

Auditing for the Australian Capital Territory

The Auditor-General is head of the Auditor-General's Office. He and his Office act independently of the Government. The Office assists the Auditor-General to carry out his duties, which are set out in the *Auditor-General Act 1996*, by undertaking audits of management performance and the financial statements of public sector bodies. The aim is to improve public sector management and accountability by firstly, ensuring the Legislative Assembly and the electorate are provided with accurate and useful information about the management of public sector resources and secondly, by providing independent advice and recommendations for improving the management of public resources.



AUDITOR-GENERAL
AUSTRALIAN CAPITAL TERRITORY



PA98/10

22 August 2001

The Speaker
ACT Legislative Assembly
South Building
London Circuit
CANBERRA ACT 2601

Dear Mr Speaker

In accordance with *Section 17* of the *Auditor-General Act 1996*, I transmit to the Speaker my Report titled *The Administration of Payroll Tax* for presentation to the Legislative Assembly.

This Audit was managed by Jo Benton, Director, Performance Audits and Administration.

The Audit was undertaken by Bernie Sheville, Ajay Sharma and Kamlesh Mudaliar.

Administrative support was provided by Megan Walters.

Yours sincerely,

John A Parkinson

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1 SUMMARY AND AUDIT OPINION

INTRODUCTION

1.1 This report presents a summary of the results of a performance audit which reviewed whether payroll tax is being assessed and collected in accordance with the *Payroll Tax Act 1987* and the *Taxation Administration Act 1999*.

FINANCIAL SIGNIFICANCE OF PAYROLL TAX

1.2 Payroll tax is the ACT Government's largest source of taxation revenue. It is expected to generate \$156m in revenue in 2000-01. It is estimated that this amount will represent 30% of all taxation revenue and 7.9% of the Government's total revenue in 2000-01.

1.3 The Government's reliance on payroll tax as a source of revenue is expected to increase over time. The 2001-02 Budget papers estimated that payroll tax revenue will rise to \$177m in 2004-05. At that time, payroll tax will represent 34% of all taxation revenue and 8.2% of the Government's total revenue.

THE PAYROLL TAX ASSESSMENT AND COLLECTION SYSTEM

1.4 Payroll tax is imposed on liable employers who pay wages to employees who provide their services in the ACT. Liable employers are those employers whose Australia-wide salary bill exceeds a specified threshold, which was increased to \$1.25 million with effect from 1 July 2001. That is, if an employer's total salary bill exceeds the threshold, and they employ one person who provides services in the ACT, they are liable to pay payroll tax. There were about 1,600 liable employers registered in June 2000.

1.5 Payroll tax operates under a self-registration and self-assessment system. For several types of taxes, self-registration and self-assessment systems are the most efficient means of tax collection.

1.6 For self-registration and self-assessment tax systems to be

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effective taxpayers must be aware of the taxation legislation as it applies to them. Without this awareness taxpayers will not be able to determine if they are liable to pay the tax or to correctly assess their tax liability.

1.7 Self-assessment systems require incentives to encourage liable employers to register with the administering authority. Incentives normally include a penalty regime that fines liable employers who do not register.

1.8 The effectiveness of self-assessment systems is mainly dependent on three factors. The first is the implementation of comprehensive education programs. The second is implementation of procedures that provide an assurance that taxpayers are assessing and paying their taxation correctly. The third is that the legislative regime and its associated penalties need to be adequate to deal with non-compliance.

1.9 Under the ACT's payroll taxation self-registration and self-assessment system, employers determine whether they are liable to pay tax, disclose this by registering with the ACT and then assess their payroll tax liability and finally pay a self assessed amount. A penalty regime is in place to encourage liable employers to register. The main provisions of the legislation are outlined at Chapter 7.

EFFICIENCY AND EFFECTIVENESS

1.10 To be fully effective, a payroll tax administration regime would have the objective of ensuring that all liable employers pay the full amount due under the legislation. As the regime's objective would include obtaining absolute and total compliance with the payroll tax legislation, a fully effective regime could not take to account the costs incurred in implementing the regime to both the Government and taxpayers. It is probable, therefore, that such a regime would not be efficient.

1.11 An efficient payroll tax compliance regime would be one in which existing measures would not be continued, or extra measures would not be introduced, if the costs to the government of implementation exceeded the additional revenue which might be collected as a result of their implementation. The objective of an efficient regime would not be expected to include achieving absolute and total compliance with the payroll tax legislation.

1.12 The Audit recognises the need for a scheme that is a balance between efficiency and effectiveness. As a result, the objective of the Audit was not based on an expectation that all payroll tax legally due will be collected. Rather, it is based on a scheme in which payroll tax is effectively administered to ensure that payroll tax collected is not materially less than that payable.

AUDIT OBJECTIVE

1.13 The objective of this Audit was to provide an independent opinion to the Legislative Assembly on whether:

existing practices and procedures provide a reasonable level of assurance that payroll tax collected is not materially less than that payable.

1.14 The audit opinion formed on the objective is set out on page 4 of this Report.

AUDIT APPROACH

1.15 The Revenue Office in the Department of Treasury manages the payroll tax system. As a result, the major focus of this Audit was on the Revenue Office's activities.

1.16 The Audit focused on identifying the risks associated with a self-registering and self-assessing taxation system. It then examined arrangements, procedures and practices that have been put in place to enable the effective administration of the system, including the way in which identified risks are being managed.

1.17 The Audit covered the period 1996-97 to 1999-2000. Information has also been provided for 2000-01 where available. The Audit reviewed relevant collection, banking, recording, and compliance activities. Interviews were held with staff of the Revenue Office and ACT WorkCover.

1.18 The Audit did not visit employers' premises to examine wages and related records of employers. The Audit did not examine the adequacy of the relevant legislation or the penalty regime.

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1.19 The Audit was conducted in accordance with the Australian Auditing Standards applicable to performance audits and included tests that the audit considered necessary in the circumstances.

AUDIT OPINION

Existing practices and procedures do not provide a reasonable level of assurance that payroll tax collected is not materially less than that payable, although practices and procedures are generally effective in achieving what they are intended to achieve.

BASES FOR THE AUDIT OPINION

1.20 The opinion that *existing practices and procedures do not provide a reasonable level of assurance that payroll tax collected is not materially less than that payable, although practices and procedures are generally effective in achieving what they are intended to achieve*, is based on the following findings.

