



Parliamentary Budget Office

Payroll tax

Comparison across Australian states

Parliamentary Budget Office

We provide independent fiscal, economic and financial advice to all members of the Parliament of Victoria. Our objective is to inform policy development and public debate in parliament and the community.

Postal address Parliament House Spring Street East Melbourne Victoria Australia 3002

Email address enquiries@pbo.vic.gov.au

Telephone 1300 615 862

Online pbo.vic.gov.au



© Victorian Parliamentary Budget Office 2023.

The Parliamentary Budget Office supports and encourages the dissemination of its information. The copyright in this publication is licensed under a Creative Commons Attribution-Non Commercial-No Derivatives (CC BY-NC-ND) 3.0 Australia licence.



To view this licence visit <https://creativecommons.org/licenses/by-nc-nd/3.0/au/>

Under this licence you are free, without having to seek permission from the Parliamentary Budget Office, to use this publication in accordance with the licence terms. For permissions beyond the scope of this licence contact enquiries@pbo.vic.gov.au

Content from this work should be attributed as: Victorian Parliamentary Budget Office Payroll tax | Comparison across Australian states, available under [CC BY-NC-ND 3.0 Australia](https://creativecommons.org/licenses/by-nc-nd/3.0/au/)

Contents

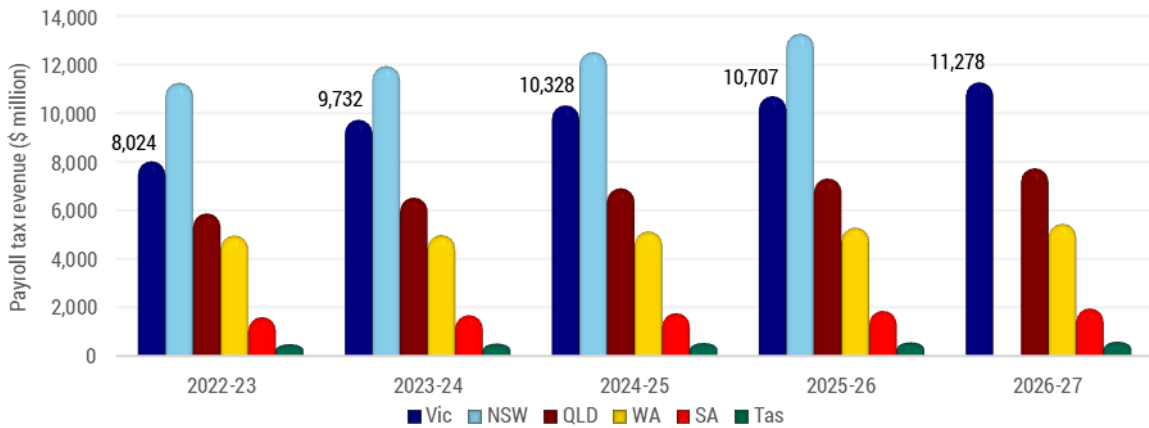
In brief	1
Context	3
Payroll taxes	6
Attachment A – State payroll tax revenue	9
Attachment B – Payroll tax settings	11
Attachment C – Approach	14
Attachment D – Data sources	15

In brief

Payroll tax revenue

Payroll taxes are a major revenue source for Australian state governments, however they are more important in some states than others.

Figure 1 – Payroll tax revenue



Note: All data is from 2023–24 state budgets other than NSW which has not yet released a budget for 2023–24.

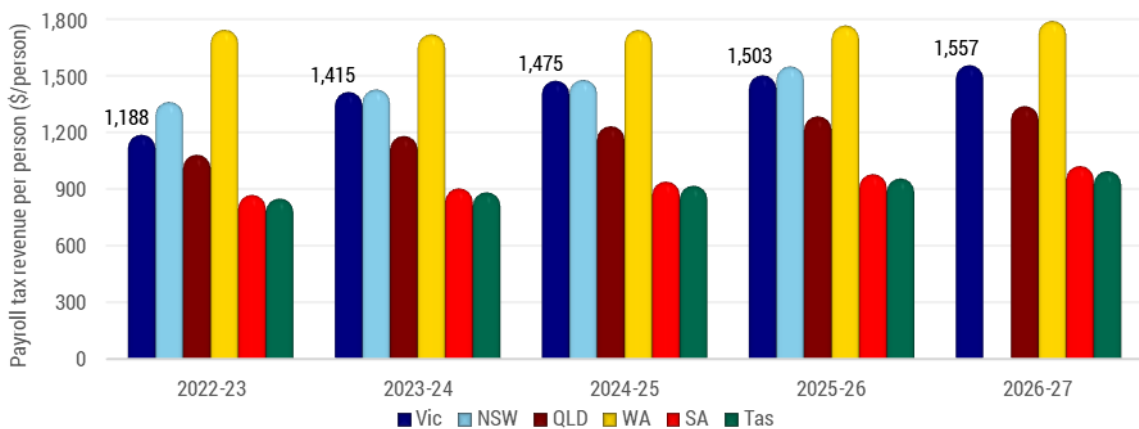
Source: Parliamentary Budget Office.

