



Information Paper

**Changes to ABS
Measures of Employee
Remuneration**

Australia

2006

New
Issue

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Remuneration**

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**Dennis Trewin
Australian Statistician**

AUSTRALIAN BUREAU OF STATISTICS

EMBARGO: 11.30AM (CANBERRA TIME) TUES 14 NOV 2006

ABS Catalogue No. 6313.0

ISBN 0 642 48195 4

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PREFACE

The remuneration paid to employees for their work is of interest from both social and economic perspectives: in terms of income received by employees and the cost of labour for employers. The Australian Bureau of Statistics (ABS) produces a range of statistics on employee remuneration, and these are widely used by policy makers, researchers and others in the community.

Changes in the nature of employee remuneration in recent years have led to the need to review ABS measures of employee remuneration, to ensure that the conceptual basis of the measures is still sound. Of particular interest has been the increase in use of salary sacrifice arrangements, where pre-tax salary is exchanged for other benefits, and changes in salary packages that allow 'cash out' of in-kind benefits such as cars.

This paper presents the conceptual basis for the range of ABS measures of employee remuneration, the changes being made to conceptual treatments, and the resulting changes to some statistical series.

If you have any queries or comments please contact Michael Gerrity on Canberra (02) 6252 5514, or email <m.gerrity@abs.gov.au>.

Dennis Trewin
Australian Statistician

ABBREVIATIONS

ABS	Australian Bureau of Statistics
ASNA	Australian System of National Accounts
ATO	Australian Taxation Office
AWE	average weekly earnings
AWOTE	average weekly ordinary time earnings
CoE	compensation of employees
EAS	Economic Activity Survey
EEBTUM	Survey of Employee Earnings, Benefits and Trade Union Membership
EEH	Survey of Employee Earnings and Hours
FBT	Fringe Benefits Tax
GDP	gross domestic product
HIES	Household Income and Expenditure Survey
ICLS	International Conference of Labour Statisticians
ILO	International Labour Organization
ITW	income tax withholding
LPI	labour price index
MLC	Survey of Major Labour Costs
QBIS	Quarterly Business Indicators Survey
RSE	relative standard error
SEE	Survey of Employment and Earnings
SG	superannuation guarantee
SIH	Survey of Income and Housing
SNA93	System of National Accounts 1993
STRP	severance, termination and redundancy payments

1.1 INTRODUCTION

Measures of employee remuneration are part of three areas of statistical interest, namely:

- compensation of employees within the Australian System of National Accounts;
- earnings and labour prices as part of the body of statistics on the Australian labour market; and
- employee income within the statistics on personal and household income.

Over recent years there have been substantial changes to remuneration arrangements for Australia's employees. In particular, an increasing number of employees are now able to participate in salary sacrifice arrangements, where they can forgo some of their wages and salary in cash in exchange for benefits provided by their employer. Examples of these benefits include cars, laptop computers, mobile phones, employer-provided childcare, and employer superannuation contributions.

There have been differing treatments of amounts salary sacrificed in the various ABS measures of employee remuneration. Generally, amounts salary sacrificed are reflected in statistics of compensation of employees (which include benefits provided as goods and services), but not in earnings statistics (which are generally limited to cash payments).

The magnitude of amounts salary sacrificed is such that their inclusion or exclusion in measures of employee remuneration could have a noticeable impact for some measures. In May 2004, an estimated 12% of employees had a salary sacrifice arrangement, with an average value of \$173.00 a week for those participating. This would amount to an average value of \$20.60 for all employees, or 2.7% of average weekly earnings (data from the May 2004 Survey of Employee Earnings and Hours).

In view of the increase in the diversity of remuneration arrangements, particularly the increase in the use of salary sacrifice arrangements, the ABS has reviewed the conceptual basis of measures of employee remuneration, and will be implementing a number of changes to its statistics of employee remuneration. Some changes have already been made to the national accounts.

This paper describes employee remuneration arrangements, international standards for statistics of employee remuneration, the changes being made to conceptual treatments, and the impact of these changes on ABS statistical series. The paper also includes a list of related publications, and a glossary of terms used throughout the paper.

1.1 INTRODUCTION

continued

The purpose of this paper is to inform users of the changes to statistics of employee remuneration. More detailed information will be made available before the introduction of revised or additional series. Where the changes are substantial, the ABS may produce further papers to outline issues and impacts on ABS statistics. For statistical series for which the changes have only a minor impact, the ABS will inform users through notes in publications and other announcements.

Comments or queries on the material in this paper should be sent to:

Michael Gerrity
Assistant Director
Labour Market Statistics Section
Locked Bag 10
Australian Bureau of Statistics
email: m.gerrity@abs.gov.au
phone: (02) 6252 5514

2.1 INTRODUCTION

Employee remuneration may take a number of forms. Mostly, remuneration is in cash, whether as a deposit into an account, or a cheque, or bank notes. However, employers often also provide remuneration in the form of goods and services, with examples including cars, subsidised housing, discounts on goods and services, meals, and car parking. In some cases, an employee will have the choice as to whether they receive part of their remuneration as cash or as benefits, but at other times the form of remuneration is not negotiable.

Many of the ABS measures of employee remuneration (such as average weekly earnings) currently focus on wages and salaries paid in cash. At the time the ABS established these measures, non-cash benefits were insignificant overall and mostly limited to senior managers.

Over the last decade, there has been a substantial increase in the number of employees who receive non-cash benefits. There have also been arrangements that allow for non-cash benefits to be 'cashed out' and included in wages and salaries. This reflects both the increase in decentralised bargaining to negotiate employment agreements, and interpretations of tax law that have established the practice of salary sacrificing. Salary sacrifice arrangements can be tax effective if the reduction in the employee's income tax liability exceeds the value of taxes payable on fringe benefits and superannuation contributions, plus any administration costs involved. Many employment agreements include a provision for salary sacrifice (or for other variations of remuneration packaging), and the option to outsource these arrangements has enabled employers to offer them to a wider group of employees.

**2.2 SALARY SACRIFICE
ARRANGEMENTS**

The Australian Taxation Office (ATO) refers to a salary sacrifice arrangement as:

an arrangement under which an employee agrees contractually to forgo part of the remuneration, which the employee would otherwise receive as wages or salary, in return for the employer or someone associated with the employer providing benefits of a similar value.

To be effective in reducing the salary that becomes the employee's assessable income, the ATO requires that the employee must agree to receive part of their total remuneration in the form of goods and services before he/she has earned the salary or wages. The salary being sacrificed must also be forgone for the period of the arrangement.

2.2 SALARY SACRIFICE ARRANGEMENTS
continued

Under a salary sacrifice arrangement, the employer notionally meets the cost of the goods or services provided to the employee. The value of these benefits (plus any additional costs incurred, such as fringe benefits taxes and administration costs) is deducted from the employee's pre-tax wage or salary income.

Benefits typically provided through salary sacrifice arrangements include employer superannuation contributions, motor vehicles, and laptop computers.

Salary sacrifice arrangements now form part of remuneration arrangements for over one in ten employees, including over a quarter of managers and administrators. Table 2.2.1 shows the extent of salary sacrificing arrangements for occupation groups.

2.2.1 SALARY SACRIFICE, by occupation group—May 2004

	<i>Proportion of employees with salary sacrifice</i>	AMOUNT SALARY SACRIFICED AS A % OF AVERAGE WEEKLY EARNINGS (a)	
		<i>Employees with salary sacrifice</i>	<i>All employees</i>
	%	%	%
Managers and administrators	26.2	16.8	5.1
Professionals	23.2	18.1	4.6
Associate professionals	14.7	17.8	3.1
Tradespersons and related workers	8.5	9.6	1.0
Advanced clerical and service workers	12.4	13.8	1.9
Intermediate clerical, sales and service workers	8.1	16.8	1.7
Intermediate production and transport workers	7.5	9.4	1.1
Elementary clerical, sales and service workers	1.8	14.7	0.4
Labourers and related workers	4.9	8.9	0.7
All occupations	11.9	16.2	2.7

(a) Salary sacrifice as a proportion of average weekly earnings excluding amounts salary sacrificed.
Source: ABS Survey of Employee Earnings and Hours.

Fringe benefits tax

Many of the benefits received through salary sacrifice arrangements are subject to Fringe Benefits Tax (FBT). FBT is assessed on the value of fringe benefits provided to the employee. The employer has the legal liability to pay any FBT that is levied on the fringe benefits provided, although the employer often includes the FBT payable as part of the remuneration package (i.e. the FBT is effectively paid by the employee).

FBT does not apply to benefits associated with certain contributions to superannuation funds or employee share schemes. There are also a number of specific exemptions and concessions for particular types of benefits such as work related items (e.g. employer-provided child-care, mobile phones, laptop computers, briefcases and electronic diaries).

*Fringe benefits tax
continued*

Concessional FBT treatment is also available for benefits that particular employers provide to their employees. These employers include public benevolent institutions, public and non-profit hospitals, rebatable employers and religious institutions. Benefits provided by these employers are not subject to FBT, up to a threshold limit, and as a result their employees may have a wide range of goods and services available to them as part of their remuneration.

*Employer superannuation
contributions*

Some employees can elect to include employer contributions to superannuation funds as part of their remuneration packaging arrangements. Employer superannuation contributions to complying superannuation funds are not subject to FBT. This can be tax effective if the reduction in the employee's income tax liability exceeds the value of the superannuation contributions tax incurred on the contribution (currently 15%).

The *Superannuation Guarantee (Administration) Act 1992* requires an employer to pay a minimum proportion (currently 9%) of an employee's salary to the employee's superannuation fund. Under Superannuation Guarantee (SG) legislation, an employer can include all employer contributions to superannuation funds (on behalf of their employees) as part of their SG requirements. This is the case even where the contributions are made as part of a salary sacrifice arrangement. That is, superannuation contributions made via a salary sacrifice arrangement may reduce or eliminate an employer's liability to pay the SG amount.

**2.3 BENEFITS PROVIDED
THROUGH OTHER
ARRANGEMENTS**

The types of benefits that may be provided by employers are not limited to those provided under a salary sacrifice arrangement.

Some benefits commonly provided through salary sacrifice arrangements, such as motor vehicles or employer superannuation contributions, may also be provided through other arrangements, such as a negotiated salary package or an enterprise agreement.

Employers may also provide other benefits, such as selling their own products to their employees at a discount (e.g. discounts for department store staff, free or discounted travel for airline company staff, low interest loans for financial institutions staff), housing, meals, travel and entertainment, that would not be part of a salary sacrifice arrangement as there is no discretion for the employee to convert the benefits to cash wages and salary. Many of these benefits are subject to FBT.

2.3 BENEFITS PROVIDED
THROUGH OTHER
ARRANGEMENTS
continued

Table 2.3.1 shows how employee remuneration is divided between the components described above, using data from the 2002–03 Survey of Major Labour Costs. This survey collected information about benefits that were either subject to FBT or were part of a salary sacrifice arrangement, but did not collect information about other benefits (it would be expected that these would be only a small proportion of the benefits provided). The data presented in the table have been compiled for this paper, and have not been previously published. Some approximations have been used, and the estimates should be considered indicative only.

