

# **Fact Sheets: Business Bearing the Burden 2012**

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

**Julie Novak  
Senior Fellow**

**January 2013**

 **Institute of  
Public Affairs**  
*Free people, free society*

## 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 2012) 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 \$17 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 general state business taxes: payroll tax, land tax, land transfer duty, insurance duty, and motor vehicle duty.
- These comprise up to 84 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 2012	Ranking 2011
Northern Territory	\$232,974	1	1
Victoria	\$280,978	2	3
Western Australia	\$281,170	3	2
Queensland	\$287,219	4	4
New South Wales	\$293,374	5	6
Tasmania	\$297,392	6	5
South Australia	\$308,294	7	8
Australian Capital Territory	\$309,810	8	7

As at 31 December 2012. 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). ACT taxes include general rates (less FESL levy) replacing land taxes on commercial properties. 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.

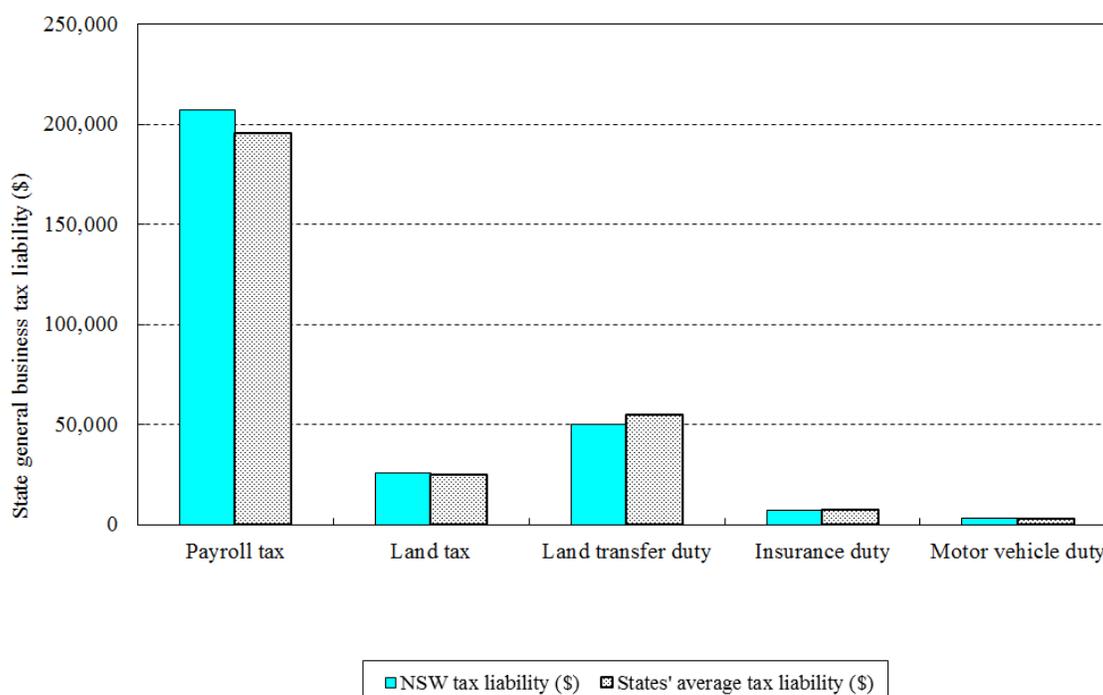
- The NT tax liability of \$232,974 is about 19 per cent below the states' average. Western Australia and Victoria also rank favourably in the state tax rankings.
- The ACT has the highest business taxes in the commonwealth, displacing South Australia as the high tax jurisdiction.
- ACT taxes are about eight per cent above the states' average.

## 2.1 State Results – New South Wales

### New South Wales tax competitiveness improving, but more tax-cutting work to be done

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

#### NSW tax liability and rankings



As at 31 December 2012. 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.

