



Business Bearing the Burden

The size and impact of State Government Business Taxes

December 2010

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State Business Tax Calculator

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The Size and Impact of State and Territory Government Business Taxes: The IPA State Business Tax Calculator

December 2010

Julie Novak
Research Fellow
Institute of Public Affairs¹

¹ The information contained in this paper is indicative estimates of state and territory government business tax liabilities, presented for illustrative purposes only. The IPA does not accept liability for any decisions or transactions made or effected on the basis of information contained in this paper. Individuals and businesses seeking tax information relevant to their own circumstances should consult their tax advisor.

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Executive Summary

- The Institute of Public Affairs (IPA) State Business Tax Calculator calculates the level of state and territory government taxes on business.
- With the inclusion of the ACT and NT for the first time in this series, the IPA analysis reveals:
 - The Northern Territory imposes the lowest level of tax liability on a reference medium-sized business in Australia, due in part to its no-land tax policy.
 - Western Australia and Victoria maintain the second and third lowest taxing regimes, giving them a distinct competitive edge over other jurisdictions.
 - For the second consecutive year, South Australia is assessed as imposing the highest level of business taxes. The ACT and New South Wales are also grouped as high-taxing jurisdictions.
- The key policy implications of the IPA findings are:
 - Jurisdictions with a relatively high business tax load tend to maintain relatively weak economic performance over time compared to low-taxing states and territories.
 - Variations in tax competitiveness between states and territories appear to be mainly driven by differences in property taxation.
 - Differences in the tax mix across jurisdictions suggests that there are different approaches available to each government to reduce their business tax burden – for example, South Australia should target land tax reductions as a priority, NSW must continue to reduce payroll taxes, and Victoria should reduce stamp duties to further enhance its low tax position.
- State business taxes are widely held to impede efficiency, which constrain business growth and hence the development of Australia's market-based economy. If state governments use the findings from this study to cut tax burdens, Australia stands to fortify its economic recovery from the aftermath of the global financial crisis.

Introduction

A multiplicity of taxes is imposed by Australia's state and territory governments. A large business operating in every jurisdiction could potentially be subject to a maximum of 147 taxing points.² These include taxes on payroll, property, financial and capital transactions, and on goods and the performance of activities.

According to the Australian Bureau of Statistics, taxes imposed by state and territory governments totalled approximately \$50.6 billion in 2008-09, representing about 29 per cent of general government revenue.³

A significant proportion of this state tax liability burden is directly borne by the business community – the prime generator of investment, jobs and exports in Australia. Specifically, some of the major taxes that impact directly upon businesses, and covered in this report, include:

- Payroll tax – a tax levied on employers and based on wages paid or payable (including non-cash fringe benefits and employer superannuation contributions in most states) to employees.
- Land tax – a tax levied on the unimproved value of selected categories of land held as at a particular date.
- Land transfer duty – a tax levied on the transfer of non-residential commercial (and residential) property, paid by the purchaser and based on the sale price (or value, if higher) of the property.
- Insurance duty – a tax levied on a variety of insurance policies, generally based on the annual premium.
- Motor vehicle registration duty – a tax on the value of a vehicle payable on the application to initially register a motor vehicle or the application to change the name of the registered owner.⁴

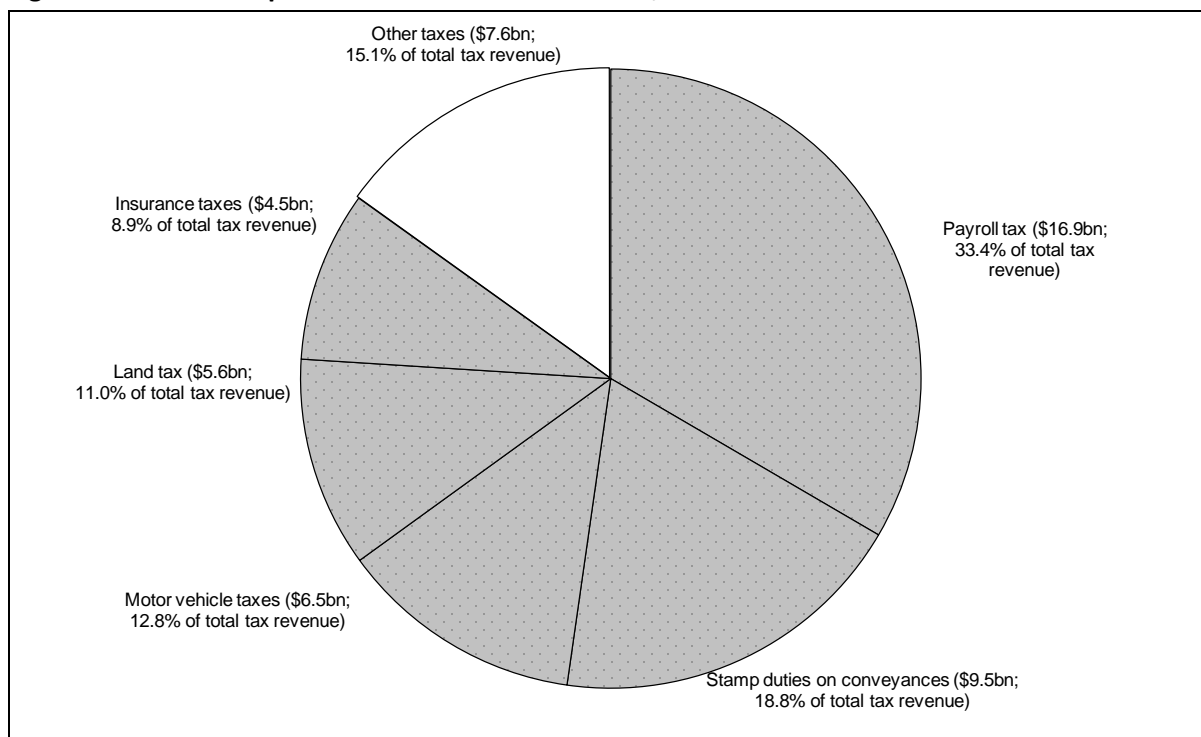
² PricewaterhouseCoopers, 2009, *What is your company's Total Tax Contribution? 2008 survey results*, <http://www.pwc.com.au/tax/assets/Tax-Contribution-08.pdf> (accessed 8 November 2010). NSW had the highest number of state business taxes (22), followed by Victoria and South Australia (both 21), Queensland (20) and Western Australia (19). The Northern Territory had the lowest number of business taxes (13).

³ Australian Bureau of Statistics (ABS), *Government Finance Statistics, Australia, 2008-09*, cat. no. 5512.0.

⁴ NSW Treasury, 2009, *Interstate Comparison of Taxes 2008-09*, Office of Financial Management, Research & Information Paper, March.

Figure 1 illustrates the amounts and shares of revenue acquired by these taxes.

Figure 1: Revenue acquired from selected state taxes, 2008-09



Excluding workers' compensation premium payments. Shaded areas signify taxes included within the scope of this study. Revenue acquired under selected taxes, such as stamp duties, motor vehicle taxes, land tax and insurance taxes, are imposed on businesses and individuals. 'Other taxes' include taxes on gambling activities, other taxes on property and financial and capital transactions, statutory corporation levies and miscellaneous taxes.

Source: Australian Bureau of Statistics (ABS), Taxation Revenue, Australia, 2008-09, cat. no. 5506.0.

In practice, the myriad of taxes levied by state governments can make it difficult for busy business owners and managers to understand their liabilities. This is especially the case when governments change tax rates and bases, or when businesses grow in size. It can be particularly difficult for smaller businesses to appreciate how seemingly minute variations in state tax structures could yield significant variations in liability.

Government may see it as being in their own interests to obscure the 'visibility' of their taxes. Business taxes can potentially create a 'fiscal illusion' effect whereby voters and taxpayers are uncertain about where the final incidence of a tax falls, and even how much revenue the tax raises. This could make the tax burden in some instances seem much smaller than it actually is, with significant consequences for broader community support for wide-ranging state tax reform.

Individual state revenue offices provide information about the potential tax liabilities applicable to their own respective jurisdictions. However, there remains a lack of a single information source on the tax burdens placed on a business if it were to operate in any of the six states and two territories. The benchmarking results of the Institute of Public Affairs (IPA) State Business Tax Calculator has been published since 2008 to help fill the gap.

This paper aims to shed light on comparative business tax liabilities for the six states and, for the first time in this series, the two territories.

The next section will investigate why an analysis of state taxation is an important pursuit in the Australian economic context. After a discussion of the main features of the IPA State Business Tax Calculator, the indicative tax liabilities of businesses in the states as at 31 December 2010 are calculated using a 'reference business' concept adapted from World Bank competitiveness methodology.

This paper illustrates that there are significant variations in indicative state tax liabilities imposed on businesses, presenting opportunities for competition between governments to institute tax structures more amenable to economic development.

Why do state business taxes matter?

The Impact of taxes on economic performance

In modern societies governments compulsorily acquire revenue from a number of sources in order to fund the production and provision of certain goods and services – such as justice and policing, education, health and transportation. As noted above, taxation represents a key element in the revenue-taking armoury of the Australian states.

That said, the cost of taxation on the community is much greater than that implied by the transfer of funds from businesses and individuals to governments for subsequent public expenditure.

As explained in the public economics literature, taxes either raise the cost or lower the return to the taxed activity and thus distort choices in the market as economic agents seek to minimise their tax liability, by substituting away from activities taxed at higher rates to those taxed at lower, or no, rates. These economic costs are known as the ‘deadweight cost’ or ‘excess burden’ of taxation. Indeed, as the public sector expands the increased taxes induce additional distortions to economic decision-making.

Consider, for example, the impact of taxes on capital. Taxation can affect the cost of capital, or the hurdle rate of return that a project must meet in order for the entrepreneur to undertake it. When returns from a project are taxed then the project must earn an even higher return for it to be considered a worthwhile investment. A tax on investment thereby reduces the number of viable projects that would proceed in a competitive market.

In addition, the imposition of a tax may reduce the cash flow of an entrepreneur which may affect investment decisions. Specifically, to the extent that liquidity constraints exist in financial markets, a tax on capital could lead to a reduction in the demand for capital.

The long run economic consequences of taxation under this scenario is clear, given the importance of business investment in promoting growth and economic development.

