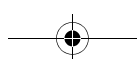
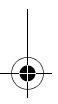




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PAYE

The pay-as-you-earn (PAYE) system was introduced in 1941. It is the main tax collection system affecting individuals. It is the method by which most salary and wage earners pay their tax, Medicare levy and higher education contribution scheme repayments by having instalments deducted from their pay. Employers are required to make tax instalment deductions at prescribed rates, in order to cover their employee's anticipated tax liability at the end of the year, and pay them directly to the ATO.

The timing for employers to forward PAYE deductions to the ATO is determined by the size of the payroll. In 1999–2000, employers who remitted more than a combined amount of \$1 million in PAYE, PPS and RPS payments in a financial year ending on or after 30 June 1998 were required to forward the deductions to the ATO by electronic transfer within seven days of deducting the tax. Those employees deducting less than \$1 million but greater than \$25 000 in tax for the year were required to remit monthly and those employers deducting less than \$25 000 in tax in the year were allowed to remit quarterly.

Employers must provide each employee with a group certificate at the end of the income year. The group certificate shows the gross amount of earnings and tax instalment deductions made during the year. Wherever an employee has quoted a tax file number (TFN), the employer must show the number on the group certificate. If an employee does not provide a valid TFN to their employer, tax must be deducted at the highest marginal tax rate, plus the Medicare levy.

From 1 July 2000, the pay as you go (PAYG) tax collection system replaced PAYE.

This chapter presents data on PAYE collections for the 1999–2000 financial year.

Revenue raised

The PAYE system plays a vital role in government revenue. Tax collected through this system represents over half of total taxation revenue. In 1999–2000, the ATO received \$77.2 billion through PAYE collections. The amount of revenue received through PAYE has increased from \$44 billion in 1990–91.

The structure of the labour force

Recent developments in the industrial relations system have increased the flexibility of the workforce. As a result, considerable changes have been observed in the way employers use the labour force.

Employees: the vast majority of labour is provided by employees who work for an employer. Employers are required to deduct PAYE payments on behalf of their employees.

Unincorporated contractors: make up the second largest group of workers. There are three main types of unincorporated contractors. The first is where the contractor meets all the tests of an employee, especially in terms of their inability to delegate responsibilities to another person and the high degree of control by the employer over the way work is done. These contractors are covered by the provisions of PAYE law. The second type of unincorporated contractors, dependant contractors, work principally for one organisation. These contractors are able to delegate their duties to others. The courts have decided that PAYE does not apply to these people. The third group is independent contractors who work for the world at large. The law does not require PAYE to apply to these people. In both latter cases, the prescribed payments system (PPS) could apply to the contractor payments.

Incorporated and unincorporated entities: companies, partnerships and trusts are the third largest group of workers. These entities often consist of one worker and possibly family members. Employers are not required to make PAYE deductions from any payment made to such an entity. However, the incorporated entity, trust or partnership itself is required by the PAYE laws to deduct tax from any wages it pays. Also, for some industries PPS may need to be deducted by employers.

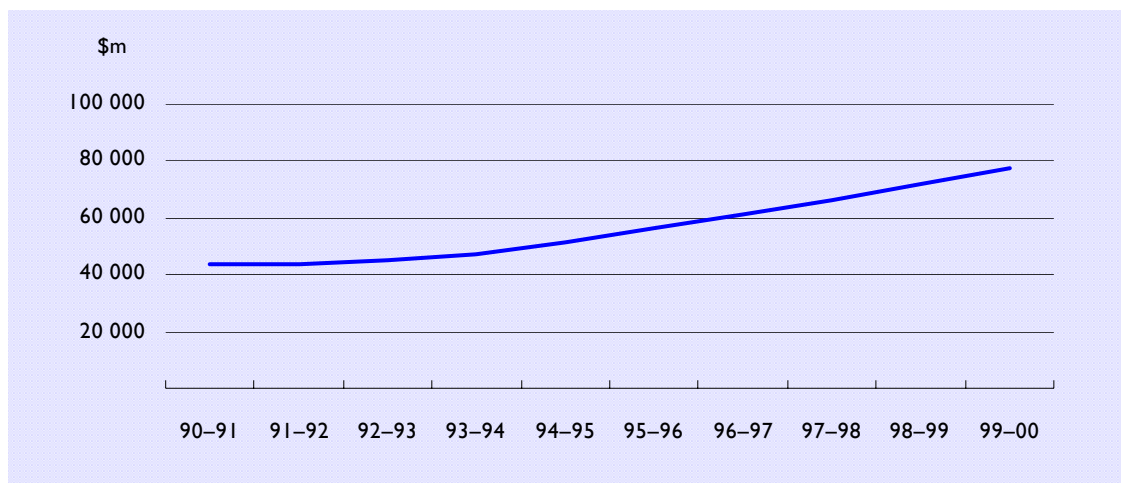
Changes in the balance between the three types of employment can affect PAYE collection levels. Changes will also have a consequential impact, depending upon the industry in which the contractors work, on the provisional tax, PPS, company instalment and fringe benefits tax systems.

