Australian Government

Commonwealth Grants Commission

2025 Methodology Review

Payroll tax consultation paper

October 2023

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Submissions sought by	1 March 2024
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Overview of category

1   The payroll tax assessment includes revenue from payroll tax imposed on wages and related benefits (remuneration) paid by employers. Employers are liable for payroll tax if their total Australian remuneration exceeds a payroll threshold, noting that the threshold varies between states and territories (states).

Current assessment method – 2020 Review

2   The assessment recognises that states with above-average per capita taxable remuneration have above average capacity to raise payroll tax.

3   Two main sources of data are used to calculate taxable remuneration. Compensation of employees data (a component of the National Accounts) captures the broad range of remuneration that is liable for payroll tax, including wages and salaries, as well as cash and non-cash benefits to employees. However, these data cannot be dissected by the size of employers' payrolls. Therefore, the Commission supplements compensation of employees data with Australian Bureau of Statistics (ABS) data on wages and salaries. This is to recognise that the average policy is to exempt payrolls below a threshold and to remove remuneration paid by the general government sector.[1]

4   The Commission calculates states' relative revenue raising capacities as follows (and as set out in Box 1).

- Calculate an average weighted threshold by weighting each state's threshold by its share of total compensation of employees.[2]

- Calculate the proportion of wages and salaries above the weighted average threshold in each state and apply this proportion to each state's compensation of employees. This is the taxable remuneration for each state (the revenue base).

- Calculate an average tax rate (by dividing the total actual revenue by the total revenue base) and apply the average tax rate to each state's revenue base. This gives the revenue each state could raise if it were to apply the average tax rate (assessed revenue).

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[1] Wages and salaries above the average threshold are provided by the ABS as customised data requests based on the *Business Indicators, Australia* publication (private sector) and *Employment and Earnings, Public Sector, Australia* publication (for the taxable public sector).

[2] The compensation of employees threshold is adjusted so that it can be applied to wages and salaries.

Data used in the assessment

5   Data on the revenue raised by states are sourced from the ABS's Government Finance Statistics and, for the last assessment year, state revenue offices.

6   Data on remuneration in the private and public sectors are mainly sourced from the ABS (compensation of employees, wages and salaries). These data are supplemented with published data from the Department of Defence and Department of Foreign Affairs and Trade to remove compensation of defence force and embassy employees from the compensation of employees data. Remuneration paid to these employees is not liable for payroll tax.

7   The taxable part of the public sector includes public financial and non-financial corporations, and higher education institutions.[3] Remuneration paid by the general government sector at all levels of government is excluded from the assessment.[4]

Category and component revenue

8   States raised $27 billion from payroll tax in 2021-22, representing 16.5% of total own-source revenue (Table 1).

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[3] To ensure differences in classification of state agencies (as Public Non-financial Corporations/Public Financial Corporations or general government sector) do not affect the assessment, the Commission uses wages and salaries data for 'commercial' industries and higher education. These industries are the Australian and New Zealand Industry Classification (ANZSIC) groups Agriculture (A), Manufacturing (C), Electricity, gas, water and water services (D), Transport, postal and warehousing (I), Financial and Insurance services (K) and Higher Education (ANZSIC06 8102).

[4] States are unable to tax Commonwealth general government sector agencies. Payroll tax revenue collected by some states from their general government sector agencies (and the corresponding remuneration) is excluded from the assessment since it represents an internal budget transfer. States raise only minor revenue from the general government sector at the local government level.

Table 1   Payroll tax revenue by state, 2021-22

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Total revenue ($m)	8,808	6,958	4,305	4,393	1,442	437	645	235	27,225
Total revenue ($pc)	1,088	1,061	818	1,591	798	768	1,424	943	1,057
Share of state own-source revenue (%)	17.6	18.9	12.5	16.3	16.2	15.5	18.7	14.0	16.5

Source: Commission calculation.

9   Revenue from payroll tax has declined as a share of total state own-source revenue in recent years (Table 2). This is due to the economic effects of the COVID-19 pandemic and strong growth in other state revenue sources, especially mining royalties and stamp duty on conveyances.

Table 2   Payroll tax revenue, 2018–19 to 2021–22

	2018–19	2019–20	2020–21	2021–22
Total revenue ($m)	25,730	24,521	24,565	27,225
Share of total own-source revenue (%)	19.5	19.3	17.8	16.5

Source: Commission calculation.

10   The payroll tax assessment comprises a single component (Table 3).

Table 3   Structure of payroll tax assessment, 2021–22

Component	Component revenue	Driver	Influence measured by driver
	$m		
Payroll tax	27,225	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.

Source: Commission calculation.

GST distribution in the 2023 Update

11   Table 4 shows the extent to which the assessment results in a different distribution of GST compared with an equal per capita distribution. In the 2023 Update, the distribution of GST from payroll tax differed by $1,585 million ($60 per capita) compared to an equal per capita distribution. States assessed to have above average payroll tax capacity (New South Wales, Victoria and Western Australia) had lower GST needs. The remaining states were assessed to have below average payroll tax capacity and higher GST needs.

