

# State Business Tax Calculator

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Fact Sheets

 Institute of  
Public Affairs

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## Table of Contents

1.1 Methodology .....	2
1.2 Main Results – State Tax League Table .....	3
2.1 State Results – New South Wales .....	4
2.2 State Results – Victoria.....	5
2.3 State Results - Queensland .....	6
2.4 State Results – Western Australia .....	7
2.5 State Results – South Australia .....	8
2.6 State Results – Tasmania .....	9
2.7 State Results – Australian Capital Territory .....	10
2.8 State Results – Northern Territory .....	11
3.1 Key Tax Results – Payroll Tax .....	12
3.2 Key Tax Results – Land Tax.....	13
3.3 Key Tax Results – Land Transfer Duty .....	14
3.4 Key Tax Results – Total Duties.....	15

## 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 2011) is used to calculate annual 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 2011	Ranking 2010
Northern Territory	\$225,729	1	1
Western Australia	\$273,523	2	2
Victoria	\$273,581	3	3
Queensland	\$283,937	4	4
Tasmania	\$283,966	5	5
New South Wales	\$285,436	6	6
Australian Capital Territory	\$297,429	7	7
South Australia	\$299,703	8	8

As at 31 December 2011. 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 are scaled from 1 to 8 (1 being the lowest liability to 8 being the highest).

**Source:** IPA State Business Tax Calculator.

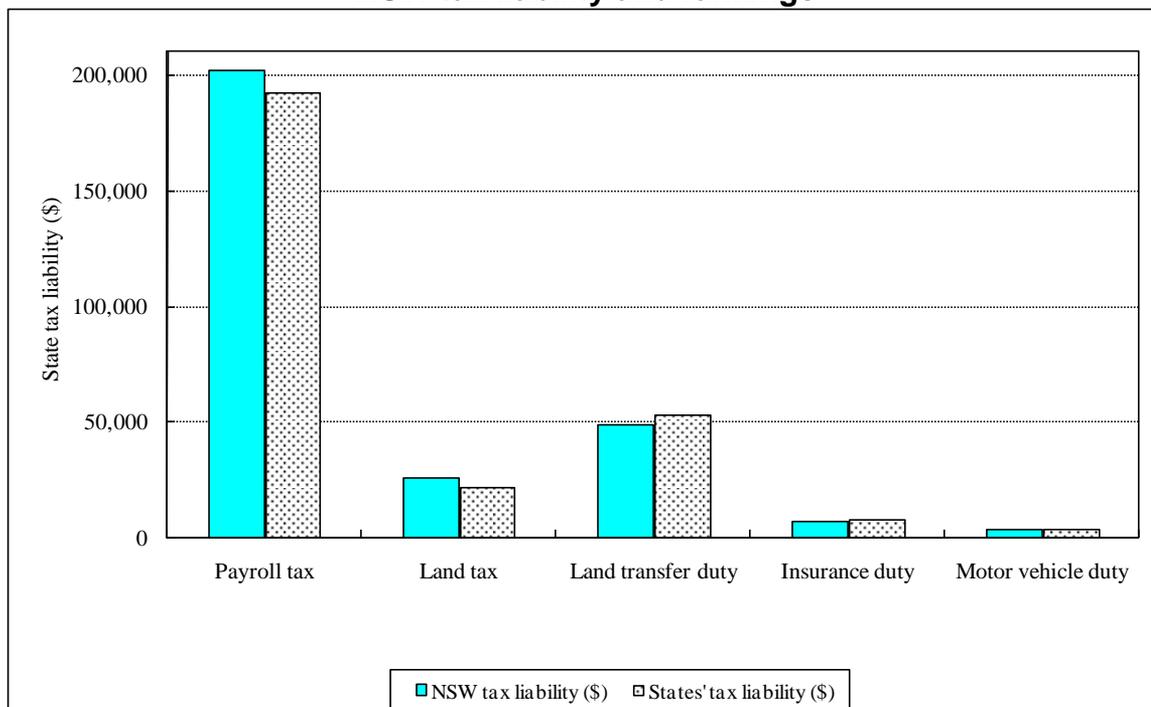
- The NT tax liability of \$225,729 is about 19 per cent below the states' average. Western Australia and Victoria are close behind the NT on the state tax rankings.
- For the third consecutive year of this series, South Australia has the highest business taxes in the commonwealth.
- SA taxes are about eight per cent above the states' average, and about 33 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 2011. 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.

