

## CHAPTER 3

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# PAYROLL TAX

### WHAT IS INCLUDED IN THE PAYROLL TAX CATEGORY?

- 1 Payroll tax is a broad based tax imposed on wages and related benefits (called remuneration in this chapter) paid by employers. The definition of taxable remuneration is very broad. It comprises wages, salaries, allowances, commissions, bonuses, employer superannuation contributions, fringe benefits, the value of shares and options (granted to employees, directors, former directors and contractors), payments to some contractors, payments by employment agencies arising from employment agency contracts, remuneration paid by a company for company directors, employment termination and accrued leave.
- 2 While the scope of the tax has varied between States, a harmonisation process has begun to adopt common provisions and definitions<sup>1</sup>. States, however, retain control over rates and thresholds.
- 3 Employers are liable for payroll tax when their total Australian remuneration paid exceeds a general deduction threshold, which means small businesses are exempt from the tax. However, the remuneration paid in each State is subject to that State's tax rate and its general deduction<sup>2</sup>.
- 4 Table 3-1 shows payroll tax is a particularly important revenue source in New South Wales. It is less important in the ACT and Queensland.

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<sup>1</sup> All States agreed in March 2007 to adopt common provisions and definitions for the timing of lodgement, the value of motor vehicle and accommodation allowances, dealing with a range of fringe benefits, work performed outside a jurisdiction, employee share acquisition schemes, superannuation contributions for non-working directors and grouping of businesses. It was hoped that the new arrangements would apply no later than 1 July 2008 but there have been delays in some States.

<sup>2</sup> All States have grouping provisions to prevent employers breaking up their operations into separate businesses to avoid, or reduce, their payroll tax liability.

**Table 3-1 Payroll tax category revenue, 2008-09**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Category revenue (\$m)	6 354.4	3 979.7	2 753.8	2 240.1	913.8	259.0	267.9	153.7	16 922.4
Total (\$pc)	902.44	741.82	633.13	1 016.38	566.88	517.71	770.03	693.16	781.94
Proportion of State revenue (%)	25.7	19.4	13.7	20.6	14.4	15.6	13.5	14.6	19.4

Source: Commission calculation using State data.

- 5 Apart from the Other revenue category, payroll tax is the largest State revenue source. It contributed 19.4 per cent of own-source revenue in 2008-09 (see Table 3-2).

**Table 3-2 Payroll tax as a proportion of State own-source revenue**

	2005-06	2006-07	2007-08	2008-09
Total for category (\$m)	13 095.0	14 395.0	16 022.0	16 922.4
Total own source revenue (\$m)	78 043.0	86 408.3	87 598.6	87 173.8
Proportion of total own source revenue (%)	16.8	16.7	18.3	19.4

Source: Commission calculation using ABS GFS data and State data..

## THE ASSESSMENT APPROACH

### Overview

- 6 In line with the 2010 Review terms of reference, the Commission investigated whether a simpler and less data intensive method could be formulated for the Payroll tax assessment.
- 7 The Commission initially proposed basing the assessment on a very broad interpretation of what States do in imposing the tax — they impose a tax on remuneration paid by businesses in the State. Under this approach the revenue base could be defined as total remuneration paid in each State excluding the general government sector at all levels of government. It implicitly assumed small businesses paid a similar proportion of total remuneration in all States.
- 8 Most States opposed this approach and argued it did not adequately reflect what they did in imposing the tax. Specifically, it did not take account of the policy followed in all States of exempting small employers.
- 9 The Commission accepted the average policy should reflect the general exemption because it is a major feature of the tax policy in all States. The differences between the States in the proportion of total remuneration paid by small employers meant recognising this exemption would be material.
- 10 We attempted to find a simple measure of the tax base to reflect the small employer exemption. States criticised broader measures based on ABS total compensation of employee data by industry because they were not sufficiently transparent or reliable. They considered the aim of excluding small employers could be achieved more explicitly and directly by simplified versions of the 2004 Review approach in which the revenue base was measured as the value of wages, salaries and supplements paid by employers, less:

- wages below the threshold level. All States exclude wages below a threshold from their tax base. While the level varies across States, the national average threshold in 2007-08 was around \$0.7 million per employer;
  - wages paid to Commonwealth employees, members of defence forces and employees of Australian embassies and consulates overseas, because States are not able to tax the Commonwealth Government; and
  - wages paid to State government employees because taxes States impose on their own employees are transfers within the State budget.
- 11 New South Wales and Western Australia said remuneration below the threshold should not be excluded because it would simplify the assessment, improve policy neutrality and promote greater efficiency in the design of State payroll tax regimes.
- 12 We have included a threshold in the assessment because we consider it reflects what States do in imposing the tax and it has a material influence on State revenue raising capacities. We have done so in a simple and transparent way that is policy neutral, in the sense that it applies the same policy to all States.

