

PAYROLL TAX

- 1 This working paper describes how the Commission calculated the revenue each State would have raised from payroll taxes if it made the Australian average effort. The development of the assessment method is discussed in Volume 3 of the 2004 Review Working Papers.

PAYROLL TAXES

- 2 All States levy payroll taxes on the wages, salaries, allowances and benefits paid or payable to employees. The employers pay this tax.
- 3 All States exempt employers with payrolls below a certain threshold and allow larger employers to deduct the threshold amount from their taxable payrolls. Grouping provisions prevent employers from breaking up their operations into separate businesses to avoid, or reduce, their payroll tax liability.
- 4 Some classes of employers are exempt, and some classes of employees are exempt or taxed at lower rates. The scope of taxable classes of employers and employees, taxable payments, tax rates and threshold amounts differ across States.¹
- 5 Payroll tax is essentially collected from private sector employers. The Commission excludes any payroll taxes paid by State general government sector agencies from the category. While States may nominally impose payroll tax on their departments, there is no net revenue gain because the taxes paid are effectively transfers back to the State budget. Commonwealth and local government general government sectors are not liable for State taxes.
- 6 However, the Commission includes payroll taxes paid by public trading enterprises (other than housing authorities which the Commission treats as welfare agencies)². Under national competition policy, public trading entities (at whatever level of government) are taxed the

¹ From 1 July 2007, New South Wales and Victoria moved to harmonise their payroll tax legislation with common interpretations of the law and common payroll tax forms and systems. However, the payroll tax rates and general deduction thresholds remained different in each State. Subsequently, Tasmania has announced it will adopt the harmonised Victorian and New South Wales arrangements from 1 July 2008 while also retaining its existing rates and threshold.

² The Australian Bureau of Statistics (ABS) uses the term Public Trading Enterprises (PTEs) to include public trading enterprises and public financial enterprises.

same way as private entities. Taxes paid by State owned enterprises are a charge to the customer, not the State budget.

Why revenues raised from payroll taxes differ

- 7 Payroll tax is an important source of revenue raised by the States, averaging around 25 per cent of total own-sourced revenue raised in recent years (Table 1).

Table 1 Payroll tax revenue as share of States' own-source revenue, 2001-02 to 2006-07

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Average revenues (\$pc)	496.29	513.26	539.86	590.39	635.24	688.62
% of total own-source revenues	25.78	24.90	24.20	25.60	25.15	25.19

Source: Data collected by the Commission from the States.

- 8 Table 2 shows that revenues raised from payroll taxes per capita differ greatly for each State and from the Australian average. The Commission seeks to understand the reasons for the differences. If the reasons are to do with tax provisions, they are differences in revenue raising effort due to policy differences and have no impact on State shares of the pool. If the reasons are due to circumstances beyond a State's control, they are revenue raising disabilities. The Commission takes these disabilities into account in its revenue assessment. They do affect State shares of the pool.

Table 2 Payroll tax revenues per capita, 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
2001-02	609.15	529.14	332.25	469.19	396.37	326.05	457.65	466.77	496.29
2002-03	619.74	535.14	354.01	517.75	428.54	327.30	502.20	497.53	513.26
2003-04	650.01	547.67	382.92	569.01	464.67	353.15	527.91	450.47	539.86
2004-05	716.60	606.64	423.09	595.77	481.65	399.29	562.54	540.55	590.39
2005-06	761.44	648.50	473.46	655.84	507.74	438.63	611.06	596.03	635.24
2006-07	824.67	673.19	539.65	762.33	535.95	445.73	652.47	603.75	688.62

Source: Data collected by the Commission from the States.

Box 1: The Commission's concept of average

The Australian average revenue per capita is not a simple average of the revenue per capita for the eight States. It is a population weighted average, calculated by dividing the total revenues raised by all States by total population of all States. Population weighting gives equal weight to people irrespective of their State of residence. But, since more Australians live in New South Wales, that State carries more weight in the calculation of the average. For example, more than 32 per cent of Australians live in New South Wales, and less than 3 per cent in Tasmania. Population weighting gives the experience of New South Wales (\$824.67 per capita in 2006-07) about 14 times the weight of the experience of Tasmania (\$445.73 per capita). This means that the average revenue per capita is generally closer to the revenue per capita of New South Wales than the revenue per capita for Tasmania.

This concept of average also applies to the assessment of the average effective tax rate. In calculating the average effort to raise revenue, the Commission divides the total revenue raised by all States by the total revenue bases of all States. This gives weight to the revenue effort of each State according to its share of the total Australian revenue base.

- 9 The reasons for the differences between States in revenues per capita include:
- policy influences on revenue effort such as:
 - rates of tax;
 - differences in thresholds;
 - classes of employers exempt from tax (for example, charitable and benevolent institutions, possibly country or export industries);
 - classes of payments exempt from tax (for example, payments to trainees or apprentices); and
 - non policy influences on taxable payrolls such as:
 - the sizes of States' labour forces relative to their population;
 - the relative sizes of their private sectors;
 - their industry structures which affect the labour and occupation mix;
 - the proportion of large employers; and
 - the wage and salary levels.
- 10 Table 3 compares the effective tax rates for selected annual payrolls in each State.

**Table 3 Payroll tax rates, thresholds and tax payable at selected payrolls,
1 January 2007**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Tax rate	6.00	5.15	4.75	5.50	5.50	6.10	6.85	6.20
	\$	\$	\$	\$	\$	\$	\$	\$
Tax-free threshold	600 000	550 000	1 000 000	750 000	504 000	1 010 000	1 250 000	1 250 000
Tax payable at annual payroll of								
\$700 000	6 000	7 725	0	0	10 780	0	0	0
\$1 million	24 000	23 175	0	13 750	27 280	0	0	0
\$2 million	84 000	74 675	63 333	68 750	82 280	60 390	51 375	46 500
\$3 million	144 000	126 175	126 667	123 750	137 280	121 390	119 875	108 500
\$5 million	264 000	229 175	237 500	233 750	247 280	243 390	256 875	232 500
\$10 million	564 000	486 675	475 000	508 750	522 280	548 390	599 375	542 500
\$20 million	1 164 000	1 001 675	950 000	1 058 750	1 072 280	1 158 390	1 162 500	1 178 000
	%	%	%	%	%	%	%	%
Average tax rate on annual payroll of								
\$700 000	0.86	1.10	0.00	0.00	1.54	0.00	0.00	0.00
\$1 million	2.40	2.32	0.00	1.38	2.73	0.00	0.00	0.00
\$2 million	4.20	3.73	3.17	3.44	4.11	3.02	2.33	3.10
\$3 million	4.80	4.21	4.22	4.13	4.58	4.05	3.62	4.13
\$5 million	5.28	4.58	4.75	4.68	4.95	4.87	4.65	4.96
\$10 million	5.64	4.87	4.75	5.09	5.22	5.48	5.43	5.58
\$20 million	5.82	5.01	4.75	5.29	5.36	5.79	5.81	5.89

Source: *Overview of State Taxes Western Australia 2006-07*, Department of Treasury and Finance, Western Australia, page 4.

