

## **PAYROLL TAX PACKAGE Q&A**

### **What is payroll tax and who pays it?**

Payroll tax is a State Government tax which is levied on the wages paid by businesses over a certain amount – the payroll tax threshold. That threshold is currently set at \$575,000, which means that it will generally be paid by most businesses with more than 10-15 FTE employees.

This is paid by around 38,000 businesses within Victoria who employ millions of Victorians. The current rate is set at 4.85% for businesses and they will generally their tax liability monthly – depending on their wage bill for that month.

The State Revenue Office collects payroll tax on behalf of the Government and are responsible for implementation and enforcement of payroll tax.

### **How much revenue does payroll tax raise?**

Payroll tax raises around \$5.89 billion for the State Government each year and has consistently been increasing due to our growing workforce and strong labour market.

The Government supports reducing payroll tax obligations on businesses to support employment and encourage businesses to invest in Victoria.

### **Where can I learn more about payroll tax?**

You can learn more about payroll tax online at <http://www.sro.vic.gov.au/payroll-tax>.

## **What are the changes?**

In the *2017-18 Victorian Budget* we're making three significant changes to the payroll tax system in Victoria.

- We are bringing forward the payroll tax cuts announced in last year's budget by two years - so that businesses receive the benefit earlier.
- The Government is cutting the payroll tax rate applicable for regional businesses by 25% - from 4.85% to 3.65%.
- We're reducing red tape for small business by increasing the threshold at which businesses can lodge an annual instead of monthly return – from \$10,000 to \$40,000.

This package will provide over \$220m in payroll tax relief to Victorian businesses and will encourage businesses to bring on more employees creating more jobs for Victorians. It will incentivise businesses to locate in regional Victoria.

## **How many businesses will this benefit?**

The changes to regional payroll tax will benefit around 4000 regional businesses across Victoria. While regional employment is outperforming the national average and far surpasses the Opposition's record we know there is still more to do.

Around 38 000 businesses will benefit from our changes to the payroll tax threshold and it is estimated around 1600 will stop paying payroll tax altogether.

It is estimated that around 10,000 businesses will benefit from the increase in the annual payment threshold from \$10,000 to \$40,000.

## How do companies take advantage of these changes?

If companies are interested in learning more about these changes they are encouraged to contact the SRO to discuss the practical ramifications for their business. They can also speak to Regional Development Victoria to discuss investment options and facilitation.

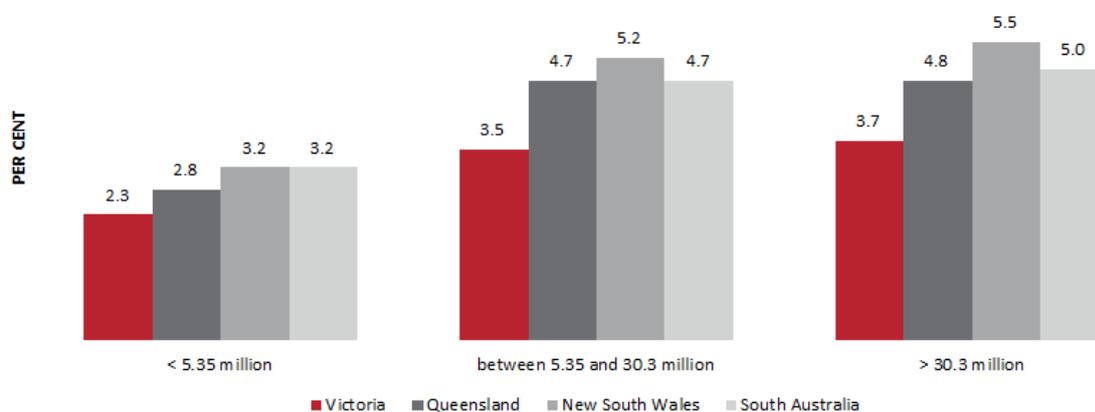
## How will Victoria compare to other states?

All Victorian businesses with payrolls between \$5.35 million and \$30.3 million will pay the lowest payroll tax in the country.

And regional Victorian businesses will have the lowest payroll tax rate in the country.

	VIC Metro	VIC Regional	QLD	NSW	WA	SA	TAS	NT	ACT
<b>Tax Rate</b>	4.85%	3.65%	4.75%	5.45%	5.50%	4.95%	6.10%	5.50%	6.85%
<b>Threshold</b>	\$0.625m	\$0.625m	\$1.1m	\$0.750m	\$0.850m	\$0.600m	\$1.25m	\$1.5m	\$2.0m
<b>Upper Threshold</b>	N/A	N/A	\$5.5m	N/A	\$7.5m	N/A	N/A	\$7.5m	N/A

### AVERAGE REGIONAL PAYROLL TAX RATE – INTERJURISDICTIONAL COMPARISON



Source: Department of Treasury and Finance

## **REGIONAL TAX CUT**

### **Regional tax cut**

The Government is reducing the payroll tax rate applicable to regional businesses by 25% from 4.85 per cent to 3.65 per cent.

