

ACCI SURVEY REPORT

Impact of Payroll Tax on Business



**Australian
Chamber of Commerce
and Industry**

Overview

- The Australian Chamber of Commerce and Industry (ACCI), Australia's largest and most representative business network, has surveyed a broad cross-section of our membership to assess the impact of the payroll tax on small to medium-sized businesses.
- This survey was undertaken between 20 December 2020 and 19 February 2021, involving 619 businesses across all states and territories.
- We thank our state and territory chambers of commerce for their help in developing the survey and distributing it through their membership networks.
- Payroll tax rates vary between states and territories, from a low of 4.75% in Queensland to 6.85% in the ACT. Similarly, tax-free thresholds based on the total wages paid by a business vary between a low of \$650,000 in Victoria and high of \$2 million in the ACT. Based on the average turnover of businesses, only 12% of survey respondents fall below the tax-free threshold in their state or territory.
- Payroll tax has a notable impact on a business's profitability, particularly for businesses operating under relatively low margins or when under financial stress. Around one third of businesses identified that payroll tax greatly reduced their profitability, with a further 37% identifying that it had a moderate impact.
- The COVID-19 pandemic highlighted the impact of payroll tax on profitability, with over two-thirds of businesses indicating that state and territory governments waiving or deferring payroll tax during the trading and movement restrictions was a factor in their business' survival.
- If payroll tax was abolished, over half of the businesses would increase the number of staff they employ and a further 21% would increase the wages of their employees.



- Similarly, over 90% of businesses indicated payroll tax influenced their decision to employ staff and 75% suggested payroll tax made it difficult for young people to enter the job market.
- The administrative burden of payroll tax was shown to be significant, with 73% of business owners identifying that they or their accountant spend more than one hour per month preparing, calculating and lodging their payroll tax to meet the compliance requirements.
- However, relative to other Government fees, charges and taxes administered by businesses on behalf of employees, the majority of responses (52%) considered the administrative burden of payroll tax to be moderate.
- Businesses ranked payroll tax reform the highest priority relative to other issues on the reform agenda, including stamp duty, wholesale tax, workplace relations and regulation.
- Key priorities for payroll tax reform include simplifying the payment system (53%), integrating payroll tax into standard accounting software (47%), and having consistent / harmonised compliance requirements across states, including definitions (39%) tax-free thresholds (38%) and legislation (35%), as well as removing exemptions/allowances (29%) and scaling, marginal rates / regional discounts (20%).
- To raise awareness that employees bear the burden of payroll tax through lower wages, over two-thirds of businesses saw the benefit in including payroll tax on employees' payslip.
- If payroll tax were abolished, to replace the revenue lost by the states and territories, 58% of businesses supported increasing the GST and 15% backed increasing other Commonwealth taxes.



Introduction

Payroll tax is a levy on the wages of an employee, paid by the business on behalf of their employees when the total wage bill of the employer exceeds a given tax-free threshold. The rate at which payroll tax and the tax-free thresholds are applied varies widely between the states.

In addition to the different tax rates (along with scaling and regional discounts) and tax-free thresholds, there are many other distortions. These are in the form of exemptions, allowances, deductions and definitions that are inconsistent with those of other employee arrangements (for example, other taxes, workers compensation, superannuation, state insurance regulations) and interpretations of payroll tax legislation. Further, there are differences in the application of these across states and territories.

The following table presents the tax rates and tax-free thresholds on total wages applying in each of the jurisdictions in 2020.

STATE	THRESHOLD	TAX RATE	COMMENTS
NSW	>\$1.2 mill	4.85%	
VIC (Regional)	>\$650,000	4.85% (2.02%)	*Regional employer classification adds complexity
QLD (Regional)	\$1.3 – \$6.5 mill	4.75% (3.75%); plus deductions	*Deduction makes it difficult for businesses to calculate tax liability
	> \$6.5 mill	4.95% (3.95%)	*Regional classification adds complexity
ACT	>\$2 mill	6.85%	
SA	\$1.5 – \$1.7 mill	0 – 4.95%	*Scaling tax rate makes it difficult for businesses to calculate tax liability
	>\$1.7 mill	4.95%	
WA	\$1.0 – \$7.5 mill	5.5%; plus deductions (a) 5.5% # (b) 6% # (c) 6.5% #	*Deduction makes it difficult for businesses to calculate tax liability *Four different thresholds # Applied marginally
	\$7.5 – 100 mill (a)		
	\$100 m – \$1.5 bill (b)		
	>\$1.5 bill (c)		
NT	>\$1.5 mill	5.5%	
TAS	\$1.25 – \$2 mill	4%	
	>\$2 mill	6.1%	

For businesses operating in more than one state or territory, these complexities can substantially increase the administrative burden and cost of compliance, including the requirement to lodge payment through multiple state portals. Unlike personal income tax, which is paid by the employer on behalf of the employee through the Single Touch Payroll system, there is not a simplified digital system that the employer can use to make the payment of payroll tax. Nor does standard accounting software include functions to determine the amount of payroll tax a business owes on behalf of their employees.

While a degree of complexity in the administration of payroll tax is an unavoidable consequence of the current policy design and its application across the states and territories, it greatly increases the cost of compliance, making what should be a relatively efficient tax very inefficient.