- The Department does not attempt to estimate the overall extent of underpayment of payroll tax by registered employers or the overall extent of non-payment of payroll tax by liable but unregistered employers. (*Chapter 5*)
- An average of 59 inspections of registered employers each year resulted in the generation of additional payroll tax revenue of about \$0.5m each year. (*Chapter 5*)
- An average of seven assessments of liable but unregistered employers each year has resulted in the generation of additional payroll tax revenue of about \$0.3m each year. (*Chapter 5*)
- Each compliance inspector detects additional revenue of around an average of \$350,000 per year for all taxes and subsidies. (*Chapter 6*)
- Compliance work and voluntary disclosures indicates that liable employers are unregistered on average for three years before they are detected or voluntarily register. (*Chapter 5*)
- A number of indirect techniques are used to make liable employers aware of their obligation to register for payroll tax,

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however, they do not specifically target the most important types of potentially liable employers. (*Chapter 3*)

- Planning processes provide only limited guidance for compliance activities. (*Chapter 6*)
- The system used to record the payment of payroll tax (ACTAX) is ineffective as a management tool. (*Chapter 6*)
- The performance measure used by the Department to report the performance of the Revenue Office to the Legislative Assembly is not appropriate. (*Chapter 6*)

Summary

1.21 The first finding listed is that the Department makes no estimate of the extent of non-compliance by employers with the payroll tax legislation. The Department is therefore unable to assure itself, the Legislative Assembly or the community that employer compliance with the legislation is at a sufficiently high level to ensure that only immaterial amounts of payroll tax are not collected in any year. The other findings clearly evidence that a level of non-compliance is occurring and also provide indications that the Department may not be adequately performing its function in relation to payroll tax.

1.22 Existing practices and procedures are generally effective in achieving what they are intended to achieve. On the basis, however, that the Department makes no estimate of under collected payroll tax, that there is evidence of a level of non compliance by liable employers and that some of the educative and other practices used by the Department do not seem effective, the Audit view is that existing procedures do not provide a reasonable level of assurance about the effectiveness of payroll tax procedures.

1.23 The findings of the Audit are not intended to reflect on individual persons employed on the administration of payroll tax. Rather the findings are intended to reflect on those aspects of the system identified by the Audit as warranting attention.

FUTURE ACTIONS

1.24 The following seven suggestions are made to address the audit

findings detailed in this report. The Department of Treasury's response to each suggestion is also provided.

Estimations of Payroll Tax Not Collected from Registered Employers

1.25 The Department makes no attempt to estimate the overall amount of tax that may be under collected from registered employers.

1.26 The Audit considers that a program to clarify the extent of under payment of payroll tax should be undertaken as a matter of priority. One method, which potentially could be adopted, would be the implementation of a program of inspections using statistically based techniques to select those employers to be assessed. If a program was properly undertaken, it should enable a reasonable estimation to be made about the overall extent of underpayment of payroll tax by registered employers. Specialist professional advice may be necessary before an appropriate program is selected and implemented.

1.27 While the program is being undertaken, it could overlay or replace the existing compliance program. If a program based on the selection of a statistically based sample were undertaken, its size may not be significantly different from the present compliance program. The key difference, however, would be in the way in which the sample selected for the program would be determined.

1.28 The results of the program would be used to determine with more confidence whether current compliance activities in respect of registered employers are satisfactory or warrant enhancement. After the Department has estimated the overall amount of tax that may be under collected from registered employers and enhanced its compliance program as necessary, it may be appropriate to use professional judgement to select employers for inspection.

1.29 The Audit understands that the NSW Revenue Office is planning to undertake a random sample of registered employers in 2001-02 in order to estimate the extent of overall under payment of payroll tax in NSW.

1.30 The Audit accepts that there may be methods other than statistical sampling that could be used to arrive at an estimate of underpaid tax. If

the Department can identify a suitable and better alternative, it should be implemented.

1.31 *Suggestion 1* – In order to understand the extent of potential under payment of payroll tax by registered employers, the Department should identify and implement a program to enable an estimate to be made of the total of tax underpaid.

1.32 *Departmental Response* – The Department has advised that it will further investigate methods to estimate the potential underpayment or non-payment of payroll tax.

Estimation of Payroll Tax not being paid by Unregistered Employers

1.33 Similarly to the possible underpayments of tax, the Department does not attempt to estimate the overall amount of tax that may not be collected from liable employers who have not registered. There could be a material revenue loss arising from the failure of liable employers to register.

1.34 ACT WorkCover regulates workers compensation insurance in the Territory. As part of this function, ACT WorkCover is currently developing a database that will enable it to collate information on all employers with workers compensation insurance. Use of this database would allow the Department to efficiently identify those employers who are recorded by ACT WorkCover but are not registered for payroll tax. The Department has been liaising with ACT WorkCover for a number of years with a view to using the database as soon as it becomes available.

1.35 *Suggestion 2* – In order to clarify the amount of payroll tax that is not being collected from liable employers who have not registered, the Department should undertake a program of inspections of employers selected from the ACT WorkCover database. If appropriate, statistically based techniques should be used to select the employers for inspection.

1.36 *Departmental Response* – The Department has advised that it agrees with the suggestion but notes that it would require additional resources to implement.

Identifying Employers for Educational Purposes

1.37 As explained in this Report, the methods used to advise liable employers of their obligations to register and pay payroll tax are of limited effectiveness.

1.38 As previously stated, ACT WorkCover is developing a database which will include information on all ACT employers who hold workers compensation insurance. An effective approach identifying and educating employers about their payroll tax obligations would be to arrange to send appropriate classes of employers recorded on the WorkCover database an information pack about the payroll tax scheme.

1.39 **Suggestion 3** – The Department should consider whether arranging to send all appropriate classes of employers recorded on the WorkCover database an information pack about the payroll tax scheme is an effective method to ensure all potentially liable employers are advised of their payroll tax obligations.

1.40 *Departmental Response* – The Department has advised that it agrees with this suggestion.

Planning

1.41 The payroll tax compliance plan is a general document that provides limited guidance. The plan:

- does not give priority to targeting those types of employers with a higher risk profile;
- does not use a mix of strategies, including both educational programs and compliance activities; and
- does not include the use of appropriate sampling techniques in compliance activities to enable reasonable estimations of overall non-compliance to be made.

1.42 **Suggestion 4** - A comprehensive payroll tax compliance plan should be developed.

1.43 *Departmental Response* – The Department has advised that it agrees with the suggestion subject to the availability of resources.

Staffing

1.44 It appears that the number of staff assigned to payroll tax administration may not be sufficient to ensure that a material level of intentional or inadvertent tax evasion does not occur. No reviews have been carried out to determine whether the level of staffing is adequate to ensure that non-compliance is reduced to a less than a material level. In the Audit view a staff requirements assessment should be promptly conducted.

1.45 If the result of a staff requirements assessment was that additional staffing was needed, it would be necessary to determine whether additional staff should be employed on compliance or educative activities or some combination thereof. Consideration would also need to be given to determining whether additional staffing is the appropriate response to reduce the level of non-compliance or whether it would be more effective to vary the present legislative and penalty regime.

1.46 **Suggestion 5** – A staffing needs assessment should be conducted promptly. A system should be implemented which ensures assessments of staff requirements are regularly made in future.

1.47 *Departmental Response* – The Department has advised that it agrees with this suggestion.

Payroll Tax Recording System

1.48 The computerised system used to record payroll tax (ACTAX) is unable to provide reports to assist in targeting areas of non-compliance in a timely manner. The Department has recently established a committee, including representatives from their software provider, with a view to either refining the existing system or replacing it.

1.49 **Suggestion 6** – The work currently in progress related to the ACTAX system should be progressed as a matter of priority.

1.50 *Departmental Response* – The Department has advised that it has already taken this action.

Performance Measures

1.51 One of the public measures used by the Department to measure the performance of its revenue management function is the amount of revenue detected in any given year. The measure is inappropriate as the target and its achievement reflects adversely on the Department's effectiveness. Such a measure could be used for internal management purposes.

