



Business bearing the burden

The size and Impact of State Government Business taxes

December 2008
The Institute of Public Affairs
State Business Tax Calculator

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Business Bearing the Burden

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

December 2008

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Executive Summary

The IPA State Business Tax Calculator calculates the level of state government taxes on business in each Australian state.

- The IPA analysis reveals:
 - New South Wales has the highest taxes on business, while Western Australia has the lowest
 - the level of tax imposed on a business differs significantly according to industry and business size
 - construction and transport businesses are the most heavily taxed by state governments while services firms are the most lightly taxed (e.g.: a transport company in New South Wales pays more than twice as much tax as does an IT business in Queensland)
 - there is a wide discrepancy between the level of state taxes on business (e.g.: a businesses in South Australia pays seven times more land tax than an equivalent businesses in Western Australia)
 - small and large businesses are taxed proportionately more heavily by state governments than medium-sized businesses.

- Key implications of the IPA's findings are:
 - transaction-based taxes at the state level disproportionately affect small business
 - the structure of state government business taxes counteract federal government policies (e.g.: infrastructure companies are more heavily taxed than service companies)
 - the reliance by state governments on taxes levied on transactions undertaken by companies inhibits economic growth, because such taxes do not take account of business profitability
 - the structure of state business taxes should be reformed to encourage business development in a slowing economy with credit constraints.

Introduction

A multiplicity of taxes are imposed on businesses by Australia's state governments. These include taxes on payroll, property, financial and capital transactions, and on goods and the performance of activities. Taxes imposed by state governments made up about 25 per cent of state government revenue in 2006-07.

There have been a number of criticisms directed at the current suite of state taxes and charges. A major concern relates to their distortionary effects on business activities. According to a 2004 study by the Australian Chamber of Commerce and Industry, 'many of the taxes levied at the State level are ad hoc and inefficient'.² This is especially true of transaction-based taxes, such as stamp duty. Similarly, concerns are held about the administrative compliance burdens faced by business in paying state taxes.

More immediately, 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 also be difficult for smaller businesses to appreciate how seemingly small differences in state tax systems could yield real and significant variations in liability.

Governments 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 seem much smaller than it actually is, with real consequences for broader community support for wide-ranging tax reform.³

The New South Wales and Western Australia governments, and the Commonwealth Grants Commission, provide an annual compendium on the structure of taxes across the states and territories. Individual state revenue offices provide information about taxes applicable to their jurisdiction.

However, there is nothing by way of a single information source on the tax burdens placed on a business if it were to operate in the different states. The Institute of Public Affairs State Business Tax Calculator has been developed to fill this gap.

² Australian Chamber of Commerce and Industry (ACCI), 2004, *Taxation Reform Blueprint: A Strategy for the Australian Taxation System 2004-2014*.

³ Sinclair Davidson, 2007, *Fiscal Illusion: How Big Government Makes Tax Look Small*, CIS Policy Monograph No. 81.

This paper illustrates some of the features of, and information generated by, the State Business Tax Calculator. Using a 'reference' business concept as used by the World Bank, the tax liabilities of businesses in different states can be calculated. The size of the reference business can be changed to calculate the potential tax liability faced by small and large businesses respectively.

Institute of Public Affairs State Business Tax Calculator

The Institute of Public Affairs 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). Calculations are based on the following major taxes, fees and levies:

- Payroll tax
- Land tax
- Stamp duties on the sale and purchase of land and buildings, vehicles and insurance premiums
- Vehicle registration fees, including compulsory third party insurance and other levies
- Workers' compensation premiums paid by employers.

These five categories of tax account for at least 70 per cent of the total tax revenue collected by Australian state governments (\$52 billion in 2007-08).

(The proportion of total tax revenue from these taxes are as follows: New South Wales - 71 per cent, Victoria - 81 per cent, Queensland - 81 per cent, Western Australia - 91 per cent, South Australia - 73 per cent, Tasmania - 80 per cent.) Individual state governments impose other taxes on businesses, such as taxes on gambling operators, fire services levies on insurance companies and other imposts.

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 can allow for analysis and comparison of specific taxes. Further, the SBTC offers insight into the burden of state business taxes on firms of different sizes.

Report methodology

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

The reference business model is needed in this context to ensure that differences in observed state tax liabilities actually reflect differences in tax systems, rather

than differences in business characteristics. In other words, a 'like with like' business comparison is provided.⁴

The model used in this paper for the reference business is drawn from the World Bank's annual *Doing Business* project. The project contrasts the ease and costs of operating a business across 181 countries, including tax compliance burdens. The World Bank's 'standard case study company' is taken to be 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 state taxation on the reference business, assumptions are made regarding the employment of labour and specific transactions undertaken. For example, the World Bank 'reference' business has approximately 60 employees, and this is taken to be the size of the 'reference' business used in the SBTC.

The relative concentrations of businesses of certain size thresholds vary across the states. Accordingly, the SBTC module can be used to adjust the scale of the reference business used in this study.

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

⁴ For an example of the use of this methodology in establishing the compliance costs associated with regulation, see Productivity Commission, 2007, *Performance Benchmarking of Australian Business Regulation*.

Results

The following provides indicative information on the magnitude of state tax liabilities faced by the 'reference' business in the 2008 calendar year if it were to operate in different jurisdictions.⁵

State tax liability (excluding worker's compensation premiums)

In 2008, the reference business will be expected to pay, on average, \$207,839 in state taxes and fees (Table 1).

This represents about 18 per cent of the amount of Commonwealth corporate income tax (CIT) paid (i.e. in addition to the reference business paying company tax levied by the federal government, the business pays the state government tax imposed upon it which equals approximately 18 per cent of what is paid to the federal government).

Table 1: State tax liability on the 'reference' business, 2008

	Total (\$)	Percentage of CIT (%)
New South Wales	222,356	19.0
Victoria	202,421	17.3
Queensland	197,388	16.9
Western Australia	195,621	16.8
South Australia	219,067	18.8
Tasmania	210,179	18.0
Average	207,839	17.8

Including payroll tax, land tax, land transfer duty, insurance duty, motor vehicle duty and vehicle registration fee. WA taxes include Metropolitan Regional Improvement Tax. Excluding workers' compensation premiums.

Source: IPA State Business Tax Calculator.

The tax liability imposed on the reference business is the lowest in Western Australia (\$195,621). This amount of liability was about six per cent below the states' (unweighted) average, and 12 per cent below NSW's tax liability. This was followed by Queensland (\$197,388), Victoria (\$202,421) and Tasmania (\$210,179).

⁵ These results reflect tax changes introduced by the states in their 2008-09 Budgets applicable to 2008 calendar year. They exclude subsequent tax policy adjustments by certain states arising from their Mini-Budgets, and announcements relating to the 2009 tax calendar year.

New South Wales levies the highest tax liability of all the states in 2008-09. The reference business is estimated to incur a \$222,356 impost, which is seven per cent above the states' average.

There is significant variation between states in terms of liability imposed by specific taxes (Table 2). Across the major tax bases, WA registers the smallest liability levied on a reference business (\$193,269). This is due to their relatively light-handed imposition of land taxes.

Conversely, New South Wales is the highest taxing jurisdiction in terms of major taxes (\$220,156), followed by South Australia (\$219,068) and Tasmania (\$210,180). Although stamp duty liabilities in New South Wales are below the states' average, its position as most onerous taxing state is largely due to their above-average payroll and land tax liabilities.

Table 2: State tax liability for selected taxes, 2008 (\$)

	Payroll tax	Land tax	Stamp duties
New South Wales	160,645	18,001	41,510
Victoria	136,146	7,302	58,973
Queensland	136,587	20,623	40,178
Western Australia	140,273	4,525	50,824
South Australia	137,421	29,099	52,548
Tasmania	139,716	28,033	42,431
Average	141,798	17,930	47,744

Stamp duties include land transfer duty, insurance duty and motor vehicle duty. WA land tax burden includes Metropolitan Regional Improvement Tax. Excluding vehicle registration fees.

Source: IPA State Business Tax Calculator.

Table 1 and Table 2 provide information about the overall level of tax on business imposed by state governments. Those tables do include liability for payroll tax, but not workers' compensation premiums because workers' compensation premiums vary significantly according to industry.

Selected industry tax liabilities (including workers' compensation premiums)

The IPA SBTC also calculates tax liabilities borne by selected industries, including from workers' compensation insurance payments to government. Table 3 provides information on the tax liabilities and workers' compensation premiums of businesses within construction (residential housing), transport (road freight), retail services (clothing), financial services (investor services) and professional services (IT consulting).

Table 3: State tax and workers' compensation premium liabilities for selected industries, 2008-09 (\$)

	Construction	Transport	Retail services	Financial services	Professional services
New South Wales	395,955	429,590	274,899	234,667	230,409
Victoria	266,614	345,032	233,115	212,652	212,652
Queensland	284,192	319,553	209,659	205,702	202,253
Western Australia	234,236	336,846	234,566	208,823	208,823
South Australia	324,177	466,599	268,573	238,870	232,269
Tasmania	326,354	354,077	236,913	224,371	223,051
Average	304,755	375,283	242,954	220,847	218,243

Including payroll tax, land tax, land transfer duty, insurance duty, motor vehicle duty and vehicle registration fee. WA taxes include Metropolitan Regional Improvement Tax. Queensland WorkCover premiums are subject to insurance duty of ten per cent, which are included in this Table.

Source: IPA State Business Tax Calculator.

A reference business in NSW would pay the highest taxes and workers' compensation premiums in construction and retail services. In other industries, NSW total tax and WorkCover liabilities still remain above the states' average.

At the other end of the scale, Queensland reference businesses in selected industries pay the lowest combined taxes and workers' compensation charges in transport, retail, financial and professional services. Western Australia imposes the lowest combined liabilities in construction.

Caveats apply to the calculation of WorkCover liabilities provided in Table 3. In particular, a number of states vary the effective premiums paid by applying industry-specific rates based on claims experience of employers in the relevant groups. For simplification, the base industry rate is applied to the reference business within the industries covered in this paper. Other related charges, such as the NSW dust diseases levy, are excluded from this analysis.

Impact of reference business scale on tax liabilities

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

Table 4 illustrates the expected taxes to be paid by the reference business of different scale economies. The scales selected are 10 per cent, 50 per cent and 200 per cent of the size of the reference business.