In recent years, there has been an increase in the number of workers categorised as contractors or subcontractors. The implications of this change for the PAYE system are the subject of ongoing research by the ATO.

PAYE collections have increased over the past 10 years. Growth in PAYE collections is partly due to increases in the number of people employed and increases in average weekly earnings. Increases in salaries and wages have also resulted in many taxpayers moving into higher tax brackets and, as a result, paying tax at higher tax rates.



Figure 16.1: PAYE collections



The substantial increase in PAYE collections from 1994-95 can also be partly attributed to a range of initiatives undertaken by the ATO. These include the debt management improvement strategy, which aimed to identify, establish and collect PAYE from non-compliant taxpayers, a project on PAYE erosion and the introduction of the cash economy taskforce.

Changes in the structure of the workforce also affect PAYE collection levels. In recent years, there has been an increase in part-time employment. This has caused a decrease in the ratio of full-time to total employment, which has reduced average taxable incomes, slightly offsetting the growth in PAYE collections.

Growth in PAYE collections has also been offset by an increase in the emphasis of non-cash benefits, such as cars, which are provided by employers to employees, and which are available

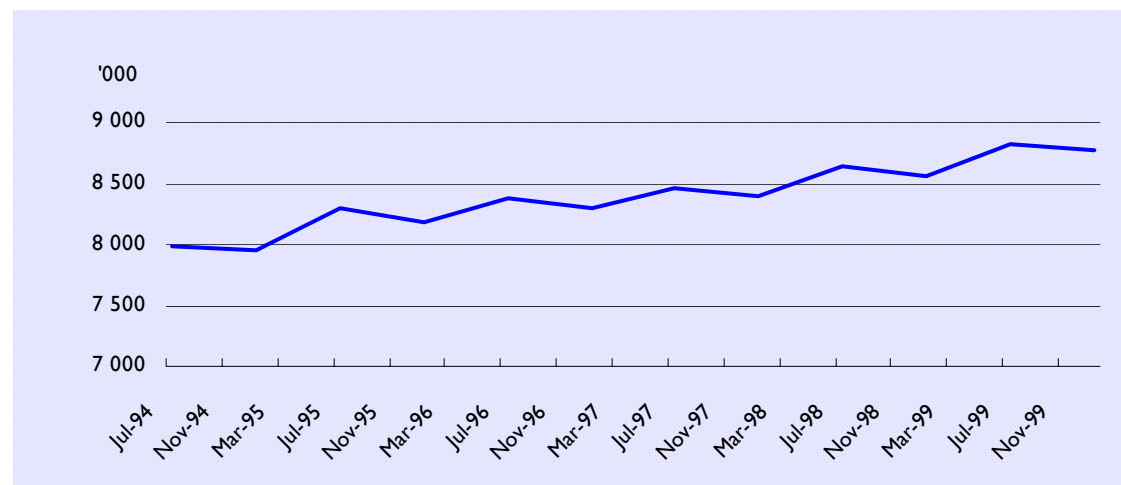
for private use by the employee. As employees substitute salary and wages for such non-cash benefits, taxable incomes decrease and reduce the level of PAYE collections. However, fringe benefits tax would be payable on these benefits.