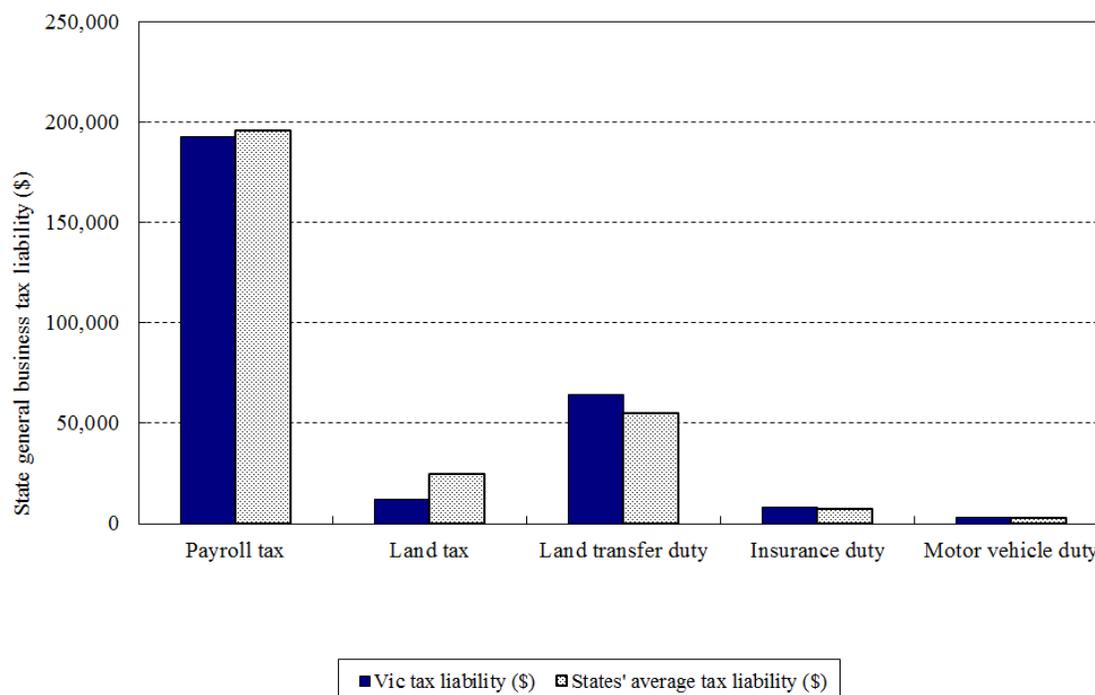
- An onerous payroll tax liability represents a drag on the state's tax competitiveness, although successive governments have progressively reduced the tax rate and increased the tax threshold.
- A slightly above-average land tax also affects the tax competitiveness position of NSW.
- Significant across-the-board state tax reductions, with an emphasis on payroll tax reform, remain essential 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 now has the second lowest business taxes in Australia.

#### Victoria tax liability and rankings



As at 31 December 2012. 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.

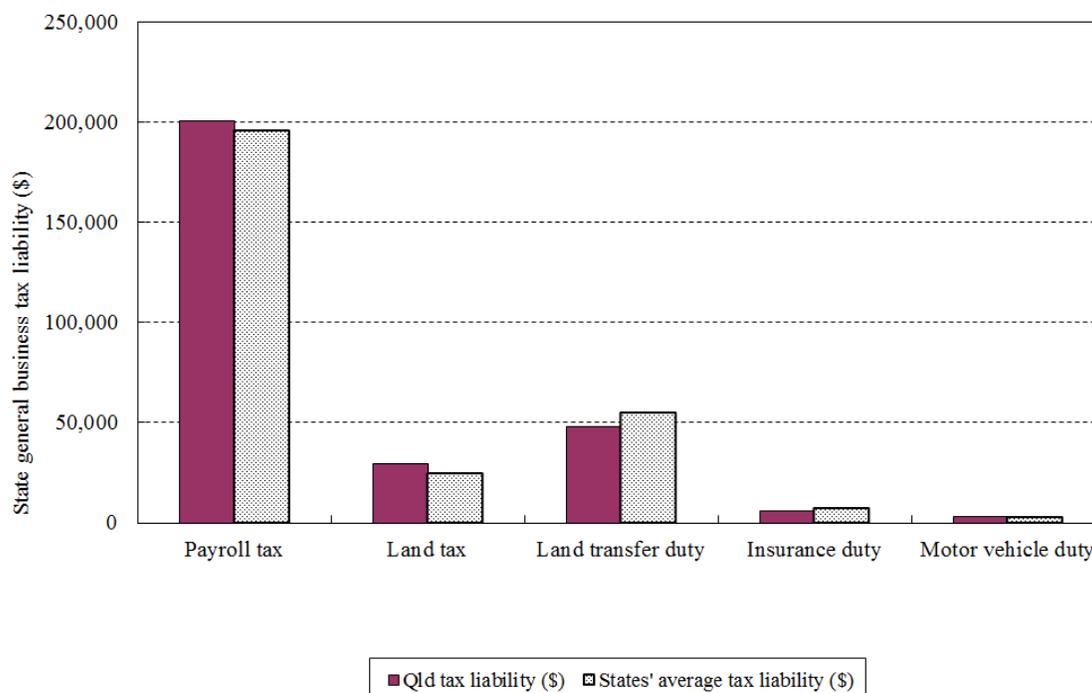
- Victoria is competitive against most other states on the payroll and land tax front, making a significant contribution to the state's overall taxation competitiveness.
- Undermining these positive outcomes, however, remains Victoria's relatively high stamp duty liabilities. In particular, Victoria 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 2012. 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.