Table 4: State tax liability for selected 'reference' business scales, 2008

	10 per cent Total (\$)	50 per cent Total (\$)	Reference business Total (\$)	200 per cent Total (\$)
New South Wales	4,397	88,345	222,356	498,187
Victoria	5,700	85,136	202,421	443,422
Queensland	5,894	66,368	197,388	442,386
Western Australia	4,835	76,444	195,621	446,381
South Australia	6,037	85,023	219,067	494,800
Tasmania	6,424	69,856	210,179	490,321
Average	5,548	78,579	207,839	469,250

Including payroll tax, land tax, land transfer duty, insurance duty, motor vehicle duty and vehicle registration fee. WA taxes include Metropolitan Regional Improvement Tax. Excluding workers' compensation premiums.

Source: IPA State Business Tax Calculator.

At the smallest reference business scale calculated (10 per cent of normal size), the tax liability imposed by NSW (\$4,397) is in fact the lowest of all jurisdictions. This is followed by Western Australia (\$4,835), Victoria (\$5,700) and Queensland (\$5,894). As the business increases in size, the tax advantage of NSW dissipates and is, in effect, replaced by WA as the lowest taxing jurisdiction at the normal business reference scale.

It is worthy to note that as the reference business continues to increase in scale (to up to double its original size), Queensland takes the position of Australia's low tax state by overtaking WA. Further insights on the effect of scale on tax liabilities can be gained by disaggregating on the basis of specific taxes (Table 5).

Table 5: Tax liability for selected taxes and 'reference' business scales, 2008-09 (\$)

	10 per cent			50 per cent		
	Payroll tax	Total Land tax (\$)	Stamp duties	Payroll tax	Total Land tax (\$)	Stamp duties
New South Wales	0	0	2,197	61,633	6,178	18,334
Victoria	0	0	5,700	54,460	1,875	28,801
Queensland	0	0	5,894	38,606	8,061	19,701
Western Australia	0	0	4,835	49,512	4,565	22,668
South Australia	0	14	5,893	54,911	5,237	24,876
Tasmania	0	72	5,698	39,053	9,616	21,188
Average	0	54	5,036	49,696	5,922	22,595
	Reference business			200 per cent		
	Payroll tax	Total Land tax (\$)	Stamp duties	Payroll tax	Total Land tax (\$)	Stamp duties
New South Wales	160,645	18,001	41,510	358,670	41,646	95,671
Victoria	136,146	7,302	58,973	299,517	28,870	115,036
Queensland	136,587	20,623	40,178	332,550	44,334	84,512
Western Australia	140,273	4,525	50,824	321,796	19,206	105,379
South Australia	137,421	29,099	52,548	302,442	83,777	108,581
Tasmania	139,716	28,033	42,431	341,041	64,978	84,302
Average	141,798	17,930	47,744	326,003	47,135	98,913

Stamp duties include land transfer duty, insurance duty and motor vehicle duty. WA taxes include Metropolitan Regional Improvement Tax. Excluding vehicle registration fees and workers' compensation premiums.

Source: IPA State Business Tax Calculator.

At the lowest reference business scale calculated (10 per cent), NSW has the lowest liabilities whereas the imposition of \$5,698 of stamp duties and \$725 in land taxes renders Tasmania the highest taxing jurisdiction.

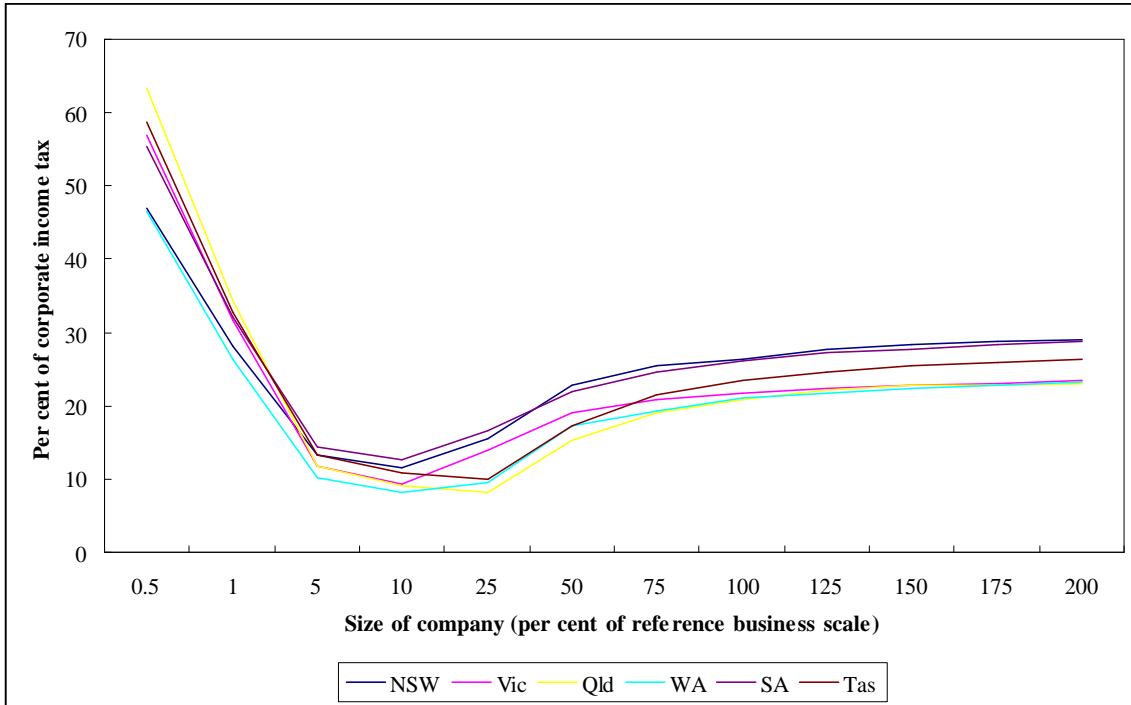
For a large reference business (200 per cent), Victoria imposes the lowest tax liability (\$443,423, or two per cent below the States' average). NSW imposes the greatest tax burden on the large reference business (\$495,987), which is closely followed by South Australia (\$494,800).

The progressive rate structures for payroll and land taxes and the land transfer duty increase the effective liability faced by a reference business as it increases in size. For a reference business operating at a tenth of its basic size, the tax liabilities calculated are attributable to the transactions assumed to take place, such as the purchase and subsequent purchase of motor vehicles.

Another way to examine these effects is to compare state taxes across reference business scales, as a percentage of CIT levied by the Commonwealth government. As illustrated in Figure 1, the profile of state taxes across the different scales reveals a 'U-shape'. State taxes impose a high burden on very

small businesses up to five per cent of the scale of the reference business, as well on businesses over 50 per cent of normal reference business size, compared to an entity of between the five and 50 per cent scales.

Figure 1: State tax liability as a proportion of Commonwealth CIT, 2008-09



Including payroll tax, land tax, land transfer duty, insurance duty, motor vehicle duty and vehicle registration fee. WA taxes include Metropolitan Regional Improvement Tax. Including workers' compensation premiums. Queensland WorkCover premiums are subject to insurance duty of ten per cent, which are included in this Figure.

Source: IPA State Business Tax Calculator.

Unlike corporate income taxes, transaction taxes at the state level tend to be insensitive to variations in profitability. Revenues from stamp duties are raised when a transaction is made, such as the purchase of land, a motor vehicle or insurance product. Since these transactions are assumed to be undertaken by the reference business, regardless of scale, it follows that state tax burdens will be disproportionately high on small firms with low profitability.

In terms of large businesses, the value of transactions tends to be high therefore state tax liabilities tend to be relatively high also. The larger reference businesses also bear higher payroll and land taxes, as they exceed tax free thresholds. For these reference businesses, Commonwealth corporate taxation tends to be high compared to a small entity.

Very small reference businesses operating in Queensland pay the highest state tax liabilities as a proportion of their Commonwealth taxes, whereas Western Australia imposes the lowest burden. This is attributable to the stamp duty

burden in Queensland, which is the highest faced by businesses of small scale. At the 5 per cent scale level, Tasmania's overall tax burden exceeds Queensland's to become the highest in Australia, by virtue of its low land tax free threshold.

By contrast, Queensland imposes the relatively lowest tax burdens as a proportion of corporation income tax upon reference businesses of a larger scale. This is attributable to their lower payroll tax and duties burden. South Australia imposes the largest state tax burdens on reference businesses in the Commonwealth, closely followed by NSW and Tasmania.

Conclusion

The father of modern economic liberalism, Adam Smith, stated that 'little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice'.⁶ In a globalised economy, the sentiment expressed with regard to taxation remains relevant to this day.

The IPA State Business Tax Calculator is designed to compare state tax liabilities for a real or hypothetical business.

The publication of results generated by the State Business Tax Calculator will help to promote yardstick competition between the states. As these competitive pressures reduce tax liabilities, businesses and citizens stand to benefit from the consequent cost savings and greater incentives to grow, save, invest and employ resources.

Attaining these potential benefits assume even greater importance in an economic climate such as that experienced globally at the present time. In simple terms, tax-related business costs potentially have a bigger impact on the bottom line amidst an economic slowdown.

As this paper has shown, the transaction-based 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 impacted upon by state 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 have deleterious consequences, at least at the margin, for further expansion of existing firms.

⁶ Lecture in 1755, quoted by Dugald Stewart, 1858, *Collected Works*.

Based on the analysis provided by the IPA State Business Tax Calculator, it is clear that the structure of state business taxes should be reformed to encourage business development.

Attachment A

Methodology and Assumptions

Introduction

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

Reference business model and assumptions

For the purpose of this study, a hypothetical business – labeled a 'reference business' – was developed to generate comparable liability estimates across states. The basic financial and operational characteristics of the reference business are drawn from the 'case study company' underpinning the Paying Taxes module of the annual World Bank *Doing Business* project. These characteristics are selected to ensure that differences in state tax liabilities reflect variations in tax structures, and not upon the underlying structure of the reference business.