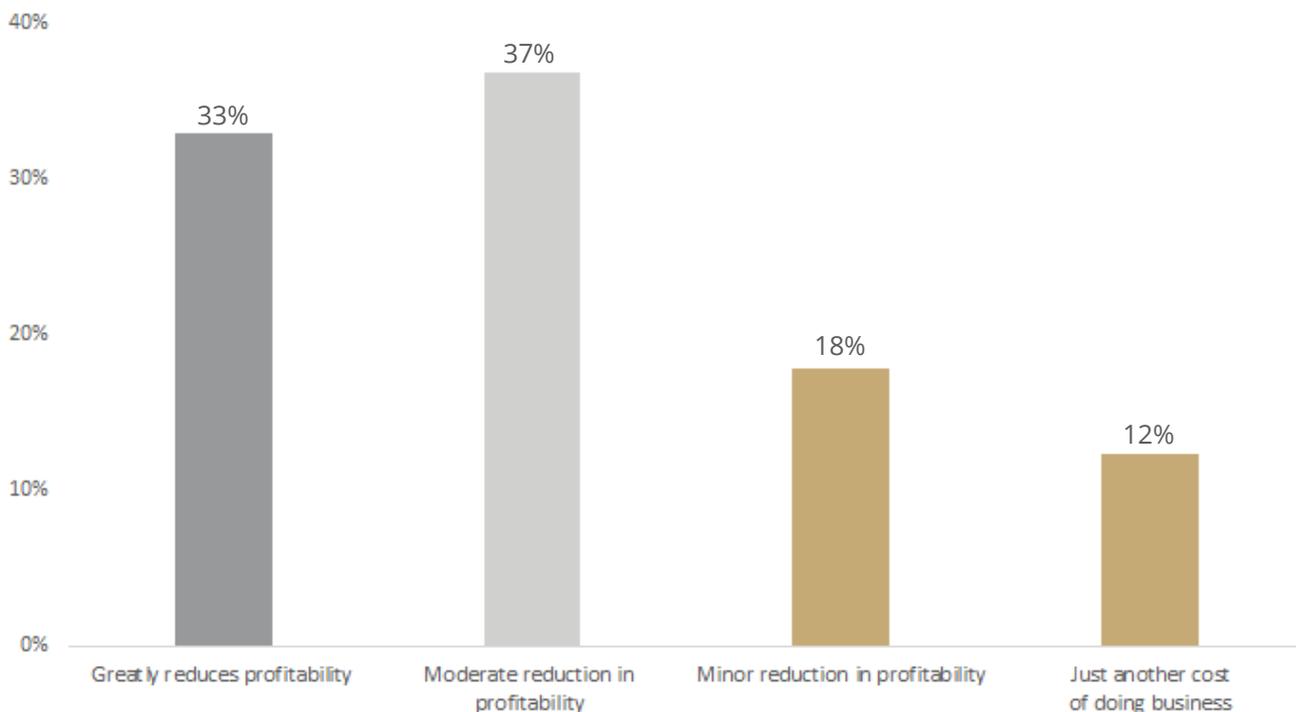
ACCI has prepared the following survey to provide insights on the impact of payroll tax on business and help identify priority reforms that can reduce the administrative burden.



Impact of payroll tax on business profitability

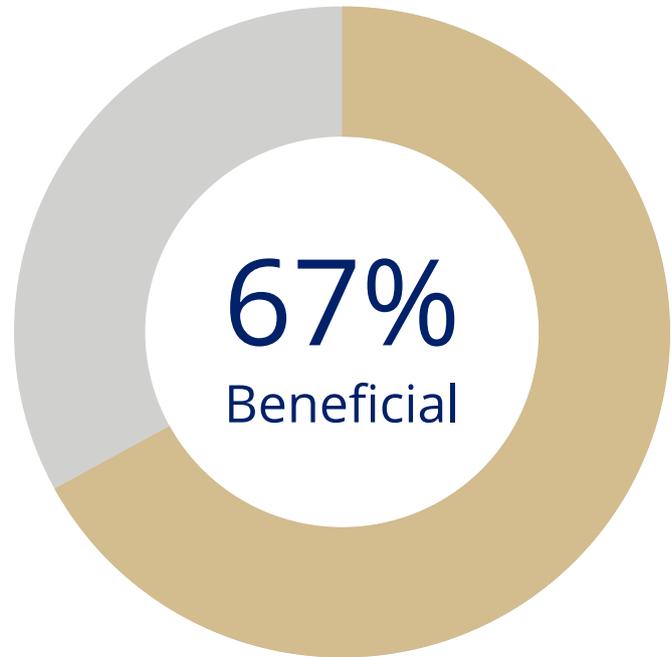
Payroll tax rates vary between states, from a low of 4.75% in Queensland to 6.85% in the ACT. Unlike other taxes, which are payable on the profits of a business, payroll tax is payable on total wages paid. Therefore, particularly for businesses operating under relatively low margins or when trading conditions shift placing the business under financial stress, payroll tax can have a material impact on a business' profitability.

Around one third of businesses identified that payroll tax greatly reduced their profitability, with a further 37% identifying that it had a moderate impact. For 18% of businesses, payroll tax had a minor impact on profitability. Only 12% of businesses saw payroll tax as just another cost of doing business.



The benefit to business survival of waiving or deferring payroll tax during the COVID crisis

The impact of payroll tax on business profitability was highlighted during the COVID-19 pandemic. Over two-thirds of businesses indicated that the waiving or deferring payroll tax by state and territory governments was a factor in their survival. Many businesses shuttered or were operating under tight trading restriction and under severe financial stress, with payroll tax a substantial additional cost associated with maintaining employees.



