State Tax Review Discussion Paper

FEBRUARY 2015

SOUTH AUSTRALIA

Government of South Australia

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Invitation for submissions

The Government invites interested parties to make a submission to the State Tax Review.

Submissions are due by 10 April 2015.

Submissions can be lodged via the YourSAy website (www.yourSAy.sa.gov.au) or via the following:

Mail: Department of Treasury and Finance
State Tax Review
GPO Box 1045
ADELAIDE SA 5001

Hand delivery: Department of Treasury and Finance
State Tax Review
200 Victoria Square
ADELAIDE SA 5000

All submissions will be publically available, unless you specifically request otherwise in your submission.

Foreword

Why are we reviewing our State taxation system?

South Australia is already a great place to live and we value that as a community.

South Australia's business environment boasts the most competitive payroll tax regime in the nation as ranked by the Commonwealth Grants Commission and the lowest total taxes and charges for big business and the second lowest for small business. As a State that is encouraging the development of its mineral resources, South Australia has competitive mining royalties.

We provide high quality services to our community across the State, through hospitals and health care services, education, support for families needing assistance and children who need care, a police and justice system and quality infrastructure, including roads, an upgraded public transport system and a range of sports, arts and cultural facilities.

Taxes raised by the South Australian Government help pay for these services. They enable the State Government to provide the services the South Australian community values in making the State a great place to live.

The Government has just released a proposals paper on Transforming Health aimed at ensuring South Australians have the best quality healthcare system into the future. The Government is also undertaking a process of transforming the justice system to improve its efficiency and effectiveness. The Government is investing in the education and future of our young people by funding further improvements to our education system. While we are committed to ensuring that these services are delivered as cost effectively as possible, if we want to ensure that South Australians continue to have access to high quality services, we need a taxation system that can provide the funding required in a reliable and sustainable manner. The success of emergency services agencies in combating the recent bushfires is an example of the services our tax system supports. Without the Emergency Services Levy, our emergency services and the hundreds of volunteers fighting those fires would not have been as well equipped.

We also know that there will be greater pressures on our health system in the future as our population ages. Our taxation system must be able to provide the funding needed to ensure that we can continue to maintain our quality health services while providing the many other services the community needs.

There are also significant changes occurring in our State economy as a result of the closure of the car industry and other pressures facing our manufacturing sector. We need investment in new industries and businesses to create jobs for our young people entering the labour market for the first time, and for existing workers in search of a new career. The industries and jobs of the future will be quite different to those of the past, and we need to make sure that our tax system keeps pace with the changing nature of our economy.

To attract new investment and create more jobs we need a tax system that supports those who are trying to create new opportunities that will provide jobs for South Australians.

There are many factors that contribute to the cost of doing business. These include the cost of suitable business premises, access to skilled labour and the planning and regulatory systems businesses operate in.

Importantly, South Australia already compares favourably on many of these fronts. KPMG's 2014 Competitive Alternatives Report ranks South Australia as being the second most cost competitive business environment of the four Australian cities surveyed.

The Government's recent reform to the WorkCover system, which is expected to deliver savings to business of around $180 million each year from 2015-16, should further improve our business cost competitiveness.

It is clear however that business stamp duties are generally considered an inefficient tax, and our effective stamp duty rates are relatively high when compared to other Australian jurisdictions.

In addition to reviewing State taxes, the Government has committed to regulatory and planning reforms aimed at minimising costs to businesses.

In recent years our revenues have been volatile and unpredictable which has made it difficult for the State Government to plan for the future. Some of our revenue sources are linked to activities which cause social harm such as problem gambling. We need a tax system that will be sustainable for many years to come.

The Federal Government is also in the early stages of two major reviews which will involve a debate about which level of Government is best placed to take responsibility for delivering important services to the public, and the best way for both the Federal and State Governments to fund the services that they provide. Our review of South Australia's taxation system will allow us to enter the national debate in an informed way knowing what South Australian's think and what their priorities are.

This review of our tax system is therefore not simply about cutting taxes. The way in which we raise revenue needs to be fair to everyone. Getting this balance right is crucial to the Government's vision to ensure South Australia remains a place where people and business thrive.

The Discussion Paper

The Discussion Paper has been prepared to provide a summary of the State's current tax system and to summarise tax reform ideas that have been suggested in the past through various tax reviews.

The Discussion Paper does not make any recommendations on tax reform but does provide a range of information that is not normally made available. The Government hopes that the information provided in this document will facilitate an informed debate on tax reform and provide a useful resource for those in the community that wish to contribute to this process and assist them in making a submission.

Contents

1 Terms of Reference

1.1 Our objectives

The South Australian Government has a vision for South Australia to be the place where people and business thrive. The vision is about protecting the way of life that we value but opening the door to new ideas, new opportunities, new people and new businesses.

Our State taxation system needs to support this vision.

South Australia's tax review will consider options to reform our State taxation system to deliver the following objectives:

– Our tax system needs to provide enough revenue to deliver high quality services and infrastructure to the community, now and into the future.

– Our tax system must support entrepreneurship, investment and job creation. Business must pay its fair share of State taxes, but the taxes paid by the business sector should not stand in the way of those who are actively investing in creating new opportunities. The way in which taxes are applied, and when they are paid, is just as important as the overall amount of tax paid.

– For households the tax system should be fair and have regard to people's ability to pay.

– Our tax system should collect revenue as efficiently as possible.

– Our tax system should be as stable and predictable as possible.

These objectives will be the Government's key areas of focus in examining our State taxation system. We will also pursue these objectives through our discussions with the Federal Government as part of the national tax reform debate.

2 Review Process

2.1 Consultation process

The Government encourages interested parties to make a written submission to the State Tax Review.

The Discussion Paper has been prepared to assist interested parties to make a submission to the Government. The release of the Discussion Paper is the first step in the review process.

Details of how to make a submission to the Government are provided at the front of this document.

In addition to the Government's request for written submissions on tax reform, public consultation with interest groups and the broader community will also occur.

The Government will ensure that details of the timing and location of public consultation sessions are made available well in advance of the consultation time.

2.2 Timeline

The table below sets out key dates for the State Tax Review. These dates may change as the Review progresses. Updated key dates will be maintained at the State Tax Review page of the Government's YourSAy website (www.yourSAy.sa.gov).

Timeframe	Task
11 February 2015	Discussion Paper released via the YourSAy website
February to April 2015	Government to engage with key industry and peak groups
10 April 2015	Receive public submissions
March to April 2015	Information sessions on tax reform matters

3 Federation arrangements and national reviews

It is important to recognise that the Australian Federation can have limitations on tax reform at a State level, including the type of taxing powers available to States under the Australian Constitution and the services to be funded by each level of Government.

This review of South Australia's tax system is taking place at a time when the Commonwealth Government is also undertaking two major and related reviews, namely the *White Paper on the Reform of Australia's Tax System* and the *Federation White Paper*.

The Commonwealth reviews may have implications for the future reform of taxes at a State level, either through the level of services to be funded by the States or the mix of funding provided by the Commonwealth for those services.

By reviewing our tax system now, the South Australian Government is proactively identifying reforms that will benefit the State in the future and ensuring that it can be a substantive and effective contributor to discussion of national tax reform options.

3.1 National reviews

The Commonwealth Government's White Papers on the Federation and on Taxation will involve a debate about which level of Government is best placed to take responsibility for delivering important services to the public, and the best way for both the Commonwealth and State Governments to fund the services that they provide.

Debates such as these often focus on the fact that there is a significant imbalance between the amount of revenue raised by Commonwealth and State Governments when compared with the spending responsibilities of each level of Government. The States are responsible for delivering health, education and policing services to the public, but do not raise enough revenue from their own State taxes to fund all of these services. As a result, the States rely significantly on revenues generated by the Commonwealth to fund these services. This situation is referred to as a vertical fiscal imbalance (VFI) and is discussed in more detail in Section 3.2.

Some commentators argue that the reliance of the States on Commonwealth funding is a problem because it means that the States are not accountable to the electorate for the money that they spend.

The South Australian Government considers that this view is too simplistic and should not be the main concern of the Taxation and Federation White Papers. State Governments should be accountable for the decisions that they make about spending and taxing, but this does not require the States to raise all of their own revenues (or even raise any more revenue than they do at the moment). The much more important objective for national tax reform is to consider the best overall set of tax arrangements to support economic growth, promote fairness and fund essential public services now and into the future. Once this has been identified it will be apparent which level of Government is best placed to be responsible for raising each tax and how all of the tax revenues collected in Australia can be best used to fund public services.

The Commonwealth Government is best placed to administer many of the major taxes currently imposed in Australia. It is currently solely responsible for income taxes levied on companies and individuals and, under the Australian Constitution, only the Commonwealth Government can lawfully impose a GST and the special taxes (called excises) that apply to petrol, alcohol and tobacco.

The States also have a range of taxing powers, but some of the current taxes that States impose are generally seen as less than desirable because they have negative effects on decisions made by businesses and individuals. This is especially the case for stamp duties which are imposed on property transactions.

This review of South Australia's taxation system will consider whether the way in which the State Government raises its own taxation revenues should be changed in order to better promote economic growth, the creation of new jobs in South Australia, deliver fairness and to support the delivery of high quality public services. The State Government believes that it will be accountable to the public so long as it has a robust and fair State taxation system and, when the State decides to spend more on services, it finds the extra revenue from its own sources.

While the States face some constraints in using their existing taxes to raise more revenues, there are other options which have been floated with a view to reducing the reliance of the States on the Commonwealth.

One option is for State Governments to have access to the personal income tax base. The Commonwealth would still have complete control of rules as to what defines income for tax purposes and all of the different tax brackets. The States would however be able to impose a surcharge on top of the tax rates imposed by the Commonwealth (in order to avoid increasing the tax paid by individuals the Commonwealth would reduce its tax rates to make room for the State surcharges). If the State personal income tax rates were fixed and not able to be varied it would not provide any additional revenue autonomy for the States. If, however, the States had the ability to vary the rate of tax on taxable income up or down (within limits) it would give them access to an additional source of revenue and reduce their reliance on the Commonwealth for funding.

Previous Commonwealth Governments have not, however, been prepared to share the personal income tax system with the States. Past experience has also suggested that when States have been given access to new taxes they tend to compete amongst themselves to reduce tax rates in ways that have not always been beneficial from an overall tax system perspective. The experience in the Australia Federation is that interstate tax competition has been a powerful force.

The other more prominent option which has been floated in order to generate additional revenues for the States is GST reform. The GST rate could be increased, or some of the existing GST exemptions (such as fresh food, education and health) could be removed in order to generate more GST revenues for the States.

The GST would, however, remain a Commonwealth tax over which the States would individually have no control. From this perspective it would not reduce their reliance on the Commonwealth.

Furthermore, increasing the overall burden of the GST on households may not be the best or fairest way to generate additional tax revenue to fund the provision of public services across Australia.

It is the view of the South Australian Government that the national tax reform debate should not leap straight to a debate about expanding or increasing the GST. There are a range of alternative options that must be on the table. And those options must consider fairness as well as efficiency.

The national tax reform discussion often emphasises the economic efficiency of taxes. For example a progressive income tax regime may have a negative impact on the number of hours people choose to work, and Commonwealth Treasury has drawn attention to the fact that an increasing proportion of the labour force will move into the second highest income tax bracket in the next few years if income tax brackets are not adjusted. A case has also been made for reducing company income tax on the basis that it could increase the level of foreign investment in Australia and by doing so this could increase wages (on the assumption that labour supply and immigration does not fully make up the additional demand for labour).

This efficiency perspective often suggests that there is a trade-off between efficiency and fairness in designing a tax system.

More recently, however, a trend of increasing inequality within the developed world has caused a closer examination of the relationship between inequality and the economy, and measures to reduce inequality and economic growth.

A recent OECD study indicates that higher levels of inequality reduces economic growth, and policies that aim to improve the financial position of lower income households and their ability to improve their skills and qualifications will be beneficial to overall growth. While some other developed countries have much greater levels of inequality than has typically been experienced in Australia, our national tax reform debate must consider the broadest possible range of tax options to deliver both fairness and economic efficiency.

The national tax reform debate should not start from a presumption that reduced personal and corporate income taxes and a higher GST are the only options because of a narrow perspective of what constitutes economic efficiency and ignoring the potential for fairness and economic growth to be mutually supportive goals.

There are numerous loopholes in capital income taxation and concessions which benefit the well-off which could be focused on rather than increasing the GST.

For example, the Commonwealth Government has recently received the final report of the Financial System Inquiry, chaired by Mr David Murray AO, which has identified a range of taxation issues which should be considered as part of the Commonwealth's Taxation White Paper process. These include the taxation treatment of superannuation (where the Inquiry noted that the majority of tax concessions accrue to the top 20 per cent of income earners) and the taxation treatment of financial services (the Commonwealth Government's Tax Expenditures Statement indicates that the concessional GST treatment of financial services is worth around $4.3 billion per annum).

The Financial System Inquiry also noted that the benefits of dividend imputation may have declined as Australia's economy has become more open and connected to global capital markets, and the question could be asked if reducing or eliminating dividend imputation could assist to reduce company tax to make Australia a more attractive place for foreign investment. Whatever changes are contemplated to company tax, we must ensure that multinational corporations are paying their fair share of corporate income taxation in Australia.

If options to reform the GST are to be considered, fairness must be a key objective. The Australia Institute has highlighted that expanding the GST only to the areas of private schooling and private health insurance would make the GST fairer, while also delivering an additional $2.3 billion in annual tax revenue for the States.

3.2 Federation arrangements

This section describes some of the considerations and limitations of the Australian Federation when considering tax reform at a State level.

3.2.1 Limitations to the power of State Governments to apply taxation

The Australian Constitution, and the way it has been interpreted by the High Court of Australia, places a number of constraints on what States can tax. These include:

- States cannot levy customs and excise duties as these are an exclusive power of the Commonwealth (section 90);
- taxes cannot conflict with the guarantee provided in section 92 that trade and commerce amongst the States is free;
- taxes cannot be levied on Commonwealth Government property (section 114); and
- taxes cannot conflict with the provision in section 117 that effectively prevents States discriminating treatment of non-State residents compared with residents.

States effectively have access to all other taxes, including income tax (States levied income tax until 1942). However, recent rulings of the High Court on the interpretation of the Australian Constitution have limited States' access to some taxes. For example, the High Court has interpreted the definition of excise duty under section 90 of the Australian Constitution to include sales tax, rather than just goods, invalidating State business franchise fees on tobacco, alcohol and petrol previously levied by the States.

While States have a range of tax powers, for some taxes it would be simplest and most efficient if they were implemented by all States on a consistent basis. This includes taxes where mobile resources could be easily moved between jurisdictions.