1.52 *Suggestion 7* – The public measures used by the Department to measure the performance of the revenue management function should be reviewed as part of the ACT wide review of performance measures.

1.53 *Departmental Response* – The Department has advised that it agrees with this suggestion.

CONCLUSION

1.54 Payroll tax is an important source of revenue for the ACT. It will become even more so in the foreseeable future. Existing practices and procedures are generally effective in achieving what they are intended to achieve. The Audit has formed the opinion, however, that those practices and procedures are not adequate to provide a reasonable level of assurance that material amounts of payroll tax are not being under collected paid.

DEPARTMENTAL RESPONSE TO THE REPORT

1.55 In accordance with section 18 of the *Auditor-General Act 1996*, a final draft of this report was provided to the Chief Executive of the Department of Treasury for his consideration and comments. The Chief Executive's response is set in the following paragraphs.

This report has been developed after extensive discussions between the staff of the Auditor-General's office and the Department of Treasury. I wish to acknowledge the willingness of the Audit Office to take into account the issues raised by Treasury staff.

AUDIT OPINION

The Department notes the opinion of the Auditor-General that the existing practices and procedures are generally effective in achieving what they are intended to achieve. The Department understands that the main reason for the audit opinion “that there is not a reasonable level of assurance that payroll tax collected is not materially less than that payable” is because the Department does not attempt to measure the size of any possible revenue leakage.

As acknowledged by the Auditor General, with any self assessed tax there will be a level of non-compliance. While neither the Auditor’s office nor the Department can accurately estimate the payroll tax leakage, it is difficult to establish whether the current level of leakage is material.

The Auditor-General’s issues are addressed as follows:

No estimate of unpaid payroll tax

The Department is not aware of any reliable or accurate method to estimate the potential revenue leakage from self assessed taxes, including payroll tax. For all self-assessed taxes, it is generally accepted that there will be a degree of tax avoidance/underpayments, which the Department aims to minimise through its compliance activities.

The Department understands that these issues have been recognised by the taxing authorities throughout Australia where the estimating of revenue leakage is not considered an efficient or effective means of implementing compliance programs. It is recognised that better results can be achieved through data matching processes and even through case selection based on intelligence derived from historic compliance program experience.

The Auditor-General has suggested that the leakage be estimated based on the results of a random sample audit of taxpayers. Depending on the size of the samples and the complexity of companies’ businesses, the Department considers that such an exercise would involve a team up to 3-4 officers spending up to 70% of their time interstate and take at least 12 months to complete. The suggestion of the Auditor-General that the exercise could replace or be incorporated in the existing program is noted. However, a major part of the program, which has been

recognised as effective by the audit, such as following up outstanding returns, new registrations and large refunds and some aspects of cyclical reviews, would need to be deferred, unless additional resources were available.

Compliance program results

The Department considers that the results of the existing compliance program have exceeded the output targets and reflect the success of the existing targeting techniques. On the other hand, it should be noted that the amounts detected are small relative to total payroll tax collections.

The fact that unregistered employers are being detected within an average of only three years (despite the unavailability of the ACT Workcover database and other data matching facilities) further shows the relative effectiveness of the current compliance program.

Information being targeted towards unregistered employers

The Department agrees with the Auditor-General in finding that education of unregistered employers is primarily based on indirect means. The most significant issue, however, is that as the current payroll tax threshold is \$1.25m pa, potential taxpayers will be relatively large firms with usually more than 15 staff. It should also be noted that the bulk of payroll tax is collected from national and international firms with activities in the ACT. Given the complexity of federal taxation and national tax reform, in most cases these firms will have professional legal and accounting advice to address their extensive taxation needs. Thus the Department considers there is a reasonable level of assurance that the number of liable but unregistered employers is not material.

This is further supported by a review in 2000-01 of three major shopping centres where 500 businesses were considered, 300 were registered for payroll tax and only 5 or 1 % were not registered that should have been registered.

Compliance planning process

The Department recognises that the planning processes do provide only limited guidance. Such methodology however is considered unavoidable in view of the extensive number of taxation and subsidy streams (approximately 15) being administered and the small number of personnel available in the ACT Revenue Office.

The Department considers that in a small office under these circumstances, effective project management by senior management can occur without every step being documented. In fact, results to date reflect that the program is effective in targeting on the basis of knowledge of the characteristics of the population, expertise of officers, information from other jurisdictions, information arising from other inspections and legislative changes.

Existing computer system

The Department agrees with this finding and has given a high priority to replacing and upgrading the existing system since January 2000, following resolution of Y2K issues.

Performance measures

The Department agrees with the Auditor-General's finding and proposes reviewing the measures as part of a Department-wide review.

In terms of the Auditor-General's suggestions

Suggestion 1: *the Department will further investigate methods to estimate the potential underpayment or non-payment of payroll tax.*

Suggestion 2: *the Department agrees, but would require additional resources to implement this suggestion.*

Suggestion 3: *agreed.*

Suggestion 4: *agreed subject to the availability of resources.*

Suggestion 5: *agreed*

Suggestion 6: *the Department has already taken this action.*

Suggestion 7: *agreed.*

CONCLUDING COMMENTS

1.56 The Audit agrees that this report was developed after extensive and cooperative discussions between the staff of the Auditor-General's Office and the Department of Treasury.

1.57 The Audit notes that the Department has agreed with all of the seven suggestions made to address the findings detailed in the report.

1.58 The Audit recognises that implementing suggestions 1 and 2 may be difficult for the Department. The Audit is firmly of the view, however, that it is unarguable that the Department should implement a program to enable it to make an indicative estimate of the extent of tax that may be underpaid by both registered and liable but unregistered employers. The results of such a program will provide an important input into the development of the Department's subsequent compliance strategies.

1.59 The Audit encourages the Department to take into account the findings and suggested actions made in respect of its administration of

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payroll tax in administering all other taxes for which it is responsible.

2 RISKS ASSOCIATED WITH THE PAYROLL TAX SYSTEM

INTRODUCTION

2.1 This Chapter discusses the risks associated with operating a self-registering and self-assessing payroll tax system.

SIGNIFICANT FINDINGS

- *A key risk in any self-registration and self-assessment tax system is that liable employers do not register and therefore do not meet their tax obligations.*
- *A further major risk is that employers may understate their payroll tax liability in their returns.*

RISKS IN SELF-ASSESSMENT SYSTEMS

2.2 In order for the ACT's self-registration and self-assessment payroll tax system to be effective, employers must correctly apply the payroll tax legislation to their circumstances. This requires employers to determine whether they are liable to pay tax, disclose this by registering themselves with the Department of Treasury and then assessing and paying any tax payable.

2.3 Under a self-registration and self-assessment system the risks relate to no tax being collected or incorrect amounts of tax being collected as a result of:

- employers being unaware of their obligation to register for payroll tax and consequently failing to register and not paying any payroll tax;
- registered employers misunderstanding the methods of calculating payroll tax liabilities and therefore incorrectly calculating and paying tax;
- liable employers registering in another jurisdiction, or intentionally failing to register in the ACT, because they perceive

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the likelihood of being detected is low and/or the adverse consequences of being detected are not a sufficient deterrent;

- registered employers intentionally recording incorrect information in their tax returns resulting in under assessments of their tax liabilities; and
- registered employers failing to make their tax returns in a timely manner.