As in the World Bank study, 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, 1 July 2008

Category	Multiplication factor	Value (\$)	Category	Multiplication factor	Value (\$)
Current assets			Current liabilities		
Net cash	20	985,200	Short term debt	43	2,118,180
Inventory	35	1,724,100	Accounts payable	50	2,463,000
Accounts receivable	50	2,463,000			
Fixed assets (acquisition value)			Long term liabilities		
Land	30	1,477,800	Long term debt	55	2,709,300
Buildings	40	1,970,400			
Machinery	60	2,955,600	Equity		
Trucks	5	246,300	Paid-in capital	102	5,024,520
Computers	5	246,300			
Office equipment	5	246,300			
Total assets	250	12,315,000	Total liabilities and equity	250	12,315,000

Source: PricewaterhouseCoopers, 2008, *Paying Taxes 2009: The Global Picture*, author's 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 and start-up capital is 102 times income per capita. For this study, these weights are called 'multiplication factors'. We then apply Australia's GDP per capita (estimated at

\$49,260 for 2008-09) to each multiplication factor to derive a value for each account line item.

Table A.2: Profit and loss statement for reference business, 1 July 2008

Category	Multiplication factor	Value (\$)
Sales	1050	51,723,000
Cost of goods sold	875	43,102,500
Salaries for:		
Managers	9	443,340
Assistants	10	492,600
Workers	48	2,364,480
Administrative expenses	10	492,600
Advertising expenses	10.5	517,230
Machinery repaid	3	147,780
Interest expense	5.5	270,930
Profit	79	3,891,540

Source: PricewaterhouseCoopers, 2008, *Paying Taxes 2009: The Global Picture*; authors calculations.

Of these line items, those which are subject to state taxes and other liabilities 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. This transaction is assumed to occur on the last day of the financial year, so that the total value of land held during the other times of the year is unaffected
- 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 vehicles at a price equivalent to 25 per cent of the total market value of vehicles owned. This transaction is assumed to occur on the last day of the financial year, so that the total value of vehicles owned (and subject to registration and insurance) during the other times of the year is unaffected
- The business owns five vehicles (cars), all of which are subject to vehicle registration fees and insurance.

Table A.3: Values of selected transactions for reference business, 1 July 2008

Category	Value (\$)
Total land value	1,477,800
Sale price of land	862,050
Total salaries	3,300,420
Business insurance	49,260
Total value of vehicles	246,300
Vehicle insurance	12,315
Purchase/sale of second-hand car	61,575
Profit	3,891,540
Corporate income tax liability	1,167,462

Source: Authors calculations.

Reference business scale

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

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 governments and reviewed by a selection of business managers.



Business bearing the burden

Fact Sheets

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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 governments.
- The latest information on tax rates and structures are used to calculate tax liabilities.

Why is the Calculator needed?

- The SBTC sheds light on tax burdens imposed by states.
- 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 \$12 million
 - profit of \$3.8 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, motor vehicle duty and vehicle registration duty. These comprise at least 70 per cent of the tax revenue collected by state governments.
- The Calculator can also incorporate the impact of workers' compensation premiums levied by each state.

1.2 Main Results – State Business Tax League Table

New South Wales the high tax State – WA has the tax advantage

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

State tax liability on a 'reference' business, 2008

State	Tax liability	Ranking
Western Australia	\$195,621	1
Queensland	\$197,388	2
Victoria	\$202,421	3
Tasmania	\$210,179	4
South Australia	\$219,067	5
New South Wales	\$222,356	6

Based on tax liabilities borne by a reference business. Excluding workers' compensation premiums. State tax liability rankings are scaled from 1 to 6 (1 being the lowest liability to 6 being the highest).

Source: IPA State Business Tax Calculator.

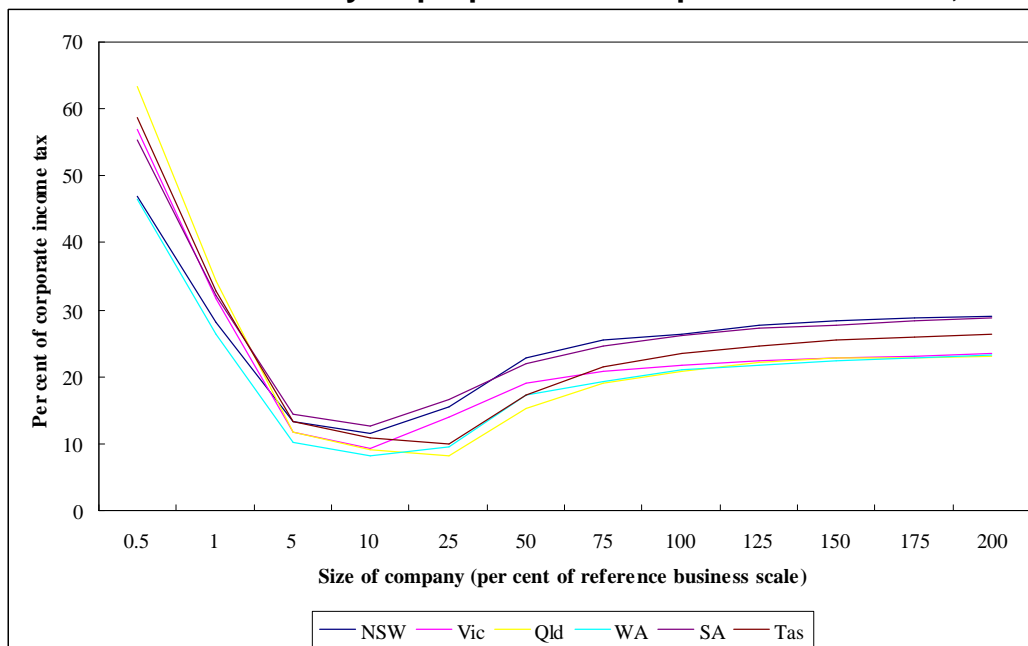
- The WA tax liability of \$195,621 is about six per cent below the states' average. Queensland and Victoria are close behind WA on the state tax rankings.
- New South Wales has the highest business taxes.
- NSW taxes are about seven per cent above the states' average, and about 14 per cent above tax liabilities in Western Australia.

1.3 Main Results – Business Scale

State taxes hit very small and very large businesses

- The IPA State Business Tax Calculator shows that very small and very large businesses are discriminated against under current state tax regimes.

State tax liability as proportion of corporate income tax, 2008



Based on liabilities borne by a reference business. Including payroll tax, land tax, land transfer duty, insurance duty, motor vehicle duty and vehicle registration fee. WA taxes include Metropolitan Regional Improvement Tax. Including workers' compensation premiums. Queensland WorkCover premiums include insurance duty of ten per cent.

Source: IPA State Business Tax Calculator.

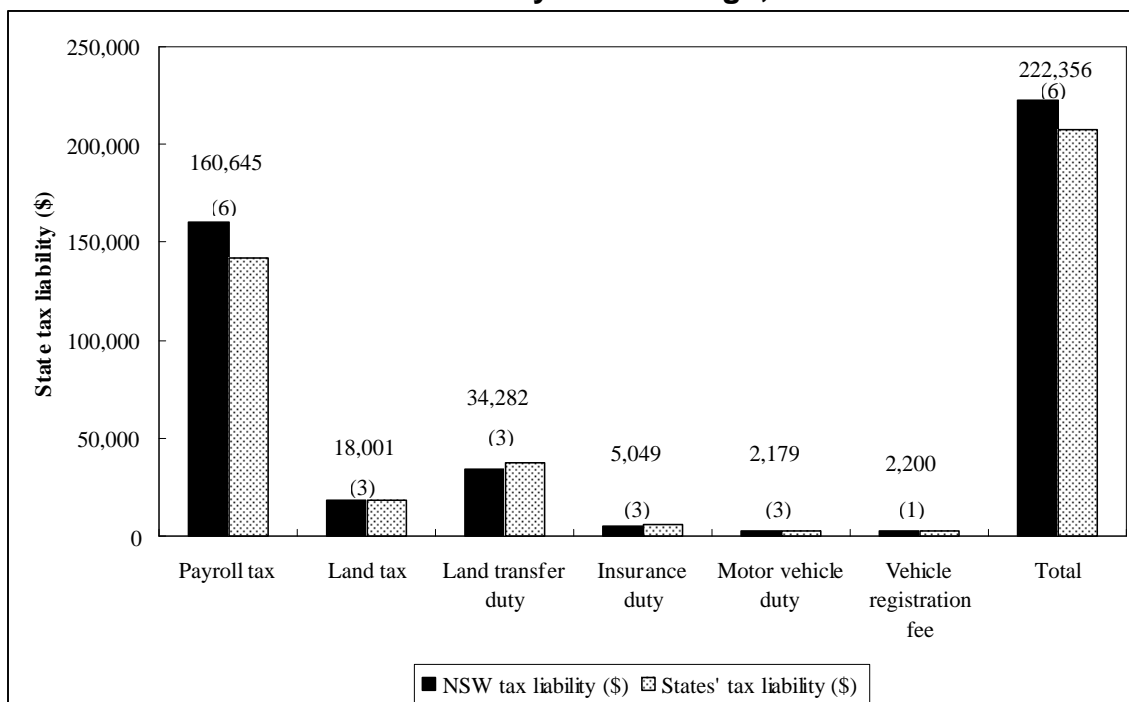
- The state tax burden is disproportionately high on small firms with low profitability, but very large firms are also affected because the value of their transactions tends to be high.
- Queensland imposes the highest tax liabilities on very small businesses as a percentage of corporate tax. This is mainly due to the low stamp duty tax free thresholds in that state.
- At the other end of the scale, Victoria, Queensland and Western Australia impose the lowest burdens on large scale businesses. This is attributable to its lower payroll tax and duties burden.
- Large businesses in NSW and South Australia bear the highest tax liabilities in the Commonwealth, deterring firms from expanding.

2.1 State Results – New South Wales

New South Wales the high tax state – tax reductions urgently needed

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

NSW tax liability and rankings, 2008



Based on tax liabilities borne by a reference business. Excluding workers' compensation premiums. The State's tax liability rankings against all States are in parentheses, and are scaled from 1 to 6 (1 being the lowest liability to 6 being the highest). This figure shows NSW's tax liability, and its ranking for each tax category.

Source: IPA State Business Tax Calculator.