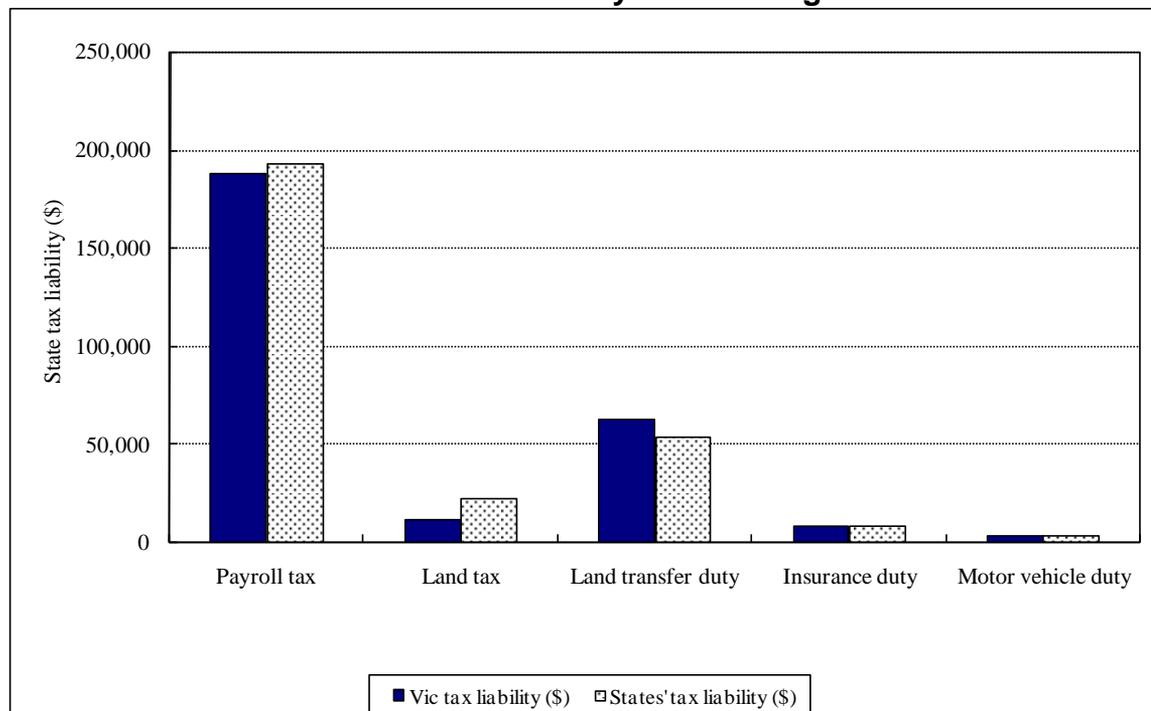
- The state's onerous payroll tax liability pushes NSW into the bracket of high taxers, despite past policies of progressively reducing the tax rate and increasing the tax threshold.
  - The further reduction of the payroll tax rate to 5.45 per cent on 1 January 2011 will not materially affect NSW's 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 – remain necessary to improve the performance 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 2011. 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.

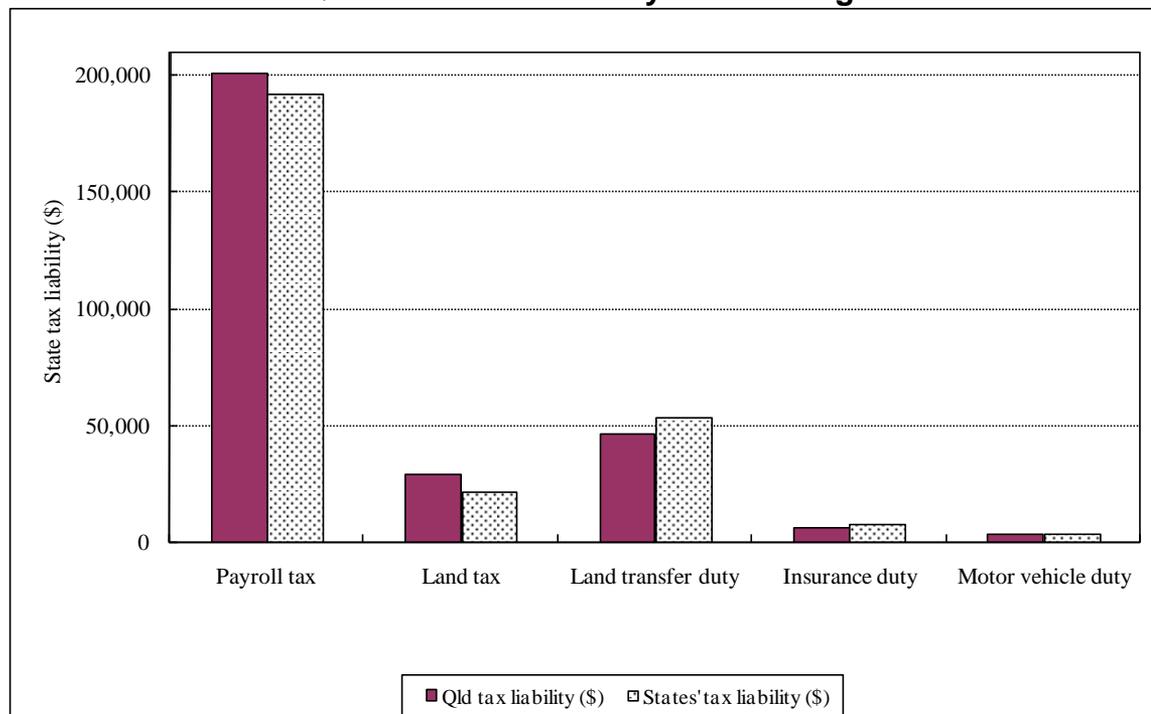
- Victoria is relatively competitive on the payroll and land tax front. Since 2000-01, it has reduced its payroll tax rate from 5.75 per cent to 4.9 per cent, and its maximum land tax rate from five per cent to 2.25 per cent.
- Undermining these positive outcomes, however, are Victoria's relatively high stamp duty liabilities. In particular, Victoria continues to impose the highest land transfer duty burden 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 remains in the middle rankings of the tax competitiveness ladder.