2.3.1 COMPONENTS OF WAGES AND SALARIES—2002–03

	Total	Average per	Average per
		employee	employee
		per week (a)	per week (a)
	\$m	\$	%
Wages and salaries in cash (excl. salary sacrifice)	294 674	681	96.3
Salary sacrifice (total)	8 354	19	2.7
Benefits subject to FBT(b)	4 343	10	1.4
Superannuation	3 608	8	1.2
Other benefits not subject to FBT	403	1	0.1
Other benefits subject to FBT (not salary sacrifice)(b)	2 795	7	0.9
Total wages and salaries	305 824	707	100.0

(a) Costs and employee numbers for businesses which ceased operating during 2002–03 are excluded.

(b) Includes an estimate of the value of FBT.

Source: ABS Survey of Major Labour Costs.

2.4 SHARES AND SHARE
OPTIONS

Employee remuneration can include equity shares and share options. In this context, a share option is an employee's contractual right to acquire shares in their employer's business at a future date, at a set price, contingent on the satisfaction of certain performance criteria. Use of employee share schemes in remuneration has increased in the last decade, in particular for managerial staff. Data from the Survey of Employee Earnings, Benefits and Trade Union Membership indicates that the proportion of employees who received shares as an employment benefit increased from 2.4% in 1989 to 5.9% in 2004.

3.1 INTRODUCTION

The ABS produces a range of statistics relating to the remuneration of employees in return for work done. These statistics have been developed to meet the needs of users for information on the returns to labour from economic production, the contribution of employee income to total household income, and the level and distribution of employee earnings. The measures produced to meet these different needs include Compensation of Employees (CoE) in the quarterly national accounts, employee income in income distribution statistics, average weekly earnings series, and the Labour Price Index.

International standards and guidelines provide the broad principles behind ABS statistics of employee remuneration, ensuring comparability with those of other countries that use the standards. However, the international standards are very general, and need to be interpreted in the context of each country's own situation.

This chapter outlines the international guidelines in the three main areas of interest: the compilation of national accounting aggregates, the measurement of household income, and the measurement of earnings received by employees in exchange for their labour. For each of these areas, the chapter also outlines how the international guidelines are interpreted in Australia.

3.2 NATIONAL ACCOUNTS

The system of national accounts provides the statistical framework for summarising and analysing economic flows such as economic production, the income generated by production, the distribution of income among the factors of production, and the use of income through consumption or the acquisition of assets. The System of National Accounts, 1993 (SNA93), produced jointly by the United Nations, International Monetary Fund, World Bank, Commission of the European Communities, and the Organisation for Economic Co-operation and Development, has been adopted by the ABS as the conceptual basis for compiling the Australian System of National Accounts (ASNA).

National accounts statistics are measured at the aggregated macroeconomic level and are compiled as aggregations of transactions that occur between units in the various institutional sectors (such as the household sector and the government sector). Although compiled at a macroeconomic level, the structure and definitions of the national accounts can also be related to the micro-data collected in household surveys and other data collections.

Compensation of employees concept as applied in international guidelines

The national accounting aggregate that is of main interest in relation to remuneration of employees is CoE, which measures income earned by employees from their employers for services rendered. CoE is defined in SNA93 as:

the total remuneration, in cash or in kind, payable by an enterprise to an employee in return for work done by the latter during the accounting period (SNA93 para 7.21)

SNA93 partitions CoE into three main components: wages and salaries in cash, wages and salaries in kind, and employers' social contributions. Each of these components is discussed below.

WAGES AND SALARIES

As outlined above, SNA93 distinguishes between wages and salaries in cash and wages and salaries in kind. It also notes that:

Wages and salaries include the values of any social contributions, income taxes, etc., payable by the employee even if they are actually withheld by the employer for administrative convenience or other reasons and paid directly to social insurance schemes, tax authorities, etc., on behalf of the employee. Wages and salaries may also be paid in various ways, including goods or services provided to employees as remuneration in kind instead of, or in addition to, remuneration in cash. (SNA93 para 7.32)

Wages and salaries in cash

Wages and salaries in cash include the wages and salaries paid at regular intervals, together with payments by measured result and piecework payments, allowances for working overtime, for working away from home and similar taxable allowances, pay for annual and other leave for short periods, ad-hoc bonuses and commissions, gratuities and tips received by employees.

Wages and salaries in kind

Employees can also be remunerated through wages and salaries in kind, such as goods or services. The provision of goods and services as part of remuneration may reflect taxation advantages for the employer or employee by avoiding payments in cash, or arrangements where the employer provides free or subsidised accommodation, travel, food, motor vehicles and other goods and services for the private use of employees.

In terms of valuing the in-kind payments, SNA93 recommends that:

When the goods or services have been purchased by the employer, they should be valued at purchasers' prices. When produced by the employer, they should be valued at producers' prices. When provided free, the value of the wages and salaries in kind is given by the full value of the goods and services in question. When provided at reduced prices, the value of the wages and salaries in kind is given by the difference between the full value of the goods and services and the amount paid by the employee. (SNA93, para 7.38)

The distinction between wages and salaries in cash and wages and salaries in kind is generally reasonably clear, in that most in-kind payments are evidenced by the receipt of goods or services as opposed to the receipt of a financial asset.

Compensation of employees concept as applied in international guidelines continued

Wages and salaries in kind continued

One determining feature of in-cash versus in-kind payments is that the utility to the employee of receiving in-kind payments may be lower than if the equivalent amount was received in cash, as when remunerated in kind the employee may have no choice regarding how the remuneration is to be spent.

The most challenging boundary issue is the treatment of reduced or zero-interest loans that are commonly provided by financial institutions to their employees. The difficulty relates to the fact that, in the national accounts system, interest is not treated as a payment for financial services. SNA93 includes this type of remuneration as a payment in kind.

EMPLOYERS' SOCIAL CONTRIBUTIONS

Employers' social contributions are incurred by employers in order to secure social benefits for their employees. Entitlements to social benefits are generally dependent on certain events or circumstances occurring, such as sickness, accidents, redundancy or retirement. In theory, the contributions are made well in advance of the benefits being paid; for example, there is a time difference between the payment of contributions to a superannuation fund and the receipt of superannuation benefits by retired employees. In the national accounts, the contributions are treated as part of remuneration, while the benefits are treated as part of households' secondary income. The treatment is largely analogous to the payment of premiums and the receipt of claims with respect to insurance transactions.

Employers' social contributions can include both actual and imputed contributions. The actual contributions are those payable by employers to pension and superannuation funds and the actual premiums payable by employers to workers' compensation schemes for occupational injuries and diseases. Imputed contributions are more difficult to measure. The need to measure imputed contributions arises when employers provide the social benefits directly from their own resources rather than by making payments through an insurance arrangement or to an autonomous pension fund.

In the case of significant and well organised employer-provided benefit schemes, such as unfunded superannuation schemes operated by general government, actuarial models can be developed to determine the level of imputed contributions required to fund the payment of benefits in the future. However, for smaller and less organised arrangements, for example the provision of severance, termination and redundancy benefits, sick leave and other leave benefits (other than annual and long-service leave), developing models for imputed contributions is not feasible. In these cases the imputed contributions are set to be equal to the benefits paid in any accounting period. Thus, in these cases, while conceptually the imputed contributions included in CoE and the benefits paid in secondary income are different flows, the amounts in any given period will be the same.

Compensation of employees concept as applied in Australia

In the ASNA, the same basic framework as presented in SNA93 is used. However, for measurement reasons, there are differences between the conceptual ideal presented above and the actual estimates compiled within the ASNA. The differences relate to the following issues.

SEVERANCE, TERMINATION AND REDUNDANCY PAYMENTS (STRP), SICK LEAVE AND OTHER LEAVE PAYMENTS (EXCEPT ANNUAL AND LONG SERVICE LEAVE PAYMENTS)

STRP, sick leave and other leave (except annual and long-service leave) are types of social benefit payments. In line with the measurement of employers' social contributions discussed above, there is no separately modelled estimate of the imputed contributions required to provide the benefits, with the actual benefit payments in any period used to estimate the imputed contributions. It is this amount that is included in CoE.

Although some information has been collected in the past to separately identify STRP from other wages and salaries, currently no information is available to consistently differentiate between all of these types of payments and other wages and salary payments. Consequently, the imputed contributions that relate to these benefits are included in wages and salaries in cash rather than in employers' social contributions.

CHANGES IN PROVISIONS FOR FUTURE EMPLOYEE ENTITLEMENTS

Under full accrual accounting the estimate of the remuneration of employees would reflect the change in the level of outstanding entitlements to remuneration, most particularly with respect to annual, sick and long service leave. While the ASNA would ideally use information on a full accruals basis, a reasonably large proportion of the data collected with respect to wages and salaries is on a cash basis and hence the ASNA does not fully account for the changes in provisions as required by the international standards.

TREATMENT OF FRINGE BENEFITS TAX (FBT)

Payments of FBT are the legal liability of the employer and, on that basis, have been treated as a tax on production payable by employers. FBT has therefore not been included in the value of wages and salaries in kind in the ASNA. Further consideration of this issue has determined that this treatment is inconsistent with the general recommendation in SNA93 paragraph 7.32 that wages and salaries should include all income taxes payable by the employee, even if withheld by the employer for administrative or other reasons. As a result, a change was recently made to the conceptual framework to reflect this revised treatment. See section 4.2 for further background on this decision.

Treatment of shares and share options

Conceptually, shares, securities and share options are components of wages and salaries where they form part of the compensation for labour services provided in the accounting period. These benefits may also be included in severance or termination payments. However, employee share schemes (including shares, share rights or options) are not discussed explicitly in the international statistical standards. In the ASNA, they have not been recorded as a business expense and, hence, have been implicitly included within the operating surplus of business. In commercial accounting, a similar treatment has existed.

Treatment of shares and share options continued

Recent discussion has led to changes in the international and Australian business accounting standards, such that employee share scheme expenses are to be considered as part of remuneration, thereby reducing operating profit. In parallel, the treatment of these schemes has been reconsidered within international statistical circles and it is likely that, in the forthcoming revised version of the international standards for national accounts, the market value of the share-based compensation will be recorded as compensation of employees, with a corresponding reduction in gross operating surplus. The level of Gross Domestic Product (GDP) will be unaffected by the change.

The value of share-based compensation will be estimated as at the vesting date, which is the date at which the employee becomes entitled to receive shares or exercise an option to buy shares. However, in view of the fact that the entitlement is usually earned progressively over a longer period, the value will be spread over the period from the original grant date to the vesting date. Any change in value between the vesting date and the date of actual exercise of options will not be treated as CoE but as a capital gain or loss.

Although such remuneration arrangements pose some conceptual issues, the practical difficulties in collecting information on these arrangements are more complex. At present, the new business accounting standards are being implemented by Australian businesses and hence the data collected through economic collections will be on the new accounting basis. Work is underway to try to measure the impact of the change in reporting requirements so that a consistent time series can be measured. For national accounts, it is planned that, until the new international standards for national accounts are introduced in late 2009, data from economic surveys will be adjusted to exclude employee share schemes, in order to maintain a consistent time series. Work will be undertaken to determine a suitable historical time series (i.e. prior to 2005) for implementation in 2009.