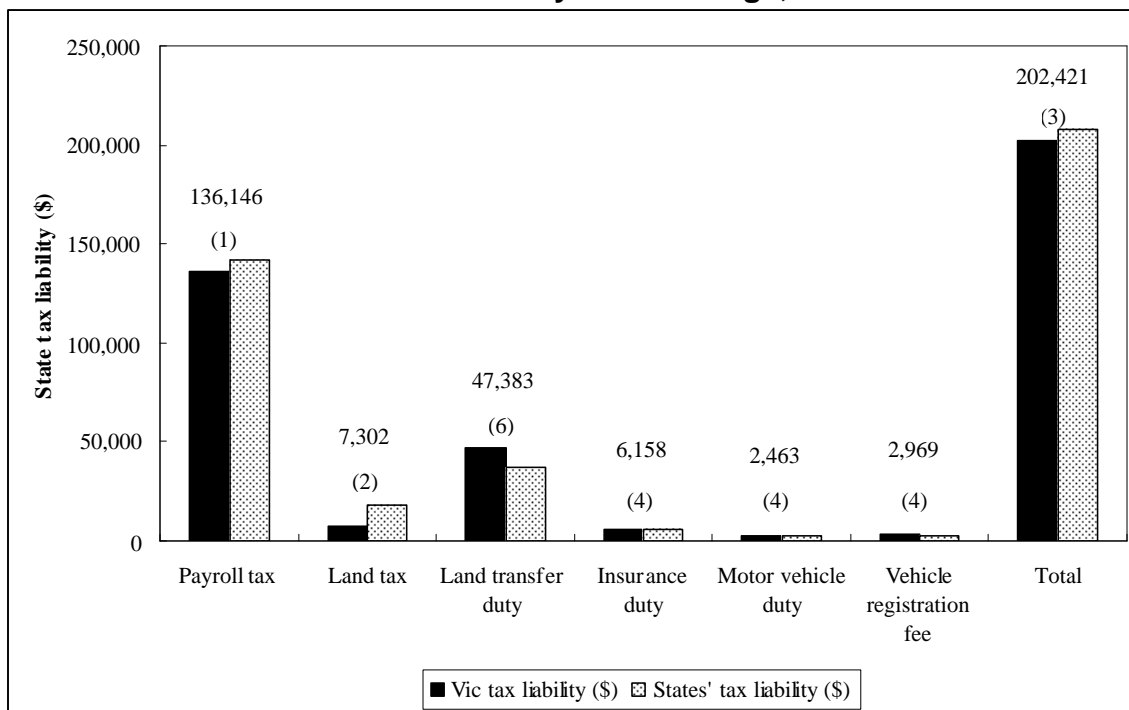
- The state's onerous payroll tax liability pushes NSW to the top of the state tax liability rankings.
- Increases in land taxes and stamp duties, and the deferral of abolition of selected business duties, are expected to erode the state's tax competitiveness in 2009.
- Across-the-board state tax reductions are necessary to prevent NSW continuing to act as a drag on national economic growth.

2.2 State Results – Victoria

Victoria a competitive tax state, but with 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, 2008



Based on tax liabilities borne by a reference business. Excluding workers' compensation premiums. The State's tax liability rankings against all States are in parentheses, and are scaled from 1 to 6 (1 being the lowest liability to 6 being the highest). This figure shows Victoria's tax liability, and its ranking for each tax category.

Source: IPA State Business Tax Calculator.

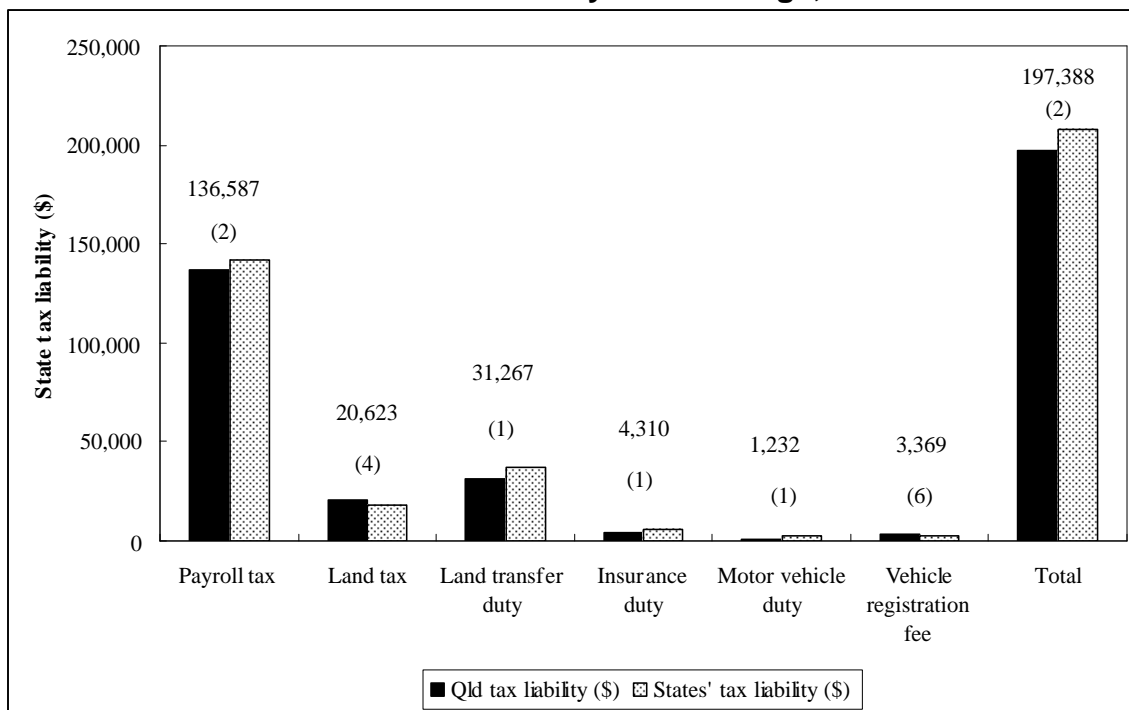
- Victoria is competitive on payroll and land taxes. Since 2000-01, it has reduced its payroll tax rate from 5.75 per cent to 4.95 per cent, and its maximum land tax rate from five per cent to 2.25 per cent.
- Undermining these good outcomes, however, are Victoria's relatively high stamp duty liabilities. In particular, Victoria imposes the highest land transfer duty of all the states.
- If Victoria wishes to compete against the low-tax jurisdictions of WA and Queensland, then it must scale back its byzantine stamp duty regime and look to cut other taxes.

2.3 State Results - Queensland

Queensland a relatively low tax state, but should be lower

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

Queensland tax liability and rankings, 2008



Based on tax liabilities borne by a reference business. Excluding workers' compensation premiums. The State's tax liability rankings against all States are in parentheses, and are scaled from 1 to 6 (1 being the lowest liability to 6 being the highest). This figure shows Queensland's tax liability, and its ranking for each tax category.

Source: IPA State Business Tax Calculator.

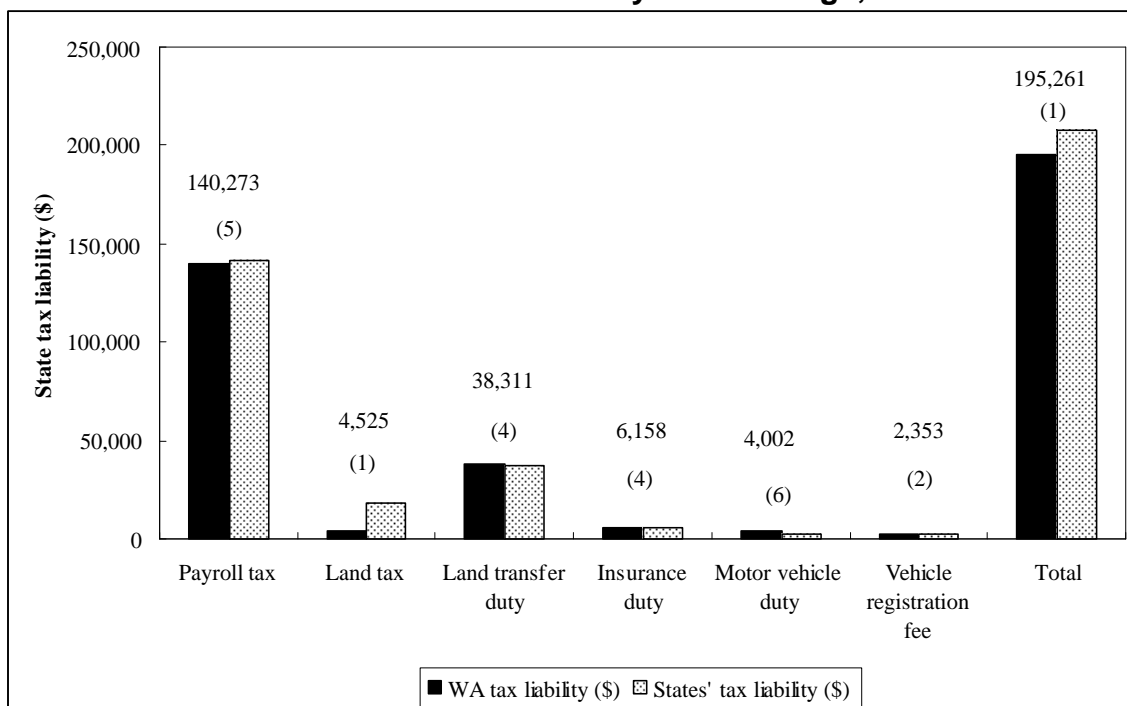
- Queensland is competitive against other states on payroll taxation and particularly on a range of stamp duties.
- The factors holding Queensland back from assuming the mantle of low tax state is its above-average land tax liability and high motor vehicle registration fees.
- The December 2008 mini-budget will erode tax competitiveness, with a planned hike in vehicle registrations and a new land tax surcharge in 2009.
- If Queensland wants to take the low tax title away from WA, then it must go the other way and further reduce its tax burdens on business.

2.4 State Results – Western Australia

Western Australia the low tax state – but beware the competitors!

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

Western Australia tax liability and rankings, 2008



Based on tax liabilities borne by a reference business. Excluding workers' compensation premiums. WA land tax burden includes Metropolitan Regional Improvement Tax. The State's tax liability rankings against all States are in parentheses, and are scaled from 1 to 6 (1 being the lowest liability to 6 being the highest). This figure shows Western Australia's tax liability, and its ranking for each tax category.

Source: IPA State Business Tax Calculator.