11 Table 4 shows some broad indicators of the ability of States to raise payroll taxes.

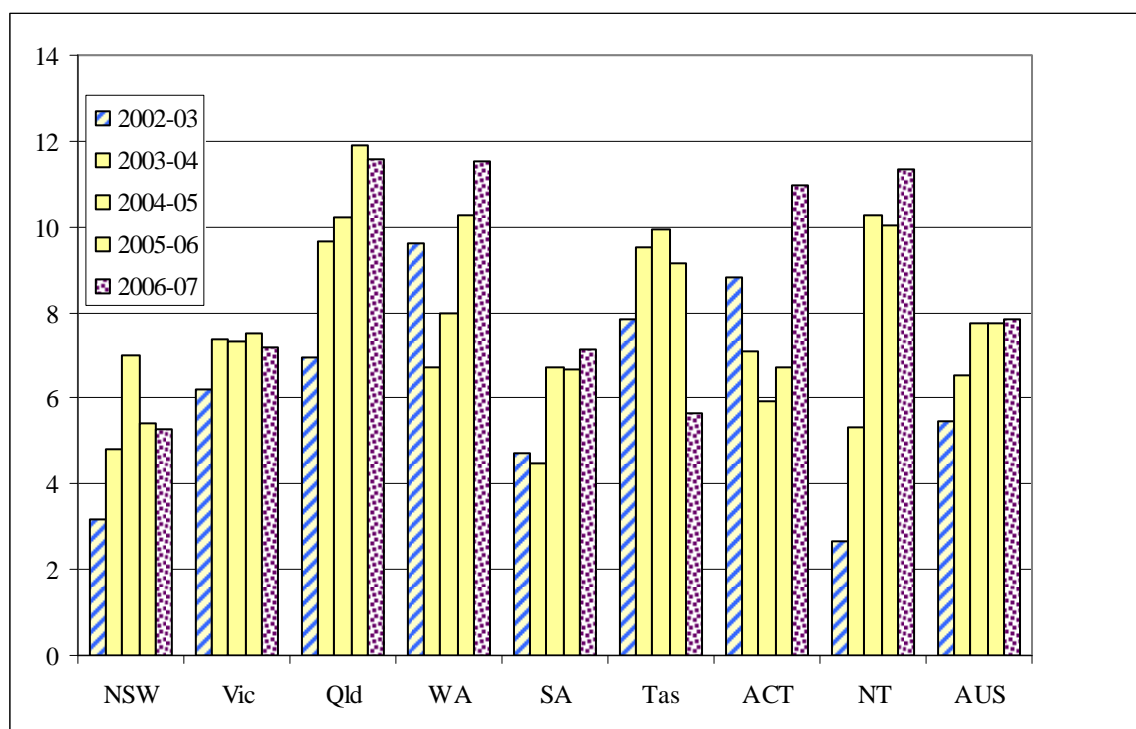
Table 4 Broad indicators of ability to raise payroll taxes, 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
(a) General indicators									
Compensation of employees \$pc	25 266	23 981	22 456	24 406	20 652	18 111	39 734	24 582	24 014
<i>Change from 2005-06 (%)</i>	4.3	5.6	9.2	9.2	6.1	5.0	9.5	10.6	6.3
<i>Change from 2001-02 (%)</i>	23.8	32.0	43.3	42.8	28.3	43.8	39.2	36.3	31.7
Private sector wages and salaries \$pc	16 023	15 794	14 258	15 756	12 596	10 302	12 412	12 260	15 099
<i>Change from 2005-06 (%)</i>	6.0	6.6	9.9	10.9	7.6	3.4	14.6	1.2	7.5
<i>Change from 2001-02 (%)</i>	24.4	28.7	46.7	41.0	28.4	49.5	25.1	57.9	31.5
Employment ('000)	3353.0	2588.7	2131.3	1106.8	757.4	225.1	188.1	105.9	10 456.3
<i>Change from 2005-06 (%)</i>	2.2	2.6	4.8	3.4	0.9	-0.1	1.5	4.1	2.8
<i>Change from 2001-02 (%)</i>	9.0	12.3	21.9	16.3	8.9	13.0	8.3	7.3	13.0
Proportion of businesses with employment over 20 (%)	10.1	10.6	12.3	12.5	11.4	12.4	11.8	16.3	11.1
	%	%	%	%	%	%	%	%	%
(b) Ratios^(a)									
Compensation of employees	105.2	99.9	93.5	101.6	86.0	75.4	165.5	102.4	100.0
Private sector wages and salaries	106.1	104.6	94.4	104.4	83.4	68.2	82.2	81.2	100.0
Proportion of businesses with employment over 20	91.1	95.7	111.3	113.0	103.1	112.2	106.9	146.8	100.0

(a) Calculated by dividing the figure for each State by the Australian average figure.

Source: ABS *Australian National Accounts State Accounts 2006-07*, 5220.0, November 2007, *Business Indicators*, 5676.0, June 2007, *Labour Force Australia*, 6202.0, October, 2007, and *Business Register*, 8161.0, June 2004.

- 12 Patterns of growth in compensation of employees (CoE) for the different States are shown in Figure 1. In all five years, the rate of increase in CoE in New South Wales and South Australia has been below the national average. In contrast, growth has been above the national average in Queensland and Western Australia in all years.
- 13 The high CoE per capita for the ACT is attributable to the large presence of the Australian government sector, which is exempt from State payroll tax. The average per capita private sector wage and salaries component of total wages in the ACT was the second lowest among the States.
- 14 A notable aspect of the changes in CoE was the large increases in per capita CoE in 2006-07 from the previous year in the mining rich States of Western Australia, Queensland and Northern Territory.

Figure 1 Annual percentage change in compensation of employees

- 15 Private sector wages and salaries are better indicators of the ability to raise payroll taxes, although these do not account for differences in the proportion of small employers whose total payroll is below the threshold before payroll tax liability arises. New South Wales and Victoria have consistently had above average per capita levels of private sector wages and salaries suggesting above average revenue raising ability. In 2006-07, Western Australia joined New South Wales and Victoria in having above average per capita private sector wages and salaries.
- 16 The amount of payroll tax collected was also influenced by the growth in employment, particularly in large businesses. Employment growth was relatively low in New South Wales, Victoria, South Australia and Tasmania. In line with population trends, employment growth was strongest in the mining rich States of Queensland, Western Australia and the Northern Territory.
- 17 There are differences between the States in which industries contributed to the growth in CoE over the five years. Table 5 sets out the top five industries for each State showing the percentage contribution towards total growth in CoE over the five years. (Two industries, Government administration and defence and Education have been excluded because these industries are predominately public sector industries and not liable for payroll tax.)

Table 5 Industry contribution to growth in compensation of employees

State	Industry
New South Wales	Property & business services (26.8%), Finance & industry (16.2%), Health & community services (11.5%), Manufacturing (8.3%), Construction (8.2%).
Victoria	Property & business services (22.9%), Finance & industry (14.6%), Health & community services (11.9%), Manufacturing (11.0%), Construction (9.3%).
Queensland	Property & business services (19.4%), Construction (12.7%), Health & community services (12.6%), Retail trade (10.2%), Manufacturing (11.0%).
Western Australia	Property & business services (23.3%), Construction (15.2%), Mining (14.1%), Health & community services (10.6%), Manufacturing (9.7%),
South Australia	Manufacturing (18.2%), Property & business services (17.0%), Health & community services (14.9%), Construction (10.3%), Finance & industry (8.4%).
Tasmania	Health & community services (22.0%), Manufacturing (15.4%), Property & business services (9.8%), Construction (9.8%), Finance & industry (9.6%).
ACT	Construction (28.5%), Property & business services (18.8%), Health & community services (15.6%), Retail trade (6.8%), Cultural & recreational services (5.9%).
NT	Property & business services (21.4%), Health & community services (14.7%), Personal & other services (13.4%), Mining (12.2%), Finance & industry (11.4%).
AUSTRALIA	Property & business services (22.5%), Health & community services (12.2%), Finance & industry (11.2%), Construction (11.0%), Manufacturing (10.2%).

18 For most States, the Property & business services industry made the greatest contribution to growth in CoE. This industry covers the provision of computing services, legal and accounting services and technical services such as engineering and architectural consulting. In the resource rich States of Western Australia and Northern Territory, the construction and/or mining industries take on greater importance. Growth in the health and community services industry has also been important for all States.

19 Besides the ACT and the Northern Territory where there is relatively high employment in the public sector, labour participation rates are relatively high in Queensland and Western Australia, the States with the highest population growth rates and experiencing high rates of growth in private sector wages and salaries.

ASSESSING STATES' CAPACITIES TO RAISE REVENUES

The equalisation task

20 The box below outlines the Commission's framework for measuring ability of States to raise revenues from their own bases. For each kind of tax, the Commission measures the revenue base available to each State, based on the average State policy of how the tax is levied, not that State's own policy. The assessed revenue base is policy neutral.

Box 2: Revenue assessment framework for each category of tax to be assessed

Aim: to measure the revenue base available to each State assuming it applied the average policy for levying the tax³.

Step 1: Review States' legislation and provisions to establish how the tax is levied — who pays it, on what activities or assets it is levied, and what exclusions from taxable liability are allowed by the States.

Step 2: Establish the average policy. The average policy is the policy applied to the majority of the total tax base. Account may also be taken of the number of States that follow the policy.

Where policy differences between States are negligible, the actual revenues raised by each State would be an appropriate measure of each State's relative ability to raise revenues from their revenue bases. In this case, it would not be necessary to measure the revenue base itself. It is called the actual per capita (APC) method of assessment. It attributes differences in observed revenues per capita between States entirely to differences in abilities to raise revenues from their revenue bases.

Most often, observed differences in per capita revenues are due to both differences in revenue effort (policy) and to circumstances beyond the direct control of State governments (revenue raising disabilities).

Step 3: Determine the best conceptual measure of the revenue base under the average policy. The preference is to measure revenue bases under average policy settings using the number and value of activities, transactions or assets subject to the tax.

A broader measure (such as household disposable income, or total private expenditure) is adopted if:

- the tax itself is broad and its incidence is not easily shifted across State boundaries;
- differences in State policies have large effects on the relative number and value of activities, transactions, or assets that are taxable in each State, and it is not possible to adjust the data to remove the effects of the policy differences — in this case, data from a third party, such as the Australian Bureau of Statistics (ABS), may be used to overcome some of the problems inherent in State-provided data; or
- data on the preferred conceptual measure of the revenue base are not available.