#### Scope of the revenue base

- 13 To reflect the scope of the revenue base taxed under the average tax policy, the Commission is including in the Payroll tax revenue base:
- remuneration paid to employees in the private sector above the average threshold (which is \$0.72 million for 2008-09);
  - remuneration paid to employees of public trading enterprises (PTEs) above the average threshold — under national competition policy, PTEs (at all levels of government) are taxed as private entities. We have continued with the 2004 Review approach of measuring the wages and salaries of industries where public sector activity is predominately commercial – Agriculture, forestry and fishing; Manufacturing; Electricity, gas, water and waste services; Transport, postal and warehousing and Finance and insurance services; and
  - remuneration paid to employees of higher education institutions (HEIs) above the average threshold — while HEIs are regarded as public sector organisations, they are liable for payroll tax.
- 14 This approach means differences in the capacity of the States to raise payroll tax may stem from interstate differences in one or more of:
- the per capita value of remuneration paid in the State;
  - the importance of employment in the small business sector; and
  - the importance of employment in the general government sector, including the Commonwealth.

*Estimating the tax free threshold level*

- 15 All States exempt remuneration paid by employers up to a specified threshold, but that threshold level varies across States — in 2008-09, they ranged from \$550 000 in Victoria to \$1 500 000 in the ACT (Table 3-3). The Commission estimated the average threshold as a weighted average of those applied by the States, with the weights based on the remuneration paid in each State. On this basis, the national average threshold for an employer in 2008-09 was set at \$0.72 million. We consider it desirable to update the threshold annually to ensure any material changes States may make in coming years are taken into account<sup>3</sup>. There was broad support from the States in updating the threshold annually if warranted.

**Table 3-3 Tax free thresholds in each State**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Exemption as at									
July 2006	600	550	1 000	750	504	1 010	1 250	1 000	700
July 2007	600	550	1 000	750	504	1 010	1 250	1 250	700
July 2008	623	550	1 000	750	552	1 010	1 500	1 250	720

Note: Employers whose annual payrolls fall below the amount shown are fully exempt from payroll tax. For other employers, the taxable payroll is their total payroll less the amount shown, except in Queensland where the deduction progressively falls to zero for payrolls over \$4 million.

Source: *Interstate Comparison of Taxes*, produced annually by the New South Wales Treasury.

**THE ASSESSMENT METHOD**

- 16 The Commission measures the payroll tax revenue base using Australian Bureau of Statistics (ABS) data on the compensation of employees (CoE)<sup>4</sup>. It uses CoE because it is a broad measure of the remuneration paid to employees, which covers the benefits States tax — CoE includes wages, salaries, other cash payments on behalf of employees (such as superannuation) and non-cash benefits.
- 17 However, excluding the non-taxable part of the revenue base requires the CoE data to be supplemented by information from other sources because the CoE data cannot be dissected by size of employers' payrolls. The Commission estimates the impact of the general deduction threshold indirectly using ABS data on private sector and public sector wages and salaries which can be dissected by payroll size<sup>5</sup>.
- 18 The wages and salaries data are narrower in scope than the CoE data because they exclude the other payments made on behalf of employees, such as superannuation. To compensate for the

<sup>3</sup> From July 2009, New South Wales and South Australia increased their thresholds to \$638 000 and \$600 000 respectively.

<sup>4</sup> ABS, *Australian National Accounts: National Income, Expenditure and Product*, Cat. No. 5206.0.

<sup>5</sup> Data on cash remuneration by sector and by size of employer is available from other ABS series — public sector wages and salaries data from *Employment and Earnings, Public Sector*, Cat. No. 6248.0.55.002 based on the Survey of Employment and Earnings (SEE), and private sector wages and salaries from *Business Indicators*, Cat. No. 5676.0 based on the Quarterly Business Indicators Survey.

narrower scope, the Commission uses a lower threshold to disaggregate wages and salaries into those that would be exempt and those that would be taxable.

