



## Payroll Tax and Contractors

### Policy Background

- Payroll tax is a state tax on wages paid to employees and is a major cost impost on those businesses liable to pay the tax. Over the past decade there have been changes to the definition of 'wages' and who is an 'employee' for payroll tax purposes. As a result of these changes, payments made to independent contractors are liable for payroll tax.
- The legislation covering contractors and payroll tax is extremely complex. Payments made to contractors can be excluded but only if a convoluted set of exemptions based around days worked can be met. These exemptions do not reflect industry practice in the residential construction industry where contractors are engaged and paid on a 'results' basis and days taken by a contractor to perform a task are irrelevant.
- In addition to these exemptions, each state has a dollar threshold below which no payroll tax is paid. Guidelines have been produced which define the labour content of many trades to determine the dollar value of the subcontract for payroll tax purposes. These guidelines are many years old and in need of being updated.

### HIA's Policy Position on Payroll Tax and Contractors

1. HIA opposes the extension of payroll tax to income earned by independent contractors and the deeming of independent contractors as employees for payroll tax purposes.
2. HIA opposes the existing definitions of 'employee' and 'wages' under the harmonised payroll tax laws.
3. HIA supports a definition of contractor that exempts businesses that satisfy the results test and alienation of personal services income (APSI) rules under the Commonwealth income tax laws.