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2020 REVIEW

PAYROLL TAX

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PAYROLL TAX

1 The paper provides the Commission staff proposals for the assessment of Payroll tax revenue for the 2020 Review.

2015 REVIEW APPROACH

2 Payroll tax is imposed on the wages and related benefits (remuneration) paid by firms operating in each State. Employers are liable for payroll tax if their total Australian remuneration exceeds a general deduction threshold. The scope of the tax and the range of exemptions and concessions have largely been harmonised, but States retain control over their tax rates and thresholds.

3 Table 1 shows that States raised $23 billion from payroll tax in 2016-17.

Table 1 Payroll tax revenue, 2016-17

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Payroll tax	8 206	5 681	3 672	3 233	1 134	331	444	323	23 023

Source: State provided data.

How was revenue capacity assessed?

4 The assessment recognised that a State's payroll tax capacity was related to the total value of remuneration above an average tax free threshold in the private sector and the public sector outside of general government.

5 The Commission used ABS national accounts data on Compensation of Employees (CoE) as its measure of the total remuneration paid in each State.[1] CoE is a broad measure of remuneration, covering wages, salaries, other cash benefits on behalf of employees (such as superannuation) and non-cash benefits.

6 CoE data could not be dissected by size of employers' payrolls and were, therefore, supplemented with ABS data on wages and salaries to exclude remuneration below an average threshold. ABS wages and salaries data were also used to remove remuneration paid by the general government sector in each State. These adjustments are detailed below.

7 ***Private sector remuneration.*** Taxable remuneration in the private sector was calculated by adjusting private sector CoE to recognise the policy of all States to

[1] CoE is a component of the income approach to measuring gross domestic product.

exempt remuneration below a general deduction threshold. To ensure the assessment was policy neutral, an average threshold was calculated by weighting each State's threshold by its share of total remuneration paid.[2]

8 ABS data on aggregate private sector wages and salaries in each State above the average threshold were used to calculate the taxable proportion of total private sector remuneration in each State.[3] The taxable proportion was applied to private sector CoE to calculate the private sector part of the revenue base for each State.

9 ***Public sector remuneration.*** Taxable public sector remuneration in each State was calculated using ABS wages and salaries data[4] to make adjustments to public sector CoE to exclude:

- remuneration of general government employees
- remuneration below an average threshold.[5]

10 The remuneration of general government sector employees at all levels of government was excluded from the revenue base, to reflect that:

- States were unable to tax Commonwealth general government sector agencies
- States raised only minor revenue from the general government sector at local government level[6]
- payroll tax revenue collected by some States from their general government agencies was excluded since it represented an internal budget transfer, so the corresponding remuneration should be removed from the revenue base.

11 The taxable public sector, therefore, included public sector financial and non-financial corporations (PFCs and PNFCs) and higher education institutions (HEIs). PFCs and PNFCs at all levels of government were liable for payroll tax under the 1995 Competition Principles Agreement between States and the Commonwealth. HEIs are liable for tax in all States.[7]

12 The taxable proportion of public sector remuneration was calculated using ABS data on aggregate public sector wages and salaries above an average tax-free threshold in 'commercial' industries, plus aggregate wages and salaries above the average

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2 The average threshold was adjusted before being provided to the ABS, to reflect that the wages and salaries data are narrower in scope than the CoE data.

3 Private sector wages and salaries data were sourced from the ABS Quarterly Business Indicators Survey.

4 Public sector wages and salaries data were sourced from the ABS Survey of Employment and Earnings.

5 The threshold differed from the private sector threshold, since wages and salaries represented a different proportion of CoE in the two sectors nationally.

6 Tasmania was the only State to impose payroll tax on general government sector remuneration paid by local governments.

7 With the exception of the Australian National University, HEIs were established by State legislation. While they are classified to the general government sector in ABS GFS, HEIs are included in the assessment since they are subject to payroll tax in all States.

thresholds in HEIs.[8] Using data for commercial industries, rather than for PNFCs and PFCs, ensured that the assessment was not affected by an individual State's classification of its agencies. The taxable proportion was applied to public sector CoE to calculate the public sector part of the revenue base for each State.