Queensland tax liability and rankings



As at 31 December 2011. 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.

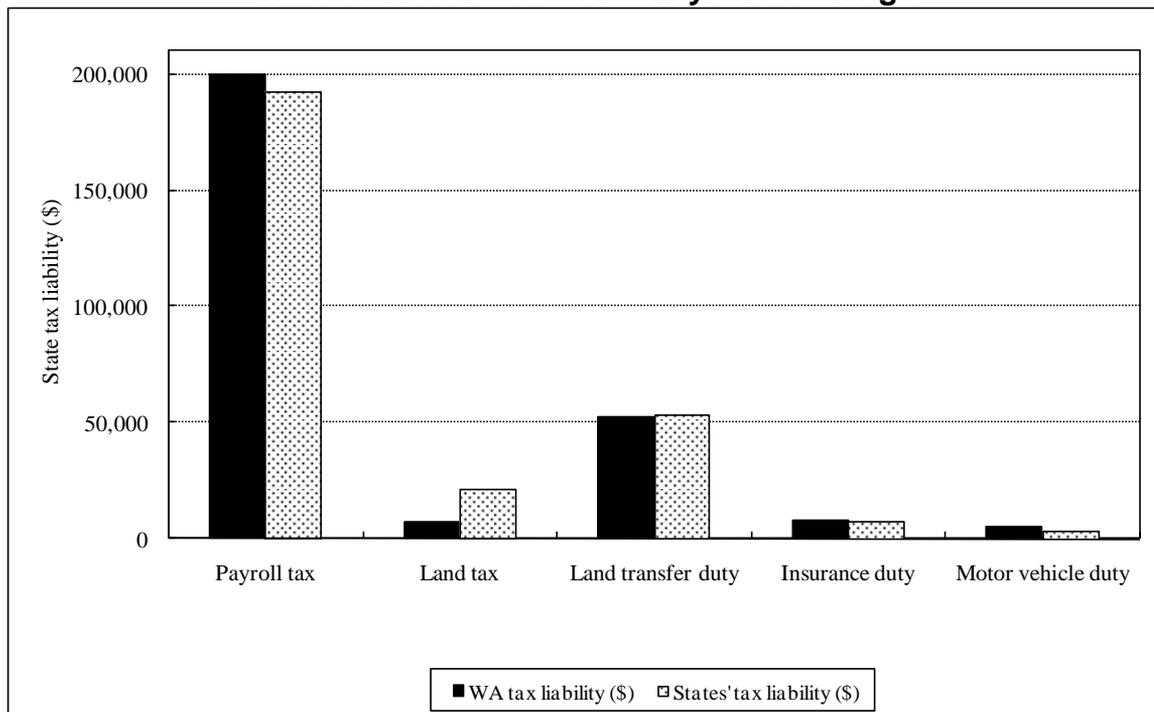
- Queensland is competitive against other states on a range of stamp duties.
- The factors holding Queensland back from assuming the mantle of lowest taxing state is its above average land tax liability and above average payroll taxation.
- Queensland is gradually losing its historical low tax advantage to jurisdictions such as Victoria. If Queensland wants to return to its fiscal policy roots of being Australia's low tax state, 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 2011. 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.