Federal-State financial arrangements also mean that the Commonwealth Government has the ability to indirectly influence State tax policy through adjustments to grant levels in response to the introduction of any new State taxes.

3.2.2 Vertical fiscal imbalance

Vertical fiscal imbalance (VFI) is a term used to describe a situation where the Commonwealth Government raises more revenue than its own source expenditure requirements, while the State Governments raise less revenue than their expenditure responsibilities. The difference between the States' revenue raising ability and expenditure responsibilities is funded via transfers from the Commonwealth Government.

The presence of VFI reflects the relative expenditure responsibilities of the States (e.g. health, education) and the Commonwealth Government's control of the main revenue sources (personal and company income tax, the GST and excises).

VFI is a feature of all countries with federal structures, although the level of imbalance is generally considered to be relatively high in Australia. Debate around VFI notes that there are positives and negatives associated with the arrangement, these are discussed below. The importance placed on each of these issues can vary. The Government's view on VFI is discussed above in Section 3.1.

Positives

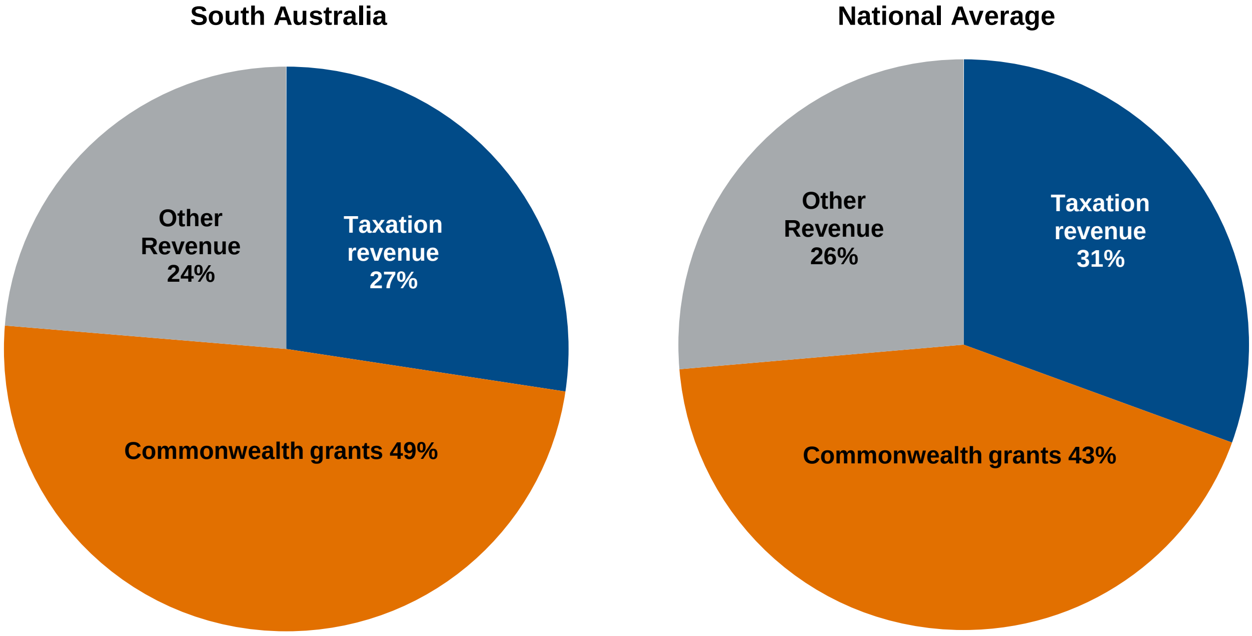
- Taxation of mobile tax bases is more efficiently handled by the Commonwealth Government (e.g. reduced tax avoidance issues).
- Promotion of similar living standards across jurisdictions when grants are provided on the basis of horizontal fiscal equalisation (this is discussed further in Section 3.2.3).
- Lower compliance costs for businesses that operate nationally.
- Economies of scale available to the Commonwealth Government, for example lower administration costs of one central collection system compared to multiple jurisdictions.

Negatives

- Lack of fiscal autonomy for the States, especially if grants are tied to particular areas of expenditure.
- Potential revenue stability issues for the States if grants provided by the Commonwealth Government fluctuate over time due to unilateral Commonwealth decisions.
- Reduced accountability. It is argued that there is greater accountability if each State is responsible for raising the revenue from the community that it spends.
- Administration costs associated with the Commonwealth providing grants to the States (e.g. resources required to negotiate and monitor grant payments).

In simple terms VFI can be measured by the level of transfers from the Commonwealth to State Governments as a proportion of total State revenues. The following chart shows the sources of revenue for South Australia and the average of all jurisdictions in 2012-13.

Chart 3.1: General government revenue by source as a percentage of total state revenue – 2012-13



Source: Australian Bureau of Statistics, Government Finance Statistics, Australia 2012-13, catalogue 5512.0.

Chart 3.1 illustrates that Commonwealth grants accounted for just under half of total general government revenue in South Australia in 2012-13. This is above the national average rate of 43 per cent in 2012-13, which largely reflects the relative stronger revenue bases of the eastern states and Western Australia.

3.2.3 Horizontal fiscal equalisation

GST grants are the current mechanism for achieving horizontal fiscal equalisation (HFE) in Australia. The aim of HFE is to ensure that after equalisation, each State would have the capacity to provide services and associated infrastructure at the same standard if it made the same effort to raise revenue from its own sources and operated at the same level of efficiency.

HFE is an important part of the Australian Federation. While it ensures that all States have the fiscal capacity to provide the same standards of service, it does not dictate what actual services are provided. This gives Governments the flexibility to meet the needs and individual preferences of their local communities.

HFE is a strongly egalitarian principle and promotes the efficient allocation of resources across the nation.

When determining the allocation of GST grants, a State's share is based on an equal per capita share adjusted for:

- Revenue needs: the effect of above or below average revenue raising capacities.
- Expense needs: the effect of above or below average disabilities relating to the use and cost of government services.

– Non-GST Commonwealth payment needs: the effect of above or below average per capita revenue from other Commonwealth payments that are available to fund its expenditure requirements.

South Australia is a strong supporter of existing HFE arrangements.

It has been proposed by some jurisdictions that the current approach to equalisation can influence a State's fiscal policies, acting as a constraint to tax reform. It is noted, however, that the recent *GST Distribution Review Final Report* commissioned by the Commonwealth Government found that "*There is no clear evidence that the current system of HFE is impeding State tax reform*".

3.2.4 Interstate tax competition

States have the ability to adjust their own tax rates and bases to meet the specific requirements of their citizens. This can also lead to competition among jurisdictions. Interstate competition can create incentives for States to reduce tax rates or introduce certain exemptions.

Tax competition can be beneficial where it leads to States relying on more efficient forms of taxation. However, where interstate competition reduces a States reliance on efficient tax bases, it can lead to States having an increased reliance on inefficient tax bases to raise revenue.

Where States reduce tax rates on mobile business resources it may influence the location of business investment decisions, potentially boosting economic and business activity within a jurisdiction. However, these benefits can be eroded over the long-term if lower tax rates lead to interstate retaliation, removing the benefits accruing to an individual jurisdiction and resulting in lower overall revenue collections across all States.

There are numerous examples of tax competition since Federation having a negative impact on tax systems, including the abolition of estate duties and increased tax-free thresholds and reduced tax rates for payroll tax.

4 Key principles for State tax reform

There are a number of established principles that can guide decisions about designing taxation arrangements in a way that delivers the best outcome for the community.

However, sometimes these principles may conflict with one another. For example, a reform that increases the efficiency of the tax system may result in impacts that the community considers to be unfair. This means that decisions around the relative importance of different objectives will need to be made. There will also inevitably be winners and losers as part of any reform process.

In considering tax reform, the Government's objectives are that our tax system:

– provides enough revenue to deliver high quality services and infrastructure to the community, now and into the future;

– supports entrepreneurship, investment and job creation. Business must pay its fair share of State taxes, but the taxes paid by the business sector should not stand in the way of those who are actively investing in creating new opportunities. The way in which taxes are applied, and when they are paid, is just as important as the overall amount of tax paid;

– is fair and has regard to people's ability to pay;

– collects revenue as efficiently as possible; and

– is as stable and predictable as possible.

4.1 General principles

There are four main principles which are used to assess taxes; efficiency, equity (fairness), simplicity and sustainability. These principles, which are discussed below, align with the Government's objectives for tax reform.

Efficiency

All taxes influence the behaviour and activities of businesses and individuals. Efficiency is essentially a measure of the degree to which the imposition of a tax distorts or unnecessarily influences behaviour, leading to a potential loss in economic welfare.

An efficient tax system is one which raises revenue in a way that minimises harm to the economy and avoids penalising some forms of economic activity over others. For example taxes that apply as broadly across the economy as possible are likely to be more efficient than taxes that apply to a narrow range of activities. This is not always the case though – taxes on specific activities may still be efficient if those activities cause social or environmental harm.

The efficiency of State taxes and the characteristics of taxes which impact on their efficiency are discussed in more detail in Section 4.2.

Equity

Equity, sometimes referred to as the 'fairness' of a tax, is generally assessed in two ways:

– Horizontal equity is the principle that taxes should apply to people in similar financial circumstances in the same way.

– Vertical equity is about those with a greater capacity to pay contributing more (for example through progressive tax structures).

An important factor when considering the fairness of a tax is who actually bears the ultimate cost. This can be different to the party that is legally required to pay the tax. For example employers are required to pay payroll tax, but as noted in various tax literature, the long-run incidence of payroll tax most likely falls on consumers or employees through increased prices or reduced wages. The incidence of existing State taxes is discussed in Section 5.5.

While equity can be addressed through the tax system, it can also be addressed in other ways. In some circumstances it may be better to address equity issues outside of the tax system, for example through concessions, grants or the availability of additional services. In general, the overall fairness of the tax system should have regard to the broad tax and transfer system.

Simplicity

Taxes should be easy to understand and easy and inexpensive to administer and comply with.

For companies that operate in multiple jurisdictions, the degree of harmonisation between jurisdictions can also be a key factor in the compliance and administration costs associated with a tax.

Sustainability

Ideally taxes should raise a level of revenue that is broadly predictable and likely to continue over time in order to provide certainty in service delivery.

Key attributes of a sustainable tax system are low volatility and revenue growth in line with the broader economy. Taxes that keep pace with broader economic growth allow for the maintenance of services and investment in productive infrastructure demanded by the community, while predictable revenue streams support effective financial management. The volatility of existing State taxes is discussed further in Section 5.4.

As previously noted there can be a trade-off between these principles. For example a progressive tax structure may increase equity, but in addressing equity concerns it can reduce efficiency, potentially lowering overall economic activity or making the tax more complex to administer and comply with.

Compromises between the principles need to be made based on their relative importance. This assessment can be subjective. Any assessment against these principles also needs to take account of the State’s expenditure needs and limitations in taxation powers, as well as transfers (e.g. welfare payments) provided by all levels of Government.

4.2 Efficiency of State taxes

The actual revenue generated by taxes is not a cost to society as a whole. Instead tax collections are essentially a transfer from one area of the economy to another via the services, payments and functions of Government. However, there are additional efficiency costs associated with taxes (separate to the actual revenue raised) which impact on choices and these do represent an overall loss in economic welfare.

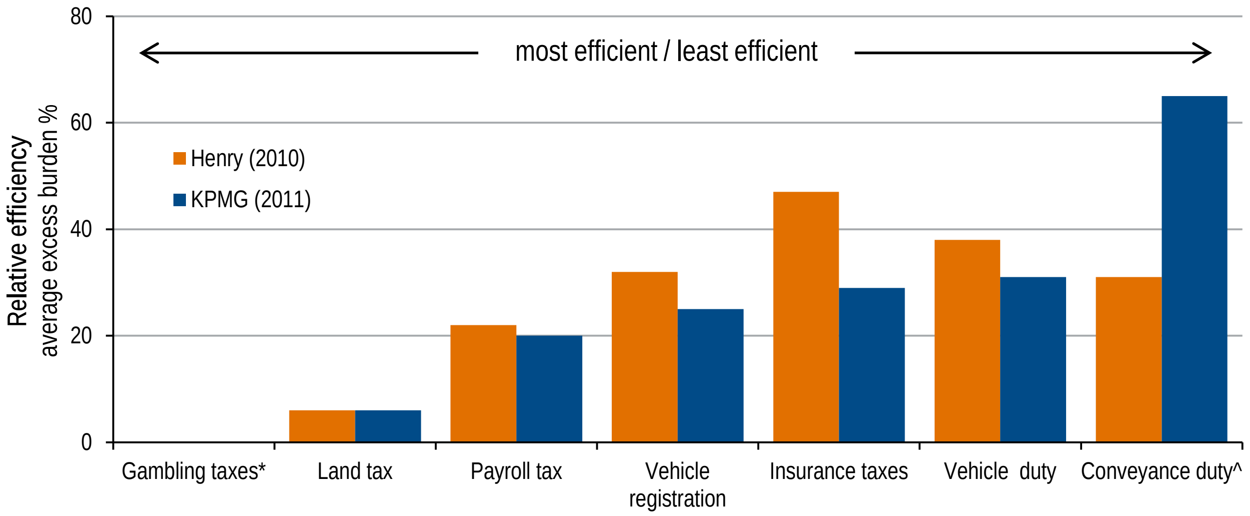
Taxes can alter decisions between investment, work, consumption and leisure. In general, individuals and businesses will respond to taxes by choosing less of a higher taxed item and more of a lower taxed item than they otherwise would. These changes in activity can leave the economy worse off than if the revenue (taxes) had been raised in a way that did not impact on decision making. The value of this welfare loss is referred to as the efficiency cost.

An efficient tax system is one which raises revenue in a way that minimises the impact on decisions.

In general, broad-based taxes (taxes with minimal exemptions) on fixed bases, or taxes that target economic rent ('super profits'), are more efficient than taxes on narrow or mobile bases. In line with this, a broad-based land tax (e.g. with no or minimal exemptions) is generally considered an efficient tax as the supply of land is fixed, with any tax only impacting on the price of land. On the other hand conveyance duty is generally viewed as a relatively inefficient tax. As a transaction based tax it will affect business and household decisions to move premises, buy businesses and move homes, reducing the number of transactions that would otherwise occur.

Although taxes which impact on taxpayer activity are generally not preferred on efficiency grounds, they can be considered efficient if they reduce an activity which has negative effects on the broader community. For example, taxes which aim to reduce the level of pollution, limit the consumption of alcohol or reduce traffic congestion are all considered to address behaviours which have significant costs to the broader community.

A number of reports have attempted to quantify the economic efficiency of State taxes in recent years. The following chart summarises the efficiency of a selection of taxes published in various reports (presented from most efficient to least efficient).