2.4 A further risk inherent in self-registering and self-assessing systems is that the administering agency may not be performing its function effectively.

2.5 Another risk is that there may be material deficiencies in the legislative and penalty regime associated with the imposition of payroll tax. The Audit did not examine the adequacy of relevant legislation or the penalty regime.

CONCLUSION

2.6 As outlined, the risks of non-compliance with self-registering and self-assessing systems are significant. In the Audit view, the main risk in the ACT payroll tax system is that liable employers do not register and therefore do not meet their tax obligations. A further important risk is that employers may understate their payroll tax liability in their returns.

2.7 The following chapters of this report explain how the risks identified in this Chapter are being managed.

3 PROVIDING INFORMATION TO EMPLOYERS

INTRODUCTION

3.1 This Chapter comments on the methods used to advise employers of their obligations to register and to pay payroll tax. The methods would be expected to address risks that employers are unaware or misunderstand their obligations under the ACT's payroll tax legislation.

3.2 This Chapter specifically reviews:

- general advice provided to employers; and
- specific guidance provided to registered employers.

SIGNIFICANT FINDINGS

- *A number of indirect techniques are used to make liable employers aware of their obligation to register for payroll tax, however, they do not specifically target the most at risk types of potentially liable employers.*
- *The 'Payroll Tax Forms' booklet, which contains guidance and the forms used by registered employers to assess their payroll tax liability, is clear and consistent with the Payroll Tax Act.*

GENERAL ADVICE PROVIDED TO EMPLOYERS

3.3 Employers may obtain information on their responsibilities to register for payroll tax and pay tax:

- by accessing the Department of Treasury website about the payroll tax scheme; and
- from the Chief Minister's Department when employers seek information on business licences through the Business Licence Information Service.

3.4 Information on payroll tax matters would also be available to employers from their professional employees and/or advisers as appropriate. Payroll tax information is also included in taxation guides published by business advice services, such as CCH, and from time to

time in newspapers and journals.

3.5 For the most part, the methods used are either passive or indirect in the way in which they make information available. Some of the methods are passive in that they depend on employers seeking out information. Some are indirect in that they remind employers' business advisers about payroll tax obligations and not the employers themselves.

Audit Comments

3.6 For employers who are seeking to ascertain their payroll tax obligations the methods adopted are useful and convenient educational services. The methods do not, however, target the most important types of potentially liable employers. That is, national employers who have a branch or other presence in the ACT. These employers are likely to already pay payroll tax in the jurisdiction in which they are principally located. They may, however, not understand or may overlook the fact that they also have an obligation to pay payroll tax in the ACT.

3.7 The methods also do not specifically target local employers who expand their businesses to the extent that they become liable to pay payroll tax.

GUIDANCE PROVIDED TO REGISTERED EMPLOYERS

3.8 A 'Payroll Tax Forms' booklet is supplied annually to all registered employers. The booklet contains relevant guidance on the payroll tax scheme and blank monthly and annual returns to be completed by employers. Guidance contained in the booklet summarises the main legislative requirements for registration and the calculation of employers' liabilities. In addition, circulars are distributed to all registered employers on an as required basis.

Audit Comments

3.9 The Audit examined payroll tax forms booklets for 1997-98, 1998-99, 1999-00 and 2000-01 and compared information contained in them with the requirements of the Payroll Tax Act. The booklets were consistent with the Act. They were clear and accurate and would assist employers to correctly self assess their payroll tax liability.

CONCLUSION

3.10 In the Audit view the current methods used to inform potentially liable but unregistered employers of their legislative requirements are useful but not completely effective. The methods do not adequately address the major risk that some types of employers may be unaware of their obligations to register for payroll tax and consequently fail to meet their payroll tax obligations.

4 MONITORING PAYROLL TAX RETURNS

INTRODUCTION

4.1 This Chapter describes the main procedures used to monitor payroll tax returns received from employers. The procedures principally address risks that registered employers fail to make their payroll tax returns in a timely manner and/or may incorrectly self assess their payroll taxation liabilities.

4.2 The Audit reviewed the procedures used to monitor and collect payroll tax from the point of receipt of returns and payments to recording in the financial records. The Audit did not check the validity of information contained in the monthly and annual returns against records held by employers at their premises.

SIGNIFICANT FINDINGS

- *Half of the registered employers who are subjected to compliance activity are selected as a result of monitoring of the lodgement of their monthly and annual payroll tax returns.*
- *Audit testing of the calculations in monthly and annual returns indicated that, on a sampling basis, registered employers were correctly calculating their payroll tax.*
- *Payroll tax payments made by employers were recorded and banked on a timely basis.*

REGISTRATION AND LODGEMENT PROCESSES

4.3 On receipt of notifications from employers that they have assessed themselves as being liable for payroll tax, employers are registered in a computerised system maintained by the Department of Treasury known as ACTAX. When a new employer registers consideration is given to whether an investigation of the employer should be initiated. These investigations are directed towards ascertaining whether new employers may have unassessed prior years tax liabilities.

4.4 There were about 1,600 employers registered in ACTAX in June

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1998. The number of registered employers increased to about 1,700 in June 1999 and fell to about 1,600 in June 2000.

4.5 Each month, employers declare the amount of wages paid to their employees, calculate the amount of payroll tax owing and record this in a monthly return. The returns are lodged with the Department together with payments of the tax as assessed by the employers.

4.6 Monthly returns are not checked for their correctness. Their lodgement, however, is monitored. If employers fail to lodge returns when due, formal reminders are issued to the employers about their obligations under the legislation. Employers with returns outstanding for three months are considered for investigation.

4.7 Following from the timeliness monitoring processes an average of 26 employers were investigated each year over the three financial years ending in June 2000.

4.8 At the end of each financial year, registered employers are required to complete and lodge annual returns. Annual returns include the amount of wages actually paid to employees in the year together with the employers' assessments of their annual payroll tax liabilities based on the wages paid.

4.9 As previously stated employers make monthly payments. Employers whose aggregated monthly payments exceed their annual payroll tax liability as shown in their annual returns are due a refund and those whose aggregate monthly payments are less than their annual liability are required to pay an additional amount.

4.10 Where refunds of more than \$20,000 are due, reviews are conducted to determine whether detailed investigations are necessary. Over the three financial years ending in June 2000, an average of three employers each year was investigated as a result of this process.

Audit Comments

4.11 The Department's procedures appear to be adequate to detect those employers who fail to make their payroll tax returns in a timely manner. As indicated, an average of 29 employers each year are subjected to compliance activity as a result of monitoring of lodgements

of monthly and annual returns. This represents about half of all registered employers subjected to compliance activity. Results of the compliance activities undertaken are discussed in the following Chapter.

4.12 The Audit tested the calculations in the returns and only minor errors were noted. It should be emphasised that this audit testing only provides assurance that calculations were done correctly. It provides no assurance that the information declared by employers in their returns was correct.