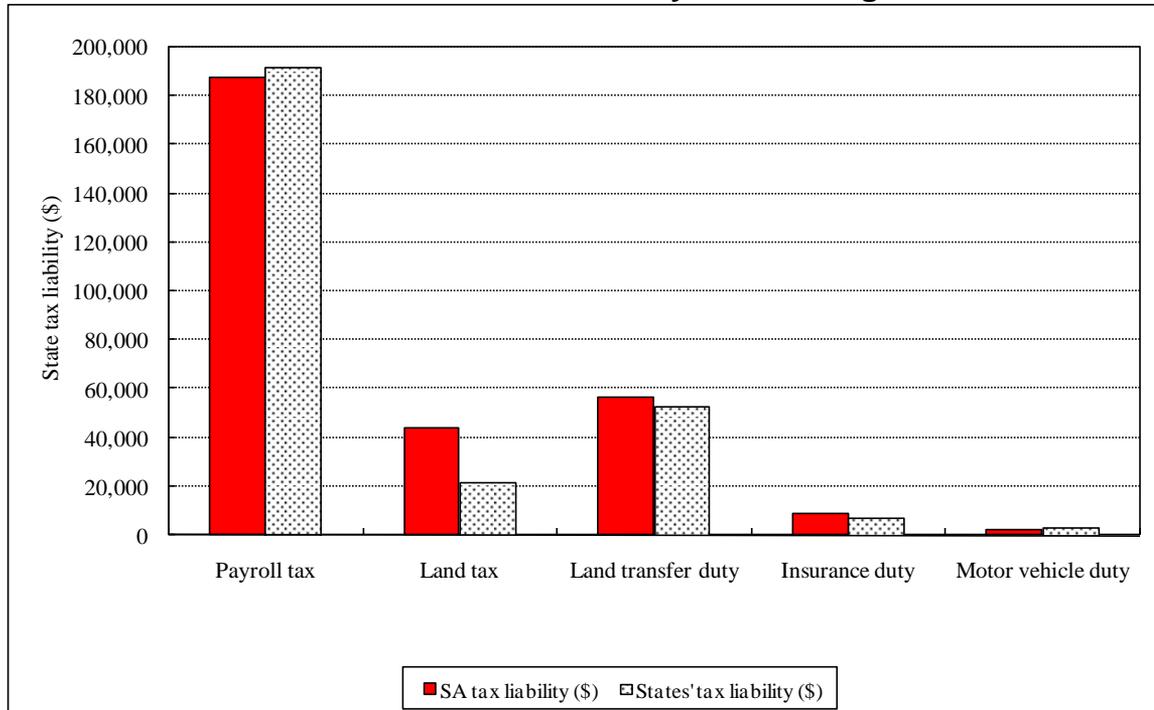
- Lower than average property taxes, particularly a competitive land tax regime, contribute to WA's status as Australia's low tax state, and only behind the NT on the tax competitiveness scale.
- WA should look to reduce its taxes further to promote investment and growth. Other states, such as Victoria, have been reducing their tax burdens 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 third consecutive year.

South Australia tax liability and rankings



As at 31 December 2011. 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.

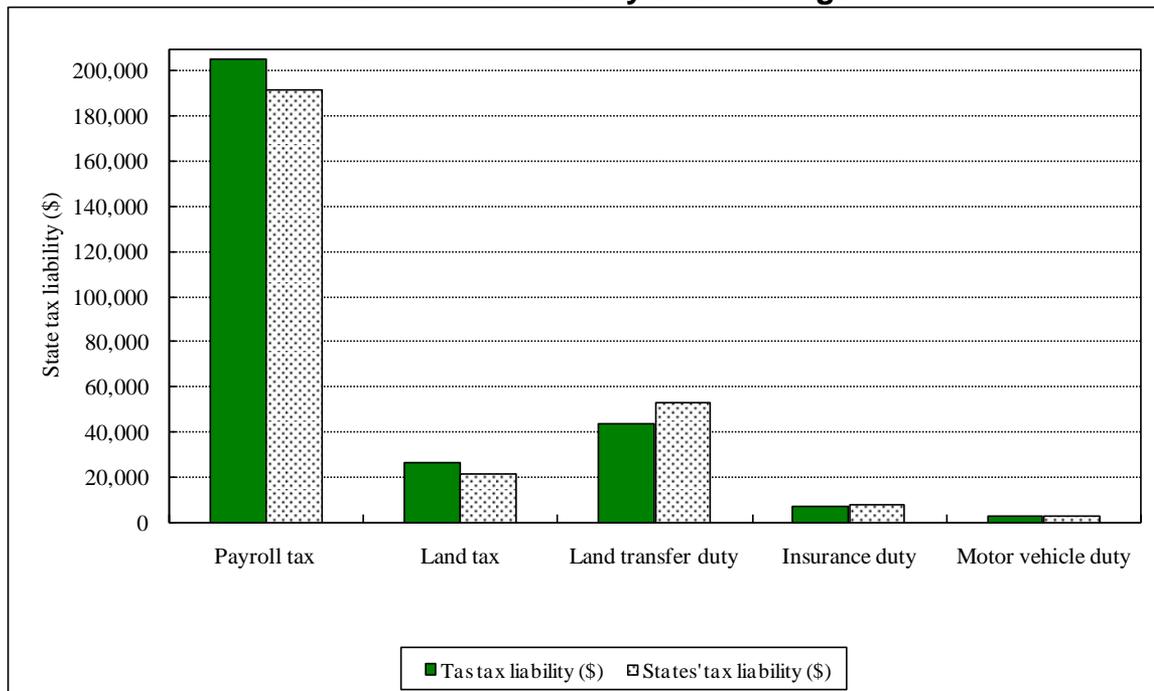
- South Australia is reasonably competitive against other states on motoring taxes and payroll tax.
- However, any competitive advantage in these areas is significantly diluted by very high property taxes, especially land tax (more than double the state and territory average).
- South Australia also 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 improving its tax competitiveness, but more tax cuts necessary

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

Tasmania tax liability and rankings



As at 31 December 2011. 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.