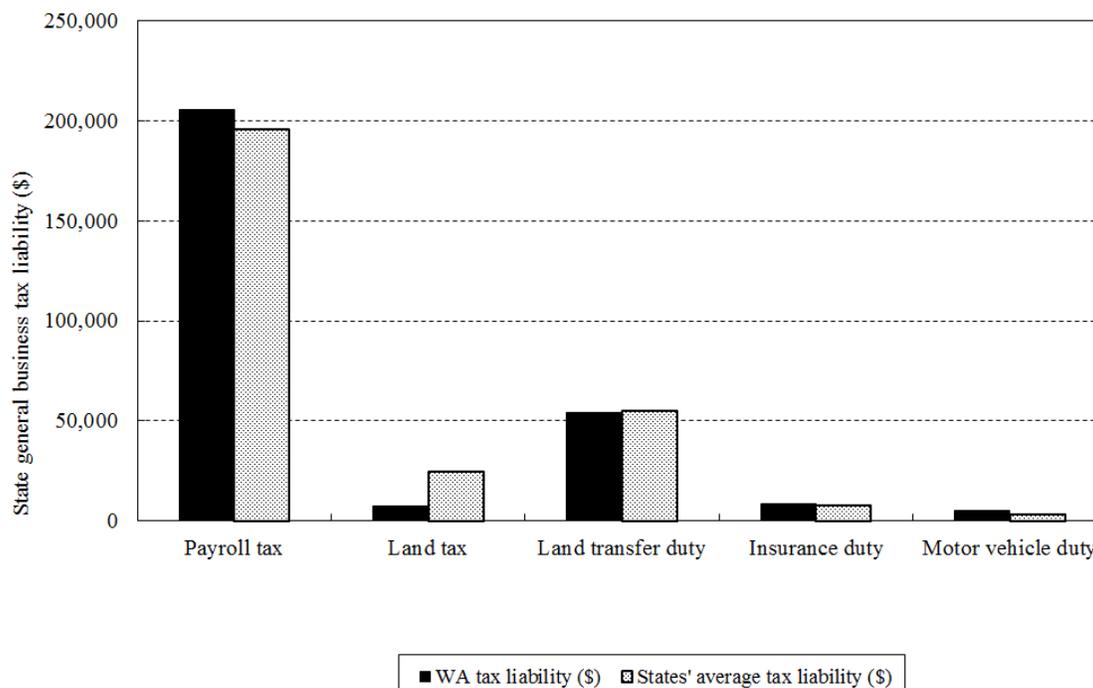
- Queensland is competitive against other states on a range of stamp duties, including land transfer duty.
- The factors holding Queensland back from assuming the mantle of lowest taxing state is its above average land tax and payroll taxation liabilities.
- The Newman government's announcement to increase the payroll tax threshold will help improve overall tax competitiveness over the next few years.
- In recent years, Queensland lost its historical low tax advantage to jurisdictions such as Victoria and Western Australia.
- 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 leapfrog its low-tax rivals

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

#### Western Australia tax liability and rankings



As at 31 December 2012. Based on state business tax liabilities borne by a reference business. Including payroll tax, land tax (including Metropolitan Region Improvement Tax), land transfer duty, insurance duty, and motor vehicle duty.

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

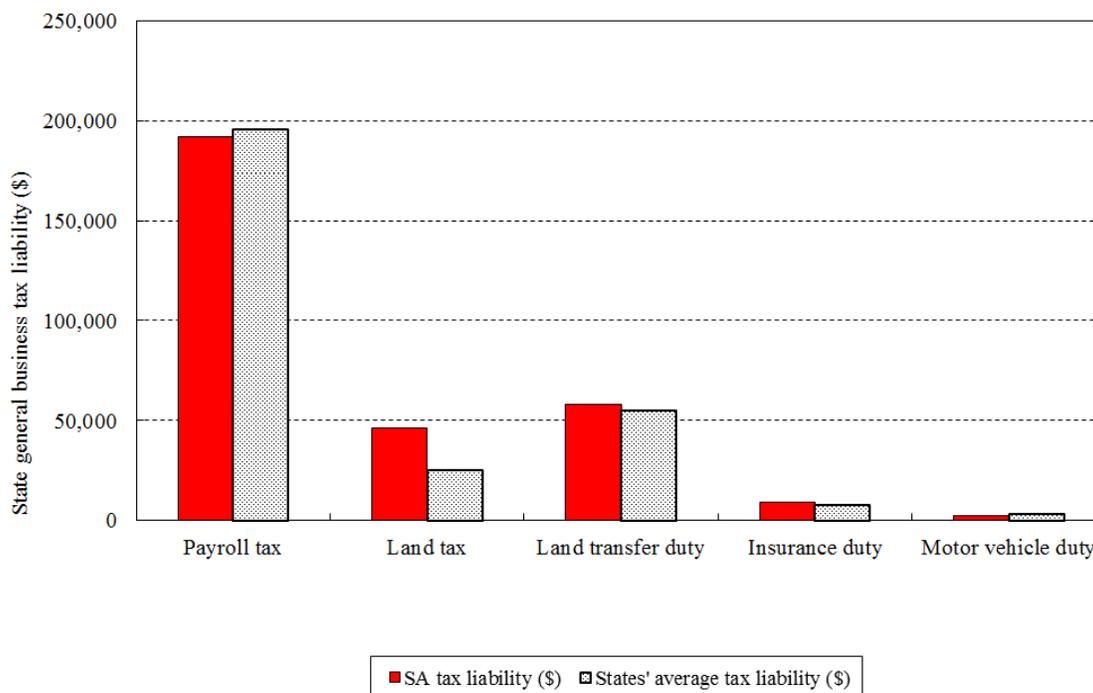
- Lower than average property taxes, particularly a competitive land tax regime, contribute to WA's status as Australia's low tax state, and only behind the NT on the tax competitiveness scale.
- WA should look to reduce its taxes further to promote investment and growth, including in non-mining sectors of the state economy.
- 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.
- General payroll tax rate reductions or threshold increases would be a good candidate for immediate state tax reform.