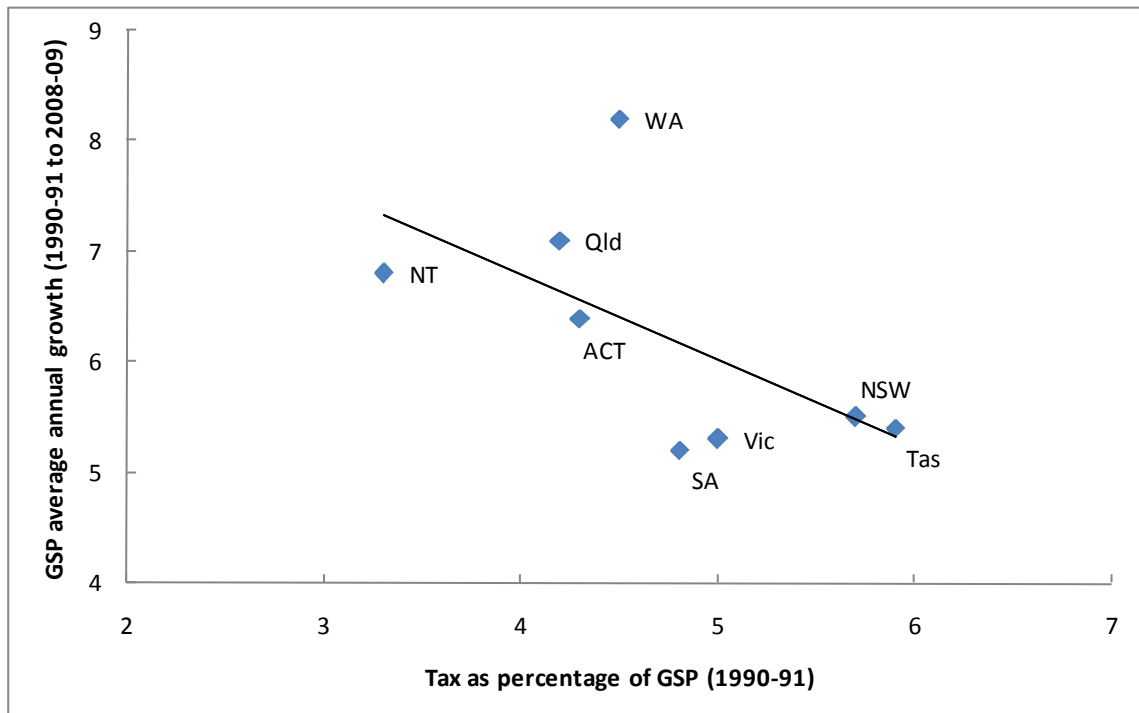
The excess burden of taxation is not the only additional cost rendered by the taxation system. Other costs include administrative costs, compliance costs, enforcement costs and ‘rent-seeking’ costs associated with resources spent by individuals and businesses lobbying politicians and bureaucrats to avoid tax (both in an *ex-ante* and *ex-post* sense).

The detrimental effect of higher taxation on economic performance can best be gleaned from a long run perspective. Figure 2 plots the level of state taxation as a share of gross state product (GSP) in 1990-91 with the average annual compounded growth of state GSP for almost two decades thereafter.

The Figure indicates that jurisdictions with relatively higher taxes in 1990-91, such as NSW, Victoria, South Australia and Tasmania, recorded relatively lower compounded growth in output over the following twenty years.

By contrast jurisdictions with a relatively lighter state tax burden, such as the Queensland, Western Australia and the two territories, recorded relatively higher economic growth over the period 1990-91 to 2008-09.⁵

Figure 2: Level of state taxation versus average annual growth of state GDP

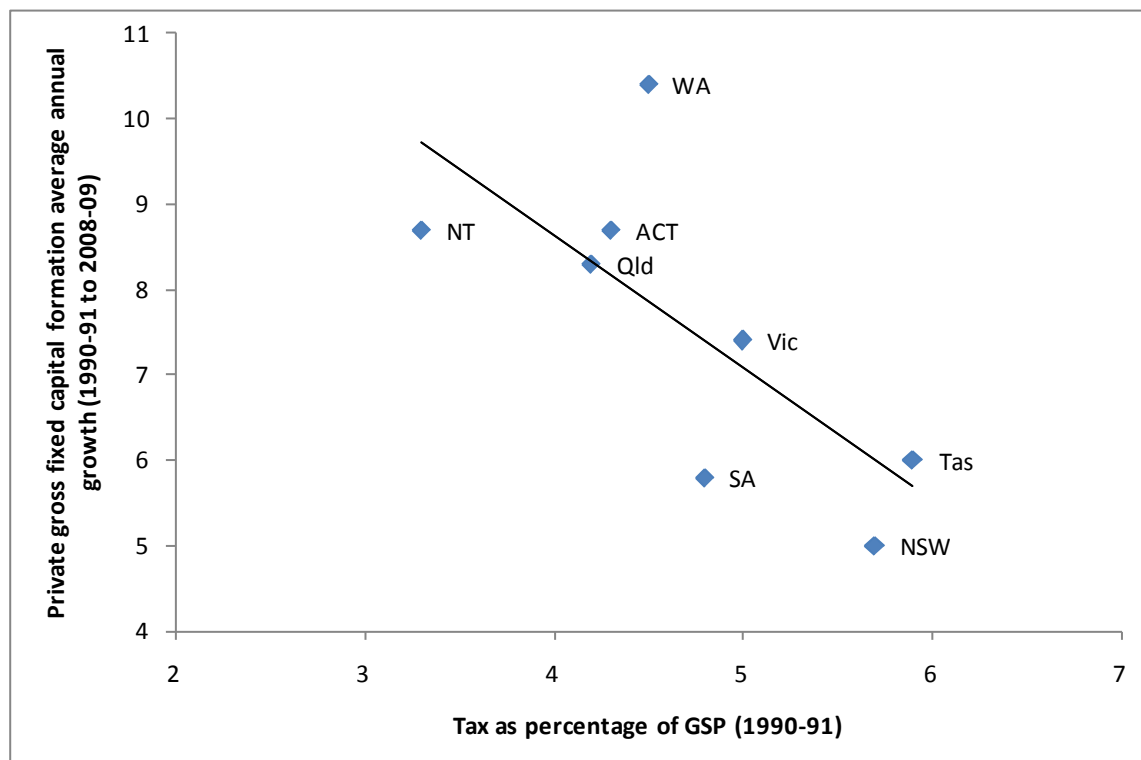


Source: ABS, Australian System of National Accounts, cat. no. 5204.0; ABS, Taxation Revenue, Australia, cat. no. 5506.0; IPA calculations.

There also exists a negative association between the level of state taxation and compounded growth in business investment (Figure 3).

⁵ The removal of WA, which appears as an outlier in Figures 1 and 2, does not change the overall result of a negative association between state taxation and output or business investment growth.

Figure 3: Level of state taxation versus average annual growth of state business investment



Source: ABS, Australian System of National Accounts, cat. no. 5204.0; ABS, Taxation Revenue, Australia, cat. no. 5506.0; IPA calculations.

It is noted that the state tax mix has changed materially since the introduction of the national GST reforms in July 2000, which saw the progressive removal of a number of inefficient transactions-based taxes by the states in exchange for GST revenue grants from the commonwealth government. Plotting the compounded growth of GSP and business investment, respectively, against state tax levels in 2000-01 reveals similar results to those presented above.

Apart from the inclusion of all state taxes, including those statutorily paid by individuals, in the data used above, there exist a host of caveats to these results which indicatively illustrate a negative long run relationship between state taxation and output or business investment growth.

The information presented above does not isolate the array of other important factors – demographic growth, natural resource endowments, the quality of institutions, and so on – that can directly or indirectly impinge on variations in state and territory economic performance. However, a growing number of empirical studies do lend strong support to claims of significant inefficiency costs associated with selected state taxes.

The commonwealth treasury commissioned KPMG and Econtech to assess the efficiency implications of the Australian taxation system.⁶ The March 2010 report indicates that a number of major state

⁶ KPMG-Econtech, 2010, CGE Analysis of the Current Australian Tax System, http://taxreview.treasury.gov.au/content/html/commissioned_work/downloads/KPMG_Econtech_Efficiency%20of%20Taxes_Final_Report.pdf (accessed 13 December 2010).

taxes, such as stamp duties, motor vehicle taxes, insurance taxes and payroll tax, impose relatively high marginal excess burdens upon economic activities (Table 1)

Table 1: Marginal excess burdens of selected state taxes

Tax	Marginal excess burden	Marginal excess burden rating
Land tax	8	Low
Stamp duties (other than real property)	18	Medium
Conveyancing stamp duty	34	High
Motor vehicle stamp duty	38	High
Payroll tax	41	High
Insurance taxes	67	Very high

Marginal excess burden expressed in terms of cents of consumer welfare per dollar of revenue.

Source: KPMG-Econtech, 2010, CGE Analysis of the Current Australian Tax System.

A March 2009 study by the Centre for International Economics (CIE) for the Business Coalition for Tax Reform (BCTR) modelled the economic impacts of three policy scenarios involving the reduction or elimination of the some of the most inefficient state taxes (Table 2).⁷

⁷ Centre for International Economics, 2009, State business tax reform: Seeding the tax reform debate, Report for Business Coalition for Tax Reform, <http://www.thecie.com.au/publication.asp?pid=190> (accessed 13 December 2010).

Table 2: State tax reform simulations in CIE study

<i>Change scenario</i>	<i>Objective</i>	<i>Source of funds</i>	<i>Proposed tax changes (cost of reforms)</i>
1	Raise growth	Australian Government (\$10 billion).	<ul style="list-style-type: none"> ▪ Reduce stamp duties on residential and non-residential property (\$7.5 billion). ▪ Remove insurance duties (\$2.5 billion). Total change: \$10 billion.
2	Enhance international competitiveness	Australian Government (\$10 billion).	<ul style="list-style-type: none"> ▪ Remove stamp duties on commercial property (\$4.0 billion). ▪ Remove land tax (\$4.4 billion). ▪ Reduce payroll tax (\$1.7 billion). Total change: \$10 billion.
3	Maximise elimination of the worst State taxes	Australian Government (\$8.6 billion). State contribution via a broad State tax (\$8.6 billion).	<ul style="list-style-type: none"> ▪ Remove stamp duties on residential and non-residential property (\$12.5 billion). ▪ Remove insurance duties (\$2.5 billion). ▪ Reduce land tax (\$2.2 billion). Total change: \$17.3 billion.

Assuming the removal of stamp duties on financial transactions and on non-real non-residential property in accordance to the original Intergovernmental Agreement timetable.

Source: Centre for International Economics, 2009, State business tax reform: Seeding the tax reform debate, Report for Business Coalition for Tax Reform.

The CIE research suggests that state tax reform would increase gross domestic product (GDP) in the long run compared to a no-change scenario:

- Scenario 1 would increase long run GDP by 0.6 per cent
- Scenario 2 would increase long run GDP by 0.4 per cent
- Scenario 3 would increase long run GDP by 1.7 per cent.

All three tax change scenarios would also raise private sector investment, which is in itself a key determinant of long run economic growth.

In October 2008 the NSW Independent Pricing and Regulatory Tribunal (IPART) released a review report on state taxation.⁸ The study concluded that the state needs to transition away from reliance upon transaction-based taxes on insurance, motor vehicles and property, and have them replaced in part by broader based taxes that are simple and transparent (Table 3).⁹

⁸ Independent Pricing and Regulatory Tribunal (IPART), 2008, Review of State Taxation, Report to the Treasurer, Final Report, http://www.ipart.nsw.gov.au/investigation_content.asp?industry=5§or=14&inquiry=142&expand=all (accessed 13 December 2010).