However, broad measures tend to be more distant from the States' actual tax bases, and there is a judgment to be made as to how well they reflect the ability to raise taxes.

Where differences between each State's policy and the average policy are very large, and a representative and policy neutral revenue base cannot be calculated with confidence, the Commission uses State mean resident populations as the revenue base. This implies equal ability to raise revenues per capita in each State. This is the equal per capita (EPC) assessment method. It attributes differences in observed per capita revenues between States to policy, and does not cause any redistribution of GST shares.

ASSESSING REVENUE FOR PAYROLL TAX**The revenue base**

- 21 In assessing capacity to raise revenue from payroll tax, the aim was to measure a revenue base that reflected the size of the payrolls subject to payroll tax in all States, assuming the average policy was applied in all States.
- 22 Differences in State policies (as shown in Table 3) were large, and ruled out the use of the actual per capita revenues as a measure of each State's ability to raise revenues.

³ The aim is to adopt a revenue base that inherently reflects all revenue raising disabilities, without measuring them separately. This approach differs from the approach used for expenses which starts from an assumption of equal costs per capita and makes allowances for each individual source of cost disabilities.

- 23 Data collected from the States on the value of taxable payrolls would be affected by differences between them in taxation policies and so fail comparability tests. For example, differences in threshold provisions mean that one State might exempt an employer that would be taxed elsewhere. Payments for commissions, employee share options, employer provided motor cars or relocation expenses may be taxable in one State but not necessarily in others.
- 24 The Commission therefore chose a broader indicator of capacity, using data on total CoE available from the annual Australian Bureau of Statistics (ABS) publication of *Australian National Accounts State Accounts, 5220.0*. These data were the broadest measure of remuneration paid to employees and included cash and non-cash benefits.
- 25 The data had to be separately adjusted to the average State policy on thresholds and exemptions because CoE data were not available by sector or by payroll size of employers. However, data on cash remuneration by sector and by size of employer were available from other ABS series — public sector gross earnings data from *Wage and Salary Earners 6248.0.55.001* based on the Survey of Employment and Earnings (SEE), and private sector wages and salaries from *Business Indicators 5676.0* based on the Quarterly Business Indicators Survey.
- 26 The adjusted base was a broad proxy for the actual tax bases used in each State. The Commission adjusted the State totals of CoE to exclude amounts attributable to:
- members of defence forces and Australian employees of Australian embassies and consulates overseas because they were excluded from the public sector survey and their payrolls were not taxed;
 - employees of general government sectors (at all levels of government) so that the base reflected private sector employers and public trading enterprises (PTE) — the so-called *private/PTE adjustment* (leaving PTEs in the base meant that State privatisation policies did not distort the assessment.). This was particularly important for the ACT, and to a lesser degree the Northern Territory, because of the disproportionately large Australian Government sectors in these Territories; and
 - amounts of CoE below a taxable threshold — the so-called *threshold adjustment* because it was the policy of most States to have a tax-free threshold so that some employers were exempt altogether and others were allowed to deduct the threshold amount from taxable payrolls.
- 27 The private/PTE and the threshold adjustments were calculated as proportions using the gross earnings and wages and salaries data. The proportions were then applied to the CoE data to arrive at the revenue base net of CoE of the general government sector and the private/PTE sector below the taxable threshold.
- 28 When the Commission adopted a new method for calculating the revenue base in the 2004 Review, changes to ABS data allowed for the calculation of CoE paid by businesses below a dollar amount threshold. A gross earnings/wages and salaries of \$550 000 was chosen and was equivalent to a CoE of around \$650 000. The revenue base excluded the

wages and salaries of employers whose total wage and salaries expenditure was below the threshold, and the first \$550 000 of wages and salaries paid by employers whose total wage and salaries expenditure was above the threshold. This reflected average policy in recent years to apply a flat rate of tax to amounts above the threshold.

Developments in the 2008 Update

- 29 **Revisions to data.** ABS provided some minor revisions to some of their data series for the more recent years.

Calculating the revenue base

- 30 Tables 6 to 9 show the calculation of the revenue base for all years from 2001-02 to 2006-07.
- 31 Table 6 shows deductions from CoE for classes of employers who do not pay tax. The agriculture, forestry and fishing sector was also excluded at this stage to better match the CoE data to the coverage of the private sector wages data used to calculate the taxable proportions. Data for the agriculture, forestry and fishing sector were subsequently added back.
- 32 Table 7 shows the calculation of the proportion of CoE attributable to the private and PTE sector. This was used to exclude payments by the general government sector from the revenue base.
- Total private sector wages and salaries increased by 9.1 per cent in 2006-07 with above average growth being recorded in Queensland (up 12.3 per cent), Western Australia (13.3 per cent) and the ACT (16.2 per cent).
- 33 Table 8 shows the calculation of the proportion of private and PTE payrolls above the threshold. This was used to exclude payments by small businesses from the revenue base and the amounts of the threshold for large employers. It shows the overall proportion of CoE attributable to taxable private and PTE payrolls.
- The estimated total wages and salaries liable for payroll tax rose by 9.7 per cent in 2006-07. Above average increases were recorded in Queensland (up 12.1 per cent), Western Australia (11.7 per cent), South Australia (14.6 per cent), the ACT (14.7 per cent) and Northern Territory (18.7 per cent).
- 34 Table 9 shows the calculation of the revenue base.

Table 6 Compensation of employees (CoE), adjusted for exempt classes of employers

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
A. Total^(a)									
2001-02	134 862.0	87 853.0	57 559.0	32 725.0	24 409.0	5 947.0	9 159.0	3 580.0	356 094.0
2002-03	139 158.0	93 314.0	61 567.0	35 865.0	25 556.0	6 412.0	9 965.0	3 675.0	375 512.0
2003-04	145 873.0	100 203.0	67 507.0	38 282.0	26 697.0	7 022.0	10 671.0	3 871.0	400 126.0
2004-05	156 083.0	107 526.0	74 399.0	41 331.0	28 485.0	7 721.0	11 301.0	4 269.0	431 115.0
2005-06	164 535.0	115 597.0	83 243.0	45 566.0	30 387.0	8 427.0	12 058.0	4 698.0	464 511.0
2006-07	173 220.0	123 920.0	92 869.0	50 815.0	32 561.0	8 904.0	13 378.0	5 231.0	500 898.0
B. Embassies and consulates^(b)									
2001-02	0.0	0.0	0.0	0.0	0.0	0.0	237.0	0.0	237.0
2002-03	0.0	0.0	0.0	0.0	0.0	0.0	279.0	0.0	279.0
2003-04	0.0	0.0	0.0	0.0	0.0	0.0	352.0	0.0	352.0
2004-05	0.0	0.0	0.0	0.0	0.0	0.0	314.0	0.0	314.0
2005-06	0.0	0.0	0.0	0.0	0.0	0.0	335.0	0.0	335.0
2006-07	0.0	0.0	0.0	0.0	0.0	0.0	332.0	0.0	332.0
C. Defence^(c)									
2001-02	1 126.4	506.4	943.2	272.2	182.8	8.7	355.5	381.7	3 777.1
2002-03	1 242.9	547.2	971.0	306.1	189.1	9.9	382.1	392.3	4 040.7
2003-04	1 382.3	573.5	1 112.4	341.8	227.4	12.7	421.8	439.3	4 511.2
2004-05	1 363.2	501.6	1 032.7	329.4	209.4	11.9	397.5	423.1	4 269.0
2005-06	1 439.9	499.2	1 033.2	332.1	223.2	12.3	414.2	439.4	4 393.5
2006-07	1 523.7	531.5	1 105.5	346.0	243.9	12.6	453.2	485.3	4 701.8
D. Agriculture, Forestry and Fishing COE^(d)									
2001-02	1 642.0	1 181.0	1 401.0	780.0	488.0	217.0	5.0	63.0	5 777.0
2002-03	1 555.0	1 104.0	1 279.0	841.0	519.0	216.0	6.0	48.0	5 568.0
2003-04	1 535.0	1 112.0	1 385.0	969.0	551.0	240.0	7.0	52.0	5 851.0
2004-05	1 581.0	1 152.0	1 446.0	1 020.0	575.0	253.0	8.0	57.0	6 092.0
2005-06	1 530.0	1 086.0	1 502.0	1 056.0	575.0	247.0	8.0	45.0	6 049.0
2006-07	1 618.0	1 020.0	1 557.0	873.0	510.0	203.0	4.0	72.0	5 857.0

Table 6 Compensation of employees (CoE), adjusted for exempt classes of employers (cont)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
E. Adjusted COE (E = A - B- C- D)									
2001-02	132 093.6	86 165.6	55 214.8	31 672.8	23 738.2	5 721.3	8 561.5	3 135.3	346 302.9
2002-03	136 360.1	91 662.8	59 317.0	34 717.9	24 847.9	6 186.1	9 297.9	3 234.7	365 624.3
2003-04	142 955.7	98 517.5	65 009.6	36 971.2	25 918.6	6 769.3	9 890.2	3 379.7	389 411.8
2004-05	153 138.8	105 872.4	71 920.3	39 981.6	27 700.6	7 456.1	10 581.5	3 788.9	420 440.0
2005-06	161 565.1	114 011.8	80 707.8	44 177.9	29 588.8	8 167.7	11 300.8	4 213.6	453 733.5
2006-07	170 078.3	122 368.5	90 206.5	49 596.0	31 807.1	8 688.4	12 588.8	4 673.7	490 007.2

(a) ABS Australian National Accounts State Accounts 5220.0 2006-07, Table 32.