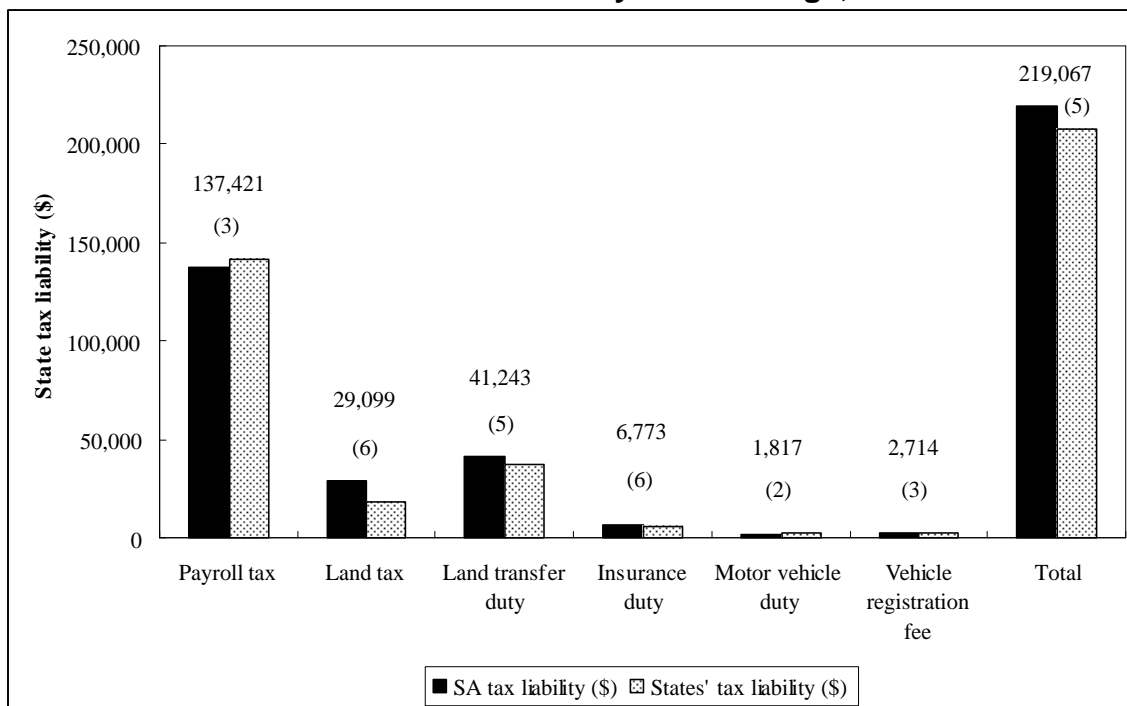
- Low land taxes, which are 75 per cent below the states' average, and vehicle registrations contribute to WA's status as Australia's low tax jurisdiction.
- Even so, WA should look to reduce its taxes further. Queensland and Victoria in particular have been reducing some of their major taxes in recent years, and could pose a threat to WA's enviable tax status.
- WA announced land tax and duty relief in the 2008-09 Budget, as well as a state tax review. There is scope to do more, including further reductions in duties and payroll tax reductions.

2.5 State Results – South Australia

South Australia a high taxing state – tax reductions essential

- The IPA State Business Tax Calculator shows that South Australia has the second highest business taxes in Australia.

South Australia tax liability and rankings, 2008



Based on tax liabilities borne by a reference business. Excluding workers' compensation premiums. The State's tax liability rankings against all States are in parentheses, and are scaled from 1 to 6 (1 being the lowest liability to 6 being the highest). This figure shows South Australia's tax liability, and its ranking for each tax category.

Source: IPA State Business Tax Calculator.

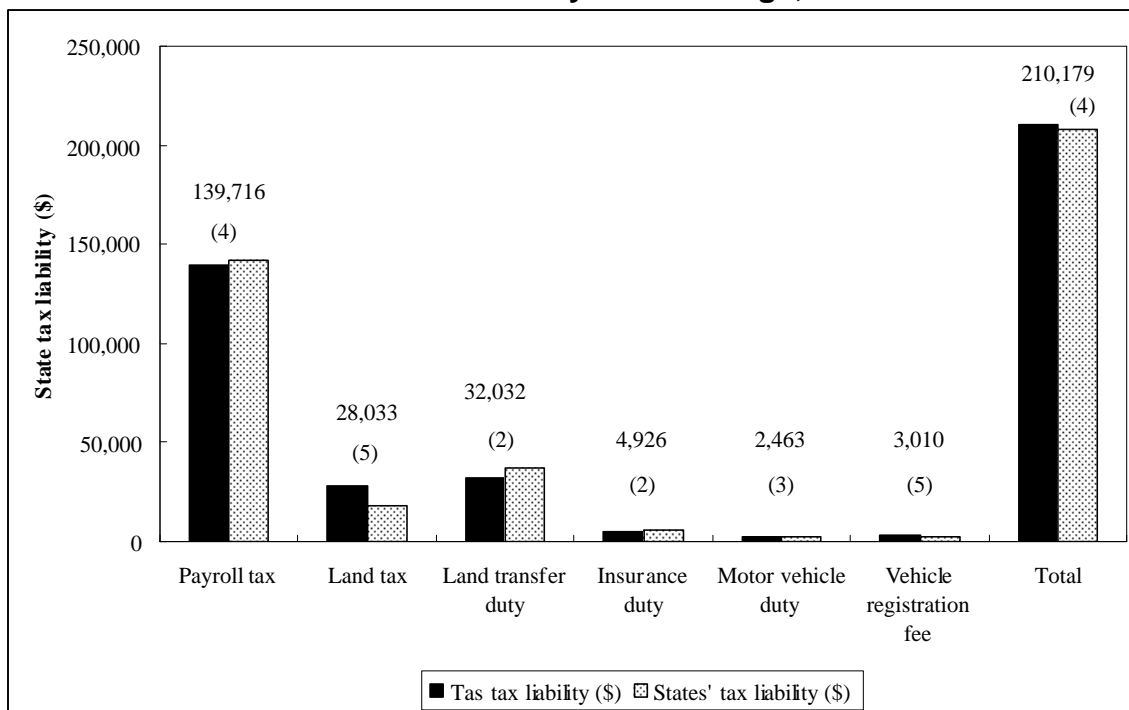
- South Australia is reasonably competitive against other states on motoring taxes and payroll tax.
- However, any competitive advantage in these areas is significantly diluted by very high property taxes, especially land tax (62 per cent above the average).
- South Australia also levies the highest insurance duty liability compared to other jurisdictions.
- To create an economic climate more conducive to economic development, the government should reduce its above-average tax liabilities on business.

2.6 State Results – Tasmania

Tasmania a high taxing state – reductions in taxes required

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

Tasmania tax liability and rankings, 2008



Based on tax liabilities borne by a reference business. Excluding workers' compensation premiums. The State's tax liability rankings against all States are in parentheses, and are scaled from 1 to 6 (1 being the lowest liability to 6 being the highest). This figure shows Tasmania's tax liability, and its ranking for each tax category.

Source: IPA State Business Tax Calculator.

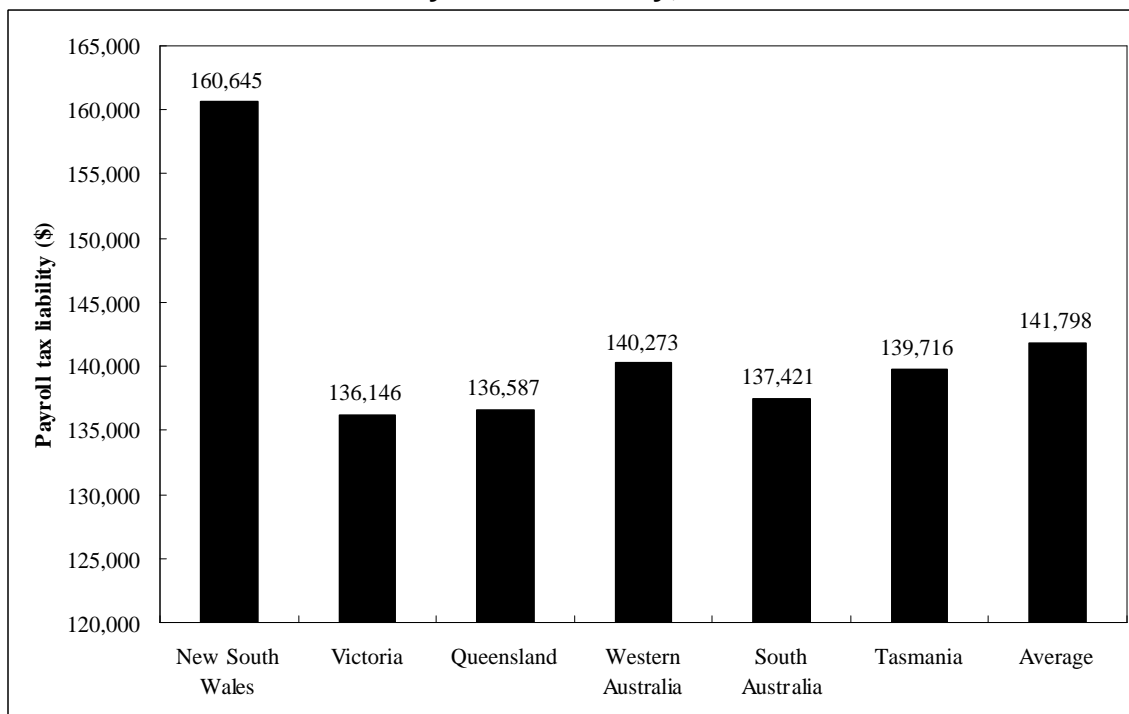
- Compared to other jurisdictions, Tasmania imposes relatively lower tax burdens on payrolls, land transfers and insurance products.
- On the other hand, the second-highest land tax burden leads to the overall result of Tasmania as a high taxing state. Taxes on motorists are also relatively high.
- Measures to reduce land tax liabilities are necessary if Tasmania is to promote a more business-friendly environment.
- Reductions in other state taxes would also help Tasmania move down the pecking order of taxation and improve its competitiveness.

3.1 Key Tax Results – Payroll Tax

NSW has highest employment taxes – Victoria the lowest

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

Payroll tax liability, 2008



Based on tax liabilities borne by a reference business.