⁹ IPART, 2008, 'IPART recommends overhaul of state taxes', Media release, 17 October, <http://www.ipart.nsw.gov.au/files/Media%20Release%20-%20Review%20of%20State%20Taxation%20-%20Final%20Report%20Release%20-%2017%20October%202008%20-%20PDF%20Version%20-%20Website%20Document.PDF> (accessed 13 December 2010).

Table 3: Assessment of NSW taxes against selected tax principles

Tax	Efficiency	Equity	Trans- parency ^a	Simplicity ^b	Robust- ness	Weighted Score	Ranking ^c
Payroll tax	3	2	4	4	4	3.2	1
Land tax	3	2	2	1	3	2.5	3
Purchaser transfer duty	2	2	4	3	1	2.1	8
Insurance duty	1	3	4	5	2	2.3	6
Motor vehicle registration duty	2	3	3	4	2	2.5	3
Motor vehicle weight tax	3	2	4	4	4	3.2	1
Fire services funding contributions ^d	1	2	3	3	4	2.2	7
Gambling taxes	3	1	1	4	3	2.5	3

Ranking in order from best to worst (i.e., 1 is the best ranked tax).

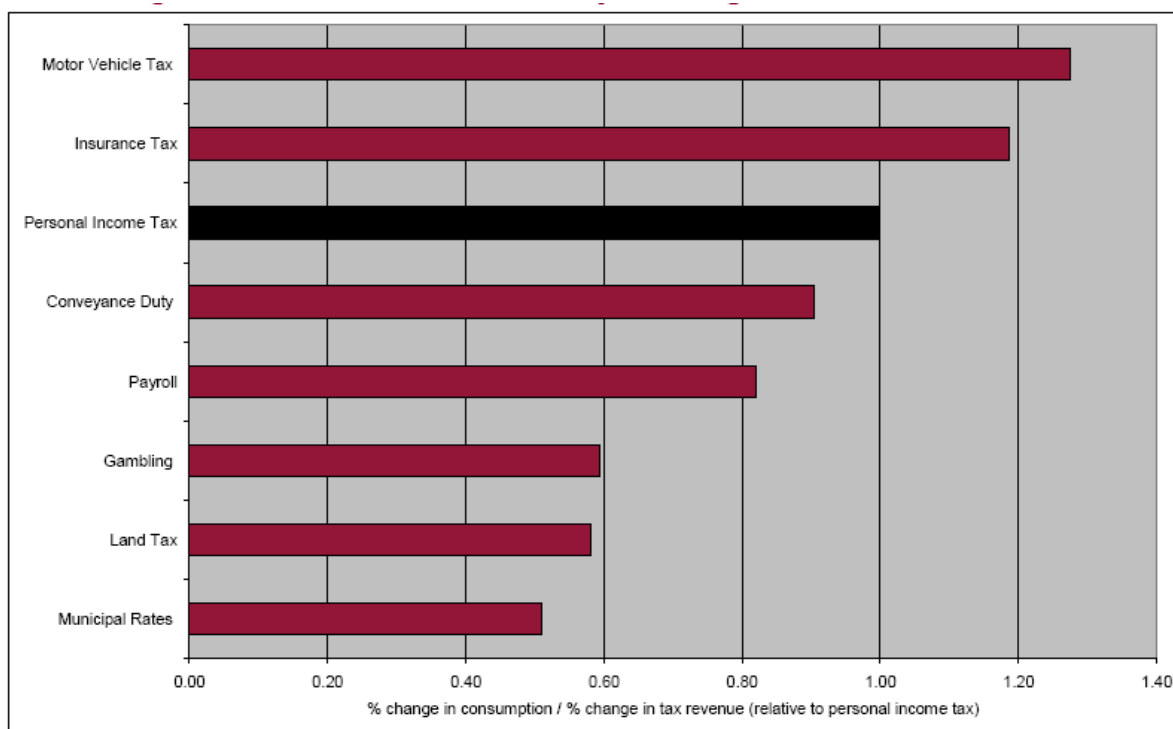
Source: Independent Pricing and Regulatory Tribunal, 2008, Review of State Taxation, Final Report.

In April 2008 Access Economics undertook modelling of the impact of state tax reform.¹⁰ Based on an empirical assessment of the impact on consumption from raising tax revenue by \$100 million, it is possible to obtain implied estimates of the welfare effects of selected taxes (Figure 4).

According to this study, state stamp duties on motor vehicles, insurance and non-residential property are among the least efficient of taxes levied in Australia.

¹⁰ Access Economics, 2008, Analysis of State Tax Reform, Report for Financial Industry Council of Australia, <http://www.bankers.asn.au/FICA-Launches-State-Tax-Reform-Report-/default.aspx> (accessed 13 December 2010).

Figure 4: Detailed efficiency ranking of selected commonwealth and state taxes



Estimates expressed in terms of relative efficiency compared to commonwealth personal income tax. Taxes that are less efficient than income tax score an 'efficiency index' score greater than one, with more efficient taxes scoring less than one. Efficiency ranking for taxes based on the ratio of the percentage change in real consumption to the percentage change in tax revenue attributable to changing each tax instrument.

Source: Access Economics, 2008, Analysis of State Tax Reform, Report for Financial Industry Council of Australia.

In recognition of the impact of state taxes upon economic performance over time, the Tasmanian and ACT governments are currently undertaking tax reviews. The newly-elected Coalition government in Victoria has also committed to undertaking a comprehensive review of the state taxation system.

The IPA State Business Tax Calculator

Taxes are a major source of costs outside the direct control of business, and so it is essential to develop tools that help shed light on the expected liability that firms are likely to face due to these imposts.

About the State Business Tax Calculator

The IPA State Business Tax Calculator (SBTC) is a quantitative model that calculates the tax liabilities applied to any business in the Australian states (New South Wales, Victoria, Queensland, Western Australia, South Australia and Tasmania) and territories (Australian Capital Territory, Northern Territory). Calculations are based on the following major taxes, fees and levies:

- Payroll tax
- Land tax
- Stamp duties on the sale and purchase of non-residential commercial property, motor vehicles and insurance premiums.

Using information on selected financial and economic activities provided by a business, the SBTC can compare tax liabilities between the different states to see which jurisdiction imposes the lowest tax burden. Not only can the SBTC calculate overall state tax liability for a business, but it can also allow for analysis and comparison of specific taxes.

Further, the SBTC offers insight into the burden of state business taxes on firms of different size profiles.

Report methodology

To illustrate the features of the IPA SBTC, the tax liability and workers' compensation premium are calculated for a 'reference' business of medium size. This is a hypothetical business entity with similar underlying economic, financial and operational characteristics that is used to highlight tax liabilities across jurisdictions.

The model used in this paper to construct the reference business is drawn from the World Bank's annual 'Doing Business' project. This project contrasts the ease and costs of operating a business, including tax compliance burdens, across 181 countries. The World Bank's 'standard case study company' is the basis for the reference business, and it is then subjected to the SBTC simulations.

To construct their standard case study company the World Bank use a series of weights, called 'multiplication factors,' to take into account relative incomes for each economy surveyed. In order to capture the impact of taxes on the company, assumptions are also made concerning the employment of labour and specific transactions undertaken. For example, the World Bank company has approximately 60 employees, and this is taken to be the employment size of the reference business used in the SBTC.

In the absence of exhaustive financial surveys of real-world business entities, a reference business model is an acceptable alternative method of obtaining reasonable tax comparisons (Box 1).

Box 1: The validity of a hypothetical ‘reference business’ model for tax benchmarking

For the purpose of this study, a hypothetical business – labelled a ‘reference business’ – was developed to generate comparable tax liability estimates across states.

In the absence of detailed financial data obtained from real-world entities, the reference business model is used to ensure that calculated differences in state tax liabilities actually reflect differences in tax systems, rather than differences in business characteristics. In other words, a consistent ‘like with like’ business comparison is provided.

To be sure, the reference business is not necessarily representative of the business population from a statistical perspective. Nonetheless, it accounts for the structural and operational characteristics, and activities, of a business that are reasonably commonplace including the hiring of labour and ownership and sale of assets.

Consistent with this, as the relative concentrations of businesses sizes can vary across the states the SBTC module can also adjust the scale of the reference business. This effectively allows for sensitivity testing of results.

The development of a hypothetical entity has long represented an acceptable practice in benchmarking studies. The *Paying Taxes* module of the annual World Bank *Doing Business* project has been in use for three consecutive years and, as an indication of the acceptability of the methodological approach adopted, is used by governments and other relevant stakeholders as a reference to discuss tax policies in an international context.

State governments in the past have also used hypothetical business constructs to sell their tax advantages compared to other jurisdictions. In the 2000-01 Queensland state budget, a hypothetical firm called ‘ABC Enterprises’ was used to compare average tax liabilities across states and territories. The study found that this firm could have saved up to 65 per cent in tax liability if it established operations in Queensland.

The use of hypothetical entities to benchmark interjurisdictional performance is used in other policy contexts. For example, the Productivity Commission has developed a series of regulation benchmarking reports that have used hypothetical businesses on occasion. This regulation benchmarking series has been endorsed by the Council of Australian Governments comprising commonwealth, state and territory heads of government.

Source: PricewaterhouseCoopers, 2009, *Paying Taxes 2010: The global picture*, International Finance Corporation and World Bank; Productivity Commission, 2007, *Performance Benchmarking of Australian Business Regulation*, Research Report; Queensland Government, 2001, *State Budget 2000-01 Economic and Revenue Outlook*, Budget Paper No. 3.

Further details on the assumptions and methodology adopted in this report are provided in [Appendix A](#).

Results

The following section provides indicative information on the magnitude of state tax liabilities faced by the SBTC modelled reference business as at 31 December 2010 if it were to operate in different jurisdictions.

State tax liability

In 2010 the reference business will be expected to pay, on average, \$262,926 in selected state business taxes and fees (Table 4).¹¹

This represents about 18 per cent of the amount of commonwealth corporate income tax (CIT) paid – in other words, in addition to the reference business paying company tax levied by the commonwealth government, the business pays the relevant state government tax imposed on it which equates to approximately 18 per cent of what is paid to the commonwealth.

Table 4: Total state business tax liability

	Total (\$)	Percentage of CIT (%)
New South Wales	270,129	18.4
Victoria	256,830	17.5
Queensland	264,630	18.0
Western Australia	256,195	17.5
South Australia	281,744	19.2
Tasmania	265,248	18.0
Australian Capital Territory	275,015	18.7
Northern Territory	234,656	16.0
States' average	263,056	17.9

As at 31 December 2010. Including payroll tax, land tax, land transfer duty, insurance duty, and motor vehicle duty. WA taxes include Metropolitan Regional Improvement Tax.

Source: IPA State Business Tax Calculator.

The tax liability imposed on the reference business is lowest in the Northern Territory (\$234,656). This amount of liability is 10.8 per cent below the states' (unweighted) average, and 16.6 per cent below South Australia's tax liability. The Northern Territory was followed by Western Australia (\$256,195) and Victoria (\$256,830).

For the second consecutive year, South Australia levies the highest tax liability of all the states. The reference business is estimated to incur a \$281,744 impost, which is seven per cent above the states' average.

¹¹ Information on the average amount of state business tax paid will differ from previous reports due to the inclusion of the ACT and NT in this study.