(b) ABS unpublished data.

(c) Department of Defence Annual Reports.

(d) ABS Australian National Accounts State Accounts 5220.0 2006-07, Table 33-41.

Table 7 Proportion of CoE attributable to the private and public trading enterprises

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
F. Private sector total wages and salaries									
2001-02	85 086.0	59 330.0	35 694.0	21 387.0	14 872.0	3 254.0	3 183.0	1 541.0	224 347.0
2002-03	88 561.0	62 176.0	38 487.0	23 149.0	15 676.0	3 452.0	3 395.0	1 643.0	236 539.0
2003-04	93 365.0	66 624.0	42 496.0	24 304.0	16 159.0	3 913.0	3 566.0	1 855.0	252 282.0
2004-05	97 702.0	69 854.0	46 307.0	25 906.0	17 824.0	4 420.0	3 411.0	2 410.0	267 834.0
2005-06	102 655.0	75 400.0	52 514.0	28 962.0	18 262.0	4 868.0	3 597.0	2 528.0	288 786.0
2006-07	109 851.0	81 615.0	58 967.0	32 805.0	19 859.0	5 065.0	4 179.0	2 609.0	314 950.0
G. Public sector total gross earnings									
2001-02	22 385.7	13 902.3	13 085.4	6 186.5	4 868.6	1 747.0	3 815.4	1 117.0	67 107.9
2002-03	23 390.1	15 098.4	13 299.5	6 506.3	4 992.9	1 801.7	4 145.2	1 158.1	70 392.2
2003-04	24 922.6	15 931.9	14 290.2	7 018.9	5 468.4	1 937.9	4 669.2	1 271.7	75 510.8
2004-05	26 652.0	17 134.2	15 279.6	7 669.1	5 952.9	2 080.6	4 962.3	1 328.8	81 059.5
2005-06	28 295.3	18 428.4	16 799.5	8 090.7	6 471.6	2 269.4	5 348.6	1 419.5	87 123.0
2006-07	29 620.2	19 034.9	18 270.4	8 629.4	6 830.3	2 396.9	5 932.9	1 511.5	92 226.5
H. Total wages and salaries/gross earnings (F + G)									
2001-02	107 471.7	73 232.3	48 779.4	27 573.5	19 740.6	5 001.0	6 998.4	2 658.0	291 454.9
2002-03	111 951.1	77 274.4	51 786.5	29 655.3	20 668.9	5 253.7	7 540.2	2 801.1	306 931.2
2003-04	118 287.6	82 555.9	56 786.2	31 322.9	21 627.4	5 850.9	8 235.2	3 126.7	327 792.8
2004-05	124 354.0	86 988.2	61 586.6	33 575.1	23 776.9	6 500.6	8 373.3	3 738.8	348 893.5
2005-06	130 950.3	93 828.4	69 313.5	37 052.7	24 733.6	7 137.4	8 945.6	3 947.5	375 909.0
2006-07	139 471.2	100 649.9	77 237.4	41 434.4	26 689.3	7 461.9	10 111.9	4 120.5	407 176.5

Table 7 Proportion of CoE attributable to the private and public trading enterprises (cont.)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
I. PTEs (net industry) taxable gross earnings ^a									
2001-02	3 743.5	1 816.6	2 289.8	710.9	435.5	238.0	141.2	99.8	9 475.2
2002-03	3 766.0	1 876.4	2 404.2	755.8	435.2	235.3	175.2	92.2	9 740.1
2003-04	3 930.8	2 024.5	2 546.3	782.3	460.0	257.9	198.6	97.8	10 298.5
2004-05	4 277.4	2 104.9	2 645.6	832.6	481.3	268.8	210.4	101.8	10 922.8
2005-06	4 753.1	2 389.1	3 035.6	913.2	522.1	292.1	239.6	113.9	12 258.6
2006-07	4 589.6	1 892.7	2 917.7	918.0	485.2	293.4	216.6	107.9	11 421.1
J. Total Private and PTEs (net industry) wages and salaries/gross earnings (F + I)									
2001-02	88 829.5	61 146.6	37 983.8	22 097.9	15 307.5	3 492.0	3 324.2	1 640.8	233 822.2
2002-03	92 327.0	64 052.4	40 891.2	23 904.8	16 111.2	3 687.3	3 570.2	1 735.2	246 279.1
2003-04	97 295.8	68 648.5	45 042.3	25 086.3	16 619.0	4 170.9	3 764.6	1 952.8	262 580.5
2004-05	101 979.4	71 958.9	48 952.6	26 738.6	18 305.3	4 688.8	3 621.4	2 511.8	278 756.8
2005-06	107 408.1	77 789.1	55 549.6	29 875.2	18 784.1	5 160.1	3 836.6	2 641.9	301 044.6
2006-07	114 440.6	83 507.7	61 884.7	33 723.0	20 344.2	5 358.4	4 395.6	2 716.9	326 371.1
Private and PTE proportion (J / H)									
2001-02	0.82654	0.83497	0.77868	0.80142	0.77543	0.69827	0.47500	0.61730	0.80226
2002-03	0.82471	0.82889	0.78961	0.80609	0.77949	0.70184	0.47349	0.61946	0.80239
2003-04	0.82254	0.83154	0.79319	0.80089	0.76843	0.71287	0.45714	0.62457	0.80106
2004-05	0.82007	0.82723	0.79486	0.79638	0.76988	0.72128	0.43249	0.67183	0.79897
2005-06	0.82022	0.82906	0.80143	0.80629	0.75946	0.72296	0.42888	0.66925	0.80084
2006-07	0.82053	0.82968	0.80123	0.81389	0.76226	0.71810	0.43470	0.65936	0.80155

(a) Figures are State totals of the following industries: Agriculture, Manufacturing, Electricity, gas and water supply; Transport and storage; Communication services; and Finance and insurance, excluding the first \$550 000 of gross earnings. Confidentiality provisions preclude ABS from supplying gross figures for each of these industries.

Source: Private sector data are from ABS *Business Indicators June Quarter 2007*, 5676.0 Table 15 and unpublished ABS data. Public sector data are from ABS *Wage and Salary Earners June Quarter 2007* 6248.0.55.001.

Table 8 Proportion of private and PTE payrolls above the threshold

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
K. Wages and salaries of exempt businesses (payrolls below threshold \$550 000)									
2001-02	22 448.4	14 446.5	11 181.8	5 489.9	4 045.2	808.7	1 177.6	317.8	59 916.0
2002-03	20 919.8	14 794.2	10 743.6	5 241.4	3 912.4	896.0	914.5	311.7	57 733.5
2003-04	22 039.8	15 913.8	11 300.3	5 050.2	3 971.9	909.2	1 131.4	290.2	60 606.7
2004-05	22 817.5	15 800.3	12 661.7	5 602.3	4 458.8	1 087.5	1 044.8	507.2	63 980.0
2005-06	24 283.2	16 431.5	13 313.9	6 329.9	4 233.4	1 234.7	1 078.6	515.7	67 420.9
2006-07	23 636.4	16 986.9	14 205.8	6 956.9	4 230.2	1 303.8	885.9	472.9	68 678.7

