Payroll Tax

While not enjoying the hype surrounding their Commonwealth counterparts, State taxes are an important source of revenue, and can be a significant impost on those liable to tip in.

Accounting for almost 30 per cent of State taxes are payroll taxes, levied in every State and Territory in Australia.

Wages Thresholds and Tax Rates

Payroll tax is levied on employers whose Australia-wide wage bill exceeds a prescribed threshold. The wages paid in a particular State/Territory are then taxed at a prescribed rate on the wages paid in that State/Territory.

While simple conceptually, payroll tax regimes can be complex to apply and are riddled with 'grey' areas.

Despite moves to harmonise the payroll tax rules across jurisdictions, rates and thresholds vary widely. In the ACT, for instance, the annual tax-free threshold is relatively high at $2 million, however once beyond this threshold, the rate of payroll tax is relatively high at 6.85%. By contrast, in Victoria the annual threshold is relatively low at $650,000 but tax is levied at a rate of only 4.85%.

This means that an employer with an ACT wage bill of only $50,000 but an Australia-wide bill of $700,000 will not be liable for payroll tax in the ACT. However, if the same employer has a Victorian wage bill of only $50,000 they will generally be liable for payroll tax in Victoria.

Information Sharing by Tax Authorities

Without direct income-taxing powers, State/Territory governments are extremely protective of their revenue bases. State/Territory revenue offices routinely review employers to check that payroll tax has been correctly paid. Further, those offices also receive information from the Australian Taxation Office (ATO) in relation to wages, fringe benefits and superannuation contributions especially following the introduction of the Single Touch Payroll system; such information is reconciled against payroll tax returns.

Underpayment of payroll tax can be costly, not only in paying any shortfall, but in significant penalties and interest. While these additional costs can be reduced through voluntary disclosure, they are best avoided. Importantly, employers must ensure that the correct amount of paid tax is paid at the right time!

Common Mistakes

Common mistakes include:

- Failing to report connected businesses as a group.
- Failing to include certain contractor payments as taxable wages.
- Failing to register when thresholds are exceeded.

- Failing to include certain payments such as superannuation salary sacrifice payments in taxable wages.
- Failing to take advantage of exemptions such as parental leave.
- Payment of payroll tax in the wrong jurisdiction.

How We Can Help

We can undertake the following services for employers:

- Review whether an employer is complying with the payroll tax laws.
- Review payroll tax returns to ensure their accuracy.
- Review whether all taxable wages are being declared.
- Make a voluntary disclosure to the relevant revenue office if payroll tax has been underpaid or not paid.
- Assist any employer, or their accountant, during a payroll tax audit being conducted by a State or Territory revenue office including negotiations to reduce tax payable and penalties.

We are always pleased to supply an obligation free quote for any work – no hard sell.

If you require assistance, please contact Roger Karlsson or Michael Bannon at Nexia Canberra on 02 6279 5400.