Further information on the changes in business accounting standards can be found in *Information Paper: Impact of the Implementation of International Financial Reporting Standards on ABS Statistics* (cat. no. 1279.0), which was released in February 2005.

3.3 HOUSEHOLD INCOME

Statistics on household income at the aggregated macroeconomic level are available within the system of national accounts. Total gross household sector income is the income accruing to the household sector from production (principally CoE, which is of main interest in analysing remuneration issues) and from property income (such as interest and dividends), together with current transfers from other sectors.

In addition to forming sector level aggregates, statistics on household income can be compiled from the perspective of measuring the economic well-being of individuals and households, in terms of the distribution of income across households and individuals for various population subgroups of interest.

Household income concept as applied in international guidelines

International guidelines for the measurement of household income were revised in 2003 at the 17th International Conference of Labour Statisticians (ICLS), an expert group convened by the International Labour Organization (ILO). The guidelines have been developed for the purposes of measuring income distribution on a comparable basis

*Household income
concept as applied in
international guidelines
continued*

internationally, and for the collection and dissemination of household income statistics at aggregate and micro-data levels that are consistent, to the extent possible, with other international guidelines, including SNA93.

In the 2003 ICLS guidelines the concept of household income consists of all receipts, whether monetary or in kind (goods and services) that are received by the household or by individual members at annual or more frequent intervals, but excludes windfall gains and other such irregular and typically one-time receipts. Household income receipts are available for current consumption and do not reduce the net worth of the household through a reduction of its cash, the disposal of its other financial or non-financial assets or an increase in its liabilities.

The ICLS guidelines include definitions for the components of household income. The component 'Employee income' is defined to be broadly comparable with the definition of CoE in SNA93.

EMPLOYEE INCOME CONCEPT

The ICLS guidelines for household income statistics define the 'Employee income' component as comprising:

...direct wages and salaries for time worked and work done, cash bonuses and gratuities, commissions and tips, directors' fees, profit-sharing bonuses and other forms of profit-related pay, remuneration for time not worked as well as free or subsidised goods and services from an employer. It may include severance and termination pay as well as employers' social contributions.

The flexibility in the ICLS definition of employee income regarding both severance and termination pay and employers' social contributions can give rise to two situations where employee income will not be consistent with the SNA93 definition of CoE. First, CoE includes employers' social contributions, so if the option to exclude them from employee income is exercised then a difference arises between the two measures. Second, provision for severance and termination pay is classified in SNA93 as part of employers' social contributions, and SNA93 provides practical advice that these provisions can be approximated by the actual payments occurring in a reference period. Exercising the option to include the actual severance and termination payments in employee income, when the provision for them is not included as part of employers' social contributions within employee income, will reduce the difference between employee income and CoE.

The ICLS guidelines value employee income in kind at relevant market prices (producer or basic prices) for equivalent goods and services, in line with SNA93 recommendations. Market prices include transport costs, taxes and subsidies. Where the employee income in kind consists of the outputs of the employer's production processes, and are 'imposed payments in-kind' with little or no market value, a zero value is applied in computing employee income.

Employee income concept as applied in Australia

In the dissemination of household income statistics ABS currently defines the employee component of income to include:

regular and recurring cash receipts.....from wages and salaries.

The severance and termination payments and other employers' social contributions, which are part of CoE in the ASNA, are excluded from Australian household income statistics. In addition, the concept of employee income differs from the ASNA concept of the wages and salary component of CoE by excluding:

income in kind including employee benefits such as the provision of a house or a car.

Restricting measurement of employee income to regular and recurring wages and salaries in a 'current income' concept was intended to provide a measure of the income that was currently available to the household to support their living standards and was likely to be available in the near future. That is, in looking at weekly income at the household level, a one-off payment received during the survey reference period was not included in measures of household income as it was not ongoing income.

The exclusion of income in kind was largely an historical issue arising from the impracticality of reliable reporting by householders for the value of income in kind, and reflected an expectation that the amounts would not be so significant as to affect distributional analysis at the household level. Changes in aggregate household income, inclusive of such in-kind income over time, would be reflected in the national accounts concept.

3.4 EARNINGS

The integrated system of wages statistics, developed by the ILO as a result of the 12th ICLS in 1973, sets out the international standards for the concepts, definitions and classifications used in the collection and compilation of statistics of wage rates, earnings and labour costs. More recent international statistical standards, including SNA93 and the 2003 ICLS resolution on household income statistics, have remained consistent, as far as possible, with the ILO's integrated system of wages statistics.

The system of wages statistics is designed to meet the needs for information on the levels and movements in average earnings, and on the distribution of earnings and hours for different employee types.

Earnings concept as applied in international guidelines

The statistical measure from the integrated system of wages statistics of main interest in measuring remuneration of employees is 'Earnings'. Earnings statistics are based on the concept of earnings as income to the employee. The concept broadly aligns with the wages and salaries component of CoE in SNA93. However, whereas the national accounts measures wages and salaries as an economic flow over an annual or quarterly period, earnings statistics are generally a series of 'point-in-time' measures of the average earnings of employees in a short reference period. As a result, the definition of earnings is slightly narrower than the national accounts definition of wages and salaries. It refers to remuneration paid 'as a rule at regular intervals', to differentiate between payments that can be expected to be received regularly (e.g. annually, quarterly or fortnightly) and one-off payments.

Earnings concept as applied in international guidelines continued

The 1973 ICLS guidelines for wages statistics define 'Earnings' as:

...remuneration in cash and in kind paid to employees, as a rule at regular intervals, for time worked or work done together with remuneration for time not worked such as for annual vacation, other paid leave or holidays. Earnings exclude employers' contributions in respect of their employees paid to social security and pension schemes and also the benefits received by employees under these schemes. Earnings also exclude severance and termination pay.

Statistics of earnings should relate to employees' gross remuneration, i.e. the total before any deductions are made by the employer in respect of taxes, contributions of employees to social security and pension schemes, life insurance premiums, union dues and other obligations of employees.

The ICLS guidelines state that the value of wages and salaries in kind should be the value directly accruing to the employee (rather than the cost to the employer). In other words, the value should reflect what it would cost the employee to purchase the goods or services themselves. As individuals are generally only able to purchase goods and services at retail prices, it is appropriate to value wages and salaries in kind at retail prices. However, the guidelines also note that, for employer based surveys, the valuation of wages and salaries in kind depends on whether the employer is supplying its own product (in which case producer prices should be used) or acquiring goods or services to be passed to the employee (in which case purchaser prices should be used).

Earnings concept as applied in Australia

Notionally, the earnings concept used in Australia is consistent with the international concept. However, in operationalising the concept in surveys of employers, measures of earnings have generally excluded wages and salaries in kind, largely due to practical considerations. Information on the value of benefits provided by employers has not always been readily available from employer payrolls, and the contribution of wages and salaries in kind to total employee earnings was relatively insignificant when most of the relevant surveys were first established. Benefits through salary sacrificing arrangements have been considered as wages and salaries in kind, and so are currently excluded from ABS earnings measures.

The main ABS collections producing earnings statistics are:

- the quarterly Survey of Average Weekly Earnings (AWE);
- the two-yearly Survey of Employee Earnings and Hours (EEH); and
- the annual Survey of Employee Earnings, Benefits and Trade Union Membership (EEBTUM).

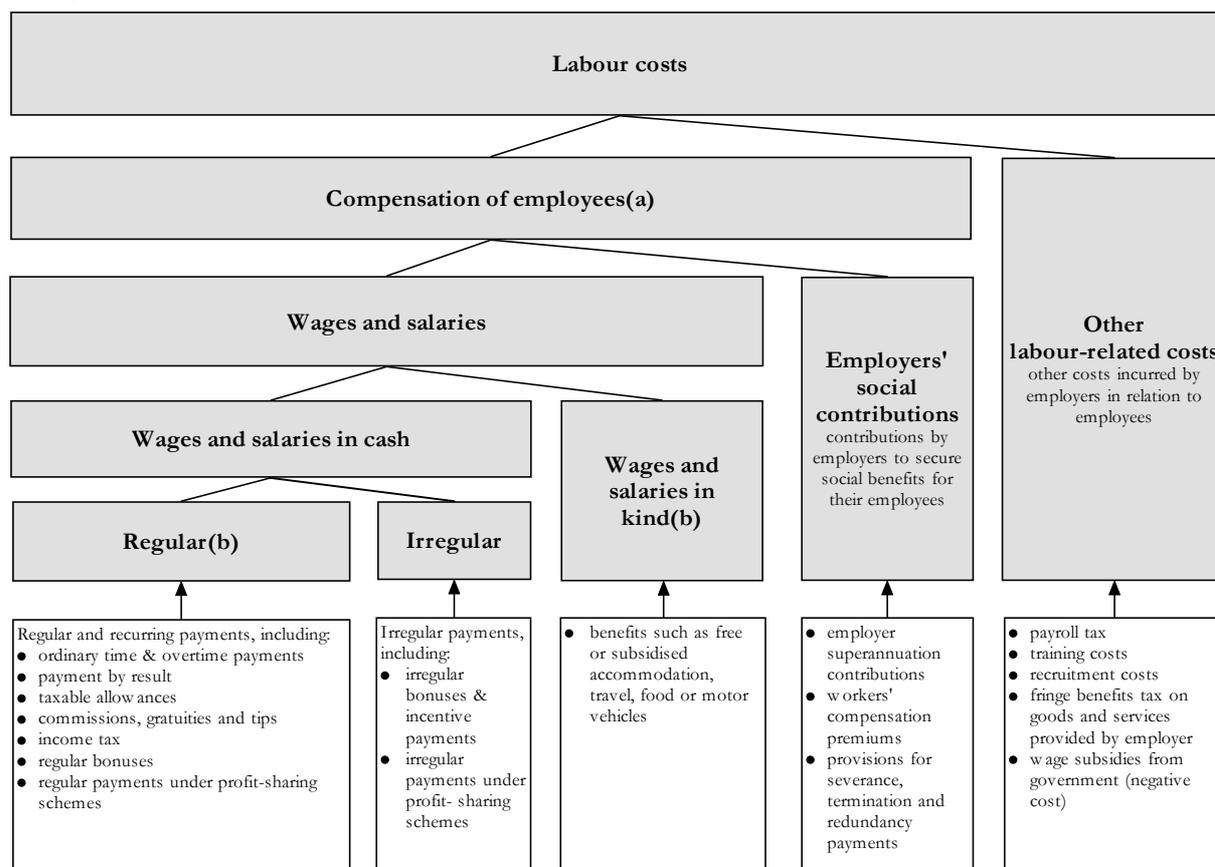
In the first two surveys (which are employer based), the measure of earnings relates to a short reference period (e.g. a pay period), and is restricted to cash wages and salaries that are received regularly. The measure of earnings includes, for practical reasons, employer payments for sick leave (conceptually part of employers' social contributions in SNA93).

The measure of earnings used in the EEBTUM survey (which is a household survey) relates to the most recent pay, that is, the last total pay before tax or any other deductions. As a result, it includes irregular payments and payments related to other periods. This is for practical reasons only.