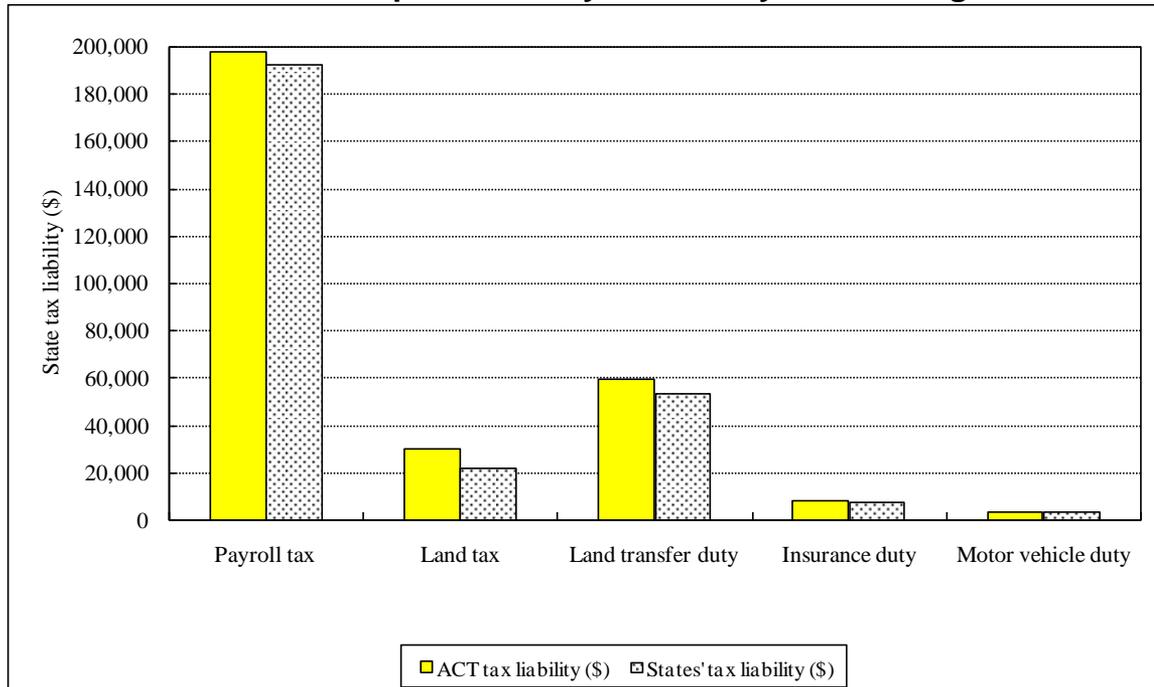
- Compared to other jurisdictions, Tasmania imposes relatively lower tax burdens on land transfers and insurance products.
- On the other hand, the second highest payroll tax and the highest land tax leads to the overall result of Tasmania as a high taxing state.
- Tasmania is increasingly rivaling resource-rich Queensland, a traditional low taxing state, on the tax competitiveness front.
- To leapfrog Queensland more tax reductions 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 2011. 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.

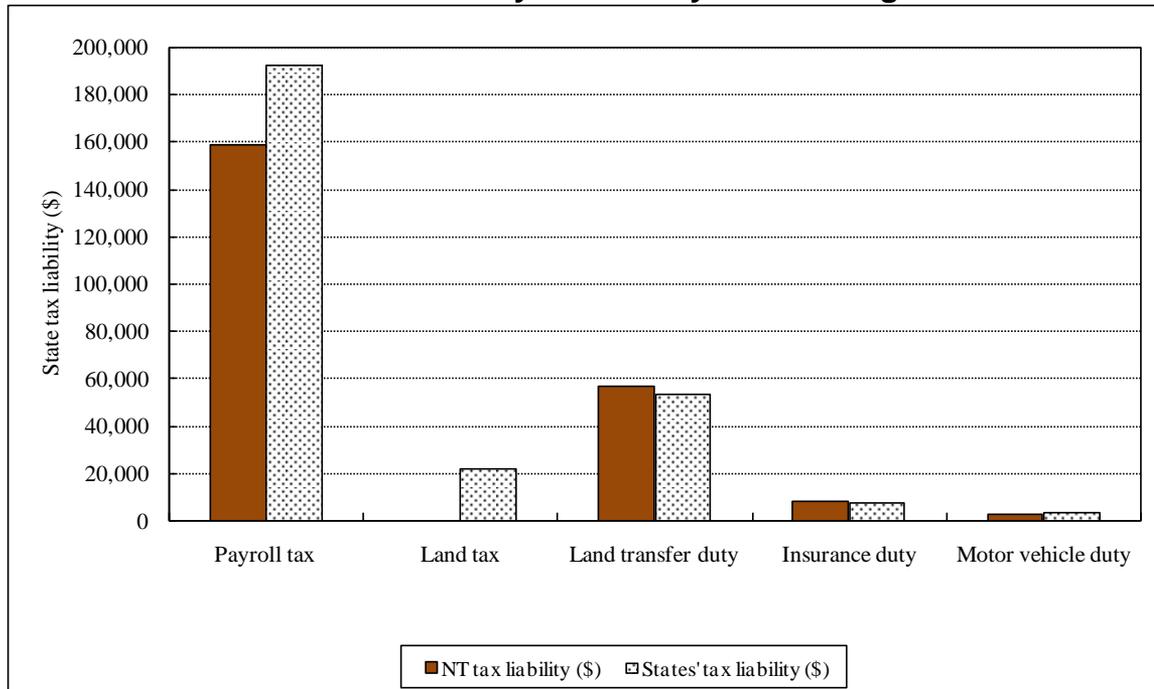
- ACT's relatively uncompetitive tax position is attributable to a combination of high payroll tax, land taxes and land transfer duties.
- Insurance and motor vehicle taxes are also in excess of the average amount imposed by the states and territories.
- To best ensure sustained economic growth in the 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, in turn, hinge critically on cuts to business taxes.
- The ACT Taxation Review 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 jurisdiction – 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 2011. 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.