Victoria is expected to have the second highest total payroll tax revenue in 2022–23, behind New South Wales. Victoria is expected to be second to 2025–26, the last year of public forecasts for all states.

Payroll tax revenue per person

Payroll tax revenue per person gives insight into the relative burden of the tax each state levies.

Figure 2 – Payroll tax revenue per person



Note: Per person estimates are derived from latest budget forecasts of tax revenue and population, and ABS data.

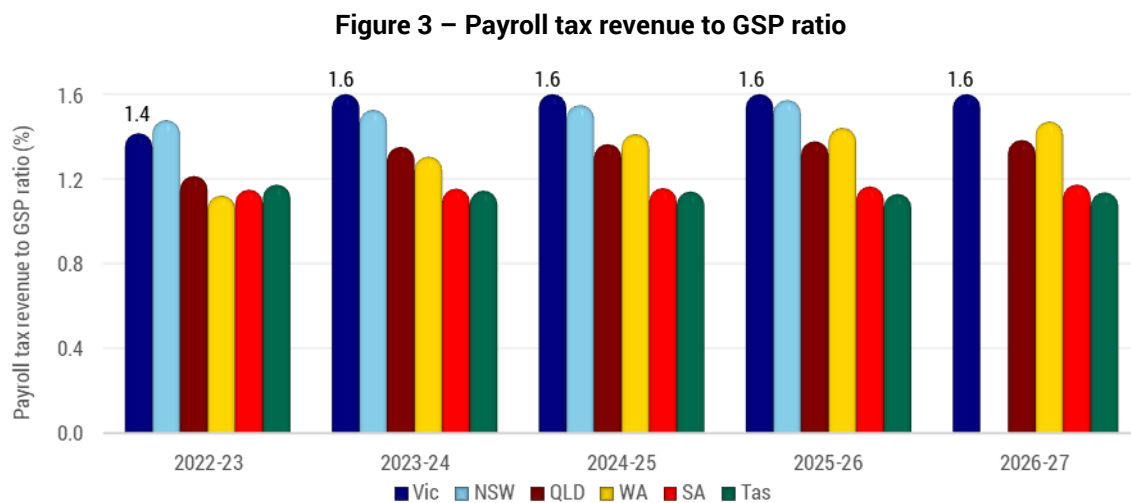
Source: Parliamentary Budget Office.

In 2022–23 Victoria is expected to have the third highest payroll tax revenue per person of any state, behind Western Australia and New South Wales. This is expected to remain unchanged to 2025–26, the last year of public forecasts for all states.

On average from 2022–23 to 2026–27, Western Australia is forecast to generate 23.8% more payroll tax per person than Victoria, partly reflecting its higher tax rate and higher average wages. New South Wales is forecast to generate only slightly more payroll tax per person each year.

Payroll tax revenue to GSP ratio

Payroll tax revenue as a share of GSP provides an indication of the relative tax burden on the state economy.



Note: All data is from 2023–24 state budgets other than NSW which has not yet released a budget for 2023–24.

Source: Parliamentary Budget Office.

Victoria is expected to have the second highest payroll tax revenue to GSP ratio in 2022–23, behind New South Wales. From 2022–23 to 2025–26, the last year of public forecasts for all states, Victoria is expected to have the highest ratio of all states. This partly reflects the introduction of the COVID debt levy announced in the 2023–24 Victorian Budget, which places an additional surcharge on some Victorian employers from 1 July 2023.

On average from 2022–23 to 2026–27, Victoria's average payroll tax revenue to GSP ratio is forecast to be 0.2 percentage points above Western Australia. Western Australia's lower payroll tax to GSP ratio, which contrasts to its higher payroll tax per person, reflects its relatively high GSP per person. Western Australia is a capital-intensive economy – mining accounts for almost half the value of its total output.