CONCLUSION

4.13 The risks that registered employers may be failing to make their payroll tax returns in a timely manner and/or may incorrectly calculating their payroll taxation liabilities appear to be adequately addressed by current procedures.

5 DETECTING NON-COMPLIANT EMPLOYERS

INTRODUCTION

5.1 This Chapter discusses compliance activities undertaken. The compliance activities described would be expected to address the risks of registered employers providing incorrect information in their returns and liable employers not registering.

5.2 The Chapter specifically addresses:

- specific compliance activities; and
- voluntary disclosures by liable employers.

SIGNIFICANT FINDINGS

- *An average of 59 inspections of registered employers each year has resulted in the generation of additional payroll tax revenue of about \$0.5m each year.*
- *An average of seven assessments of liable but unregistered employers each year has resulted in the generation of additional payroll tax revenue of about \$0.3m each year.*
- *Compliance work and voluntary disclosures indicates that employers are unregistered on average for three years before they are detected or voluntarily register.*
- *The Department of Treasury does not attempt to estimate what is the overall extent of underpayment of payroll tax by registered employers or the overall extent of non-payment of payroll tax by liable but unregistered employers.*

COMPLIANCE ACTIVITIES ON REGISTERED EMPLOYERS

Background

5.3 The purpose of compliance activity is to ascertain whether registered employers have paid the correct amount of payroll tax. A main part of this process is done by ensuring that returns lodged by employers

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contain information that is consistent with the employers' records. In this regard, employers are required by legislation to make records and other information available to officers authorised to conduct compliance activities under the Payroll Tax Act.

5.4 The selection of registered employers for review or assessment is made, to some extent, on the basis of the experience and judgement of staff. The following types of compliance activities are undertaken:

- Cyclical reviews based on employers' size, structure, industry and reporting history.
- Follow up inspections where monthly and annual returns by registered employers have not been lodged for more than three months after the due date.
- Assessments of newly registering employers to determine whether those employers should have registered as liable employers in the years prior to their registration.
- Reviews of registered employers who are due large refunds based on the content of their annual returns.

Extent of Compliance Activity on Registered Employers

5.5 *Table 5.1* summarises the number of payroll tax compliance inspections in the financial years 1997-98 to 1999-2000.

Table 5.1 – Number of Inspections of Registered Employers				
Type of Inspection	1997-98	1998-99	1999-00	Average
Cyclical Reviews	19	27	44	30
Outstanding Returns Follow Up	30	24	12	22
New Registrations	0	7	4	4
Large Refunds	0	3	7	3
Total	49	61	67	59

5.6 As the table shows an average of 59 inspections each year was undertaken over the period from 1997-98 to 1999-2000. This represents about 3.4% of registered employers. The table also shows most of the inspections conducted arose from cyclical reviews and inspections of employers who were registered but did not lodge returns when due.

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5.7 *Table 5.2* summarises the revenue raised from payroll tax compliance inspections undertaken in the financial years 1997-98 to 1999-2000.

Table 5.2 – Additional Payroll Tax Revenue Detected during Inspections of Registered Employers				
Type of Inspection	1997-98	1998-99	1999-00	Average
	\$	\$	\$	\$
Cyclical Reviews	14,930	95,627	515,376	209,978
Outstanding Returns	12,327	541,315	162,901	238,848
New Registrations	0	166,686	9,661	58,782
Large Refunds	0	4,700	72,740	25,813
Total	\$27,257	\$808,328	\$764,678	\$533,421

5.8 An average of about \$0.5m additional payroll tax revenue was identified each year from inspections undertaken over the period from 1997-98 to 1999-2000. This represents about 0.4% of annual average tax collected during the period. Most revenue arose from cyclical reviews of registered employers and the program of assessing employers who failed to lodge returns.

5.9 The tables show that the average 59 inspections resulted in an average \$0.5m in additional payroll tax revenue being collected each year. That is, on average, each inspection resulted in the detection of under paid payroll tax of about \$8,400.

5.10 The amount of underpaid tax detected in respect of individual employers fluctuated considerably. For example in 1999-2000 about 40% of inspections resulted in no adjustment to payroll tax payable. That is about 60% of employers inspected, had under paid their payroll by about \$8,400.

Audit Comments

5.11 Conducting inspections of employers on the basis of cyclical reviews, outstanding returns, new registrations and large refunds appear to be a sound approach. Using professional judgement to select employers from all categories for inspection may enable the successful targeting of high-risk employers. Such work, however, is essentially subjective in nature and it is difficult therefore to conclude that the

procedures are adequate to provide a reasonable assurance that payroll tax is being correctly paid by all liable employers.

5.12 The tables presented demonstrate that large amounts of revenue are being detected from a relatively small number of inspections conducted annually. This suggests that there is a significant level of overall under payment of revenue from the population of registered employers who have not been subjected to inspection. It is not possible, however, to reliably infer from the inspections carried out what is the overall underpayment of payroll tax by all registered employers.

5.13 The Department has advised that, due to work pressures and staffing constraints, it does not attempt to estimate the overall amount of revenue that is being under collected from registered employers. The Department has also advised that it has not formally established a level of compliance by registered employers that it considers is the maximum economically achievable. That is, the Department has not determined a point at which the costs of increased compliance measures outweigh the extra revenue that might be collected from registered employers as a result of increasing the compliance measures.

COMPLIANCE ACTIVITIES ON UNREGISTERED EMPLOYERS

Background

5.14 At any point in time it is likely that there are employers who are liable to pay payroll tax but have not registered. Unless these unregistered employers identify themselves to the Department or are detected by compliance activities, the ACT will not have collected all payroll tax revenue to which it is entitled.

5.15 Procedures to detect unregistered employers are contained in a compliance manual produced by the Department. The procedures include identifying employers for further investigation by:

- reviewing positions vacant advertisements and newspaper articles on business matters;
- reviewing lists of shopping centre tenants;
- visiting commercial and industrial areas and construction sites;

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- reviewing the ‘Yellow Pages’ telephone book and business guides;
- checking the customers or suppliers of businesses being inspected;
- reviewing new car registrations;
- comparing unregistered employers listed in the ACT White Pages with the Sydney White Pages;
- comparing unregistered employers listed in the ACT White Pages with employers registered in other jurisdictions;
- reviewing government contracts listed in the Gazette;
- reviewing registrations for other types of taxes;
- data base matching with other jurisdictions, insurance companies and the Australian Taxation Office; and
- reviewing lists of all employers with workers’ compensation cover.

5.16 During the years included in the Audit review, the Department’s assessment procedures included the first eight of the listed sources. The Department has advised that the most useful were searches of the Yellow and White page directories and reviewing shopping centres and redevelopments.

Compliance Assessments Carried Out

5.17 Each year a number of businesses are reviewed as part of the compliance program to ascertain whether they might be liable to pay payroll tax and should be registered. The Department, however, does not keep records of the businesses reviewed.

5.18 *Table 5.3* on the following page summarises the results of assessments to detect liable but unregistered employers for payroll tax in 1997-98 to 1999-2000.