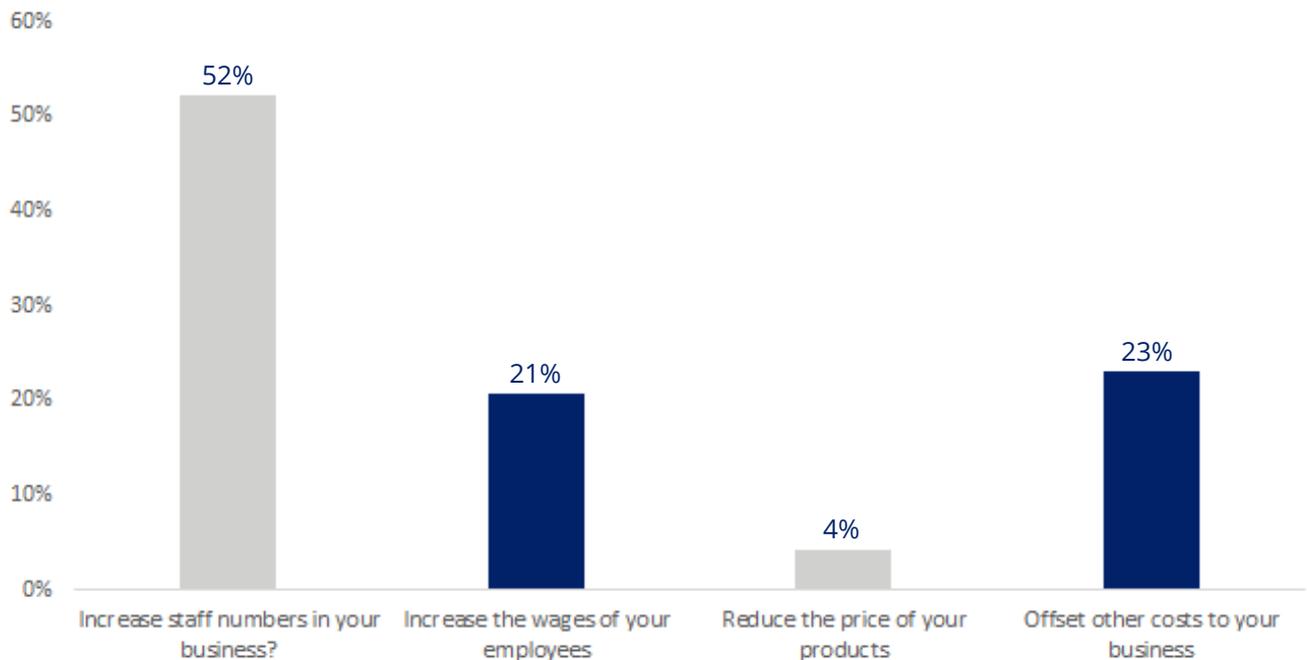
Business response if payroll tax removed

Given the financial burden of payroll tax on businesses, removing payroll tax would reduce operating costs, freeing up funds for use in other areas.

Just under three-quarters of businesses indicated that removing payroll tax would directly lead to more jobs or higher wages.

If payroll tax was removed, over half of the businesses surveyed indicated that they would employ more staff. A further 21% of businesses identified that they would increase the wages of their employees. Around 23% indicated that they would use the additional funds to offset other costs. Only 4% indicated they would reduce the prices of their products.

"Over **HALF** of businesses would increase the number of staff employed"



Impact of payroll tax on business activity

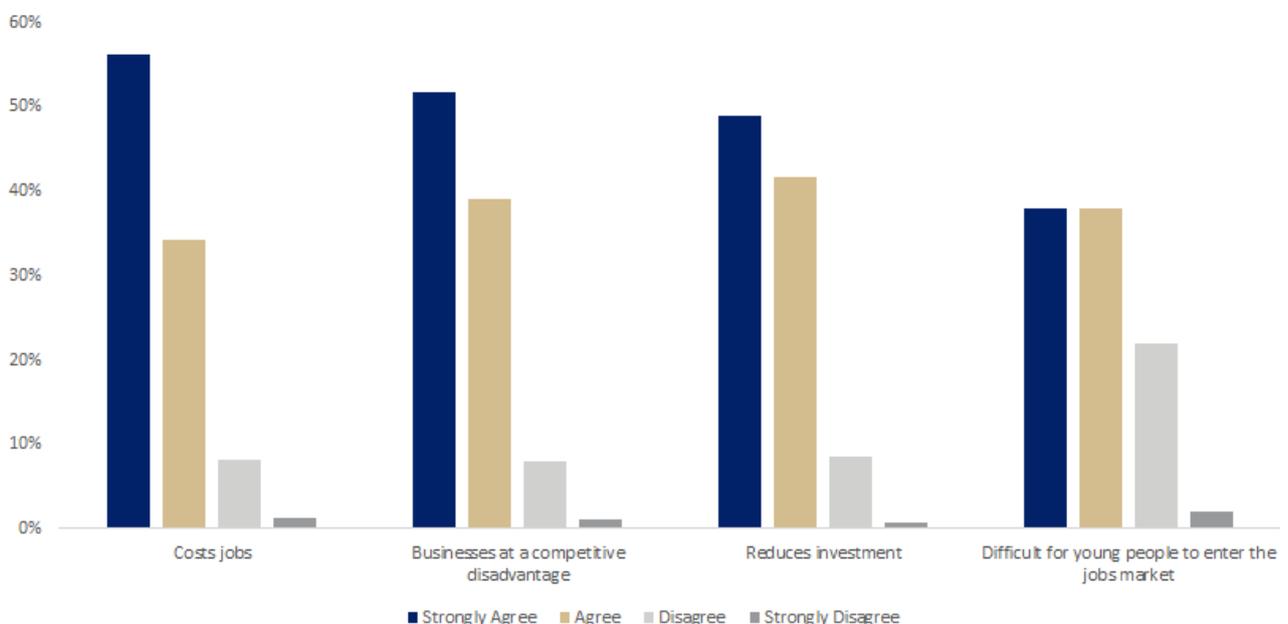
Payroll tax is a significant factor affecting business' decision to employ staff. Consistent with the previous question on their response to the removal of payroll tax, when asked about the impact of payroll tax on employment, 90% of businesses either agree or strongly agree that payroll tax comes at the cost of jobs.

Similarly, payroll tax has a sizable impact on the willingness of businesses to employ young people. Just over 75% of businesses either agree or strongly agree that payroll tax makes it difficult for young people to enter the job market.

The complexity of payroll tax, due to range of different tax-free thresholds, discounts, exemptions and scaling, between the states and territories and across regions, has a considerable impact on the competitiveness of businesses. Around 90% of businesses either agree or strongly agree that payroll tax puts their business at a competitive disadvantage relative to businesses that either don't pay payroll tax or pay it at a lower rate.

In addition to lowering business revenue, businesses also identified that payroll tax influences their decisions to invest in new capital equipment, buildings and structures. Over 90% of businesses either agree or strongly agree that payroll tax influenced their investment intentions.