Reliance on payroll tax

Victoria's relatively high reliance on payroll tax partly reflects lower revenue from other sources, such as Commonwealth grant revenue and royalties – which are not in the scope of this advice. The structure of each state's economy is a major factor in their different levels of reliance on payroll tax. Additionally, payroll tax is typically procyclical – meaning it moves in the same direction as the economy. In part the reliance of any state on payroll tax partly reflects the economic fortunes of each state.

Context

Request

On 26 June 2023, Mr John Pesutto MP, Member for Hawthorn, asked the Parliamentary Budget Officer to provide independent advice about payroll tax in Victoria compared to other states.

Scope

In this advice we compare payroll tax in Victoria to the other 5 Australian states, including:

- revenue forecasts from 2022–23 to 2026–27
- revenue per capita forecasts
- revenue to gross state product (GSP) ratio forecasts
- revenue as a share of total state revenue forecasts
- recent changes in tax policy settings.

This advice does not consider the Australian Capital Territory or the Northern Territory.

Limitations

We prepared this advice based on public information provided in state budgets and by state revenue offices. All states except New South Wales have published 2023–24 budgets. For New South Wales we have used the 2022–23 Half-Yearly Review, as this is the most recent budget update that included payroll tax forecasts.

When calculating revenue per person forecasts, we estimate state population forecasts using Australian Bureau of Statistics data and state budget population growth forecasts. This may result in slight differences from other state population forecasts.

We have not specifically addressed the differences in specification of payroll tax between states. This advice is limited to assessment of the revenue they raise in absolute terms and relative to the population, GSP, state tax revenue and state revenue.

Australian states have structurally different economies which results in different levels of reliance on revenue sources such as state taxes, Australian Government grants, royalties, and sales of good and services. This advice does not consider revenue sources other than payroll tax.

We prepared this advice on 24 July 2023.

Background

Australian states generate revenue to fund their budgets from:

- Australian Government grants, primarily Goods and Services Tax contributions
- own-source taxation revenue
- the sale of goods and services
- dividends, income tax equivalents and other distributions
- interest income

- royalties
- other revenue.

Australian Government grants and own-source taxation provide the majority of state revenue. Some states, such as Western Australia and Queensland, derive significant income from royalty payments.

Payroll tax revenues contribute a significant share of state tax revenues across Australia's mainland states.

Victorian payroll tax – thresholds and rates

Payroll tax is a recurring tax paid by employers and is broadly based on where they conduct business and their total Australian wage bill. Generally, an employer operates in a state for the purpose of payroll tax liability if it has employees located in that state. An employer operating in a state may be liable for payroll tax if it has national taxable wages greater than the state's payroll tax-free threshold.

Victoria provides a deduction which allows employers to reduce their tax liability for wages. This means that while an employer with a wage bill just above the tax-free threshold is liable for payroll tax, it is not liable for the tax on every dollar of its wage bill. The size of the deduction depends on the proportion of the employer's total Australian wages paid in Victoria – the maximum deduction can only be claimed if all its Australian wages are paid in Victoria.

Figure 4 – Payroll tax-free annual thresholds and maximum deductions in Victoria

Year	Tax-free threshold	Maximum deduction
2023–24	\$0.7 million	\$0.7 million

Source: Parliamentary Budget Office.

Victoria's payroll tax rate is 4.85%, except for regional Victorian employers, defined as employers that pay at least 85% of their wages to employees who perform the majority of their services in regional local government areas.

Figure 5 – Victorian payroll tax rates, 2023–24

Year	Tax rate	Regional tax rate
2023–24	4.85%	1.2125%

Source: Parliamentary Budget Office.

Victorian businesses with large payrolls are subject to additional surcharges. From 1 July 2023, a temporary COVID debt levy will apply alongside the existing mental health and wellbeing levy. An additional rate of 0.5% will apply to businesses with national payrolls above \$10 million for each of these surcharges, with a further 0.5% applying to business with national payrolls above \$100 million.

Figure 6 – Payroll tax surcharges thresholds and rates

National payroll amount	Additional tax rate
Mental health and wellbeing levy	
National payroll above \$10 million	0.5%
National payroll above \$100 million	1.0%
COVID debt levy	
National payroll above \$10 million	0.5%
National payroll above \$100 million	1.0%

Source: Parliamentary Budget Office.

On 2 June 2023, the Department of Treasury and Finance estimated around 11,000 businesses would be liable for the COVID debt levy on payrolls in 2023–24, increasing to around 12,000 businesses in 2026–27.