- 19 New South Wales questioned the quality of ABS wages and salaries data used to calculate the taxable proportion of payrolls. It said the annual changes in the taxable proportions were more volatile for the two Territories. As with any State-based survey data, volatility of data is more apparent in the smaller States. However, the Commission did not find sufficient reason to question the survey methods used by the ABS or the fitness for purpose of the data provided.
- 20 New South Wales said the wages and salaries threshold ratio used by the Commission was too high. It said the sum of private sector and public sector wages and salaries as a proportion of the Commission's net CoE (\$532.6 billion) was 83 per cent in 2007-08. With a CoE threshold of \$0.70 million in that year, this implied the wages and salaries threshold should be around \$0.58 million, rather than \$0.60 million used by the Commission.
- 21 The Commission examined the composition of CoE using data provided by the ABS, which separately identified the CoE of the private and public sectors and also identified the wages and salaries component for each sector (see Table 3-4). Between 2005-06 and 2008-09, the wages and salaries component of the private sector CoE was nearly 90 per cent of CoE. For the public sector, wages and salaries made up around 86 per cent of CoE. The Commission has decided to use different thresholds for the private sector and public sectors because of this difference. Based on the data in Table 3-4, we set the private sector wages and salaries threshold at 90 per cent of the CoE threshold and the public sector wages and salaries threshold at 86 per cent of the CoE threshold.

**Table 3-4 Wages and salaries as a proportion of private and public sector CoE**

	2005-06	2006-07	2007-08	2008-09
Private CoE (\$m)	380 211.8	420 202.2	457 057.8	479 607.0
Private Wages & salaries (\$m)	341 399.0	377 382.0	411 289.0	431 412.0
Wages & salaries proportion (%)	89.79	89.81	89.99	89.95
Public CoE (\$m)	106 949.2	113 532.8	118 347.2	127 904.0
Public Wages & salaries (\$m)	91 689.0	96 968.0	101 377.0	109 915.0
Wages & salaries proportion (%)	85.73	85.41	85.66	85.94

Source: ABS detailed compensation of employees data obtained through a special data request.

- 22 Those proportions implied the 2008-09 average tax threshold of \$0.72 million was assumed to comprise:
- \$0.65 million of wages and salaries and \$0.07 million of other benefits in the private sector; and
  - \$0.62 million of wages and salaries and \$0.10 million of other benefits in the public sector.
- 23 We recommend the thresholds for CoE and wages and salaries be adjusted in future years should States materially adjust their payroll tax thresholds.

- 24 The ABS has advised that the earnings of defence force and embassy staff are included in the public sector CoE but not in the ABS survey of public sector wages and salaries. Since the earnings of defence force and embassy staff are not subject to payroll tax, the earnings of these groups are deducted from the public sector CoE prior to the taxable proportion of public sector CoE being determined.
- 25 In using wages and salaries data to split CoE by size of payroll, the Commission has assumed the taxable proportion of total CoE for 2008-09 as the sum of:
- the proportion of private sector wages and salaries in excess of the \$0.65 million threshold; and
  - the proportion of public sector wages and salaries paid by PTEs and HEIs in excess of the \$0.62 million threshold.

### **Higher education institutions**

- 26 Data on the proportion of public sector wages and salaries above the threshold paid by PTEs and HEIs are sourced from the ABS Survey of Employment and Earnings which is used to produce the public sector wages and salaries data. For confidentiality reasons, the ABS is unable to provide wages and salaries above the threshold for the higher education institutions in Tasmania, the ACT and Northern Territory. We have used data released each year by the Department of Education, Employment and Workplace Relations on staff levels of HEIs (measured on a full-time equivalence basis) to split the combined wages and salaries data among the three States.