	STRONGLY AGREE	AGREE	DISAGREE	STRONGLY DISAGREE
Costs jobs	56%	34%	8%	1%
Businesses at a competitive disadvantages	52%	39%	8%	1%
Reduces investment	49%	42%	9%	1%
Difficult for young people to enter the market	38%	38%	22%	2%

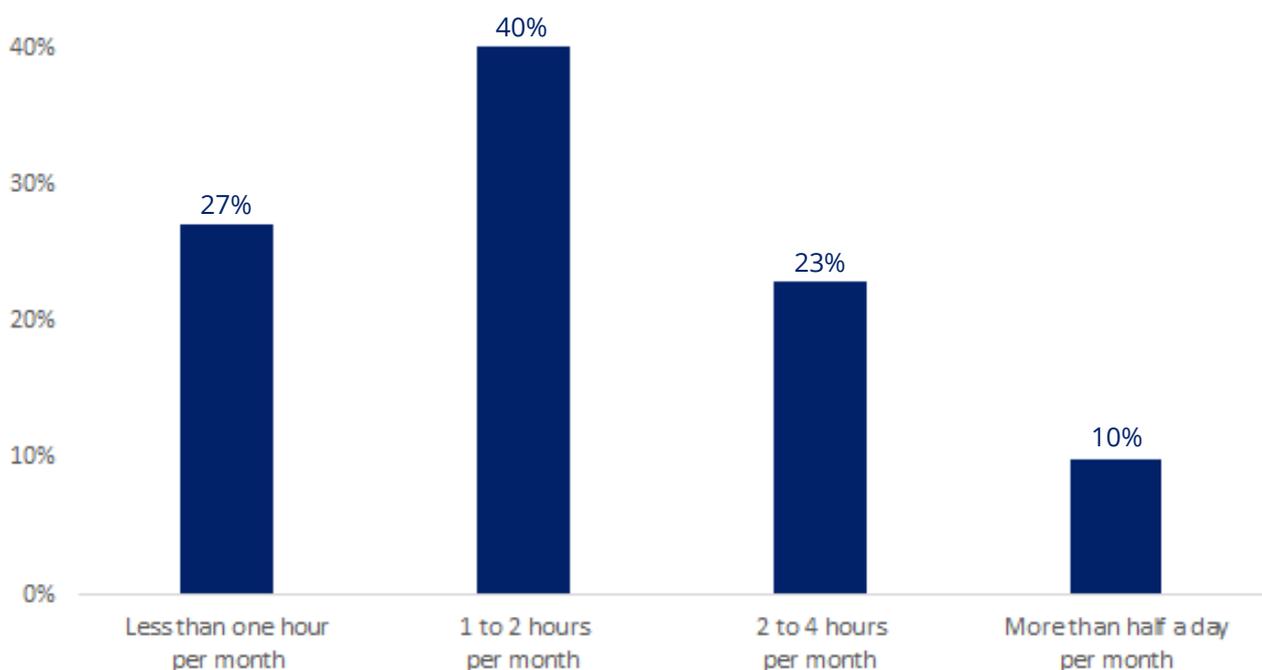


Administrative burden of payroll tax compliance

The administrative burden of payroll tax is significant, with just under three-quarters of businesses owners identifying that either they or their accountant spend more than one hour per month preparing, calculating and lodging payroll tax to meet the compliance requirements.

Forty percent of businesses spend between one and two hours per month to meet the compliance requirement of payroll tax. A further 23% of businesses spend between two and four hours per month, and 10% spend over four hours per month preparing and lodging their payroll tax.

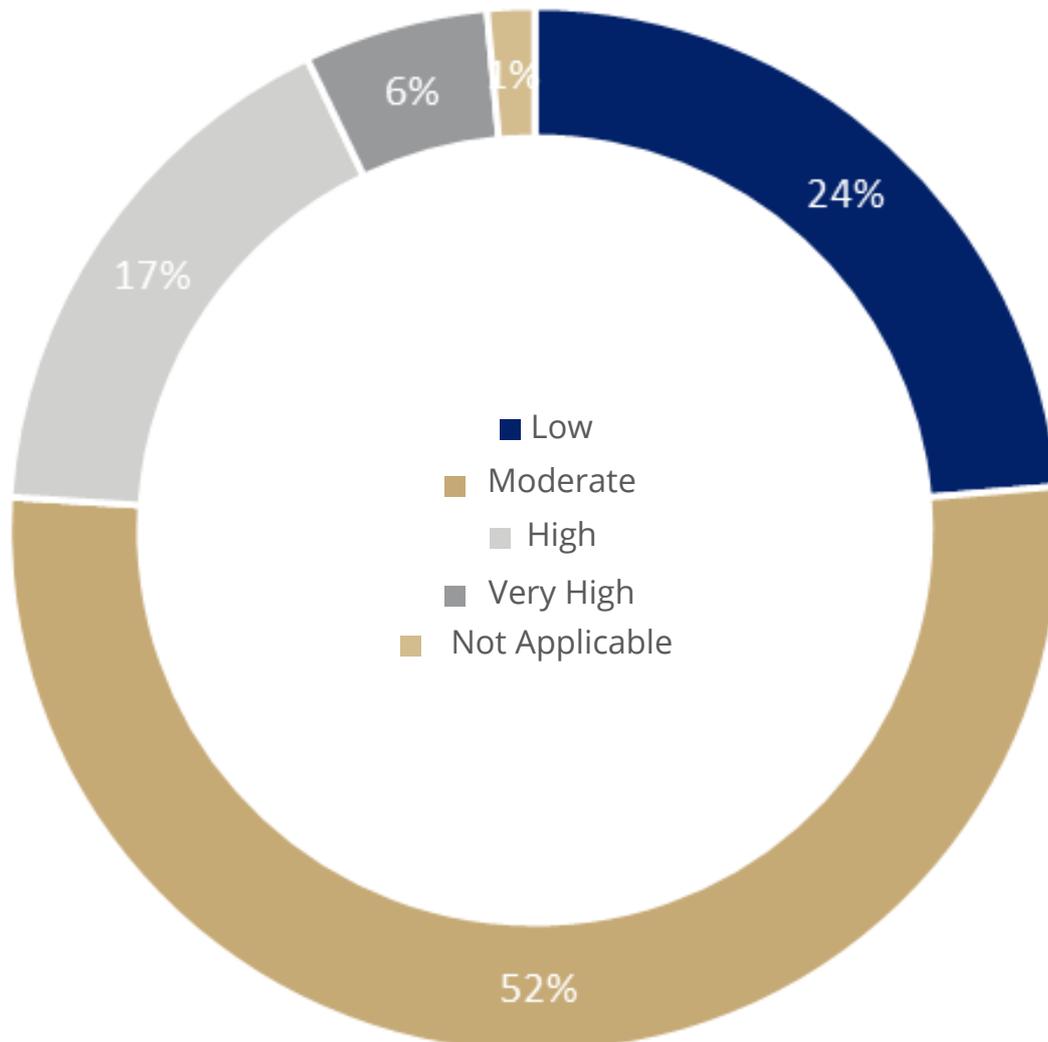
Only 27% of businesses required less than one hour per month to prepare their payroll tax. Around half of the businesses surveyed are not likely to be subject to payroll tax, as their turnover is below the tax-free thresholds. The tax-free thresholds vary across the states and territories based on business turnover, between a low of \$650,000 in Victoria and a high of \$2 million in the ACT. Based on the average turnover of businesses, 12% fall below the tax-free threshold in their state.