Recent changes to payroll tax

In addition to establishing the COVID debt levy, the 2023–24 Victorian Budget announced further changes to the application of payroll tax in Victoria. From 1 July 2024, the payroll tax-free threshold will increase from \$700,000 to \$900,000, and from 1 July 2025, it will increase to \$1,000,000.

Figure 7 – Changes to payroll tax-free thresholds and maximum deductions in Victoria

State	Tax-free threshold	Maximum deduction
Currently	\$0.7 million	\$0.7 million
From 1 July 2024	\$0.9 million	\$0.9 million
From 1 July 2025	\$1.0 million	\$1.0 million

Source: Parliamentary Budget Office.

Further, from 1 July 2024, Victoria will introduce a 'phase out' for the deduction that employers can claim. The deduction an employer can claim will linearly fall for employers with national annual wage bills between \$3 million and \$5 million. Employers with Victorian employees will no longer be able to claim a deduction if their national wage bill is \$5 million or more.

The budget also removed the payroll tax exemption for some high-fee non-government schools. On 29 June 2023, the government clarified that this would be applied to non-government schools with income per student above \$15,000 and this threshold will be in place until at least 1 January 2029. Starting from 1 July 2024, 60 non-government schools will no longer be exempt from the payroll tax.

Payroll taxes

In this section

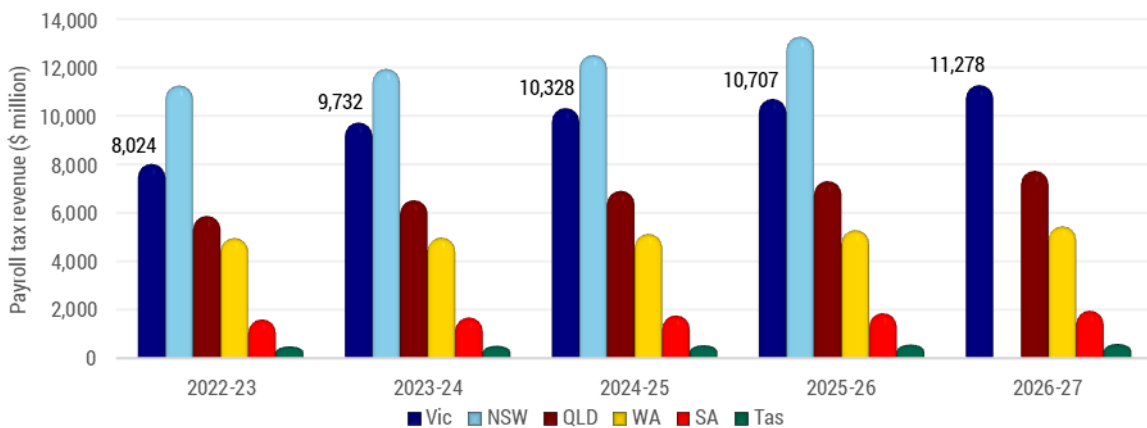
This section examines payroll tax. It considers revenue of these payroll taxes for each state. We compare:

- total revenue
- revenue per person
- revenue to GSP ratio
- revenue as a share of state revenue from all sources.

Payroll tax revenue

States levy taxes on employers through payroll tax. In 2023–24, it is forecast to account for 27.9% of Victoria’s state tax revenue and remain at similar proportions to 2026–27.

Figure 8 – Total payroll tax revenue



Note: All data is from 2023–24 state budgets other than NSW which has not yet released a budget for 2023–24.

Source: Parliamentary Budget Office.

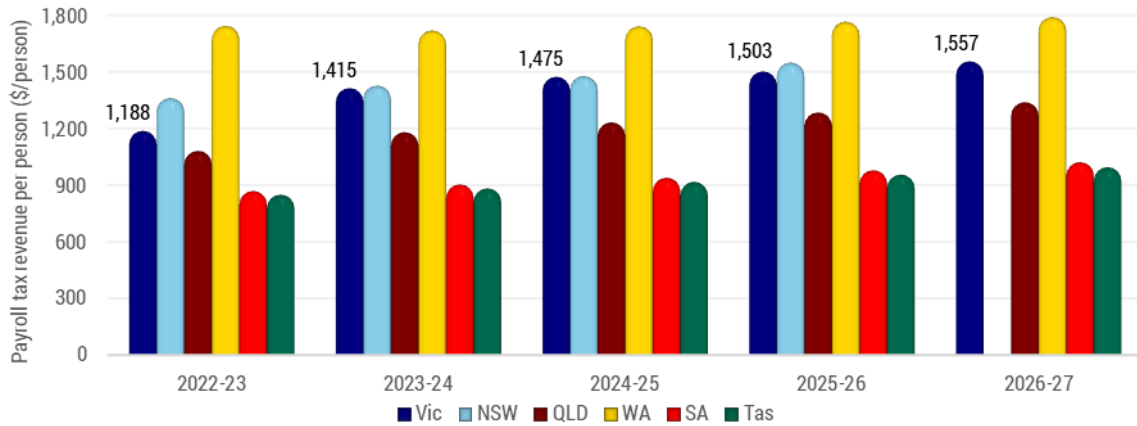
Victoria is expected to generate the second most revenue from payroll taxes of all Australian states from 2022–23 to 2025–26, the last year of public forecasts for all states.

