

PAY-ROLL TAX ASSESSMENT AMENDMENT (EXEMPTION FOR TRAINEES) BILL 2018

Receipt and First Reading

Bill received from the Assembly; and, on motion by **Hon Stephen Dawson (Minister for Environment)**, read a first time.

Second Reading

HON STEPHEN DAWSON (Mining and Pastoral — Minister for Environment) [5.55 pm]: I move —

That the bill be now read a second time.

The bill seeks to amend the Pay-roll Tax Assessment Act 2002 to tighten the payroll tax exemption for wages paid to trainees. This bill limits the exemption to new employees who are trainees earning up to \$100 000 per annum. In accordance with the government's public announcement on 30 November 2017, the proposed changes apply from 1 December 2017. The exemption for wages paid to apprentices is not affected by these amendments.

Under the current law, the wages of all trainees paid under an approved training contract with the Department of Training and Workforce Development are exempt from payroll tax. The exemption is available to both new and existing employees undertaking training, and there is no upper salary threshold at which the exemption ceases to apply. These exemptions are generous compared with the considerably more limited exemptions available in other Australian jurisdictions. The original intent of the exemption was to encourage businesses to hire and train new staff. Contrary to this intent, a significant proportion of the cost of providing the exemption has been subsidising training of existing workers. This bill will refocus the exemption in line with the original policy intent.

Given the immediate effect of the government's announced changes, transitional arrangements have been made available for existing employees. The exemption will continue to apply for employers who have lodged a training contract for their existing employees with the Department of Training and Workforce Development prior to 1 December 2017. Transitional provisions will continue to provide an exemption from payroll tax for the remaining term of the contract, provided the employee's ordinary annual wage did not exceed \$100 000 at the time the contract was lodged. Immediate changes were necessary to address the tax avoidance behaviour of many employers who have been using the exemption primarily for the purpose of minimising their payroll tax liability, rather than using the exemption to address real skill gaps in their business.

The current design of the exemption does not allow the state to target financial support towards priority training areas. Rather, the magnitude of financial support and the areas in which these are directed towards are being driven entirely by employers. This is because any training contract registered with the Department of Training and Workforce Development is automatically eligible for a payroll tax exemption. Although demand-driven support is not necessarily a bad thing, there is overwhelming evidence that these exemptions were being used to avoid tax. These motivations do not deliver value for money for taxpayers, nor are they necessarily delivering the right skills for the economy. This bill seeks to build upon the changes made by the former government, which capped the number of employees whom an employer can enrol under a training contract at 100 per calendar quarter. Before these changes were made, there were examples of large organisations enrolling 1 000 existing employees, or its entire workforce, in similar training courses. No doubt members opposite shared similar concerns as ours back when these changes were made.

These previous changes did help curb the cost growth of the exemption. The cost associated with payroll tax exemptions grew from around \$11 million in 2005–06 to around \$80 million in 2016–17, after a peak of around \$90 million in 2014–15, coinciding with the time when the previous government's cap was introduced. Although I applaud the former government for making what must have been an unpopular change at the time, further reform is needed to ensure that the original policy intent of this exemption is fulfilled.

Government training policy and expenditure must be carefully targeted, affordable and directed to expand the range and strength of industries in Western Australia. Although some organisations that benefit from the current law will not support these changes, we cannot impose the heavy task of budget repair and then simply ignore overt tax avoidance. We have a duty as a government to deliver fairness and value for money for taxpayers.

Following on from these proposed changes, the state government is exploring options to replace the remaining payroll tax exemptions for apprentices and trainees with a grant scheme. The Department of Training and Workforce Development will be engaging with industry and key stakeholders in the design of the scheme prior to its possible commencement from 1 July 2019. A grant scheme is a more transparent and equitable approach to providing assistance to employers. A major benefit of the grant scheme is that it will make assistance available to all businesses, including small businesses that fall beneath the payroll tax threshold. Further legislative amendments will be required to implement the grant scheme.

The current amendments are expected to deliver additional revenue to the state government of around \$100 million over the period 2017–18 to 2020–21. This additional revenue will be completely reinvested into funding around

43 350 training places over the same period to help offset the gap created following changes to commonwealth funding for training places.

In closing, this bill, as described, will build on changes made by the previous government to focus on the original policy intention of supporting training for new employees. It takes an essential step towards implementing better targeted training support and will put an end to growing instances of payroll tax avoidance. Following this, the government will be working closely with industry and other stakeholders to design an efficient and more equitable training grant scheme to support the training needs of WA industries, including small businesses.

Finally, these measures are consistent with the McGowan government's focus on creating jobs for the future. They are consistent with decisions taken to date, including the freezing of TAFE fees; passing the WA Jobs Bill, which supports local businesses tendering for government contracts; establishing the new industries fund to support and accelerate new and emerging businesses in Western Australia; working closely with industry, such as the partnership between TAFE and Rio Tinto, to ensure vocational education and training keeps pace with technology and innovation; and developing the Emerging Leaders in Agriculture, Technology and Enterprise program, to improve productivity and develop a highly skilled rural workforce with clear employment pathways.

Pursuant to standing order 126(1), I advise that this bill is not a uniform legislation bill. It does not ratify or give effect to a bilateral or multilateral intergovernmental agreement to which the government of the state is a party; nor does this bill, by reason of its subject matter, introduce a uniform scheme or uniform laws throughout the commonwealth. I commend this bill to the house and table the explanatory memorandum.

[See paper 1298.]

Debate adjourned, pursuant to standing orders.

House adjourned at 6.01 pm
