Policy position:

Tasmanian Payroll Tax Policy

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Situation Analysis

The Institute of Public Affairs' 2013 report into Australian business taxation competitiveness (Business Bearing the Burden) identifies Tasmania as having the highest payroll tax burden of any state or territory.

Large employers operating in Tasmania are being disadvantaged by high payroll tax. For example, a business with a $10 million wage bill would pay almost $75,000 more payroll tax per annum in Tasmania than it would in Victoria.

Successive State Governments have acknowledged the negative impact payroll tax has on employment levels by offering payroll tax relief in two ways:

> *Ad-hoc Assistance*
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> Large packages of financial support have been constructed to create and preserve ICT jobs at Vodafone, Serco and Qantas over the past two years. The result has directly improved Tasmanian net employment by over 1,500 jobs since March 2013.
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> However, the Government has no firm or transparent criteria for this type of assistance, only ad-hoc assistance on a case-by-case basis. This has led to perceived favouritism where competition for human capital takes place with one firm advantaged by no payroll tax exposure, against those pre-existing businesses which have been paying the tax as directed.
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> *The Employment Incentive Scheme Payroll Tax Rebate*
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> The scheme was put in place in December 2012. It provides payroll tax relief for new positions created between 10 December 2012 and 30 June 2015. It is not known what the government intends to do with the scheme after that period. The scheme has two weaknesses:
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> - Businesses are exposed to substantial administration costs in order to claim the rebate; and
> - An eligible business has an unfair advantage over an existing ineligible business.
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> It is also important to note that TasICT's position is supported by the Henry Tax Review's Final Report which found payroll tax exemptions "…lead to complexity in administration and compliance, particularly when the exemptions differ (even slightly) between States."

The Tasmanian ICT sector is strong and growing. The sector is successfully competing on a national and international firms. TasICT has identified a number of competitive advantages for Tasmania's local ICT industry, including:

- Access to high quality ICT graduates
- More competitive wages
- Less transient workforce
- Low congestion
- Low rent
- Early access to the NBN

A final impediment to the growth of the existing ICT industry and attraction of new, major ICT employers has been Tasmania's high rate of payroll tax. ICT is highly portable, with large areas of ICT operation able to be centred at low-cost bases. Over the past decade, firms across the world have used very low cost centres in Asia to service developed economies.

However, that trend was cracked by the 'onshoring' of Vodafone operations to Hobart. Further evidence of business appetite for keeping operations in Australia continued through the Tasmanian Government's successful arrangement to keep and grow Qantas ICT operations in Hobart.

Commentary from Australia's fastest growing ICT business, RXP Services, shows it now sees Hobart as its ideal 'nearshoring' centre for lower-cost operations. The company's employment growth is being assisted by its qualification for the payroll tax rebate.

Policy Principles

Payroll Tax:

- Is a tax on jobs. It punishes business for employing people. A 2009 TCCI study suggested that scrapping payroll tax could create almost 7,000 Tasmanian jobs.
- Provides a disincentive for firms to expand employee wages past the $1.25m threshold.
- Is an administrative burden on business – particularly for those on the cusp of paying the tax or attempting to claim the rebate.
- Has a disproportionate cost on the Tasmanian ICT sector which not only shoulders a high payroll tax burden, but completes against international firms that do not pay payroll tax at all.

Policy Objectives

- To increase the size of the Tasmanian ICT sector by eliminating the payroll tax for the ICT sector.
- Give Tasmanian ICT a competitive advantage over other states and territories.
- Establish Tasmania as a viable nearshoring option for Australian ICT firms. Particularly for ICT development, backend support, call centres and IT support services.

Proposed Policy

The Tasmanian Government should exempt the ICT sector from payroll tax burden through a step down approach over a period of five years, commencing in 2015-16. Exempting primarily-ICT related firms from paying payroll tax would:

- Put Tasmanian-based ICT firms on an equal footing with overseas competitors.
- Give Tasmanian-based ICT firms a competitive advantage over interstate competitors.
- Give long-term certainty to firms using payroll tax rebates or ad-hoc assistance.
- Attract large-scale ICT investment in Tasmania as a lower-cost, high-skill ICT hub.