Table 8 Proportion of private and PTE payrolls above the threshold (cont.)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
L. Exempt wages and salaries of taxable businesses (first \$550 000 of payrolls)									
2001-02	8 872.7	7 012.3	4 089.8	2 526.9	1 967.2	392.3	452.1	221.6	25 534.9
2002-03	9 591.1	6 954.9	4 587.2	2 712.1	1 878.4	431.1	508.7	204.7	26 868.2
2003-04	10 113.6	7 125.3	5 270.2	2 809.6	1 859.5	553.5	454.5	265.9	28 452.0
2004-05	10 029.0	7 597.3	5 399.1	2 712.6	2 023.9	641.0	367.1	376.7	29 146.8
2005-06	9 477.2	8 432.1	6 763.8	3 210.2	2 030.8	630.9	369.2	417.3	31 331.5
2006-07	10 854.8	9 634.1	7 892.5	3 618.9	2 194.8	553.1	661.9	418.4	35 828.4
M. Wages and salaries below threshold (K + L)									
2001-02	31 321.1	21 458.9	15 271.7	8 016.7	6 012.4	1 201.0	1 629.7	539.4	85 450.9
2002-03	30 510.9	21 749.1	15 330.8	7 953.5	5 790.8	1 327.1	1 423.2	516.4	84 601.7
2003-04	32 153.4	23 039.1	16 570.4	7 859.7	5 831.4	1 462.7	1 585.9	556.1	89 058.7
2004-05	32 846.4	23 397.6	18 060.8	8 314.9	6 482.7	1 728.5	1 411.9	884.0	93 126.8
2005-06	33 760.4	24 863.6	20 077.6	9 540.1	6 264.2	1 865.6	1 447.8	933.0	98 752.4
2006-07	34 491.2	26 621.0	22 098.3	10 575.7	6 424.9	1 857.0	1 547.8	891.3	104 507.1
N. Total taxable wages and salaries/gross earnings (J - M)									
2001-02	57 508.4	39 687.7	22 712.1	14 081.2	9 295.1	2 291.0	1 694.5	1 101.4	148 371.3
2002-03	61 816.2	42 303.3	25 560.4	15 951.3	10 320.4	2 360.2	2 147.0	1 218.8	161 677.5
2003-04	65 142.5	45 609.5	28 471.9	17 226.6	10 787.6	2 708.2	2 178.8	1 396.7	173 521.8
2004-05	69 133.0	48 561.3	30 891.8	18 423.7	11 822.6	2 960.3	2 209.5	1 627.9	185 630.0
2005-06	73 647.6	52 925.5	35 471.9	20 335.1	12 519.9	3 294.5	2 388.7	1 708.9	202 292.2
2006-07	79 949.4	56 886.7	39 786.4	23 147.3	13 919.3	3 501.4	2 847.8	1 825.6	221 864.0
Proportion of taxable wages and salaries above threshold (N / J)									
2001-02	0.64740	0.64906	0.59794	0.63722	0.60722	0.65607	0.50975	0.67125	0.63455
2002-03	0.66953	0.66045	0.62508	0.66729	0.64057	0.64009	0.60137	0.70238	0.65648
2003-04	0.66953	0.66439	0.63211	0.68669	0.64911	0.64930	0.57874	0.71523	0.66083
2004-05	0.67791	0.67485	0.63105	0.68903	0.64586	0.63136	0.61012	0.64808	0.66592
2005-06	0.68568	0.68037	0.63856	0.68067	0.66652	0.63846	0.62262	0.64684	0.67197
2006-07	0.69861	0.68122	0.64291	0.68639	0.68419	0.65345	0.64787	0.67195	0.67979
O. Overall taxable private and PTE proportion of wages and salaries/gross earnings (N / H)									
2001-02	0.53510	0.54194	0.46561	0.51068	0.47086	0.45811	0.24213	0.41436	0.50907
2002-03	0.55217	0.54744	0.49357	0.53789	0.49932	0.44924	0.28474	0.43510	0.52675
2003-04	0.55071	0.55247	0.50139	0.54997	0.49879	0.46287	0.26457	0.44671	0.52936
2004-05	0.55594	0.55825	0.50160	0.54873	0.49723	0.45539	0.26387	0.43540	0.53205
2005-06	0.56241	0.56407	0.51176	0.54882	0.50619	0.46158	0.26703	0.43290	0.53814
2006-07	0.57323	0.56519	0.51512	0.55865	0.52153	0.46924	0.28163	0.44306	0.54488

Source: Private sector data are from ABS *Business Indicators June Quarter 2006*, 5676.0 Table 15 and unpublished ABS data. Public sector data are from ABS *Wage and Salary Earners June Quarter 2007*, 6248.0.55.001.

Table 9 Calculation of the payroll tax revenue base

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
P. Taxable compensation of employees									
2001-02	70 683.6	46 696.8	25 708.4	16 174.6	11 177.4	2 621.0	2 073.0	1 299.1	176 433.9
2002-03	75 294.1	50 180.1	29 277.2	18 674.5	12 407.0	2 779.0	2 647.5	1 407.4	192 666.8
2003-04	78 727.5	54 427.8	32 595.0	20 333.0	12 928.0	3 133.3	2 616.6	1 509.8	206 270.9
2004-05	85 135.5	59 103.4	36 075.1	21 939.1	13 773.5	3 395.4	2 792.2	1 649.7	223 864.0
2005-06	90 865.6	64 310.3	41 303.1	24 245.5	14 977.6	3 770.0	3 017.7	1 824.1	244 313.9
2006-07	97 494.3	69 161.9	46 467.1	27 706.8	16 588.4	4 077.0	3 545.4	2 070.7	267 111.5
Q. Compensation of employees - Agriculture, forestry and fishing, D from Table 6									
2001-02	1 642.0	1 181.0	1 401.0	780.0	488.0	217.0	5.0	63.0	5 777.0
2002-03	1 555.0	1 104.0	1 279.0	841.0	519.0	216.0	6.0	48.0	5 568.0
2003-04	1 535.0	1 112.0	1 385.0	969.0	551.0	240.0	7.0	52.0	5 851.0
2004-05	1 581.0	1 152.0	1 446.0	1 020.0	575.0	253.0	8.0	57.0	6 092.0
2005-06	1 530.0	1 086.0	1 502.0	1 056.0	575.0	247.0	8.0	45.0	6 049.0
2006-07	1 618.0	1 020.0	1 557.0	873.0	510.0	203.0	4.0	72.0	5 857.0
R. Taxable proportion - private sector (F - M) / F									
2001-02	0.63189	0.63831	0.57215	0.62516	0.59572	0.63091	0.48799	0.64996	0.61911
2002-03	0.65548	0.65020	0.60166	0.65642	0.63059	0.61556	0.58080	0.68569	0.64234
2003-04	0.65562	0.65419	0.61007	0.67661	0.63912	0.62618	0.55528	0.70022	0.64699
2004-05	0.66381	0.66505	0.60998	0.67904	0.63629	0.60895	0.58607	0.63321	0.65230
2005-06	0.67113	0.67024	0.61767	0.67060	0.65698	0.61677	0.59749	0.63093	0.65804
2006-07	0.68602	0.67382	0.62524	0.67762	0.67647	0.63337	0.62962	0.65838	0.66818
S. Taxable compensation of employees - Agriculture, forestry and fishing (Q * R)									
2001-02	1037.6	753.8	801.6	487.6	290.7	136.9	2.4	40.9	3 551.6
2002-03	1019.3	717.8	769.5	552.1	327.3	133.0	3.5	32.9	3 555.3
2003-04	1006.4	727.5	844.9	655.6	352.2	150.3	3.9	36.4	3 777.2
2004-05	1049.5	766.1	882.0	692.6	365.9	154.1	4.7	36.1	3 951.0
2005-06	1026.8	727.9	927.7	708.2	377.8	152.3	4.8	28.4	3 953.9
2006-07	1110.0	687.3	973.5	591.6	345.0	128.6	2.5	47.4	3 885.8
Revenue base (P + S)									
2001-02	71721.2	47450.6	26510.0	16662.2	11468.1	2757.9	2075.4	1340.1	179 985.5
2002-03	76313.4	50897.9	30046.7	19226.5	12734.3	2912.0	2651.0	1440.3	196 222.1
2003-04	79733.9	55155.2	33440.0	20988.6	13280.2	3283.6	2620.5	1546.2	210 048.1
2004-05	86185.0	59869.5	36957.2	22631.7	14139.4	3549.5	2796.8	1685.8	227 814.9
2005-06	91892.5	65038.2	42230.8	24953.7	15355.4	3922.4	3022.4	1852.5	248 267.8
2006-07	98604.3	69849.2	47440.6	28298.3	16933.4	4205.5	3547.9	2118.1	270 997.4

35 Table 10 shows the revenue base for all of the years of the assessment period on a per capita basis.

Table 10 Revenue bases for payroll tax, 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
2001-02	10 857	9 813	7 219	8 704	7 562	5 839	6 467	6 750	9 213
2002-03	11 471	10 397	7 975	9 918	8 343	6 130	8 178	7 222	9 921
2003-04	11 914	11 129	8 657	10 664	8 644	6 831	8 033	7 696	10 490
2004-05	12 801	11 928	9 341	11 316	9 142	7 321	8 513	8 253	11 238
2005-06	13 536	12 775	10 430	12 241	9 840	8 030	9 097	8 875	12 077
2006-07	14 383	13 517	11 471	13 592	10 740	8 554	10 537	9 953	12 992
	%	%	%	%	%	%	%	%	%
Percentage change in per capita revenue base from 2001-02 to 2006-07									
	32.5	37.7	58.9	56.2	42.0	46.5	62.9	47.5	41.0

Calculating assessed revenues per capita

36 Assessed revenues per capita are calculated by applying the Australian average effective rate of tax (5.30 per cent in 2006-07) to the revenue base of each State and dividing by the State population. Table 11 shows the calculations.