## 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 second highest taxing state on business in Australia.

#### South Australia tax liability and rankings



As at 31 December 2012. 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.

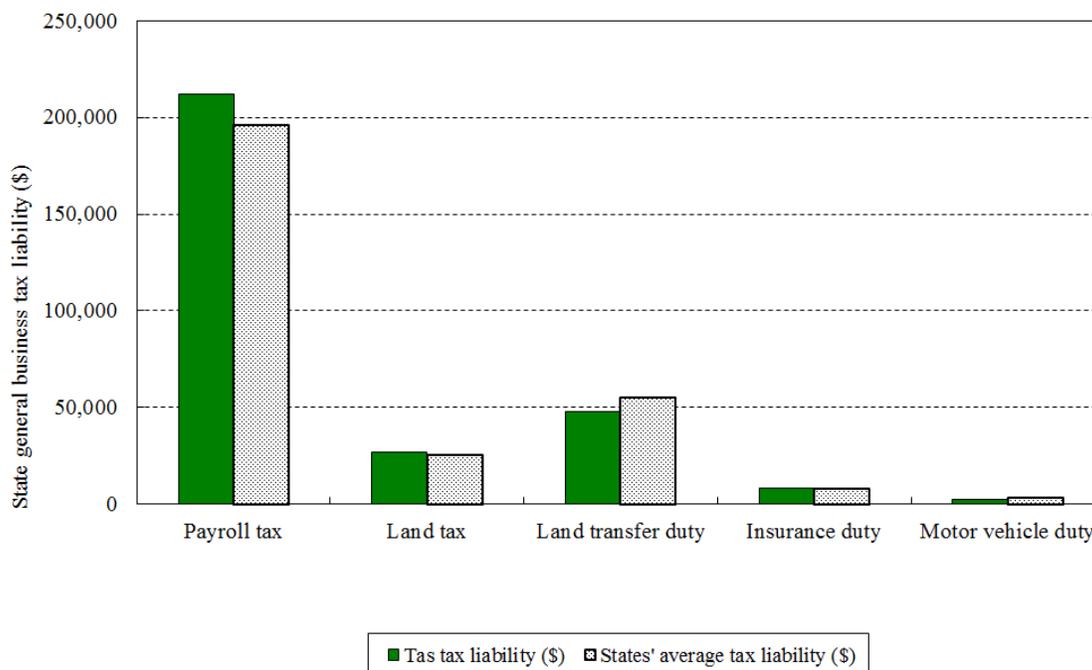
- South Australia is reasonably competitive against other states on motoring taxes and payroll tax.
- However, any competitive advantage in these areas is significantly diluted by very high property taxes, especially land tax (almost double the state and territory average).
- South Australia also levies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

## 2.6 State Results – Tasmania

### Tasmanian budget measures eroding tax competitiveness

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

#### Tasmania tax liability and rankings



As at 31 December 2012. 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.