There is also significant variation between states in terms of liability imposed by specific taxes (Table 5). Across the major tax bases, the Northern Territory imposes the smallest liability upon a reference business primarily as a result of its land tax-free status.

Conversely, South Australia is the highest taxing jurisdiction in terms of major taxes (\$281,744), followed by the ACT (\$275,015) and New South Wales (\$270,129).

Table 5: State business tax liability for selected taxes

	Payroll tax Total (\$)	Land tax Total (\$)	Stamp duties Total (\$)
New South Wales	191,937	23,799	54,392
Victoria	176,291	10,119	70,420
Queensland	186,899	27,073	50,659
Western Australia	186,877	6,839	62,478
South Australia	175,615	41,895	64,234
Tasmania	191,404	24,446	49,399
Australian Capital Territory	181,372	28,055	65,588
Northern Territory	170,968	0	63,687
States' average	182,670	20,278	60,107

As at 31 December 2010. Including payroll tax, land tax, land transfer duty, insurance duty, and motor vehicle duty. WA taxes include Metropolitan Regional Improvement Tax.

Source: IPA State Business Tax Calculator.

Impact of reference business scale on state tax liabilities

The IPA SBTC allows the calculation of tax liability according to the size of the business.

Table 6 illustrates the expected taxes to be paid by the reference business of different scale economies. The alternative scales selected are 10 per cent, 50 per cent and 200 per cent of the size of the reference business.

Table 6: State business tax liability for selected reference business scales

	10 per cent Total (\$)	50 per cent Total (\$)	Reference business Total (\$)	200 per cent Total (\$)
New South Wales	3,153	111,016	270,129	603,436
Victoria	3,436	110,281	256,830	561,421
Queensland	3,032	89,012	264,630	565,437
Western Australia	3,396	101,798	256,195	575,573
South Australia	4,222	110,432	281,744	626,183
Tasmania	4,347	98,494	265,248	597,418
Australian Capital Territory	5,083	80,529	275,015	673,404
Northern Territory	3,404	80,453	234,656	543,061
States' average	3,759	97,752	263,056	588,245

As at 31 December 2010. Including payroll tax, land tax, land tax, land transfer duty, insurance duty, and motor vehicle duty. WA taxes include Metropolitan Regional Improvement Tax.

Source: IPA State Business Tax Calculator.

At the smallest reference business scale calculated (10 per cent of normal size), the tax liability imposed by Queensland is the lowest of all jurisdictions. This is followed by NSW (\$3,153), WA (\$3,396), NT (\$3,404) and Victoria (\$3,436). As the business increases in size the tax advantage of Queensland dissipates and is, in effect, replaced by the Northern Territory as the lowest taxing jurisdiction at the normal business reference scale.

Further insights on the effect of scale on tax liabilities can be gleaned by disaggregating on the basis of specific taxes (Table 7).

Table 7: State business tax liability for selected taxes and reference business scales

	10 per cent Total (\$)			50 per cent Total (\$)		
	Payroll tax	Land tax	Stamp duties	Payroll tax	Land tax	Stamp duties
New South Wales	0	0	3,153	77,874	8,942	24,200
Victoria	0	0	3,436	74,670	2,618	32,992
Queensland	0	0	3,032	63,762	3,786	21,464
Western Australia	0	0	3,396	72,814	1,446	27,539
South Australia	0	0	4,222	72,957	8,464	29,011
Tasmania	0	934	3,413	64,897	10,517	23,081
ACT	0	1,782	3,302	39,311	13,290	27,928
NT	0	0	3,404	48,609	0	31,844
Average	0	339	3,420	64,362	6,133	27,257
	Reference business Total (\$)			200 per cent Total (\$)		
	Payroll tax	Land tax	Stamp duties	Payroll tax	Land tax	Stamp duties
New South Wales	191,937	23,799	54,392	420,065	59,176	124,195
Victoria	176,291	10,119	70,420	379,531	41,049	140,840
Queensland	186,899	27,073	50,659	394,038	55,716	115,683
Western Australia	186,877	6,839	62,478	415,005	29,526	131,042
South Australia	175,615	41,895	64,234	380,929	110,612	134,642
Tasmania	191,404	24,446	49,399	444,418	52,304	100,696
ACT	181,372	28,055	65,588	465,494	57,584	150,326
NT	170,968	0	63,687	415,687	0	127,375
Average	182,670	20,278	60,107	405,664	58,064	124,516

As at 31 December 2010. Including payroll tax, land tax, land transfer duty, insurance duty, and motor vehicle duty. WA taxes include Metropolitan Regional Improvement Tax.

Source: IPA State Business Tax Calculator.

At the lowest reference business scale calculated, Queensland has the lowest liabilities whereas the imposition of land taxes in the ACT and Tasmania renders these jurisdictions as the highest and second highest taxing jurisdiction at the 10 per cent scale level respectively.

For a large reference business (scale at 200 per cent), the ACT imposes the greatest tax burden (\$673,404) followed by South Australia (\$626,183) and NSW (\$603,436).

Conclusion

The publication of results generated by the IPA State Business Tax Calculator has a potentially more far-reaching objective than to provide a transparent, robust comparison of state business tax liabilities for a real or hypothetical business, as important as this may be.

It is hoped that the publication of these results will also help to foster greater yardstick competition between the states. As competitive pressures between states puts downward pressure on tax liabilities, businesses and citizens stand to benefit from the consequent cost savings and greater incentives to grow, save, invest and employ resources.

As this paper has shown, transaction-based business taxes at the state level with relatively low thresholds disproportionately affect smaller businesses. This affects their capacity to acquire capital, labour and materials to expand.

At the other end of the scale, larger businesses are also adversely affected by state business taxation. In general terms, larger businesses tend to employ large numbers of people and invest significant amounts of capital in an attempt to exploit economies of scale and scope. State taxes can often have deleterious consequences, at least at the margin, for further expansion of existing firms.

Based on the analysis presented in this edition of the IPA state tax benchmarking exercise, it is clear that state taxation should be reformed as a matter of priority to promote business development that, in turn, leads to sustainable investment, jobs and growth.

Attachment A: Methodology and assumptions

Introduction

The Institute of Public Affairs State Business Tax Calculator (SBTC) is a quantitative spreadsheet model used to estimate financial liabilities imposed on real or hypothetical businesses attributable to state business taxes, including payroll tax, land tax, stamp duties, motor vehicle registration fees and workers' compensation premiums.

Explaining the 'reference business' concept

For the purpose of this study, a hypothetical business – labelled a 'reference business' – was developed to generate comparable business tax liability estimates across the six Australian states and two territories.

The underpinning financial and operational characteristics of the reference business are drawn from the 'case study company' used in the *Paying Taxes* module of the annual World Bank *Doing Business* competitiveness project. The uniform characteristics are selected to ensure that differences in state business tax liabilities reflect variations in tax structures, and not upon the underlying structure of the reference business construct.

Using information contained in the latest *Paying Taxes* report, a balance sheet (table A.1) and profit-and-loss statement (table A.2) is devised for the reference business.

Table A.1: Balance sheet for reference business

Category	Multiplication factor	Value (\$)	Category	Multiplication factor	Value (\$)
Current assets			Current liabilities		
Net cash	20	1,238,140	Short term debt	43	2,662,001
Inventory	35	2,166,745	Accounts payable	50	3,095,350
Accounts receivable	50	3,095,350			
Fixed assets (acquisition value)			Long term liabilities		
Land	30	1,857,210	Long term debt	55	3,404,885
Buildings	40	2,476,280			
Machinery	60	3,714,420	Equity		
Motor vehicles	5	309,535	Paid-in capital	102	6,314,514
Computers	5	309,535			
Office equipment	5	309,535			
Total assets	250	15,476,750	Total liabilities and equity	250	15,476,750

As at 31 December 2010.

Source: PricewaterhouseCoopers, 2009, *Paying Taxes 2010: The global picture*; IPA calculations.

Specific weights are then applied to each line item of the accounts – for example, turnover is assumed to be 1,050 times income per capita. For this study, these weights are called 'multiplication factors.' We then apply Australia's GDP per capita (estimated at \$61,907 for 2010-11) to each multiplication factor to derive a value for each account line item.

Estimated tax results using this methodological approach can vary from year to year to the extent that the 'flex mechanism' of GDP per capita changes.

Table A.2: Profit-and-loss statement for reference business

Category	Multiplication factor	Value (\$)
Sales	1050	65,002,350
Cost of goods sold	875	54,168,625
Salaries for:		
Managers	9	557,163
Assistants	10	619,070
Workers	48	2,971,536
Administrative expenses	10	619,070
Advertising expenses	10.5	650,024
Machinery repaid	3	185,721
Interest expense	5.5	340,489
Profit	79	4,890,653

As at 31 December 2010.

Source: PricewaterhouseCoopers, 2009, *Paying Taxes 2010: The global picture*; IPA calculations.

Of these line items, those which are subject to state business taxes are selected as inputs for the SBTC.

Additional assumptions are required to ensure comparability of liabilities upon the reference business across jurisdictions:

- The business will sell property at a price equivalent to 25 per cent of the total value of land held.
- The business will pay ten per cent of administrative expenses in insurance premiums, excluding workers' compensation and motor vehicle insurance premiums.
- The business pays insurance premiums on motor vehicles owned at a rate of five per cent of the total value of vehicles owned.
- The business sells motor vehicles at a price equivalent to 25 per cent of the total market value of vehicles owned.
- The business owns five vehicles (cars), all of which are subject to vehicle registration fees and insurance.
- It is assumed that the business does not employ apprentices or trainees.

Table A.3: Values of selected transactions for reference business

Category	Value (\$)
Total land value	1,857,210
Sale price of land	1,083,373
Total salaries	4,147,769
Business insurance	61,907
Total value of vehicles	309,535
Vehicle insurance	15,477
Purchase/sale of second-hand car	77,384
Profit	4,890,653
Corporate income tax liability	1,467,196

As at 31 December 2010.

Source: IPA calculations.

Reference business scale

The IPA SBTC includes a scaling factor to adjust the size of the reference business in an equi-proportional manner. For example, if the reference business size is scaled up by ten per cent then all financial aggregates and transactions are increased by that amount.

Quality checks

To ensure the accuracy and robustness of the estimates generated by the SBTC, the results are tested against tax calculators provided by state and territory governments.

State Business Tax Calculator

Fact Sheets

 Institute of
Public Affairs

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1.1 Methodology

IPA State Business Tax Calculator

What is the IPA State Business Tax Calculator?

- The IPA State Business Tax Calculator (SBTC) is a quantitative model that measures the tax imposed on business by state and territory governments.
- The latest information on tax rates and structures (as at 31 December 2010) are used to calculate tax liabilities.

Why is the Calculator needed?

- The SBTC sheds light on tax burdens imposed by states and territories.
- This helps business make decisions about where to invest, and assists the community in understanding how state taxes affect business conditions around Australia.

How are liabilities calculated?

- The SBTC calculates liabilities faced by a hypothetical 'reference business', based on methodology used by the World Bank.
- The 'reference' business is a medium-sized business which is assumed to have:
 - 60 employees
 - assets of \$16 million
 - profit of \$5 million.
- The size of the reference business can be scaled up or down to show how state taxes vary by business size.