Table 11 Calculation of assessed revenue from effective rates of tax 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Population '000	6 856	5 168	4 136	2 082	1 577	492	337	213	20 859
Actual revenue \$m	5 654	3 479	2 232	1 587	845	219	220	128	14 364
Actual revenue \$pc	824.67	673.19	539.65	762.33	535.95	445.73	652.47	603.75	688.62
Revenue base \$m	98 604	69 849	47 441	28 298	16 933	4 206	3 548	2 118	270 997
Revenue base \$pc	14 383	13 517	11 471	13 592	10 740	8 554	10 537	9 953	12 992
Effective rate of tax ^(a) %	5.73	4.98	4.70	5.61	4.99	5.21	6.19	6.07	5.30
Assessed revenue ^(b) \$m	5 226	3 702	2 515	1 500	898	223	188	112	14 364
Assessed revenue \$pc	762.33	716.45	608.01	720.40	569.26	453.39	558.52	527.57	688.62

(a) Calculated for each State by dividing its actual revenue by its revenue base.

(b) Calculated for each State by multiplying its revenue base by the Australian average effective tax rate of 5.30%.

37 Assessed revenues per capita can also be calculated by developing a capacity factor from the revenue base by dividing the individual State per capita revenue base by the average per capita revenue base and applying that factor to the average per capita revenue. Table 12 shows the calculations.

Table 12 Calculation of assessed revenue from category capacity ratios 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Actual revenue \$pc	824.67	673.19	539.65	762.33	535.95	445.73	652.47	603.75	688.62
Revenue base \$pc	14 383	13 517	11 471	13 592	10 740	8 554	10 537	9 953	12 992
Revenue capacity ratio % ^(a)	110.70	104.04	88.29	104.62	82.67	65.84	81.11	76.61	100.00
Assessed revenue \$pc ^(b)	762.33	716.45	608.01	720.40	569.26	453.39	558.52	527.57	688.62
Revenue effort % ^(c)	108.18	93.96	88.76	105.82	94.15	98.31	116.82	114.44	100.00

(a) State revenue base per capita divided by Australian revenue base per capita, expressed as a percentage.

(b) State revenue capacity ratio multiplied by the Australian average actual revenue.

(c) State actual revenue divided by State assessed revenue.

38 This approach has the advantage of making explicit the States' relative revenue capacity. Also, by comparing actual revenues per capita with the assessed per capita revenues, a relative effort ratio can be derived.

39 Table 21 at the end of this section shows the average, actual and assessed revenues per capita for each State for all years of the 2008 Update.

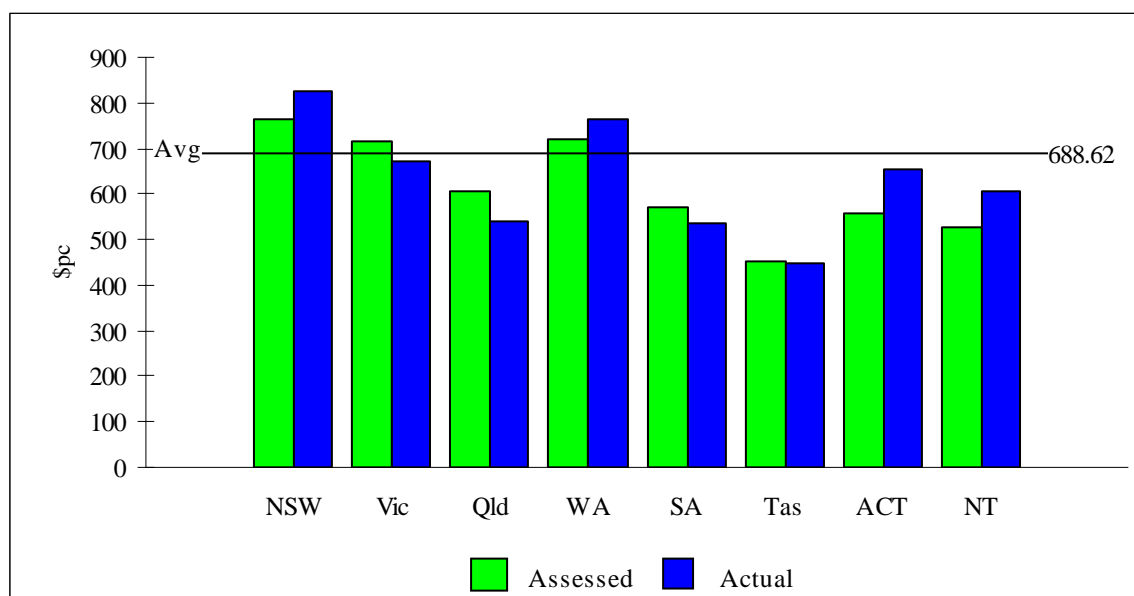
40 Table 13 shows the actual and assessed per capita revenues for each State and the average revenue in 2006-07. Figure 2 presents the same information pictorially.

Table 13 Payroll tax assessment results, 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual revenues	824.67	673.19	539.65	762.33	535.95	445.73	652.47	603.75	688.62
Assessed revenues	762.33	716.45	608.01	720.40	569.26	453.39	558.52	527.57	688.62
	%	%	%	%	%	%	%	%	%
Assessed revenue raising capacity ratio (a)	110.70	104.04	88.29	104.62	82.67	65.84	81.11	76.61	100.00
Revenue effort ratio (b)	108.18	93.96	88.76	105.82	94.15	98.31	116.82	114.44	100.00

(a) Actual revenues per capita divided by assessed revenues per capita.

(b) State actual revenue divided by State assessed revenue.

Figure 2 Payroll tax revenue per capita — assessed, actual and average, 2006-07**Relative abilities to raise revenues**

41 A State's revenue capacity compares its assessed revenue (which reflects its disabilities) with the average revenue. A capacity above 100 per cent means that a State has an above average capacity to raise revenue. The revenue raising capacities for each of the assessment years are shown in Table 14.

Table 14 Revenue raising capacities, 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	%	%	%	%	%	%	%	%	%
2001-02	117.85	106.51	78.36	94.47	82.08	63.38	70.20	73.27	100.00
2002-03	115.62	104.80	80.39	99.98	84.10	61.79	82.44	72.80	100.00
2003-04	113.57	106.09	82.53	101.66	82.41	65.12	76.58	73.37	100.00
2004-05	113.91	106.14	83.12	100.70	81.35	65.15	75.76	73.44	100.00
2005-06	112.08	105.78	86.37	101.36	81.48	66.49	75.33	73.49	100.00
2006-07	110.70	104.04	88.29	104.62	82.67	65.84	81.11	76.61	100.00

- 42 In 2006-07, New South Wales, Victoria and Western Australia had above average ability to raise payroll taxes. The taxable proportion of CoE in these States (69.9 per cent, 68.1 per cent and 68.3 per cent respectively — see Table 8) was above the national average (68.0 per cent). Also these States had above or close to the average CoE per capita (\$25 266, \$23 981 and \$24 406 compared to the Australian average of \$24 014 — see Table 4).
- 43 Queensland, South Australia and Tasmania had below average ability to raise revenues, largely because of their below average CoE per capita (\$22 456, \$20 652 and \$18 111 respectively). Also, private and PTE sector employers in all three States had a high proportion of payrolls exempt under the average threshold provisions.

- 44 The ACT and the Northern Territory had very high CoE per capita but much of this was in the general government sector and was not part of the revenue base. The ACT also had a high proportion of private sector employment with small employers whose wages and salary expenses were below the average taxable threshold and so were not liable for payroll tax.