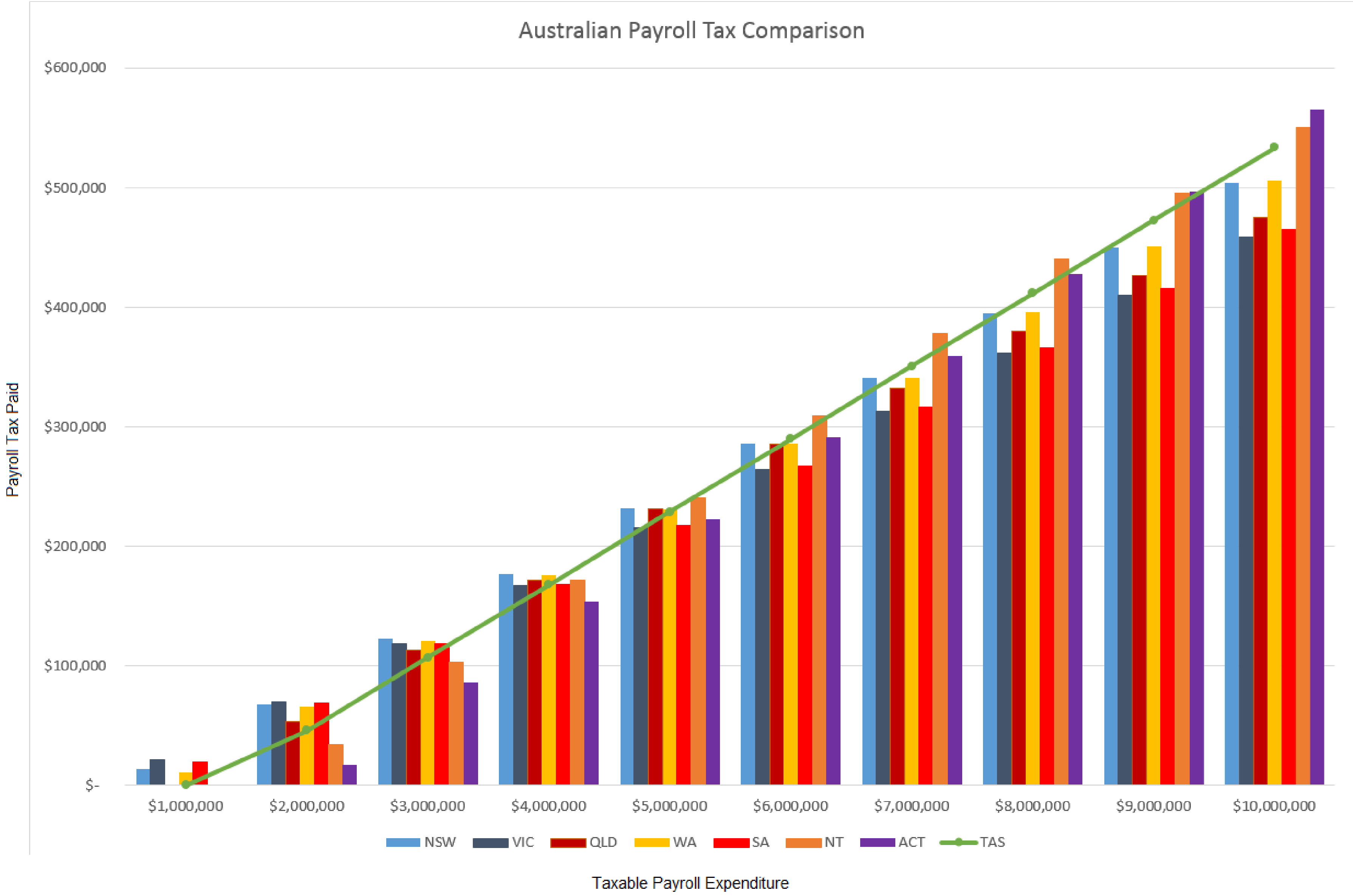
TasICT believes that such a policy represents a positive sum game for Tasmania, as decreased payroll tax revenue is substituted by increased economic activity and jobs growth.

It is proposed that the rate of payroll tax for ICT-related firms is decreased by 1 percentage point every financial year, eliminated by 2020.

Year	Rate of payroll tax
2015-16	5.10%
2016-17	4.10%
2017-18	3.10%
2018-19	2.10%
2019-20	1.10%
2020-21	NA

Interstate Comparison of Taxes 2013-14 Source, Interstate Comparison of Taxes 2013-14, *New South Wales Treasury,* p13

