



# Parliamentary Budget Office - Election Policy Costing

NSW Parliament • Parliament House, Macquarie Street Sydney NSW 2000

Referred By: Australian Labor Party  
Date Referred: 7/11/2018

Proposal No: A099  
Date Published: 18/03/2019

Proposal Title: Abolish payroll tax for small to medium enterprises in the Far West

Cluster: Treasury

## General Government Sector Impacts

	2018-19 \$'000	2019-20 \$'000	2020-21 \$'000	2021-2022 \$'000	4 year Total \$'000
Expenses (ex. depreciation)	-	-	-	-	-
Depreciation	-	-	-	-	-
Less: Offsets	-	-	-	-	-
Revenue	-	(2,800)	(2,800)	(2,800)	(8,400)
<b>Net Operating Balance:</b>	-	<b>(2,800)</b>	<b>(2,800)</b>	<b>(2,800)</b>	<b>(8,400)</b>

Capital Expenditure	-	-	-	-	-
Capital Offsets	-	-	-	-	-
<b>Net Capital Expenditure:</b>	-	-	-	-	-

<b>Net Lending/(Borrowing):</b>	-	<b>(2,800)</b>	<b>(2,800)</b>	<b>(2,800)</b>	<b>(8,400)</b>
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## Total State Sector Impacts

<b>Net Lending/(Borrowing):</b>	-	<b>(2,800)</b>	<b>(2,800)</b>	<b>(2,800)</b>	<b>(8,400)</b>
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## Notes and costing assumptions

This proposal will abolish payroll tax for small to medium enterprises in the Far West from 1 July 2019. The Far West is defined as Balranald Shire, Bourke Shire, Brewarrina Shire, Central Darling Shire, City of Broken Hill, Cobar Shire, Walgett Shire and Wentworth Shire local government areas, and the Unincorporated Far West Region.

Eligible firms may not have more than 200 employees in any location (inside or outside applicable regions), must have more than half their employees in one or more of the applicable areas, and, if having employees outside the applicable areas, would be exempt from payroll tax only with respect to employees working in the applicable areas.

### Summary

Given the uncertainties noted below, these figures should be treated with caution, however the costing assumes around 60 businesses will be affected, with an average payroll tax bill of around \$45,000 in 2019-20.

### Background

Payroll tax, at a rate of 5.45%, is applied to a business's NSW wages that exceed the payroll tax threshold, \$850,000 for 2018-19.

## Notes and costing assumptions continued:

For payroll tax purposes, businesses may be grouped with other businesses if there is a link between the companies, e.g., a holding company and a subsidiary, subsidiaries of the same holding company, companies using common employees or companies that are controlled by the same person or persons. When a group exists, only a single threshold deduction applies to the group.

Businesses operating in, and paying payroll tax in, more than one State are eligible for proportions of the payroll tax free threshold in each State based on proportions of total Australian wages paid in each State.

### **Assumptions**

This costing is subject to considerable uncertainty due to data limitations. Precise data on the number and size of businesses, their regional distribution and their payroll tax status is not available, necessitating estimates of the number of employees in a business and the regional distribution of businesses.

This costing is based on data on payroll tax paying businesses in 2017-18, including wages paid, payroll tax paid, the percentage of tax free threshold applied and the postcode provided on payroll tax returns. The data does not include the number of employees in the business or the precise location of the business, so several assumptions and caveats are required.

#### *Location*

We assume the postcode provided by the business on a payroll tax return reflects the business's actual operational location. However, postcodes provided are often those the business nominates as its administrative address for correspondence on payroll tax matters. For small businesses, and particularly regional businesses, this may be an accountant, or a PO Box located away from the primary operations of the business. For larger businesses, this may be a head office, which may not be located in the same area as primary operations.

Some postcodes span more than one local government area (LGA). We include only those postcodes where more than 80% of the postcode area falls into a relevant LGA, to avoid including areas that fall largely outside the nominated LGAs.

#### *Employment numbers*

Payroll tax returns do not include numbers employed. We estimate the number of full time equivalent (FTE) staff employed from the business's total payroll bill in all Australian jurisdictions divided by an average annual wage of \$50,000. We used ABS data on average wages of employees in relevant local government areas to select an appropriate average wage level.

Due to data limitations, we assume that, for a business in a relevant LGA, all of that business's employees are located in an LGA of interest.

The total payroll bill given by a business includes wages paid in Australia by that business as well as all other businesses with which it is grouped. Hence, the number of employees estimated for a grouped business might include employees working inside and outside the applicable areas. That would be appropriate for determining whether the grouped business meets the 200 employees in any location threshold, but provides no information on whether the employees work in the applicable area.

#### *Escalation*

Annual payroll bills of relevant businesses in 2017-18 were escalated according to forecast growth rates for the average compensation of employees in NSW.

We use population growth as a proxy for the change in the number of payroll-tax paying businesses over time. The population in the LGAs of interest have been declining at an average rate of 0.8 per cent over the past 10 years.

**Notes and costing assumptions continued:**

Over time, the proposed measure may lead to businesses relocating from other areas to the relevant LGAs, or new businesses, that would have otherwise located elsewhere, choosing to set up in the relevant LGAs.

These behavioural impacts would increase the cost of the policy measure. However, the extent of these impacts cannot be predicted reasonably at this time.