CIRCULAR 12   PAYROLL TAX THRESHOLD INCREASES

The Pay-roll Tax Assessment Amendment (Thresholds) Bill 2019 was introduced into the Legislative Assembly on 28 November 2019. The Bill increases the payroll tax exemption threshold from $850,000 to $950,000 on 1 January 2020 and from $950,000 to $1 million on 1 January 2021.

The Minister for Finance will use the pre-enactment provisions in the *Taxation Administration Act 2003* to allow the first threshold change to be administered from 1 January 2020. Once the Bill receives Royal Assent, all other amendments are deemed to have come into operation on 1 July 2019.

This circular contains a summary of the changes. For full details, see the Bill and the Explanatory Memoranda available on the Parliament website at [www.parliament.wa.gov.au](http://www.parliament.wa.gov.au)

HOW PAYROLL TAX APPLIES

Payroll tax is an annual tax paid by most registered employers, or groups of employers, on a monthly or quarterly basis throughout the financial year. An employer or group’s annual Australian taxable wages determine its tax liability, tax rate, and tax-free deductible amount.

If the Australian taxable wages are over $850,000 (taxable threshold), payroll tax applies to the Western Australian (WA) taxable wages as follows:

- Wages over $850,000 and less than $7.5 million (upper threshold) – tax applies to the difference between the WA taxable wages and the deductible amount
- Wages of $7.5 million or more – tax applies to the total WA taxable wages

The end-of-year reconciliation process calculates the annual liability based on the actual wages paid by the employer or group throughout the year. An adjustment is made for any difference between this amount and the amounts already paid.

HOW THE THRESHOLD CHANGES WILL WORK

During 2019-20 and 2020-21, tax will be calculated separately for each six-month period (half-year) in the assessment year using the following thresholds:

<table>
<thead>
<tr>
<th>Period</th>
<th>Annual Threshold $</th>
<th>Half-year Taxable Threshold $</th>
<th>Half-year Upper Threshold $</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 July – 31 December 2019</td>
<td>850,000</td>
<td>425,000</td>
<td>3,750,000</td>
</tr>
<tr>
<td>1 January – 30 June 2020</td>
<td>950,000</td>
<td>475,000</td>
<td>3,750,000</td>
</tr>
<tr>
<td>1 July – 31 December 2020</td>
<td>950,000</td>
<td>475,000</td>
<td>3,750,000</td>
</tr>
<tr>
<td>1 January – 30 June 2021</td>
<td>1,000,000</td>
<td>500,000</td>
<td>3,750,000</td>
</tr>
</tbody>
</table>

The annual liability will be the sum of the liability for each half-year in the assessment year.
Calculating tax

Revenue Online will continue to calculate an employer’s liability based on the wage data they input.

The threshold increase to $950,000 will be reflected in the system from January 2020 for employers lodging monthly returns and in March 2020 for employers lodging quarterly returns. For employers that lodge annual returns, the total wages paid during the year will be split to reflect the amount paid in each half-year.

For local groups and all interstate employers, the Commissioner of State Revenue will nominate a deductible amount for the year based on the estimated annual Australian taxable wages and the annual upper threshold of $7.5 million. For local non-groups, Revenue Online will calculate the deductible amount based on the actual wages paid during the return period and the proportionate upper threshold for the period.

Employers with wages between $950,000 and $1 million

Employers with wages between $850,001 and $950,000 will pay less tax in 2019-20 but will not be under the taxable threshold until 1 July 2020. There will be a similar outcome in 2020-21 for employers with wages up to $1 million.

Example 1

An employer pays monthly wages of $75,000 ($900,000 per annum).

For July – December 2019, the total wages of $450,000 exceed the taxable threshold of $425,000. Payroll tax of $1,551 is paid during this period. This amount will not be refunded as part of annual reconciliation.

For January – June 2020, the total wages of $450,000 are below the taxable threshold of $475,000. There is no payroll tax liability for this period.

Without the threshold increase, payroll tax of $3,102 would have been paid during 2019-20.

Based on the 2019-20 wages, the employer will not be liable for payroll tax in 2020-21.

Annual reconciliation

For annual reconciliation in 2019-20 and 2020-21, interstate employers will need to provide the interstate taxable wages paid in each half-year rather than the full year amount. For most taxpayers, this is the only extra data that will be required.

As well as comparing an employer’s annual liability with the tax paid throughout the year, the Commissioner will also compare the annual liability with what it would have been if the threshold did not change. If the tax is more because of the threshold increase, the employer’s liability will be reduced to what it would have been without the change.
Example 2
An employer pays annual wages of $6,000,000 as follows:

- July – December 2019 – $5,900,000
- January – May 2020 – nil
- June 2020 – $100,000

For July – December 2019, the total wages of $5,900,000 exceed the taxable threshold of $425,000. Payroll tax of $324,500 is paid during this period.

For January – June 2020, the total wages of $100,000 are below the taxable threshold of $475,000. There is no payroll tax liability for this period.

At annual reconciliation, the liability for 2019-20 is calculated as $324,500. If the threshold had not changed on 1 January 2020, the liability would have been $319,455.

As the annual liability is higher because of the threshold change, the tax is reduced to the amount it would have been without the change. The difference ($5,045) is refunded to the employer.

Cancelling a registration

Although the threshold increase to $950,000 will be reflected in Revenue Online from January 2020, the annual reconciliation function in Revenue Online for the 2019-20 assessment year will not be available until August 2020. An employer who cancels their payroll tax registration on or after 1 January 2020 will need to wait until annual reconciliation for any adjustments to be made to their tax liability.

FURTHER INFORMATION

The online payroll tax calculator will be available from 1 January 2020 to help employers estimate their new liabilities.

Information about the progress of the Bill will be on the website at www.wa.gov.au as it becomes available.

If you have any queries, please contact State Revenue by web enquiry at www.osr.wa.gov.au/PayrollEnquiry or by telephone on (08) 9262 1300.

28 November 2019