

## REVENUE CIRCULAR

### RC-PRT-006:

### 2011-12 PAYROLL TAX CHANGES

#### Purpose

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1. This Circular provides information on amendments to the *Payroll Tax Act* that implement the 2011-12 Budget revenue measures announced by the Treasurer on 3 May 2011.

#### Reduction of the tax rate

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2. From 1 July 2011, the Territory's payroll tax rate will be reduced from 5.9 per cent to 5.5 per cent in respect to wages paid or payable by employers on or after 1 July 2011.
3. The payroll tax rate of 5.9 per cent will continue for the imposition of payroll tax on wages paid or payable up to and including 30 June 2011.

#### Changes to the annual threshold

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##### **New \$1.5 million threshold amount**

4. Also from 1 July 2011, the annual payroll tax threshold will be increased from \$1.25 million to \$1.5 million. This means that an employer, or a group of employers, with total Australian wages of up to \$1.5 million will not pay any payroll tax in the Territory.
5. The pre-1 July 2011 threshold of \$1.25 million operated as a general exemption, i.e. the full \$1.25 million (or a relevant proportion for employers or groups of employers that pay interstate wages) was exempt from tax irrespective of the amount of wages paid.
6. From 1 July 2011, similar to the approach adopted in Queensland, the threshold will change from a general exemption to a deduction from an employer's taxable wages. The amount of the deduction depends on the amount by which the employer's (or group's) annual total Australian wages exceed \$1.5 million.
7. For employers with wages above the \$1.5 million **Threshold Amount**, the maximum amount to be deducted from the employer's wages, known as the **Annual Deduction**, will start at \$1.5 million and reduce by \$1 for every \$4 in wages paid by employers above the threshold amount.
8. This means that an employer, or a group of employers, paying total Australian wages of \$7.5 million or more in a year will not receive a deduction for that year.
9. In the same manner as the former General Exemption Deduction (or GED), the actual amount to be deducted from the employer's wages, known as the **Annual Deductible Amount**, is the Annual Deduction reduced in proportion to the Territory component of the employer's or group's total Australian wages and in proportion to the number of days in the year that the employer pays Australian wages.
10. Also, in the same manner as the former GED, only one Threshold Amount and Annual Deductible Amount applies to a group of employers. The Annual Deductible Amount available to the group will vary from a maximum of \$1.5 million (where total Australian wages do not exceed \$1.5 million) to nil (where total Australian wages equal or exceed \$7.5 million).

11. Employers or groups with estimated wages of less than \$7.5 million in a financial year are able to claim a **Monthly Deductible Amount** as a deduction against the monthly taxable wages. The Monthly Deductible Amount is one-twelfth of the employer's, or their group's, Annual Deductible Amount determined by reference to the estimated Australian wages for the current financial year.
12. Generally for employers who lodge monthly payroll tax returns through the Territory's TRMeR system, the Annual Deductible Amount (and therefore Monthly Deductible Amount) will automatically be based upon the employer's or group's Territory and interstate wages from the previous financial year provided the employer was a registered taxpayer and lodged returns for each month of the prior financial year.
13. Where an employer determines that their wages, or the wages for the group, will be significantly different to the previous financial year, the employer can increase or decrease the wages estimate in TRMeR for the current financial year. A new Annual Deductible Amount will then be automatically calculated based on the updated estimate.
14. Also, where the employer was not registered as a Territory employer for the whole previous financial year or had a change in group status, the estimate of current year wages will be set to zero and no Annual Deductible Amount will be calculated initially. The employer will need to nominate an estimate of total annual Territory and interstate wages for the current financial year and a new Annual Deductible Amount will be automatically calculated based on the updated estimate.
15. The Monthly Deductible Amount is provisional and is subject to an annual adjustment at the end of the financial year, to reflect the difference between the estimated total wages and actual total wages paid in the financial year.

**Example of payroll tax liability calculation**

16. This example assumes an employer that pays Territory taxable wages of \$2 760 000 for the full 2011-12 financial year, pays no interstate wages and is not a member of a group.