3.5 PREVIOUS EMPLOYEE REMUNERATION CONCEPTUAL FRAMEWORK

Figure 3.5.1 below summarises the conceptual framework for ABS employee remuneration statistics in Australia (in the context of the broader concept of labour costs) that has been used until recently. A number of changes were recently implemented into the Australian National Accounts (discussed in section 4.2 and section 5.4) as a result of some of the issues addressed in this information paper. These changes, as well as some further conceptual changes, are reflected in the revised conceptual framework for measures of employee remuneration presented in figure 4.4.1.

3.5.1 PREVIOUS AUSTRALIAN CONCEPTUAL FRAMEWORK FOR MEASURES OF EMPLOYEE REMUNERATION



(a) The concept 'employee income' is broadly comparable with compensation of employees. See section 3.3 for a discussion of the employee income concept in international standards.

(b) Conceptually, earnings comprise regular wages and salaries in cash and regular wages and salaries in kind.

4.1 INTRODUCTION

The increase in the diversity of employee remuneration arrangements available in Australia, as noted in Chapter 2, raises conceptual and practical issues relating to the collection and dissemination of ABS employee remuneration statistics. In particular, the treatment of salary sacrifice arrangements raises a number of issues that require further consideration. This chapter examines these issues in relation to the conceptual treatments in Australia as described in Chapter 3, and presents a revised conceptual framework for measures of employee remuneration.

4.2 ISSUES AND CHANGES

The changes being made to the conceptual framework for measures of employee remuneration relate to the treatment of:

- salary sacrificed in exchange for goods or services;
- Fringe Benefits Tax (FBT);
- employer contributions to superannuation funds; and
- taxes paid on superannuation contributions, and on the income earned on those contributions.

Salary sacrifice

The international guidelines are not prescriptive about the treatment of remuneration packaging arrangements. In particular, salary sacrifice arrangements are not widely known outside of Australia and are not explicitly addressed. However, some guidance can be obtained by examining the principles behind the components of employee remuneration.

The distinction between wages and salaries in cash and in kind is of interest, as the value of remuneration received as goods or services may represent a lower level of utility to an employee than the same value of wages or salary received as cash. A key factor here is the issue of choice. As noted in the System of National Accounts, 1993 (SNA93):

Income in kind may bring less satisfaction than income in cash because employees are not free to choose how to spend it. Some of the goods or services provided to employees may be of a type or quality which the employee would not normally buy. (SNA93, para 7.38)

In applying this principle to salary sacrifice, these amounts could be seen as more like wages and salaries in cash than wages and salaries in kind, as the employee is free to spend the money and has made the choice to receive the benefits provided by the employer. That is, the amount sacrificed represents the same level of utility for the employee as cash, and the goods or services provided by the employer can be considered as being purchased by employees from their cash wages and salaries.

Salary sacrifice continued

Thus, the value of salary forgone through a salary sacrifice arrangement will be treated as wages and salaries in cash (regardless of the goods and services received) in the revised conceptual framework. This will help overcome distortions in time series if the relationship between the cash and non-cash components of remuneration packages changes over time.

Benefits provided by employers which employees have no discretion to exchange for cash wages or salary will continue to be treated conceptually as wages and salaries in kind in the revised conceptual framework.

Fringe benefits tax

The provision of benefits to employees may be subject to FBT. The *Fringe Benefits Tax Assessment Act 1986* and the *Fringe Benefits Tax Act 1986* were introduced to impose a tax payable by employers on the value of certain fringe benefits provided as a form of income to their employees in place of, or in addition to, cash wages or salary. FBT is based on the taxable value of the various fringe benefits provided.

The ABS has historically treated the value of FBT as a tax on production, as for other indirect taxes such as payroll tax. This treatment was adopted because it is the employer providing the fringe benefits who incurs the FBT liability. As a result, FBT has been treated as part of labour costs, but not as part of wages and salaries or Compensation of Employees (CoE).

The international guidelines for national accounting (SNA93) are not prescriptive on the treatment of FBT. SNA93 requires gross wages and salaries to be valued before the taxes on individuals (and other deductions) are taken out. SNA93 leaves it to individual countries to consider the nature of their taxes, and determine what should be regarded as taxes on individuals.

One reason for considering FBT as a tax on employees, rather than as a tax on employers, is the similarity in its intent and purpose to personal income tax. The intent of FBT legislation is to ensure the integrity of the personal income tax system, by ensuring that all forms of benefits provided to employees bear a fair measure of tax (i.e. by taxing fringe benefits received in place of, or in addition to, salary or wages). In 1994, the method for calculating FBT was changed, with grossing-up rules introduced to restore similarity to the tax treatment of cash wages and salary and fringe benefits.

It is common practice for employers to directly seek reimbursement of FBT incurred in a salary sacrifice arrangement from the employee (that is, the total amount sacrificed must cover the cost of the benefit provided by the employer plus any FBT incurred). Clearly it would be anomalous to exclude the value of FBT from measures of employee remuneration in these situations.

*Fringe benefits tax
continued*

As a result, the ABS has made a change to the conceptual treatment of FBT. FBT is now considered (for statistical purposes) as a tax on employee remuneration, with the FBT on benefits received as part of a salary sacrifice arrangement now included in wages and salaries in cash. The FBT on benefits received through an arrangement other than salary sacrifice is now included in wages and salaries in kind.

Although it could be argued that some benefits provided to employees were primarily for the benefit of the employer, this may not be the case for the majority of fringe benefits. Any attempt to separate fringe benefits in this way would create significant practical difficulties.

The treatment of FBT as a tax on employees means that employee remuneration is now valued inclusive of the tax (following SNA93 7.32), and hence FBT is now included conceptually in earnings, CoE, and household income.

*Employer superannuation
contributions*

SNA93 and the ICLS guidelines make the conceptual distinction between wages and salaries (and hence earnings) and employers' social contributions. The latter payments are not accessible to employees except in specified circumstances (such as injury or retirement).

Employer contributions to superannuation funds (on behalf of their employees) generally fall within one of the following three types: contributions made under Superannuation Guarantee (SG) legislation; additional contributions made by employers over and above their SG obligations and not at the employee's discretion; and contributions made at the employee's discretion (e.g. by forgoing wages or salary through a salary sacrifice arrangement). The three types are discussed further below.

**CONTRIBUTIONS MADE UNDER SUPERANNUATION GUARANTEE
LEGISLATION**

Under SG legislation, employers are required to pay a minimum proportion (currently 9%) of an employee's salary to the employee's superannuation fund. These payments are considered to be employers' social contributions because the payment is a form of social insurance. Employees and employers are not able to convert the payment to cash wages or salary. ABS will continue to treat these contributions as employers' social contributions.

ADDITIONAL EMPLOYER CONTRIBUTIONS

While the SG legislation specifies the minimum amount an employer is required to contribute (currently 9% of wages and salary), employers can contribute more. Many workplace and individual agreements provide employees with employer contributions above the SG legislated amount. In some cases, these have resulted from industrial awards or from long-standing practices by organisations (e.g. for some public and community sector employer superannuation schemes, contributions traditionally have been higher than current SG requirements).

These additional superannuation contributions cannot be converted into cash salary at the discretion of the employee. Thus, employer contributions which are above the legislated minimum and are not discretionary will continue to be treated conceptually as employers' social contributions.

Employer superannuation contributions continued

CONTRIBUTIONS MADE AT THE EMPLOYEE'S DISCRETION

It is becoming increasingly common for employees to arrange for employers to make contributions to superannuation funds on their behalf (over and above SG contributions or other requirements) as part of salary sacrifice arrangements. These contributions are treated – for taxation purposes – as employer contributions, and hence are not subject to income tax (even though they originated as ordinary wages and salary).

Conceptually, there is little difference between the employee making voluntary contributions directly to a superannuation fund (from post-tax income) and the employee making contributions indirectly through the employer from pre-tax income (through a salary sacrifice arrangement). However, as a result of income tax and superannuation laws, it is more tax effective for the employee if the employer makes the contribution to the employee's superannuation account. Although these contributions are technically made by the employer, they are in reality made at the discretion of the employee by forgoing wages and salary, i.e. they amount to the employee choosing to use some of their pre-tax salary to purchase a financial asset.

Thus, employer superannuation contributions made as part of a salary sacrifice arrangement will be treated conceptually as wages and salaries in cash, and not as employers' social contributions.

Taxes on superannuation contributions

The taxation legislation applicable to the superannuation fund industry is complex, with a range of charges, levies and taxes applied in different situations. There are two main areas of taxation and charges relevant to employee remuneration:

- Employers may be subject to a penalty payment called the SG Charge if they do not comply with the requirements of the SG Scheme, which requires employers to contribute to superannuation funds on behalf of their employees at a minimum rate. The SG Charge is treated in the Australian System of National Accounts (ASNA) and government finance statistics as a tax on production paid by business.
- The superannuation funds (and similar units such as approved deposit funds and pooled superannuation trusts) are required to pay tax both on the contributions paid into the fund and on the income earned through investing the contributions, including interest, dividends and realised capital gains. The tax rate on both contributions and income is generally 15%. In the ASNA (and government finance statistics), the tax paid by superannuation funds on the contributions they receive and the income they earn on those contributions has been treated as a tax on income of financial corporations. This treatment was based on the fact that the tax is remitted by the superannuation funds.

As discussed earlier in this paper, those contributions made by employers, whether as employers' social contributions or at the employee's discretion, are part of CoE and hence are recorded as income of the household sector. Consequently, the tax on these contributions will be treated as an income tax on individuals. This change in treatment of the tax on superannuation contributions also applies to other contributions made to superannuation funds, such as those by the self-employed.

Taxes on superannuation contributions continued

More complex is the treatment of the tax on the investment income earned by superannuation funds. In the national accounts the investment of superannuation funds is viewed as being made on behalf of the members, i.e. on behalf of the households who own the assets in the funds. Consequently, the flow of investment income earned by superannuation funds is redirected in the income accounts to be shown as earned by households.

This treatment of the income flows suggests that recording the tax on the investment income as being payable by the superannuation funds is inappropriate. As a result, the tax on the income will be treated as payable by the household sector.

There is no impact on estimates of total CoE and Gross Domestic Product (GDP) from a change in attribution of the tax, since the value of employer contributions to superannuation, including amounts paid through salary sacrifice arrangements, is recorded as CoE inclusive of the tax. However, as the sector paying the income tax has changed from financial corporations to the household sector, there is a fall in household disposable income and household saving with an offsetting rise in financial corporations disposable income and saving. Within government finance statistics, superannuation taxes on contributions and investment income will be moved from the 'income tax levied on enterprises' category to the 'income taxes levied on individuals' category.

