

Payroll tax

Overview

- 1 On 6 October 2023, the Commission issued a [consultation paper](#) on the draft payroll tax assessment. The Commission considered changes since the 2020 Review and their implications for the assessment method.
- 2 The Commission proposed to retain the 2020 Review assessment method.
- 3 A summary of state and territory (state) responses to each consultation question is included below, as well as the Commission's draft position and the draft 2025 Review assessment method.
- 4 State submissions can be viewed [here](#).

Consultation questions

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

State views

- 5 All states said they supported assessing revenue from payroll tax surcharges on the same basis as payroll tax.¹ New South Wales said a separate assessment of the levies would be difficult to implement and was not warranted. Queensland said a separate assessment would require state data, placing an additional reporting burden on states. South Australia said the Commission should consider additional thresholds to capture the surcharges as part of future investigations into an alternative assessment approach.

Commission response

- 6 The Commission considers the current payroll tax method adequately captures states' capacities to raise revenue from the additional payroll tax surcharges. The surcharges are collected on the same revenue base as payroll tax (albeit with higher thresholds). Including revenue from the surcharges in the assessment increases the average tax rate that is applied to each state's revenue base. This is consistent with the treatment of foreign owner surcharges in the land tax and stamp duty on

¹ Victoria introduced a mental health and wellbeing surcharge from 1 January 2022 and a COVID-19 debt temporary payroll tax surcharge from 1 July 2023. Queensland introduced a mental health levy on taxable payrolls from 1 January 2023.

conveyances assessments. A separate assessment of the surcharges would require state data to further disaggregate payrolls and would add unwarranted complexity.

Commission draft position

- 7 The Commission proposes to assess 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?

State views

- 8 States supported retaining the current assessment. Most states also supported the Commission continuing to investigate the feasibility of an assessment using linked data from the Australian Bureau of Statistics (ABS) Business Longitudinal Analysis Data Environment (BLADE) and/or the Person Level Integrated Data Asset (PLIDA).² However, states disagreed on when to introduce an alternative assessment (discussed in the next section).
- 9 New South Wales and Queensland supported the Commission continuing to explore the potential of BLADE and PLIDA but said the Commission would have to weigh the drawbacks of those datasets against any improvement in the stability of the assessment. New South Wales said those datasets, as they currently stand, were likely to increase the complexity and decrease the transparency of the assessment. Queensland said the Commission would need to ensure those datasets do not significantly reduce the contemporaneity of the assessment. It said incompleteness in the existing PLIDA data may reduce its reliability and fitness for purpose.
- 10 Victoria did not consider further exploration of BLADE and PLIDA data to be necessary until the underlying limitations of those datasets have been addressed. It said those limitations included unavailability of business activity statement data disaggregated by state and lack of contemporaneity of business income tax data. Victoria said the resolution of those limitations required further development of the data by the ABS, rather than adjustments made by the Commission.
- 11 Several states noted the volatility in the existing revenue base arising from revisions to, and sampling variability in, the underlying ABS data. South Australia said while the current assessment is robust, there is potential for improvement. It said the survey data used to disaggregate private sector wages and salaries above and below the average threshold were subject to high degrees of sampling error and other

² BLADE integrates Australian Taxation Office business tax data with data from ABS surveys and other administrative data. PLIDA combines information on income, taxation, employment, population demographics and other variables over time.

non-sampling variability. It said the Commission should continue to investigate alternative data sources that may improve the reliability of the assessment and better reflect the use of diminishing thresholds by some states.

- 12 New South Wales compared differences in state shares of the revenue base with their 5-year average shares. It said to the extent there were differences they were reflective of trends in states' revenue raising capacities. It considered the volatility was at a reasonable level. It said the Commission's 3-year averaging managed volatility in the assessment.

Commission response

- 13 The Commission considers that the 2020 Review assessment method (with the changes introduced in the 2024 Update³) captures states' relative capacities to raise payroll tax. It broadly reflects what states do in collecting payroll tax from businesses with payrolls above a threshold.⁴
- 14 The Commission considers the data used in the assessment are fit for purpose and the best available at this time.⁵ Nevertheless, the Commission acknowledges the concerns of some states about the level of volatility arising from revisions to the compensation of employees data and sampling variability in the ABS survey data on wages and salaries, especially for small states.
- 15 The Commission notes that neither the Commission (nor states) identified any other suitable alternative data. For the 2025 Review, the Commission engaged the ABS to examine the feasibility of replicating the current approach using various BLADE datasets. Based on those investigations, the Commission has concluded that data from BLADE or PLIDA are currently not able to support a timely and reliable assessment with reduced volatility. While these data sources may have future potential, there are currently barriers to their use in the payroll assessment. These barriers include lags in the availability of data and difficulties apportioning across states remuneration paid by multi-state businesses.
- 16 The Commission proposes to continue to monitor the development of the BLADE and PLIDA datasets. This is to explore the potential of using linked data from those datasets in the assessment to reduce data volatility, especially that caused by data revisions and small sample sizes. The Commission notes the concerns raised by states that the use of BLADE or PLIDA data may increase complexity and reduce

³ In the 2024 Update, the Commission discontinued a separate assessment to remove from the revenue base the remuneration of Australian Defence Force personnel and Australian embassy employees overseas. Changes to the scope of the ABS public sector wages and salaries data meant the separate assessment was no longer necessary. More information on these changes can be found in the Commission's paper [New Issues in the 2024 Update](#).