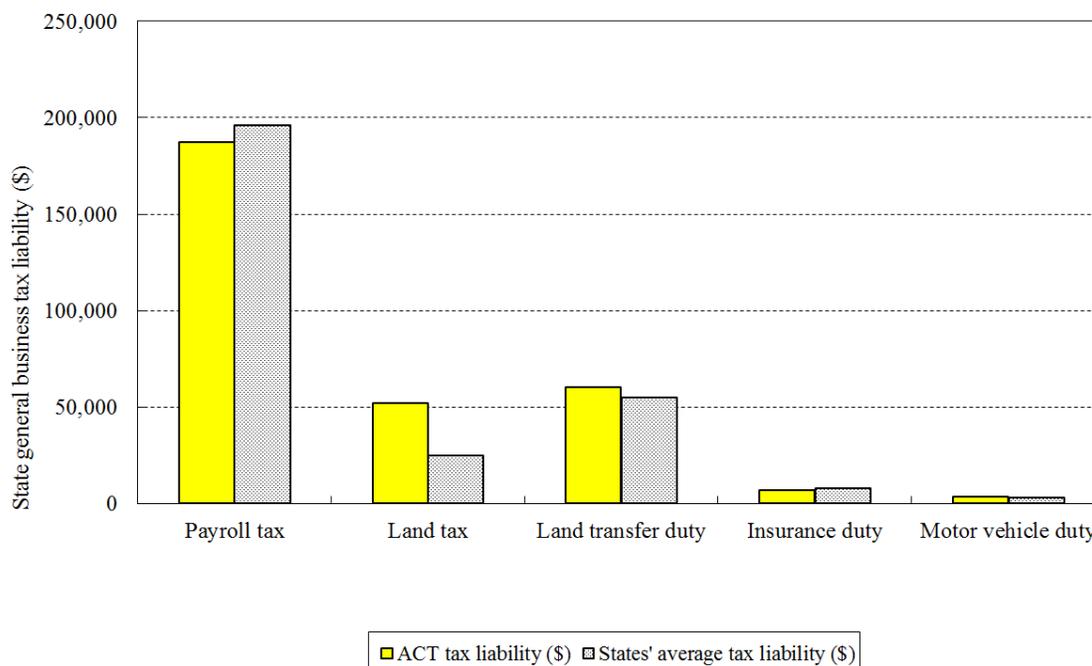
- Compared to other jurisdictions, Tasmania imposes relatively lower tax burdens on land transfers and motor vehicle registrations.
- On the other hand, the highest payroll tax contributes to the overall result of Tasmania as a high taxing state.
- A range of budget 'quick fix' tax measures announced by the Giddings government, such as changes to tax rates on conveyances, insurance and vehicles, has also contributed to Tasmania's slippage on the state tax league table.
- To attract much-needed economic development in the state, Tasmania will need to resume tax reductions (preferably financed by spending cuts).

## 2.7 State Results – Australian Capital Territory

### ACT the high-tax jurisdiction – tax reductions urgently needed

- 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 2012. Based on state business tax liabilities borne by a reference business. Including payroll tax, land tax, insurance duty, and motor vehicle duty. Land tax comprises general rates (less FESL levy) on commercial properties.

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

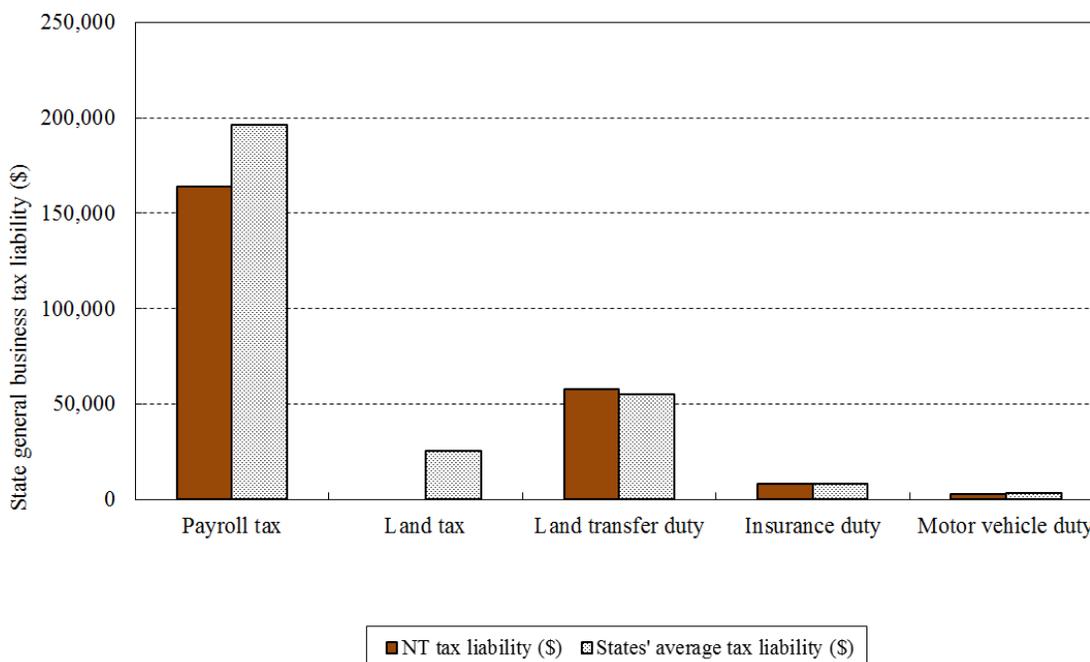
- ACT's uncompetitive tax position is attributable to high property taxes, including a land tax regime double the state's average liability.
- The Gallagher government has announced a host of 'pea-and-thimble' revenue-neutral tax reforms switching from transactional taxes to property taxes.
- While these changes have been lauded by some tax experts, a superior approach to improve the territory's long term tax competitiveness would be to generally reduce tax burdens across the board.
- Such tax burden reductions could be financed by significant reductions in expenditure, rather than through switches in taxation effort.