* Henry (2010) adjusted. Although the excess burden for gambling tax was put at 54 per cent in Henry (2010), in the ACT Taxation Review it was noted that *"Subsequent advice and modelling from KPMG confirms that as gambling revenue is economic rent, gambling taxes do not distort behaviour and have no efficiency cost".*

^ KPMG (2011) average of commercial and residential conveyance duty.

The results shown in the chart above are based on average national tax rates and bases. The actual efficiency costs of South Australian taxes will therefore vary to those presented in various publications, but nonetheless provide an indication of the relative efficiency of different taxes.

The Government has commissioned Deloitte Access Economics to undertake modelling of the economic impact of any potential tax reform options, taking into account the relevant tax rates and thresholds applicable in South Australia.

4.3 Impact on the economy

Our tax system should support entrepreneurship, investment and job creation, increasing the overall prosperity of the State.

It is important, however, that all sectors of the community pay their fair share of taxes. Therefore future reforms are not intended to simply exempt certain sectors from State taxes. Instead the Government intends that any reforms to our tax system should make South Australia an attractive place to do business and ensure the State remains an affordable place to live for all South Australians.

As shown in the previous section, a shift from relatively inefficient taxes such as conveyance duty or insurance duty to relatively more efficient tax bases would reduce the overall welfare loss associated with the State's effort to raise revenue. However, there would be significant incidence effects associated with some reforms and the short and long term incidence effects need to be considered in assessing reforms.

The direct impact on the economy, in terms of gross state product, business investment, employment and household income will depend on specific tax reforms undertaken.

Submissions to the review should have regard to the broad economic impacts of any proposals.

In assessing potential changes to the tax system, the Government has commissioned Deloitte Access Economics to undertake independent modelling of the economic impacts of the proposed tax reforms, including the potential for increased investment and job creation in the State. This will provide a detailed understanding of the impacts of any proposed reform options.

5 South Australia's taxation system

5.1 South Australian Government revenues

Taxation is an important revenue source for the State Government, expected to contribute around $4.4 billion (27 per cent) of total State Government revenue ($16.5 billion) in 2014-15. Taxation is the second largest revenue source behind GST grants. General government sector revenue estimates for 2014-15 and the forward estimates are provided in the following table.

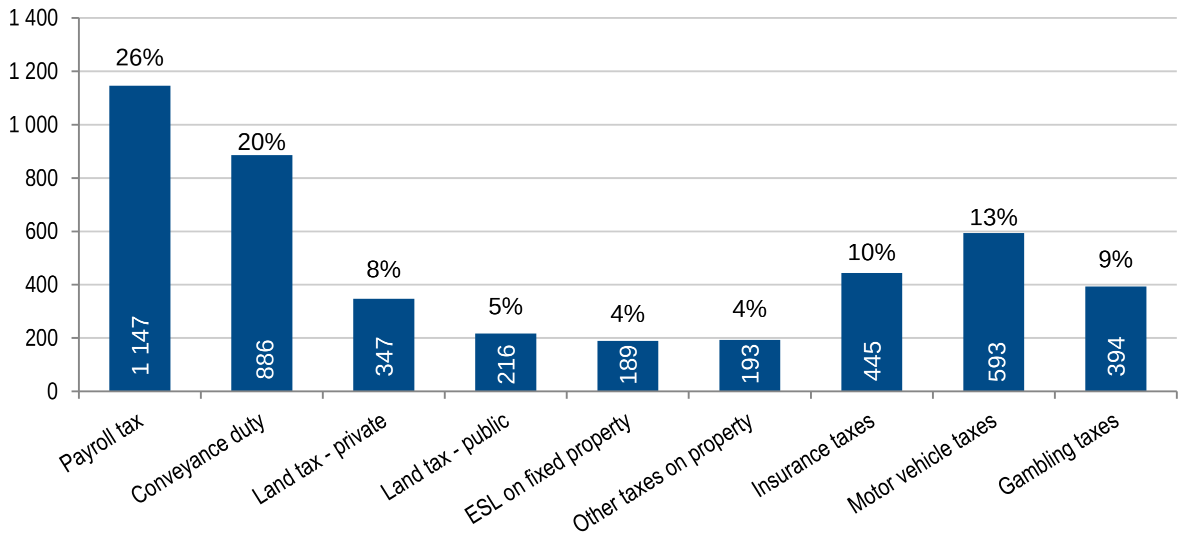
($ million)	2014-15 MYBR	% of total revenue	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate
Taxation	4 410	27%	4 670	4 891	5 132
SA GST grants	4 955	30%	5 382	5 872	6 123
Other Commonwealth grants	3 162	19%	3 562	3 559	3 611
Sales of goods and services	2 312	14%	2 355	2 429	2 512
Dividends and ITE income	760	5%	309	240	242
Royalties	291	2%	304	327	338
Other revenue and interest	568	3%	582	591	603
Total general government sector revenue	**16 458**	**100%**	**17 164**	**17 908**	**18 561**

5.2 Composition of State tax revenues

Payroll tax and conveyance duty raise the most State tax revenue and are expected to contribute around 46 per cent ($2.0 billion) of total State taxation revenue in 2014-15.

The following chart summarises estimated taxation receipts for 2014-15 – the percentage contribution of the various State taxes is expected to remain relatively stable over the forward estimates.

State tax revenue estimates for 2014-15 ($ million)



A comprehensive summary of State taxes is provided at Appendix A, including details on the Government's main tax expenditures.

Estimated tax revenue over the forward estimates is provided in the following table.

	2012-13 Outcome $m	2013-14 Outcome $m	2014-15 MYBR $m	% of total taxation	2015-16 Estimate $m	2016-17 Estimate $m	2017-18 Estimate $m
Payroll tax	**1 077**	**1 079**	**1 147**	**26%**	**1 223**	**1 289**	**1 361**
Property taxes							
Conveyance duty[(a)]	778	793	886	20%	979	1 049	1 126
Land tax – private	347	345	347	8%	360	375	387
Land tax – public	215	219	216	5%	224	233	241
ESL on fixed property	103	104	189	4%	194	201	207
NRM levies	42	44	46	1%	46	47	47
Save the River Murray Levy	26	25	26	1%	27	28	29
Guarantee fees	75	76	110	3%	128	131	134
Share duty	41	5	5	0%	5	5	5
Gaming machine surcharge	—	1	1	0%	1	1	1
All other[(b)]	5	4	5	0%	9	9	9
	1 631	**1 616**	**1 832**	**42%**	**1 972**	**2 078**	**2 186**
Gambling taxes							
Gaming machines	287	288	289	7%	304	302	311
SA Lotteries[(c)]	106	73	74	2%	77	82	85
Casino	22	20	25	1%	26	39	51
SA TAB[(d)]	4	4	4	0%	4	1	1
Other[(e)]	3	3	3	0%	3	3	3
	422	**388**	**394**	**9%**	**413**	**426**	**450**
Insurance taxes							
General insurance	296	309	322	7%	321	336	351
CTP renewal certificate	64	67	69	2%	70	71	72
CTP insurance	63	52	48	1%	49	50	51
Life insurance	7	7	7	0%	7	7	7
	429	**435**	**445**	**10%**	**447**	**463**	**481**
Motor vehicle taxes							
Motor vehicle registration fees	364	377	380	9%	394	408	422
Duty on registration transfers	149	157	160	4%	164	169	174
ESL on mobile property	31	33	40	1%	43	43	44
LSS levy	—	—	13	0%	14	15	15
	545	**567**	**593**	**13%**	**615**	**635**	**655**
Total taxation	**4 104**	**4 085**	**4 410**	**100%**	**4 670**	**4 891**	**5 132**

(a) Includes voluntary conveyances.

(b) Includes Agents Indemnity Fund and Hindmarsh Island Levy collections.

(c) 2012-13 includes tax on lottery net gambling revenue and dividend payments. From 2013-14, this line no longer includes dividends.

(d) SA TAB will continue to pay wagering tax only on its sports betting turnover from 2016-17 and this is expected to be small.

(e) Includes revenue from small lotteries and soccer pools.

5.3 Factors affecting South Australia's taxation revenue

State taxation revenues can fluctuate from year to year. The revenue from some taxes is more volatile than others. Aside from this short term volatility, the medium to longer term growth in revenues also varies – revenues from some taxes have grown more slowly than others.

Payroll tax revenue tends to be influenced by broad economic trends which affect employment and wages growth, whereas conveyance duty revenue is more volatile reflecting changes in property prices and the number of properties being purchased (which can vary considerably from year to year).

Land tax revenue is also driven by movements in property values. More recently, changes in how properties are being held by owners (in particular, owners restructuring property investments into multiple ownerships) are having an effect on growth in land tax revenue.

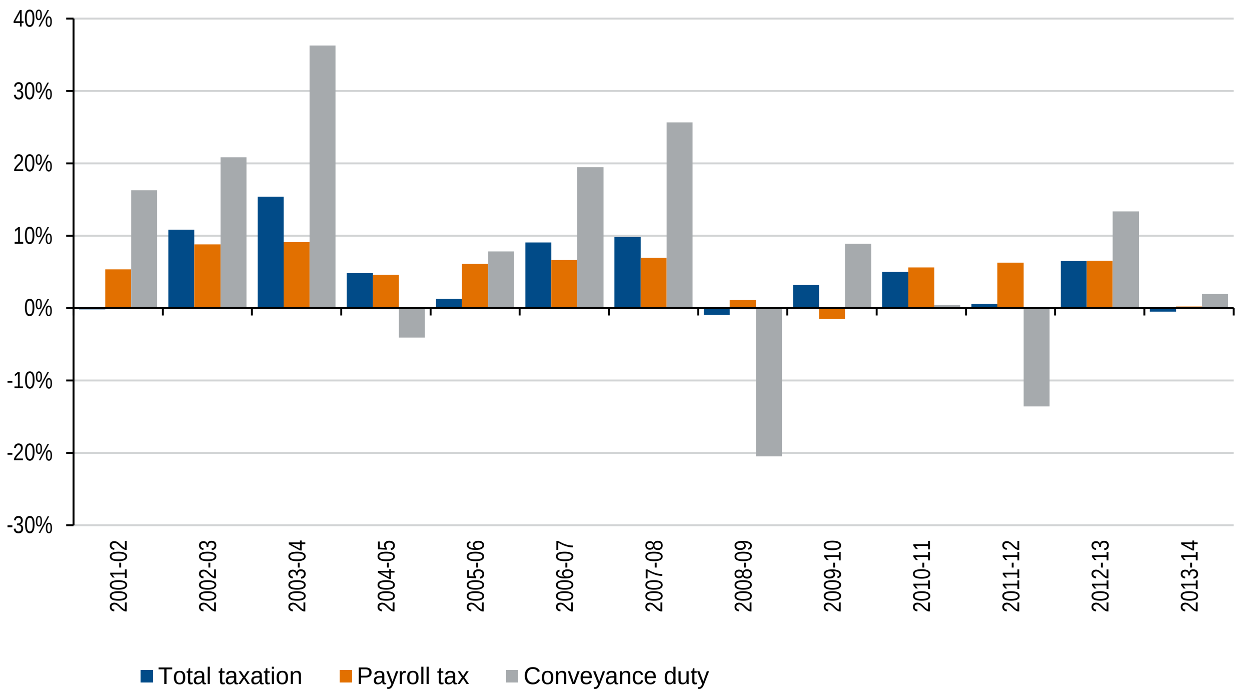
State taxes such as the emergency services levy and natural resource management levies are designed to recover the cost of providing a particular service, in which case revenue growth is linked to budgeted expenditure growth.

5.4 Stability of South Australia's tax revenues

Ideally, taxes would deliver revenue that is broadly predictable and grows at a similar rate to the economy, providing funding certainty for service delivery.

Current State tax revenues can be quite volatile. While average annual growth in State tax revenues has been 5.0 per cent, annual growth has varied from -0.9 per cent in 2008-09 to 15.4 per cent in 2003-04. Annual growth in total tax revenue, payroll tax and conveyance duty revenue is provided in the following chart. It can be seen from this chart that payroll tax is much more stable, and therefore predictable, than conveyance duty revenue.

Annual growth in total and selected State tax revenues



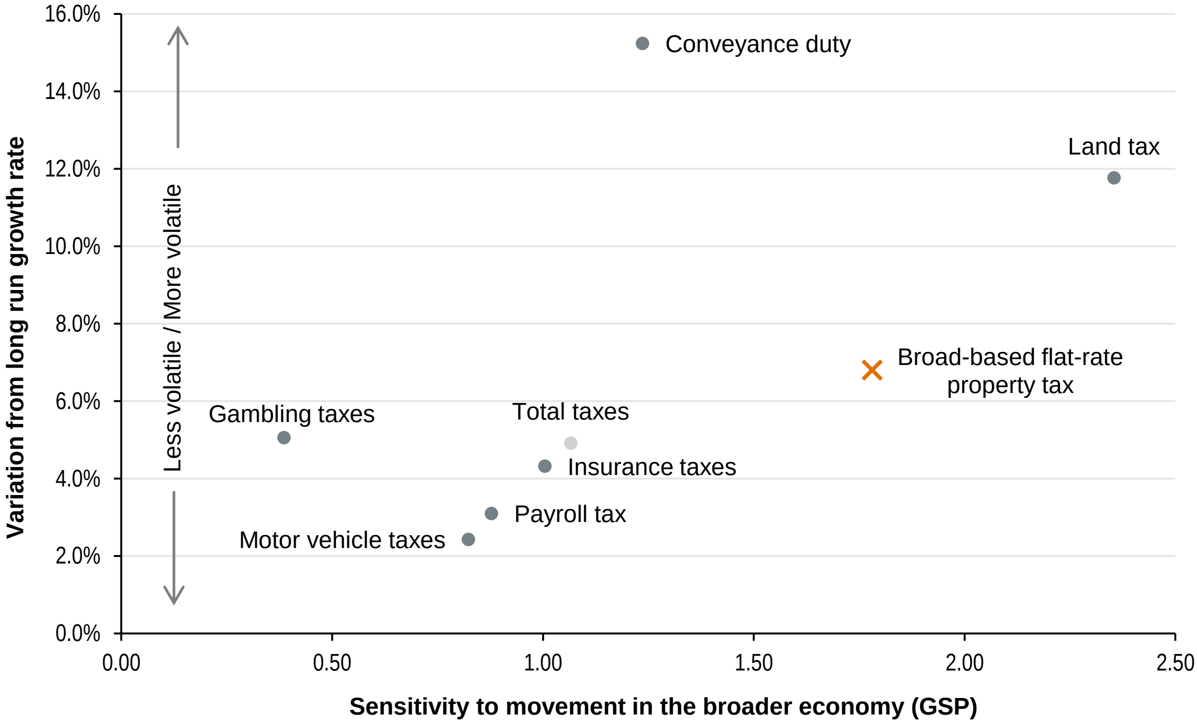
Tax stability can be measured in a number of ways, this includes:

- the sensitivity of tax revenue to movements in the broader economy – this can provide an indication of the suitability of a tax to fund the ongoing expenditure requirements of Government. If Government expenditure requirements are expected to grow broadly in line with the economy, a tax that grows at the same or faster rate than the economy will provide adequate funding. If a State's taxation system is heavily exposed to revenue sources which tend to grow more slowly than the economy, this is likely to create pressures on the budget that can affect the quality of services delivered to the community; and

- the volatility of tax revenues from year to year – more volatile taxes are more difficult to predict accurately and make it difficult for State Government's to plan future spending.