⁴ Four states apply diminishing thresholds, where the threshold (deduction) is reduced as payroll size increases. The ABS has previously advised that confidentiality concerns mean it cannot provide more disaggregated data that would be necessary to fully reflect diminishing thresholds in the assessment. Instead, the assessment uses a single weighted average threshold.

⁵ The assessment uses ABS compensation of employees data as its broad measure of remuneration paid in each state. The ABS places its aggregate compensation of employees estimates in its highest category of accuracy ratings. Compensation of employees are disaggregated using ABS survey data on wages and salaries above a weighted average threshold.

transparency and will take this in account in its future assessment of whether the data is fit for purpose. This work will continue beyond the timeframe for finalising the 2025 Review.

- 17 The Commission will also continue to monitor developments in the ABS' use of the Single Touch Payroll data from the Australian Taxation Office. From 2022–23, the ABS replaced its Survey of Employment and Earnings with Single Touch Payroll as its method of collecting the public sector wages and salaries data used by the Commission. The ABS says, with access to this rich data source, it is actively pursuing opportunities to augment and/or replace direct collection from employers. If the ABS were to seek to move to Single Touch Payroll as its data source for the private sector wages and salaries data used in the assessment, the Commission would consult states on any implications.⁶

Commission draft position

- 18 The Commission proposes to retain the 2020 Review assessment method for the 2025 Review, including the ABS data sources. The Commission will continue to monitor developments in ABS data sources including BLADE/PLIDA and Single Touch Payroll.

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?

State views

- 19 Five states supported the assessment method including scope for the Commission to move to BLADE or PLIDA data in a future update, if those data improve sufficiently to support a superior assessment. They said states would need adequate opportunity to review the alternative approach. New South Wales said the data would have to evolve to meet the Commission's needs. Tasmania said it would need to be demonstrated that the data improve the reliability, accuracy, comparability or contemporaneity of the assessment. The ACT said the Commission should further explore the potential of Single Touch Payroll data for the assessment.
- 20 Victoria, Queensland and the Northern Territory did not support the assessment method including scope for change in an update. They said a move to BLADE or PLIDA data would represent a significant change to the assessment and require more thorough consultation than could occur in an annual update. Victoria said an

⁶ Single Touch Payroll data is included among the BLADE datasets. Several states have advised that consideration of a transition to Single Touch Payroll for collecting some state taxes has not progressed. If this were to progress, it may improve the potential for Single Touch Payroll data to be used in the payroll tax assessment.

assessment using BLADE or PLIDA data should be considered in a future methodology review, if the limitations of those datasets were resolved.

- 21 The Northern Territory said payroll tax was one of the more stable and consistent assessments and there were no major concerns with the current data. It said the number of issues for discussion in annual updates should be kept to a minimum.

Commission response

- 22 While the Commission proposes to continue to investigate the potential of linked data from BLADE and PLIDA, this work will continue beyond the timeframe for finalising the 2025 Review. Work to identify, develop and consult on a new assessment method is likely to take a number of years. Given the need to rigorously test the reliability of an alternative method and fully consult with states, the Commission proposes that implementation of any new method occur in a future review.
- 23 Such a change to the assessment method is a discrete project separate to changes the ABS may make to the way it collects the data currently used in the assessment (for example, using Single Touch Payroll mentioned above).

Commission draft position

- 24 The Commission proposes to continue to investigate the potential for an assessment based on linked data from BLADE and/or PLIDA but not to implement an alternative assessment method using those data sources before the next review.

Other issues raised by states

Change in Commonwealth Government employment practices

- 25 The ACT noted that the Commonwealth Government's policy to directly employ Australian Public Servants in preference to labour hire and contracted employees. It said this had lowered the ACT's capacity to raise payroll tax.

Commission response

- 26 The Commission notes this change and considers it should be captured in the ABS data that are updated annually.

Draft 2025 Review assessment method

- 27 Following consideration of state views, the Commission proposes to retain the 2020 Review assessment method.

28 Table 1 shows the proposed structure of the 2025 Review payroll tax assessment.

Table 1 Proposed structure of the 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

Indicative distribution impacts

29 No method changes are proposed for this assessment.