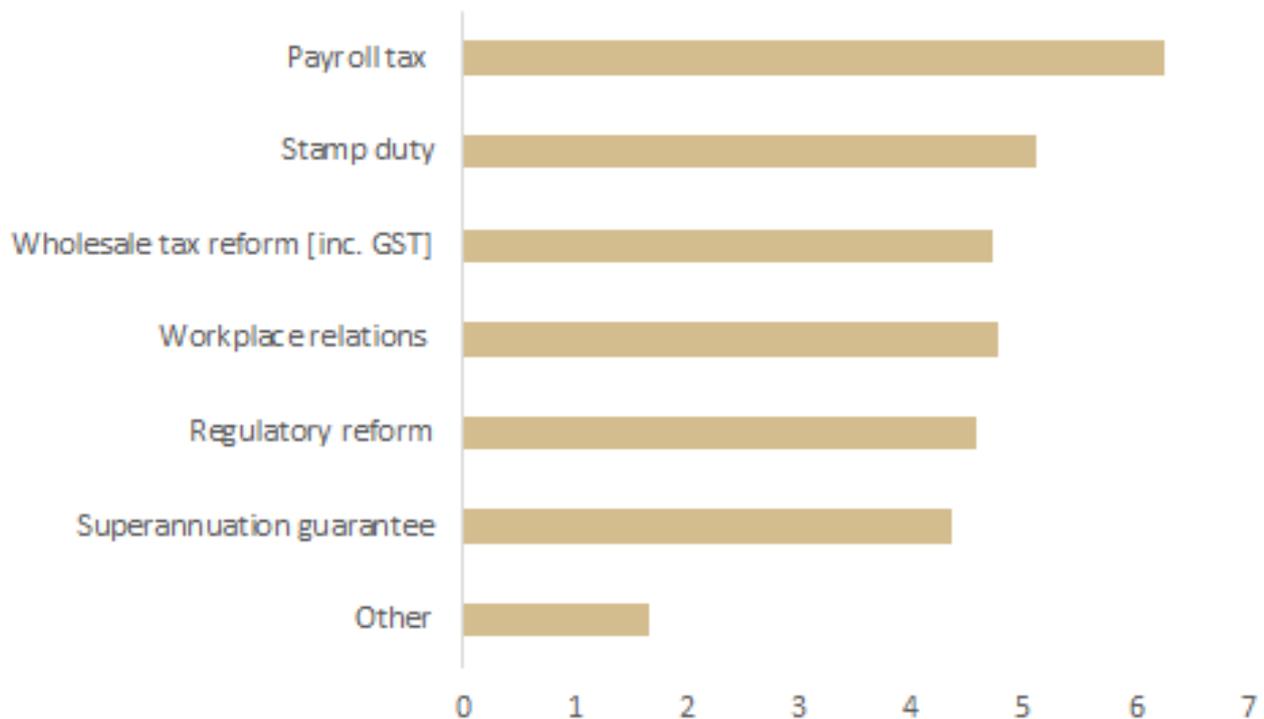
Administrative burden of payroll tax relative to other Government fees and charges

There are a wide range of Government fees, charges and taxes administered by businesses on behalf of employees, including personal income tax, fringe benefits tax, goods and services tax, company tax, superannuation guarantee and workers compensation levy. When asked how payroll tax compared to the collection of these other sources of government revenue, the majority of businesses (52%) identified that the administrative burden was relatively moderate. Around 23% of businesses identified the administrative burden to be high or very high relative to the other fees, charges and taxes.

At the other end of the range, 24% of businesses identified payroll tax had relatively low compliance costs.



Priorities for Government reform



When asked to rank areas of necessary Government reform, payroll tax was given the highest priority, with a score of 6.25. Other areas of tax reform, stamp duty (5.1) and wholesale tax reform (4.73), also rated very highly.

Payroll tax	6.25
Stamp duty	5.1
Wholesale tax reform (inc. GST)	4.73
Workplace relations	4.78
Regulatory reform	4.58
Supperannuation guarantee	4.35
Other	1.65