Table 4   GST impact of the payroll tax assessment

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Total ($m)	-464	-33	781	-1,088	459	261	82	2	1,585
Total ($pc)	-56	-5	144	-382	247	446	173	10	60

Source: Commission calculation, 2023 Update.

12   Further detail on the payroll tax assessment and the underlying conceptual cases for the assessment methods are explained in volume 2, chapter 6, [Report on GST Revenue Sharing Relativities, 2020 Review.](#)

What has changed since the 2020 Review?

Introduction of payroll tax surcharges

13   Since the 2020 Review, 2 states have introduced payroll tax surcharges on businesses with large payrolls.

14   Victoria introduced a mental health and wellbeing surcharge from 1 January 2022. It also introduced a COVID-19 debt temporary payroll tax surcharge, which applies for 10 years from 1 July 2023. Each surcharge requires businesses to pay 0.5% on taxable remuneration over $10 million and an additional 0.5% on taxable remuneration over $100 million.[5] Victoria expects to raise $1,748 million from the 2 surcharges in 2023–24.

15   Queensland introduced a mental health levy from 1 January 2023. It imposes a 0.25% surcharge on taxable remuneration exceeding $10 million and an additional 0.5% on taxable remuneration exceeding $100 million.[6] It expects to raise $402 million from the levy in 2023–24.

New data have become available

16   The Business Longitudinal Analysis Data Environment (BLADE) is coordinated by the ABS and combines tax, trade and intellectual property data with information from ABS surveys.

17   In the 2020 Review, the Commission said it would continue to monitor the development of BLADE and its potential use to improve the payroll tax assessment. With data from over 2 million businesses, BLADE has the potential to provide a richer and less volatile data source than the survey-based data currently used in the assessment.

18   The 2025 Review provides an opportunity to consider whether the BLADE datasets have matured sufficiently to provide a reliable and robust source of data for measuring the payroll tax base.

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[5] In combination, the 2 surcharges mean business pay 1.0% on remuneration exceeding $10 million and an additional 1.0% on remuneration exceeding $100 million. The thresholds for the mental health and wellbeing surcharge were $5 million and $50 million during the period 1 January 2022 to 30 June 2022.

[6] To accommodate the levy commencing during the financial year, the thresholds were $5 million and $50 million between 1 January 2023 and 30 June 2023.

Implications for assessment

Assessing payroll tax surcharges

19   In the 2023 Update, the Commission assessed revenue from Victoria's mental health surcharge with revenue from payroll tax. Revenue from the surcharge increased the total revenue collected and, therefore, the average tax rate applied in the assessment. Most states supported this approach. Queensland said introducing a separate assessment of surcharges was a complexity that should be addressed in the 2025 Review.

20   The payroll tax surcharges are raised under states' payroll tax legislation and are collected on the same basis as payroll tax. Liability is calculated using the same scope of taxable remuneration as payroll tax, but with higher thresholds.[7] Queensland's suggestion of a separate assessment of surcharges would involve separating the existing revenue base into 3 ranges based on payroll size.[8] In the 2020 Review, the Commission considered adding ranges to better account for the diminishing thresholds applied by 3 states.[9] At that time, the ABS advised that it was unable to provide the required data due to confidentiality concerns. The use of BLADE data (see next section) may support additional ranges being used in the assessment.[10] However, even if additional ranges proved feasible with BLADE data, it is unclear whether states could provide the related revenue data for these ranges.

21   The Commission's preliminary view is that the surcharges are sufficiently similar in nature to payroll tax for the revenue raised to be assessed using its current measure of payroll tax capacity. This is consistent with the treatment of foreign owner surcharges in the land tax and stamp duty on conveyances assessments.

Consultation question

> Q1.   Do states support assessing revenue from payroll tax surcharges on the same basis as payroll tax?

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[7] As with payroll tax, liability for the surcharges is determined using total Australian taxable remuneration. For multi-state businesses, the thresholds are adjusted by the ratio of the taxable remuneration in the state to total Australian taxable remuneration.

[8] These would comprise taxable remuneration between the weighted average threshold and $10 million, between $10 million and $100 million and above $100 million, aggregated across employers in each state.

[9] Diminishing thresholds see the value of exempt payroll decrease as the overall payroll increases. This continues until a maximum threshold is reached, after which the value of the entire payroll is taxable.

[10] Separating the revenue base into payroll size ranges could also better capture the diminishing thresholds and tiered tax rate structure applied by some states. However, BLADE data may be subject to similar confidentiality constraints.

Potential for using BLADE data in the assessment

22   The BLADE economic data tool has continued to develop since the 2020 Review. BLADE integrates Australian Taxation Office (ATO) business tax data with information from ABS surveys and other administrative data. It includes data for all active businesses from 2001-02 and 'full population' microdata can be analysed in the ABS DataLab. As such, BLADE data may be more comprehensive, and potentially less volatile, than the data sources currently used in the assessment.