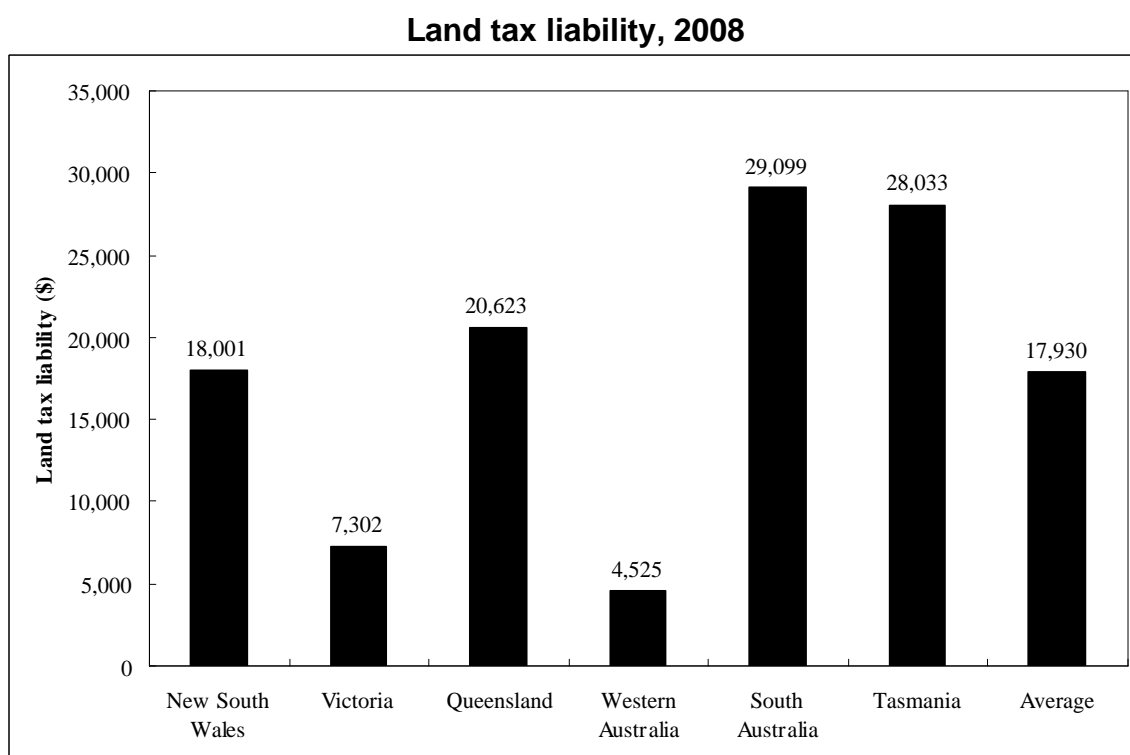
Source: IPA State Business Tax Calculator.

- The annual NSW payroll tax liability of \$160,645 is about 13 per cent above the states' average, and about 18 per cent above payroll taxes in Victoria.
- Other high payroll taxing jurisdictions include Western Australia (\$140,273), Tasmania (\$139,716) and South Australia (\$137,421).
- Victoria imposes the lowest payroll tax liability (\$136,146). This amount is about four per cent lower than the states' average.

3.2 Key Tax Results – Land Tax

South Australia land tax grab – WA the lowest taxing state

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



Based on tax liabilities borne by a reference business.

Source: IPA State Business Tax Calculator.

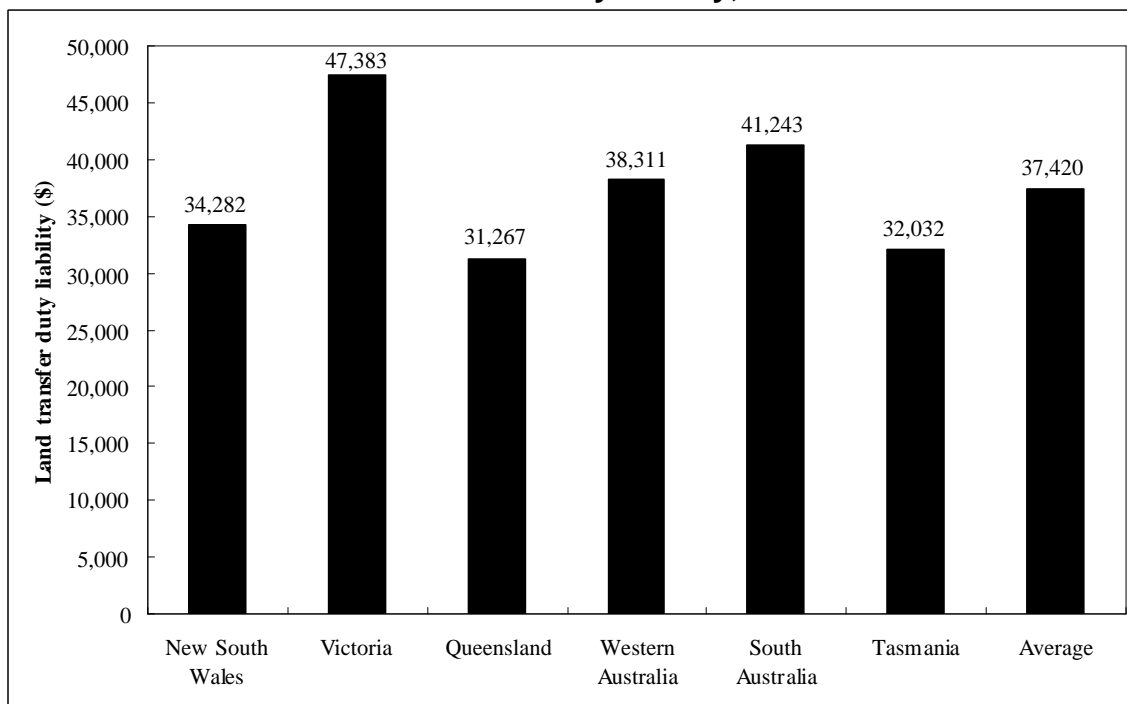
- The annual South Australian land tax liability of \$29,099 is about 62 per cent above the states' average, and a whopping 543 per cent above land taxes in WA.
- Tasmania is the other high land-taxing jurisdiction (\$28,033), followed by Queensland (\$20,623) and NSW (\$18,001).
- Western Australia imposes by far the lowest land tax liability (\$4,525). This amount is about 75 per cent below the states' average.

3.3 Key Tax Results – Land Transfer Duty

Victoria the highest land duty state – Queensland the lowest

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

Land transfer duty liability, 2008



Based on tax liabilities borne by a reference business.

Source: IPA State Business Tax Calculator.

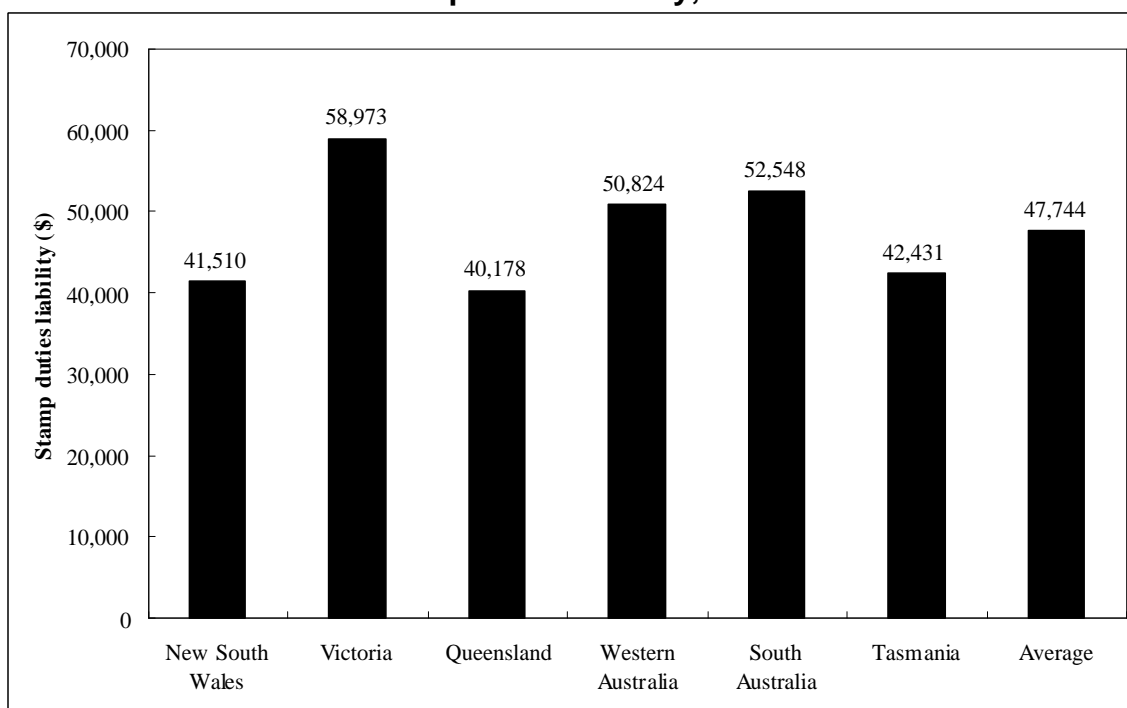
- The annual Victorian tax liability (\$47,383) on a business property sale is about 27 per cent above the states' average, and about 52 per cent above land transfer duties in Queensland.
- South Australia is the second-highest taxing state (\$41,243), followed by WA (\$38,311) and NSW (\$34,282).
- Queensland imposes the lowest land transfer duty liability (\$31,267). This amount is about 16 per cent below the national average.

3.4 Key Tax Results – Total Duties

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

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

Stamp duties liability, 2008



Based on tax liabilities borne by a reference business. Includes duties on land transfer, insurance and motor vehicles.

Source: IPA State Business Tax Calculator.