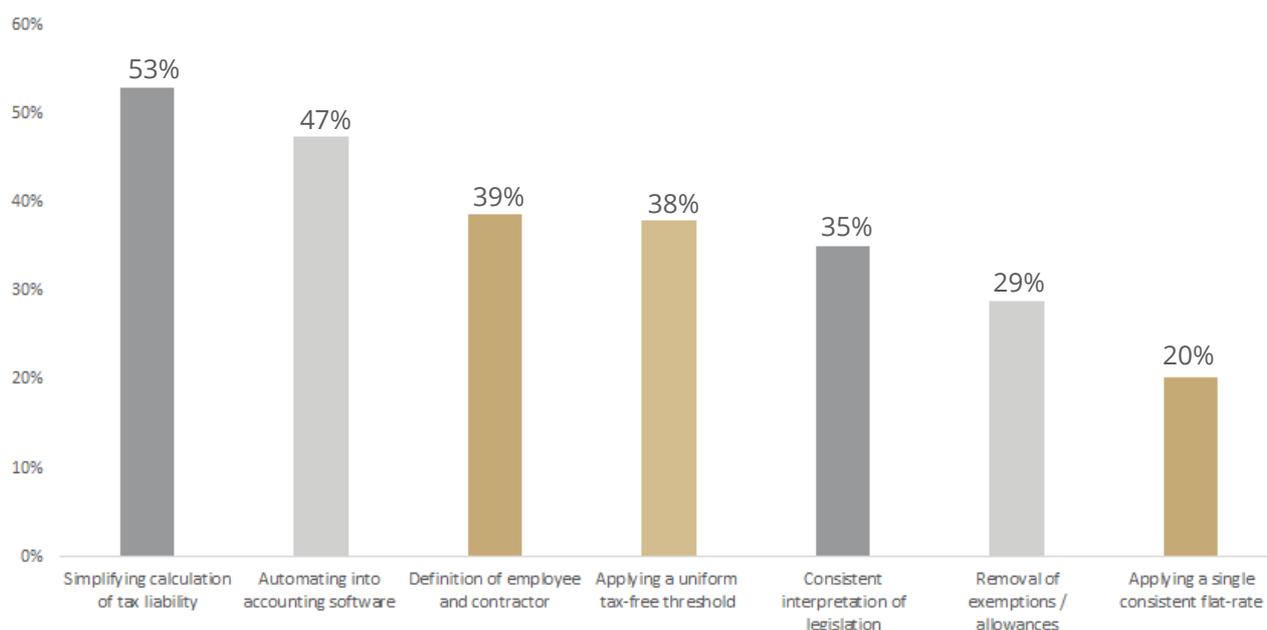
Other non-tax related areas, including reforming the workplace relations system (4.78), regulatory system (4.58) and the superannuation guarantee (4.35) were also identified as high priorities.

Priority areas for payroll tax reform

Businesses clearly identified the complexity of payroll tax compliance creating an administrative burden for them. Businesses were asked what specific areas of the payroll tax system required reform to reduce the burden of compliance. Simplifying the payment of payroll tax through a single national platform that directly calculated the amount owing (such as the Single Touch Payroll), was identified by 53% of businesses as the highest priority. In addition, automating the calculation of payroll tax into standard accounting software was also identified as a very high priority for 47% of businesses. A separate question revealed that 65% of businesses reported their accounting software did not automatically calculate their payroll tax liability.

Consistency of payroll tax compliance across jurisdictions was also identified as a priority area of reform. Making the definition of employee and contractor provisions consistent with that of other employee arrangements (eg. other taxes, workers compensation, superannuation, state insurance regulations) was identified as a priority by 39% of respondents. Applying a consistent/uniform tax-free threshold (harmonise) across the state and territories was a priority for 38% of respondents. Similarly, applying consistent interpretations of payroll tax legislation across the states and territories was a priority for 35% of respondents.

Other key areas of reform focused on reducing the complexity of compliance to simplify payment. Removal of other exemptions and allowances which complicate the determination of eligibility of employees and calculation of payroll tax was a priority for 29% of respondents.



Removal of scaling, marginal rates and regional discounts, such that a single consistent flat-rate applies within a given jurisdiction was a priority for 20% of respondents.

Including payroll tax as an item on an employee's payslip

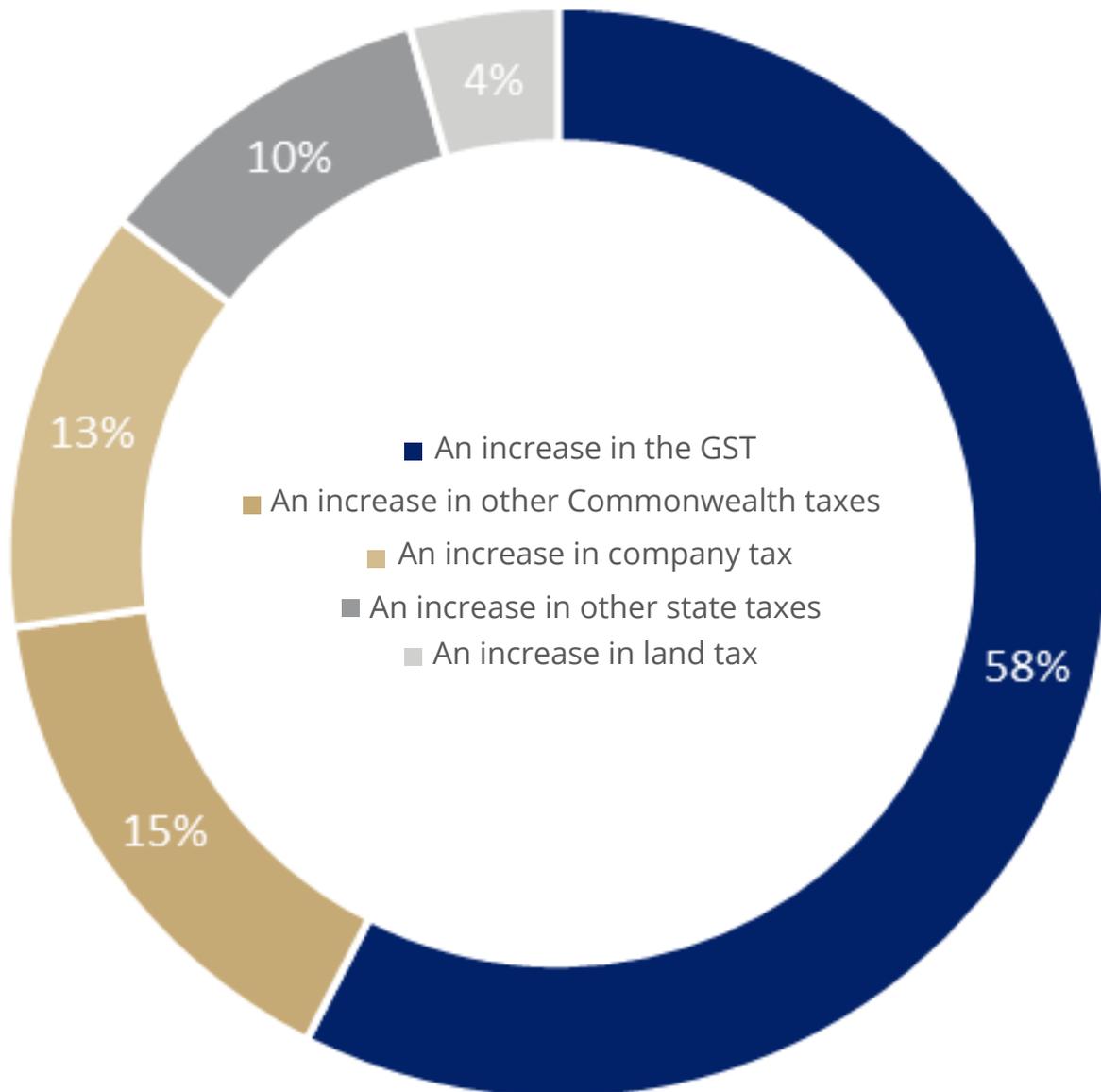
Payroll tax is a state tax on employees, similar to personal income tax, at least in theory. However, the way the tax is applied in Australia, it is paid by the employer on behalf of the employee. Employees are generally unaware they ultimately bear the burden of payroll tax through lower wages.