Table 5.3 – Results of Compliance Assessments of Unregistered Employers				
	1997-98	1998-99	1999-00	Average
Number of Assessments	5	8	7	7

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Amounts Detected	\$324,905	\$224,350	\$340,142	\$278,917
Average Amount detected per Assessment	\$64,981	\$28,044	\$48,592	\$44,470

5.19 As a result of reviews of businesses, an average of seven formal assessments per year were carried out on unregistered employers in the period from 1997-98 to 1999-2000. The number of assessments increased significantly during the first seven months in 2000-01 to 21 resulting in additional revenue of \$288,022.

5.20 All assessments resulted in additional revenue being raised. Over the period 1997-98 to 1999-2000 additional revenue from compliance activity on unregistered employers averaged about \$44,000 per assessment. On average, employers had been liable to pay payroll tax for three years before detection.

Audit Comment

5.21 *Table 5.3* shows the average of seven formal assessments resulted in about \$0.3m on average additional payroll tax revenue being collected each year, i.e. on average each assessment resulted in the detection of additional revenue of about \$44,000.

5.22 As no records are generally kept of the number of businesses that were reviewed to give rise to the formal assessments of unregistered employers, it is not possible to estimate what proportion of all ACT businesses were reviewed.

5.23 *Table 5.3* demonstrates that large amounts of revenue are being detected from a small number of assessments. This suggests that there could be a material revenue loss arising from the failure of liable employers to register.

5.24 As with registered employers the Department has advised that it has not formally established a level of compliance by liable but unregistered employers that it considers is the maximum economically achievable. The Department has also advised that it has not attempted to estimate the overall amount of revenue that is potentially not being collected from liable employers who have not registered.

VOLUNTARY DISCLOSURES BY UNREGISTERED EMPLOYERS

5.25 In the two financial years to June 1999 an average of about 20 employers per year voluntarily disclosed that they were liable to pay payroll tax. Only one employer voluntarily disclosed a liability to pay in 1999-2000 and only one employer made a voluntary disclosure during the first seven months of 2000-01. Employers usually made the voluntary disclosures after being advised of their obligations by their accountants or other advisers.

5.26 *Table 5.4* summarises voluntary disclosures for the three year period ending in June 2000.

Table 5.4 – Voluntary Disclosures by Unregistered Employers			
	1997-98	1998-99	1999-00
Number of Assessments	17	22	1
Amounts Detected	\$664,909	\$740,267	\$52,712
Average Amount detected per Assessment	\$39,112	\$33,648	\$52,712

5.27 Employers who voluntarily disclosed their liability for payroll tax were assessed by the Department’s compliance inspectors. On average those employers were found to be liable to pay payroll tax for three years before their voluntary disclosure. The average annual amount detected per assessment over the period 1997-98 to 1999-2000 was \$41,824. The amount detected from the one employer who made a voluntary disclosure in the current financial year was only \$253.

Audit Comments

5.28 The small number of voluntary disclosures in both 1999-2000 and 2000-01 may indicate that there are now only a small number of employers who are unaware of their obligation to register for payroll tax and would register when they become aware of their obligations under the legislation. It may also indicate, however, that educative activities and/or the penalty regime are becoming increasingly inadequate as a means of encouraging liable employers to register.

CONCLUSION

5.29 Collectively, the findings in this chapter indicate that there could be a material level of non-compliance with the relevant legislation by both registered employers and liable but unregistered employers. Risks that liable employers may not register or that registered employers may include incorrect information in their returns does not appear to have been adequately addressed.

6 PLANNING AND MANAGEMENT ARRANGEMENTS

INTRODUCTION

6.1 This Chapter describes the overall approach to the planning, resourcing and reporting of compliance activities by the Department of Treasury. The Chapter principally addresses the risk that the administering agency is not performing its function effectively.

6.2 This chapter specifically addresses:

- planning arrangements;
- staffing; and
- management reporting systems.

SIGNIFICANT FINDINGS

- *Planning processes provide only limited guidance for compliance activities.*
- *Each compliance inspector detects additional revenue of around an average of \$350,000 per year for all taxes and subsidies.*
- *Insufficient staff may have been assigned to perform the role of ensuring an adequate level of compliance with the Payroll Tax Act.*
- *The system used to record the payment of payroll tax (ACTAX) is ineffective as a management tool and is being reviewed for upgrade or replacement.*
- *The performance measures used by the Department to report the performance of the Revenue Office to the Legislative Assembly may not be appropriate.*

PLANNING

6.3 The Department prepares an annual business plan that includes compliance activities for the payroll tax system.

6.4 Compliance activities in the business plan cover approximately 15 taxes and subsidies. They include stamp duty, financial institutions duty and bank accounts debits tax, as well as payroll tax.

6.5 The plan specifies the number and duration of compliance inspections to be undertaken in respect of each tax type and estimates the amount of revenue planned to be detected. It is the principle instrument used to allocate available staff resources to each of the taxes subject to compliance activity.

6.6 *Table 6.1* shows planned and actual inspections for 1998 to 2000. The table also includes an estimate for 2001.

Table 6.1 – Analysis of Inspections Completed against Planned				
	30 June 1998	30 June 1999	30 June 2000	30 June 2001 (estimate)
Planned number of inspections	150	120	- ¹	180
Actual number of inspections	74	91	62	105
Percentage variance from plan	(51)	(24)	N/A	(42)
Planned days spent on inspections	500	540	468	528
Actual days spent on inspections	329	393	460	510
Percentage variance from planned days	(34)	(26)	(2)	(3)
Average days spent on each inspection	4.4	4.3	7.4	4.8

6.7 Table 6.1 shows that the:

¹ The Inspection plan for 1999-00 was prepared only on the basis of the number of inspection days.

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- actual number of inspections undertaken and the days spent on them increased each year, except for 2000;
- number of days taken to complete each inspection remained about the same, except for 2000;
- actual number of inspections completed each year is significantly less than that planned; and
- actual days spent on inspections was significantly less than that planned for the first two years but was generally the same as that planned for in the last two years.

Audit Comments

6.8 A business plan is an important guidance document for any work unit. In the case under review, it would be expected that the business plan would:

- reflect the preparers' appreciation of the compliance risk environment over the period;
- set objectives for the compliance area in addressing the identified risks;
- identify the staff and other resources required; and
- allocate assigned staff and other resources to meet the plan's objectives over the period.

6.9 The Department's payroll tax compliance plan is a general document which provides limited guidance. For example, the plan for 2000-01 does not provide guidance on work planned or areas to be targeted on liable but unregistered employers. In addition, the plan does not include any programs for education and the provision of advice to taxpayers. On the basis of past achievements the plan sets unreasonable inspection targets.

6.10 It is suggested that the following should be taken into account in developing a comprehensive payroll tax compliance program:

- plans should be based on an assessment of the risks of non-compliance by different types of potentially liable employers;
- priority should be given to targeting those types of employers with a higher risk profile;

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- a mix of strategies, including both educational programs and compliance activities, should be included; and
- compliance activities should include the use of appropriate techniques to enable reasonable estimations of overall non-compliance.

STAFFING

6.11 There is an establishment of eight inspectors and an assistant manager to undertake compliance activities in respect of 15 taxes and subsidies including payroll tax. Based on past results, each compliance inspector has been detecting additional revenue of around an average of \$350,000 per year.