Cyclical factors, such as the number of pay days in a year, can also cause a slight variation in collections, although this effect is generally small in the overall context.

Payers

In 1999-2000, a total of 755 842 employers forwarded PAYE tax instalment deductions to the ATO. The number of PAYE remitters has increased steadily over the past 10 years, from 485 371 in 1990-91.

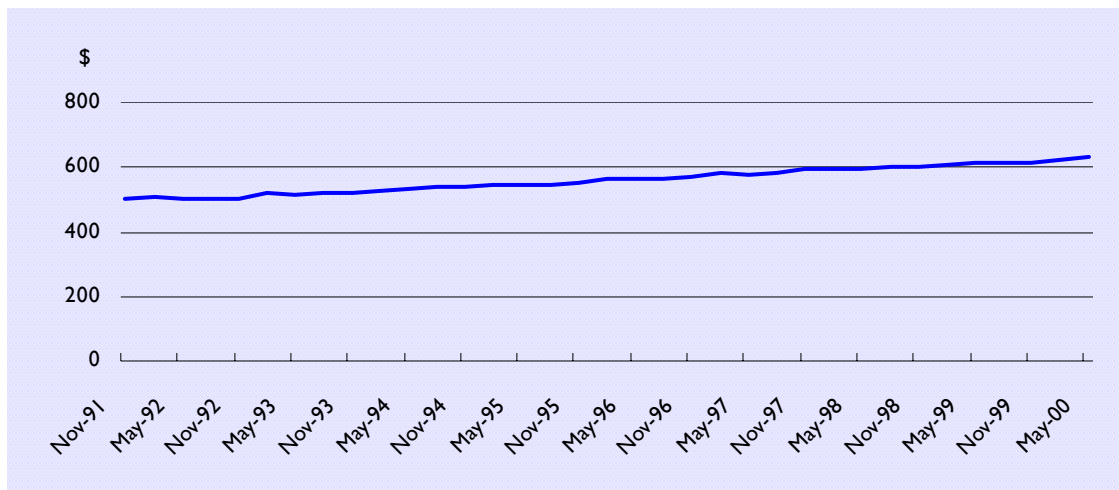
Figure 16.2: Number of employed people



Source: Australian Bureau of Statistics: *The Labour Force, Australia*, Cat No 6203.0

Taxation Statistics 1998–99

Figure 16.3: Average weekly earnings



Source: Australian Bureau of Statistics: *Average Weekly Earnings*, Cat No 6302.0

Between 1990–91 and 1999–2000, the amount of PAYE revenue collected increased by 75%. The greatest proportion was collected in New South Wales (40%), followed by Victoria (27%).

Industry

The amount of PAYE revenue raised varies considerably according to the type of industry. Collections depend on the number of employees in each industry and income levels. For example, industries containing a large number of professional people may provide more PAYE revenue because of their higher average salaries. PAYE is also affected by the various employment arrangements used in certain industries. For example, the building and construction industry

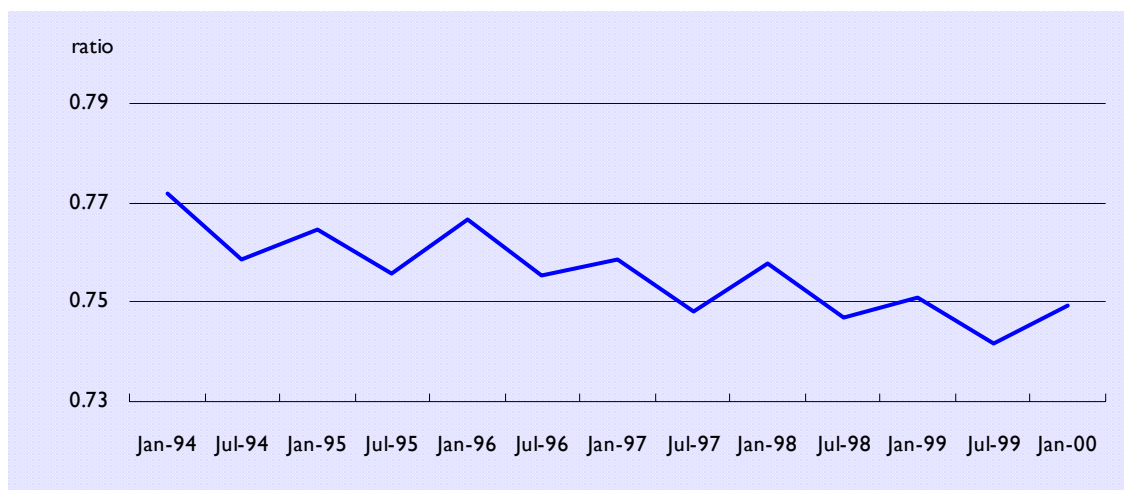
has a higher ratio of contractors to total workers than other industries. Therefore, they have a greater proportion of workers covered under the withholding arrangements of the prescribed payments system rather than the PAYE system.