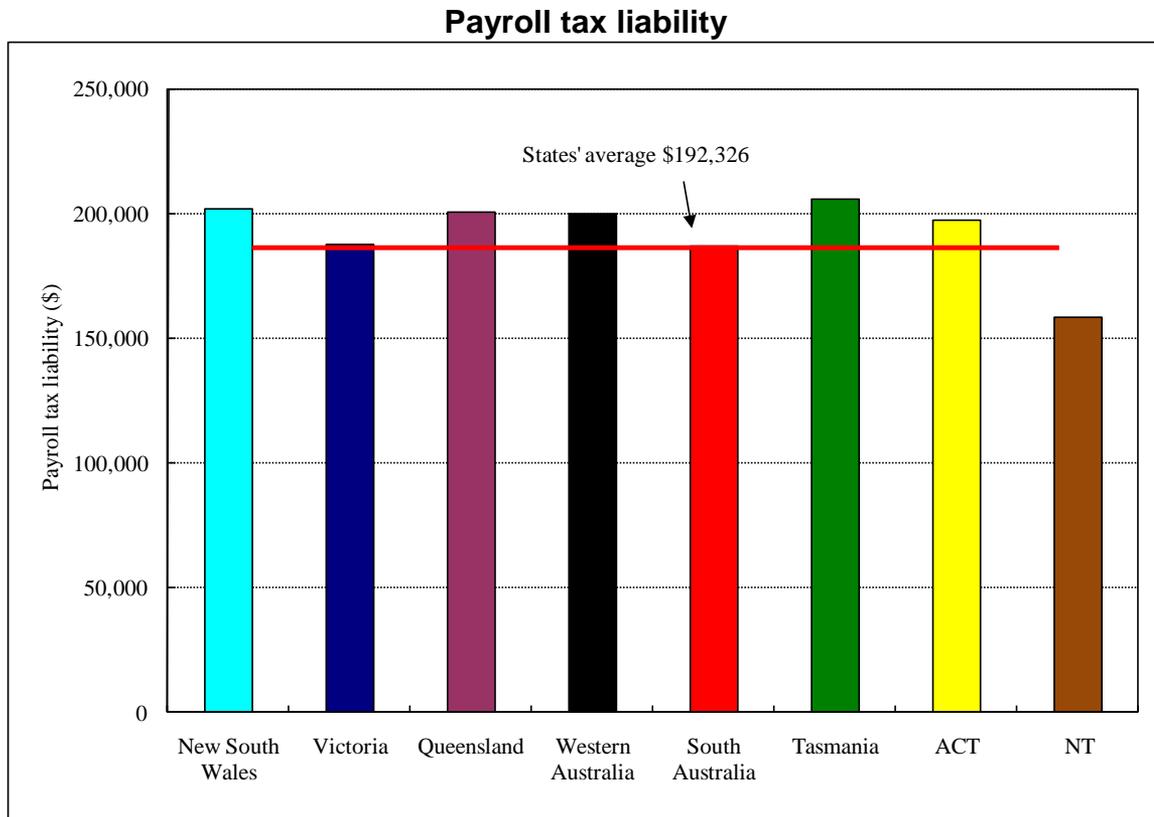
**Source:** IPA State Business Tax Calculator.

- 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.
- Lower payroll and motor vehicle taxes also contribute to the NT's low tax result.
- On the other hand, land transfer duty is about six 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

### Tasmania has highest employment taxes – NT the lowest

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



As at 31 December 2011. Based on tax liabilities borne by a reference business. Excluding rebates for apprentices, trainees and other workers.