6.12 The actual average number of inspectors employed over the four year period was seven. On average a full time equivalent of about 2.25 inspectors were allocated to payroll tax compliance activity each year.

Audit Comments

6.13 It appears that the number of staff assigned to payroll tax compliance activities may be insufficient to ensure that a significant level of intentional or inadvertent tax evasion is not occurring. This view is supported by the following findings:

- on average each compliance officer detects additional revenue of around \$350,000 each year; and
- the number of payroll tax inspections completed has been significantly less than the number planned over a number of years.

6.14 Prima facie it would appear that where the Department assesses that in order to complete an effective compliance program, a certain number of inspections are required but the actual number of inspections completed regularly falls short of the number planned, there is a case that additional staff are warranted.

6.15 No assessments have been carried out by the Department to determine whether, within the present legislative and penalty regime, the level of staffing is adequate to ensure that non-compliance is at an

acceptable level.

6.16 Payroll tax compliance activities were allocated the largest share of available staff. This decision appears to be appropriate, as payroll tax is the largest source of tax revenue for the ACT. No assessments, however, have been carried out by the Department to determine whether the level of staffing is adequate to ensure that non-compliance is at an acceptable level.

6.17 The Department agrees that resources available may not have been sufficient to carry out the planned number of inspections specified in the plan and that two additional staff may be required in the circumstances. In the Audit view, the conduct of a staff requirements assessment is urgently needed.

MANAGEMENT REPORTING SYSTEMS

Payroll Tax Recording System

6.18 The Treasury uses a computerised system known as ACTAX to record the payment of payroll and other taxes. The system is dated and is unable to provide reports that analyse data or can be used for checking reasonableness of data entered into the system or planning and targeting inspections. In addition, the system is generally very slow to process data and to provide access to data already stored in the system.

6.19 The Treasury has recently established a committee, including representatives from their software provider, to examine the deficiencies of the current system and explore options of refining the system or replacing it.

Audit Comments

6.20 The ACTAX recording system is ineffective as a management reporting tool. The work committee established by the Treasury to examine the deficiencies of the current system and explore options for the future should be progressed as a matter of priority. As part of its deliberations the Committee should confirm that the benefits to be achieved from a new system would exceed the costs of designing and implementing the system.

Performance Measures

6.21 The relevant performance measure used by the Department in the 2001-02 Budget Papers to report performance to the Legislative Assembly is 'compliance revenue per inspector'. The target for this measure was \$200,000 per inspector. The target compares with an estimated outcome of \$234,872 for 2000-01. The target is calculated by dividing the total taxation revenue detected by compliance activities by the average number of compliance inspectors employed during the financial year.

Audit Comments

6.22 The performance measure currently being reported to the Legislative Assembly is not appropriate as a performance measure of the amount of tax foregone through non-compliance with appropriate legislation. In effect the high revenue detected figure may actually be an adverse reflection on the performance of the Department. That is, if the overall payroll tax system was functioning effectively, there should be minimal amount of additional payroll tax revenue to be detected through compliance activities. The detection of high levels of additional tax is conceivably evidence that payroll tax administration is ineffective.

6.23 It would also be appropriate for the Department to consider internal (i.e. unpublished) performance measures to assist the Commissioner to manage the performance of the payroll tax system. These measures could include the performance measure currently reported in the Budget documentation.

CONCLUSION

6.24 Collectively, the findings in this chapter indicate that Treasury is not adequately addressing the risk that the administering agency is not performing its function effectively. While action is in hand to review the adequacy of its management reporting processes, it is the Audit view that the Treasury's planning and staffing arrangements for the payroll tax system should be reviewed as soon as possible.

7 LEGISLATIVE FRAMEWORK

INTRODUCTION

7.1 This chapter outlines the statutory framework and administrative procedures relating to the assessment and collection of payroll tax. This chapter specifically addresses:

- the payroll tax framework;
- the basis of payroll tax assessments;
- payroll tax rates and thresholds; and
- liable employers.

SIGNIFICANT FINDINGS

- *The legislative framework for the collection of payroll tax is based on self-registration and self-assessment by employers.*
- *Self-registration and self-assessment schemes are generally accepted as being efficient means of tax collection.*
- *The continuing effectiveness of self-registration and self-assessment schemes, however, is dependent, in part, on the implementation of comprehensive employer education and compliance programs.*

PAYROLL TAX FRAMEWORK

7.2 The relevant legislation for the assessment and collection of payroll tax was the *Payroll Tax Act 1987* and the *Taxation (Administration) Act 1987*. The *Taxation Administration Act (1999)* replaced the 1987 Act from 1 March 1999.

7.3 The Payroll Tax Act sets out the legislative framework for the imposition and collection of payroll tax. Section 4 of the Payroll Tax Act provides for the Commissioner for ACT Revenue to have responsibility for administering payroll tax in the ACT. Section 5 of the Act establishes the wages that are subject to payroll tax and Section 6 imposes a payroll tax on employers. Sections 10 to 13 provide for the

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determination of the amount of tax payable for individual employers. Section 16 of the Act provides for liable employers to submit returns to the Revenue Office and pay any tax payable.

7.4 The Taxation Administration Act deals with the administration of payroll tax relating to the imposition of penalties and collection of payroll tax. Division 2 of the Act provides the Commissioner for ACT Revenue with investigatory powers. Various activities, known as compliance activities, are undertaken by the Revenue Office in order to verify employers are correctly self-assessing in accordance with the payroll tax legislation.

7.5 The assessment and collection of payroll tax is based on self-registration and self-assessment by employers. The effectiveness of self-assessment systems in ensuring that liable employers register and pay taxes correctly is dependent, in part, on the implementation of effective and comprehensive education and compliance programs. The effectiveness of self-assessment systems is also dependent on an effective legislative regime, including adequate penalties and their associated procedures.

Audit Comments

7.6 Self-registration and self-assessment tax collection systems are generally accepted as being efficient means of tax collection. In the case of ACT payroll tax, the system requires employers to determine whether they are liable to pay tax, to disclose this by registering with the Treasury, to assess whether they are required to pay payroll tax, and to assess the amount of tax payable.

THE BASIS OF PAYROLL TAX ASSESSMENT

7.7 Payroll tax is imposed by the ACT on liable employers who pay wages to employees who provide their services in the ACT. Liable employers are those employers whose Australia-wide salary bill exceeds a specified threshold. That is, if an employer's total salary bill exceeds the threshold, and they employ one person in the ACT, they are liable to pay payroll tax.

7.8 Wages is defined in the Payroll Tax Act as 'an amount paid or payable to a person in relation to his or her capacity as an employee or

former employee'. Wages includes:

- a payment by way of remuneration, salary, commission, bonus, allowance or other benefit;
- a superannuation benefit;
- payment made under contracts;
- remuneration to a director or a member of the governing body of a company;
- the value of any payments made in kind; and
- any remuneration to a person who was engaged by an employment agent to provide services for a client of the employment agent.

Audit Comments

7.9 The calculation of payroll tax owing requires the correct application by employers of the definitions for wages, employers and employees. As mentioned, wages are broadly defined and include a wide range of payments made to an employee for services. In addition, related employers may be grouped together in determining their liability for payroll tax if they are essentially controlled by the same entity. Furthermore, employees need to be distinguished from consultants and contractors. These factors contribute a complexity to the self-assessment process.