Businesses are eligible for the lower payroll tax rate on their entire payroll provided they pay at least 85 per cent of their payroll to regional employees.

All other businesses will continue to pay the current 4.85 per cent payroll tax rate.

This initiative will benefit approximately 4,000 regional businesses which meet the eligibility criteria.

### **How do regional businesses qualify?**

Any business with an ABN registered in regional Victoria which pays at least 85 per cent of its payroll to regional employees will be eligible for the reduced payroll tax rate on its entire payroll.

### **What counts as a regional employee?**

A regional employee is an employee that performs services mainly in regional Victoria during the assessable month.

### **Will businesses that benefit from the reduced regional payroll tax rate also benefit from bringing forward of the tax-free threshold?**

Businesses that pay the reduced regional payroll tax rate will also benefit from the bringing forward of the tax-free threshold increases, as the size of their payroll that is taxable will reduce in the same way as any business paying the existing tax rate.

## Where is the regional boundary?

The Payroll tax regional rate will apply to 48 rural municipal councils areas. This is the same area as they used for the regional First Home Owner Grant.

<b>Table of municipal councils in regional Victoria (for payroll and FHOG purposes)</b>		
Municipal councils A-G	Municipal councils G-M	Municipal councils M-Y
Alpine Shire Council	Greater Geelong City Council	Murrindindi Shire Council
Ararat Rural City Council	Greater Shepparton City Council	Northern Grampians Shire Council
Ballarat City Council	Hepburn Shire Council	Pyrenees Shire Council
Bass Coast Shire Council	Hindmarsh Shire Council	Borough of Queenscliffe
Baw Baw Shire Council	Horsham Rural City Council	South Gippsland Shire Council
Benalla Rural City Council	Indigo Shire Council	Southern Grampians Shire Council
Buloke Shire Council	Latrobe City Council	Strathbogie Shire Council
Campaspe Shire Council	Loddon Shire Council	Surf Coast Shire Council
Central Goldfields Shire Council	Macedon Ranges Shire Council	Swan Hill Rural City Council
Colac Otway Shire Council	Mansfield Shire Council	Towong Shire Council
Corangamite Shire Council	Mildura Rural City Council	Wangaratta Rural City Council
East Gippsland Shire Council	Mitchell Shire Council	Warrnambool City Council
Gannawarra Shire Council	Moira Shire Council	Wellington Shire Council
Glenelg Shire Council	Moorabool Shire Council	West Wimmera Shire Council
Golden Plains Shire Council	Mount Alexander Shire Council	Wodonga City Council
Greater Bendigo City Council	Moyne Shire Council	Yarriambiack Shire Council

## **BRING FORWARD**

Government is bringing forward previously announced increases to the payroll tax-free threshold.

Previously the payroll tax-free threshold was set to increase from \$575,000 to \$600,000 from 1 July 2017, \$625,000 from 1 July 2018 and \$650,000 from 1 July 2019.

The tax-free threshold will now increase to \$625,000 from 1 July 2017 and \$650,000 from 1 July 2018.

The number of businesses that are in the tax base (and hence benefit from the bring-forward) is 37,800.

Approximately 1,600 businesses will cease being liable for payroll tax one year earlier.

Bringing forward the threshold increases will provide an additional benefit of up to \$1,200 in payroll tax relief per annum.

This initiative will provide \$48 million in payroll tax relief over the two years that the increases are brought forward.

### **Who will benefit from the changes to the payroll tax threshold?**

All Victorian businesses that currently have a payroll tax liability will benefit from the earlier increases in the threshold. Approximately 38,000 businesses are expected to have a payroll tax liability in 2016-17.

Of these businesses, approximately 1,600 small grouped businesses will cease being liable for payroll tax 12 months earlier than they would have under the previous threshold increase settings.

## **How does this impact businesses grouped for payroll tax purposes?**

Businesses that are grouped for payroll tax purposes must pool their payrolls together when calculating the payroll tax liability for each group. The increased tax-free threshold will benefit grouped businesses but only apply to the group jointly. Grouped businesses may not claim the tax-free threshold individually.

### **RED TAPE REDUCTION**

From 1 July 2017, the Government is increasing the threshold at which businesses may calculate and pay their payroll tax liability annually (rather than monthly), from \$10 000 to \$40 000 (annual payroll).

This initiative will remove the burden of self-assessing payroll tax monthly and allow greater cash flow flexibility for an additional 10 000 businesses grouped for payroll tax purposes.