### **Treatment of the Agriculture, Forestry and Fishing industry (AFF)**

- 27 Payrolls of businesses in the AFF industry that exceed the threshold are subject to payroll tax. While the AFF industry is included in CoE, it is not covered by the ABS data on private sector wages and salaries we use to estimate the taxable proportion of wages and salaries.
- 28 Under the 2004 Review methods, the Commission assumed the taxable proportion of the AFF industry CoE was equal to the taxable proportion of private sector wages and salaries, in part because of the low public sector employment in the AFF industry. For all other industries, the taxable proportion of their CoE was assumed to equal the average taxable proportion of wages and salaries in the private and the public sectors.
- 29 Queensland, South Australia, Tasmania and the Northern Territory considered this separate treatment of the AFF industry should be continued. This has been done through the calculation of separate taxable proportions for the private and public sectors in this review.

### **Estimating the taxable proportion of CoE**

- 30 Since CoE data cannot be dissected by business size, we have assumed the taxable proportion of the CoE for the private and public sectors is equal to the taxable proportion of wages and salaries/gross earnings in each sector.

31 The calculations of the taxable proportion of wages and salaries (and hence CoE) for the public and private sectors for 2008-09 are provided in Table 3-5 and Table 3-6.

**Table 3-5 Calculating the taxable proportion of public sector CoE, 2008-09**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Public sector gross earnings (\$m)	33 127.9	22 411.0	21 897.0	11 088.4	7 859.1	2 814.9	7 086.7	1 849.7	108 134.8
Taxable public sector gross earnings (\$m)	7 103.6	4 050.6	4 285.0	2 047.5	1 071.3	537.3	650.9	172.4	19 918.8
Taxable proportion (%)	21.44	18.07	19.57	18.47	13.63	19.09	9.18	9.32	18.42

Note: Taxable wages and salaries are equal to total public sector gross earnings less the gross earnings of the general government sector and the first \$620 000 of wages paid by PTEs and HEIs. They are not CoE data.

Source: ABS, *Employment and Earnings, Public Sector, Australia, 2008-09*, Cat. No. 6248.0.55.002, and unpublished ABS data.

**Table 3-6 Calculating the taxable proportion of private sector CoE, 2008-09**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Private sector wages and salaries (\$m)	120 906.0	91 365.0	66 048.0	43 665.0	21 972.0	5 934.0	5 234.0	3 111.0	358 235.0
Taxable private sector wages and salaries (\$m)	83 655.4	63 697.8	42 655.5	30 209.4	14 804.3	3 702.7	3 435.7	1 988.8	244 149.6
Taxable proportion (%)	69.19	69.72	64.58	69.18	67.38	62.40	65.64	63.93	68.15

Note: Taxable wages and salaries are equal to total private sector wages and salaries less the wages and salaries of employers with annual wages below \$650 000 and the first \$650 000 of wages paid by other employers. The data used in this table are derived from wages and salaries surveys. They are not CoE data.

Source: ABS, *Business Indicators*, Cat. No. 5676.0, and unpublished ABS data.

### Estimating the revenue base

32 The calculation of the revenue base for 2008-09 is shown in Table 3-7. It is obtained by:

- removing the CoE for members of the defence forces and employees of Australian embassies and consulates overseas from public sector CoE;
- applying the public sector taxable proportion (from Table 3-5) to the adjusted public sector CoE;
- applying the private sector taxable proportion (Table 3-6) to the private sector CoE; and
- summing the taxable public sector CoE and taxable private sector CoE.

**Table 3-7 Calculating the compensation of employees that is taxable, 2008-09**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
CoE - public sector (\$m)	39 532.9	26 076.1	25 096.6	12 282.2	9 493.8	3 274.2	9 690.7	2 457.5	127 904.0
less Embassy staff (\$m)	0.0	0.0	0.0	0.0	0.0	0.0	331.6	0.0	331.6
less - Defence forces (\$m)	1 934.3	664.2	1 442.0	365.1	256.2	12.8	531.0	586.2	5 791.7
Adjusted CoE (\$m)	37 598.7	25 411.9	23 654.6	11 917.0	9 237.7	3 261.5	8 828.1	1 871.3	121 780.7
Taxable proportion (%)	21.44	18.07	19.57	18.47	13.63	19.09	9.18	9.32	18.42
Taxable public sector CoE (\$m)	8 062.3	4 593.0	4 629.0	2 200.5	1 259.2	622.6	810.8	174.5	22 351.9
CoE - private sector part (\$m)	163 424.5	118 721.1	89 427.4	58 598.8	29 152.4	8 389.0	7 641.9	4 251.9	479 607.0
Taxable proportion (%)	69.19	69.72	64.58	69.18	67.38	62.40	65.64	63.93	68.15
Taxable private sector CoE (\$m)	113 074.1	82 769.9	57 754.5	40 541.2	19 642.3	5 234.5	5 016.4	2 718.2	326 751.1
Revenue base (\$m)	121 136.3	87 363.0	62 383.4	42 741.8	20 901.6	5 857.1	5 827.2	2 892.7	349 103.0

Note: The calculations of the taxable proportions are set out in Table 3-5 and Table 3-6.

