



**Queensland Government**  
**Treasury**

Queensland Treasury Response to  
Commonwealth Grants Commission  
Position Paper 2008/05

**Payroll Taxation**

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## SUMMARY OF QUEENSLAND'S POSITION

Queensland believes the existing methodologies for the assessment of revenue categories are generally robust, that they measure the revenue base using reliable data and that simplification in the 2010 Review proposed assessments could largely be presentational.

The proposed payroll tax assessment is an example of the continued validity of the 2004 Review methodology for revenue assessments. Queensland considers the use of Compensation of Employees (COE) data as a broad indicator to assess payroll tax revenue is appropriate, and supports updating the tax free threshold annually in line with states actual tax free thresholds as a means to ensure contemporaneity.

The Commission's methodology appropriately continues the approach adopted in the 2004 Review, but seeks to simplify the process by removing the adjustment for the agriculture, forestry and fishing industry.

Queensland contends that an adjustment to make the COE data more comparable with the private sector wages and salaries data is not a disability, and that a disability materiality threshold should not be applied. It is not clear that there should be any materiality threshold applied where the Commission is simply improving the comparability of two data sources (not improving interstate comparability). Queensland would appreciate further advice on the rationale for the Commission's application of materiality thresholds to ensure a consistent approach is adopted across all assessments.

## PROPOSED METHODOLOGY

The proposal outlined in Position Paper 2008/05 is to use Compensation of Employees (COE) as a broad indicator, subject to three amendments. The three amendments are:

- removing the adjustment for the agriculture, forestry and fisheries industry;
- increasing the tax free threshold from \$650,000 to \$700,000 for COE; and
- updating the tax free threshold every year in line with states actual tax free thresholds.

In Discussion Paper 2007/03-S, the Commission queried whether to apply weights to the COE data of different industries within the Payroll Taxation assessment. Staff derived preliminary weights for different industries to see which industries tended to have bigger firms, and therefore a higher proportion of COE in the tax base. Most states indicated that they did not support the Commission's proposal and that their preference was to calculate taxable COE using the 2004 Review approach. As a result, in Position Paper 2008/05, the Commission decided not to apply weights to the COE data of different industries regarding Payroll taxation.

### ***Adjustment for the agriculture, forestry and fisheries industry***

A \$10 per capita materiality threshold is applied to several components within the revenue assessments: including the agriculture, forestry and fisheries adjustment within the Payroll taxation assessment; the diplomatic and consular vehicles adjustment within the Motor Vehicle taxation assessment; and the valuation distribution adjustment (VDA) within the Land taxation assessment. Queensland is concerned that a \$10 per capita materiality

threshold is unnecessarily prescriptive and does not, in this instance, result in a simpler assessment.

During the October 2008 staff conference, Tasmania questioned which materiality threshold should be used to test the materiality of the adjustment for the agriculture, forestry and fisheries industry in the Payroll taxation assessment. Tasmania argued that the \$10 materiality threshold was too high and should be reduced to a \$3 materiality threshold. In the document entitled, *Additional Information*, the Commission provides an explanation as to when the \$3 and \$10 materiality thresholds would be used.

The Commission appears to have decided to retain the \$10 materiality threshold for the agriculture, forestry and fisheries industry adjustment in the Payroll taxation assessment because it meets the criteria of a 'disability' identified in Attachment 8 of the *Additional Information* document.

Queensland understands that in the 2004 Review methodology, the agriculture, forestry and fisheries COE was removed from total COE data to make COE data more comparable with the private sector wages and salaries data. At a later point in the 2004 method, the taxable proportion of the private sector was applied to the agriculture, forestry and fisheries COE. This is not a complex adjustment and improves equalisation because it uses data that is comparable.

Queensland contends that an adjustment to make the COE data more comparable with the private sector wages and salaries data is not a disability, and that a disability materiality threshold should not be applied. It appears that the Commission is making this adjustment to make two data sources more comparable, and no materiality test is required. If the Commission wishes to test the materiality of this adjustment, it is more appropriate for a \$3 per capita materiality test to be applied. Queensland would appreciate further advice on the rationale for the Commission's application of materiality thresholds to ensure a consistent approach is adopted across all assessments.

If the Commission decides that adjusting the COE data is the same as assessing an industry structure disability, Queensland would like the Commission to examine an industry structure adjustment in the Wages Input Costs assessment that recognises the state's high proportion of employees in service industries.

### ***Tax free thresholds***

Queensland supports increasing the tax free threshold from \$650,000 to \$700,000 for COE as proposed in *Position Paper 2008/05*, and supports this threshold being updated annually to keep in line with states actual tax free thresholds.

Three states announced changes to their thresholds for 2008-09. The Australian Capital Territory increased its threshold from \$1.25m to \$1.5m; New South Wales raised its threshold from \$600,000 to \$623,000; and South Australia increased its threshold from \$504,000 to \$552,000. However, Queensland recognises that these changes will be addressed in the annual update of tax free thresholds as proposed by the Commission, which will keep the assessment contemporaneous.