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

EXPLANATORY MEMORANDUM

Clauses 1, 2 *and* 3 contain provisions relating to the purpose of the legislation, title and date of commencement.

Clause 4 paragraphs (*a*) and (*b*) amend section 7 (4) of the Principal Act and insert a new section 7 (5) respectively to provide, as from 1 January, 1987, for the differential rate of tax of 6 per centum 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 $108 333 or more. These amendments are required as a consequence of the Budget proposal to increase the present pay-roll threshold from $1·2 million per annum to $1·3 million per annum.

Paragraph (*c*) amends section 9A (3A) (*ga*) of the Principal Act so as to apply the new levels of annual deductions (resulting from the increase in the level of the maximum exemption from $230 000 to $250 000) and the new threshold for the 6 per centum rate (that is, $1·3 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. The new threshold for the 6 per centum rate for members of groups for the financial year ended 30 June, 1987 is $1·25 million (being $600 000 for the six months ended 31 December, 1986 and $650 000 for the six months ended 30 June, 1987) and is effected by amending sub-section (2C) of section 11A. For financial years thereafter the threshold will be $1·3 million and this is provided for by amending sub-section (2D) of section 11A.

Paragraph (*d*) amends section 9B of the Principal Act. After 31 December, 1986 the maximum monthly deduction which may be claimed will increase to $20 833. As with the present legislation, the amount will reduce by $2 for every $3 by which the taxable wages exceed $20 833 a month until it reaches the minimum deduction of $3 150 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, 1986.

Paragraph (*e*) 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-sections (2C) and (2D) of section 11A 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, 1987 and financial years thereafter respectively. The calculation of the "reduction amount" and the reason for it are explained in detail under paragraph (*f*) below.

Paragraph (*f*) 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, 1987 using the differential rate of 6 per centum where annual wages exceed $1·25 million; and for the annual adjustment of tax to be calculated for financial years thereafter using the same rate where annual wages exceed $1·3 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, 1987—$1 250 000 or more but does not exceed $1 371 220; or

    (*b*) for financial years thereafter—$1 300 000 or more but does not exceed $1 426 220.

This concession is provided to avoid a situation where, using a threshold of $1 250 000 as an example, an employer (or a group) with an annual pay-roll totalling $1 249 999 would pay pay-roll tax at a rate of 5 per centum but an employer (or a group) with an annual pay-roll of $1 250 000 would be required to pay at a higher differential rate of 6 per centum thus incurring an additional pay-roll tax liability of $12 122 because of an increase of $1 in the pay-roll. Accordingly, a taper zone has been provided between pay-rolls of $1 250 000 and $1 371 220 whereby a reduction of $12 122 from the pay-roll tax payable is allowed on a pay-roll of $1 250 000 and this reduction reduces proportionately to zero at a pay-roll of $1 371 220. Examples of the operation of the concession are as follows, based on a threshold of $1 250 000:

1. Group pay-roll of $1 249 999

1.	Group pay-roll of		$1 249 999
	LESS minimum deduction		37 800
			$1 212 199
	Pay-roll Tax at 5% =	$60 609.95	
2.	Group pay-roll of		$1 250 000
	LESS minimum deduction		37 800
			$1 212 200
	Pay-roll Tax at 6% =	$72 732.00	
	LESS reduction amount	12 122.00	
		$60 610.00	
3.	Group pay-roll of		$1 300 00
	LESS minimum deduction		37 800
			$1 262 200
	Pay-roll Tax at 6% =	$75 732.00	
	LESS reduction amount	7 122.00	
		$68 610.00	
4.	Group pay-roll of		$1 371 220
	LESS minimum deduction		37 800
			$1 333 420
	Pay-roll Tax at 6% =	$80 005.20	
	LESS reduction amount	—	
		$80 005.20	

Paragraph (*g*) 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 centum 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.

By amending section 11c, the amendments have the effect of applying the new threshold of $1·25 million for the financial year ended 30 June, 1987 and $1·3 million for financial years thereafter.

Paragraph (*h*) amends section 12 of the Principal Act to require an employer to register for pay-roll tax purposes where the weekly pay-roll exceeds $4810 instead of the present $4420.

Clause 5 amends 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.

Clause 6 paragraphs (*a*) to (*d*) inclusive 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 4 (*f*). The formulae provide an amount which is to be deducted from the annual amount of tax to phase in the 6 per centum differential rate of tax. Part A of each Schedule provides the formula for calculating the "reduction amount" for the financial year ended 30 June, 1987 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 4 (*f*).

Paragraph (*e*) amends Schedule Nine of the Principal Act which contains the formula to facilitate 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, 1987 is liable to pay pay-roll tax at the differential rate of 6 per centum.

Clause 7 contains transitional provisions to ensure that the provisions of the Principal Act as in force before 1 January, 1987 will continue to apply to taxable wages paid or payable before that date.

Clause 8 corrects certain Acts.

Sub-clause (1) omits the $ sign from sections 11 (1) and 12 (1) (*b*) of the *Pay-roll Tax (Amendment) Act* 1984.

Sub-clause (2) provides that sub-clause (1) shall be deemed to come into operation on 7 November 1984, the date the *Pay-roll Tax (Amendment) Act* 1984 received the Royal Assent.

Sub-clause (3) omits the $ sign from section 5 of the *Pay-roll Tax (Amendment) Act* 1985.

Sub-clause (4) provides that sub-clause (3) shall be deemed to come into operation on 26 November 1985, the date the *Pay-roll Tax (Amendment) Act* 1985 received the Royal Assent.