In 1999–2000, the industry that remitted the highest proportion of PAYE revenue was the manufacturing and property and business services industry (15% each). This was followed by government administration and defence (11%) and finance (9%).

Client registrations

In 1999–2000 there were 116 310 new PAYE registrations, a 4% decrease over the previous

Figure 16.4: Ratio of full-time to total employment



Source: Australian Bureau of Statistics: *The Labour Force, Australia*, Cat No 6203.0



Table 16.1: PAYE collections by amount paid

Amount paid	Payers ¹		Amount paid ²	
	no.	%	\$m	%
Less than \$0	3 033	0.4	–35	0.0
\$0–\$999	83 663	11.1	38	0.0
\$1 000–\$4 999	175 390	23.2	484	0.6
\$5 000–\$9 999	124 722	16.5	908	1.2
\$10 000–\$24 999	162 907	21.6	2 618	3.4
\$25 000–\$49 999	87 772	11.6	3 105	4.0
\$50 000–\$99 999	55 355	7.3	3 876	5.0
\$100 000–\$499 999	48 822	6.5	9 854	12.8
\$500 000–\$999 999	6 546	0.9	4 578	5.9
\$1 000 000–\$1 999 999	3 616	0.5	5 059	6.6
\$2 000 000–\$2 999 999	1 276	0.2	3 121	4.0
\$3 000 000–\$3 999 999	659	0.1	2 286	3.0
\$4 000 000–\$4 999 999	422	0.1	1 877	2.4
\$5 000 000 & more	1 659	0.2	39 394	51.1
Total	755 842	100.0	77 162	100.0

1. Excludes nil returns.

2. A proportion of 0.0% indicates a proportion of less than 0.05%.

year. Most new registrations were in Victoria (26%). More than half of all registrations (51%) were from companies. This was followed by partnerships (18%) and individuals (17%). The largest proportion of new registrations were in the property and business services industry (21%). This was followed by retail trade (15%), construction (15%) and finance (7%) industries.

existing withholding and reporting systems – including PAYE, PPS and the reportable payments systems (RPS).

PAYG brings income tax instalments and withholding obligations together in one system. For most businesses, it means one set of rules, one set of payment dates and one form (Business Activity Statement) to fill in.

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Tax reform and PAYG

The pay as you go (PAYG) system is part of the new tax system which came into effect on 1 July 2000. PAYG replaces a number of the pre-