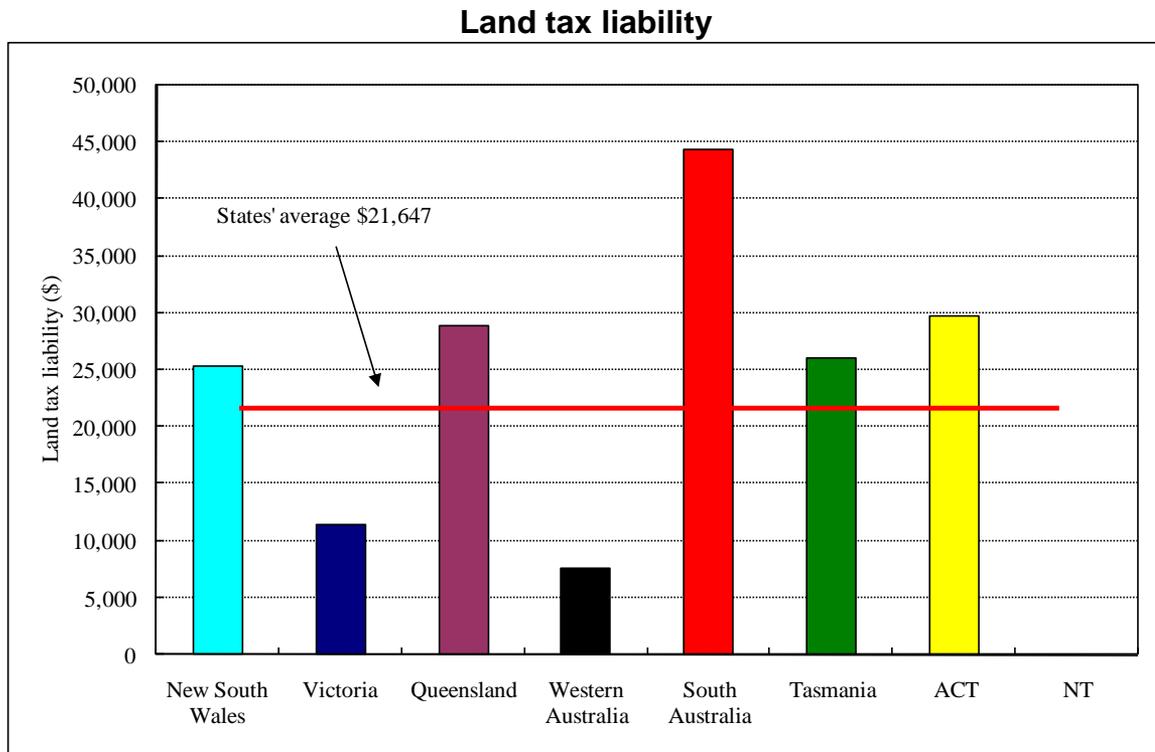
**Source:** IPA State Business Tax Calculator.

- The annual Tasmanian payroll tax liability of \$205,635 is about seven per cent above the states' average, and about 30 per cent above payroll taxes in the Northern Territory.
- Given its above average unemployment rate, Tasmania needs to accelerate its existing program of payroll tax rate reductions and increases in the tax-free threshold.
- Other high payroll taxing jurisdictions include NSW (\$201,807), Queensland (\$200,751) and Western Australia (\$199,708).
- Consistent with its status as the low taxing jurisdiction, the NT imposes the lowest payroll tax liability (\$158,458). This amount is about 18 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 2011. Based on tax liabilities borne by a reference business. WA land tax burden includes Metropolitan Regional Improvement Tax (MRIT).

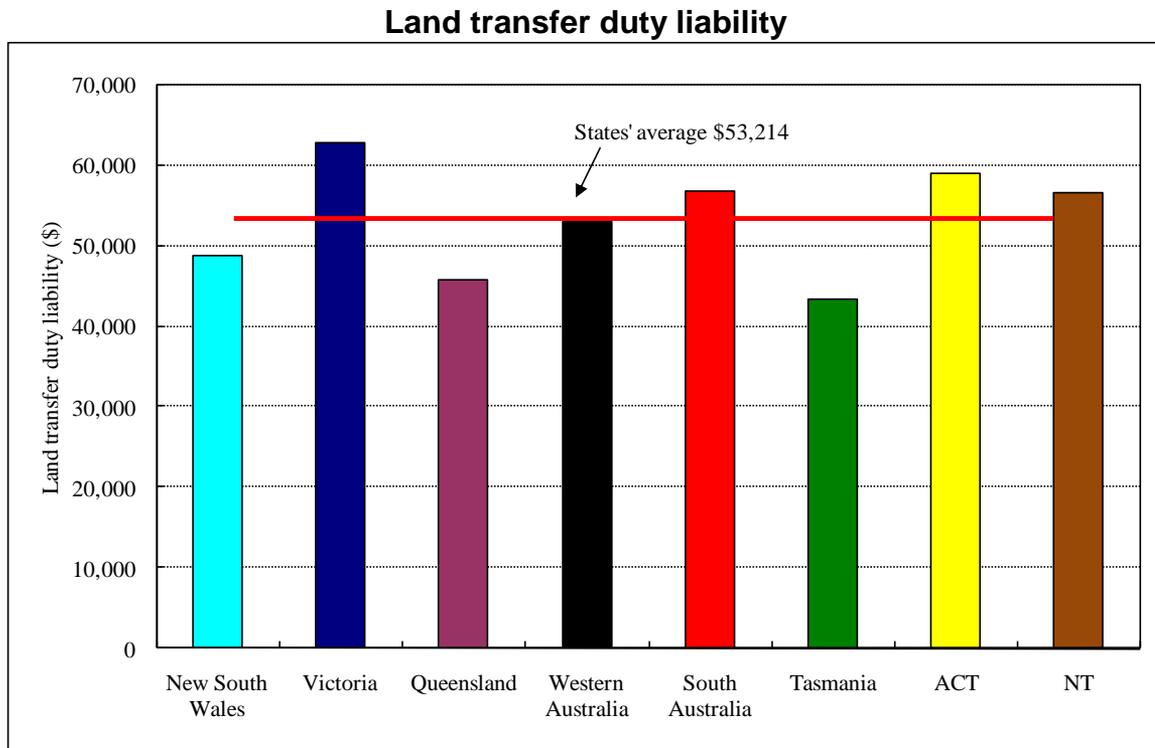
**Source:** IPA State Business Tax Calculator.