The following chart summarises how the State's key taxes perform on these two measures.

Stability of state taxes (2000-01 to 2013-14)



From the chart it can be seen that:

- payroll tax revenue grows broadly in line with gross state product (GSP) and displays low volatility. This allows it to be forecast with reasonable accuracy and provides a stable base to fund expenditure;
- conveyance duty revenue has grown at a higher rate than GSP over the past 13 years but has been highly volatile due to big swings in the property market and property prices. This makes it difficult to forecast reliably. This is particularly the case considering that conveyance duty revenue can fall and increase significantly between years;
- land tax revenue has grown faster than GSP reflecting a combination of the high property value growth experienced in the early 2000s and bracket creep. Bracket creep is no longer a significant factor for land tax growth, following the introduction of annual indexation of land tax brackets;
- if the State had imposed a broad-based property tax at a flat rate on the capital value of all properties over the same period, it would have delivered a more stable revenue stream than other property-based taxes; and
- gambling tax revenue has grown considerably more slowly than other tax revenues and the economy more generally over the period. When gaming machines were first introduced they went through a rapid growth phase, but the market is now more mature and their use has also been affected by various measures introduced by the Government to address problem gambling.

Taxes with high volatility are hard to forecast year to year, which makes it difficult for the Government to budget and plan for the future.

Revenue from payroll, land, insurance, motor vehicle and gambling taxes are able to be forecast with relatively high accuracy, while conveyance duty forecasts have relatively low accuracy. This can be seen in the table below which shows the error rates between actual tax revenue collections and original budget forecasts for the years 2004-05 to 2013-14.

Tax	Error rate[(a)]
Payroll tax	3.3%
Conveyance duty	17.1%
Land tax – private	4.9%
Land tax – public	4.1%
Insurance taxes	3.2%
Motor vehicle taxes	2.4%
Gambling taxes	2.6%

(a) Mean absolute percentage error.

5.5 Incidence of State taxes

The party that is legally required to pay a tax is often not the party that ultimately bears the (economic) incidence of the tax. The economic incidence of a tax is generally expected to fall on the party who is least able to change their behaviour in response to the tax.

For example, although it is often claimed by industry that payroll tax is a 'tax on jobs', *Australia's Future Tax System* report suggested that in the long-run, employers are unlikely to bear the burden of the tax. Rather, the burden is more likely to be met by employees (through either lower wages or higher prices).

A comparison of the legal incidence to the short and long run economic incidence, for the main State taxes, is provided in the following table.

Tax	Legal incidence	Economic incidence	
		Short-run	Long-run
Payroll tax	Employer	Employer	Consumers/employees though reduced wages and/or higher prices
Conveyance duty	Property buyer	Purchaser and/or land owner depending on market conditions	Purchaser and/or land owner depending on market conditions
Land tax	Land owner	Land owner, or renter if uncompetitive market e.g. very low vacancy rates	Land owner
Insurance taxes	Insurer	Policy holder	Policy holder
Motor vehicle taxes	Vehicle owner	Vehicle owner	Private vehicles – vehicle owner Business vehicles – consumers through higher prices
Gambling taxes	Gambling venue	Gambling venue	Gambling venue

It is difficult to get an accurate picture of the impact of State taxes on households due to the fact that the legal incidence of a tax can often differ to its economic incidence, as well as data quality constraints.

For example, although the legal incidence of payroll tax falls on the employer, as has been suggested elsewhere in the Discussion Paper, most tax literature suggests that ultimately the true incidence of payroll tax falls on households through increased prices or lower wages.

Where the legal incidence of a tax falls on the household, for example motor vehicle registration fees and conveyance duty, the quality and size of ABS Household Expenditure Survey (HES) data available in respect of certain taxes means that modelled results can only be used as a guide when trying to understand the distributional impacts of State taxes. It was not possible to generate reliable estimates for land tax given the small sample size of the HES data.

Notwithstanding these difficulties, the Government commissioned the National Centre for Social and Economic Modelling (NATSEM) to model the distributional impacts of State taxes on households, where possible. The NATSEM analysis indicates that, based on income, conveyance duty tends to more progressive than other State taxes that have been modelled.

Although a tax may appear regressive in its incidence on households, it does not necessarily mean that the tax should be abolished. For example, because gambling taxes fall on the economic rent (profit) of gambling venues, removing gambling taxes will not deliver any improvement to households.

NATSEM's modelling results are summarised in the following table. The results provide information on the average proportion of household expenditure devoted to each State tax, by household type. A quintile represents 20 per cent of households, with quintile 1 representing the bottom 20 per cent of households and quintile 5 representing the top 20 per cent of households.

2013-14 results[(a)] **Household type**	**Insurance duty**	**Vehicle registration**	**Gambling tax[(b)]**	**Duty on vehicles**	**Conveyance duty**	**Fixed property ESL[(c)]**	**Total taxes modelled**
Income							
Quintile 1	0.54%	0.85%	1.15%	0.21%	0.65%	0.15%	3.55%
Quintile 2	0.53%	0.89%	0.95%	0.25%	0.85%	0.20%	3.65%
Quintile 3	0.49%	0.89%	0.77%	0.32%	0.55%	0.23%	3.25%
Quintile 4	0.47%	0.65%	0.60%	0.25%	1.26%	0.22%	3.45%
Quintile 5	0.36%	0.41%	0.45%	0.09%	1.21%	0.19%	2.71%
Total income	**0.44%**	**0.64%**	**0.66%**	**0.20%**	**1.02%**	**0.20%**	**3.16%**
Wealth							
Quintile 1	0.25%	0.89%	1.06%	0.33%	0.13%	0.05%	2.71%
Quintile 2	0.35%	0.83%	0.84%	0.25%	1.13%	0.14%	3.53%
Quintile 3	0.47%	0.64%	0.45%	0.16%	0.97%	0.18%	2.87%
Quintile 4	0.47%	0.62%	0.62%	0.20%	0.74%	0.20%	2.86%
Quintile 5	0.52%	0.46%	0.57%	0.13%	1.49%	0.30%	3.48%
Total wealth	**0.44%**	**0.64%**	**0.66%**	**0.20%**	**1.02%**	**0.20%**	**3.16%**
Family							
Couple - children	0.40%	0.57%	0.29%	0.17%	1.19%	0.19%	2.81%
Single parent	0.24%	0.43%	0.29%	0.27%	0.54%	0.15%	1.92%
Couple only	0.58%	0.76%	1.11%	0.21%	1.13%	0.24%	4.04%
Lone person	0.42%	0.61%	0.92%	0.18%	1.03%	0.22%	3.37%
Other	0.44%	0.73%	0.73%	0.22%	0.60%	0.17%	2.90%
Total family	**0.44%**	**0.64%**	**0.66%**	**0.20%**	**1.02%**	**0.20%**	**3.16%**
Region							
Adelaide	0.44%	0.62%	0.68%	0.19%	1.13%	0.21%	3.26%
Rest of State	0.47%	0.72%	0.59%	0.23%	0.59%	0.18%	2.77%
Total region	**0.44%**	**0.64%**	**0.66%**	**0.20%**	**1.02%**	**0.20%**	**3.16%**

(a) Analysis based on ABS Household Expenditure Survey (HES), 2009-10 updated to 2013-14 using standard assumptions for population growth, income, wealth and price changes, and State tax revenue estimates. NATSEM has suggested that estimates for insurance duty, vehicle registration, conveyance duty and the fixed property emergency services levy (ESL) are a good guide, but have less confidence in estimates for gambling tax and duty on vehicles. Land tax estimates have not been included on the basis that these estimates could not be modelled reliably given the small sample size of the HES data.

(b) The incidence of gambling tax falls on the economic rent of the gambling venue. Gambling tax was based on HES data adjusted for the common under-estimation of gambling expenditure in HES data.

(c) The fixed property ESL has been modelled on the basis that fixed property ESL remissions did not apply in 2013-14.

5.6 Government concessions

The Government provides a number of concessions to eligible South Australians to ease cost of living pressures. Concessions are generally targeted towards those on low and fixed incomes such as pensioners and those in receipt of other Commonwealth Government support payments.

Concessions are provided on several key living expenses including some Government taxes, utilities and public transport. The value of concessions that will be provided by the Government in 2014-15 is estimated to be $269 million.

The following table summarises concessions provided by the State Government in 2014-15 to eligible people on low and fixed incomes.

Concession	Value of concession 2014-15	Estimated value of relief ($m)
Taxation		
Fixed property ESL concession	$46	7
Fixed property ESL remission	$150 on median home	16
Save the River Murray Levy	$40	6
Motor vehicle registration fee	$118.50 for a 6 cylinder vehicle	33
Stamp duty on CTP renewal certificate	$60	13
Other charges		
Energy[(a)] bills	$215 max	43
Council rates	$100 to $190	34
Water and sewerage	Water - min $120 to $295 max Sewerage $110 max	48
Public transport[(b)]	50% reduction – free	67
Drivers' licences	$20	2
Total available depending on circumstance	**Approx. $1 244.50**	**269**

(a) The Government also provides a Medical Heating and Colling concession of up to $215 per annum for eligible recipients.

(b) South Australian State Seniors Card holders can travel free on all Adelaide Metro public transport services between 9.01 am to 3.00 pm and 7.01 pm to 7.00 am weekdays and all day on weekends and public holidays. At all other times, State Seniors Card holders are entitled to a concession of 50 per cent of the normal fare. Eligible concession card holders and full-time students are entitled to a concession of 50 per cent of the normal fare at all times.

Reforms considered as part of the State Tax Review could have significant impacts for various parts of the community. The Government will therefore be considering concessions as part of this process to ensure the tax system remains fair to all sections of the community.

5.6.1 Community service obligations

In addition to concessions the Government provides to people on low and fixed incomes the Government also spends a significant amount of money on community service obligations (CSO) each year.

CSOs are payments that the Government makes to a public enterprise to have that enterprise undertake specific activities that it would not do on a commercial basis or would only do at higher prices.

For example, SA Water receives CSO payments so that it can provide state-wide water and sewerage pricing. This lowers the water and sewerage prices that customers in regional areas pay.

The Government's total CSO payments to SA Water are expected to exceed $128 million in 2014-15 and total CSO payments paid by the Government to public enterprises are expected to exceed $153 million in 2014-15. Net returns to Government from SA Water are expected to be around $105 million in 2014-15. Once the Government's expenditure on water and sewerage concessions is also taken into account, the net contribution reduces to $57 million in 2014-15.

6 Interstate comparison of taxes, royalties and business costs

6.1 Interstate comparisons

Understanding where South Australia's taxes sit in comparison to other States is important when reviewing the State's taxes. Taxation arrangements will always differ between States reflecting differences in revenue raising abilities, economic conditions, Government priorities and community preferences. It is important that South Australia has a competitive tax environment to encourage business investment, job creation and to ensure South Australia remains an attractive place to live for all South Australians.

This chapter provides an overview of the various interstate comparisons of taxation arrangements, including those undertaken by the Commonwealth Grants Commission (CGC), Pitcher Partners, the Institute of Public Affairs (IPA) and KPMG.

The following table summarises how South Australia compares on these various measures of interstate tax competitiveness. A ranking of one means most competitive. South Australia's ranking in each of these comparisons differs – each comparison measures tax imposts in different ways. Some are averages, while others use examples of taxes paid by a hypothetical business. Some take into account, and adjust for, differences in tax bases between States (e.g. differences in property prices), whereas others do not.

Summary of interstate comparisons

	Tax as a per cent of GSP 2013-14	Tax per capita 2013-14	CGC tax effort ratio 2012-13	Pitcher Partners (large business) 2013-14	IPA (average size business) 2012	KPMG (Focus on Tax) 2014
NSW	8	6	7	5	5	4
Vic	7	5	6	2	2	2
Qld	=5	4	2	3	4	3
WA	2	8	4	4	3	n.a.
SA	**=5**	**3**	**8**	**1**	**7**	**1**
Tas	4	1	3	n.a.	6	n.a.
ACT	3	7	5	n.a.	8	n.a.
NT	1	2	1	n.a.	1	n.a.

A comprehensive comparison of the tax rates applying across Australian jurisdictions is provided at Appendix B.

It is also important to recognise that State taxes are only a relatively small component of the overall cost associated with running a business. Businesses will have regard to all costs associated with establishing and growing a business – they are unlikely to base their location decisions solely on tax considerations.

KPMG's Competitive Alternatives Report 2014 Edition ranks Adelaide as being the second most cost competitive business environment of the four Australian cities surveyed. Section 6.1.3 provides a summary of KPMG's findings.

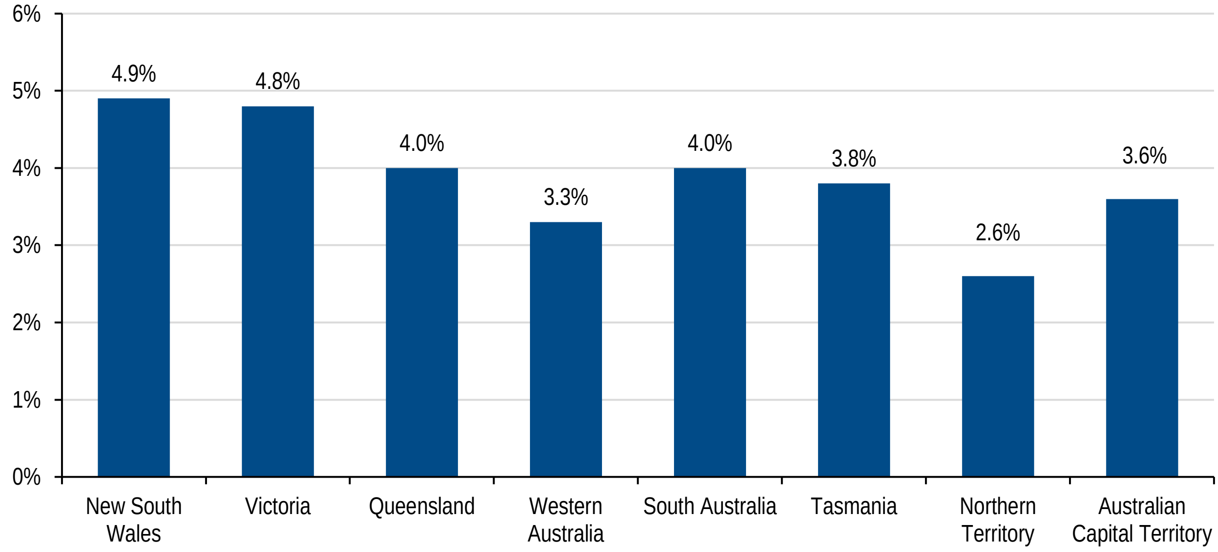
6.1.1 Tax comparisons

Taxation as a percentage of gross state product (GSP)

Taxation as a percentage of GSP measures the level of taxation compared to the size of the economy. South Australia ranked equal fifth in the tax to GSP ratio for each State and Territory (4 per cent of GSP) in 2013-14.

