

THE CASE FOR INCREASING THE PAYROLL TAX THRESHOLD HAS NEVER BEEN STRONGER

TAXING JOBS ISN'T WORKING

RECOMMENDATION

- The State Government should raise the payroll tax threshold by \$100,000 to create Western Australian jobs, boost wages growth and diversify the economy. Changes to the GST distribution, WA's persistently high unemployment and the need to diversify the economy have made this case stronger than ever before.

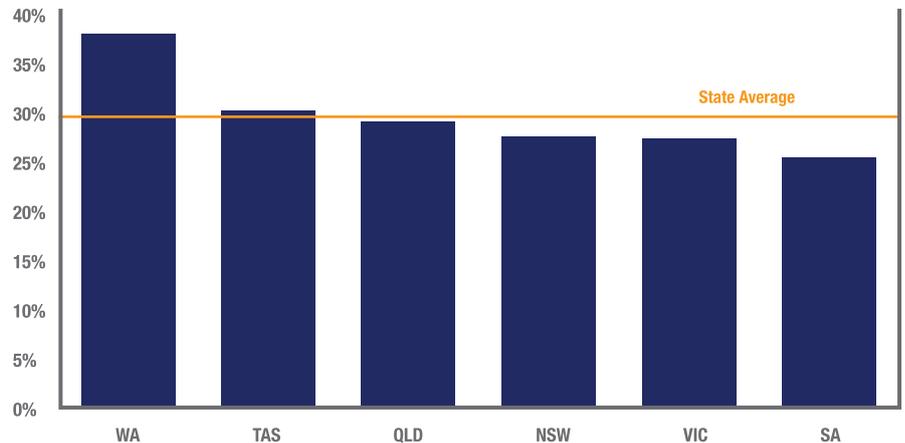
UNEMPLOYMENT

Payroll tax is a handbrake on the recovery of the economy and job creation. It is more expensive to create jobs in WA than any other state thanks to the highest average wages³ and the greatest payroll tax burden.⁴ WA has a persistent unemployment and underemployment problem. Job seekers are struggling to find work quickly in WA and are spending 22 weeks on average looking for work, leaving over 4.5 million hours of spare capacity each month.

Figure 7

WA HAS THE HIGHEST PAYROLL TAX COLLECTION

Payroll Tax as a Proportion of Total Taxation Revenue



Source: State Budgets

WA has the highest payroll tax burden of any Australian state, meaning that creating a job in WA attracts a higher amount of payroll tax (as a proportion of the total labour cost) than anywhere else in Australia [Figure 6].

The WA Premier and Under Treasurer advocated to the Australian Senate that the current GST distribution had caused perverse incentives for the State to

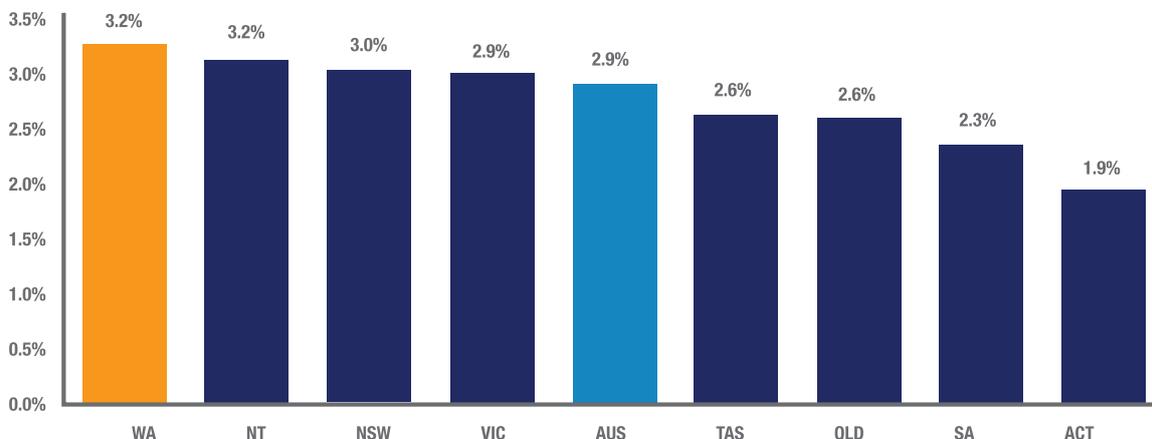
disproportionately raise payroll tax. The State Government retains a high proportion of the revenue raised through payroll tax after the GST distribution is accounted for, creating a strong incentive for a high rate and low threshold of payroll tax. The WA Government is more dependent on payroll tax than any other state [Figure 7].

