testing the materiality of an agriculture, forestry and fisheries (AFF) adjustment.

PROPOSED METHODOLOGY

The Commission's payroll tax methodology proposed in the Draft Report uses CoE data as the broad indicator of revenue base. It proposed the tax-free threshold be increased from \$650,000 to \$700,000 for CoE data and will be updated annually in line with the Australian average tax-free thresholds as a means to ensure contemporaneity. The adjustment for the AFF industry will be removed from the revenue base and an adjustment for higher education institutions will be included.

ASSESSMENT APPROACH

Broad Indicator

Queensland supports the Commission's proposal to assess payroll tax using CoE data as the broad indicator as it is reliable and provided by an independent source.

Following discussions with Commission staff, Queensland understands the Commission proposes increasing the tax-free threshold even further than originally proposed in the Draft Report in order to reflect the changes that three States announced to their thresholds for 2008-09. The Australian Capital Territory increased its threshold from \$1.25 million to \$1.5 million; New South Wales raised its threshold from \$600,000 to \$623,000; and South Australia increased its threshold from \$504,000 to \$552,000.

The Commission intends to increase the weighted average threshold to \$720,000. Queensland supports the Commission's approach of to update the tax-free threshold annually in line with the Australian average tax-free thresholds.

Higher Education Institutions Adjustment

The conceptual case for including the earnings of higher education institutions that are liable for payroll tax in this assessment is strong. The inclusion of the higher education institutions adjustment is supported as it is conceptually sound, data is available from the ABS and the Commission has determined it is material for Tasmania, the Australian Capital Territory and the Northern Territory.

Agriculture, Forestry and Fisheries (AFF) Adjustment

The Commission proposed retaining the \$10 per capita materiality threshold for the AFF adjustment because it meets the criteria of a 'disability', as identified in the Commission's materiality guidelines. Under the guidelines, an influence beyond a State's control can be measured in different ways depending on the availability of data. Different components of gross state product are suitable as a measure of the impact of the level of activity in different sectors, but in such cases, the Commission recommends applying a \$10 per capita materiality threshold.

An adjustment to make the CoE data more comparable with a second data set is viewed by Queensland as a data adjustment rather than a disability. A disability materiality threshold of \$10 per capita does not seem appropriate, a \$3 per capita materiality threshold appears more appropriate, because the Commission is simply making a data adjustment to improve the comparability of two data sources.

In the Motor Taxes assessment category the Commission has included a data adjustment to account for the differences in the numbers of diplomatic and consular vehicles, which are not liable for tax. As this adjustment is made because it affects the revenue raising capacity of one state more than others, it could reasonably be viewed as a matter beyond state control and therefore a disability. The treatment of AFF does not appear to be consistent with the Commission's treatment of diplomatic and cars in the motor taxes assessment as a data adjustment, not a disability. Queensland suggests the Commission consider this apparent inconsistency and re-visit whether a materiality threshold of \$3 or \$10 is appropriate for the AFF adjustment.