4.3 SUMMARY OF CHANGES

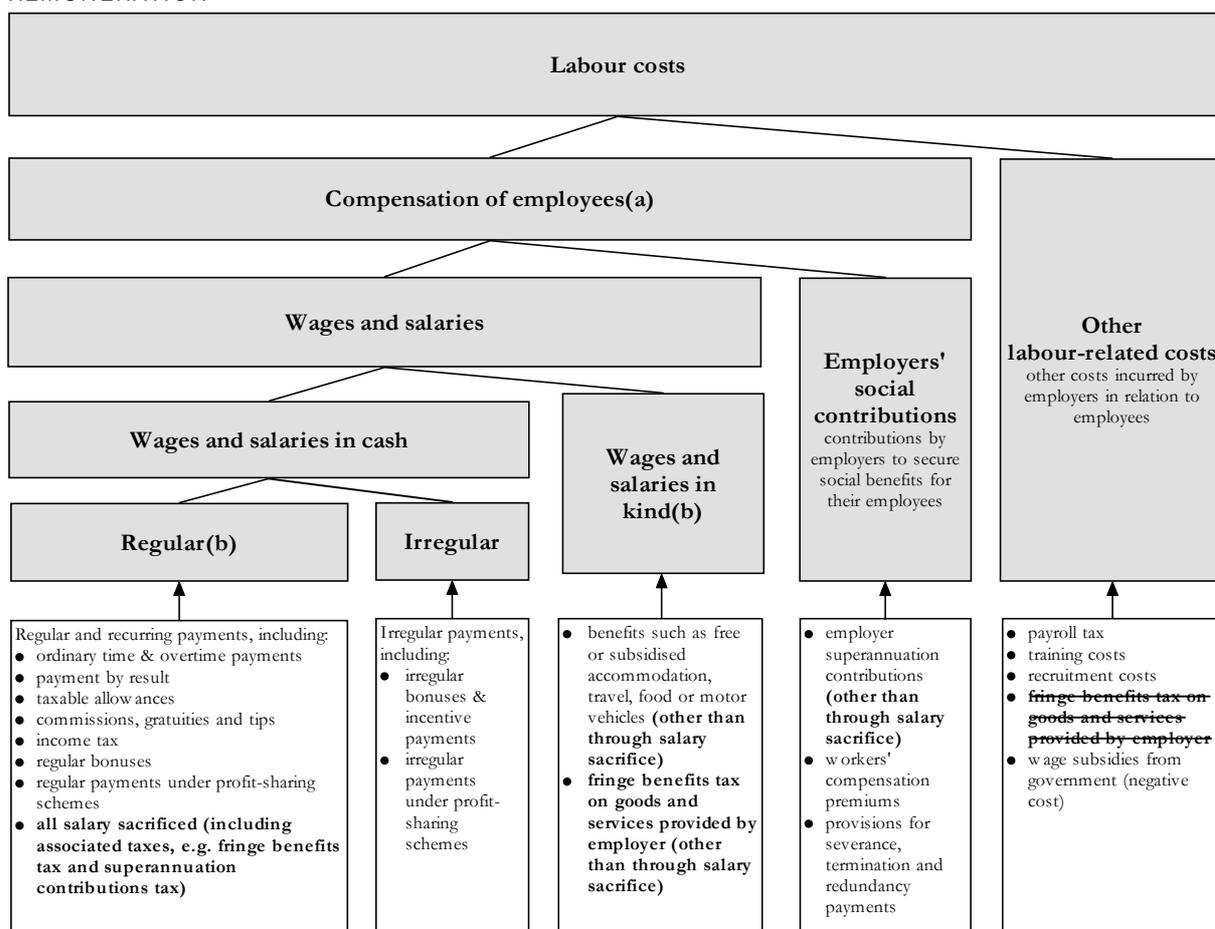
In summary, ABS is making the following changes to the conceptual basis for ABS statistics of employee remuneration:

- The value of goods and services provided by employers will be considered as wages and salaries in cash where employees have chosen the goods and services (i.e. through a salary sacrifice arrangement). The benefits provided by employers for which employees have no discretion to receive the full value as wages and salaries in cash will continue to be treated conceptually as wages and salaries in kind;
- FBT incurred on fringe benefits will be included as a component of wages and salaries and employee income. That is, for statistical purposes, FBT will be classified as a tax on employees;
- Employer superannuation contributions that are made at the employee's discretion, by forgoing wages or salary through a salary sacrifice arrangement, will be treated as wages and salaries in cash, and not as employers' social contributions; and
- Taxes on contributions to superannuation funds, and on the income earned on those contributions, will be treated as taxes on the household sector.

4.4 REVISED EMPLOYEE
REMUNERATION
CONCEPTUAL FRAMEWORK

Figure 4.4.1 shows the revised conceptual framework for ABS employee remuneration statistics (in the context of the broader concept of labour costs), incorporating the changes discussed in this chapter. The text in bold (including 'strikethrough') indicates the changed conceptual treatment. See figure 3.5.1 for the previous conceptual framework.

4.4.1 REVISED AUSTRALIAN CONCEPTUAL FRAMEWORK FOR MEASURES OF EMPLOYEE REMUNERATION



(a) The concept 'employee income' is broadly comparable with compensation of employees. See section 3.3 for a discussion of the employee income concept in international standards.

(b) Conceptually, earnings comprise regular wages and salaries in cash and regular wages and salaries in kind.

5.1 INTRODUCTION

The national accounts provides a framework for recording, in a systematic and comprehensive way, the economic transactions that take place within the Australian economy and between Australia and the rest of the world. The usefulness of the accounts derives largely from the way in which data from a number of sources are brought together in a conceptually consistent way. The ABS draws on a wide range of economic statistics to compile the national accounts, including the results from economic surveys as well as taxation and other administrative data sources.

The remuneration earned by employees for labour services rendered is measured in the national accounts aggregate Compensation of Employees (CoE). In 2004–05, CoE comprised 49% of total Gross Domestic Product (GDP) in nominal dollar terms, and thus its accurate estimation is an important part of measuring economic growth. As explained in Chapter 3, the aggregate CoE measure includes the value of entitlements earned by employees, as wages and salaries in cash or in kind, and the value of employers' social contributions for their employees. CoE accounts for the major part of total labour costs.

This chapter summarises the current sources for the national accounts and the methods used to compile estimates of CoE, including the adjustments that are made to the source data. It then goes on to outline the changes that have already been made to the national accounts, describe the key issues for the national accounts and other economic statistics resulting from the changes discussed in Chapter 4, and outline possible future developments.

5.2 PRIMARY SOURCES
FOR THE NATIONAL
ACCOUNTS

As part of the overall economic statistics program, the ABS generates a range of economy wide statistics designed to support the System of National Accounts along with the statistical needs of governments and the wider community. Key to the national accounts are the annual Economic Activity Survey (EAS) and the Quarterly Business Indicators Survey (QBIS). These surveys are conducted by the ABS and cover most sectors of the economy with the exception of those organisations considered to be in the general government sector. They collect a range of financial data, including the components of CoE.

These surveys provide information based on the standard financial accounts maintained by businesses. These accounts are compiled in a manner that is consistent with Australian Accounting Standards which means that the information obtained in respect of employee remuneration is reported on an accruals accounting basis, the basis required for the national accounts. Although the accounting standards prescribe an appropriate basis for collecting information that can be directly used in the compilation of the national accounts, this does not necessarily mean that all the detailed dissections required to estimate the elements of CoE can be readily obtained directly from business records.

5.2 PRIMARY SOURCES
FOR THE NATIONAL
ACCOUNTS *continued*

The annual EAS provides estimates of labour costs paid by employers for a financial year. This survey covers all private sector businesses and public non-financial corporations except those in the finance and insurance industry.

The QBIS provides quarterly estimates of labour costs paid by employers. The survey covers private sector businesses with an active Income Tax Withholding (ITW) role (generally all employing businesses) in all industries except agriculture, forestry and fishing. All public sector businesses, both general government and public corporations, are excluded from QBIS.

Both surveys define wages and salaries relatively broadly to include various types of employee entitlements (on an accruals basis). This includes payments for bonuses, commissions, annual and other types of leave, and severance, termination and redundancy payments (STRP). However, the value of salary sacrificed in exchange for goods and services and for superannuation contributions is excluded from wages and salaries. Rather it is reported against other relevant expense items such as superannuation contributions and motor vehicle expenses. Other payments in kind are not specifically excluded from wages and salaries but it is thought that most of these payments would be recorded against other expense items. While the value of salary sacrificed and other payments in kind is not collected in EAS or QBIS, adjustments are made to the national accounts to include these amounts (see section 5.3 for more detail).

The two surveys also collect information on employer contributions to superannuation (including amounts paid on behalf of employees through salary sacrifice arrangements) and payments of workers' compensation premiums.

A third survey, the Survey of Employment and Earnings, Public Sector (SEE), provides information for the public sector on wages and salaries received regularly; irregular payments such as retrospective pay, pay in advance, and bonuses; and the value of STRP. Wages and salaries in kind, including amounts salary sacrificed, are not collected in this survey. Results from SEE are used in compiling the national accounts estimates of wages and salaries in cash for the general government sector and public non-financial and financial corporations.

The infrequent Survey of Major Labour Costs (MLC), which was most recently conducted in respect of the 2002–03 financial year, provides a measure of employers' main labour costs. Gross wages and salaries is the main labour cost component. The survey collects information on the value of fringe benefits (ungrossed) and, for 2002–03, the value of salary sacrificed (excluding FBT). Other costs collected include STRP, workers' compensation, FBT and payroll tax. The survey covers all private and public sector employees except those primarily engaged in the agriculture, forestry and fishing industry.

5.3 COMPILATION OF
COMPENSATION OF
EMPLOYEES

The key sources used in compiling estimates of CoE are three of the surveys just described – EAS, QBIS and SEE. These three collections cover all sectors of the economy and most elements of CoE on a regular basis. Data from the infrequent MLC survey are used for benchmark information. Figure 5.3.1 shows how the data sources are combined to produce national accounts estimates of CoE and its components on an annual basis. A more detailed description of the concepts, sources and methods used to compile the national accounts is presented in *Australian System of National Accounts: Concepts, Sources and Methods* (cat. no. 5216.0), available on the ABS web site <www.abs.gov.au>.

5.3.1 SOURCES USED TO COMPILE ESTIMATES OF COMPENSATION OF EMPLOYEES

	Proportion of total COE (%)	PRIVATE SECTOR	PUBLIC SECTOR	
			Public financial & non-financial corporations	General government
Wages and salaries in cash	89	EAS		SEE
		QBIS	SEE	
Wages and salaries in kind	1	MLC (benchmarks) / ATO FBT data (annual indicator)		
Employers' social contributions - Superannuation	8	EAS		Government Finance Statistics
Employers' social contributions - Workers' compensation	2	EAS		MLC (benchmarks) SEE (annual indicator)

Some clarification is required on the method used to estimate wages and salaries in kind. The value of wages and salaries in kind is not explicitly collected in EAS, QBIS or SEE, although EAS and QBIS implicitly collect the expense as part of the item which is being provided in kind, e.g. as part of motor vehicle expenses. In recognition of the approach used in those collections, the national accounts uses data from the MLC survey to determine benchmark levels of wages and salaries in kind. Information on the value of FBT paid by employers is used to provide an indicator of wages and salaries in kind between these benchmarks.

