LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN CAPITAL TERRITORY

QTON No. E -7

STANDING COMMITTEE ON PUBLIC ACCOUNTS
ALISTAIR COE MLA (CHAIR), MICHAEL PETTERSSON MLA (DEPUTY CHAIR), ANDREW BRADDOCK MLA

Estimates 2020-2021
ANSWER TO QUESTION TAKEN ON NOTICE
24 February 2021

Asked by ALISTAIR COE MLA:

In relation to:

THE CHAIR: Going back to payroll tax, obviously, there are two clear levers, being the threshold and the rate. Has any consideration been given to a more complex system that might involve actually having a different rate according to the size of the business? So for instance, if you are a large company?

Further background (later clarification):

THE CHAIR: Another way of doing this would be, depending upon what percentage of their payroll is in the ACT, if you had a company that was 100 per cent in the ACT, could they be treated differently to a company that had five per cent of their payroll in the ACT?

Mr Barr: All great ideas in tax reform have their moment in the sun. I am happy to have another look at it. I will consider it a bit of a parting gift that you are asking me to do some more policy research on this one. Will we call it the Coe increment?

THE CHAIR: I prefer the Coe decrease.

Mr Barr: I will take that on board. I am happy to look at it.

THE CHAIR: If it has been discussed internally or if there is any standing advice or any known impediments, if they could be sent through to PAC, that might be—

Mr Barr: I can state that I do recall looking at a tiered system back in 2011-12 or 2012-13. I remember asking a very similar question. It has not been considered since then, so there would no advice prepared since then. But I know Treasury has records all the way back to what Khalid would have advised on in the first phase of tax reform. They are all smiling, so maybe or maybe not.

THE CHAIR: I understand there could be issues with the agreement with the other states and territories as well—with that harmonisation agreement.

Mr Miners: We will have a look, Chair, and see what we can find. I have no doubt that that sort of thing would have been canvassed. But whether it is formally canvassed in a report or whether there were discussions around it—

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ANDREW BARR MLA: The answer to the Member's question is as follows:–

Treasury has provided advice on a range of options for payroll tax rates and tax-free thresholds for the government's consideration, including approaches with multiple marginal tax rates. A key objective of these alternative approaches is to support ACT-based businesses by applying lower average tax rates to employers (or groups) with a higher proportion of their payroll in the ACT and/or with lower Australia-wide wages.

The current payroll tax system, with a variable tax-free threshold on total wages, achieves the same result without the need for a different thresholds and rates. It means that employers (or groups) with the same ACT wages are in fact taxed at different average tax rates based on the proportion of their payroll in the ACT. For example, an employer (or group) with ACT wages of $4 million and no wages paid outside of the ACT is taxed at an average tax rate of 3.43 per cent (paying $137,000). An employer (or group) with the same ACT wages but with only 5 per cent of its total wages paid in the ACT (that is, with $76 million interstate wages) is taxed at a higher average tax rate of 6.68 per cent, paying $267,150.

The current variable tax-free threshold approach is administratively simpler and less costly for both the government and taxpayers than setting different marginal tax rates or thresholds for different types or sizes of employers.

Approved for circulation to the Standing Committee on Public Accounts

Signature: Andrew Barr

Date: 3.3.21

By the Treasurer, Andrew Barr MLA

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