To raise awareness that payroll tax is borne by the employee through lower wages, two-thirds of businesses saw benefit in including the amount of payroll tax on employee payslips.

"Two-thirds of businesses saw the benefit in including payroll tax on employees' payslip"



Alternative to payroll tax to support state and territory budgets



Payroll tax is one of the highest revenue-raising taxes for most States and Territories, with the total amount of revenue at \$26.5 billion in 2018-19, representing between 27% and 40% of own-source revenue collected by the states/territories. The removal of payroll tax would leave a large hole in state and territory government’s Budgets.

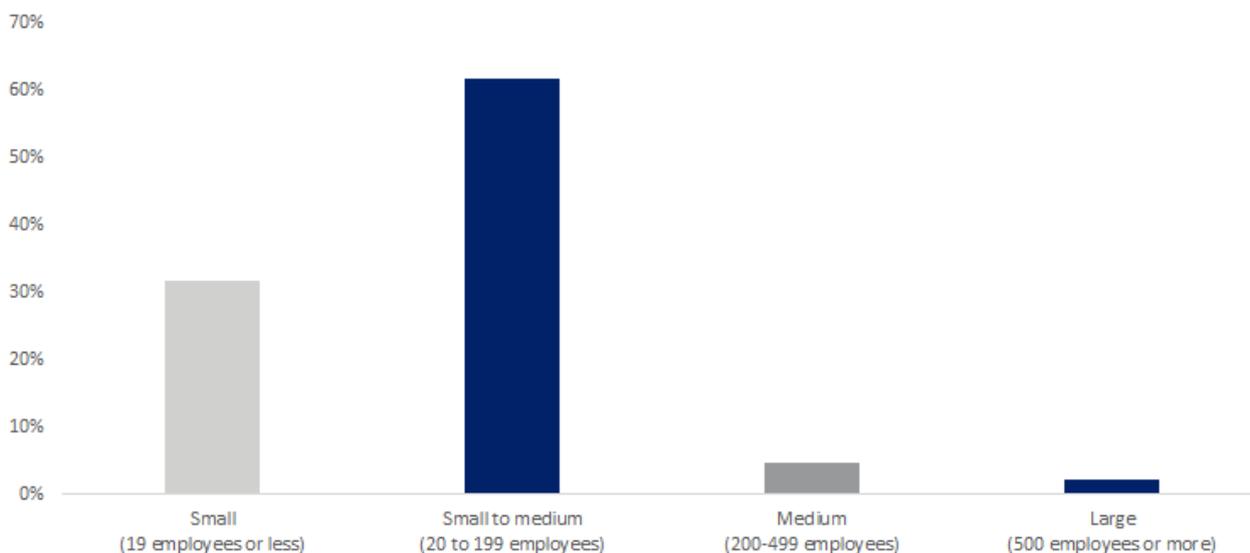
To fill this gap, 58% of businesses supported an increase in the GST. A further 15% considered this revenue could be sourced by increasing other Commonwealth taxes. An increase in company tax was considered an option by 12% of businesses. Other businesses suggested raising other states and territory taxes (10%) or increasing land taxes (4%).

Survey Demographics

The Australian Chamber of Commerce and Industry is Australia’s largest and most representative business network. Our members are state and territory chambers of commerce, national industry associations and business leaders from individual enterprises. Together, we represent Australian small and medium-sized businesses, across all sectors of the economy, and from every corner of our country.