The GST distribution formula will be altered to reduce perverse incentives for WA, such

Figure 6

WA HAS THE HIGHEST PAYROLL TAX BURDEN

Payroll Tax as a Proportion of Total Labour Costs



Source: ABS Cat No. 6346.0

³ Full-time adult average weekly ordinary time earnings in WA is \$1740.30 compared to \$1678.40 nationally.

⁴ As a proportion of total labour costs.

A \$100,000 INCREASE IN THE PAYROLL TAX THRESHOLD WILL CREATE 278 DIRECT AND 602 INDIRECT JOBS

as the disproportionate revenue uplift from increasing payroll tax that previously existed. Now that states will be equalised, there is no longer a disproportionate negative impact for forgone payroll tax revenue, which makes the case for a threshold increase stronger than ever.

AUTOMATION

Persistently high labour costs can lead to accelerated rates of automation within industry as businesses seek to maintain their competitiveness. Economists Grace Lordan and David Neumark have found that increasing labour costs “decreases significantly the share of automatable employment held by low-skilled workers and increases the likelihood that low-skilled workers in automatable jobs become unemployed”.⁵

Given WA's persistently high unemployment and underemployment rates, low skilled WA workers are at a heightened risk of structural unemployment as a result of the high payroll tax burden on small business. Automation, if managed correctly, can benefit consumers and workers through lower costs and higher wages over the long term. However, accelerated automation, which contributes to WA's unemployment problem and disproportionately impacts low skilled workers in small businesses which have a lower capacity to manage the transition, causes unnecessary structural problems in WA.

DIVERSIFICATION

The WA economy is becoming more concentrated and less diverse, which is in stark contrast to the State Government's objectives [Figure 8]. Diversification efforts must begin with supporting small

business to be more competitive and create new jobs across every industry, not by picking winners in particular industries. Increasing the payroll tax threshold benefits small businesses across every industry and does not require the Government to accurately select the industries that will help diversify the economy.

CHANGING THE PAYROLL TAX THRESHOLD

A \$100,000 increase in the payroll tax threshold, from \$850,000 to \$950,000, will:

- Create 278 direct and 602 indirect jobs⁶;
- Result in total economic benefit to the state of approximately \$283 million⁷; and
- Reduce Budget revenue by \$47 million.

The increase in the payroll tax threshold can be funded from within the recent uplift in the payroll tax revenue stream itself. The estimated cost of \$47 million per year is less than half of the forecast uplift in payroll tax revenue for each of the years in the forecast 2018-19 mid-year Budget update [Table 1].

Figure 8

ECONOMIC DIVERSIFICATION

Industry Contributions to GDP

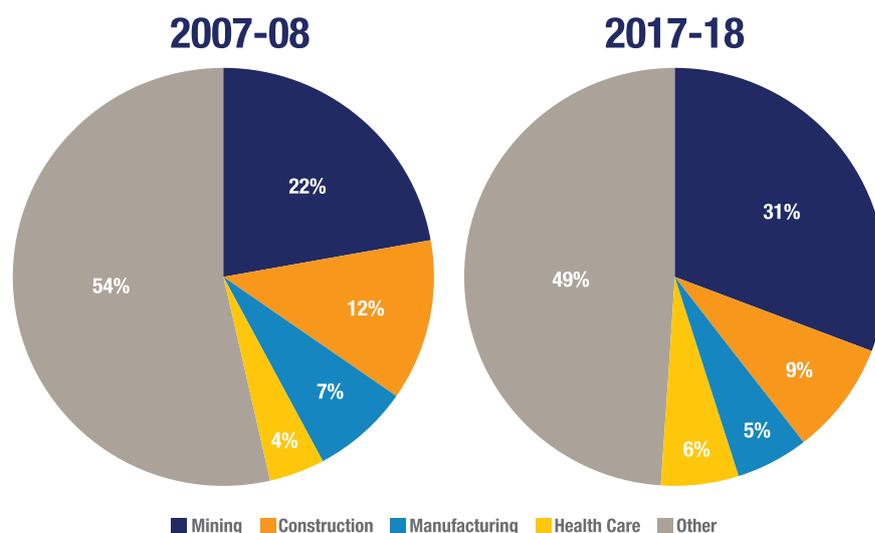


Table 1

Mid year update	2018-19	2019-20	2020-21	2021-22
Variance in payroll tax revenue since the 2018-19 Budget ⁸	51	96	124	141
Estimated cost of increasing the payroll tax threshold by \$100,000	47	47	47	47
Net debt impact of \$100,000 payroll tax threshold change since 2018-19 State Budget	-4	-49	-77	-94

⁵ Lordan, G., & Neumark, D. (2018). People Versus Machines: The Impact of Minimum Wages on Automatable Jobs. *National Bureau of Economic Research*, Working Paper No. 23667.

⁶ Independent modelling commissioned by CCIWA (2018).

⁷ Ibid.

⁸ 2018-19 State Government Mid-Year Financial Projections Statement (2018).