13 Table 2 below outlines the calculation of the Payroll tax revenue base.

Table 2 Calculating the payroll tax revenue base, 2016-17

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Public sector									
CoE ($b) (a)	53	38	35	19	14	4	14	3	180
Taxable proportion (%)	20.1	19.2	17.9	17.8	14.2	22.3	11.5	9.6	18.1
Taxable CoE ($b)	11	7	6	3	2	1	2	0	32
Private sector									
CoE ($b)	221	157	119	83	35	9	10	7	642
Taxable proportion (%)	69.9	68.8	66.2	74.0	63.1	59.4	64.0	74.3	69.0
Taxable CoE ($b)	155	108	79	61	22	5	7	5	442
Total taxable remuneration ($b)	166	115	85	65	24	6	8	6	475

(a) Excludes CoE for staff of the defence force and Australian embassies overseas.
Source: ABS national accounts and wages and salaries data.

GST redistribution

14 Table 3 shows the extent to which the assessment moved the GST distribution away from an EPC distribution in the 2018 Update. It shows GST revenue was redistributed from States with an above average revenue raising capacity (New South Wales, Western Australia and the Northern Territory) to States with a below average revenue capacity (Victoria, Queensland, South Australia, Tasmania and the ACT).

Table 3 GST redistribution, Payroll tax, 2018 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
Dollars million	-536	423	478	- 993	466	200	7	- 46	1 575
Dollars per capita	-67	65	95	-379	268	382	17	-188	63

Source: 2018 Update.

8 Commercial industries were those in which public sector wages and salaries are predominantly paid by PNFCs nationally. These were Australian and New Zealand Standard Industrial Classification Divisions: A (Agriculture, forestry and fishing), C (Manufacturing), D (Electricity, gas, water and waste services), I (Transport, postal and warehousing), and K (Financial and insurance services).

ISSUES AND ANALYSIS

15 There are no issues in the payroll tax assessment for the 2020 Review. The assessment reflects what States do and is simple. It is based on reliable data and produces a material result.

Recommendations

Staff propose to recommend the Commission:

- retain the 2015 Review payroll tax assessment.

Other issues considered

16 ***Treatment of diminishing thresholds.*** Five States currently impose a single marginal rate of tax on payrolls above a threshold. The other three States have diminishing deduction thresholds, meaning the effective rate increases up to a certain payroll size, above which it is flat.[9]

17 The 2015 Review assessment measures payroll tax capacities by estimating the proportion of remuneration above a single average threshold. Some States have argued in the past that the Commission should take account of the deduction system in three States.

18 The Commission intends to continue its 2015 Review approach to average policy in the 2020 Review. Under that approach, the Commission would take account of diminishing thresholds, if it were material to do so. It would need wages and salaries data separated into several ranges based on size of payroll. The ABS has previously indicated that it cannot provide those data at a more disaggregated level. Another option may be to use an alternative data source. This is discussed in the next section.

19 On practicality grounds, Commission staff propose to continue to reflect the policy of all States to exempt small payrolls using data above a single average threshold.

20 ***Source of data for the revenue base.*** The ABS data used in the assessment are considered reliable and fit for purpose, although some States have previously raised concerns about volatility for the small States.

21 Commission staff are not aware of any currently available alternative sources of data that are reliable, fit for purpose and policy neutral. The ABS is jointly developing the Business Longitudinal Analysis Data Environment (BLADE) with the

9 The Queensland deduction is reduced by $1 for every $4 by which the payroll exceeds $1.1 million, with no deduction for payrolls of $5.5 million or more. The Western Australia deduction is reduced by $1 for every $7.82 the payroll exceeds $850 000, with no deduction for payrolls of $7.5 million or more. The Northern Territory deduction is reduced by $1 for every $4 the payroll exceeds $1.5 million, with no deduction for payrolls of $7.5 million or more.

Department of Industry, Innovation and Science. BLADE will contain administrative data on more than two million actively trading Australian businesses and may provide a richer source of data for a future payroll assessment, possibly including an adjustment for diminishing thresholds. However, the ABS has indicated that the BLADE data are unlikely to be available in time for consideration in the 2020 Review.

22 Commission staff propose to continue to use ABS data on CoE and wages and salaries for the 2020 Review.

23 ***Elasticity adjustment.*** The Commission has engaged a consultant to provide advice on whether it should consider reinstating elasticity adjustments and, if so, for which categories. The question whether an elasticity adjustment could be assessed in the Payroll tax category will be addressed by that consultancy.

CONCLUSION AND WAY FORWARD

24 Staff propose to retain the 2015 Review Payroll tax assessment.

Proposed assessment structure

25 Table 4 shows the proposed assessment structure for Payroll tax in the 2020 Review.

Table 4 Proposed Payroll taxes category structure, 2020 Review

Component	Disability	Influence measured by disability
Payroll tax	Value of taxable remuneration	Recognises the additional revenue capacity of States with greater private sector and non-general government public sector remuneration above an average threshold.