## 2.8 State Results – Northern Territory

### NT the low taxing jurisdiction – but tax cuts still 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 2012. 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.

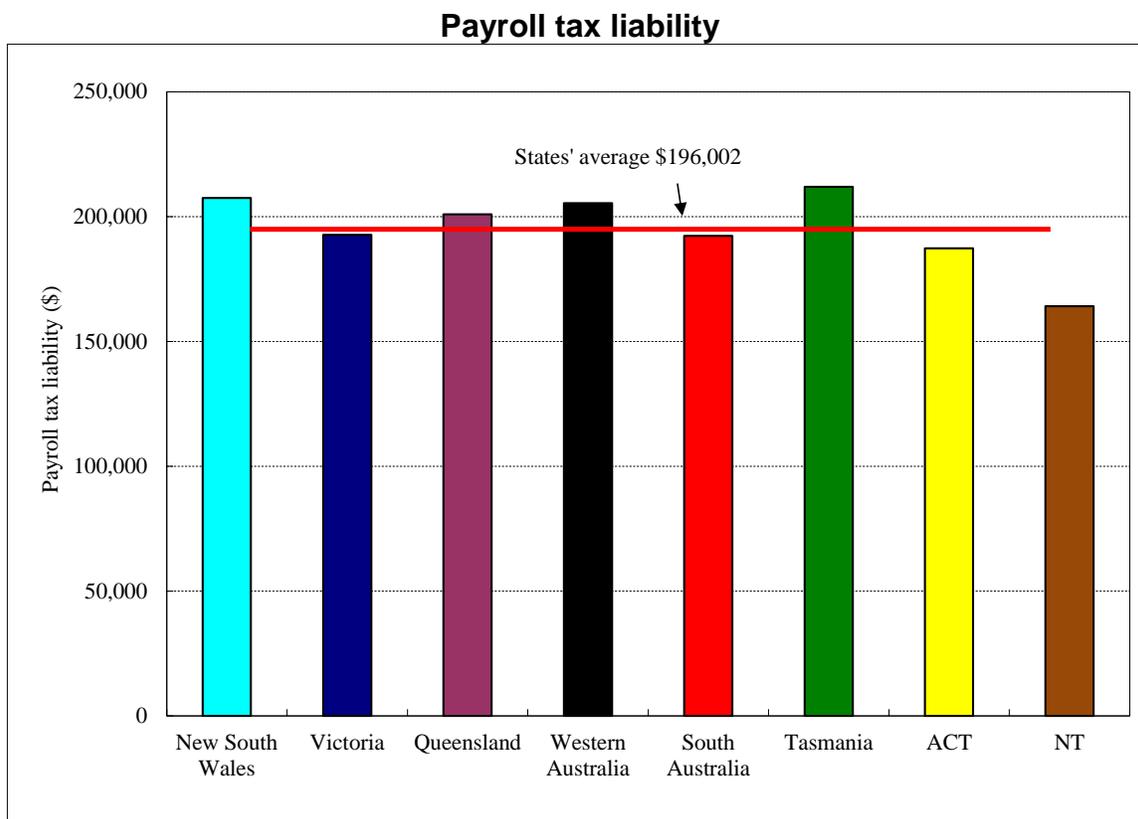
Source: IPA State Business Tax Calculator.

- 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 five per cent higher than the states' average, while insurance duties are also higher than that imposed by the average of all jurisdictions.
- If the Mills government wishes to enhance the territory's 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 2012. Based on tax liabilities borne by a reference business. Excluding rebates for apprentices, trainees and other workers.