What taxes are included?

- The SBTC includes liabilities for payroll tax, land tax, land transfer duty, insurance duty, and motor vehicle duty.
- These comprise up to 85 per cent of the tax revenue collected by state governments.

1.2 Main Results – State Business Tax League Table

South Australia the high tax state – Northern Territory has the low tax advantage

- The IPA State Business Tax Calculator shows that the Northern Territory, with no land taxes, has the lowest business taxes in Australia.

State tax liability on a medium-sized business

State	Tax liability	Ranking 2010	Ranking 2009
Northern Territory	\$234,656	1	na
Western Australia	\$256,195	2	1
Victoria	\$256,830	3	2
Queensland	\$264,630	4	3
Tasmania	\$265,248	5	4
New South Wales	\$270,129	6	5
Australian Capital Territory	\$275,015	7	na
South Australia	\$281,744	8	6

As at 31 December 2010. Based on state business tax liabilities borne by a reference business. Including payroll tax, land tax, land transfer duty, insurance duty, and motor vehicle duty. WA taxes include Metropolitan Regional Improvement Tax (MRIT). State tax liability rankings for 2008 are scaled from 1 to 8 (1 being the lowest liability to 8 being the highest), while rankings for 2009 are scaled from 1 (lowest) to 6 (highest).

Source: IPA State Business Tax Calculator.

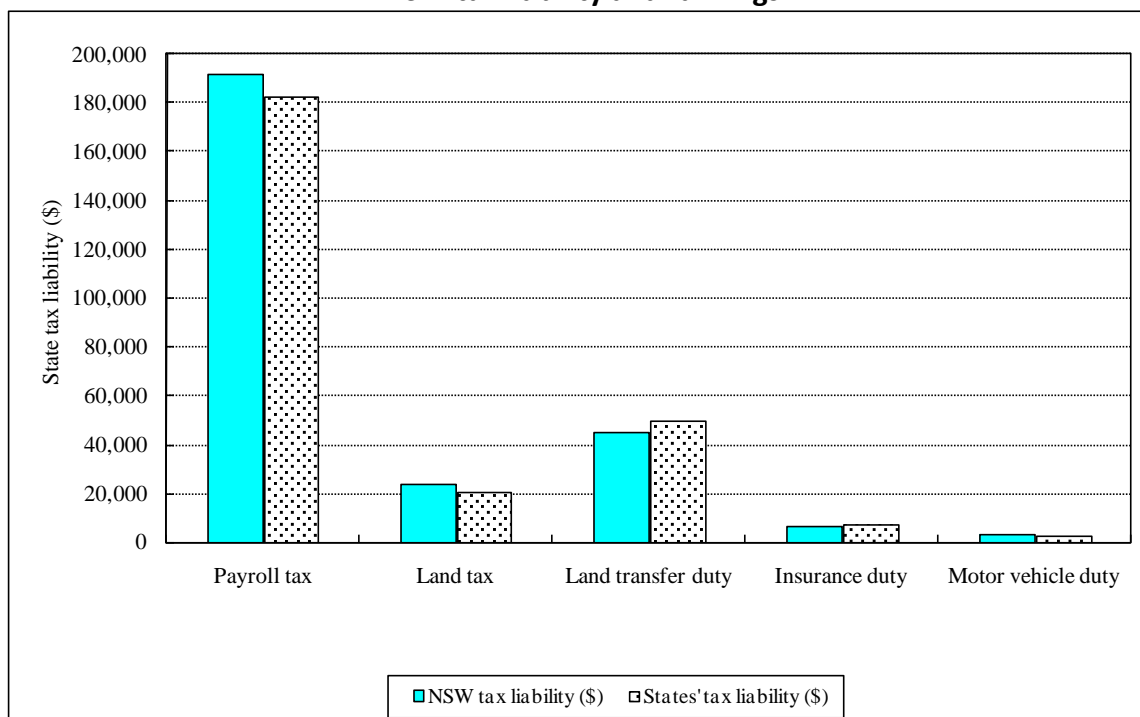
- The NT tax liability of \$234,656 is about 11 per cent below the states' average. Western Australia and Victoria are close behind the NT on the state tax rankings.
- For the second consecutive year of this series, South Australia has the highest business taxes in the commonwealth.
- SA taxes are about seven per cent above the states' average, and about 17 per cent above tax liabilities in the Northern Territory.

2.1 State Results – New South Wales

New South Wales a high taxing state – tax reductions an essential reform

- The IPA State Business Tax Calculator shows that New South Wales imposes the third highest taxes on business in Australia.

NSW tax liability and rankings



As at 31 December 2010. Based on state business tax liabilities borne by a reference business. Including payroll tax, land tax, land transfer duty, insurance duty, and motor vehicle duty.

Source: IPA State Business Tax Calculator.

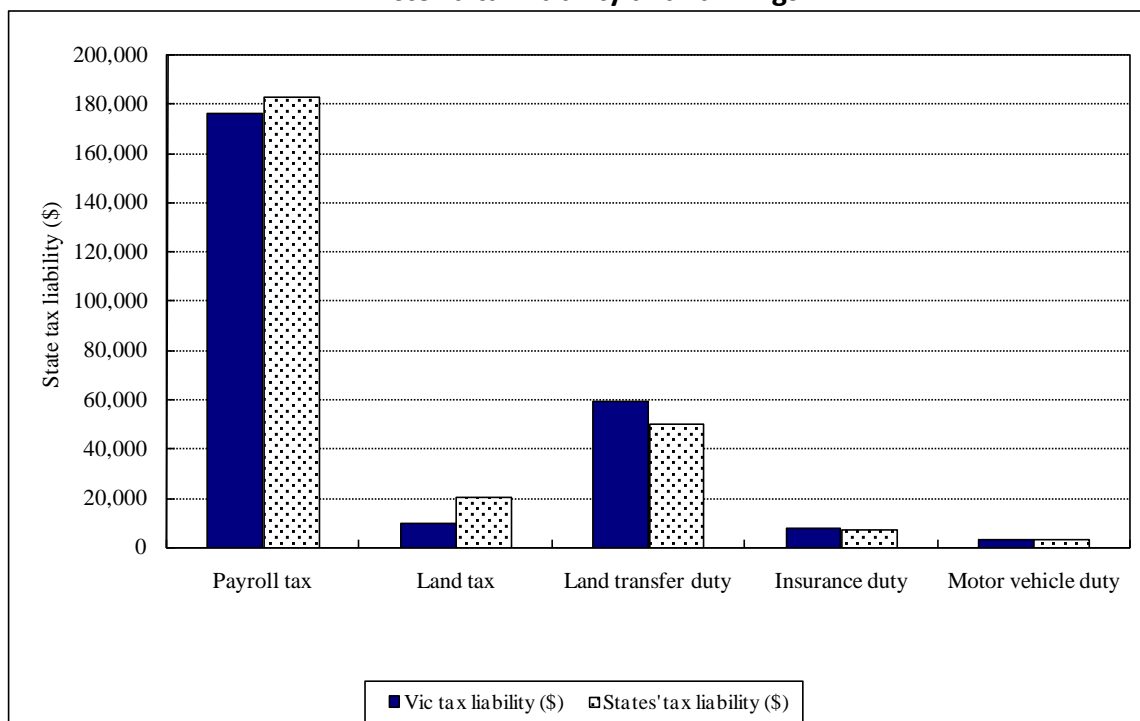
- The state's onerous payroll tax liability pushes NSW into the bracket of high taxers, despite a reduction in the tax rate and increasing threshold.
 - The further reduction of the payroll tax rate to 5.45 per cent on 1 January 2011 will not materially affect NSW's position as the high employment-tax state.
- Relatively high land tax is also expected to erode the state's tax competitiveness.
- Significant across-the-board state tax reductions – as recommended by the IPART 2008 tax review – are necessary to the underperformance of Australia's largest state economy in the medium to long term.

2.2 State Results – Victoria

Victoria a competitive tax state, but with still more to do

- The IPA State Business Tax Calculator shows that Victoria has the third lowest business taxes in Australia.

Victoria tax liability and rankings



As at 31 December 2010. Based on state business tax liabilities borne by a reference business. Including payroll tax, land tax, land transfer duty, insurance duty, and motor vehicle duty.

Source: IPA State Business Tax Calculator.

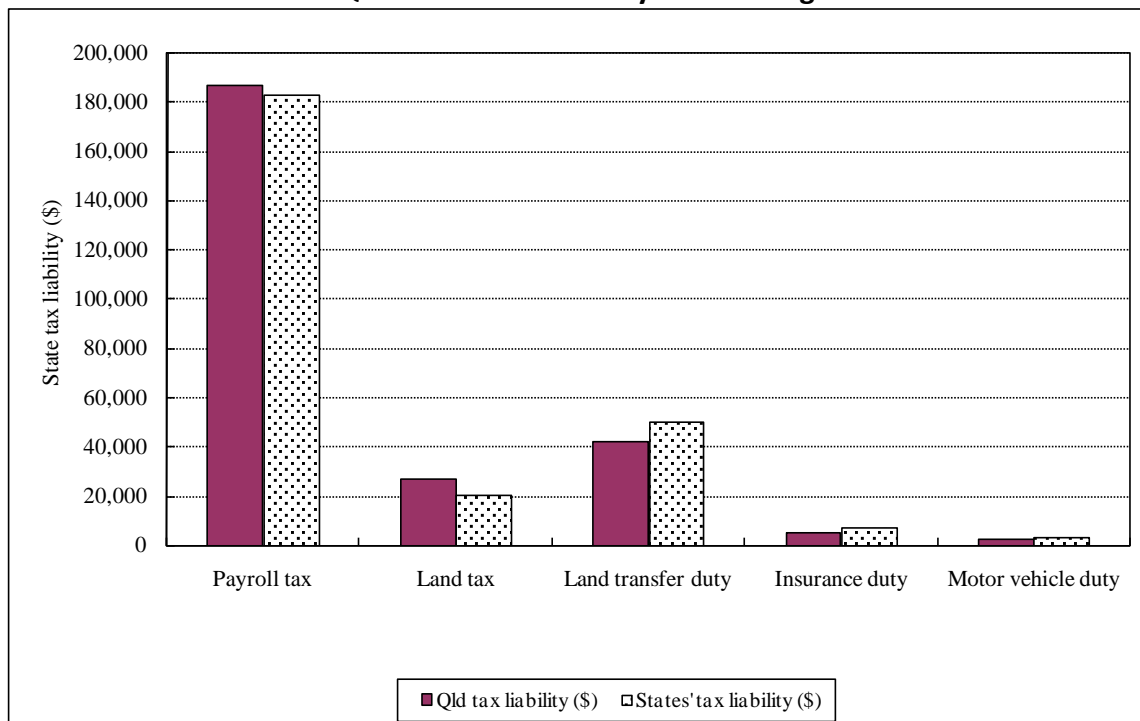
- Victoria is relatively competitive on the payroll and land tax front. Since 2000-01, it has reduced its payroll tax rate from 5.75 per cent to 4.9 per cent, and its maximum land tax rate from five per cent to 2.25 per cent.
- Undermining these positive outcomes, however, are Victoria's relatively high stamp duty liabilities. In particular, Victoria imposes the highest land transfer duty of all the states.
- If Victoria wishes to acquire the mantle of the low tax state of Australia, it must do more to scale back its byzantine stamp duty regime and look to continually cut other taxes.

