

Pay-roll Tax (Amendment) Bill (No 3)

EXPLANATORY MEMORANDUM

Clauses 1, 2 and 3. These clauses contain provisions relating to title and date of commencement. The provision in clause 2 (2) that certain other provisions should be deemed to have come into operation on 1 July 1984, is necessary so that the amendments can give effect to the original intention that all taxpayers who would have been paying the former surcharge are taxable at 6 per cent in the six months ending 31 December 1984.

Clause 4. This clause amends section 7 of the Principal Act.

Sub-clause (1) is one of the provisions deemed to be operative from 1 July 1984. It amends sub-section (2) to limit the monthly pay-roll threshold of \$83 334 (based on an annual threshold of \$1 million) to the period ending December 1984 and to give effect to the original intention that all employers who were required to pay the former 1 per cent surcharge by monthly instalments are required, from 1 July 1984 onwards, to pay pay-roll tax at the differential rate of 6 per cent per annum by monthly instalments.

Sub-clause (2) inserts a new sub-section (3) to provide, as from 1 January 1985, for the differential rate of tax of 6 per cent per annum to apply where the total of wages paid or payable in any month by an employer or by a group, as the case may be, is \$91 667 or more. These amendments are required as a consequence of the Budget proposal to increase the present pay-roll threshold from \$1 million per annum to \$1.1 million per annum.

Clause 5. This clause amends section 9A of the Principal Act.

Sub-clause (1) is another of the provisions deemed to be operative from 1 July 1984. It amends section 9A (3A) (d) which contains referential provisions whereby words such as "taxable wages" which appear in sections 11A and 11B and apply to non-group employers are to be interpreted to mean "the sum of the taxable wages of the members of a group" when sections 11A and 11B are applied to employers who are members of a group. Section 9A (3A) (d) is amended to ensure that the referential provision extends the word "wages" to mean "the sum of the wages of the members of a group" when applying to employers who are members of a group. By so doing, it effectively amends sections 11A and 11B to give effect to the original intention that all groups of employers who were required to calculate their annual adjustment of pay-roll tax by including the former 1 per cent surcharge are required, from 1 July 1984, to calculate their annual adjustment at the differential rate of 6 per cent per annum.

Sub-clause (2) amends sub-section (3A) (ga) so as to apply the new levels of annual deductions (resulting from the increase in the level of the maximum exemption from \$200 000 to \$215 000) and the new threshold for the 6 per cent rate (that is, \$1.1 million) prescribed in the Schedules of the Principal Act in relation to members of groups. This is achieved in relation to the new levels of annual deductions by amending sub-sections (2A) and (2B) of section 11A in so far as they operate in respect of employers who are members of groups. The new threshold for the 6 per cent rate for members of groups for the financial year ended 30 June 1985 is \$1.05 million (being \$500 000 for the six months ended 31 December 1984 and \$550 000 for the six months ended 30 June 1985) and is effected by substituting sub-section (2C) of section 11A. For financial years thereafter the threshold will be \$1.1 million and this is provided for by inserting a new sub-section (2D) of section 11A.

Clause 6. This clause amends section 9B of the Principal Act. After 31 December 1984 the maximum monthly deduction which may be claimed will increase to \$17 916. As with

the present legislation, this amount will reduce by \$2 for every \$3 by which the taxable wages exceed \$17 916 a month until it reaches the minimum deduction of \$3150 per month. The definition of "prescribed amount" appearing in section 9B has been amended to give effect to the new monthly deduction which may be claimed in respect of return periods after 31 December 1984.

Clause 7. This clause amends sub-sections (2A) and (2B) of section 11A of the Principal Act so as to apply the new levels of annual deductions prescribed in the Schedules of the Principal Act in relation to employers who are not members of a group. In addition, by amending sub-section (2C) and by inserting a new sub-section (2D) of section 11A to operate in respect of employers who are not members of a group, it also defines the "reduction amount" for the purpose of calculating the annual adjustments of pay-roll tax in respect of the financial year ended 30 June 1985 and financial years thereafter respectively. The calculation of the "reduction amount" and the reason for it are explained in detail under clause 8 below.

Clause 8. This clause amends section 11B of the Principal Act to provide for the annual adjustment of tax to be calculated for the financial year ended 30 June 1985 using the differential rate of 6 per cent where annual wages exceed \$1.05 million; and for the annual adjustment of tax to be calculated for financial years thereafter using the same rate where annual wages exceed \$1.1 million. Employers can gain the benefit of a concession (called a "reduction amount") if the total annual pay-roll of an employer (or group of employers, as the case may be) is—

- (a) for the financial year ended 30 June 1985—\$1 050 000 or more but does not exceed \$1 151 220; or
- (b) for financial years thereafter—\$1 100 000 or more but does not exceed \$1 206 220.

