

Revenue Ruling

Ruling Number	:	PTA016
Title	:	Profit Distributions and Loan Accounts
Tax Line	:	Payroll Tax
Legislative Reference	:	<i>Payroll Tax Act 2008</i>
Previous Ruling	:	PUB-PT-2008-17
Date of Ruling	:	1 July 2008
Attachments	:	-

Preamble

The *Payroll Tax Act 2008* (the Act), which commenced on 1 July 2008, rewrote the *Pay-roll Tax Act 1971* and harmonised payroll tax legislation in Tasmania with Victoria and New South Wales. A summary of the jurisdictions that have adopted this Revenue Ruling is available at: <http://payrolltax.gov.au/revenue>.

The definition of wages in section 13 of the Act includes any wages, remuneration, salary, commission, employer superannuation contributions, bonuses or allowances paid or payable to or in relation to an employee. This definition is extended by section 14 of the Act to include fringe benefits as defined in the *Fringe Benefits Tax Assessment Act 1986 (Cth)* (the FBT Act).

A question may arise as to whether payments and loans made to a proprietor of a business, who is also an employee of that business, are subject to payroll tax. The purpose of this Revenue Ruling is to provide clarification regarding the payroll tax treatment of these payments.

Ruling

For a payment to be subject to payroll tax, the payment must be made to an employee (or a person taken to be an employee) in his/her capacity as an employee, and not in any other capacity (eg a shareholder). Therefore, distributions of profit (i.e. amount of surplus after deducting all expenses) to persons who are both owners and employees of the business are not wages under the Act.

Similarly, trust distributions (whether income or capital) and company dividends are not subject to payroll tax when paid to beneficiaries or shareholders even if they are also employees. These payments must be clearly shown in the books of account as profit distributions and not expenses of the business.

Whether a loan made to a beneficiary or shareholder who is also an employee of the business is subject to payroll tax depends on how the loan is regarded under the income tax legislation and the FBT Act. If the loan is deemed to be income to the beneficiary or shareholder for income tax purposes, it is not subject to payroll tax. On the other hand, if it is regarded as a loan benefit under the FBT Act, the taxable value calculated using the formula for Type 2 Benefit (as specified in the FBT Act) is subject to payroll tax. Please contact the Australian Taxation Office for more information on income tax and fringe benefits tax.

If the loan repayment is offset against the beneficiary's or shareholder's remuneration, the amount of the remuneration offset will be subject to payroll tax. If the loan repayment is offset against trust distributions to the beneficiary or dividends to the shareholder, the amount offset is not subject to payroll tax.

A partnership is not a legal entity. Therefore, any payments to the partners (whether the payments are described as 'wages' or 'loans') are regarded as payments or drawings in respect of partnership profits and are not subject to payroll tax.

Please note that rulings do not have the force of law. Each decision made by the State Revenue Office is made on the merits of each individual case having regard to any relevant ruling.

More Information

Enquiries about this Revenue Ruling should be directed to the Legislation, Communication and Review Section on telephone (03) 6166 4400 or e-mail at revenuereview@treasury.tas.gov.au.

All rulings must be read in conjunction with the 'Explanation and Status of Revenue Rulings' available on the SRO website, <https://www.sro.tas.gov.au/resources/rulings>.



W K Sawford
COMMISSIONER OF STATE REVENUE

Enquiries:
Telephone: (03) 6166 4400
Facsimile: (03) 6234 3357
E-mail: revenuereview@treasury.tas.gov.au
Internet: www.sro.tas.gov.au

By Correspondence:
The Commissioner of State Revenue, State Revenue Office
GPO Box 1374, HOBART Tas 7001

In Person: Ground floor
Salamanca Building Parliament Square
4 Salamanca Place HOBART TAS 7000

