



## Payroll Tax

### Calculation of Tax Payable – Local Group Employer

*Pay-roll Tax Assessment Act 2002*

**As at 1 January 2020**

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This fact sheet explains how payroll tax for local group employers in Western Australia (WA) is calculated and should be read in conjunction with the [‘Payroll Tax Employer Guide’](#).

The Pay-Roll Tax Assessment Amendment (Thresholds) Bill 2019 increases the payroll tax threshold on 1 January 2020 and 1 January 2021. The threshold increase on 1 January 2020 is being administered under the pre-enactment provisions in the *Taxation Administration Act 2003*, with other amendments subject to the Bill being enacted.

[Circular 12](#) contains a summary of the changes. For full details, see the Bill and the Explanatory Memorandum available on the Parliament website at [www.parliament.wa.gov.au](http://www.parliament.wa.gov.au)

#### Introduction

From 1 January 2020, the payroll tax threshold increases from \$850,000 to \$950,000.

Payroll tax is calculated on a tiered rate scale in which the payroll tax rate gradually increases to a maximum of 6.5 per cent for employers, or groups of employers, with annual Australian taxable wages (ATW) exceeding \$100 million. A tax-free deductible amount applies to wages over \$950,000 and under \$7.5 million.

For previous periods, see the relevant superseded [Calculation of Tax Payable fact sheet](#).

#### Local group employer

A local group employer is an employer who is grouped with at least one other wage-paying entity and all members of the group pay wages only in WA.

A designated group employer (DGE) must be nominated for every group and must pay wages in WA.

#### Calculating your liability

Payroll tax is calculated on the difference between the taxable wages paid by a group of employers in WA and the deductible amount to which the group is entitled. This calculation can be estimated using the online [Payroll Tax Calculator](#).

Only the DGE can claim any threshold amount on behalf of the group during the financial year.

## Half year and monthly threshold amounts

Payroll tax becomes payable when the total Australian taxable wages paid by an employer, or group of employers, exceed the monthly and half year threshold amounts.

The half year tax-free threshold amounts are:

- \$425,000 for the period 1 July 2019 to 31 December 2019 (\$70,833 monthly); and
- \$475,000 for the period 1 January 2020 to 30 June 2020 (\$79,167 monthly) and will be apportioned (pro-rata) for part periods when applicable.

The deductible amount is a tax-free amount that reduces as an employer's wages reach the upper threshold of \$7.5 million. It is calculated using WA taxable wages for each half year. Employers with annual Australian taxable wages of \$7.5 million or more are not entitled to receive a threshold deduction and will pay payroll tax on their entire WA taxable wages.

## Annual reconciliation and adjustments

Annual reconciliation is the process of finalising the payroll tax returns for each half year, determining the actual deductible amount and the rate of tax based on actual wages paid, and calculating the total payroll tax payable for each half year. The annual liability is the sum of the liabilities for each half year.

A credit or debit amount may arise based on the difference between the estimated deductible amount allocated to the DGE and rate of tax and the actual deductible amount and rate of tax.

At reconciliation, any unused deductible amount is allocated to other group members on a pro-rata basis.

## Calculation table

The table below illustrates how payroll tax is calculated for local group employers for the periods 1 July 2019 to 31 December 2019 and 1 January 2020 to 30 June 2020. Note: apportioned thresholds may apply in some circumstances, including when an employer:

- does not pay wages for an entire half year;
- becomes a member of another group; or
- has sold or acquired a business during the year.

As the taxable threshold changes mid-year in 2019-20 and 2020-21, an employer may have a payroll tax liability for the July – December half-year and no liability for the January – July half-year.

1 JULY 2019 to 31 DECEMBER 2019				
Tier	WA Taxable Wages (WATW)	Threshold Entitlement	Tax Rate (%)	Calculation of Tax Payable
1	Not more than \$425,000	\$425,000	NIL	N/A
2	More than \$425,000 but not more than \$3,750,000	Diminishing Threshold applies*	5.5	(WATW – Deductible Amount) x Tax Rate

3	More than \$3,750,000 but not more than \$50 million	NIL	5.5	WATW x Tax Rate
4	More than \$50 million but not more than \$750 million	NIL	Tier 4 Rate Calculation #	WATW x Tax Rate
5	More than \$750 million	NIL	Tier 5 Rate Calculation #	WATW x Tax Rate