Source: Unpublished ABS data and annual reports from the Departments of Defence, Veterans' Affairs and Foreign Affairs and Trade.

### Estimating assessed revenues

33 Table 3-8 sets out the calculation of assessed revenues for 2008-09 by applying States' shares of the revenue base to the total State payroll tax revenue. This is equivalent to applying the average effective rate of tax of 4.85 per cent to each State's revenue base. The average tax rate is calculated by dividing the sum of State actual revenues (\$16.922 billion in Table 3-8) by the total revenue base (\$349.103 billion in Table 3-7).

**Table 3-8 Assessed revenue and revenue raising capacity, 2008-09**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Actual revenue (\$m)	6 354.4	3 979.7	2 753.8	2 240.1	913.8	259.0	267.9	153.7	16 922.4
Revenue base (\$m)	121 136.3	87 363.0	62 383.4	42 741.8	20 901.6	5 857.1	5 827.2	2 892.7	349 103.0
Average tax rate (%)									4.85
Assessed revenue (\$m)	5 872.0	4 234.8	3 024.0	2 071.9	1 013.2	283.9	282.5	140.2	16 922.4
Population (million)	7.041	5.365	4.350	2.204	1.612	0.500	0.348	0.222	21.642
Assessed revenue (\$pc)	833.92	789.37	695.24	940.03	628.52	567.52	812.05	632.52	781.94
Revenue raising capacity	1.06648	1.00951	0.88912	1.20218	0.80380	0.72578	1.03851	0.80892	1.00000

Source: Commission calculation using actual revenue data from State Treasuries.

**WHAT IS THE IMPACT ON THE GST DISTRIBUTION?**

34 Table 3-9 shows the extent to which the assessment for this category moves the recommended distribution of the GST for the 2010 Review away from an equal per capita distribution. It shows that New South Wales, Victoria and Western Australia are assessed as having an above average capacity to raise payroll tax. Consequently, the assessment redistributes GST revenue from them to the other States.

**Table 3-9 Impact on the GST distribution of the Payroll tax assessment**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
Dollars million	-447.3	-54.0	343.9	-212.5	225.3	106.8	6.5	31.4	713.8
Dollars per capita	-62.73	-9.89	77.22	-93.96	138.18	211.47	18.35	138.60	32.41

Note: The difference from an equal per capita assessment — derived using assessed revenues for the period 2006-07 to 2008-09 and 2009-10 GST.

Source: Commission calculation.

- 35 Table 3-10 and Table 3-11 suggest the main influences on a State's assessed capacity are:
- the relative size of its private sector. Table 3-10 shows New South Wales, Victoria and Western Australia have relatively large private sectors — they have more than their population share of private sector wages and salaries;
  - the proportion of its CoE above the threshold level. Table 3-11 shows an above average proportion of wages and salaries are taxable in New South Wales, Victoria and Western Australia; and
  - the relatively high proportion of public sector wages and salaries in the ACT, relative to its population share, reflects the high proportion of wages and salaries attributed to the Commonwealth Government in the ACT. Commonwealth Government wages and salary expenditure in 2008-09 comprised around 15 per cent of total public sector wage and salary expenditure. The ACT's share was 35 per cent. The ACT's share of wage and salary expenditure for other levels of government was 1.4 per cent.

**Table 3-10 State shares of population and wages and salaries, 2008-09**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	%	%	%	%	%	%	%	%	%
Population	32.54	24.79	20.10	10.18	7.45	2.31	1.61	1.02	100.00
Public sector wages and salaries	30.64	20.73	20.25	10.25	7.27	2.60	6.55	1.71	100.00
Private sector wages and salaries	33.75	25.50	18.44	12.19	6.13	1.66	1.46	0.87	100.00

Source: ABS, Australian Demographic Statistics, Australia, Cat. No. 3101.1, Business Indicators, Cat. No. 5676.0, Employment and Earnings, Public Sector, Australia, Cat. No. 6248.0.55.002.

