

# Pay-roll Tax (Amendment) Bill (No. 2)

## EXPLANATORY MEMORANDUM

*Clause 1* sets out the purposes of the Bill.

*Clause 2* contains the commencement provisions. The provisions dealing with the calculation of pay-roll tax (apart from those dealing with the calculation of the export concession and the shortened financial year ending on 31 October 1990), the repealing of spent provisions of the Principal Act and those granting exemptions to incorporated public hospitals commence on 1 November 1990. The provisions dealing with the export concession commence on 1 January 1991. The remaining provisions commence upon receipt of the Royal Assent.

*Clause 3* defines the *Pay-roll Tax Act 1971* as the Principal Act for the purposes of the Bill.

*Clause 4* amends section 7 of the Principal Act to apply a new rate of tax of 7 per cent to all taxable wages paid or payable after October 1990.

*Clause 5* amends paragraph (ga) of section 9A (3A) of the Principal Act so as to apply the new rate structure to the annual adjustment of pay-roll tax payable by groups in respect of the shortened deemed financial years: 1 July 1990 to 31 October 1990, 1 November 1990 to 30 June 1991, 1 July 1991 to 31 December 1991, 1 January 1992 to 30 June 1992 and each subsequent financial year.

*Clause 6 sub-clause (1)* amends section 9B (1) of the Principal Act so as to establish new monthly exemption levels of \$34 167 to apply to wages paid or payable from 1 November 1990 to 31 December 1991 and \$41 667 to apply to wages paid or payable from 1 January 1992.

*Clause 6 sub-clause (2)* amends section 9B (3) to continue the application of a reducing deduction from monthly taxable wages to wages paid or payable until 31 December 1991 where those wages exceed \$130 000 and to establish a fixed deduction of \$41 667 from monthly taxable wages to apply to wages paid or payable from 1 January 1992.

*Clause 6 sub-clause (3)* amends section 9B (4) to provide for the proportional allocation of the deduction levels specified in sub-clause (2) to part-period employers who employ only in Victoria.

In summary, in respect of the period from 1 November 1990 to 31 December 1991—

- A. where the pay-roll tax for the month is \$34 167 or less the deduction is \$34 167 and no tax is payable.
- B. where the pay-roll for the month is between \$34 167 and \$130 000 the amount to be deducted is \$34 167.
- C. where the pay-roll for the month is between \$130 000 and \$161 017 the amount to be deducted is \$34 167 reduced by \$1.00 for every \$1.00 by which the pay-roll exceeds \$130 000 until the minimum deduction of \$3150 is reached.
- D. where the pay-roll for the month is \$161 017 or more the amount to be deducted is \$3150.

The following is an example of how the deduction is calculated in relation to C above.

If the pay-roll for the month is \$150 000—

	\$	\$
Step 1	Maximum deduction	34 167
Step 2	Pay-roll	150 000
Step 3	Less	130 000
	Result	<u>\$20 000</u>
Step 4	Subtract result from maximum deduction	<u>20 000</u>
Step 5	Deduction for month	14 167
Step 6	Taxable wages for the month	150 000
Step 7	Subtract calculated deduction	14 167
		<u>135 833</u>
Step 8	Tax @ 7 per cent	<u>9 508</u>

Where an employer pays taxable wages for part only of a return period the deduction to be taken into account in calculating the pay-roll tax payable is arrived at on a proportional basis.

The following is an example of how the deduction is calculated in respect of the period from 1 January 1992—

If the pay-roll for the month is \$150 000:

	\$	
Step 1	Taxable wages	150 000
Step 2	Subtract deduction	41 667
		<u>108 333</u>
Step 3	Tax @ 7 per cent	<u>7 583.31</u>

*Clause 7* amends section 9C (2) of the Principal Act by limiting the export concession to a percentage which results in a deduction from the tax calculated at a rate not exceeding \$4167 per month or \$50 000 per annum for each employer in the case of non-group employers and for the whole group in the case of group employers. The clause also establishes a new base year of 1 July 1988 to 30 June 1989 in lieu of the previous base year of 1 July 1986 to 30 June 1987.

*Clause 8* amends section 110 of the Principal Act by abolishing the large exporter component and repealing spent provisions.

*Clause 9* amends section 11A of the Principal Act which relates to the annual adjustment of pay-roll tax payable. The new section establishes four artificial financial years, 1 July 1990 to 31 October 1990, 1 November 1990 to 30 June 1991, 1 July 1991 to 31 December 1991 and 1 January 1992 to 30 June 1992. The section establishes a tapering deduction in respect of the periods from 1 November 1990 to 31 December 1991 commencing at \$410 000 in relation to annual wages up to \$1 560 000 reducing to \$27 800 in relation to annual wages of \$1 932 200 or more. As these periods consist of eight and six months respectively the tapering deduction will operate differently in those periods. For the period

1 November 1990 to 30 June 1991 commencing at \$273 333 in relation to annual wages of up to \$1 040 000 the deduction reduces to \$15 200 in relation to annual wages of \$1 288 133 or more. For the period 1 July 1991 to 31 December 1991 commencing at \$205 000 in relation to annual wages of up to \$780 000 the deduction reduces to \$18 900 in relation to annual wages of \$966 100 or more. The section abolishes the tapering deduction and establishes a fixed deduction commencing at \$500 000 effective from 1 January 1992. As the first period in which the fixed deduction will operate consists of six months the deduction for the period 1 January 1992 to 30 June 1992 will be a flat \$250 000.

*Clause 10* amends Part IV of the Principal Act by increasing the weekly level of wages specified in section 12, above which an employer is required to apply for registration to \$7885 for the period from 1 November 1990 to 31 December 1991, and \$9615 from 1 January 1992 onwards.

*Clause 11* amends section 14 of the Principal Act so as to require that annual returns made pursuant to that section be made in relation to each of the periods 1 July 1990 to 31 October 1990, 1 November 1990 to 30 June 1991, 1 July 1991 to 31 December 1991 and 1 January 1992 to 30 June 1992.

*Clause 12 sub-clause (1)* amends paragraph (e) (iv) of section 3C (1) of the Principal Act so as to increase from \$500 000 to \$800 000 the amount of consideration under a contract above which the contract is exempted from being a relevant contract. This amount has not been increased since the \$500 000 exemption was established in 1984.

*Clause 12 sub-clause (2)* amends paragraph (c) of section 10 (1) of the Principal Act so as to exempt from pay-roll tax wages paid by a non-profit hospital carried on by a corporation. At present the exemption is restricted to non-profit hospitals carried on by societies or associations and this amendment is to remove an anomaly. Many societies or associations which operate non-profit hospitals have now become incorporated and this amendment is necessary if they are to continue to receive their exemption from pay-roll tax.

*Clause 12 sub-clause (3)* repeals spent provisions in the Principal Act.

*Clause 12 sub-clause (4)* repeals spent provisions in the Principal Act.

*Clause 12 sub-clause (5)* repeals section 11R (2) to give effect to the changes to the export concession.

*Clause 12 sub-clause (6)* amends section 310 (1) of the Principal Act so as to allow the maximum monthly deduction to be automatically applied in the calculation of contributions of the Victorian Education Foundation without having to amend section 310 (1) on every occasion that the maximum monthly deduction is amended.

*Clause 12 sub-clause (7)* repeals spent Schedules in the Principal Act.

*Clause 13* amends the Schedules appended to the Principal Act, which contain the formulae for calculating annual adjustments for groups and non groups, so as to give effect to the new rate structure as from 1 November 1990.