- The annual South Australian land tax liability of \$44,353 is a massive 105 per cent above the states' average.
- The ACT (\$29,716) and Queensland (\$28,848) are other high land-taxing jurisdictions (\$28,055), followed by Tasmania (\$26,013) and NSW (\$25,295).
- 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 2011. Based on tax liabilities borne by a reference business.

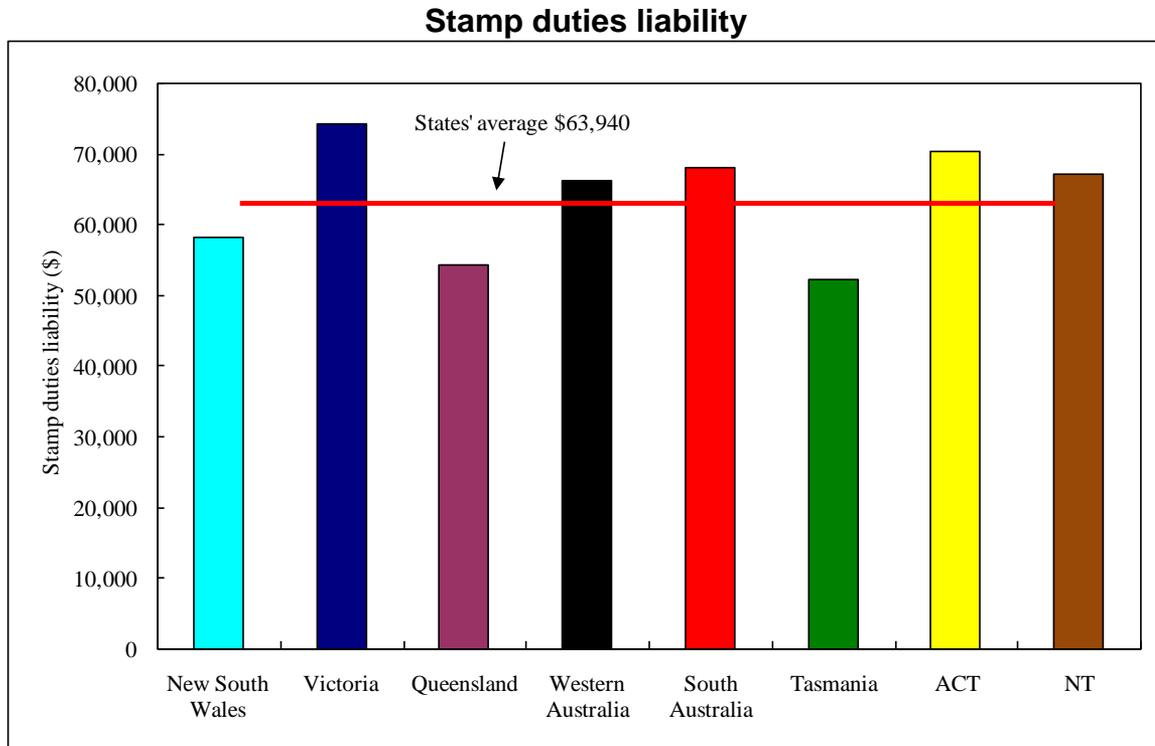
**Source:** IPA State Business Tax Calculator.

- The annual Victorian tax liability (\$62,937) on a business property sale is about 18 per cent above the states' average, and about 45 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 (\$58,997), followed by South Australia (\$56,772) and the NT (\$56,643).
- Tasmania imposes the lowest land transfer duty liability (\$43,326). This amount is about 19 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 2011. 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 (\$74,383) is about 16 per cent above the states' average, and about 42 per cent above stamp duties in Tasmania.
- Victoria is followed by the ACT (\$70,361) as a high-taxing state on duties, and then by South Australia (\$68,187) and the NT (\$67,271).
- Tasmania imposes the lowest stamp duties liability (\$52,319). 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.