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Office of State Revenue
NSW TREASURY

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Harmonised Pay-roll Tax Systems between NSW and Victoria

New South Wales and Victoria will be moving towards a harmonised pay-roll tax system.

This is designed to simplify administration and reduce red tape and compliance costs for businesses that operate across both States.

Harmonisation involves two components: streamlining of administrative arrangements and common legislative provisions.

Administrative harmonisation

The first stage of the harmonisation process will be to streamline the administration of the pay-roll tax systems through the respective revenue offices. This will include examining the scope for introduction of:

- Common pay-roll tax forms/systems
- A one-stop shop for businesses paying pay-roll tax in Victoria and NSW
- Common interpretations of the law by revenue offices (such as through common Commissioner rulings and practice statements).

Legislative harmonisation

In addition to examining consistent administrative arrangements, from 1 July 2007 there will be a number of changes to the Victorian and NSW pay-roll tax legislation, with both states adopting key aspects of each others respective legislation to ensure a common approach to pay-roll tax.

Some of the key changes include:

Changes to Victoria's Legislation

Victoria will adopt a number of provisions currently in NSW's *Pay-roll Tax Act 1971*, including:

- The exemption from pay-roll tax for wages paid to employees participating in voluntary emergency work, including work for the CFA and VicSES
- An increase in the period allowed for refunds and reassessments for all state taxes, not just pay-roll tax, from three years to five years

- The inclusion of employee share schemes in the pay-roll tax base, to ensure consistency with other forms of remuneration. Pay-roll tax will be payable either at the date of the initial grant of the shares, or when options to the shares are exercised, giving employers a choice as to when to pay their pay-roll tax liability
- Employers to submit annual reconciliation returns by 21 July each year, an extension of 14 days from current requirements
- Victoria increasing its exemption rates for motor vehicle allowances and accommodation allowances, to align with the rates applying in NSW.

Changes to NSW's Legislation

NSW will adopt a number of provisions in Victoria's *Pay-roll Tax Act 1971*, including the:

- Introduction of an exemption from pay-roll tax for adoption leave and maternity leave payments
- Removal of the specific exemption for wages paid to financial planners under relevant contract provisions
- Removal of the pay-roll tax exemption for single employer apprentices/trainees and apprentices/trainees employed under a group for-profit training organisation (with the proposed introduction of a rebate scheme) and exempt only apprentices/trainees employed under a group not-for-profit training organisation
- Exemption from pay-roll tax of contributions made by employers to a portable long service leave scheme so long as they are not taxable for fringe benefits tax purposes. The same applies to contributions made by employers to a redundancy or severance scheme
- Requirement for grouped employers to appoint a Designated Group Employer (DGE) to claim the benefit of the tax-free threshold
- Removal of the exemption provided to employment agents that on-hire staff with wages below the \$600,000 tax-free threshold.

Changes to both sets of Legislation

Both Victoria and NSW will make similar changes to their pay-roll tax legislation with respect to the adoption of:

- Consistent grouping provisions. Victoria will adopt a 'more than 50%' control test while NSW will extend a Commissioner's discretion provision to enable a business to be excluded from a group under this control test

Other grouping provision changes include the development of common rulings between the NSW and Victorian Commissioners of State Revenue, Victoria to adopt the NSW tracing provisions for corporations

and definition of a business, while NSW proposes to adopt the Victorian provisions covering the test for inter-use of employees and the Victorian provisions regarding the designated group employer

- Uniform definitions and mutual recognition of exempt charities by combining the broadest provisions existing in both states
- A single gross-up factor (type-2) for calculating the value of fringe benefits subject to pay-roll tax for all pay-roll tax payers.

Consultation with business

To ensure that the harmonised pay-roll tax system meets the needs of business, both the NSW and Victorian Governments will engage the business community to help develop new administrative arrangements, such as new pay-roll tax forms, as well as on other implementation issues.

Multilateral Harmonisation process

Both Victoria and NSW remain committed to this multilateral work and will continue to work towards national harmonisation.

The harmonisation between NSW and Victoria covers all of the matters canvassed in the multilateral project plus a raft of other changes designed to achieve a fuller level of consistency between the pay-roll tax regimes in the two states.

Further details

Further information on the harmonised NSW and Victorian pay-roll tax systems will be made available progressively over the next few months as the process develops. Information will be made available on the following websites:

Victoria: State Revenue Office - www.sro.vic.gov.au

NSW: Office of State Revenue – www.osr.nsw.gov.au