This concession is provided to avoid a situation where, using a threshold of \$1 100 000 as an example, an employer (or a group) with an annual pay-roll totalling \$1 099 999 would pay pay-roll tax at a rate of 5 per cent but an employer (or a group) with an annual pay-roll of \$1 100 000 would be required to pay at a higher differential rate of 6 per cent thus incurring an additional pay-roll tax liability of \$10 622 because of an increase of \$1 in the pay-roll. Accordingly, a taper zone has been provided between pay-rolls of \$1 100 000 and \$1 206 220 whereby a reduction of \$10 622 from the pay-roll tax payable is allowed on a pay-roll of \$1 100 000 and this reduction reduces proportionately to zero at a pay-roll of \$1 206 220. Examples of the operation of the concession are as follows, based on a threshold of \$1 100 000—

1. Group pay-roll of	\$1 099 999	
Less minimum deduction	37 800	
	<u>\$1 062 199</u>	
Pay-roll Tax at 5% =	\$53 109.95	
2. Group pay-roll of	\$1 100 000	
Less minimum deduction	37 800	
	<u>\$1 062 200</u>	
Pay-roll Tax at 6% =	\$63 732.00	
Less reduction amount	<u>\$10 622.00</u>	
	\$53 110.00	
3. Group pay-roll of	\$1 150 000	
Less minimum deduction	\$37 800	
	<u>\$1 112 200</u>	
Pay-roll Tax at 6% =	\$66 732.00	
Less reduction amount	<u>\$5 622.00</u>	
	\$61 110.00	

4. Group pay-roll of	\$1 206 220
Less minimum deduction	\$37 800
	<u>\$1 168 420</u>
Pay-roll Tax at 6% =	\$70 105.20
Less reduction amount	<u>\$70 105.20</u>

Clause 9. This clause amends section 11c of the Principal Act. This section provides for an adjustment of tax paid by employers who have employed for less than a full year. These employers are liable for the differential rate of 6 per cent if their wages were paid, during the period for which they employed, at a rate equivalent to or greater than the annual threshold for the differential rate.

Sub-clause (1) is the remaining provision deemed to be operative from 1 July 1984. It amends paragraph (b) of the interpretation of "total amount of pay-roll tax" to give effect to the fact that the threshold for the financial year ended 30 June 1985 is a combination of \$500 000 for the six months ended 31 December 1984 and \$550 000 for the six months ended 30 June, 1985. In respect of the earlier period the sub-clause gives effect to the original intention that all employers who were required to calculate their annual adjustment by including the former 1 per cent surcharge are required to calculate their part year adjustment of tax at the differential rate of 6 per cent per annum if they cease to employ between 1 July 1984 and 31 December 1984.

Sub-clause (2) inserts a new paragraph (c) of the same interpretation to give effect to the new threshold of \$1.1 million from 1 July 1985 onwards.

Clause 10. This clause amends section 12 of the Principal Act to require an employer to register for pay-roll tax purposes where the weekly pay-roll exceeds \$4130 instead of the present \$3840.

Clauses 11 and 12. These clauses amend Schedules One and Two of the Principal Act (which contain the formulae for calculating the actual deduction applicable for the annual adjustment of each employer's pay-roll tax liability) by substituting the new levels of maximum and minimum deductions in these Schedules and by substituting the appropriate years for the years appearing in the Schedules to give effect to the Budget concession.

Clauses 13 and 14. These clauses amend Schedules Seven and Eight of the Principal Act (which contain the formulae that facilitate the calculation of a "reduction amount" for non-group and group employers respectively) where the relevant pay-roll is within the taper zone—see clause 8. The formulae provide an amount which is to be deducted from the annual amount of tax to phase in the 6 per cent differential rate of tax. Part A of each Schedule provides the formula for calculating the "reduction amount" for the financial year ended 30 June 1985 and Part B of each Schedule contains the formula for calculating the "reduction amount" in each financial year thereafter. The application of the "reduction amount" is explained in greater detail under clause 8.

Clause 15. This clause inserts a new Schedule Nine into the Principal Act. It contains the formula which facilitates the calculation of the higher pay-roll threshold which is to be used to determine whether an employer who employs for less than a full year during the financial year ended 30 June 1985 is liable to pay pay-roll tax at the differential rate of 6 per cent.