2.3 State Results - Queensland

Queensland: low tax state one day, high taxing the next

- The IPA State Business Tax Calculator shows that Queensland continues to slip down the tax competitiveness ladder.

Queensland tax liability and rankings



As at 31 December 2010. Based on state business tax liabilities borne by a reference business. Including payroll tax, land tax, land transfer duty, insurance duty, and motor vehicle duty.

Source: IPA State Business Tax Calculator.

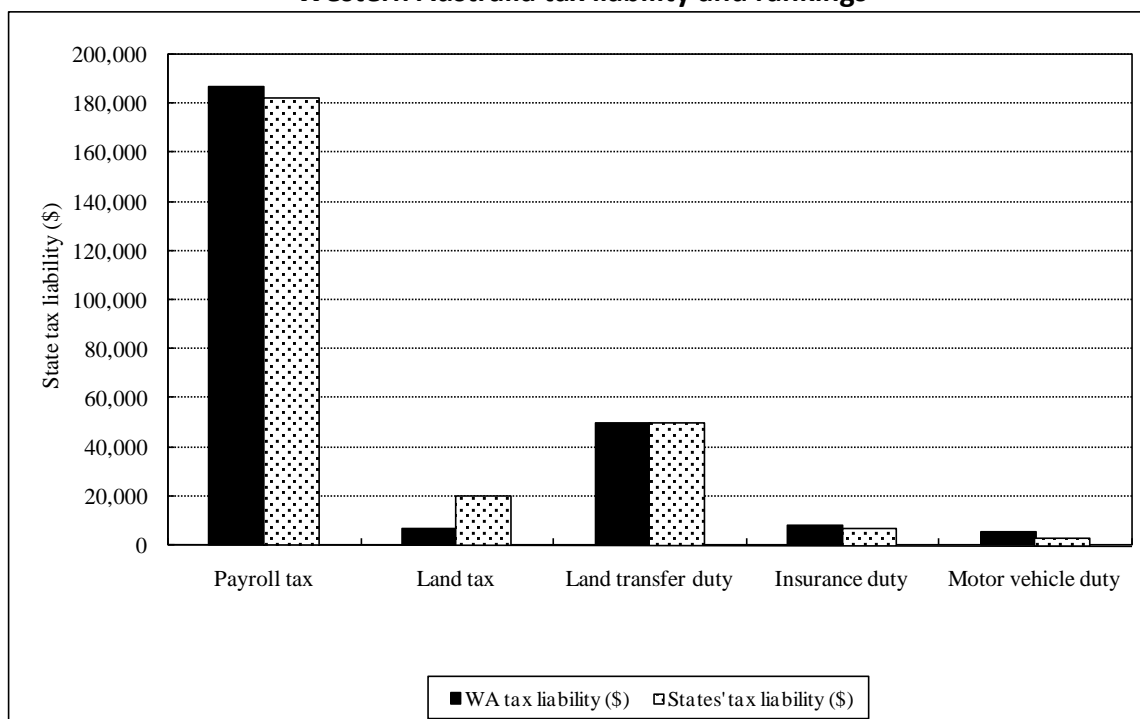
- Queensland is competitive against other states on a range of stamp duties.
- The factors holding Queensland back from assuming the mantle of lowest taxing state is its above-average land tax liability and now above-average payroll taxation.
- Queensland is gradually losing its historical low tax advantage to jurisdictions such as Victoria. If Queensland wants to return to its fiscal policy roots, it must reduce its tax burdens on business as a matter of priority.

2.4 State Results – Western Australia

Western Australia a low taxing state, but needs to rein in its low-tax competition

- The IPA State Business Tax Calculator shows that Western Australia has the second lowest business taxes of the Australian states and territories.

Western Australia tax liability and rankings



As at 31 December 2010. Based on state business tax liabilities borne by a reference business. Including payroll tax, land tax, land transfer duty, insurance duty, and motor vehicle duty.

Source: IPA State Business Tax Calculator.

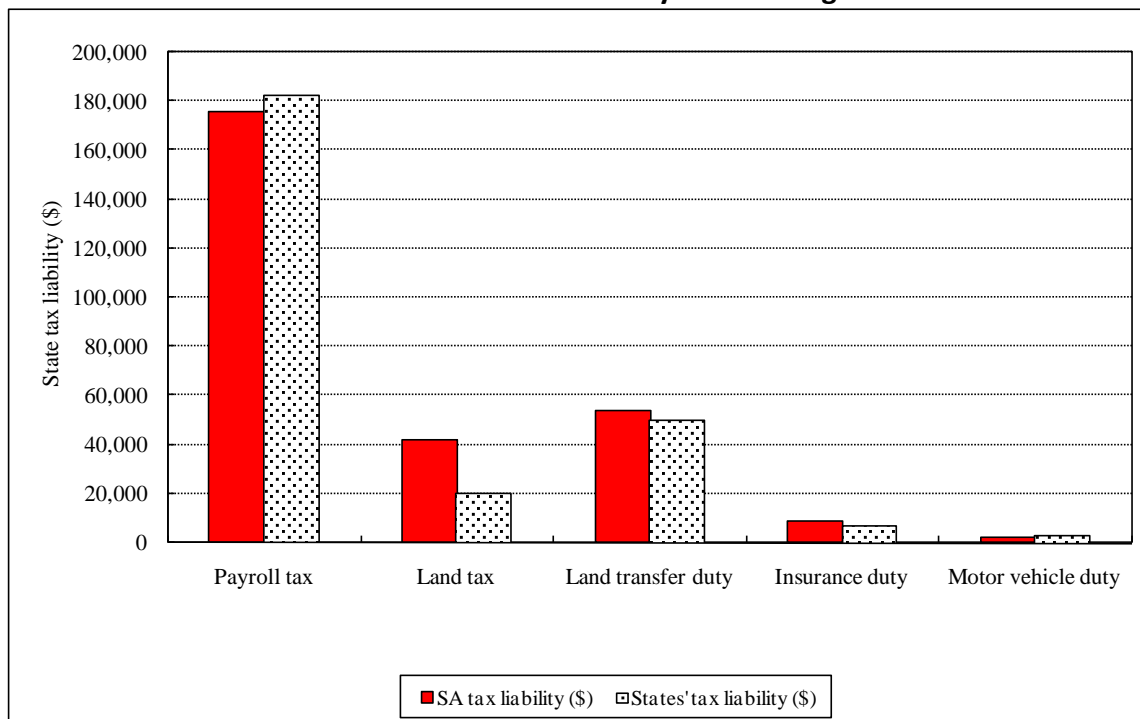
- Lower than average property taxes, particularly a competitive land tax regime, contribute to WA's status as Australia's low tax state, and only behind the NT on the tax competitiveness scale.
- WA should look to reduce its taxes further to promote investment and growth. Other states, such as Victoria, have been vying to cut their taxes and might pose a threat to WA's relatively low tax status in the future.

2.5 State Results – South Australia

South Australia the high tax state – cutting taxes urgent

- The IPA State Business Tax Calculator shows that South Australia is the highest taxing state on business in Australia for the second consecutive year.

South Australia tax liability and rankings



As at 31 December 2010. Based on state business tax liabilities borne by a reference business. Including payroll tax, land tax, land transfer duty, insurance duty, and motor vehicle duty.

Source: IPA State Business Tax Calculator.

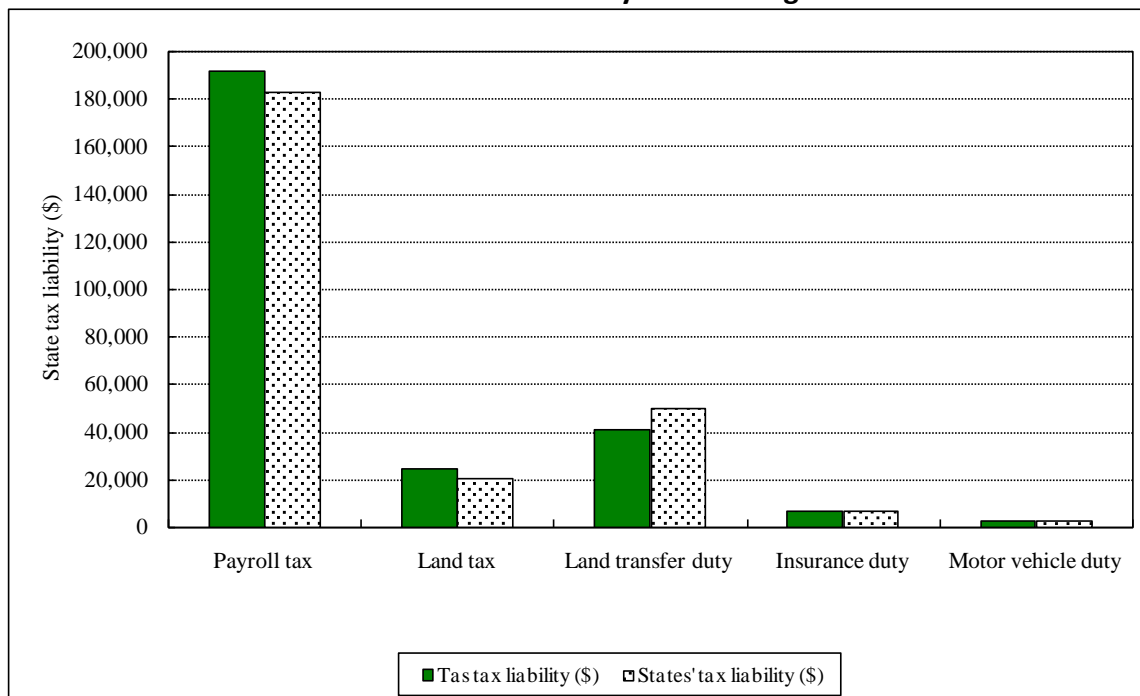
- South Australia is reasonably competitive against other states on motoring taxes and payroll tax.
- However, any competitive advantage in these areas is significantly diluted by very high property taxes, especially land tax (more than double the state and territory average).
- South Australia also levies the highest insurance duty liability compared to other jurisdictions.
- To create an economic climate more conducive to economic development and innovation, the government should reduce its above-average tax liabilities on business with these initiatives funded by expenditure reductions.

2.6 State Results – Tasmania

Tasmania a high taxing state – reductions in taxes necessary

- The IPA State Business Tax Calculator shows that Tasmania has the fourth highest taxes on business in Australia.

Tasmania tax liability and rankings



As at 31 December 2010. Based on state business tax liabilities borne by a reference business. Including payroll tax, land tax, land transfer duty, insurance duty, and motor vehicle duty.

Source: IPA State Business Tax Calculator.