Tax to GSP ratios for 2013-14 for all States and Territories are provided in the following chart.

Taxation as a percentage of GSP (2013-14)



Source: Based on published outcomes for all States and Territories; ABS Cat. No. 5220.0. Tax revenues for South Australia have been adjusted to remove land tax paid by the South Australian Housing Trust (SAHT).

Tax per capita

South Australia was the third lowest taxing State on a tax per capita basis in 2013-14. Tax per capita details for each State and Territory are provided in the following table.

Tax per capita

	2013-14 Actual [(a)(b)(c)]
Western Australia	3 473
Australian Capital Territory	3 376
New South Wales	3 254
Victoria	2 919
Queensland	2 527
South Australia	**2 329**
Northern Territory	2 322
Tasmania	1 862
All States and Territories	**2 943**

(a) Tax revenues for South Australia have been adjusted to remove land tax paid by SAHT.

(b) Based on published outcomes for all States and Territories.

(c) Population figures for 2013-14 have been sourced from ABS Cat. No. 3101.0.

While this measure provides an indication of the overall level of taxation in a State by showing how much tax each person would be required to pay if everyone was taxed equally, it does not take into account who in the State pays the actual tax or the ability of people to pay.

Commonwealth Grants Commission (CGC) tax effort ratios

The CGC produces an annual assessment of the relative tax effort for all States and Territories for various State taxes.

A tax effort ratio of greater than one indicates that a State raises more from that tax than the ‘average’ of all States and vice versa.

South Australia has the highest effort ratio for conveyance duty and insurance tax, and equal highest for land tax. However, South Australia's payroll tax effort is assessed by the CGC as being the lowest in the nation and South Australia also has relatively low mining royalties. The following table summarises the most recent tax and mining revenue effort ratios calculated by the CGC.

CGC effort ratios – 2012-13

	NSW	Vic	Qld	WA	**SA**	Tas	ACT[(b)]	NT
Conveyance duty	1.01	1.06	0.83	0.95	**1.36**	0.99	1.14	1.18
Payroll tax	1.03	0.98	0.93	1.06	**0.92**	1.09	0.98	1.03
Land tax	1.16	1.06	0.80	0.72	**1.31**	1.31	1.17	0.00
Insurance tax[(a)]	0.76	1.19	0.88	1.43	**1.24**	1.02	0.79	1.21
Motor taxes[(a)]	1.15	0.86	1.06	0.94	**0.93**	0.71	1.06	0.69
Total tax	1.07	1.01	0.89	0.95	**1.10**	0.92	0.99	0.84
Mining revenue	0.96	0.57	0.98	1.05	**0.64**	0.61	1.00	0.98

(a) Adjusted to reclassify $64.1 million of stamp duty revenue (collected from the $60 flat fee on CTP renewal notices in South Australia) from insurance tax to motor taxes.

(b) The ACT is in the process of transitioning more of its tax revenue base to general rates (collected by councils in other jurisdictions), which are not included in the calculation of these effort ratios so the ACT's tax effort will be understated to some extent.

South Australia has a competitive payroll tax regime – this is considered to be important having regard to mobile business resources.

Land tax is generally higher in South Australia when compared with other jurisdictions but as pointed out in *Australia's Future Tax System* report (AFTS), land tax is capitalised into property values and therefore does not affect business investment decisions. The AFTS report states that the efficiency of land tax "*arises from the immobility of the land base…and levying different rates of land tax in different states has very low efficiency costs*."

South Australia's land tax rate scales tend to mean that South Australia is a relatively lower taxing State for small land holdings but a relatively higher taxing State for large land holdings.

Moving to the lowest tax effort ratio, as assessed by the CGC, would have large costs for South Australia. Based on 2012-13 revenues, if South Australia was to move to the lowest tax effort for assessed taxes it would cost around $760 million per annum, while moving to the current average would cost around $230 million per annum (or $320 million per annum if payroll tax was retained below the average effort).

6.1.2 Business taxation costs

There are a number of comparisons of the impact of State taxes on businesses undertaken by professional services firms and policy institutes. This section provides an overview of those comparisons.

Pitcher Partners

The Pitcher Partners State Tax Review 2013-14 compares the first year costs faced by companies in each State. The review considers WorkCover premiums, payroll tax, transfer of land (conveyance) duties, and land tax for two hypothetical businesses of different sizes.

The Pitcher Partners review found that South Australia has a very competitive business taxation regime, with South Australia having the lowest total taxes and charges for the larger representative business (in annual payroll terms) and the second lowest for the smaller business.

A summary of the Pitcher Partners findings is provided in the following table. The Pitcher Partners analysis differs to the CGC analysis primarily reflecting that the analysis by Pitcher Partners uses particular land values, which are quite low, whereas the CGC analysis compares the average effective tax rate between jurisdictions. The structure of the South Australian land tax regime means that a significant portion of land tax revenue in South Australia is raised from higher valued ownerships compared to other jurisdictions, making South Australia relatively competitive at lower site values.

Pitcher Partners State Tax Review 2013-14 results

	NSW	Vic	Qld	**SA**	WA
Business with payroll of about $1.2 million					
Tax payable	$171 022	$137 173	$117 413	**$122 066**	$161 467
Ranking	5	3	1	**2**	4
Business with payroll of about $5.8 million					
Tax payable	$1 246 001	$758 713	$840 752	**$745 445**	$917 843
Ranking	5	2	3	**1**	4

Institute of Public Affairs (IPA)

The IPA Business Bearing the Burden 2012 report considers the taxation costs associated with running a business in each state, including payroll tax, land tax, and stamp duties on commercial property, motor vehicles and insurance. It is based on hypothetical businesses at a range of sizes, which are created by scaling the components of the reference business by various factors.

The report uses similar parameters to those used by Pitcher Partners, but unlike Pitcher Partners the IPA's hypothetical business is not a start up, so there is a smaller stamp duty component, and it does not adjust for the different property values in jurisdictions. South Australia has relatively lower property prices for a comparable piece of land than the eastern states and therefore the IPA's analysis tends to overstate the tax burden for South Australia.

The report concludes that South Australia is a relatively high taxing jurisdiction.

A summary of the IPA findings is provided in the following table.

IPA Business Bearing the Burden 2012

Business size	**10%**		**50%**		**100% ($4.4 million payroll)**		**200%**	
	Tax paid ($)	Ranking	Tax paid ($)	Ranking	Tax paid ($)	Ranking	Tax paid ($)	Ranking
NSW	3 530	2	121 599	6	293 374	5	651 718	5
Vic	3 734	3	121 984	7	280 978	2	612 572	2
Qld	3 405	1	104 147	3	287 219	4	619 004	3
WA	3 810	5	114 161	5	281 170	3	627 777	4
SA	**4 660**	**6**	**122 692**	**8**	**308 254**	**7**	**680 632**	**7**
Tas	5 142	7	114 129	4	297 392	6	664 615	6
ACT	8 959	8	86 980	1	309 810	8	765 009	8
NT	3 747	4	95 944	2	232 974	1	548 447	1
Average	4 623		110 204		286 396		646 233	

KPMG

KPMG's Competitive Alternatives 2014 is a biennial report that compares the relative costs of doing business in cities across ten countries, including four in Australia. This report generally finds South Australia to be a competitive place to do business.

While this report considers the overall costs faced by businesses, of which State taxes represent only a component, the 2014 edition includes a “Focus on Tax” supplement, which aims to measure a company’s tax burden in those cities. Adelaide was found to have the lowest total effective tax rate of the Australian cities examined.

KPMG Competitive Alternatives Focus on Tax Supplement 2014 findings

	Effective tax rates			
City	**Corporate income tax**	**Other corporate taxes**	**Statutory labour costs**	**Total effective tax rate**
Adelaide	**24.7%**	**3.1%**	**46.0%**	**73.8%**
Melbourne	24.6%	2.4%	47.6%	74.6%
Brisbane	24.5%	2.6%	48.8%	75.9%
Sydney	24.5%	3.2%	49.5%	77.2%

6.1.3 Broader business costs comparisons

KPMG’s Competitive Alternatives Report provides a cost comparison of selected international business locations, including Sydney, Melbourne, Brisbane and Adelaide.

The report measures the impact of major location-sensitive cost components for selected industries. Key cost factors included in the report are labour costs, facilities costs, transport costs, utility costs and taxes.

The tax component, which includes Commonwealth, State and local government costs, typically represents up to 14 per cent of total costs.

In the 2014 edition of the KPMG Report, Adelaide was ranked 86 out of 131 cities surveyed globally and the second most cost competitive Australian city.

The overall cost index results for Australian cities surveyed are provided in the following table.

KPMG Competitive Alternatives 2014 findings

	Business cost index					
	2004	**2006**	**2008**	**2010**	**2012**	**2014**
Sydney	93.8	94.6	102.7	98.9	105.0	101.0
Melbourne	92.1	92.3	99.4	96.7	102.4	97.6
Brisbane	91.0	91.4	100.1	97.3	103.2	100.5
Adelaide	**90.4**	**91.1**	**97.9**	**97.0**	**102.3**	**98.9**

The Government’s commitment to reform WorkCover will also provide significant savings to businesses that operate in South Australia and illustrates the Government’s commitment to ensure that businesses have the best possible environment to operate and thrive in. The reforms are intended to better assist injured workers to return to work and will save business $180 million each year from 2015-16 through targeting an average premium of 1.5 per cent to 2 per cent.

7 Key challenges and future requirements

South Australia faces a range of future fiscal pressures, including growing demand for quality services and demographic changes such as the ageing of our population.

The structure of the economy is also changing. The industries and jobs of the future will be different to those of the past, and continual innovations are making business activities more mobile both within Australia and globally.

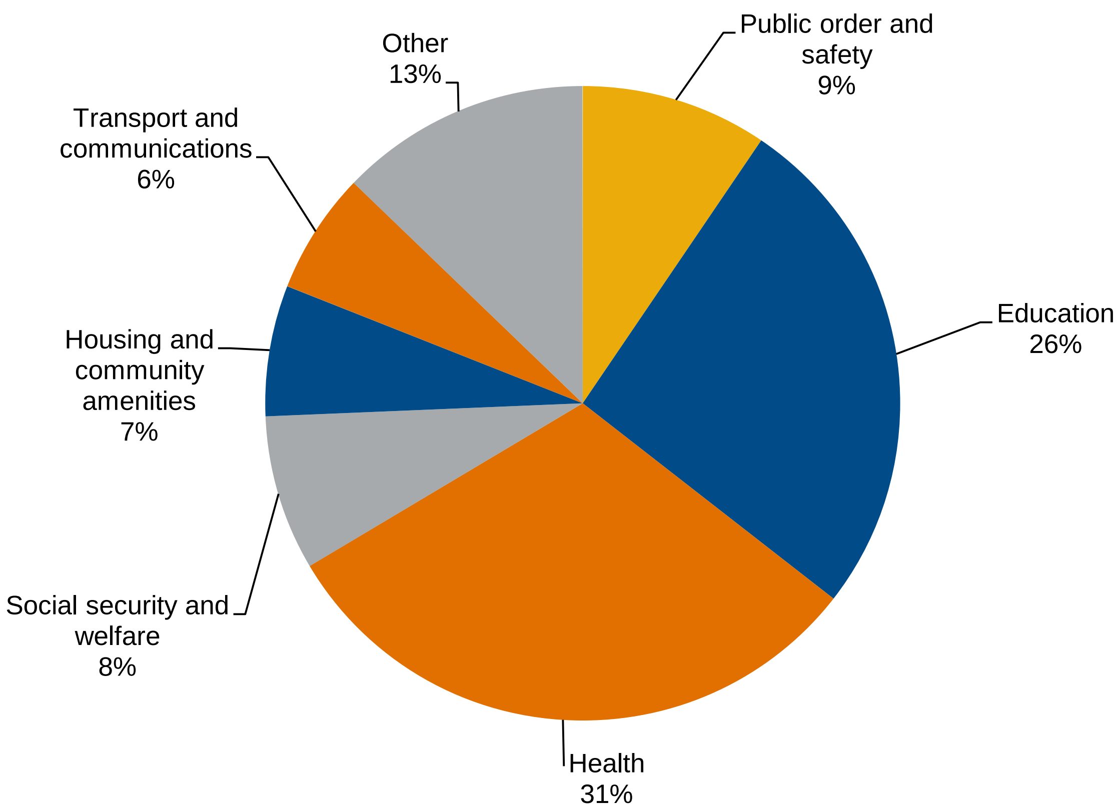
These changes will impact on both the level of potential tax collections and the demand for services by the community. The State's tax system needs to be responsive to these changes, supporting jobs and investment growth while providing enough revenue to deliver high quality services and infrastructure demanded by the community, now and into the future.

This section outlines some of the key challenges and future requirements of the State tax system.

7.1 History of Government spending – key growth areas

Total general government expenditure in 2013-14 was $16.4 billion and is expected to grow to $17.7 billion by 2017-18. Health and education are the main areas of spending and account for over 55 per cent of total general government expenditure – see Chart 7.1 below.

Chart 7.1: General government expenditure by General Purpose Classification – 2013-14



Source: *2013-14 Final Budget Outcome and Consolidated Result*, Government of South Australia, December 2014.