Payroll tax per person

Payroll tax revenue per person provides insight into the average burden of payroll tax relative to the size of the population in that state.

Payroll tax

Figure 9 – Payroll tax revenue per person



Notes: All taxation data is from 2023–24 state budgets other than NSW which has not yet released a budget for 2023–24. Per person estimates are derived from ABS data and budget forecasts of population growth.

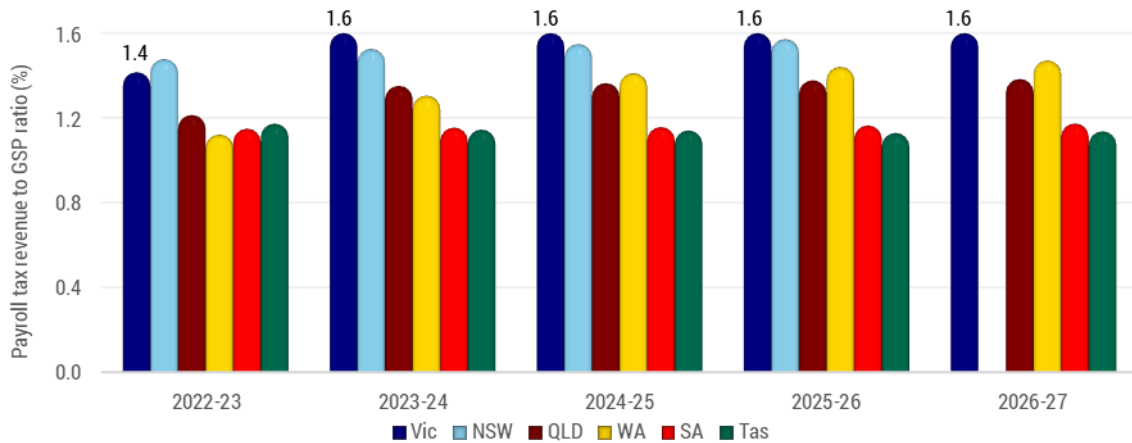
Source: Parliamentary Budget Office.

Victoria is expected to raise the third highest payroll tax revenue per person of all the states from 2022–23 to 2025–26. In 2023–24, it is expected to be around 18% less than in Western Australia, and around 13% less in 2026–27.

Payroll tax to GSP ratio

Payroll tax revenue as a share of GSP provides an indication of the relative tax burden on the economy.

Figure 10 – Payroll tax revenue to GSP ratio



Note: All data is from 2023–24 state budgets other than NSW which has not yet released a budget for 2023–24.

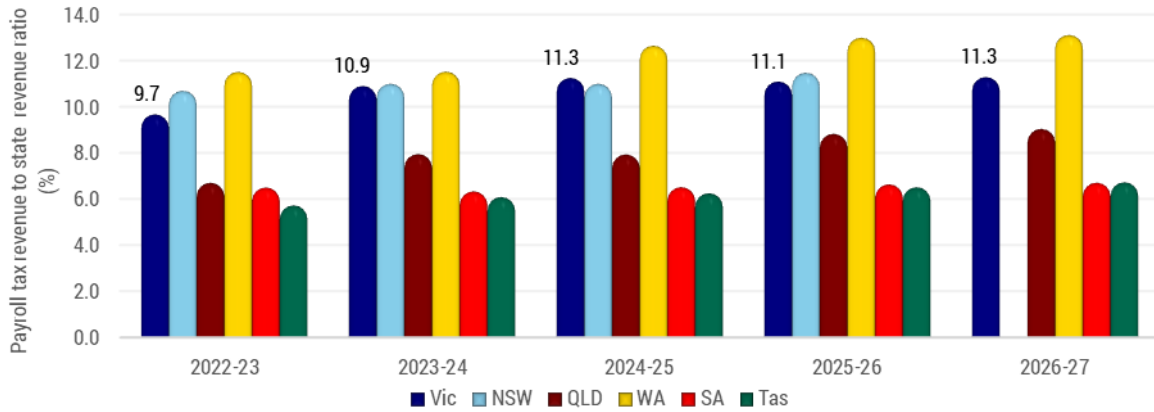
Source: Parliamentary Budget Office.