23   For this review, the Commission engaged the ABS to examine the feasibility of replicating the current approach, using various BLADE datasets in place of compensation of employees and wages and salaries data.[11] Specifically, the ABS advised on the timeliness of the datasets, whether they capture the same scope of taxable remuneration and whether they could be used to exclude remuneration below a threshold and remuneration paid by the general government sector.[12]

24   Those investigations revealed that Business Activity Statement (BAS) data and Business Income Tax (BIT) data, available within BLADE, appear to include a similar scope of taxable remuneration to compensation of employees.[13] Notably, aggregate wages, salaries and other payments for the private sector sourced from BAS data were consistent, at a national level, with private sector data from the National Accounts.

25   The ABS advised that BLADE microdata are released in the first half of the calendar year. These include BAS data for the most recent complete financial year and BIT data for the previous year. This implies that BAS data would be available for the first 2 assessment years at the time of the Commission's update, whereas BIT data would be available for the first assessment year only. The Commission considers the 2-year lag means BIT data alone are not fit for purpose for a contemporaneous assessment of payroll tax capacities.[14] The one-year lag for BAS data may be an acceptable trade-off if those data were significantly more reliable.

26   The ABS investigation, however, revealed a feature of BAS data that means they are not fit for the Commission's purpose without an adjustment. While these data can be disaggregated by payroll size, they do not include information on the state (or states) in which employees perform services (the basis on which most payroll tax liabilities are determined). Instead, businesses that operate in 2 or more states,

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[11] This is a necessary first step before considering whether BLADE could support a more detailed method, for example the use of multiple ranges to account for diminishing thresholds applied by some states or payroll tax surcharges (see previous section).

[12] Remuneration liable for payroll tax is broad and includes wages and salaries, allowances, commissions, bonuses, employer superannuation contributions, fringe benefits, the value of shares and options, payments to some contractors, payments by employment agencies, remuneration of company directors, employment termination payments and accrued leave.

[13] Further work is required to confirm the exact scope of these datasets.

[14] Terms of reference ask the Commission to use the latest available data that are fit for purpose.

representing about a third (by value) of taxable payrolls, report remuneration according to the location of the head office (a 'head office effect').

27   The ABS examined methods of apportioning the remuneration of multi-state businesses using survey data or private sector compensation of employees. Adjustments based on survey data were not feasible.[15] The Commission does not consider an apportionment based on compensation of employees offers any advantage over the current approach.[16]

28   An advantage of BLADE data is that they include business-level data. The Commission is exploring an alternative approach using ATO data on the payment summaries of individual employees included in the Person-Level Integrated Data Asset (PLIDA), previously known as the Multi-Agency Data Integration Project. The ABS has linked these employee data to census and other collections. Early exploratory work shows promise in estimating the state distribution of wages and salaries paid by businesses where a majority of employees identified in the census that they worked for businesses liable for payroll tax. Progressing this research will be a longer-term project and is likely to extend beyond the timeframe for the 2025 Review. The Commission is seeking state views on including in the assessment method scope for the Commission to move to BLADE and/or PLIDA data in a future update, in consultation with states, if those data would improve the assessment.

29   In the absence of a reliable alternative method, the Commission's preliminary view is to retain the existing assessment method and data sources.

Consultation questions

Q2. Do states support retaining the 2020 Review assessment method and data sources, noting that the Commission will continue to explore the feasibility of an assessment based on data from BLADE and/or PLIDA?

Q3. Do states support the assessment method including scope for the Commission to move to BLADE and/or PLIDA data in a future update, in consultation with states, if those data would improve the assessment?

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[15] Economic Activity Survey data in BLADE do not include a state variable. Australian Industry Statistics data were not available at a suitable level of stratification. Employee Earnings and Hours data could not be sufficiently linked to BAS data due to the small sample size.

[16] Much of the volatility in the current approach arises from ABS revisions to compensation of employees data.

Proposed assessment

Differences from the 2020 Review approach

30   The Commission has not identified changes since the 2020 Review that warrant a change to the payroll tax assessment method. However, it will continue to investigate the potential for the use of BLADE and/or PLIDA data to improve the assessment.

31   Table 5 shows the proposed structure of the payroll tax assessment for the 2025 Review.

Table 5   Proposed assessment structure for payroll tax assessment

Component	Driver	Influence measured by driver	Change since 2020 Review?
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.	No

Source: Commission calculation.

Consultation

32   The Commission welcomes state views on the consultation questions identified in this paper (outlined below) and the proposed assessment. State submissions should accord with the 2025 Review framework. States are welcome to raise other relevant issues with the Commission.

Q1.   Do states support assessing revenue from payroll tax surcharges on the same basis as payroll tax?

Q2.   Do states support retaining the 2020 Review assessment method and data sources, noting that the Commission will continue to explore the feasibility of an assessment based on data from BLADE and/or PLIDA?

Q3.   Do states support the assessment method including scope for the Commission to move to BLADE and/or PLIDA data in a future update, in consultation with states, if those data would improve the assessment?