Revenue efforts

- 45 Revenue effort compares each State's actual revenue (which reflects both disabilities and policy choices) with its assessed revenue. In 2006-07, Victoria, Queensland, South Australia and Tasmania were the States assessed to make a below average effort (94.0 per cent, 88.8 per cent, 94.1 per cent and 98.3 per cent respectively). Queensland generally had low rates of tax (see Table 3). For Victoria, while the tax free threshold of \$550 000 was the lowest among all the States, Victoria's payroll tax rates for large payrolls were relatively low, particularly in comparison with New South Wales. While tax rates were relatively high for smaller payrolls in South Australia, rates were relatively lower at the higher payrolls.
- 46 The ACT and Northern Territory were assessed to make well above average efforts (116.8 per cent and 114.4 per cent respectively). The tax rates imposed by the two Territories were among the highest in the higher income ranges, despite the Territories having the highest tax-free threshold.

EFFECT ON DISTRIBUTION OF THE POOL: 2008 UPDATE

- 47 Table 15 shows the assessed differences from average for 2006-07 in \$ millions. The difference for each State is calculated by:
- subtracting its assessed revenue per capita from the average revenue per capita; and
 - multiplying by its population.

Table 15 Assessed revenues, difference from average, 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Assessed reveues \$pc	762.33	716.45	608.01	720.40	569.26	453.39	558.52	527.57	688.62
Difference from average \$pc	73.71	27.83	-80.61	31.78	-119.36	-235.23	-130.10	-161.05	0.00
Population million	6.856	5.168	4.136	2.082	1.577	0.492	0.337	0.213	20.859
Difference from average \$m	505.3	143.8	-333.4	66.2	-188.2	-115.7	-43.8	-34.3	715.3

Note: For Australia, the extent of difference from equal per capita is equal to the sum of negatives or positives.

- 48 The assessed differences from average for all assessment years are presented in Table 16. The average of these amounts over the update period provides an indication of the impact of the assessment on State shares of the pool.

Table 16 Assessed revenues, difference from average, 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2001-02	585.1	156.3	-394.4	-52.5	-134.9	-85.8	-47.5	-26.3	741.4
2002-03	533.5	120.7	-379.2	-0.2	-124.6	-93.2	-29.2	-27.8	654.2
2003-04	490.4	162.9	-364.4	17.6	-145.9	-90.5	-41.2	-28.9	670.9
2004-05	553.0	182.0	-394.2	8.2	-170.3	-99.7	-47.0	-32.0	743.3
2005-06	520.9	187.0	-350.7	17.6	-183.6	-104.0	-52.1	-35.1	725.5
2006-07	505.3	143.8	-333.4	66.2	-188.2	-115.7	-43.8	-34.3	715.3
Average	531.4	158.8	-369.4	9.5	-157.9	-98.1	-43.5	-30.8	699.6

49 Table 17 shows the effect of the assessed revenue differences on the distribution of the 2007-08 pool.

Table 17 Payroll tax assessment, Contribution to distribution of the pool, 2008 Update ^(a)

NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redistributed
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
-617.5	-193.0	444.7	-26.0	187.6	116.8	49.7	37.7	836.5

(a) All distributions were calculated using the 2007-08 GST revenue pool and December 2007 population.

Note: The Total redistributed is the sum of negatives or positives.

- 50 States with above average assessed revenue per capita — New South Wales, Victoria and Western Australia — required a smaller GST share totalling \$836.5 million to have the financial capacity to provide the average level of service. The other States — Queensland, South Australia, Tasmania, the ACT and the Northern Territory— had below average assessed revenues per capita and needed additional revenue totalling \$836.5 million.
- 51 This is due to New South Wales and Victoria historically being the centres of finance and manufacturing with large commercial sectors, high proportions of head offices, and higher paid occupations.
- 52 Queensland's employment base has been growing particularly as resource industries have expanded and its population growth has been above average. But it still has a greater proportion of small employers than other States, and more jobs in lower paid occupations. It is only recently that Western Australia's capacity to raise payroll tax exceeded the average. Its ability to raise taxes has been increasing due to greater activity in its resources industries.
- 53 South Australia has had some large industries, such as car manufacturing and ship building, but remained well behind the bigger States in terms of revenue capacity. Tasmania is not a manufacturing State, and continued to rely on primary industry and tourism activities, which were generally small operations.
- 54 The private sector in the ACT is developing but it comprises a high proportion of small businesses. The Northern Territory has a sizeable mining sector, but has lacked the commercial and industrial sector of New South Wales and Victoria.

CHANGES IN DISTRIBUTION OF THE POOL: 2008 UPDATE COMPARED WITH 2007 UPDATE

55 Table 18 shows:

- the impact of the 2007 Update assessment on shares of the pool;
- the impact of the 2008 Update assessment on shares of the pool; and
- the difference.

56 The table breaks the difference into smaller parts. Changes in this update were dominated by differences between States in the growth of payrolls between 2001-02 and 2006-07.

Table 18 Comparison of the 2008 Update and 2007 Update assessments^(a)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redistrib'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Redistribution from EPC resulting from the 2007 Update assessment (a)									
	-670.9	-216.4	490.6	4.4	184.0	117.7	53.0	37.6	887.3
Effect of revising category averages and revenue bases for 2001-02 to 2005-06									
Category averages	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Revenue bases	-15.8	3.7	8.2	-1.1	3.0	-0.2	1.4	0.8	17.0
Interactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	-15.8	3.7	8.2	-1.1	3.0	-0.2	1.4	0.8	17.1
Effect of replacing 2001-02 category averages and revenue bases with those for 2006-07									
Category averages	-5.2	-1.5	3.7	0.5	1.2	0.7	0.4	0.2	6.7
Revenue bases	72.3	20.6	-56.2	-28.9	-0.5	-1.4	-5.0	-0.9	92.9
Interactions	2.1	0.6	-1.7	-0.9	0.0	0.0	-0.1	0.0	2.8
Total	69.2	19.8	-54.2	-29.3	0.7	-0.7	-4.7	-0.7	89.7
Redistribution from EPC resulting from the 2008 Update assessment (a)									
	-617.5	-193.0	444.7	-26.0	187.6	116.8	49.7	37.7	836.5
Total effect of revisions and updating (b)									
	53.4	23.4	-45.9	-30.4	3.6	-0.9	-3.3	0.1	80.5

(a) Using the same pool and populations that were used to calculate the 2008 Update redistribution.

(b) This figure shows the change in the amount redistributed among the States between the 2007 Update and the 2008 Update. It does not necessarily equal the difference in the total redistribution from EPC between the two inquiries.

What has changed?

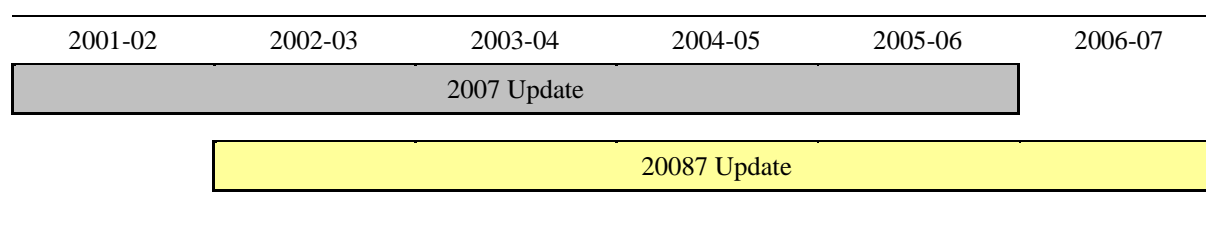
57 Table 18 indicates that in the 2008 Update, payroll tax redistributed \$836.5 million of the pool relative to an equal per capita distribution. This was \$50.8 million less than in the 2007 Update. This reduction reflects a convergence in the average relative revenue raising capacities of the States. Table 14 shows the revenue raising capacities of New South Wales and Victoria (the States which had above average revenue raising capacities in 2001-02) have moved closer to the average in 2006-07. Similarly, the capacities of the other States which were all below the average in 2001-02 have risen closer to the average by 2006-07. In Western Australia's case, its relative revenue raising capacity rose from below average in 2001-02 to above average since 2003-04.

58 These changes can be explained by:

- revisions to the financial and assessment data that were used in the 2007 Update; and
- advancing the reference period one year — a new year comes into the reference period and the oldest year drops out.

59 Figure 3 shows the reference periods for the two inquiries.

Figure 3 Advancing the reference period, 2008 Update



60 The effect of revisions were calculated by replacing 2007 Update data with 2008 Update data for the years 2001-02 to 2005-06. The effect of advancing the reference period one year was assessed by comparing the data of the year entering the reference period (2006-07) with the data of the year dropping out (2001-02). In both cases, the effects of replacing financial data (average revenues) and assessment data (revenue bases) were considered separately.

Changes due to revising revenue data and revenue bases for years 2001-02 to 2005-06

61 **Revising revenue data.** There were minor revisions to the adjusted budget figures, but they had little effect on the distribution of the pool.