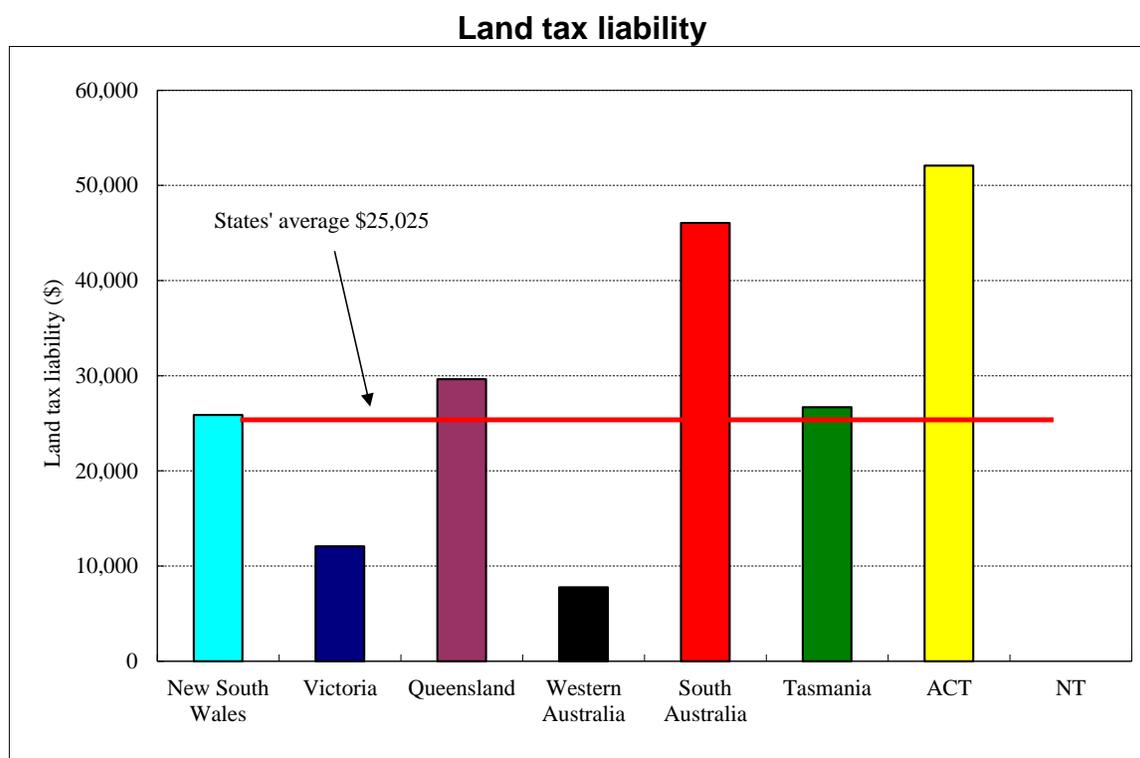
**Source:** IPA State Business Tax Calculator.

- The annual Tasmanian payroll tax liability of \$205,635 is about eight per cent above the states' average, and about 29 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 (\$207,429), Western Australia (\$205,372) and Queensland (\$200,928).
- Consistent with its status as the low taxing jurisdiction, the NT imposes the lowest payroll tax liability (\$164,122). This amount is about 16 per cent lower than the states' average.

## 3.2 Key Tax Results – Land Tax

### ACT land tax grab – NT the no land tax state

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



As at 31 December 2012. Based on tax liabilities borne by a reference business. WA land tax burden includes Metropolitan Regional Improvement Tax (MRIT). ACT land tax comprises general rates (less FESL levy) on commercial properties.

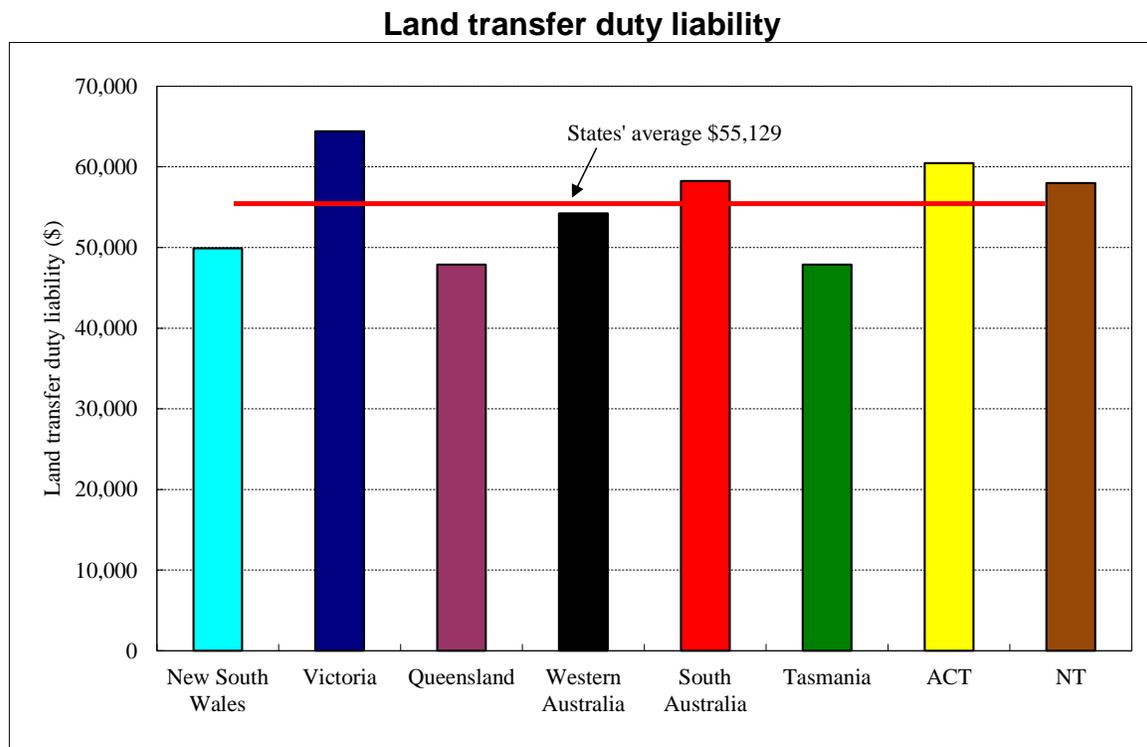
**Source:** IPA State Business Tax Calculator.