**Table 3-11 Taxable proportion of wages and salaries, 2008-09**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
	%	%	%	%	%	%	%	%	%
Public sector wages and salaries	21.44	18.07	19.57	18.47	13.63	19.09	9.18	9.32	18.42
Private sector wages and salaries	69.19	69.72	64.58	69.18	67.38	62.40	65.64	63.93	68.15
<b>Total</b>	<b>59.69</b>	<b>60.33</b>	<b>54.47</b>	<b>60.30</b>	<b>54.08</b>	<b>50.22</b>	<b>33.62</b>	<b>43.11</b>	<b>57.46</b>

Note: The sector proportions were obtained by dividing the taxable parts from Table 3-5 and Table 3-6 by the sum of the non-taxable and taxable parts for wages and salaries. The total proportion was obtained by dividing the revenue base (Table 3-7) by the sum of the public sector and private sector CoE.

Source: Commission calculation based on unpublished ABS data.

- 36 These tables reflect the economic circumstances of the States. New South Wales and Victoria have historically been the centres of finance and manufacturing with large commercial sectors, and high proportions of head offices and higher paid occupations. It is only recently that Western Australia's assessed capacity has exceeded the average. Its ability to raise payroll taxes has been increasing due to the greater activity associated with its resource industries.
- 37 Queensland's employment base has been growing, particularly as resource industries have expanded. However, it still has an above average proportion of small employers and more jobs in lower paid occupations. South Australia has had some large industries, such as car manufacturing and ship building, but has remained behind the bigger States in terms of revenue capacity. Tasmania has a relatively small manufacturing sector, and relies more on primary industry and tourism activities, which generally are made up of smaller businesses. The private sector in the ACT is developing but there are a high proportion of small businesses. Its biggest employer (the Commonwealth Government) is not taxable. The Northern Territory has a sizeable mining sector, but has lacked the commercial and industrial sector of some of the other States. It also has a large non-taxable public sector, particularly defence forces.
- 38 Table 3-12 provides a summary of the main reasons for changes in our recommendations since the 2009 Update.

**Table 3-12 Changes since the 2009 Update, Payroll tax**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Shortening the review period	38.2	19.3	-38.5	-26.4	6.6	1.9	-0.8	-0.2	65.9
Method changes	36.4	80.5	-56.1	-17.9	5.1	-11.7	-32.1	-4.3	122.1
State circumstances	54.7	37.2	15.5	-109.9	16.0	1.5	-13.0	-2.1	125.0
<b>Total</b>	<b>129.3</b>	<b>137.0</b>	<b>-79.1</b>	<b>-154.2</b>	<b>27.7</b>	<b>-8.3</b>	<b>-45.9</b>	<b>-6.6</b>	<b>294.1</b>

Source: Commission calculation.

- 39 The main changes in GST redistribution from the 2009 Update are due to method changes and the inclusion of more recent State circumstances by replacing 2005-06 data with 2008-09 data.

- 40 A noticeable method change was the inclusion of HEI earnings in the revenue base. Table 3-13 shows the States' shares of wage and salary expenditure for HEIs for the period 2005-06 to 2007-08 compared to States' population shares. The ACT and Victoria had above average shares of HEI wages and salaries. This served to increase their assessed revenue raising capacities.

**Table 3-13 States' share of HEI wages and salaries, average 2005-06 to 2007-08**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	%	%	%	%	%	%	%	%	%
Population share	32.86	24.77	19.83	9.99	7.55	2.36	1.61	1.02	100.00
Wage and salary share	28.21	28.54	17.18	9.78	7.46	2.37	5.83	0.63	100.00

Source: Derived from unpublished ABS data.

- 41 There have also been significant revisions in the CoE data as estimated by the ABS across all States for 2005-06 to 2007-08. These CoE revisions have been associated with the move by the ABS to use new international standards for reporting in national accounts and the use for the first time of a new Australian and New Zealand Standard Industrial Classification (ANZSIC 2006). During 2009, the ABS rebenched CoE data for all years to reflect the new industrial classification system.
- 42 Table 3-14 presents the percentage changes in CoE for the three years 2005-06 to 2007-08 made by the ABS during 2009. Over the three years, the increase in CoE in New South Wales, Victoria and South Australia was less than the average. Other things being equal, the assessed relative revenue raising capacities of these States would have fallen as a result of those revisions which, in turn, would have increased their assessed GST distributions relative to the 2009 Update assessment. For the other five States the revisions would have reduced their assessed GST distributions. The effects of these data revisions are part of the 'Method changes' row in Table 3-12.