Victoria is expected to have the second highest payroll tax revenue to GSP ratio in 2022–23, behind New South Wales. From 2022–23 to 2025–26, the last year of public forecasts for all states, Victoria is expected to have the highest ratio of all states.

Payroll tax as a share of state revenue from all sources

The ratio of payroll tax to all state revenue provides an indicator of how reliant a state is on this tax to fund its general operations.

Figure 11 – Payroll tax revenue as a share of total state revenue from all sources



Note: All data is from 2023–24 state budgets other than NSW which has not yet released a budget for 2023–24.

Source: Parliamentary Budget Office.

Victoria’s share of payroll tax to total state taxes is largely comparable to New South Wales over the forward estimates. Victoria’s payroll tax revenue as a share of revenue from all sources is forecast to increase slightly from at 10.9% from 2023–24 to 11.3% in 2026–27. Western Australia’s payroll tax revenue as a share of revenue from all sources is the highest amongst states, estimated to be 11.5% in 2023–24, rising to 13.1% in 2026–27.

Attachment A – State payroll tax revenue

In this section we provide data for the state payroll tax revenue forecasts in this advice. Specifically, we provide:

- payroll tax revenue
- payroll tax revenue per person
- payroll tax revenue as a share of GSP.

Payroll tax revenue

Figure 12 – Payroll tax revenue

\$ million	2022-23	2023-24	2024-25	2025-26	2026-27
Vic	8,024	9,732	10,328	10,707	11,278
NSW	11,255	11,942	12,515	13,276	n/a
QLD	5,874	6,524	6,913	7,315	7,738
WA	4,963	4,981	5,132	5,287	5,445
SA	1,603	1,685	1,769	1,862	1,961
Tas	489	513	538	564	591

Note: All data is from 2023–24 state budgets other than NSW which has not yet released a budget for 2023–24.

Source: Parliamentary Budget Office.

Payroll tax revenue per person

Figure 13 – Payroll tax revenue per person

\$ per person	2022-23	2023-24	2024-25	2025-26	2026-27
Vic	1,188	1,415	1,475	1,503	1,557
NSW	1,362	1,428	1,479	1,550	n/a
QLD	1,082	1,181	1,233	1,286	1,340
WA	1,745	1,720	1,742	1,767	1,791
SA	870	904	940	980	1,022
Tas	850	884	918	956	996

Notes: All taxation data is from 2023–24 state budgets other than NSW which has not yet released a budget for 2023–24. Per person estimates are derived from ABS data and budget forecasts of population growth.

Source: Parliamentary Budget Office.

Payroll tax revenue to GSP ratio

Figure 14 – Payroll tax revenue to GSP ratio

%	2022-23	2023-24	2024-25	2025-26	2026-27
Vic	1.4	1.6	1.6	1.6	1.6
NSW	1.5	1.5	1.5	1.6	n/a
QLD	1.2	1.4	1.4	1.4	1.4
WA	1.1	1.3	1.4	1.4	1.5
SA	1.1	1.2	1.2	1.2	1.2
Tas	1.2	1.1	1.1	1.1	1.1

Note: All data is from 2023–24 state budgets other than NSW which has not yet released a budget for 2023–24.

Source: Parliamentary Budget Office.

Attachment B – Payroll tax settings

Payroll tax is a recurring tax paid by employers and is broadly based on where they conduct business and their total Australian wage bill. Generally, an employer operates in a state for the purpose of payroll tax liability if it has employees located in that state.

Payroll tax-free threshold and deductions

An employer operating in a state may be liable for payroll tax if it has national taxable wages greater than the state's payroll tax-free threshold.

Each mainland state provides a deduction which allows employers to reduce their tax liability for wages. This means that while an employer with a wage bill just above the tax-free threshold is liable for payroll tax, it is not liable for the tax on every dollar of its wage bill. The size of the deduction depends on the proportion of the employer's total Australian wages paid in the state – the maximum deduction can only be claimed if all its Australian wages are paid in the one state.