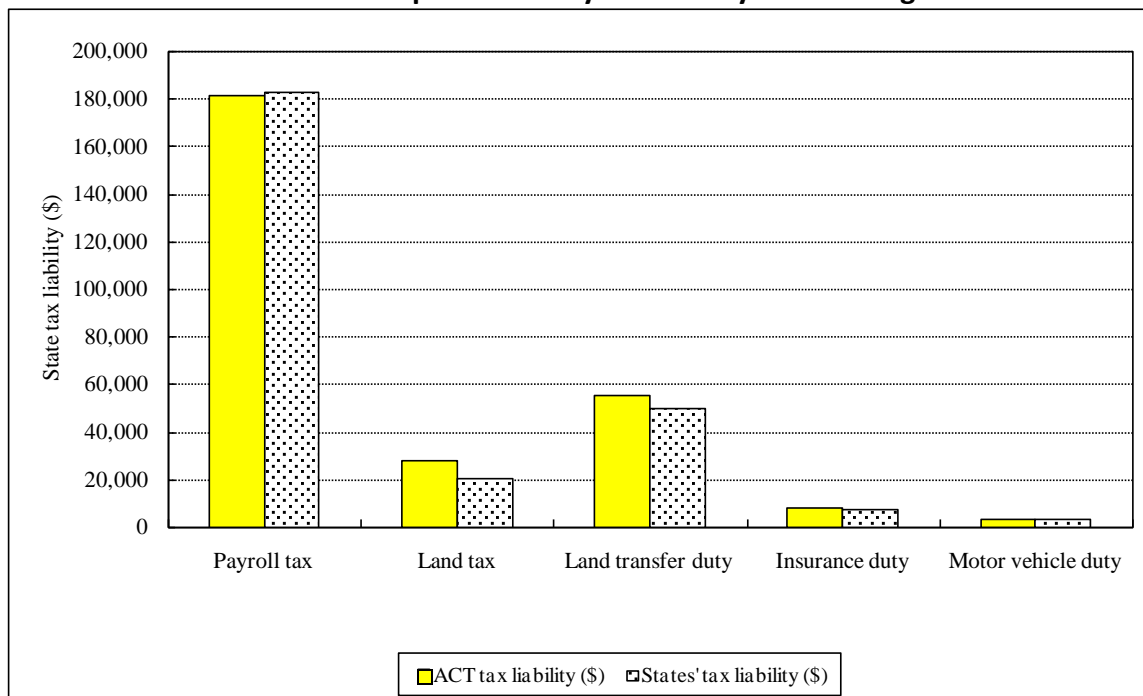
- Compared to other jurisdictions, Tasmania imposes relatively lower tax burdens on land transfers and insurance products.
- On the other hand, the second highest payroll tax and the highest land tax leads to the overall result of Tasmania as a high taxing state.
- More tax reductions, particularly in terms of these two major taxes, are needed to help Tasmania move down the pecking order of tax burden and improve its competitiveness.

2.7 State Results – Australian Capital Territory

ACT a high-tax jurisdiction – reductions in taxes required

- The IPA State Business Tax Calculator shows that the ACT has the second highest business tax burden amongst the states and territories.

Australian Capital Territory tax liability and rankings



As at 31 December 2010. Based on state business tax liabilities borne by a reference business. Including payroll tax, land tax, land transfer duty, insurance duty, and motor vehicle duty.

Source: IPA State Business Tax Calculator.

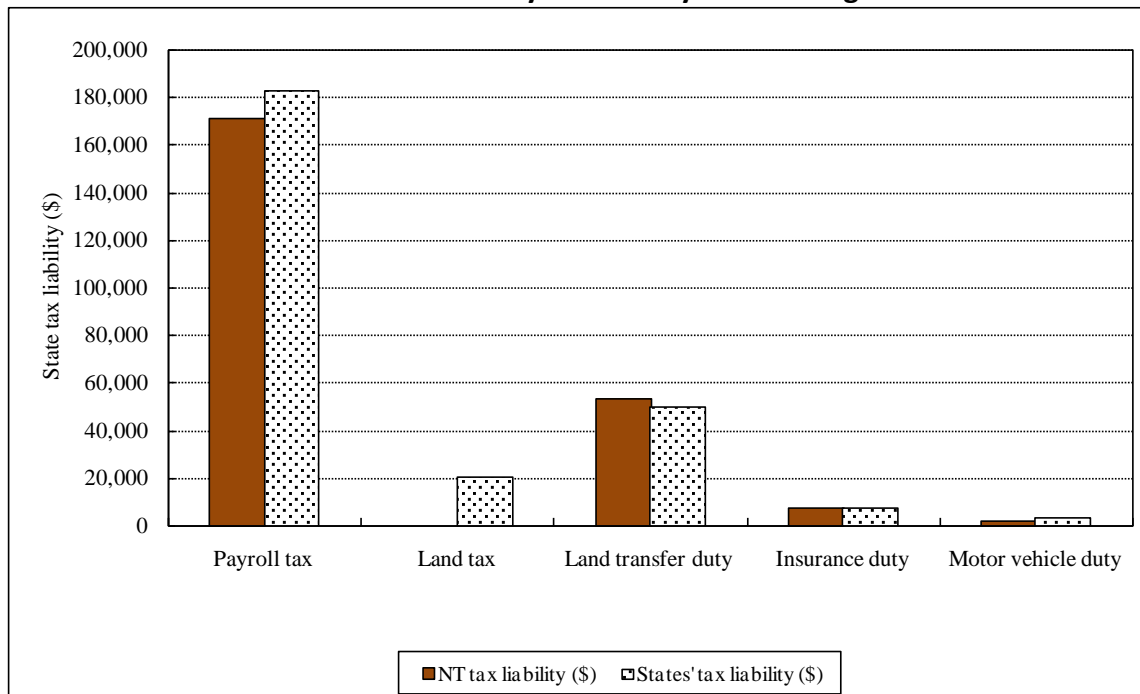
- ACT's relatively uncompetitive tax position is attributable to a combination of high land taxes (38 per cent above the state/territory average) and land transfer duties (ten per cent above average).
- Insurance and motor vehicle taxes are also in excess of the average amount imposed by the states and territories.
- The amount of payroll taxation levied by the ACT is slightly below the average of the states.
- To best ensure sustained economic growth in the longer term the ACT needs to develop a critical mass of private sector industries, which would in turn drive business investment and employment growth.
- The development of new industries in Canberra will hinge critically on cuts to business taxes.
- The ACT Taxation Review, scheduled for public release next year, should provide an opportunity to present a suite of significant tax reduction measures to government.

2.8 State Results – Northern Territory

NT the low taxing state – tax cuts needed to boost business competitiveness

- The IPA State Business Tax Calculator shows that the Northern Territory has the lowest taxes on business in Australia.

Northern Territory tax liability and rankings



As at 31 December 2010. Based on state business tax liabilities borne by a reference business. Including payroll tax, land tax, land transfer duty, insurance duty, and motor vehicle duty.

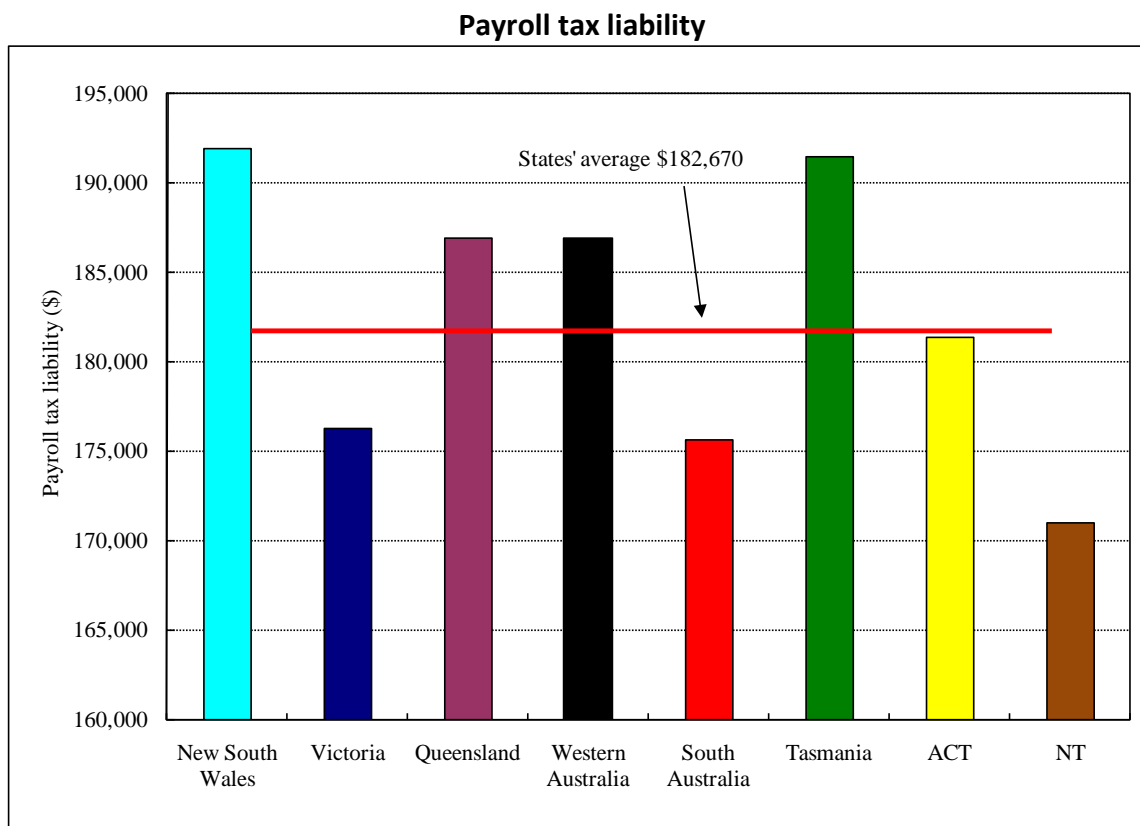
Source: IPA State Business Tax Calculator.

- The most significant feature of the NT taxation system is its land tax-free status. The lack of a land tax in the territory makes a significant contribution towards its position as the most competitive taxing jurisdiction.
- Relatively lower payroll and motor vehicle taxes also contribute to NT's low tax result.
- On the other hand, land transfer duty is about seven per cent higher than the states' average while insurance duties are also higher than that imposed by the average of all jurisdictions.
- If the territory wishes to enhance its already strong tax competitiveness, then it should look to reduce its stamp duty burden in particular.

3.1 Key Tax Results – Payroll Tax

NSW has highest employment taxes – NT the lowest

- The IPA State Business Tax Calculator shows that New South Wales imposes the highest payroll tax burdens in Australia.



As at 31 December 2010. Based on tax liabilities borne by a reference business. Excluding rebates for apprentices, trainees and other workers.