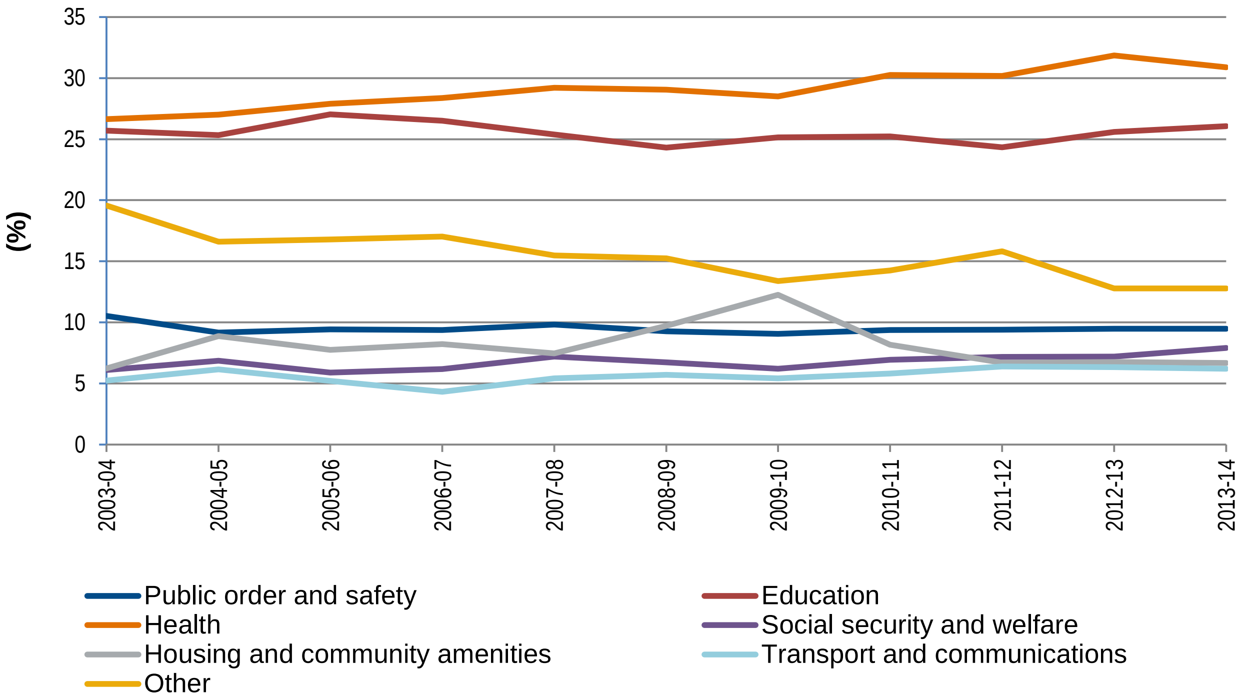
Past trends in expenditure growth, although influenced by a range of factors, can provide an indication of where future expenditure pressures may arise.

Since 2003-04, expenditure on health and social welfare as a percentage of total general government expenses has increased more than any other category.

Health spending has increased from around 26.6 per cent of total expenditure in 2003-04 to 30.9 per cent of total expenditure by 2013-14. Growth in health expenditure over this period has averaged over 7 per cent per annum, growing from $2.5 billion in 2003-04 to $5.0 billion in 2013-14.

The growth in health expenses reflects a combination of factors including demographic influences, growing demand for services, advancements in technology and treatments, and the overall cost of these services. These pressures are likely to continue in the future.

Chart 7.2: Share of total South Australian general government expenditure by purpose



Source: Australian Bureau of Statistics, Government Finance Statistics, May 2014, Catalogue 5512, and *2013-14 Final Budget Outcome and Consolidated Result*, Government of South Australia, December 2014.

Expenditure on social welfare, which accounts for around 8 per cent of total expenditure, has grown the strongest since 2003-04 in percentage terms. Growth has averaged around 8 per cent per annum, increasing from $0.6 billion in 2003-04 to $1.2 billion in 2013-14. This largely reflects strong growth in disability service expenses.

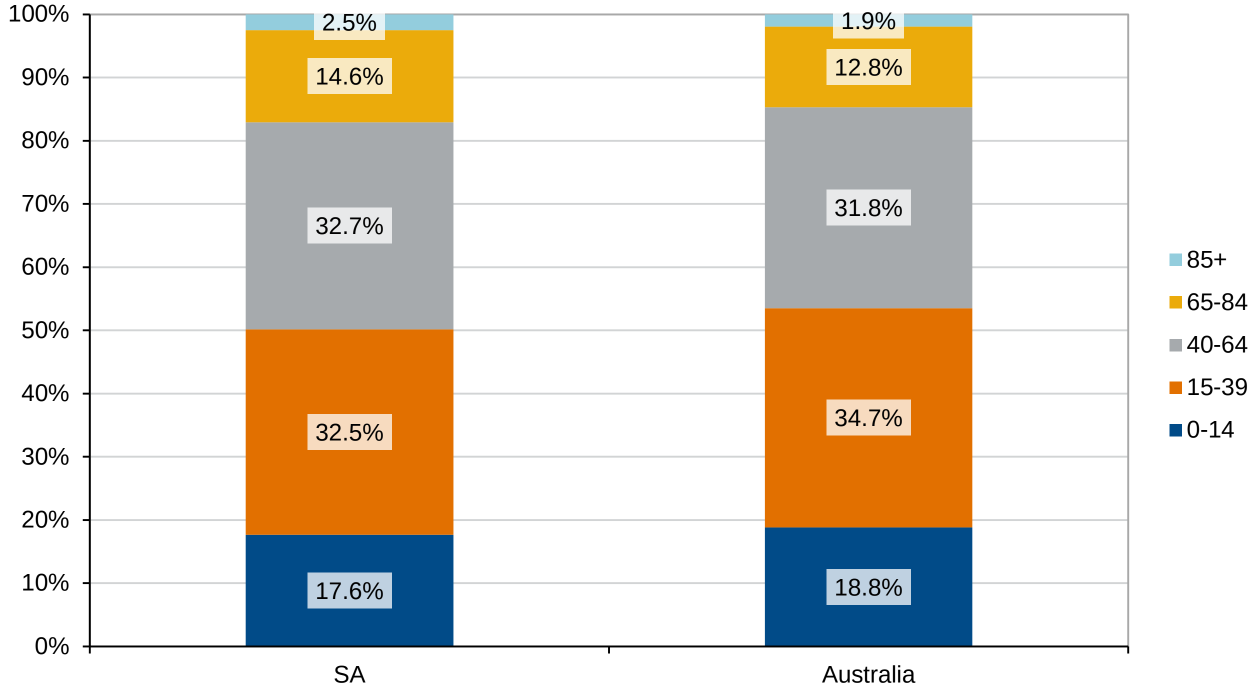
From July 2018 the full National Disability Insurance Scheme is scheduled to be in operation in South Australia, guiding future expenditure growth in this area. This is a shared Commonwealth and State funded program. Under the existing agreement, South Australia’s contribution towards the scheme from 2018-19 is a fixed amount, growing at a rate to be agreed by the Council of Australian Government’s following a review by the Productivity Commission, or at 3.5 per cent.

Education, which is the second largest expense category, has broadly grown in line with total expenses since 2003-04. Going forward, expenditure will be influenced by the State Government’s commitment to fully fund its share of the National Education Reform Agreement. Over the longer-term, education expenditure may also be impacted by the demographic composition of the South Australian population.

7.2 Demographic change

South Australia has a relatively older population compared to the national average. As at June 2014 there was approximately 3.8 people of working age to those aged 65 and over in South Australia, compared to 4.5 people of working age to those aged 65 plus nationally – see Chart 7.3.

Chart 7.3: Population estimates – June 2014



Source: Australian Bureau of Statistics, Australian Demographic Statistics, June 2014, Catalogue 3101.

An older population base can impact on the State budget through increased demand for services, especially health care, and a reduction in the size of the potential tax base. The ageing of the population is forecast to add to these pressures in the future. In the ABS population projections – medium scenario (Series B)[1], the number of working aged people to those aged 65 and over in South Australia is projected to fall from 3.8 people currently, to 2.7 people by 2031 and then 2.3 people by 2061.

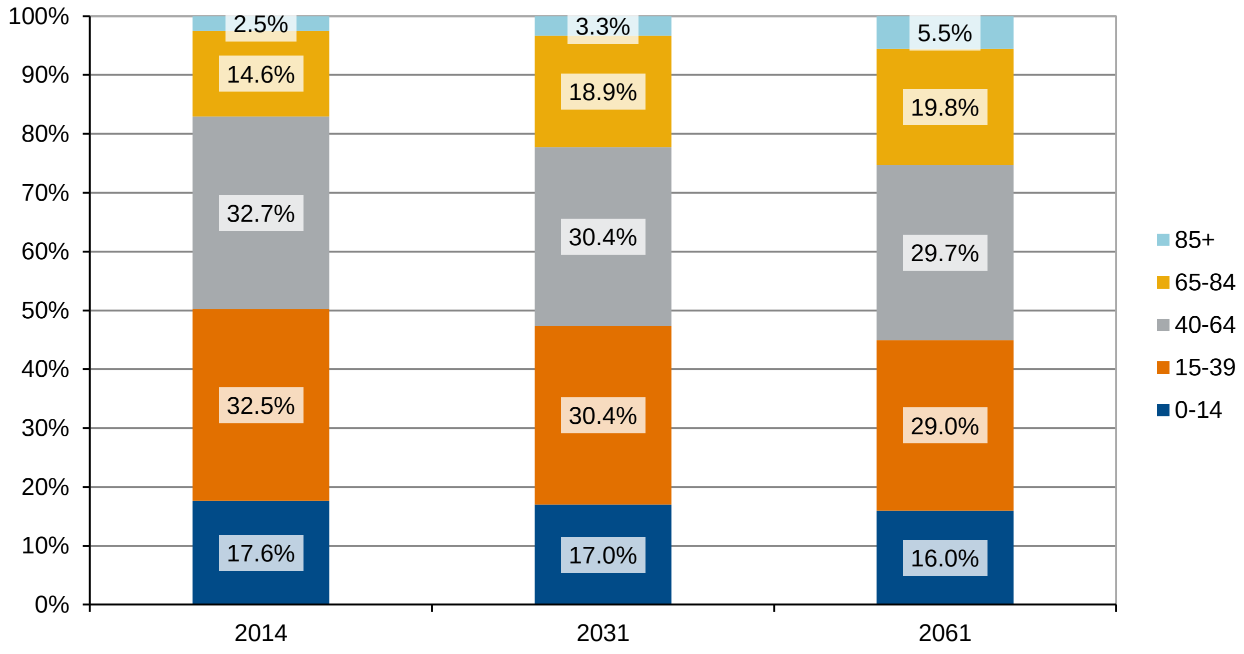
To the extent that there is a relative increase in the number of people aged 65 or over, an offsetting fall in the number of dependents aged under 15 can act to reduce the potential impact on overall service costs, for example by reducing education expenditure. However, the overall age dependency ratio, which is the ratio of the working aged population (15-64) compared to dependents (under 15 or older than 65), is also projected to fall from 1.9 working aged people to dependents in 2014, to 1.5 in 2031 and then 1.4 in 2061 – see Chart 7.4.

A reduction in the level of working age population will generally lead to a decline in payroll tax collections and potential reductions in conveyance duty as older Australians are generally less active in the property market. These are currently the two biggest sources of State tax revenue.

Any decline in revenue is also likely to occur in tandem with a rise in demand for services and therefore expenditure. In particular, the increase in the proportion of the population aged 85 years and above will place an increasing demand on State-funded health care services (across Australia, people aged 80 years and over account for about 5 per cent of the population but more than 26 per cent of hospital bed days).

[1] Australian Bureau of Statistics, Population projection, Catalogue 3222, adjusted to account for current population estimates contained in Australian Demographic Statistics, June 2014, Catalogue 3101.

Chart 7.4: ABS population projections, Series B (re-based), South Australia



Source: Australian Bureau of Statistics, Population projection, Catalogue 3222 and Australian Demographic Statistics, June 2014, Catalogue 3101.

While these are only projections, they show a significant shift in the composition of the South Australian population. This demographic shift is not unique to South Australia and it is a trend expected to occur across the nation. However, it is important that our tax system is able to raise sufficient revenue in a predictable and equitable manner as this demographic shift occurs.

7.3 Economic environment

The South Australian economy is undergoing significant change which will in turn have implications for the future of our State tax system.

Over the past 12 years the changing nature of the State's economy is highlighted by employment patterns. Between 2002 and 2014, total employment in South Australia grew by 114 000:

– The largest source of additional employment has been the health care and social assistance industry – accounting for around 23 per cent of job growth over the period.

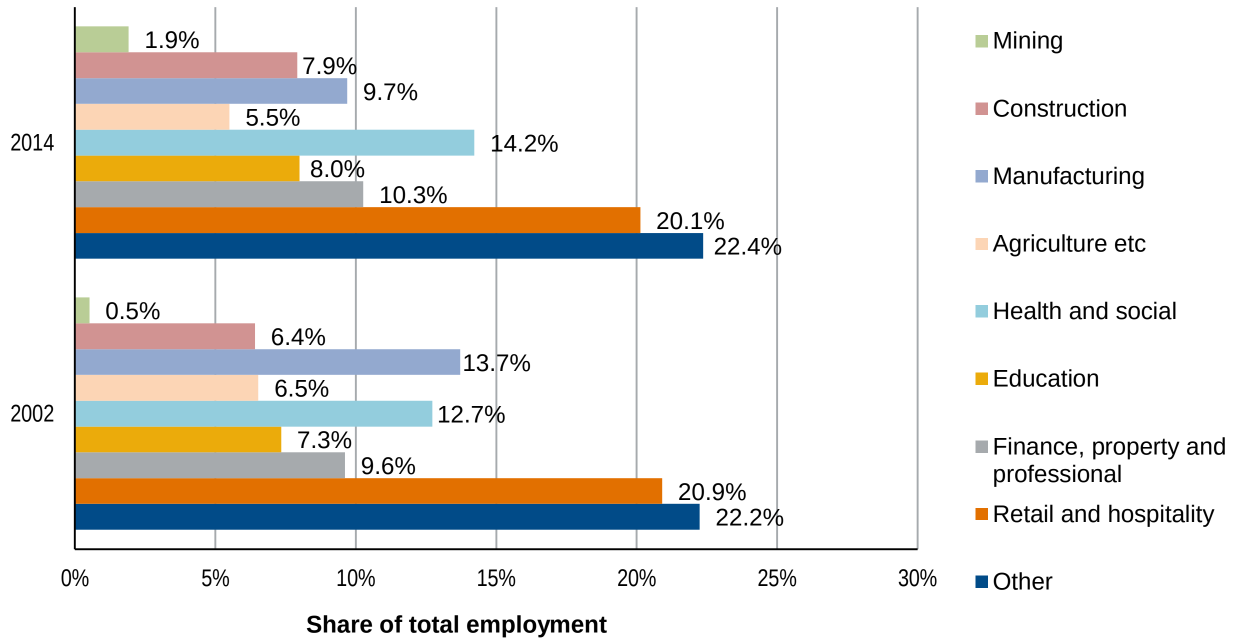
– The strongest rate of growth (13 per cent per annum) occurred in mining, although this remains a relatively small employer overall, accounting for just under 2 per cent of the overall employed workforce in the State.

– Strong growth in employment also occurred in construction, business and professional services and education.

– Retail and hospitality has also been a source of additional employment, although its share of the total employed workforce in the State has remained fairly stable at around 20 per cent.