PAYROLL TAX RATES AND THRESHOLDS

7.10 Section 139(1)(e) of the Taxation Administration Tax Act empowers the responsible Minister to determine the amount and rate of payroll tax by notice in the gazette. Determination Number 99 of 1996 determined the rate of payroll tax for 1996-97 to 1999-2000.

7.11 The annual tax-free threshold was \$600,000 on 1 July 1996 and was increased to \$700,000 from 1 January 1997, to \$800,000 from 1 January 1998 and to \$900,000 from 1 January 2001. The 2001-02 Budget advised that the tax-free threshold will increase to \$1.25m from 1 July 2001 and then to \$1.5m from 1 July 2002. For the period from 1 July 1996, payroll tax was levied at 6.85% of the amount by which the employer's wages exceed the tax-free threshold.

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7.12 Determination number S135 revoked Determination number 99 and increased the threshold from \$800,000 to \$850,000 for 2000-01, to \$1,250,000 for 2001-02 and to \$1,500,000 from 1 July 2002. The rate of Payroll Tax remains unchanged at 6.85%.

Audit Comments

7.13 Since 1996 the payroll tax threshold has been progressively increased while the payroll tax rate has remained constant. Both the rates of payroll tax and the taxing threshold in the ACT are broadly similar to those of other Australian jurisdictions. A summary of payroll tax rates and thresholds in other jurisdictions is at *Annex A* to this Report.

LIABLE EMPLOYERS

7.14 There were 1,629 liable employers registered with the Revenue Office in June 2000. About 75%, or 1,228 employers, paid an annual payroll tax bill of \$50,000 or less and about one percent, or 16 employers, paid an annual payroll tax bill of over \$1m.

7.15 Table 7.1 summarises the number of registered employers who paid payroll tax in 1997-98 to 1999-2000.

Table 7.1 – Number of Employers who Paid Payroll Tax			
Payroll Tax Payable \$	1997-98	1998-99	1999-00
0 – 50,000	1,210	1,307	1,228
50,001 – 100,000	156	158	169
100,001 – 200,000	103	108	122
200,001 – 300,000	38	35	42
300,001 – 500,000	24	24	25
500,001 – 1,000,000	20	27	27
Greater than 1,000,000	10	12	16
Total	1,561	1,671	1,629

7.16 The Revenue Office has advised that in 1999-2000, those employers who paid annual payroll tax of \$50,000 or less contributed about 13% of the total payroll tax revenue received by the ACT. By way of contrast those employers who paid annual payroll tax of more than \$1m contributed about 36 % of the total payroll tax revenue received by the ACT.

COMPARISON OF PAYROLL TAX RATES AND THRESHOLDS

TABLE A.1 – Comparison of Rate of Payroll Tax in Australian States and Territories - 1999-00			
7.16.1.1.1	State	Rate (%)	Annual Wages Threshold \$
	New South Wales	6.4	600,000
	Victoria	5.75	515,000
	Queensland	5	850,000
	South Australia	6	456,000
	Western Australia	nil	0 to 675,000
		3.65	675,001 to 2,700,000
		3.65 to 4.6	2,700,001 to 4,500,000
		4.6 to 5.56	4,500,001 to 5,625,000
		5.56	5,625,001 or more
	Tasmania	6.6	600,000
	ACT	6.85	800,000
	Northern Territory	6.75	600,000

Annexure

Reports Published in 1996

- 1 Legislative Assembly Members - Superannuation Payments/Members' Staff - Allowances and Severance Payments**
- 2 1995 Taxi Plates Auction**
- 3 VMO Contracts**
- 4 Land Joint Ventures**
- 5 Management of Former Sheep Dip Sites**
- 6 Collection of Court Fines**
- 7 Annual Management Report For Year Ended 30 June 1996**
- 8 Australian International Hotel School**
- 9 ACT Cultural Development Funding Program**
- 10 Implementation of 1994 Housing Review**
- 11 Financial Audits with Years Ending to 30 June 1996**

Reports Published in 1997

- 1 Contracting Pool and Leisure Centres**
- 2 Road and Streetlight Maintenance**
- 3 1995-96 Territory Operating Loss**
- 4 ACT Public Hospitals - Same Day Admissions
Non Government Organisation - Audit of Potential Conflict of Interest**
- 5 Management of Leave Liabilities**
- 6 The Canberra Hospital Management's Salaried Specialists Private Practice**
- 7 ACT Community Care - Disability Program and Community Nursing**

Annexure (continued)

- 8 Salaried Specialists' Use of Private Practice Privileges**
- 9 Fleet Leasing Arrangements**
- 10 Public Interest Disclosures - Lease Variation Charges and Corrective Services**
- 11 Annual Management Report for Year Ended 30 June 1997**
- 12 Financial Audits with Years Ending to 30 June 1997**
- 13 Management of Nursing Services**

Reports Published in 1998

- 1 Management of Preschool Education**
- 2 Lease Variation Charges - Follow-up Review**
- 3 Major IT Projects - Follow-up Review**
- 4 Annual Management Report for Year Ended 30 June 1998**
- 5 Management of Housing Assistance**
- 6 Assembly Members' Superannuation and Severance Payments to Former Members' Staffers**
- 7 Magistrates Court Bail Processes**
- 8 Territory Operating Losses and Financial Position**
- 9 Financial Audits with Years Ending To 30 June 1998**
- 10 Management of Schools Repairs and Maintenance**
- 11 Overtime Payment To A Former Legislative Assembly Member's Staffer**

Reports Published in 1999

- 1 Stamp Duty on Motor Vehicle Registrations**

Annexure (continued)

- 2 The Management of Year 2000 Risks**
- 3 Annual Management Report for Year Ended 30 June 1999**
- 4 Financial Audits With Years Ending to 30 June 1999**

Reports Published in 2000

- 1. Bruce Stadium Redevelopment — Summary Report**
- 2. Bruce Stadium Redevelopment — Value for Money**
- 3. Bruce Stadium Redevelopment — Costs and Benefits**
- 4. Bruce Stadium Redevelopment — Decision to Redevelop the Stadium**
- 5. Bruce Stadium Redevelopment — Selection of the Project Manager**
- 6. Bruce Stadium Redevelopment — Financing Arrangements**
- 7. Bruce Stadium Redevelopment — Stadium Financial Model**
- 8. Bruce Stadium Redevelopment — Actual Costs and Cost Estimates**
- 9. Bruce Stadium Redevelopment — Market Research and Marketing**
- 10. Bruce Stadium Redevelopment — Stadium Hiring Agreements**
- 11. Bruce Stadium Redevelopment — Lawfulness of Expenditure**
- 12. Bruce Stadium Redevelopment — Governance and Management**
- 13. Annual Management Report for the Year Ended 30 June 2000**

Reports Published in 2001

- 1. Financial Audits with Years Ending to 30 June 2000**
- 2. Enhancing Professionalism and Accountability**
- 3. Market Research and Marketing (Second Report)**
- 4. Peer-Based Drug Support Services Tender - 1998**

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