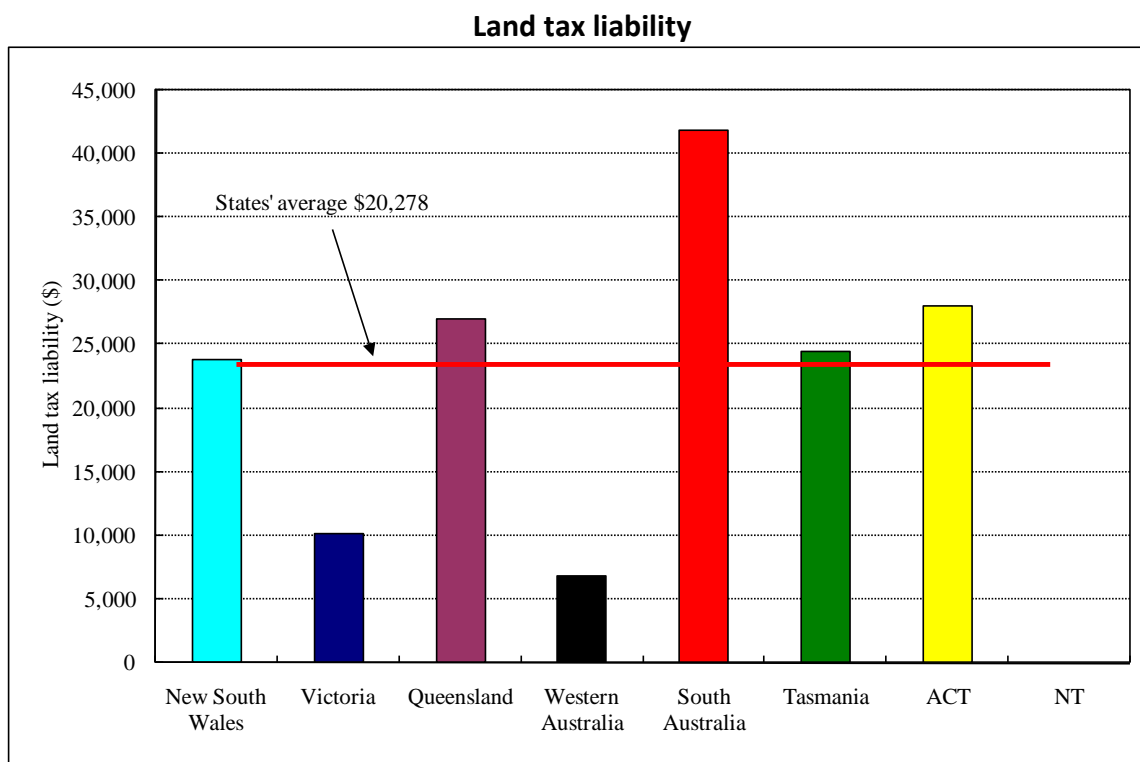
Source: IPA State Business Tax Calculator.

- The annual NSW payroll tax liability of \$191,937 is about five per cent above the states' average, and about 12 per cent above payroll taxes in the Northern Territory.
- Given its above-average unemployment rate, NSW needs to accelerate its existing program of payroll tax rate reductions and increases in the tax-free threshold.
- Other high payroll taxing jurisdictions include Tasmania (\$191,404), Queensland (\$186,899) and Western Australia (\$186,877).
- Consistent with its status as the low taxing jurisdiction, the NT imposes the lowest payroll tax liability (\$170,968). This amount is about six per cent lower than the states' average.

3.2 Key Tax Results – Land Tax

South Australia land tax grab – NT the no land tax state

- The IPA State Business Tax Calculator shows that South Australia imposes the highest land tax burdens on business in Australia.



As at 31 December 2010. Based on tax liabilities borne by a reference business. WA land tax burden includes Metropolitan Regional Improvement Tax (MRIT).

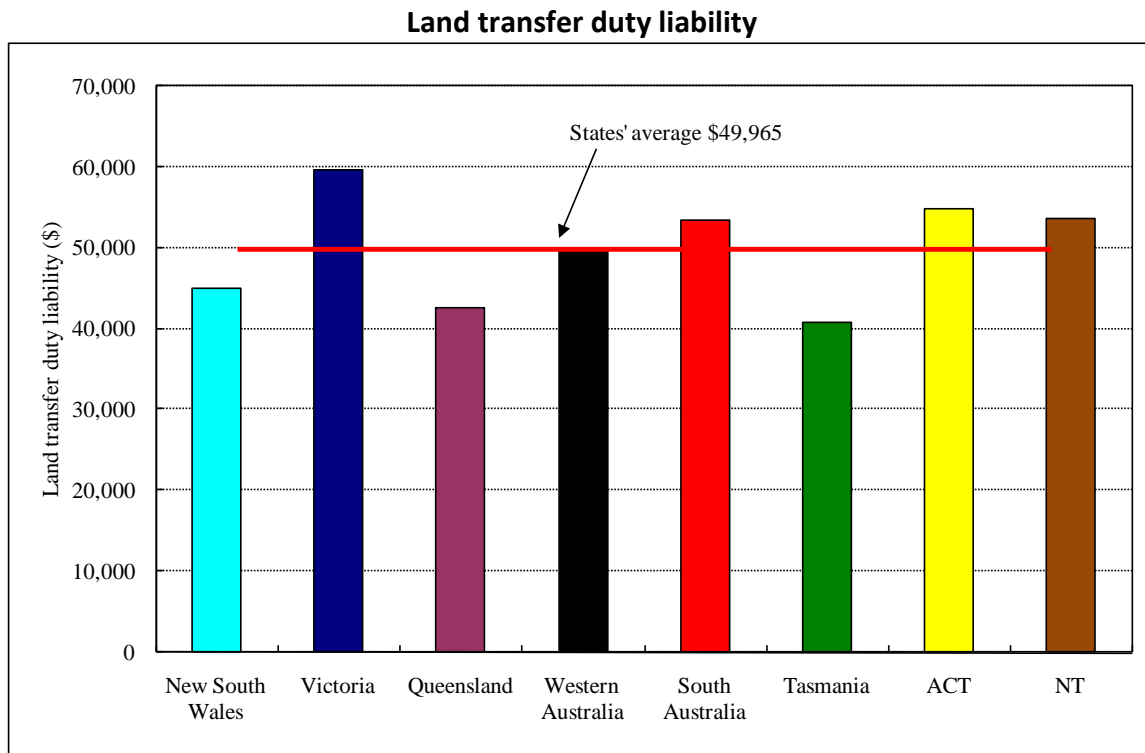
Source: IPA State Business Tax Calculator.

- The annual South Australian land tax liability of \$41,895 is a massive 106 per cent above the states' average.
- The ACT is the other high land-taxing jurisdiction (\$28,055), followed by Queensland (\$27,073) and Tasmania (\$24,446).
- The Northern Territory, by contrast, imposes no land taxes on land owners.

3.3 Key Tax Results – Land Transfer Duty

Victoria the highest land duty state – Tasmania the lowest

- The IPA State Business Tax Calculator shows that Victoria imposes the highest land transfer duty burdens on business in Australia.



As at 31 December 2010. Based on tax liabilities borne by a reference business.

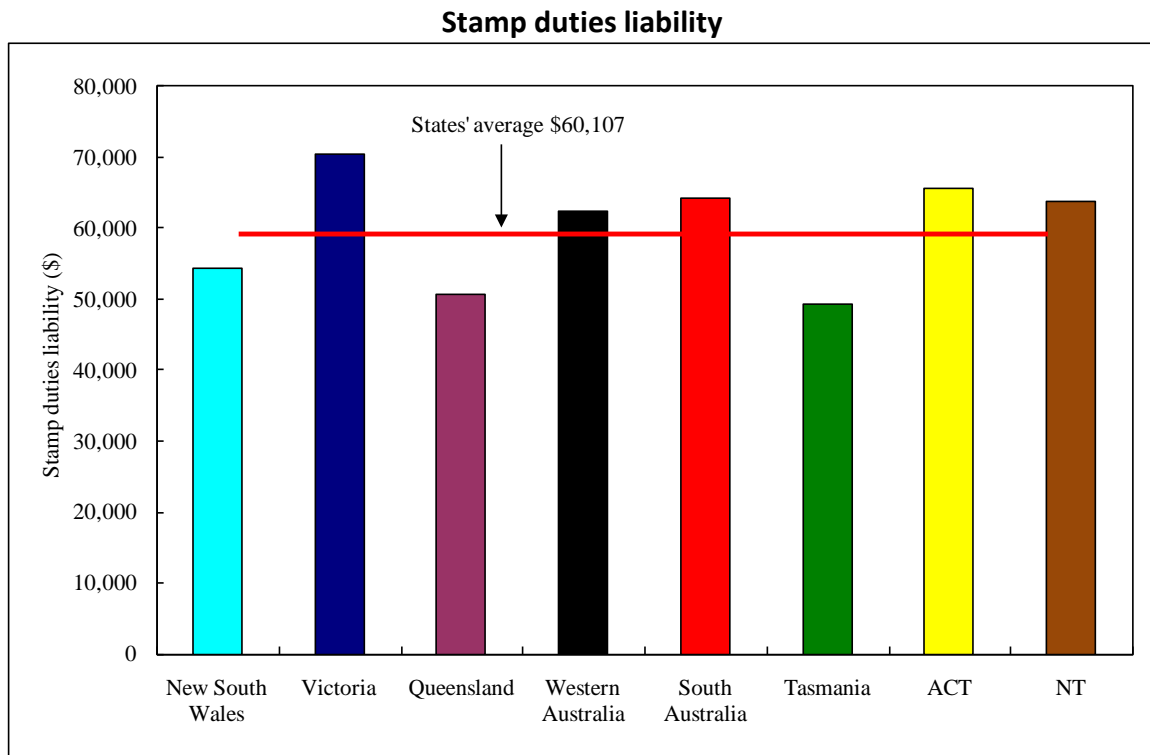
Source: IPA State Business Tax Calculator.

- The annual Victorian tax liability (\$59,586) on a business property sale is about 19 per cent above the states' average, and about 46 per cent above land transfer duties in Tasmania.
- This significant impost impedes business relocation and expansion in Australia's second largest economy, with flow-on consequences for private investment and jobs creation.
- The ACT is the second highest taxing state (\$54,880), followed by the NT (\$53,627) and South Australia (\$53,417).
- Tasmania imposes the lowest land transfer duty liability (\$40,886). This amount is about 18 per cent below the national average.

3.4 Key Tax Results – Total Duties

Victoria's stamp duty blowout – Tasmania the low stamp duty state

- The IPA State Business Tax Calculator shows that Victoria imposes the highest stamp duty burdens on business in Australia.



As at 31 December 2010. Based on tax liabilities borne by a reference business. Includes duties on land transfer, insurance and motor vehicles.

Source: IPA State Business Tax Calculator.

- The annual Victorian stamp duties liability (\$70,420) is about 17 per cent above the states' average, and about 43 per cent above stamp duties in Tasmania.
- Victoria is followed by the ACT (\$65,588) as a high-taxing state on duties, and then by South Australia (\$64,234) and NT (\$63,687).
- Tasmania imposes the lowest stamp duties liability (\$49,399). This amount is about 18 per cent below the states' average.
- Stamp duties have been cited by many economists as Australia's most inefficient tax instrument.
- Substantial reforms to reduce, if not remove, nuisance transaction taxes will be necessary to promote economic growth and market productivity.