62 **Revising revenue base data.** The ABS made minor changes to estimates of CoE for the earlier years with the sum of changes to States totalling less than 1 per cent in any one year.

63 There were small adjustments to the yearly populations, with small increases in the populations in all States except New South Wales. While populations for Western Australia and Tasmania were revised upwards, the percentage increases in these States were below the overall average percentage adjustments. In the absence of any other changes to revenue base calculations, the population revisions act to increase the revenue raising capacity of New South Wales, Western Australia and Tasmania relative to other States.

64 Table 19 summarises these changes. Changes to the average revenues between the 2007 Update and the 2008 Update were minor. The revisions to the State populations and CoE changes redistributed \$17.0 million away from New South Wales and to a much lesser extent from Western Australia and Tasmania. As shown in Table 19, the revenue raising capacities for these three States increased in the 2008 Update, but fell for the other States.

Table 19 Payroll tax assessment data, average of 2001-02 to 2005-06

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Avg
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual revenues									
2007 Update	670.34	575.54	395.04	562.66	457.84	369.74	536.93	515.52	556.19
2008 Update	671.39	573.42	393.15	561.51	455.80	368.88	532.27	510.27	555.01
	%	%	%	%	%	%	%	%	%
Assessed revenue raising capacity ratios									
2007 Update	114.24	105.95	82.42	99.53	82.53	64.31	76.66	73.79	100.00
2008 Update	114.61	105.87	82.15	99.63	82.28	64.39	76.06	73.27	100.00

Changes in State circumstance — the effects of replacing 2001-02 revenue data and revenue base data with those for 2006-07

- 65 **Replacing revenue data.** The national average per capita revenues increased between 2001-02 and 2006-07 by 38.8 per cent, more than the increase in the per capita GST revenue pool of 34.8 per cent. The category was therefore more important in 2006-07 than in 2001-02 resulting in a greater redistribution of \$6.7 million of the pool away from New South Wales and Victoria, the two States with above average revenue capacity in 2001-02.
- 66 **Replacing revenue base data.** The key changes in State circumstances between 2001-02 and 2006-07 that affected the redistribution of the pool between the States were:
- different rates of growth in employee remuneration;
 - different rates of growth in private sector employment in medium and large businesses (those above the threshold);
 - different rates of growth in PTE sector employment and remuneration; and
 - changes in industry structure and company size.
- 67 The replacement of years increased the revenue from the pool by \$92.9 million for New South Wales (\$72.3 million) and Victoria (\$20.6 million) principally from Queensland (\$56.2 million) and Western Australia (\$28.9 million).
- 68 This was consistent with the information in Table 4, which shows that growth in compensation of employees in the five years to 2006-07 was stronger in the resource rich States of Western Australia and Queensland as a result of sustained economic growth. In these States, growth in employment and private sector wages were well above average.

- 69 Employment and wages and salaries growth in Tasmania was also above average. This occurred across a range of industries, although from a relatively low base, because of higher level of consumption including the so-called wealth effect resulting from much increased house prices and low gearing.
- 70 The increase in the revenue raising capacity in Northern Territory reflects the increased employment and higher labour participation rates, while in the ACT the higher capacity follows from increased building activity and an expanded public sector that has encouraged a growth in the industries servicing the public sector.
- 71 By contrast, growth was smaller in New South Wales and Victoria.
- 72 Table 20 summarises how the average revenue and revenue base ratios for 2006-07 were different from 2001-02.

Table 20 Payroll tax assessment data 2001-02 and 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Avg
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual revenues									
2001-02	609.15	529.14	332.25	469.19	396.37	326.05	457.65	466.77	496.29
2006-07	824.67	673.19	539.65	762.33	535.95	445.73	652.47	603.75	688.62
<i>% change</i>	<i>35.38</i>	<i>27.22</i>	<i>62.42</i>	<i>62.48</i>	<i>35.22</i>	<i>36.71</i>	<i>42.57</i>	<i>29.35</i>	<i>38.75</i>
Assessed revenues									
2001-02	584.86	528.62	388.88	468.86	407.36	314.56	348.38	363.62	496.29
2006-07	762.33	716.45	608.01	720.40	569.26	453.39	558.52	527.57	688.62
<i>% change</i>	<i>30.34</i>	<i>35.53</i>	<i>56.35</i>	<i>53.65</i>	<i>39.74</i>	<i>44.13</i>	<i>60.32</i>	<i>45.09</i>	<i>38.75</i>
	%	%	%	%	%	%	%	%	%
Assessed revenue raising capacity ratios									
2001-02	117.85	106.51	78.36	94.47	82.08	63.38	70.20	73.27	100.00
2006-07	110.70	104.04	88.29	104.62	82.67	65.84	81.11	76.61	100.00
<i>% change</i>	<i>-6.06</i>	<i>-2.32</i>	<i>12.68</i>	<i>10.74</i>	<i>0.71</i>	<i>3.88</i>	<i>15.54</i>	<i>4.56</i>	<i>0.00</i>

This chapter was prepared by the Revenue section of the Commonwealth Grants Commission. If you have any questions about its content please contact Lintong Feng on (02) 6229 8833 or lintong.feng@cgc.gov.au.



Date: 29 February 2008

Table 21 Assessment of revenue, Payroll Tax

	2002-03		2003-04		2004-05		2005-06		2006-07	
	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita
	\$m	\$	\$m	\$	\$m	\$	\$m	\$	\$m	\$
Average Revenue		513.26		539.86		590.39		635.24		688.62
New South Wales										
Assessed difference	- 533.515	- 80.19	- 490.401	- 73.28	- 553.026	- 82.14	- 520.895	- 76.73	- 505.312	- 73.71
Revenue - Assessed	3 948.166	593.45	4 103.411	613.13	4 527.926	672.53	4 833.540	711.97	5 226.365	762.33
Actual	4 123.093	619.74	4 350.208	650.01	4 824.620	716.60	5 169.389	761.44	5 653.769	824.67
Victoria										
Assessed difference	- 120.691	- 24.65	- 162.923	- 32.87	- 181.985	- 36.26	- 187.000	- 36.73	- 143.789	- 27.83
Revenue - Assessed	2 633.267	537.91	2 838.500	572.73	3 145.383	626.64	3 421.006	671.97	3 702.247	716.45
Actual	2 619.725	535.14	2 714.297	547.67	3 044.955	606.64	3 301.501	648.50	3 478.710	673.19
Queensland										
Assessed difference	379.158	100.64	364.353	94.33	394.182	99.63	350.661	86.61	333.361	80.61
Revenue - Assessed	1 554.503	412.61	1 720.949	445.53	1 941.629	490.76	2 221.341	548.63	2 514.511	608.01
Actual	1 333.715	354.01	1 479.120	382.92	1 673.909	423.09	1 916.977	473.46	2 231.790	539.65
Western Australia										
Assessed difference	0.240	0.12	- 17.600	- 8.94	- 8.243	- 4.12	- 17.555	- 8.61	- 66.170	- 31.78
Revenue - Assessed	994.708	513.13	1 080.154	548.80	1 189.011	594.51	1 312.562	643.85	1 499.907	720.40
Actual	1 003.668	517.75	1 119.928	569.01	1 191.541	595.77	1 337.008	655.84	1 587.200	762.33
South Australia										
Assessed difference	124.578	81.62	145.922	94.98	170.269	110.09	183.590	117.65	188.183	119.36
Revenue - Assessed	658.824	431.64	683.450	444.87	742.847	480.30	807.692	517.59	897.526	569.26
Actual	654.095	428.54	713.865	464.67	744.944	481.65	792.324	507.74	845.010	535.95
Tasmania										
Assessed difference	93.164	196.12	90.516	188.31	99.744	205.74	103.978	212.87	115.651	235.23
Revenue - Assessed	150.656	317.14	168.985	351.55	186.481	384.65	206.317	422.38	222.908	453.39
Actual	155.482	327.30	169.752	353.15	193.579	399.29	214.256	438.63	219.141	445.73
Australian Capital Territory										
Assessed difference	29.220	90.15	41.245	126.44	47.026	143.14	52.072	156.73	43.803	130.10
Revenue - Assessed	137.151	423.11	134.861	413.42	146.939	447.25	158.980	478.51	188.050	558.52
Actual	162.788	502.20	172.209	527.91	184.815	562.54	203.016	611.06	219.682	652.47
Northern Territory										
Assessed difference	27.846	139.62	28.889	143.79	32.033	156.82	35.149	168.40	34.273	161.05
Revenue - Assessed	74.517	373.63	79.572	396.07	88.566	433.57	97.439	466.84	112.267	527.57
Actual	99.226	497.53	90.503	450.47	110.419	540.55	124.405	596.03	128.480	603.75