Tax	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
Payroll Tax:								
Basic Flat Rate:	5.45%	4.90%	4.75%	5.50%	4.95%	6.10%	5.50%	6.85%
Method of calculation of Tax:	Single marginal rate.	Single marginal rate.	Deduction System.	Single marginal rate.	Single marginal rate.	Single marginal rate.	Deduction System.	Single marginal rate.
Tax Scale and Small Business Concession:	First $750,000 exempt. (From 1 July 2013) Annual indexation of the threshold ceased from 1 July 2013.	First $550,000 exempt.	First $1,100,000 exempt. For payrolls $1,100,000 up to $5,500,000, deduction of $1,100,000 reducing by $1.00 for every $4.00 payroll exceeds $1,100,000. No deduction for payrolls of $5,500,000 or more.	First $750,000 exempt. (Threshold scheduled to increase to $800,000 from 1 July 2014 and $850,000 from 1 July 2016)	First $600,000 exempt.	From 1 July 2013, first $1,250,000 exempt.	Deduction of $1,500,000. For payrolls $1,500,000 up to $7,500,000, deduction of $1,500,000 reducing by $1.00 for every $4.00 payroll exceeds $1,500,000. No deduction for taxable wages of $7,500,000 or more.	First $1,750,000 exempt.
	Employer superannuation contributions included in the tax base. Employment termination payments and the grossed up value of fringe benefits included in the tax base from 1 July 2002. Termination payments to non-executive directors and share plans and share options included in the tax base from 1 July 2003. Various exemptions apply.	Employer superannuation contributions included in the tax base. Eligible termination payments and the grossed up value of fringe benefits included in the tax base from 1 July 2001. From 1 January 2005, employment agencies are liable for payroll tax for their on-hired workers. An exemption from payroll tax applies to wages paid in respect of workers on-hired to a client that is exempt under Part 4 of the *Payroll Tax Act 2007* (other than under Division 4 or 5 of that Part, section 50 or clause 16 of Schedule 2).	Employer superannuation contributions included in the tax base. Eligible termination payments (not including death benefit eligible termination payments) included in tax base from 1 July 2002. Death benefit eligible termination payments now included in tax base from 1 July 2008.	Employer superannuation contributions included in the tax base. Eligible termination payments included in the tax base from 1 July 2003. Grossed up value of fringe benefits included in the tax base from 1 January 2002. Various exemptions apply, primarily for charitable and religious institutions, government departments and public hospitals and schools. Employers with an annual payroll of $1,500,000 or less in 2012-13 will receive a rebate in 2013-14 to fully offset their payroll tax liabilities. The rebate phases out for those with payrolls between $1,500,000 and $3,000,000.	Employer superannuation contributions included in the tax base. Eligible termination payments (as defined for income tax purposes) and the grossed up value of fringe benefits included in the tax base from 1 July 2002. Various exemptions apply. On 1 July 2009, a new Payroll Tax Act commenced. The new Act is largely harmonised with the legislation of other States. From 2013-14, a payroll tax concession for employers with taxable payrolls less than or equal to $1.2 million will be provided for two years from 2013-14. The concession will be determined by applying concessional tax rates to eligible employers' 2012–13 and 2013–14 taxable payrolls. Eligible	Employer superannuation contribution included in the tax base. Eligible termination payments and the grossed-up value of fringe benefits included in the tax base from 1 July 2003. Wages are exempt wages if they are paid or payable by any of the following: Religious institution; a public benevolent institution (but not including an instrumentality of the State); a non-profit organisation having as its sole or dominant purpose a charitable, benevolent, philanthropic or patriotic purpose; 14 weeks of eligible maternity or adoption leave payments; in respect of wages in any period when an employee was taking part in bushfire-fighting activities as a volunteer member of a fire brigade; or wages in respect of any period	Employer superannuation contribution included in the tax base. Eligible termination payments included in the tax base from 1 July 2002. Grossed up value (type 2 grossed-up rate) of fringe benefits included in the tax base from 1 July 2002. From 1 July 2008 the NT Payroll Tax Act is harmonised with every other state and territory in relation to the following areas: lodgement and payment dates, motor vehicle allowances, accommodation allowances, a range of fringe benefits, work performed in another country, superannuation contributions, employee share acquisition scheme and grouping of employers. On 1 July 2009 a new Payroll Tax Act commenced. The new	Employer superannuation contributions included in the tax base. Eligible termination payments and the grossed up (Type 2 factor) value of fringe benefits included in the tax base. From 1 July 2005 eligible maternity, adoption and/or primary carer leave is exempt. From 1 July 2005 tax base includes employer contributions to employee share schemes, and eligible termination payments. From 1 July 2008, employee share schemes are taxable if the corporation is registered in the ACT or the share or option is made in relation to services performed wholly in the ACT. Commencing on 1 June 2006 approved not-for-profit Group Training Organisations


Australian Payroll Tax Comparison
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$500,000
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Payroll Tax Paid
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NSW
VIC
QLD
WA
SA
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ACT
TAS
Taxable Payroll Expenditure