– There has been a significant reduction in manufacturing jobs, which have fallen from just under 14 per cent of total employment in the State in 2002 to under 10 per cent in 2014.

Chart 7.5: Change in the composition of South Australian employment 2002 and 2014



Source: Australian Bureau of Statistics, Catalogue number 6291.0 - Labour Force, Australia, Detailed, Quarterly, November 2014.

The closure of the car industry and other pressures facing our manufacturing sector are likely to see a continuation of the decline in the relative importance of manufacturing as a source of employment. As with most developed nations, the service sector is likely to be the major source of future employment opportunities for South Australians. Projections prepared by the Training and Skills Commission indicate that over the next decade, health and education will continue to be key sources of jobs growth in South Australia, along with business services such as finance, property and the professions. Employment in manufacturing is projected to continue to decline.

The State Government has published a set of economic priorities which will underpin a vision of South Australia as the *Place Where People and Business Thrive.* These priorities recognise the potential that South Australia has to establish new growth opportunities in sectors such as mining, renewable energy, premium food, health care and research, international education and tourism. Creating new job opportunities in these and other sectors will require increased international engagement (though new trade opportunities and increased foreign investment), along with support for innovation and small business growth.

The Government has also established objectives to make South Australia the best place to do business through reforms to the planning system, improvements to our workers compensation and rehabilitation scheme, public sector reform and addressing roadblocks to major developments. Reform of the State taxation system will be a key part of our strategy to enhance the ability of businesses to invest and create new jobs in South Australia.

The industries and jobs of the future will be quite different to those of the past and we need to make sure that our tax system keeps pace with the changing nature of our economy. To attract new investment and create more jobs we need a tax system that supports those who are trying to create new opportunities that will provide jobs for South Australians. We also need to consider the impact that potential industry changes will have on tax revenue. For example, growth in health and education (where it operates on a not-for-profit basis) and broader structural changes in the economy away from larger employers to smaller new businesses could mean that less employment is subject to payroll tax over time.

Globalisation, innovation brought about by information technology, and increasing use of outsourcing mean that business activities are becoming more mobile around the world. In this environment there are also increased risks associated with relying on transaction based taxes that affect the business climate (e.g. stamp duties) and the taxation of industries that may move beyond the effective reach of State Governments (e.g. gambling).

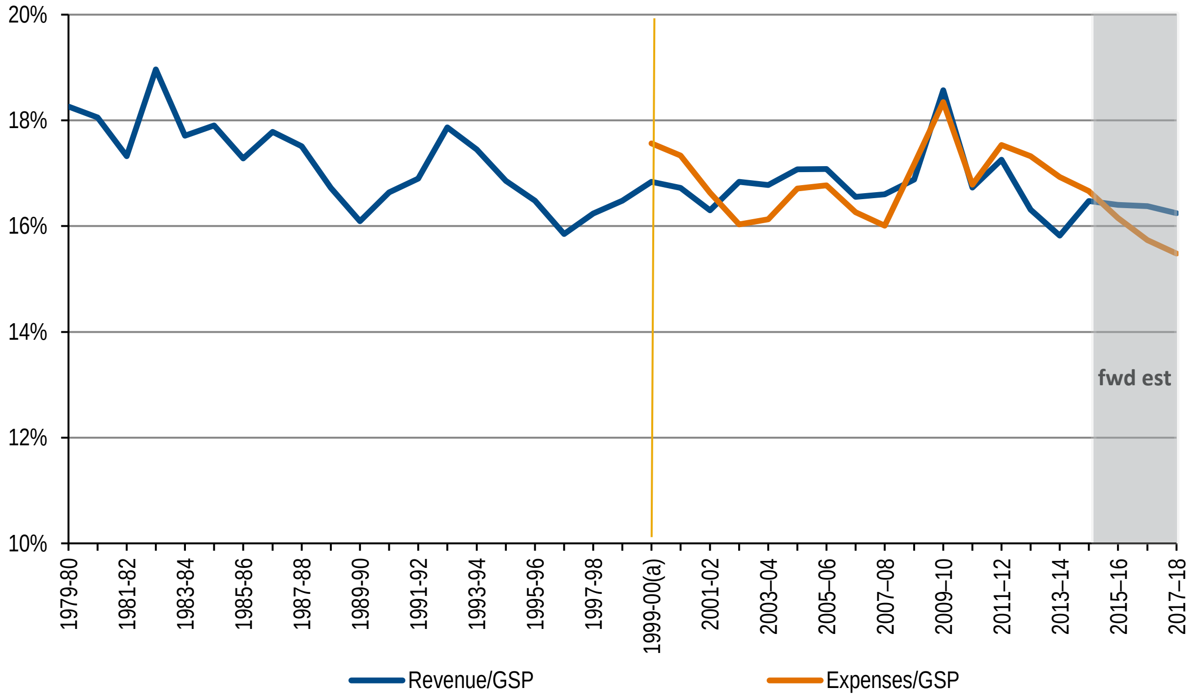
Maintaining liveability and developing human capital within the State to attract and keep viable businesses will add further pressure to Government expenditures. While we need a tax system that supports the growth of new business opportunities it also needs to provide enough revenue to fund high quality community services. Without sufficient revenue we will not be able to invest in the education of our young people and the infrastructure that supports our economy to grow.

7.4 Future fiscal pressures

The State needs to be in a strong fiscal position to provide for necessary investment in services and infrastructure, and to provide a buffer against potential future downturns. The global financial crisis (GFC) provides an example of the impact that unexpected events can have on the State's budget position.

Chart 7.6 shows the level of general government revenue and expenses as a percentage of gross state product (GSP) in South Australia as forecast in the 2014-15 Mid-Year Budget Review.

Chart 7.6: South Australian general government revenue and expenses as a percentage of GSP



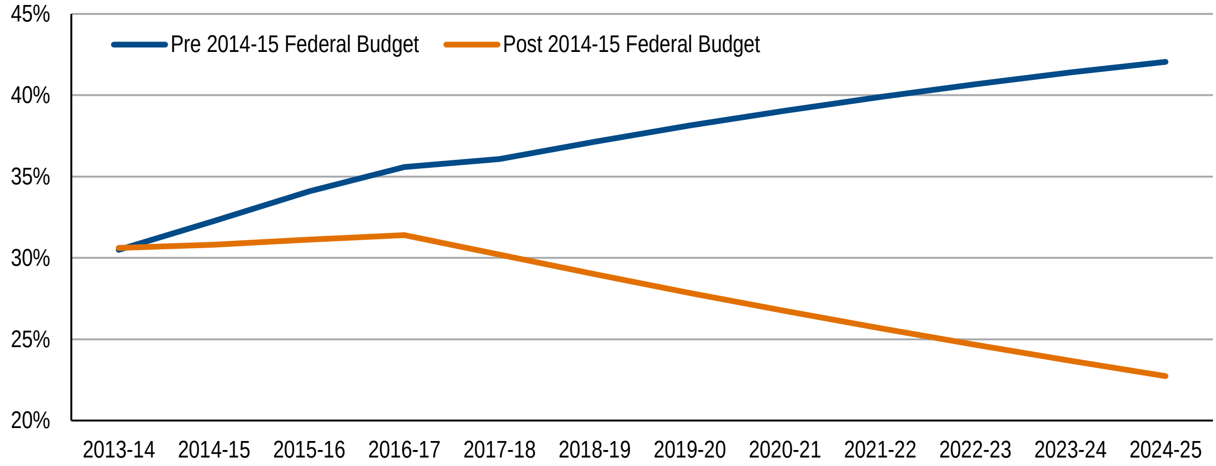
(a) There is a structural break in the series between 1998-99 and 1999-00 representing a shift from cash to accrual based estimates. Data for the years from 1999-00 onwards are accrual based estimates of revenue and expenditure. Data for the years prior to 1999-00 relate to receipts on a cash basis only. Information on expenditure prior to 1999-00 is not presented due to comparability issues between payments on cash basis and accrual estimates of expenditure.

Revenue as a percentage of GSP averaged around 16.8 per cent between 1999-00 and the GFC in 2008-09. Between 2009-10 and 2011-12 revenues increased as a result of temporary Commonwealth Government stimulus payments to fund infrastructure projects. Following the conclusion of stimulus funding, revenue as a percentage of GSP has been lower than levels experienced before the GFC and is not expected to exceed those previous levels over the forward estimates period under current policy settings. Revenue collections as a share of the economy are projected to decline from 2015-16.

Over the forward estimates period expenditure as a percentage of GSP is forecast to fall below 16 per cent due to the introduction of savings measures and ongoing restraint in expenditure growth. This ongoing restraint allows the budget to return to surplus over the forward estimates and is in line with the Government's commitment to reduce overall expenditure where possible, while still maintaining core services.

The ability to achieve ongoing restraint in expenditure growth over the longer-term (e.g. beyond the forward estimates period), however, may be more challenging given factors previously discussed, including demographic changes and the demand for quality services. These pressures are also occurring alongside changes to level of funding provided for services by the Commonwealth Government. For example, recent changes to previously agreed funding levels under the National Health Reform Agreement mean that the Commonwealth Government's estimated share of national hospital funding will fall from over 40 per cent of total expenditure to under 25 per cent by 2024-25.

Chart 7.7: Commonwealth Government's estimated share of national public hospital funding



Source: Based on Commonwealth of Australia data, Commonwealth Government 2014-15 Budget.

8 Discussion of options for State tax reform

This chapter provides a summary of the main findings and recommendations from a number of recent reviews into Australia's tax system, including the Commonwealth Government's *Australia's Future Tax System* (AFTS) report.

The chapter is not exhaustive nor does it in any way indicate the Government's intentions with respect to tax reform. It has been prepared to inform the community of some potential tax reforms that have been identified previously and the impacts that such reforms may have, and to assist parties considering possible tax reforms, including those making a submission to the review.

Reform options presented in this chapter focus on taxation reforms that the State Government could implement efficiently and effectively on its own. While the Government welcomes submissions on tax reforms that could be considered in a national context, as outlined in Chapter 3 'Federation arrangements and national reviews', the Government will raise tax reforms best considered at a national level as part of the Commonwealth Government's White Paper on Taxation Reform.

The Government has established a set of economic priorities which include an objective to make South Australia the best place to do business. Reforms to the State tax system will need to balance the need to promote growth in our economy and create jobs, while also ensuring that the State's revenues are sustainable now and in the future so that we continue to provide high quality community services including health, education and community safety and fund important infrastructure.

Where possible, submissions should prioritise reforms, particularly having regard to the objectives of the review, including promoting investment and job creation in the State.

8.1 Payroll tax

Payroll tax is a significant source of State tax revenue. It is also one of the more efficient and stable State taxes.

In recent years, State and Territory Governments have harmonised payroll tax legislation to make it easier for businesses that operate in multiple jurisdictions to comply with payroll tax regimes that operate across the nation.

While payroll tax is often seen by business as a tax on employment, studies on the impact of payroll tax, including AFTS, generally suggest that the burden of payroll tax is unlikely to be borne by business (in terms of lower profits) in the long-run. Instead the long run effect of payroll tax is likely to involve some combination of lower wages for employees and higher prices charged by firms who pay payroll tax.

The AFTS report found that payroll tax is more complex and less efficient than it could be due to the tax-free threshold and other exemptions that apply to payroll tax. The AFTS advocated that payroll tax should eventually be abolished and replaced with a cash-flow tax. The introduction of a cash-flow tax (and or changes to the GST) would need to be considered at a national level and therefore is not discussed in this chapter.

South Australia's payroll tax-free threshold not only benefits small businesses that fall below the $600 000 threshold and pay no tax. It also reduces the payroll tax paid by business above the threshold (by up to $29 700 per annum).

Recently some jurisdictions have introduced a phase out range for the tax-free threshold. In its 2014-15 Mid-year Financial Projections Statement, the Western Australian Government announced that from 1 July 2015, its payroll tax threshold would be phased out for employers with taxable payrolls between $800 000 and $7.5 million, with employers with taxable payrolls above $7.5 million being required to pay payroll tax on its entire payroll. Queensland and the Northern Territory also have a similar approach with respect to the tax-free threshold.

Phasing out the tax-free threshold would continue to provide small business with a concession from payroll tax but would remove (or partially remove) the benefit of the tax-free threshold for larger businesses. Although this type of reform to the tax-free threshold may not add to the efficiency of payroll tax, additional revenue raised from this reform could be put towards reforming other more inefficient State taxes.

The following tables provide information on the payroll tax base, some broad sensitivity analysis and a summary of the benefits and impacts associated with potential reforms. The Government is interested in receiving submissions on reforms that would ensure payroll tax is efficient, effective and supports business in the State.

Payroll tax base

Estimates	
Number of grouped employers that pay payroll tax	8 500[(a)]
Including grouped employers operating across multiple jurisdictions	*5 000*
ABS estimate of number of businesses in South Australia	145 000
0.5 percentage point change in payroll tax rate	+/-$12 million p.a.
$50 000 increase in the tax-free threshold	- $12 million p.a.
$50 000 decrease in the tax-free threshold	+$14 million p.a. (approx.)
Cost of the tax-free threshold for employers paying payroll tax	$130 million p.a.

(a) There are around 12 500 ungrouped employers that pay payroll tax in South Australia.

Summary of reform options

Reform option	**Benefits**	**Impacts**
Lower (remove) tax-free threshold and rate	Increased efficiency and equity	Small business commences paying payroll tax
Remove exemptions and lower rate	Increased efficiency and equity	Employers currently exempt from payroll tax will now be liable
Replace with cash-flow tax	Increased efficiency and equity	Difficult for State to implement individually
Phase out tax-free threshold above a certain payroll value	Increased revenue that could be put towards reform of other more inefficient taxes	May impact efficiency at the margin Large employers face increase in payroll tax up to $29 700 per annum

8.2 Conveyance duty

Conveyance duty is generally considered to be one of the least efficient taxes levied by the State. Revenue raised from conveyance duty is significant (around 22 per cent of total tax revenue) but it is also highly volatile (annual growth has ranged from negative 20 per cent to positive 42 per cent).

The stamp duty paid on purchases of residential properties accounts for about three quarters of conveyance duty revenues. The following table provides a summary of conveyance duty revenue received in 2013-14.

Conveyance duty transactions in 2013-14

Transaction type	**Number of transactions**	**Revenue ($m)**
Residential land	39 533	599
Non-residential land	6 095	101
Other non-residential non-land assets (e.g. business assets)	1 418	26
Other transactions[(a)]	n.a.	67
Total	**n.a.**	**793**

(a) Predominantly transactions that attract duty in excess of $1 million.