One consequence of using FBT as an indicator of wages and salaries in kind is that benefits not assessable under FBT legislation are not captured. Benefits not assessable for FBT can be split into two types. First, there are items such as laptop computers that are FBT exempt. Second, there are certain organisations, such as public benevolent institutions, that can provide benefits to their employees which are not subject to FBT, up to a threshold limit. However, through the use of benchmark information from the MLC survey these amounts are included in the total wages and salaries estimates produced by the national accounts, as part of wages and salaries in kind.

5.4 PREVIOUS AND REVISED TREATMENTS

As a result of the changes outlined in Chapter 4, the following changes have been made to the national accounts. These changes were implemented in the November 2005 annual national accounts release, *Australian System of National Accounts, 2004–05* (cat. no. 5204.0).

Fringe Benefits Tax (FBT)

In Chapter 3 it was observed that the treatment of FBT as a tax on production within the national accounts is, on balance, incorrect. The ABS now treats FBT as a tax on employees. This change increases the level of wages and salaries and CoE by the amount of FBT. The level of taxes on production decreases by the same amount leaving the level and growth rates of GDP unchanged in nominal terms. To fully implement this change it will be necessary to determine the amount of FBT payable under salary sacrifice arrangements and add this amount to wages and salaries in cash. The remainder of the FBT payable will be added to wages and salaries in kind.

Taxes on superannuation contributions

In Chapter 4 it was observed that the treatment of taxes on superannuation contributions as an income tax payable by superannuation companies is, on balance, incorrect. The ABS now treats these taxes as a tax on employee income. This change has had no impact on the level of employers' social contributions or CoE since the full value of the contributions is currently included in those estimates. There has, however, been an increase in the income tax payable by individuals as recorded in the household sector income account and a decrease in income tax payable by financial corporations. There are also corresponding falls in household sector saving and rises in financial corporations sector saving.

5.5 OTHER ISSUES

As outlined in Chapter 3, the concepts underlying the estimates of CoE in the Australian System of National Accounts (ASNA) are largely consistent with the definitions provided in the System of National Accounts 1993 (SNA93). CoE in ASNA is defined as the value of entitlements earned by employees from their employers for services rendered during the accounting period. It covers wages and salaries received by employees in cash and in kind, and employers' social contributions.

While the aggregate concept is quite clear, there are some conceptual and operational issues that arise in the measurement of CoE that are highlighted when considering the conceptual framework outlined in Chapter 3 and the conceptual changes in Chapter 4. These issues are discussed below.

Superannuation contributions made under salary sacrifice arrangements

Payments made by employers at the discretion of employees, through salary sacrifice arrangements, are collected indistinguishably from payments made by employers in accordance with statutory requirements, and this total amount is currently treated as part of employers' social contributions. Conceptually, as outlined in Chapter 4, the discretionary payments should be treated as wages and salaries in cash, while only the value of non-discretionary contributions to superannuation should be classified as employers' social contributions. A better delineation of these flows would change the allocation between wages and salaries and employers' social contributions but would not affect total CoE.

Other items purchased under salary sacrifice arrangements

Conceptually, all items purchased under salary sacrifice arrangements should be treated as wages and salaries in cash. However, using FBT payments as an indicator limits the ability to make the distinction between wages and salaries in cash or in kind since FBT data are not classified based on the underlying remuneration contract.

Severance, termination and redundancy payments

With regard to the boundary between wages and salaries and employers' social contributions, SNA93 recommends that payments by employers to secure benefits such as STRP, sick leave and other forms of leave other than annual leave and long service leave, be classified as employers' social contributions. In ASNA two differences from this treatment exist, both of which are explained in Chapter 3. Recording the contributions that would be required to cover the benefits to be paid would not, in theory, have any long term impact on the level of CoE, but there may be some timing differences concerning the period in which the CoE was recorded. Recording the payments as employers' social contributions rather than wages and salaries would not impact on the total level of CoE but would impact on those component series.

5.6 POSSIBLE DEVELOPMENTS

There are a number of areas in which the components of CoE and related taxation flows could be better measured according to the changes outlined in Chapter 4. The extent to which changes might be made will depend on:

- the significance of the impact on GDP levels and growth rates;
- the significance of the departure from the agreed concept, including consideration of whether the significance of any departure is increasing over time;
- the significance of the finer level components for analytical purposes (e.g. whether the distinction between wages and salaries in cash and in kind is important analytically); and
- the ability to collect data on the new basis with particular reference to the cost of collection and the ability of businesses to report the required data.

Currently, the major ABS economic collections are not able to support the full range of conceptual changes outlined in Chapter 4. To implement these changes, the definition of wages and salaries and other labour-related costs used in collections such as EAS, QBIS and SEE would need to be changed in a number of ways, as outlined below:

- The value of wages and salaries forgone under salary sacrifice arrangements would need to be explicitly captured in the measure of wages and salaries and removed from the measures of superannuation contributions and other expense items where it is currently captured;
- Data on STRP would need to be explicitly collected such that it could be treated as employers' social contributions rather than as wages and salaries (this is already done for the public sector in SEE);
- The value of FBT would continue to be collected as a separate item in EAS, but a change would be needed in QBIS to separately identify the FBT payments as part of wages and salaries rather than as an other expense; and
- The full value of wages and salaries in kind would need to be explicitly collected to ensure the complete range of remuneration is captured.

The ABS is examining options for the collection of the full range of these data in its economic surveys. The final outcome will be driven by survey efficiencies and availability of the required detail from business records.

5.6 POSSIBLE
DEVELOPMENTS
continued

The ABS is also examining whether further changes are required to the national accounts. The aim of the national accounts is to achieve the best possible measure of a concept, and so it is possible that further adjustments will be made to cover the ideal scope of CoE and other national accounts variables even though data are not collected regularly through the core economic collections. Such an approach would also be required to maintain a consistency of time series in the national accounts should the economic collections change their definitions. While the national accounts may diverge from the underlying source economic collections in the application of concepts, this would only be at the margin.

5.7 SUMMARY OF
CHANGES

As outlined in this information paper, a number of concepts surrounding CoE have been clarified and as a result some changes were implemented in the November 2005 annual national accounts release (*Australian System of National Accounts, 2004–05*, cat. no. 5204.0) to reflect some of the developments in thinking. Specifically:

- FBT is now treated as part of the value of CoE;
- taxes on superannuation contributions are now deemed as being paid by households; and
- a new benchmark for wages and salaries in kind has been implemented to fully cover payments of this form of remuneration.

The implementation of these changes was done with a focus on maintaining consistency of time series. The impact on the overall movements in CoE is negligible. Although these changes imply a divergence from the underlying source data collections in the application of concepts, this is only at the margin.

Other conceptual issues raised in this paper will require further consideration including the treatment of STRP and employee share options. Users of national accounts data will be fully informed ahead of any proposed changes.

6.1 INTRODUCTION

Statistics on earnings and the price of labour are part of the broader range of statistics describing the labour market, including information about labour costs, the supply of labour, the demand for labour, the types of employment, and workplace relations.

The ABS conducts a number of employer and household surveys to collect information on earnings and labour price, including:

- the Survey of Average Weekly Earnings (AWE) – an employer survey that provides a number of quarterly series of average weekly earnings of employees;
- the Survey of Employee Earnings and Hours (EEH) – a two-yearly employer survey that provides employee-level data on earnings, hours paid for, methods of setting pay, and occupation;
- the Survey of Employee Earnings, Benefits and Trade Union Membership (EEBTUM) – an annual household survey that provides distributional data on employee earnings supplemented by socio-demographic information; and
- the Labour Price Index (LPI) – a set of four quarterly wage price indexes and four financial year non-wage indexes.

6.2 CURRENT AND REVISED TREATMENTS

As noted in Chapter 3, the concept of earnings currently underlying most of the above surveys relates to remuneration in cash paid to employees at regular intervals, for time worked or work done, together with remuneration for time not worked such as holidays.

While the international guidelines specify that remuneration both in cash and in kind should be included in earnings measures, in-kind remuneration has been excluded from most of the measures produced by the ABS, primarily for practical reasons. Information on the value of goods and services provided by employers has not always been readily available (either from employer records or household members), and for a long time was considered to be a relatively insignificant component of earnings.

Benefits received through salary sacrifice arrangements have previously been considered as remuneration in kind, and hence amounts salary sacrificed have been excluded from those ABS earnings measures restricted to payments in cash. Under the changes to the conceptual framework for measures of employee remuneration outlined in Chapter 4, amounts salary sacrificed will be treated conceptually as wages and salaries in cash. This includes amounts salary sacrificed for goods and services, the associated Fringe Benefits Tax (FBT) on goods and services (generally included as part of the salary sacrifice amount), and salary sacrificed for superannuation (including associated taxes).

Benefits provided by employers for which employees have no discretion to receive cash wages or salary will continue to be treated as wages and salaries in kind.

6.3 IMPACT OF CHANGES

The impact of treating amounts salary sacrificed as part of wages and salaries in cash will differ between surveys. Some information on amounts salary sacrificed has previously been collected in the LPI and EEH surveys. However, amounts salary sacrificed have, conceptually, been excluded from earnings series published from the AWE, EEH and EEBTUM surveys.

The remainder of this chapter will outline the impact on each of these surveys.

Survey of Average Weekly Earnings

The AWE survey measures regular wages and salaries in cash associated with employee jobs. Estimates of average weekly earnings, and changes in average weekly earnings, are published each quarter. Average weekly earnings series from the AWE survey are referred to extensively in Commonwealth, state and territory legislation, including for the indexation of a number of government benefit payments. AWE series are also used extensively in private sector contracts.

The definition of earnings currently used in the AWE survey is, broadly, current and regular payments in cash to employees for work done. Thus, earnings series from the AWE survey have excluded amounts salary sacrificed, as these have been considered conceptually as payments in kind. However, in practice, there is evidence that earnings series from the AWE survey have inadvertently included some amounts salary sacrificed. The ABS is currently working with data providers to amend their reporting practices where necessary.

Given the significant current use of AWE statistics for legislative and contract purposes, continuity is a prime consideration. Therefore, the ABS plans to continue to compile AWE statistics on the current conceptual basis (i.e. excluding salary sacrifice – see figure 3.5.1), and to therefore retain the series currently used for these purposes.

However, the ABS is also proposing to compile additional statistics from the AWE survey on a basis that is consistent with the revised conceptual framework. Toward this end the ABS will be establishing arrangements with data providers for the supply of information that can be compiled according to the revised conceptual framework (i.e. including salary sacrifice).

It is proposed to commence the collection of this additional information from the August 2007 reference period. Data in respect of a number of quarters will be required to make an assessment of the quality of the new series. Once this assessment has been completed, data of suitable quality will be released retrospectively and then on a continuing basis. The new series will have different labels to the current AWE series, to clearly distinguish the new series from the current series.

*Survey of Average Weekly
Earnings continued*

ISSUES TO CONSIDER FOR THE LONGER TERM FOR THE AWE SURVEY

While AWE series are currently used extensively for legislative and contract purposes, other series may be more suitable for many of these purposes. There are a number of factors that affect movements over time in AWE, including:

- changes in salary sacrifice arrangements (as described above);
- changes in salary packages that allow 'cash out' of in-kind benefits such as cars;
- increases or decreases in working hours;
- compositional shifts in the workforce (e.g. there has been a general tendency to shed low-skill jobs because of developments in technology);
- changing taxation arrangements (e.g. taxes on superannuation contributions); and
- changing leave entitlements.