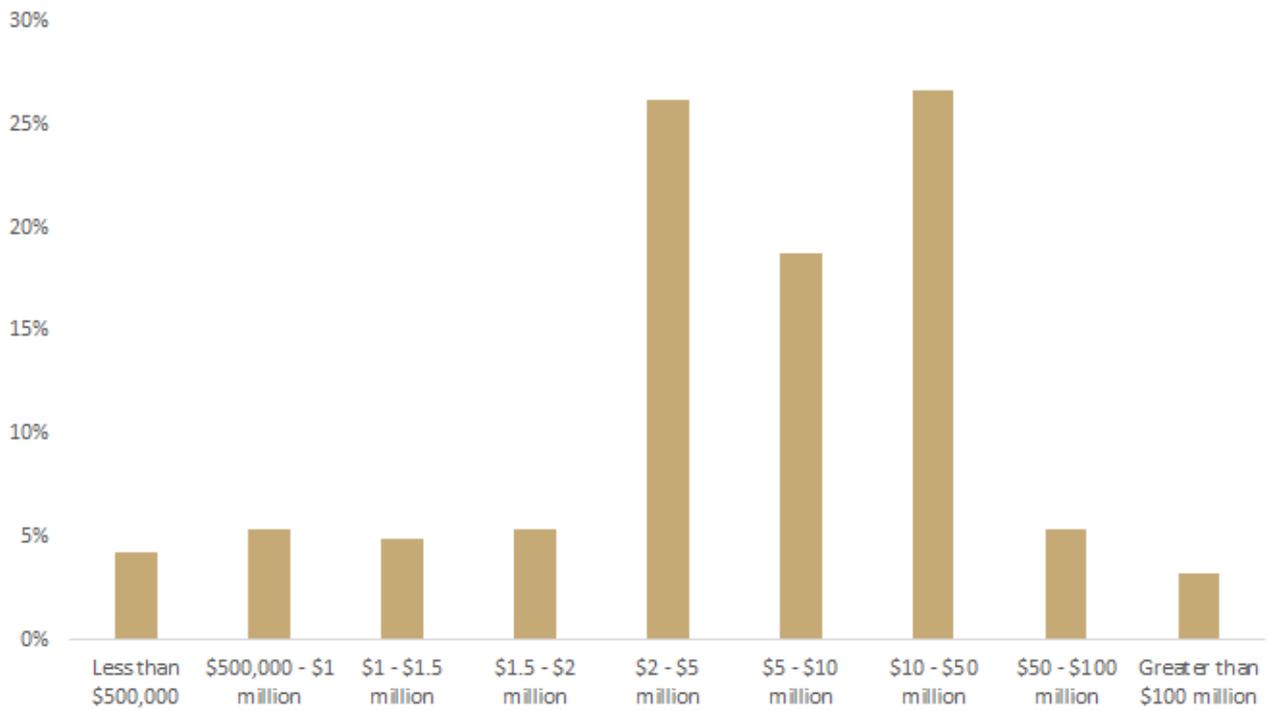
This survey polled 620 businesses between 20 December 2020 and 19 February 2021, from ACCI’s network of small and medium-sized businesses.

The survey included small business (32%), small to medium businesses (62%), medium businesses (5%) and large businesses (2%).

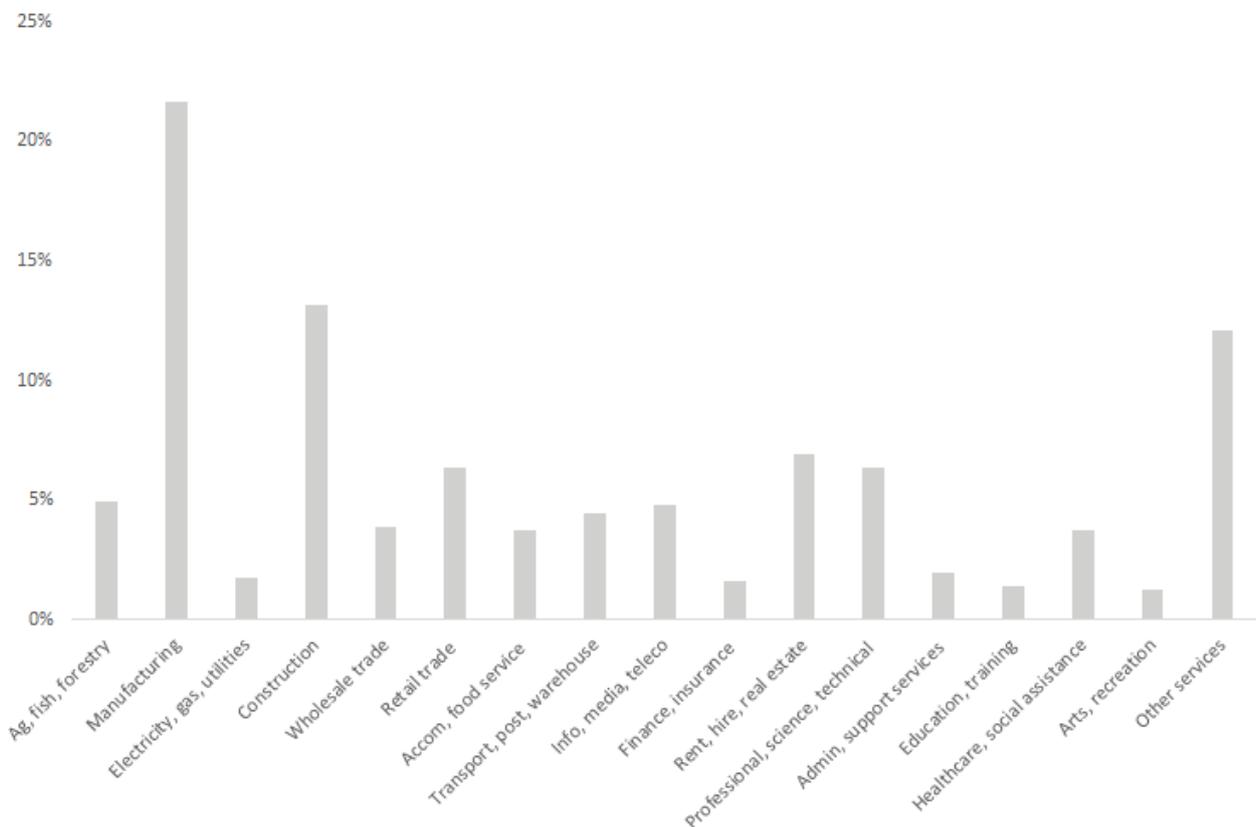


The majority of businesses (88%) were well above the payroll tax-free thresholds in their states (note these tax-free thresholds vary widely across the states, from a low of \$650,000 in Victoria to a high of \$2 million in the ACT). Slightly over 20% of businesses had a turnover of less than \$2 million.

Most businesses were in the small to medium sized cohort, with 26% of businesses having a turnover of between \$2 million and \$5 million per year, 19% of businesses having a turnover of between \$5 million and \$10 million per year and 27% of businesses having a turnover of between \$10 million and \$50 million per year. Less than 9% of businesses had a turnover of greater than \$50 million.



The survey covered all industry sectors, including manufacturing (22%), construction (13%), other services (12%), rental hiring and real estate services (7%), professional, science and technical services (6%) and retail trade (6%).



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