

HOUSING INDUSTRY, EFFECT OF EXTENSION OF PAYROLL TAX

467. Mr O'GORMAN to the Treasurer:

I refer to the claims by the Masters Builders Association of WA that the Government's decision to extend payroll tax to employee-like contractors will have a detrimental affect on housing industry sub-contractors and consumers. Is that the case?

Mr RIPPER replied:

I thank the member for his question. From 1 July next year, the payroll tax base will be extended to include payments under contracts that are for employee-like contractors. Of course, wages paid to ordinary employees by medium and large businesses are already subject to payroll tax. The problem is that there has been a proliferation of labour-only contractors, who, for all intents and purposes, are de facto employees. This is undermining the Commonwealth Government's income tax base and the State's payroll tax base, which is a very important tax base for funding community services like health, education and law and order. It is also a matter of competitive neutrality. Why should an employer, who employs people under traditional arrangements and pays payroll tax, be at a competitive disadvantage to an employer who engages in arrangements to hire people as labour-only contractors when they are de facto employees. This matter was raised in the Ralph review of business taxation.

Mr Barron-Sullivan: Tax, tax, tax.

Mr RIPPER: Does the Deputy Leader of the Opposition know why there must be tax measures in this Government? It is because the Leader of the Opposition, who sat on the Cabinet Budget Committee, left us with more than \$400 million of unfunded commitments. Therefore, it is his fault; complain to him. Do not complain to me about the need for revenue raising measures in this budget. The Deputy Leader of the Opposition should turn around and finger the real person who is responsible for the financial legacy left to this Government.

I return to the Ralph review of business taxation. Peter Costello has taken up this issue, on which I am pleased to say that he and I are acting consistently. Peter Costello said at the time that his move would introduce integrity and fairness into the federal taxation system. The critical question for the building industry is the definition of "independent contractor". I have directed the Department of Treasury and Finance to ensure that the legislation currently being drafted is consistent with the tests in the current commonwealth law and recognises the practical differences between payroll and income tax. The federal law states that if an individual or entity produces a result, supplies the tools of trade and is liable for the cost of rectifying defective work, he or it is a genuine contractor or independent business. In those cases, the person hiring the genuine independent business would not be liable for payroll tax. I expect that this and other tests will ensure that most subcontractors in the housing industry will be treated as independent contractors. Therefore, the payments made to them will remain outside the payroll tax net.

Productivity Commission figures indicate that only 4.1 per cent of people employed in the building industry are employee-like contractors. That would mean that payments to 95.9 per cent of building industry workers would not be taken into the payroll tax net. A process of consultation is occurring. A number of organisations have accepted the invitation to consult. Invitations not yet accepted by other organisations remain open. The measure does not apply until 1 July next year and there will of course be full parliamentary debate on the legislation when it is introduced.