Different users of the AWE survey seek different attributes in the series. For those uses where the change in wages and salaries over time is sought, independent of compositional shifts (e.g. in hours worked, remuneration mix and so on), the Wage Price Index is a more appropriate series.

*Survey of Employee
Earnings and Hours*

The two-yearly EEH survey measures regular wages and salaries in cash associated with employee jobs. The survey provides statistics on the composition and distribution of earnings of employees, the hours they are paid for, and the methods used to set their pay. Estimates from the survey are used in developing and reviewing wages and labour market policies and in wage negotiation processes.

The ABS collected information on amounts salary sacrificed in the 2002 and 2004 EEH surveys. However, in line with the prevailing conceptual and operational definitions of earnings used, the published weekly earnings series for 2002 and 2004 excluded amounts salary sacrificed, to maintain continuity with results from previous EEH surveys and with other ABS earnings series.

CHANGES

Beginning with the May 2006 EEH survey, earnings measures will be published on the new conceptual basis (see figure 4.4.1) – that is, amounts salary sacrificed will be included. As information on amounts salary sacrificed was collected in the 2002 and 2004 EEH surveys, it will also be possible to produce data on the new basis for 2002 and 2004. This will be done for selected series at the time of publication, and will be available upon request for other selected series.

*Survey of Employee
Earnings and Hours
continued*

IMPACT

Estimates of the average amount of salary sacrifice per employee from the 2002 and 2004 EEH surveys is shown in table 6.3.1.

6.3.1 ESTIMATES OF THE IMPACT OF INCLUDING SALARY SACRIFICE IN THE EEH SURVEY

	Average weekly earnings per employee (a)	Average weekly salary sacrifice per employee	Impact of including salary sacrifice
	\$	\$	%
Full-time adult managerial employees			
May 2002	1 168.90	45.30	3.9
May 2004	1 288.80	57.50	4.5
Full-time adult non-managerial employees			
May 2002	844.70	15.10	1.8
May 2004	915.70	22.90	2.5
Part-time employees			
May 2002	335.80	4.60	1.4
May 2004	371.20	7.40	2.0
All employees			
May 2002	697.60	14.30	2.0
May 2004	756.50	20.60	2.7

(a) Published estimate of Average Weekly Total Earnings, excluding salary sacrifice.

Source: ABS Survey of Employee Earnings and Hours

*Survey of Employee
Earnings, Benefits and
Trade Union Membership*

The annual EEBTUM survey collects information on the weekly earnings and employment benefits (e.g. paid leave entitlements, superannuation coverage) received by employees. A number of mean and median weekly earnings series are published. The information is used to analyse the distribution of weekly earnings across employees with different socio-economic and employment characteristics.

While the international definition refers to regular payments, no adjustments are made to EEBTUM survey data to exclude irregular pay (e.g. irregular bonuses) or pay that does not relate to the reference period (e.g. pay in advance). Earnings measures collected in the EEBTUM survey comprise the total last pay (i.e. before taxation and other deductions have been made) from wage and salary jobs prior to the interview.

In recent years, there has not been any explicit reference to the treatment of salary sacrifice in the survey questions or interviewers instructions. Thus, it is probable that some respondents are already including amounts salary sacrificed in their responses, depending upon how their pay is reported.

CHANGES

Beginning with the August 2007 EEBTUM survey, earnings measures will be collected on the new conceptual basis (see figure 4.4.1). Amounts salary sacrificed will be explicitly included in survey questions and interviewers instructions, and will therefore be included in EEBTUM earnings series.

The ABS is not planning to collect the value of salary sacrificed separately, and will publish EEBTUM earnings series only on the new basis from the 2007 survey onwards.

Survey of Employee Earnings, Benefits and Trade Union Membership continued

IMPACT

Incorporating the value of salary sacrificed will increase the level of the EEBTUM survey earnings series and cause a break in time series. As it is likely that a proportion of salary sacrifice is already included in earnings measures from this survey, it is expected that the impact will be considerably less than the total impact observed from the EEH survey, as shown in table 6.3.1.

Labour Price Index

The LPI is a chained Laspeyres-type index covering wage and salary costs and selected non-wage costs. It measures the change in the price of labour between the current period and the price of labour at a given base period, with the quantity and quality of labour services being held constant. The headline wage price index is 'Total hourly rates of pay excluding bonuses'. As the LPI already includes the value of salary sacrificed in calculating the wage price indexes, no changes to the LPI are required.

6.4 SUMMARY OF CHANGES

Table 6.4.1 lists the key ABS collections of earnings statistics, the current measure of earnings used, and the changes that will be made to these statistics.

6.4.1 CHANGES TO ABS COLLECTIONS

	<i>Description</i>	<i>Current measure of earnings/labour price</i>	<i>Changes</i>
Average Weekly Earnings (AWE)	Quarterly employer survey (estimates of average weekly earnings).	Regular wages and salaries in cash (i.e. payments quarterly or more frequently) paid in the reference pay week. Amounts salary sacrificed are excluded.	No change to current series. Additional series including salary sacrifice to be developed.
Employee Earnings and Hours (EEH)	Two-yearly employer survey collecting employee-level data (estimates of average weekly earnings, and earnings distributions).	Regular wages and salaries in cash (i.e. payments quarterly or more frequently) paid in the reference pay week. Amounts salary sacrificed are excluded.	Include amounts salary sacrificed for May 2006 survey. Series including salary sacrificed will be available for 2002 onwards.
Employee Earnings, Benefits and Trade Union Membership (EETUM)	Annual household survey (estimates of mean and median weekly earnings, and earnings distributions).	Wages and salaries in cash. There are no specific directions regarding the reporting of amounts salary sacrificed.	Explicitly include amounts salary sacrificed from 2007 - break in series.
Labour Price Index (LPI)	Quarterly employer survey (index of changes in the price of labour).	The wage price indexes are derived from information about hourly rates of wages and salaries and include amounts salary sacrificed.	No change.

CHAPTER 7

IMPACTS ON HOUSEHOLD ECONOMIC WELL-BEING STATISTICS

7.1 INTRODUCTION

The ABS collects and disseminates a range of statistics on the economic resources available to households. Wages and salaries are an important source of income for many households.

Chapter 3 explains the conceptual basis for ABS statistics of household income and shows that these align fairly closely with the international standards and guidelines. Chapter 3 also highlights the current ABS departure from the international standards by restricting employee income to regular and recurring wages and salaries in a 'current income' concept, and the exclusion on practical grounds of income in-kind.

7.2 CURRENT TREATMENT

In ABS household income surveys, respondents are asked to report the total amount of the most recent pay before tax or anything else is taken out, and whether this is their usual amount. If not, they are asked how much they usually receive.

These questions are designed to measure the usual and recurrent wages and salaries income available to support the living standards of the household in question, without the respondent burden or imprecision associated with valuing in-kind income. Payments that are excluded from the definition of current wages and salaries, because they are not part of regular earnings of employees, include payments that are irregular, such as leave loadings and annual and irregular bonuses, or payments not related to the survey reference period, such as retrospective pay and pay in advance.

While the explicit questions asked of respondents leave the interpretation of the treatment of amounts salary sacrificed to the respondent, interviewer instructions note that if a respondent mentions salary sacrifice during the interview when standard income questions are being asked, the interviewer should 'ensure that the information you collect refers only to the cash component of their remuneration'. It is not known how often interviewers have instructed respondents to exclude amounts salary sacrificed from their responses. It is also not known how many people in past survey years would have included amounts salary sacrificed in the wages and salaries question.

However, in the 2003–04 Household Income and Expenditure Survey (HIES), respondents were again asked the standard income questions, and then explicitly asked about any salary sacrifice arrangements. In particular, they were asked whether the amounts salary sacrificed had been included in their aggregate responses to the standard wages and salary question. Two-thirds of the total amount that was reported as salary sacrifice in 2003–04 had already been included in respondent answers to the standard question wording. That is, less than one percent of wages and salary was taken in salary sacrifice arrangements and not reported in response to the standard income question. As a proportion of total household income, the omitted amounts were a little over one half of one percent.

7.2 CURRENT TREATMENT

continued

While the small amounts excluded from the standard income measures will continue to be excluded from summary measures in standard output from the 2003–04 HIES, the additional detail for the one third of amounts salary sacrificed excluded from reported income will be incorporated on confidentialised microdata files released from the survey.

It is likely that the total amount of salary being sacrificed has grown over recent years, and therefore the small amount being excluded from responses to standard income wording is likely to have grown slightly. However, it is also likely that salary sacrifice arrangements are to some extent replacing earlier arrangements for the provision of in-kind income. The net effect of these changes on income and income distribution measures is expected to be very small.

7.3 IMPACT OF CHANGES

The changes outlined in Chapter 4 will not impact significantly on household surveys.

As a result of the changes, the value of salary sacrificed will be included in measures of employee income. This will include employer superannuation contributions made as part of a salary sacrifice arrangement, as well as amounts salary sacrificed for fringe benefits and the associated Fringe Benefits Tax (FBT). As most of the value of salary sacrificed is already included as part of employee income, the changes will not impact significantly on the estimates of employee income from household surveys.

The practical exclusion of in-kind income will remain in most household survey contexts, although its significance will be assessed with each six-yearly household income and expenditure survey, when information is collected on the value of remuneration in kind. For practical reasons, the ABS does not propose to collect the value of FBT in regard to remuneration in kind.

The 2005–06 Survey of Income and Housing (SIH) has repeated the 2003–04 HIES practice of using both the current standard question wording and the explicit identification of salary sacrifice amounts, identifying whether or not they are included in reported income measures.

A review of household income standards is currently underway. As the ABS develops and promulgates these new standards for household income, salary sacrifice will be explicitly included in redeveloped and tested questions for wages and salaries measures, together with any other changes that emerge from the review. Interviewer instructions will be altered to reflect the clarification of the concept to be measured. This change will be introduced with the 2007–08 SIH, the next household income survey to be conducted following the change in conceptual treatment of income in household surveys.

7.3 IMPACT OF CHANGES

continued

It is expected that the household income standards review may have progressed sufficiently by late 2006 to provide for the implementation of some of the range of conceptual and measurement changes to income, including the treatment of salary sacrifice arrangements, for which information has already been collected. Therefore, the results from the 2005–06 SIH are expected to be presented, to the extent it is practicable, according to the new conceptual standards for income measurement. The results from the 2003–04 HIES would be revised to reflect the new conceptual standards. These changes would include presenting the 2003–04 income measures inclusive of salary that had been sacrificed.

The definitions used in other household surveys which collect personal or household income will also be changed to note that amounts salary sacrificed should be included. These changes will await the redevelopment of the income standards (including new question wording) but are expected to be implemented by July 2007.

7.4 SUMMARY OF CHANGES

The table below lists the key ABS collections of employee income statistics, the current measure of income used, and the main changes that will be made to the statistics commencing with 2005–06 output. Additional changes, such as for the treatment of severance and termination pay, will be made following data collection for the 2007–08 SIH.

