



CANBERRA  
BUSINESS COUNCIL

## Payroll tax – a considered view



By Chris Faulks  
Chief Executive Officer

Originally implemented by the Federal Government to fund a national scheme for child endowment in 1941, payroll tax has grown to become a source of great concern to the business community.

### UPCOMING EVENTS

#### May 13

**Federal Budget Breakfast**  
Guest Speakers: Lindsay Tanner, Finance Minister and Joe Hockey, Shadow Treasurer  
Time: 7.30am  
Venue: Great Hall, Parliament House  
Cost: \$70 per person  
\$650 Table of 10

#### May 27

**Canberra Times Business Series**  
Guest Speaker: Jason Hart, Actividenity  
Time: 12.30pm – 2.00pm  
Venue: Yarralumla  
Cost: \$77 member  
\$99 non-members  
\$700 table of 10

#### April 28

**Launch of the 2009 Chief Ministers' Export Awards**  
Time: 11.30am  
Venue: Centre for Custom & Excise, ANU  
Cost: Nil

### Principal Members

ActewAGL, ACTEW Corporation, Bank West, Clayton UTZ, Bega, HolisTech, CRE8IVE, Ernst & Young, eWAY Hindmarsh, HSA Group, KPMG, Master Builders, MinterEllison, NAB, National Museum of Australia, NEC, Oracle, Staging Connections, The Village Building Co, Thyssen Krupp Marine Systems.

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When payroll taxation powers passed from the Commonwealth to the states in 1971, within three years the states had raised the rate from 2.5% to 5%. Almost forty years on, the rates of payroll tax across the states and territories vary significantly, from a low of 4.75% in Queensland to a high of 6.85% in the ACT. Similarly the exemption thresholds are vastly different, as low as \$552,000 in South Australia, and as high as \$1.5m in the ACT. These differences increase complexity and costs for businesses located across several jurisdictions. Furthermore due to interstate competition and lobbying by various groups, the rates and exemption thresholds are constantly changing.

The table below shows a comparison of payroll tax rates and thresholds across Australia as they currently stand:

|                            | ACT     | NSW       | VIC       | QLD     | SA        | WA        | TAS     | NT      |
|----------------------------|---------|-----------|-----------|---------|-----------|-----------|---------|---------|
| Rate                       | 6.85%   | 5.75%     | 4.95%     | 4.75%   | 5.00%     | 5.50%     | 6.1%    | 5.9%    |
| Exemption Threshold (p.a.) | \$1.50m | \$623,000 | \$550,000 | \$1.00m | \$552,000 | \$750,000 | \$1.01m | \$1.25m |

Payroll tax has come to make up a significant proportion of the taxation revenue in each state, ranging from around 24% in the ACT to 35% in NSW. This doesn't include any of the additional funds which the Commonwealth Grants Commission (CGC) also reallocates from the GST pool to particular states specifically to offset payroll tax base disadvantages. The combination of payroll tax revenue and CGC payroll tax assistance adds around \$300m a year to the ACT budget.

The ACT Government has already made it clear that in the current fiscally challenging environment it would be difficult to envisage a cut in payroll tax, and most certainly it would be unrealistic to call for the complete abolition of the tax. In light of this, Canberra Business Council is taking an economically responsible and practical approach to addressing business concerns regarding the tax. Make no mistake, I believe the issue of payroll tax must be addressed, but it needs to be done sensibly and realistically. Accordingly, the Council has put together a Payroll Tax Discussion Paper which provides the basis for an informed discussion on the issues.

The Council believes that the fundamental issue with payroll tax is that it is a narrowly-based tax on

employment. It lacks equity because it taxes businesses based solely on the size of their wages bill, rather than how profitable they are for example. In the present economic climate, in practice payroll tax equates to a significant disincentive for many businesses to take on new employees. This restriction on employment in turn affects the potential for economic growth in the ACT at a time when the economy is under extreme pressure.

The CBC Payroll Tax Discussion Paper canvasses a range of options, including the replacement of payroll tax with a more equitable broadly-based tax or levy; a return of payroll taxation powers to the Commonwealth; indexation of the exemption threshold to an appropriate measure of wage inflation; and a reduction of the ACT's payroll tax rate to make it more competitive with that of surrounding NSW. These options are not neces-

sarily mutually exclusive, and will require careful consideration by the business community to determine which will be the most appropriate for the Council to pursue.

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You can download the CBC Payroll Tax Discussion Paper from our website: <http://www.canberrabusinesscouncil.com.au/pages/submissions.asp>. Canberra Business Council members are invited to provide feedback to me at [ceo@canberrabusinesscouncil.com.au](mailto:ceo@canberrabusinesscouncil.com.au), and this will be considered carefully when compiling our formal submission on payroll tax to the ACT Government. I look forward to receiving your thoughts on the best way forward on this complex and important topic.

[www.canberrabusinesscouncil.com.au](http://www.canberrabusinesscouncil.com.au)