1 JANUARY 2020 to 30 JUNE 2020				
Tier	WA Taxable Wages (WATW)	Threshold Entitlement	Tax Rate (%)	Calculation of Tax Payable
1	Not more than \$475,000	\$475,000	NIL	N/A
2	More than \$475,000 but not more than \$3,750,000	Diminishing Threshold applies*	5.5	(WATW – Deductible Amount) x Tax Rate
3	More than \$3,750,000 but not more than \$50 million	NIL	5.5	WATW x Tax Rate
4	More than \$50 million but not more than \$750 million	NIL	Tier 4 Rate Calculation #	WATW x Tax Rate
5	More than \$750 million	NIL	Tier 5 Rate Calculation #	WATW x Tax Rate

\* The DGE is not entitled to receive a threshold deduction for either half year period in the financial year if the group's WA taxable wages for the entire financial year are \$7.5 million or more, apportioned where applicable.

The employer's payroll tax liability for the financial year is determined by calculating the tax payable amount for each half year and adding the amounts together.

# The Tier 4 and 5 tax rate will be calculated by the Office of State Revenue based on your estimated wages lodged by you at the beginning of the financial period.

## Tier 1

The employer is a member of a local group:

- which has total WA taxable wages of not more than:
  - \$425,000 for the period 1 July 2019 to 31 December 2019; and
  - \$475,000 for the period 1 January 2020 to 30 June 2020; and
- that is not liable for payroll tax as WA taxable wages do not exceed the half year threshold limits.

## Examples

### *Payroll tax payable for the half year period 1 July 2019 to 31 December 2019*

#### **WA taxable wages less than or equal to \$425,000**

A group of employers pay total taxable wages in WA of \$405,000 for this period. As the taxable wages are below the threshold amount of \$425,000, no payroll tax is payable.

### *Payroll tax payable for the half year period 1 January 2020 to 30 June 2020*

#### **WA taxable wages less than or equal to \$475,000**

A group of employers pay total taxable wages in WA of \$450,000 for this period. As the taxable wages are below the threshold amount of \$475,000, no payroll tax is payable.

## Tier 2

The employer is a member of a local group:

- which has total WA taxable wages of more than:
  - \$425,000 but less than \$3.75 million for the period 1 July 2019 to 31 December 2019; and
  - \$475,000 but less than \$3.75 million for the period 1 January 2020 to 30 June 2020; and
- in which the DGE is entitled to a deductible amount.

## Calculation of payroll tax

Payroll tax is calculated at the rate of 5.5 per cent on the difference between the WA taxable wages and the deductible amount to which the group is entitled.

Only the DGE is entitled to receive a deductible amount on behalf of the group during the financial year.

### **Upper threshold amount**

The upper threshold is the amount at which the tax-free threshold phases out. The upper annualised threshold is \$7.5 million and can be apportioned for part periods if applicable.

Once the total taxable group wages are equal to or exceed the upper threshold amount, payroll tax is payable on the group's total taxable wages without any deduction.

The upper threshold amount for each half year is \$3.75 million.

### **Deductible amount**

The deductible amount is the amount employers may be entitled to deduct from their WA taxable wages and is calculated by using a tapering value formula.

### **Tapering value**

A tapering value formula is used to calculate the gradual reduction in the deductible amount which employers may claim against their WA taxable wages between the half year threshold amount and the half year upper threshold amount.

### **For the half year 1 July 2019 to 31 December 2019**

Half year threshold amount / (half year upper threshold amount – half year threshold amount)

\$425,000 / (\$3,750,000 - \$425,000) → simplified to 17/133

= 0.1278195488721805

### **For the half year 1 January 2020 to 30 June 2020**

Half year threshold amount / (half year upper threshold amount – half year threshold amount)

\$475,000 / (\$3,750,000 - \$475,000) → simplified to 19/131

= 0.1450381679389310

### **Calculation of the estimated deductible amount and estimated rate of tax for a monthly or quarterly return period or part period for a DGE or member of a local group**

An estimated deductible amount and rate of tax is calculated and applied for a monthly or quarterly return period based on the group's estimated WA taxable wages supplied through the Estimated Taxable Wages function available in Online Payroll Tax (Revenue Online).

An estimated deductible amount is allocated to the DGE and the estimated rate of tax is applied to all members of the group.

The DGE is responsible for submitting the group's estimated WA taxable wages on behalf of the group.