7.4.1 CHANGES TO ABS COLLECTIONS

	<i>Description</i>	<i>Current measure of employee income</i>	<i>Changes</i>
Survey of Income and Housing (SIH)	Two-yearly household survey	Regular and recurring cash receipts from wages and salaries. Amounts salary sacrificed are excluded.	Include amounts salary sacrificed in 2005–06 SIH.
Household Income and Expenditure Survey (HIES)	Six-yearly household survey	Regular and recurring cash receipts from wages and salaries. Amounts salary sacrificed are excluded.	Include amounts salary sacrificed in next HIES. Results from 2003–04 HIES will be revised to include all salary sacrifice.

APPENDIX

RELATED PUBLICATIONS

RELATED PUBLICATIONS

- Australian Labour Market Statistics* (cat. no. 6105.0)
- Australian System of National Accounts* (cat. no. 5204.0)
- Australian System of National Accounts: Concepts, Sources and Methods*
(cat. no. 5216.0)
- Average Weekly Earnings, Australia* (cat. no. 6302.0)
- Business Indicators, Australia* (cat. no. 5676.0)
- Business Operations and Industry Performance, Australia* (cat. no. 8140.0)
- Employee Earnings, Benefits and Trade Union Membership, Australia* (cat. no. 6310.0)
- Employee Earnings and Hours, Australia* (cat. no. 6306.0)
- Household Expenditure Survey, Australia* (cat. no. 6530.0).
- Household Income and Income Distribution, Australia* (cat. no. 6523.0)
- Information Paper: Impact of the Implementation of International Financial Reporting Standards on ABS Statistics* (cat. no. 1279.0)
- Labour Costs, Australia* (cat. no. 6348.0.55.001)
- Labour Price Index, Australia* (cat. no. 6345.0)
- Labour Price Index: Concepts, Sources and Methods* (cat. no. 6351.0.55.001)
- Labour Statistics: Concepts, Sources and Methods* (cat. no. 6102.0.55.001)
- Wage and Salary Earners, Public Sector, Australia* (cat. no. 6248.0.55.001)

GLOSSARY

Accruals basis	An accounting method in which income, expenditure or other flows are recorded at the time they are earned, accrued, or incurred, regardless of when payment is actually made or received. See <i>Cash basis</i> .
Adult employees	Employees who are 21 years of age or over, or who are under 21 years of age but are paid at the full adult rate for their occupation.
Benefits	Concessions, allowances or other privileges received by or provided to employees in their job in addition to wages and salaries paid in cash. See <i>Wages and salaries in kind</i> .
Cash basis	An accounting method in which income, expenditure or other flows are recorded at the time payment is actually made or received. See <i>Accruals basis</i> .
Compensation of Employees	The total remuneration, in cash or in kind, payable by an enterprise to an employee in return for work done by the latter during the accounting period. It covers all of the benefits accruing to employees in respect of work done during the relevant accounting period, including wages and salaries (both payable in the same accounting period or as changes in provisions for future employee entitlements), and employers' social contributions. It is measured on a gross basis, before deducting any amounts withheld by the employer and passed to taxation and other authorities on behalf of their employees to cover employee obligations for taxation and employee contributions to social insurance. (<i>System of National Accounts, 1993</i>)
Current income	Income that is currently available to the household to support their living standards and was likely to be available in the near future.
Earnings	Remuneration in cash and in kind paid to employees, as a rule at regular intervals, for time worked or work done, together with remuneration for time not worked such as for annual vacation, other paid leave or holidays. Earnings exclude employers' contributions paid in respect of their employees, to social security and pension schemes and also the benefits received by employees under these schemes. Earnings also excludes severance, termination and redundancy payments. (<i>International Conference of Labour Statisticians, 1973</i>)
Employee income	Income received by employees from their involvement in paid employment. It comprises direct wages and salaries for time worked and work done, cash bonuses and gratuities, commissions and tips, directors' fees, profit-sharing bonuses and other forms of profit-related pay, remuneration for time not worked as well as free or subsidised goods and services from an employer. It may include severance and termination pay as well as employers' social contributions. (<i>International Conference of Labour Statisticians, 2003</i>) See <i>Household income</i> .
Employee share schemes	Arrangements where employees receive shares (including share rights or options) in the employer's business as an employment benefit. See <i>Share options</i> .
Employees	Persons who worked for a private or public employer and received pay for the reference period in the form of wages and salaries, a commission while also receiving a retainer, tips, piece rates or payment in kind. Persons who operated their own incorporated business with or without hiring employees are also considered employees.
Employers' social contributions	Contributions by employers in order to secure social benefits for their employees. Employers' social contributions can include both actual and imputed contributions. The actual contributions are those payable by employers to pension and superannuation funds and to workers' compensation schemes for occupational injuries and diseases.

Employers' social contributions <i>continued</i>	Where employers provide these benefits directly from their own resources, the employers' social contributions will be imputed as the cost of making such unfunded provision for employee entitlements. See <i>Social benefits</i> .
Financial corporations sector	An institutional sector comprising resident corporations, quasi-corporations, market non-profit institutions mainly engaged in financial intermediation or financial auxiliary services, and market non-profit institutions serving financial corporations.
Fringe benefits	Benefits, such as goods and services, provided to employees in respect of employment. Examples include use of a work car, a cheap loan, or health insurance costs.
Fringe Benefits Tax	Tax paid by employers in respect of fringe benefits provided to their employees. Fringe Benefits Tax is payable in respect of most fringe benefits provided to employees.
Full-time employees	Employees who usually work the agreed or award hours for a full-time employee in their occupation. If agreed or award hours do not apply, employees are regarded as full-time if they usually work 35 hours or more per week. (<i>Survey of Employee Earnings and Hours</i> ; <i>Survey of Average Weekly Earnings</i>) See <i>Part-time employees</i> .
General government sector	An institutional sector comprising resident government units and non-market non-profit institutions that are controlled and mainly financed by government units.
Grant date	The date at which the shares or share options are issued. See <i>Share options</i> .
Gross Domestic Product	The total market value of goods and services produced in Australia within a given period after deducting the cost of goods and services used up in the process of production but before deducting allowances for the consumption of fixed capital. Thus Gross Domestic Product is 'at market prices'. It is equivalent to gross national expenditure plus exports of goods and services less imports of goods and services.
Gross wages and salaries	Wages and salaries before taxation and other deductions are made.
Household income	All receipts, whether monetary or in kind (goods and services) that are received by the household or by individual members at annual or more frequent intervals, but excludes windfall gains and other such irregular and typically one-time receipts. See <i>Employee income</i> .
Household sector	An institutional sector comprising resident households, including resident household unincorporated enterprises.
Labour costs	Costs incurred by employers in the employment of labour services.
Managerial employees	Employees who are in charge of a significant number of employees and/or have strategic responsibilities in the conduct or operations of the organisation, and usually do not have an entitlement to paid overtime. Includes professionally qualified staff who primarily perform managerial tasks in conjunction with utilising their professional skills. Working proprietors and working directors of their own incorporated businesses are regarded as managerial employees. (<i>Survey of Employee Earnings and Hours</i>) See <i>Non-managerial employees</i> .
National accounts	See <i>System of National Accounts</i> .
Non-cash benefits	See <i>Benefits</i> .
Non-managerial employees	Employees who are not managerial employees, including non-managerial professionals and some employees with supervisory responsibilities. (<i>Survey of Employee Earnings and Hours</i>) See <i>Managerial employees</i> .
Occupation	A collection of jobs that are sufficiently similar in their main tasks to be grouped together for the purposes of classification. Occupation is classified according to <i>Australian Standard Classification of Occupations, Second Edition</i> (cat. no. 1220.0).

Ordinary-time	Award, standard or agreed hours of work.
Part-time employees	Employees who usually work less than the agreed or award hours for a full-time employee in their occupation. If agreed or award hours do not apply, employees are regarded as part-time if they usually work less than 35 hours per week. (<i>Survey of Employee Earnings and Hours; Survey of Average Weekly Earnings</i>) See <i>Full-time employees</i> .
Remuneration	Payment, reward or other benefit for work.
Salary package	An arrangement for the employer to remunerate the employee with a combination of cash wages and salaries and one or more non-cash benefits, to the value of the employee's total remuneration.
Salary sacrifice	An arrangement under which an employee agrees contractually to forgo part of the remuneration, which the employee would otherwise receive as wages and salaries, in return for the employer or someone associated with the employer providing benefits of a similar value. (<i>Australian Taxation Office</i>)
Secondary income	Consists of receipt and payment of current transfers. Current transfers are transactions where a good, service or cash is provided without receiving anything of economic value in return.
Severance, termination and redundancy payments	Lump sum payments made to employees on termination of employment.
Share options	A contractual right to acquire shares in the future, at a set price. The shares are issued when the employee exercises this right to the shares. See <i>Employee share schemes</i> .
Social benefits	Benefits received by households to provide for needs that arise from certain events or circumstances such as sickness, unemployment, retirement, housing, education or family circumstances. See <i>Employers' social contributions</i> .
Standard error	A measure of the likely difference between estimates obtained in a sample survey and estimates which would have been obtained if the whole population had been surveyed. The magnitude of the standard error associated with any survey is a function of sample design, sample size and population variability.
Superannuation	See <i>Superannuation contributions</i> .
Superannuation contributions	Employer contributions to superannuation funds made on behalf of employees. These consist of contributions made under Superannuation Guarantee legislation, additional contributions made by employers over and above their Superannuation Guarantee requirements and not made at the employee's discretion, and contributions made at the employee's discretion (i.e. by forgoing wages or salary through a salary sacrifice arrangement).
Superannuation Guarantee	The <i>Superannuation Guarantee (Administration) Act 1992</i> requires an employer to pay a minimum proportion (currently 9%) of an employee's salary to the employee's superannuation fund. If the employer does not make at least the minimum 9% contribution they are liable to pay the Superannuation Guarantee charge.
System of National Accounts	A comprehensive and consistent set of macroeconomic accounts providing the statistical framework for summarising and analysing economic flows, such as economic production, the income generated by production, the distribution of income among the factors of production, and the use of income through consumption or the acquisition of assets.
Vesting date	The date at which the employee becomes entitled to receive shares or exercise an option to buy shares. See <i>Share options</i> .

Wages & salaries	Consists of the sum of wages and salaries in cash, and wages and salaries in kind.
Wages & salaries in cash	Wages and salaries paid at regular weekly, monthly or other intervals, together with payments by measured result and piecework payments, allowances for working overtime, for working away from home or for working in unpleasant or hazardous circumstances, pay for annual and other leave for short periods (excluding absences due to sickness or injury); ad-hoc bonuses and commissions, gratuities and tips received by employees. (<i>System of National Accounts, 1993</i>)
Wages & salaries in kind	Wages and salaries provided to employees in the form of goods or services, e.g. free or subsidised accommodation, travel, food, motor vehicles and other goods and services for the private use of employees. (<i>System of National Accounts, 1993</i>)

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PHONE 1300 135 070

EMAIL client.services@abs.gov.au

FAX 1300 135 211

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2631300001053

ISBN 0 642 48195 4

RRP \$11.00