Figure 15 – Payroll tax-free thresholds and maximum deductions

State	Tax-free threshold	Maximum deduction
Victoria		
Currently	\$0.7 million	\$0.7 million
From 1 July 2024	\$0.9 million	\$0.9 million
From 1 July 2025	\$1.0 million	\$1.0 million
Other states		
New South Wales	\$1.2 million	\$1.2 million
Queensland	\$1.3 million	\$1.3 million
Western Australia	\$1.0 million	\$1.0 million
South Australia	\$1.5 million	\$0.6 million

Source: Parliamentary Budget Office.

Victoria currently has the lowest payroll tax-free threshold, meaning it affects more employers than it would if Victoria applied the threshold of any other state. It also has the second lowest maximum deduction, meaning payroll tax generally applies to more of the wage bill of each liable employer. Combined, these factors indicate that Victoria has a relatively broader-based payroll tax.

From 1 July 2025, Victoria will have the same tax-free threshold and maximum deduction as Western Australia. However, it will still have a lower tax-free threshold than the other mainland Australian states and a lower maximum deduction than New South Wales and Queensland.

From 1 July 2024, Victoria will introduce a 'phase out' for the deduction that employers can claim. The deduction an employer can claim will linearly fall for employers with national annual wage bills between \$3 million and \$5 million. Employers with Victorian employees will no longer be able to claim a deduction if their national wage bill is \$5 million or more.

Similar schemes have been implemented in other states. In Queensland, the deduction an employer can claim linearly decreases for employers with national annual wage bills between \$1.3 million and \$10.4 million. In Western Australia, the linear decrease applies to employers with national annual wage bills between \$1.0 million and \$7.5 million. In both states, the linear decrease results in no available deduction for employers with national annual wage bills above the top band of the specified ranges.

Payroll tax rates

All mainland states apply different payroll tax rates and there is considerable variation in the design of their tax schedules.

Figure 16 – Payroll tax rates, 2023–24

State	Tax rate
Victoria	4.85%
New South Wales	5.45%
Queensland:	
Wage bills up to \$6.5 million	4.75%
Wage bills of more than \$6.5 million	4.95%
Western Australia	5.50%
South Australia:	
Wage bills between \$1.5 million and \$1.7 million	0% to 4.95%
Wage bills of more than \$1.7 million	4.95%

Notes: Regional employers in Victoria and Queensland are eligible for lower payroll tax rates. The amount of an employer's wages that are liable for payroll tax depends on the amount they can deduct in each state. In New South Wales and South Australia, employers can deduct the maximum amount, regardless of their total wage bill above the tax-free threshold. Victoria, Queensland, and Western Australia all have reductions in deduction amounts that can be claimed as total wage bills increase.

Source: Parliamentary Budget Office.

Victoria, New South Wales, and Western Australia all have flat payroll tax rates. Western Australia previously had higher rates for wages above \$100 million, but removed these in 2023–24.

Queensland is the only state with different rates based on the total wage bills and South Australia is the only state that has a linearly increasing rate, with an increasing rate for wage bills between \$1.5 million and \$1.7 million.

New South Wales and Western Australia are the only states with tax rates above 5%. However, Victoria and Queensland impose payroll tax surcharges. These surcharges are applied to a portion of the wage bill of an employer rather than to the total wage bill.

Figure 17 – Payroll tax surcharges, 2023–24

State	Surcharge amounts
Victoria:	
Wages between \$10 million and \$100 million	1%
Wages above \$100 million	2%
Queensland:	
Wages between \$10 million and \$100 million	0.25%
Wages above \$100 million	0.75%

Source: Parliamentary Budget Office.

Victoria imposes 2 payroll tax surcharges, the mental health and wellbeing levy and the COVID debt levy. Queensland imposes a mental health and wellbeing levy.

Figure 18 – Payroll tax liability at various annual wage bill levels, 2023–24

Taxable wages	Vic	NSW	Qld	WA	SA
\$1 million	\$14,550	\$0	\$0	\$0	\$0
\$2 million	\$63,050	\$43,600	\$38,000	\$63,462	\$69,300
\$5 million	\$208,550	\$207,100	\$200,857	\$253,846	\$217,800
\$10 million	\$451,050	\$479,600	\$492,171	\$550,000	\$465,300
\$100 million	\$5,716,050	\$5,384,600	\$5,175,000	\$5,500,000	\$4,920,300
\$1 billion	\$67,366,050	\$54,434,600	\$56,475,000	\$55,000,000	\$49,470,300

Note: Calculations assume employers do not have interstate employees and are not regional employers.