Annual deduction

17. The formula for calculating the employer's Annual Deduction is set out below. The Annual Deductible Amount is calculated from this figure.

$$AD = TA - \left[ \frac{TW + IW - TA}{4} \right]$$

Where:

AD means Annual Deduction.

TA means Threshold Amount, which is \$1 500 000.

TW means the total Taxable Wages (i.e. taxable Northern Territory wages) paid by the employer during the financial year.

IW means the total taxable Interstate Wages paid by the employer during the financial year.

18. **Step 1** From the total Australian wages for the financial year subtract the Threshold Amount:  $(TW + IW - TA)$

Total Australian wages	= \$2 760 000 (TW) + \$0 (IW)	\$2 760 000
	less Threshold Amount (TA)	– \$1 500 000
		\$1 260 000

- Step 2** Divide the result from Step 1 by 4:  $(TW + IW - TA)/4$

<u>\$1 260 000 ÷ 4</u>
\$ 315 000

**Step 3** Subtract the result from Step 2 from the Threshold Amount:

$$TA - (TW + IW - TA) / 4$$

Threshold Amount	\$1 500 000
less result from Step 2	– \$ 315 000
Annual Deduction	\$1 185 000

Annual Deductible Amount

19. In the example case of a non-grouped employer that only pays Territory wages and employs for the full financial year, the Annual Deduction is the Annual Deductible Amount, as it does not need to be reduced to reflect the Territory component of the employer's total taxable Australian wages or the number of days in the financial year that the employer pays Australian wages.
20. Where an employer either does not pay Australian wages for the whole of a financial year or pays Interstate Wages, the Annual Deductible Amount is calculated according to the following formula:

$$\frac{TW}{TW + IW} \times AD \times \frac{C}{FY}$$

Where:

TW means the total Taxable Wages (i.e. taxable Northern Territory wages) paid by the employer during the financial year.

IW means the total taxable Interstate Wages paid by the employer during the financial year.

AD means Annual Deduction.

C means the number of days in the financial year in respect of which the employer paid Australian wages.

FY means the number of days in the financial year.

Payroll Tax Calculation

21. To calculate payroll tax, the Annual Deductible Amount is subtracted from the total Territory taxable wages and then multiplied by the payroll tax rate (5.5 per cent in 2011-12).

**Step 4** From the total Territory taxable wages for the financial year, subtract the result from the Annual Deductible Amount (which in this example equals the Annual Deduction calculated in step 3)

Taxable wages	\$2 760 000
less Annual Deductible Amount	– \$1 185 000
	\$1 575 000

**Step 5** Multiply the result from Step 4 by 5.5%

	<u>\$1 575 000 x 5.5%</u>
<b>Payroll tax payable for the financial year</b>	<b><u>\$ 86 625</u></b>

Registration

22. Employers who pay Northern Territory wages must register for payroll tax if, during any month, their total Australian wages exceed the new maximum Monthly Deductible Amount of **\$125 000** (previously \$104 167). If an employer is a member of a group, the total Australian wages paid by all members of the group determines whether the employer should register for payroll tax.

23. Employers must complete a registration form [F-PRT-001](#), lodge their return and pay tax by the 21<sup>st</sup> day of the month following the month in which their total Australian wages, or total group Australian wages, exceed the maximum Monthly Deductible Amount of \$125 000.

### **Employee share scheme changes**

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24. Employee share schemes enable employees to acquire shares or options in the company that employs them or in a related company. The *Payroll Tax Act* imposes tax on the grant of such shares or options to employees. This may include any discount on the market value of a share or option that the employees receive.
25. From 1 July 2011, updated payroll tax employee share scheme provisions apply. This is as a result of the Commonwealth's income tax changes. Consistent with the Territory Government's commitment to payroll harmonisation, these amendments are based on harmonised legislation developed in consultation with other states and territories.

### **Further Information**

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26. Refer also to the Revenue Legislation Amendment Bill 2011 and explanatory statement for precise details of the amendments.

### **Revenue Circulars**

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27. Commissioner's Guideline [CG-GEN-001](#), which sets out information on the revenue publication system, is incorporated into and is to be read as one with this Circular. All Circulars and Guidelines are available from TRO's website.



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**COMMISSIONER OF TERRITORY REVENUE**

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