If estimated taxable wages are not submitted, there will be no deductible amount and a default rate of tax of 6.5 per cent will apply.

### **Calculation of the deductible amount**

To determine the payroll tax payable for part of a half year, both the apportioned half year threshold and upper threshold amounts must first be calculated.

#### **Half year deductible amount**

Half year threshold amount – [(total group taxable wages – half year threshold amount) x tapering value]

#### **Apportioned half year threshold**

Half year threshold amount x (number of liable days in the part-year/number of days in the half year)

#### **Apportioned upper threshold**

Upper threshold amount x (number of liable days in the part-year/number of days in the half year)

#### **Apportioned deductible amount**

Apportioned half year threshold amount – [(total group taxable wages – apportioned half year threshold amount) x tapering value]

## Calculation examples

### ***Payroll tax payable for the half year period 1 July 2019 to 31 December 2019***

#### **WA taxable wages of more than \$425,000 but less than \$3.75 million**

A group of employers pay total taxable wages in WA of \$600,000 for the full half year period of 1 July 2019 to 31 December 2019. The deductible amount and tax payable for this period is calculated as follows:

Half year threshold amount – [(total group taxable wages – half year threshold amount) x tapering value]

$$\$425,000 - [(\$600,000 - \$425,000) \times (17/133)]$$

*Step 1:* Subtract the half year threshold amount from the total group taxable wages

$$\$600,000 - \$425,000 = \$175,000$$

*Step 2:* Multiply the answer in step 1 by 17/133

$$\$175,000 \times 17/133 = \$22,368$$

*Step 3:* Subtract the answer in step 2 from the half year threshold amount

$$\$425,000 - \$22,368 = \$402,632 \text{ (this is the deductible amount)}$$

*Step 4:* Subtract the answer in step 3 from the total group taxable wages

$$\$600,000 - \$402,632 = \$197,368$$

*Step 5:* Multiply the answer in step 4 by the rate of 5.5%

$$\$197,368 \times 5.5\% = \$10,855.24 \text{ (payroll tax payable for the group)}$$

### ***Payroll tax payable for the half year period 1 January 2020 to 30 June 2020***

#### **WA taxable wages of more than \$475,000 but less than \$3.75 million**

A group of employers pay taxable wages in WA of \$700,000 for the full half year period of 1 January 2020 to 30 June 2020. The deductible amount and tax payable for this period is calculated as follows:

Half year threshold amount – [(total group taxable wages – half year threshold amount) x tapering value]

$$\$475,000 - [(\$700,000 - \$475,000) \times (19/131)]$$

*Step 1:* Subtract the half year threshold amount from the total group taxable wages

$$\$700,000 - \$475,000 = \$225,000$$

*Step 2:* Multiply the answer in step 1 by 19/131

$$\$225,000 \times 19/131 = \$32,634$$

*Step 3:* Subtract the answer in step 2 from the half year threshold amount

$$\$475,000 - \$32,634 = \$442,366 \text{ (this is the deductible amount)}$$

*Step 4:* Subtract the answer in step 3 from the total group taxable wages

$$\$700,000 - \$442,366 = \$257,634$$

*Step 5:* Multiply the answer in step 4 by the rate of 5.5%

$$\$257,634 \times 5.5\% = \$14,169.87 \text{ (payroll tax payable for the group)}$$

*Tax payable for the group for half year periods:*

- 1 July 2019 to 31 December 2019 - \$10,855.24
- 1 January 2020 to 30 June 2020 - \$14,169.87
- Tax payable for the full financial period - \$25,025.11

## Contact the Office of State Revenue

<b>Office</b>	Office of State Revenue 200 St Georges Terrace PERTH WA 6000	<b>Telephone</b>	08 9262 1300 1300 368 364 (WA country callers only – local call charge)
<b>Postal</b>	Office of State Revenue GPO Box T1600 PERTH WA 6845	<b>Web Enquiry</b>	<a href="http://www.osr.wa.gov.au/PayrollEnquiry">www.osr.wa.gov.au/PayrollEnquiry</a>
		<b>Website</b>	<a href="http://www.wa.gov.au">www.wa.gov.au</a>

**Note:** The information contained in this FACT SHEET is issued for guidance purposes only. It is not a full explanation of the *Pay-roll Tax Assessment Act 2002* and reference should be made to this Act for complete details.