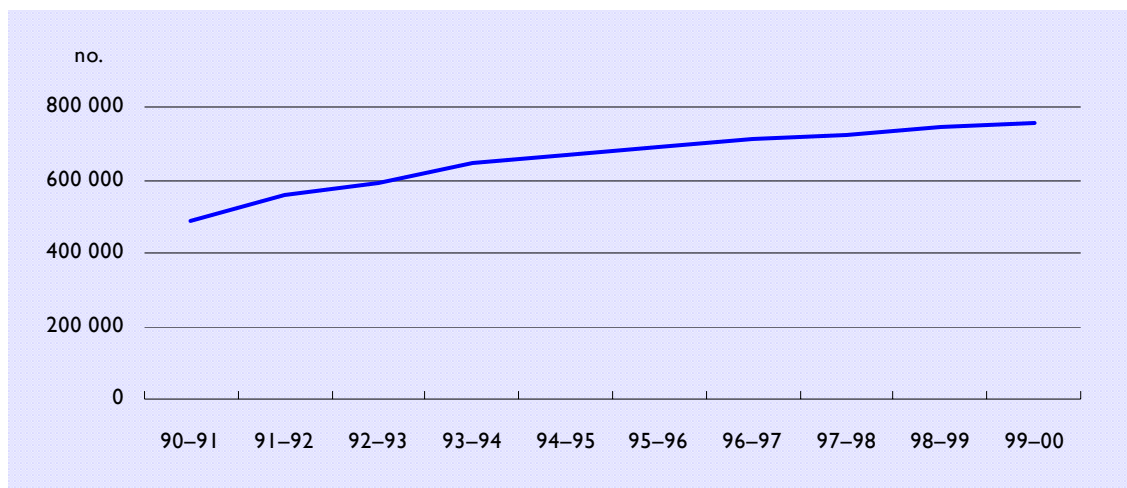
Table 16.2: PAYE remitters by state

State	Number of remitters	Change over last year	Proportion of total	Amount remitted	Change over last year	Proportion of total ¹	Average amount per remitter
	no.	%	%	\$m	%	%	\$
NSW	265 673	2.2	35.1	30 731	9.6	39.8	115 672
VIC	194 916	3.0	25.8	21 065	8.6	27.3	108 072
QLD	134 794	1.7	17.8	10 019	6.5	13.0	74 328
WA	73 344	0.3	9.7	6 064	3.9	7.9	82 679
SA	54 350	0.8	7.2	4 069	4.9	5.3	74 867
TAS	15 242	–1.9	2.0	1 342	24.7	1.7	88 046
NT	5 920	–1.1	0.8	579	3.9	0.8	97 804
ACT	10 642	3.9	1.4	3 274	–2.4	4.2	307 649
Not stated	961	–59.6	0.1	19	–90.7	0.0	19 771
TOTAL	755 842	1.8	100.0	77 162	7.5	100.0	102 087

1. A proportion of 0.0% indicates a proportion of less than 0.05%.

Taxation Statistics 1998–99

Figure 16.5: PAYE remitters¹



1. Excludes nil returns.

Table 16.3: PAYE revenue remitted by industry¹

Industry	No. of Remitters	Proportion of total	Amount remitted	Proportion of total
	no.	%	\$m	%
Manufacturing	58 808	7.8	11 246	14.6
Property and Business Services	135 979	18.0	11 210	14.5
Government Administration and Defence	1 592	0.2	8 226	10.7
Finance	25 225	3.3	6 819	8.8
Health and Community Services	52 708	7.0	6 714	8.7
Retail Trade	112 306	14.9	5 272	6.8
Wholesale Trade	38 774	5.1	4 285	5.6
Construction	81 893	10.8	3 858	5.0
Transport and storage	29 211	3.9	3 653	4.7
Education	7 702	1.0	3 030	3.9
Mining	2 504	0.3	1 984	2.6
Personal and other services	35 384	4.7	1 928	2.5
Communication Services	4 930	0.7	1 886	2.4
Accommodation, Cafes and Restaurants	34 623	4.6	1 861	2.4
Cultural and recreational Services	16 876	2.2	1 392	1.8
Agriculture, Forestry and Fishing	69 007	9.1	1 033	1.3
Electricity, Gas and Water Supply	539	0.1	909	1.2
Other and Not Stated ²	47 781	6.3	1 855	2.4
Total	755 842	100.0	77 162	100.0

1. For 1998–99, the industry groups are coded using the Australian and New Zealand Standard Industrial Classification (ANZSIC) system. Prior to 1995–96, the Australian Standard Industrial Classification (ASIC) system was used. Therefore, it is not possible to do any long time series analyses for industry because the industry groups are not comparable.

2. Includes not stated, miscellaneous and invalids.

Detailed tables

The following detailed tables on PAYE can be found on the CD-ROM attached to this publication.

Table 1: Collections by grade of annual remittance, 1994–95 to 1999–2000

Table 2: Group remitters by state