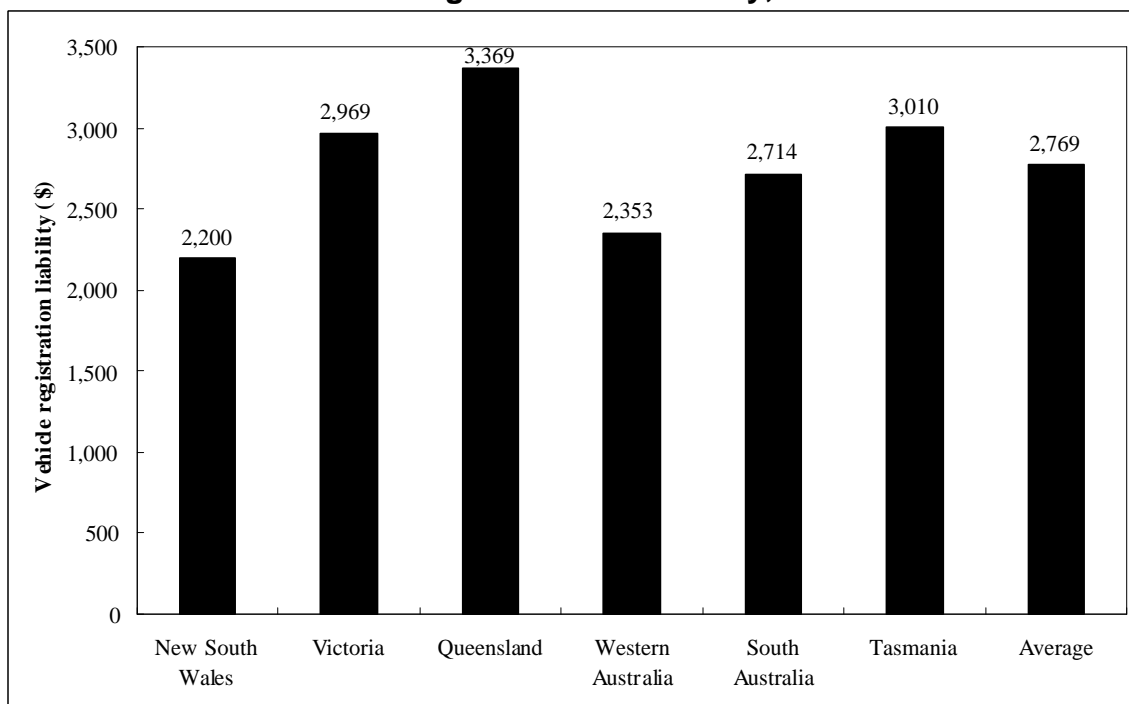
- The annual Victorian stamp duties liability (\$58,973) is about 24 per cent above the states' average, and about 47 per cent above stamp duties in Queensland.
- Victoria is followed by South Australia (\$52,548) as a high-taxing state, and then by WA (\$50,824) and NSW (\$42,431).
- Queensland imposes the lowest stamp duties liability (\$40,178). This amount is about 16 per cent below the states' average.

3.5 Key Tax Results – Vehicle Registrations

Queensland's vehicle rego fee slug – NSW the low vehicle registration State

- The IPA State Business Tax Calculator shows that Queensland imposes the highest motor vehicle registration fee burdens on business in Australia.

Vehicle registration fee liability, 2008



Based on tax liabilities borne by a reference business. Reference business assumed to own a fleet of five cars.

Source: IPA State Business Tax Calculator.

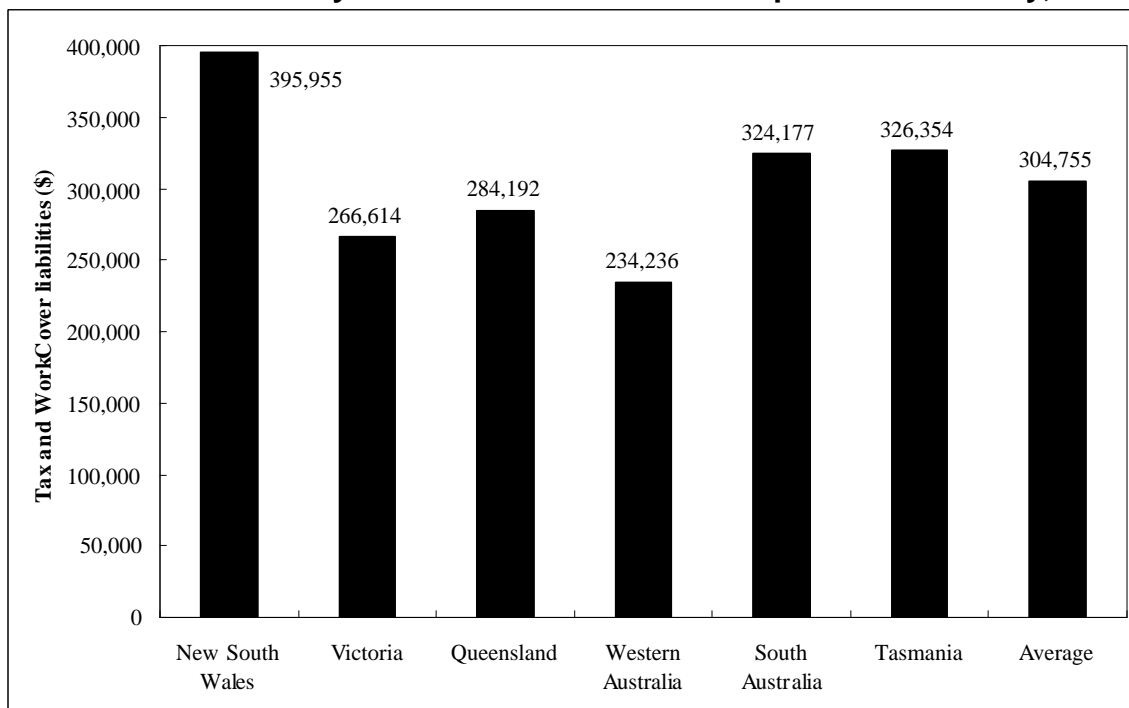
- The annual Queensland vehicle registration liability (\$3,369) is about 22 per cent above the states' average, and about 53 per cent above fees in NSW.
- Queensland's high registration liability is followed by Tasmania (\$3,010), Victoria (\$2,969) and South Australia (\$2,714).
- NSW imposes the lowest vehicle registration fee (\$2,200). This amount is about 21 per cent below the states' average.

4.1 Industry Results – Construction

NSW the high-tax State for construction industry – WA the lowest

- The IPA State Business Tax Calculator shows that NSW imposes the highest state tax and workers' compensation premium liabilities on housing construction businesses in Australia.

Construction industry State tax and workers' compensation liability, 2008



Based on tax liabilities and WorkCover premiums borne by a reference business. Workers' compensation premiums are based on basic industry rates, and exclude experience and other adjustments to premiums. Queensland WorkCover premiums include insurance duty of ten per cent.

Source: IPA State Business Tax Calculator.

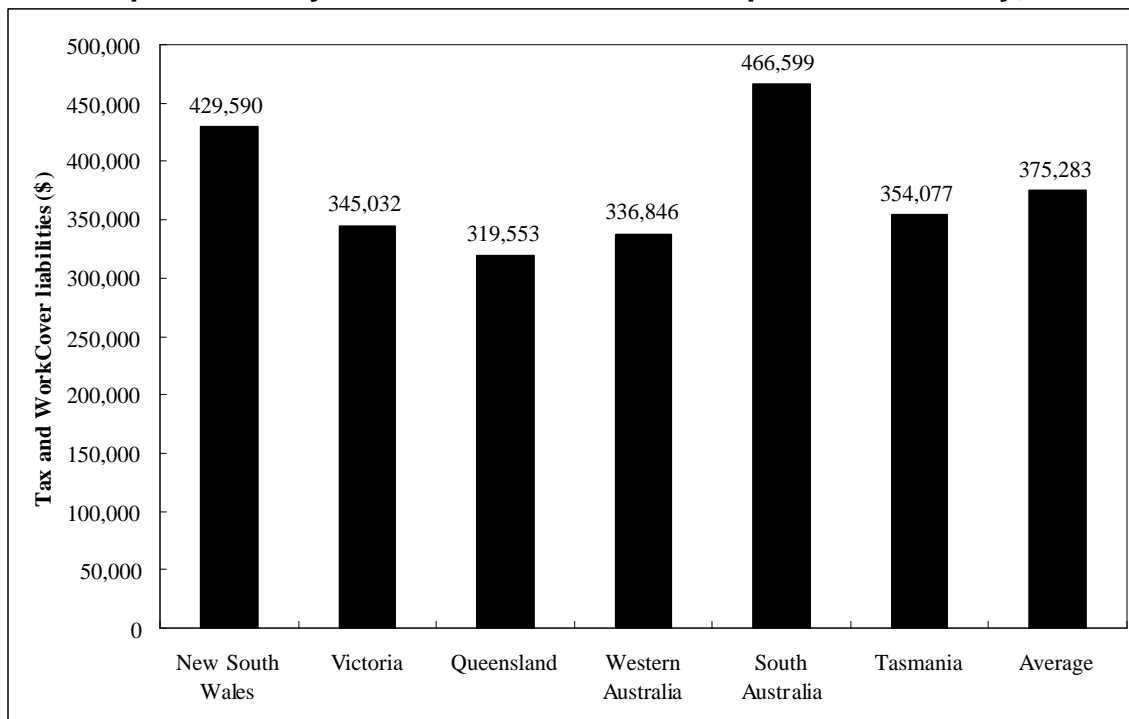
- The annual NSW liabilities (\$395,955) are about 30 per cent above the states' average, and about 69 per cent above combined state tax and WorkCover premiums in WA.
- NSW's position as the state imposing the greatest liabilities is followed by Tasmania (\$326,354), South Australia (\$324,177) and Queensland (\$284,192).
- WA imposes the lowest combined state tax and workers' compensation premium liabilities (\$234,236). This amount is about 23 per cent below the states' average.

4.2 Industry Results – Transport

South Australia the high-tax state for transport – Qld the lowest

- The IPA State Business Tax Calculator shows that South Australia imposes the highest state tax and workers' compensation premium liabilities on road freight transport businesses in Australia.

Transport industry state tax and workers' compensation liability, 2008



Based on tax liabilities and WorkCover premiums borne by a reference business. Workers' compensation premiums are based on basic industry rates, and exclude experience and other adjustments to premiums. Queensland WorkCover premiums include insurance duty of ten per cent.

Source: IPA State Business Tax Calculator.