**Table 3-14 Changes in CoE due to changes in industry classifications, 2005-06 to 2007-08**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
	%	%	%	%	%	%	%	%	%
2005-06	4.28	3.76	6.91	5.41	4.79	8.85	4.63	6.02	4.88
2006-07	6.15	4.85	8.52	7.40	5.25	10.23	9.32	10.06	6.53
2007-08	6.17	5.08	8.77	8.34	5.31	10.27	10.23	6.37	6.75

Source: Calculations based on the ABS CoE data in the *Australian National Accounts, State Accounts*, Cat. No. 5220.0, 2008 and unpublished CoE data split into private and public sectors the ABS supplied to the Commission.

- 43 Changes in State circumstances between 2005-06 and 2008-09 have also had a noticeable effect on the changes in the assessed GST distribution compared with the 2009 Update distribution.

- 44 State revenue from payroll tax has increased at more than double the rate of increase in the GST pool from 2005-06 to 2008-09, leading to an increased amount of GST revenue being redistributed by this category. This has an effect to redistribute some GST revenue away from the States whose assessed revenues in 2005-06 were above average, namely New South Wales, Victoria and Western Australia.
- 45 However, the bulk of the changes in State circumstances reflect the different patterns of economic growth in the States. Table 3-15 shows the percentage change in private sector activity, as measured by private sector CoE, and actual revenue collections from payroll tax between 2005-06 and 2008-09. Growth in the private sector has been particularly strong in Western Australia, the ACT and the Northern Territory.

**Table 3-15 Changes in private sector CoE and actual revenues, 2005-06 to 2008-09**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
	%	%	%	%	%	%	%	%	%
Private sector CoE	19.38	22.73	28.12	52.44	22.54	30.43	48.39	42.96	26.14
Actual revenue	22.67	20.52	43.65	65.32	15.38	17.73	31.30	22.93	29.23

Source: Commission calculation using ABS GFS data and ABS compensation of employees data obtained through special data request.

- 46 The fall in GST distribution to the ACT due to changes in States' circumstances largely reflects increased activity in the private sector. The private sector share of the revenue base in the ACT increased from 79 per cent to 86 per cent between 2005-06 and 2008-09, largely due to strong growth in the construction industry and the professional, scientific and technical services industry. Nationally, the private sector share increased from around 92 per cent to 94 per cent.
- 47 In Western Australia, the strong growth in economic activity has centred on the construction, mining, transport and financial and insurance services industries.

## UPDATE PROCESS

- 48 We recommend that data used in these assessments be updated when new data become available to ensure the relativities remain contemporary and consistent with the circumstances of the States. On this basis we expect that all data used in the calculation of the revenue bases and assessed revenues for the latest year would be updated annually. This would cover any new or revised data on CoE and private and public sector wages and salaries and revisions to previous years' data.
- 49 If States change their payroll thresholds, we suggest an assessment be made of whether the changes are sufficiently large to warrant changing the average CoE and wages and salaries thresholds for the latest year.

## **SIMPLIFICATION**

- 50 The 2010 Review assessment method is similar to that used in the previous review, although separate wages and salaries thresholds are used for determining the taxable proportions of private sector and public sector CoE.
- 51 The adjustment for the Agriculture, forestry and fisheries industry has been discontinued because there was no conceptual case for it.
- 52 Earnings of higher education institutions are included in the measure of the revenue base. Previously these earnings were not included.

## **FURTHER INFORMATION**

- 53 Background material in support of this assessment is published on the Commission's website. That material includes the following documents, released for comment in the development of this assessment, together with State submissions responding to those documents:
- Staff Discussion Paper *2006/07 Disaggregating revenue*;
  - Staff Discussion Paper *2007/03-S Proposed methods for revenue assessments*;
  - Commission Position Paper *2008/05 Payroll tax*; and
  - *2010 Review Draft Report*.