- The annual ACT land tax liability of \$52,081 is a massive 108 per cent above the states' average.
- South Australia (\$46,059) and Queensland (\$29,632) are other high land-taxing jurisdictions, followed by Tasmania (\$26,704) and NSW (\$25,888).
- The Northern Territory 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.

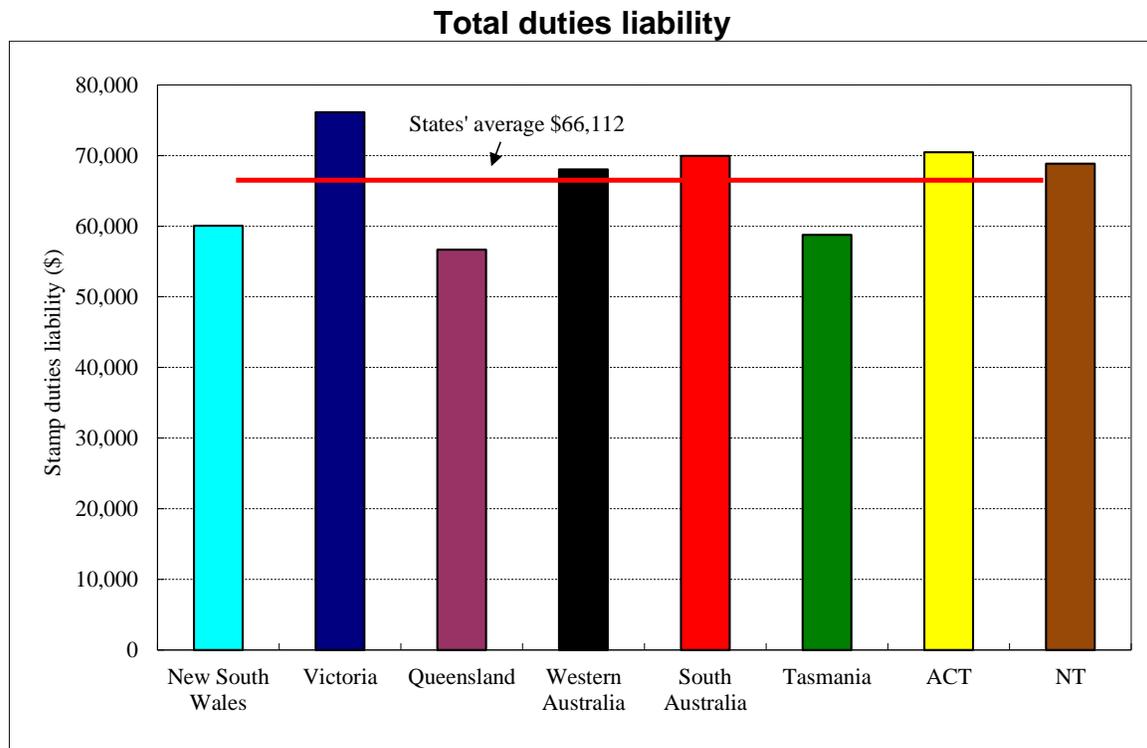
**Source:** IPA State Business Tax Calculator.

- The annual Victorian tax liability (\$64,416) on a business property sale is about 17 per cent above the states' average, and about 25 per cent above land transfer duties in Queensland.
- 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 (\$60,469), followed by South Australia (\$58,252) and the NT (\$57,975).
- Queensland imposes the lowest land transfer duty liability (\$47,875). This amount is about 13 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.



As at 31 December 2012. 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 (\$76,134) is about 15 per cent above the states' average, and about 30 per cent above stamp duties in Queensland.
- Victoria is followed by the ACT (\$70,447) as a high-taxing state on duties, and then by South Australia (\$69,935) and the NT (\$68,851).
- Queensland imposes the lowest stamp duties liability (\$56,659). This amount is about 14 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.