Source: Parliamentary Budget Office.

In 2023–24, Victoria will be the only Australian mainland state where payroll tax is paid on an annual wage bill of \$1 million, as it is the only state with a tax-free threshold below \$1 million. From 2025–26, employers in Victoria with annual wage bills of \$1 million will no longer be liable for payroll tax due to the increase in the tax-free threshold.

For wage bills of \$100 million and \$1 billion, a higher amount of tax would be paid in Victoria than the other mainland states. The amount of tax paid on a wage bill of \$5 million or \$10 million is highest in Western Australia, which aligns with its relatively higher payroll tax revenue forecasts.

This suggests that Victoria's payroll tax is more progressive than the other mainland states, as relatively less tax will be paid at lower wage bill levels than at higher wage bill levels.

Attachment C – Approach

In this section we provide the approach we used to compare payroll tax across Australian states.

Approach

When preparing this advice, we:

- collected data from each state's most recent budget or budget update
- used this data to compare states on payroll tax revenue levels, as well as revenue per person.

Attachment D – Data sources

- Australian Bureau of Statistics. 2022. Australian National Accounts: State Accounts, 2021–22 financial year. [ONLINE] Available at: <https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-state-accounts/latest-release>. [Accessed 17 July 2023]
- Australian Bureau of Statistics. 2023. National, state and territory population, December 2022. [ONLINE] Available at: <https://www.abs.gov.au/statistics/people/population/national-state-and-territory-population/latest-release>. [Accessed 17 July 2023]
- Centre for Population. 2023. State and territory projections. [ONLINE] Available at: <https://population.gov.au/data-and-forecasts/dashboards/state-and-territory-projections>. [Accessed 17 July 2023]
- Department of Treasury and Finance. 2022. 2021–22 Financial Report. [ONLINE] Available at: <https://www.dtf.vic.gov.au/sites/default/files/document/2021-22%20Financial%20Report.pdf>. [Accessed 17 July 2023]
- Government of South Australia. 2022. 2021–22 Consolidated Financial Report. [ONLINE] Available at: <https://www.treasury.sa.gov.au/budget/previous-budgets/budget-2021-22/2021-22-Consolidated-Financial-Report.pdf>. [Accessed 17 July 2023]
- Government of Tasmania. 2022. Treasurer’s Annual Financial Report 2021–22. [ONLINE] Available at: <https://www.treasury.tas.gov.au/Documents/2021-22%20Treasurers%20Annual%20Financial%20Report.pdf>. [Accessed 17 July 2023]
- New South Wales Budget 2022–23, 2022–23 Half-Yearly Review
- NSW Treasury. 2023. 2023 Pre-election Budget Update. [ONLINE] Available at: https://www.budget.nsw.gov.au/sites/default/files/2023-03/20230308-2023_pre-election-budget-update.pdf. [Accessed 17 July 2023]
- Parliament of Victoria. 2023. RESPONSE TO QUESTIONS TAKEN ON NOTICE PAEC – Inquiry into the 2023-24 Budget Estimates – Treasurer. [ONLINE] Available at: <https://new.parliament.vic.gov.au/49ffd2/contentassets/7d5f573e6aec483db3e4da9bf3451d7f/tr easurer-qon-be2324.pdf>. [Accessed 17 July 2023]
- Premier of Victoria. 2023. Fairness In Payroll Tax For Non-Government Schools. [ONLINE] Available at: <https://www.premier.vic.gov.au/fairness-payroll-tax-non-government-schools>. [Accessed 17 July 2023]
- Queensland Budget 2023–24, Budget Paper No. 2 Budget Strategy and Outlook
- South Australia State Budget 2023–24, Budget Paper No. 3 Budget Statement
- State Revenue Office. 2022. Payroll tax and regional employers. [ONLINE] Available at: <https://www.sro.vic.gov.au/payroll-tax/regional-employers>. [Accessed 17 July 2023]
- State Revenue Office. 2023. Payroll Tax. [ONLINE] Available at: <https://www.sro.vic.gov.au/payroll-tax>. [Accessed 17 July 2023]
- Tasmanian Budget 2023–24, Budget Paper No. 1
- Victorian Budget 2023–24, Budget Paper No. 5 Statement of Finances
- Western Australia State Budget 2023–24, Budget Paper No. 3 Economic and Fiscal Outlook