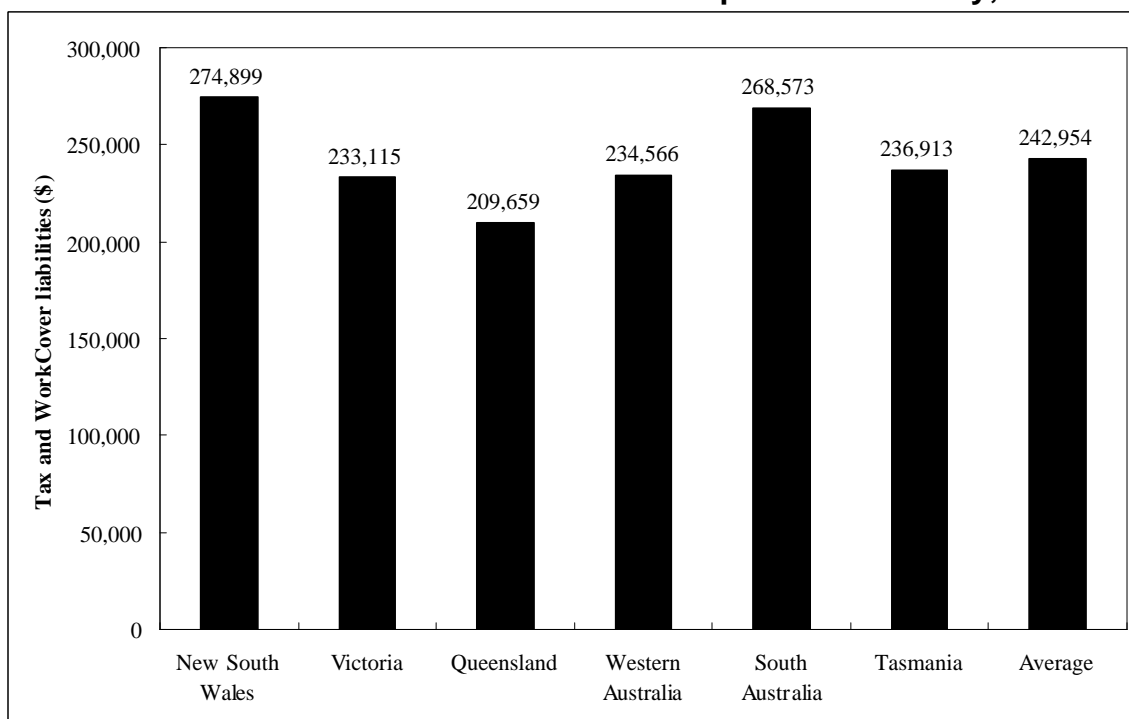
- The annual South Australian liabilities (\$466,599) are about 24 per cent above the states' average, and about 46 per cent above combined state tax and WorkCover premiums in Queensland.
- South Australia's position as the state imposing the greatest liabilities is followed by NSW (\$429,598), Tasmania (\$354,077) and Victoria (\$345,032).
- Queensland imposes the lowest combined state tax and workers' compensation premium liabilities (\$319,553). This amount is about 15 per cent below the states' average.

4.3 Industry Results – Retail

NSW the high-tax state for retail – Qld the lowest

- The IPA State Business Tax Calculator shows that New South Wales imposes the highest state tax and workers' compensation premium liabilities on clothing retail businesses in Australia.

Retail services State tax and workers' compensation liability, 2008



Based on tax liabilities and WorkCover premiums borne by a reference business. Workers' compensation premiums are based on basic industry rates, and exclude experience and other adjustments to premiums. Queensland WorkCover premiums include insurance duty of ten per cent.

Source: IPA State Business Tax Calculator.

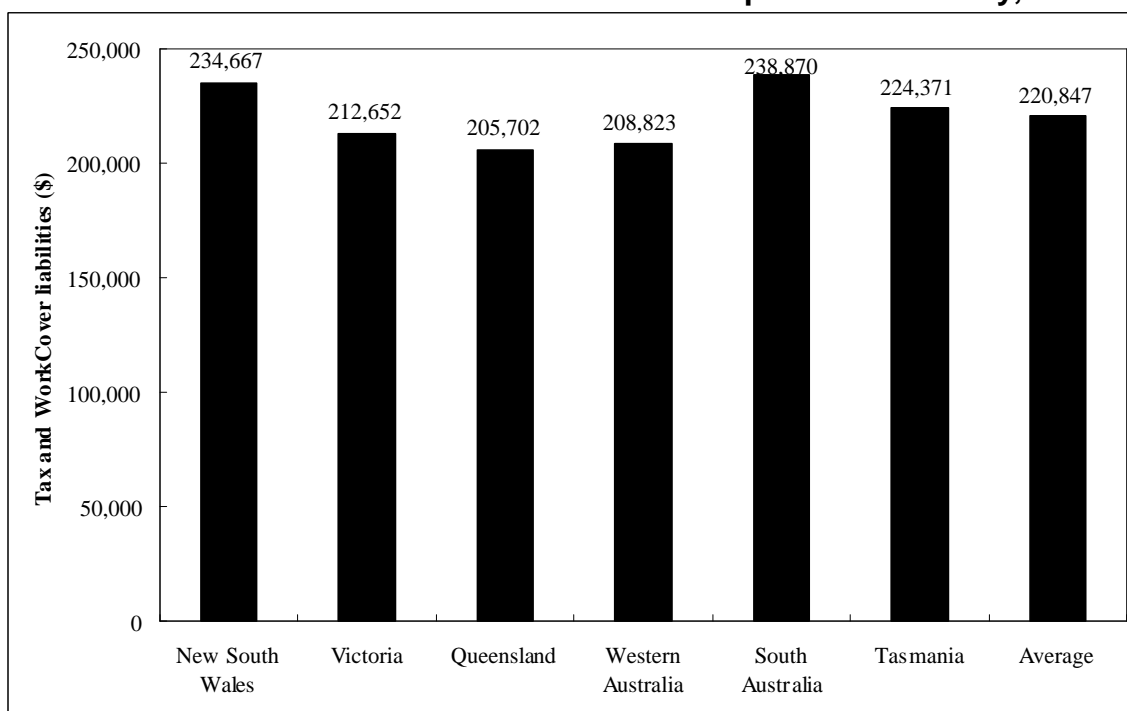
- The annual NSW liabilities (\$274,899) are about 13 per cent above the states' average, and about 31 per cent above combined state tax and WorkCover premiums in Queensland.
- NSW's position as the state imposing the greatest liabilities is followed by South Australia (\$268,573), Tasmania (\$236,913) and WA (\$234,566).
- Queensland imposes the lowest combined state tax and workers' compensation premium liabilities (\$209,659). This amount is about 14 per cent below the states' average.

4.4 Industry Results – Financial Services

South Australia the high-tax state for financial services – Qld the lowest

- The IPA State Business Tax Calculator shows that South Australia imposes the highest state tax and workers' compensation premium liabilities on investor services businesses in Australia.

Financial services State tax and workers' compensation liability, 2008



Based on tax liabilities and WorkCover premiums borne by a reference business. Workers' compensation premiums are based on basic industry rates, and exclude experience and other adjustments to premiums. Queensland WorkCover premiums include insurance duty of ten per cent.

Source: IPA State Business Tax Calculator.

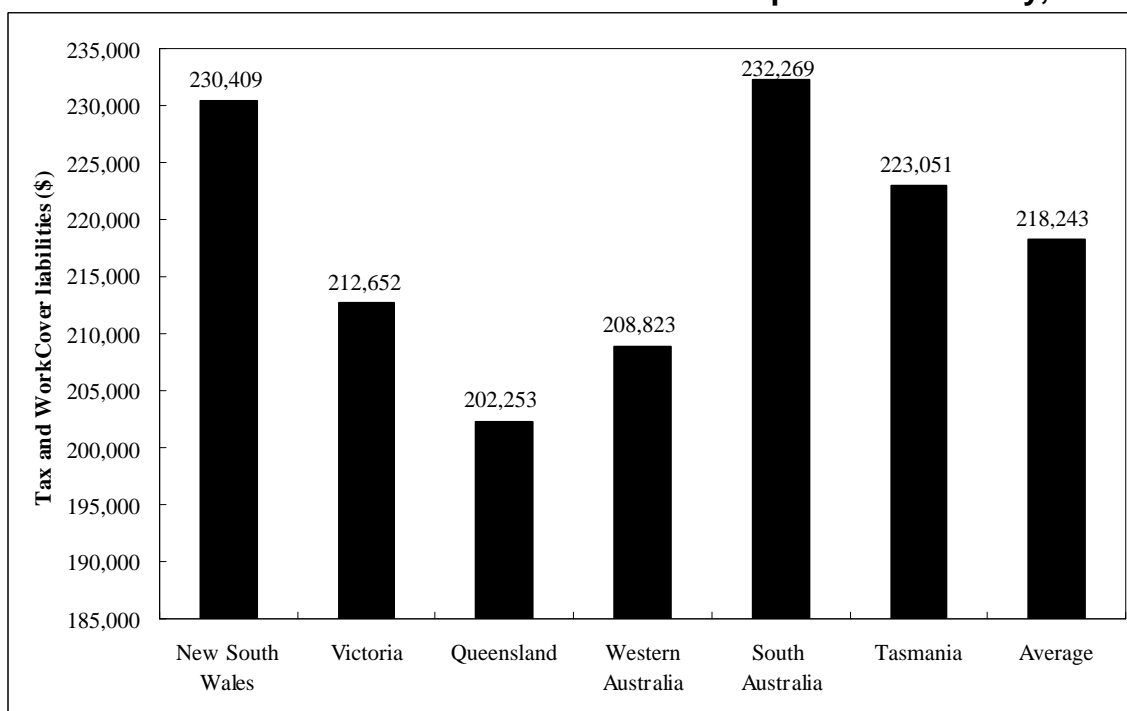
- The annual South Australian liabilities (\$238,870) are about eight per cent above the states' average, and about 16 per cent above combined state tax and WorkCover premiums in Queensland.
- South Australia's position as the state imposing the greatest liabilities is followed by NSW (\$234,667), Tasmania (\$224,371) and Victoria (\$212,652).
- Queensland imposes the lowest combined state tax and workers' compensation premium liabilities (\$205,702). This amount is about seven per cent below the states' average.

4.5 Industry Results – Professional Services

South Australia the high-tax state for professional services – Qld the lowest

- The IPA State Business Tax Calculator shows that South Australia imposes the highest state tax and workers' compensation premium liabilities on computer consultancy services in Australia.

Professional services State tax and workers' compensation liability, 2008



Based on tax liabilities and WorkCover premiums borne by a reference business. Workers' compensation premiums are based on basic industry rates, and exclude experience and other adjustments to premiums. Queensland WorkCover premiums include insurance duty of ten per cent.

Source: IPA State Business Tax Calculator.

- The annual South Australian liabilities (\$232,269) are about six per cent above the states' average, and about 15 per cent above combined state tax and WorkCover premiums in Queensland.
- South Australia's position as the state imposing the greatest liabilities is followed by NSW (\$230,409), Tasmania (\$223,051) and Victoria (\$212,652).
- Queensland imposes the lowest combined state tax and workers' compensation premium liabilities (\$202,253). This amount is about seven per cent below the states' average.