The reason why conveyance duty is considered to be inefficient is that it may reduce property transactions. For households, conveyance duty may make them less likely to move house, even when it may make sense for them to do so for work reasons or because it would suit them better (e.g. a family with young children moving to a bigger house or retirees moving to a smaller one). For businesses, conveyance duty may be a disincentive to purchasing a property to expand or restructure their business operations.

On the other hand, conveyance duty may have cash-flow advantages over an annual property tax. Conveyance duty is often paid when people have funds from the sale of a previous property or can be factored into the size of a bank loan.

Various reviews have called for conveyance duty to be abolished and replaced with a broad-based annual property tax. Replacing conveyance duty with another tax on property is generally considered most equitable as it would balance any impacts on asset prices associated with tax reform. A broad-based property tax is discussed in the next section.

The Government is interested in hearing views on whether conveyance duty is a barrier to business expansion and investment decisions.

The Government is also interested in hearing views as to whether reducing or eliminating conveyance duty on property transactions would benefit those seeking to purchase a property, including if property owners were required to pay an annual property tax, or whether it may result in more transactions which could push up property prices and undermine the benefits of any changes to conveyance duty.

8.3 Land tax

Land tax is viewed as an efficient tax base because there is a fixed amount of land and the tax cannot be avoided by shifting the location of land.

In practice, however, the AFTS report found that land tax is less efficient than it could be because it does not apply to all uses of land.

The Government recognises that taxes on land have the potential to be a very efficient source of revenue if they operate with no (or very few) exemptions. It is also the case that South Australia, like most Australian jurisdictions, does not rely heavily on land tax currently (private land tax represents only 8 per cent of total South Australian tax revenues). However, the Government is also mindful that any move to broaden the land tax base, or change to the way land tax is levied, may result in significant distributional impacts on the South Australian community.

The AFTS report noted that State Governments should focus on taxing immobile bases (e.g. land).

Some issues with land tax are:

- The significant exemptions
    - A broad-based property tax that applies to all land would be more efficient and could provide scope to abolish conveyance duty. However, there would be significant transitional issues with such a change, and the benefits to households in terms of housing affordability and choice, and to business investment (including primary production land), would need to be clearly demonstrated for the community to be convinced of the advantages of such a change.
- Progressivity
    - The progressive rate structure means that larger landholdings pay more tax than smaller ones. This has benefits in terms of equity. However, for a progressive rate structure to apply fairly, property holdings either need to be aggregated or progressive

rates need to apply on a different basis to the current practice of applying them to total land values, for example, on a rate per-square-metre basis.

– Aggregation

  ▪ Land tax is applied on the basis of the total land holdings of the person or business that owns land, rather than each individual property. Aggregating land holdings ensures that land holders are treated equitably where they have total land holdings of equal value. For example, a landowner with one property valued at $800 000 pays the same amount of land tax as a landholder who owns two properties valued at $400 000 each.

  ▪ It was suggested in AFTS that aggregation may act as an impediment to large-scale institutional investment in residential rental housing. AFTS recommended levying land tax based on a per-square-metre value of land as a way to retain some form of tax rate progressivity but remove aggregation.

These issues are explored in more detail below.

The following table provides summary information on the land tax base.

Private land tax base (2013-14)

Aggregate site value	Number of ownerships	Site value ($ billion)	Tax ($ million)
Below $316 000	179 575	25.4	—
Between $316 001 and $579 000	33 435	13.8	16.2
Between $579 001 and $842 000	9 281	6.4	29.3
Between $842 000 and $1.052 million	2 922	2.7	23.2
Above $1.052 million	4 725	11.1	277.6
Total	**229 938**	**59.4**	**346.3**

8.3.1 Aggregation

As has been mentioned previously, aggregation is necessary to ensure land holders are treated equitably under the existing application of the progressive land tax rate settings.

There is not a consistent approach to aggregation between Australian jurisdictions. In South Australia, all land held in a common ownership is aggregated. In New South Wales, Victoria and Queensland, land tends to be aggregated based on an individual's total interest in land rather than at the ownership level.

In the 2007-08 Budget, the South Australian Government introduced a land tax anti-avoidance measure to counter the practice of jointly holding land with small interests in order to avoid aggregation provisions. This measure took effect from 30 June 2008.

– The current land tax regime in South Australia (rates and approach to aggregation) creates an incentive for land holders to hold land in different ownerships in order to minimise their land tax liability.

– Land tax revenue has been impacted in recent years by property owners disaggregating their land holdings as opportunities permit. This has meant that land tax revenues have failed to grow in line with property value growth in recent years.

– Ideally a land holder's tax liability would not be affected by the structure of the land ownership.

Some land tax reform options to address aggregation could include:

– Abolish aggregation (estimated to cost around $130 million per annum).

  ▪ While this would simplify the land tax system, it would result in owners of multiple lower value land parcels paying a lower effective tax rate than an owner of a higher valued property – although the total value of both ownerships may be of equal value.

– Reform aggregation to adopt an approach similar to New South Wales, Victoria or Queensland.

  ▪ Reforming aggregation to adopt arrangements similar to New South Wales, Victoria or Queensland is likely to raise more tax revenue. Although the additional tax revenue is hard to quantify, it could be in the order of $30 million per annum. As part of this reform, the Government would need to consider how best to identify properties in joint ownership. One option could be for the Government to move to a self-assessment process rather than the current invoice approach. Any additional revenue arising from this reform could be used to fund other tax reform or to revise the existing land tax scales.

– Introduce a flat rate of land tax, with no (or a very low) tax-free threshold.

  ▪ Moving to a flat rate of land tax, on a revenue neutral basis, would require applying a land tax rate in the order of 0.6 per cent (assuming no tax-free threshold) on all land. The impact of moving to a flat land tax rate would be to increase the number of ownerships liable for land tax (from around 50 400 to 229 900), increase land tax payable on lower value properties/ownerships and significantly decrease the land tax payable on high value properties/ownerships.

  ▪ The following table compares, for selected site values, land tax that is currently payable to land tax that would be payable if a flat rate of 0.6 per cent applied.

Land tax payable at selected site values ($)

	Land tax payable		
Site value	**Current**	**Flat rate of 0.6 per cent**	**Change**
50 000	—	300	300
100 000	—	600	600
200 000	—	1 200	1 200
300 000	—	1 800	1 800
400 000	420	2 400	1 980
500 000	920	3 000	2 080
1 000 000	9 447	6 000	- 3 447
5 000 000	156 771	30 000	- 126 771
10 000 000	341 771	60 000	- 281 771
25 000 000	896 771	150 000	- 746 771
50,000,000	1 821 771	300 000	-1 521 771

– Move to applying land tax on a per-square-metre basis.

  ▪ Further information on this is provided in the following section.

The Government is interested in community views on progressivity. Does the community believe that landholders with a higher value of aggregate land holdings should pay proportionately more than landholders with more modest land holdings? If so, what is the best way to structure the land tax system to achieve this objective?

8.3.2 Levying land tax based on the per-square-metre value of land

AFTS suggested that marginal land tax rates should be levied based on the per-square-metre value of individual land parcels rather than an entity's aggregate land holdings.

Moving to taxing land on this basis will mean proportionally more land tax will be paid on land located in and around the Adelaide central business district, and other areas of the State where the land value per-square-metre is high (beach suburbs etc). Land that has a lower per-square-metre value may pay less land tax.

Under a per-square-metre value approach to taxing land, parcels of land with currently similar land values could pay significantly different amounts of land tax compared to both one another and the current land tax settings. The following table compares the land tax liability under the current land tax system with a value per-square-metre approach to taxing non-residential land, for commercial properties with site values of $2.0 million located in different parts of South Australia.

Per-square-metre comparison

Property location	Site value ($)	Capital value ($)	Site area (m^2)	Site value ($\$m^2$)	Conveyance duty ($)	Land tax: Current ($)	Land tax: Per square metre basis ($)
Adelaide	2.0 million	2.350 million	1 200	1 667	123 080	45 771	61 780
Prospect	2.0 million	4.900 million	5 500	364	263 330	45 771	36 075
Noarlunga	2.0 million	3.175 million	12 700	157	168 455	45 771	19 680
Berri	2.0 million	15.00 million	50 300	40	818 830	45 771	—

8.3.3 Broad-based property tax

Various tax reviews, including AFTS, have recommended that States make greater use of their land tax base, usually recommending that a broad-based property tax be introduced to replace conveyance duty. The broad-based property tax would include the principal place of residence as is the case for local government rates.

Replacing conveyance duty with a broad-based property tax creates a number of challenges for the community and may also have a significant impact on the Government's finances over the transition period.

Conveyance duty is expected to raise between $900 million and $1.2 billion each year over the forward estimates period, with around $200 million estimated to come from the transfer of non-residential assets (excluding primary production land).

Replacing conveyance duty with a broad-based property tax will mean that people will no longer pay a large tax amount when they purchase a new property, instead, all people, including those that have not moved for some time, will be required to pay an annual tax.

If an annual property charge was introduced on all properties to replace conveyance duty, the charge on a median valued home ($410 000) could be around $1200 per annum, depending on the approach taken to raise the required revenue.

The following table provides details on all South Australian land held by the private sector and gives an indication of the potential tax base that would be available under a broad-based property tax.

Private property in South Australia (2013-14)

	Number of properties	Site value ($ billion)	Current contribution to land tax ($ million)
Residential – principal place of residence	393 809	96.1	—
Residential – non-principal place of residence	244 523	41.0	72.9
Commercial	28 111	12.1	177.3
Industrial	6 403	2.9	45.8
Primary production	66 719	26.0	2.7
Vacant	40 736	6.3	41.4
Other	7 200	3.5	6.2
Total	**787 501**	**187.8**	**346.3**

A range of issues would need to be considered if the Government were to move to a broad-based property tax, including:

- would a proportional or progressive tax structure apply?
- would capital or land values be used?
- would an existing tax base e.g. land tax or ESL be used or would a new conveyance duty replacement tax base be created?
- would tax revenues be linked to certain expenditures, if so, what expenditures?
- what concessional arrangements would apply for pensioners and low-income earners?
- would the reform apply to all sectors (ie residential and non-residential)?

If conveyance duty was reformed for one sector only, it may be necessary to consider how certain land is treated, e.g. primary production land.

A range of transition issues would also need to be considered if the Government was to replace conveyance duty with a broad-based property tax.

Entities that have purchased property in recent years may be concerned that they will be taxed twice if they are required to commence paying a full annual property tax immediately after paying conveyance duty. An acceptable transition path would need to be established to address these concerns.

Transition mechanisms that have been suggested in previous tax reviews include:

- the annual property tax only applying after the property is transferred next; or
- the provision of credits for conveyance duty paid on recent property purchases that could then be put against future annual property tax liabilities.

Both of these transition mechanisms will have a large impact on the Government’s finances.

Depending on the approach taken to transition from conveyance duty to a broad-based property tax, the Government could face significant revenue shortfalls leading to increases in Government debt well in excess of $7 billion in the absence of any other measure to ameliorate the impact on Government debt (to put this into perspective, general government net debt is currently projected to be around $5.4 billion in 2017-18). This impact could not be absorbed within current budget parameters.

Consideration would also need to be given to the impact this reform will have on the property market, including that incentives are not created to delay property transfers.

Similar reforms that have commenced in the ACT allow for a 20 year transition period. Under this arrangement, conveyance duty is being gradually phased out over a 20 year period and replaced with higher annual property taxes (general rates). This transition method should not result in any detrimental impact on the State's finances but it would take time for any economic benefits of the reform to be fully realised.

In considering transition arrangements for this reform, key considerations would include:

– how can the new arrangements be implemented in a way that minimises the transition impact on property owners and the Government's financial position and is relatively easy to administer over the transition period?

– what is a reasonable transition time-frame?

– does the transition time-frame differ if the reform only applies to non-residential or residential properties?

Introducing a reasonably significant annual charge on property is likely to put a strain on homeowners with low and fixed incomes. Consideration would need to be given to the creation of a scheme that assists these households.

The Government is interested in hearing views about whether a broad-based property tax would be preferable to conveyance duty for housing or business purchases. If so, the Government is interested in how the transition issues covered in this section could be addressed.

The following table summarises the benefits and impacts associated with property tax reforms.

Summary of reform options

Reform option	Benefits	Impacts
Abolish conveyance duty and replace with a broad-based land tax	Increased efficiency and equity Revenue stability	All owners of property will pay an annual tax not just when they purchase property Significant transition impacts Community acceptance
Levy land tax based on the per-square-metre value of land	Increased efficiency through better targeting economic rent Better treatment for large scale investment in rental residential property	Significant change to the way land tax is levied Incidence impacts Community acceptance
Reform land tax aggregation	Increased equity and fairness	More complex to administer

8.3.4 Other changes to land tax

Land tax reforms that are often raised by the community include changes to existing land tax rates and scales, predominantly focussing on a reduction in the top marginal tax rate of 3.7 per cent.

The following table provides the broad costs and incidence effects from a variety of changes to land tax settings in South Australia.

Land tax options – estimated impact

Estimates	
Remove aggregation	-$130 million p.a.
Reform aggregation to be like NSW, Vic or Qld	$30 million p.a. (approx.)
Move to a flat rate land tax with no tax-free threshold (revenue neutral)	Rate of 0.6 per cent
Number of ownerships that benefit	*9 300*
Number of ownerships that are worse off	*220 600*
Including ownerships that currently fall under the $316 000 threshold	*179 500*
Lower the tax-free threshold by $50 000	$14 million p.a.
Lower top marginal tax rate from 3.7 per cent to 2.5 per cent	-$74 million p.a.
Number of ownerships that benefit	*4 700*
To be revenue neutral the tax-free threshold would need to be reduced to	$137 000
Number of ownerships that are worse off	*128 000*
Including ownerships that currently fall under the $316 000 threshold	*83 000*
Introduce a CBD cark park space levy	$30 million p.a.

8.4 Gambling taxes

Through the Government's regulation of gambling, the Government creates the opportunity for businesses that operate within the industry to make economic rent (more profit than possible in a competitive market). Taxing economic rent is considered to be highly efficient.

Revenue from gambling taxes contributes a large amount to the Government's finances each year (around $0.5 billion per annum).

Traditional gambling is increasingly subject to competition from online gambling operations, as well as changes in consumer preferences. This has two significant implications:

– increased competition may limit the economic rent available to operators of regulated gambling industries in the future; and

– ensuring that all online gambling operators are taxed equivalently to traditional operators is difficult.

AFTS recommended that Governments should ensure that gambling taxes appropriately capture the economic rent that is created through the Government's regulation of the industry and that gambling tax concessions for particular types of gambling should be removed.

The United Kingdom has recently changed its tax rules for different types of betting and gaming duties. The changes mean that these taxes will move from taxing based on 'place of supply' to being based on 'place of consumption' and may provide an important mechanism to ensure competitive neutrality between online gambling operators and traditional operators.

In South Australia, separate tax settings apply to gambling in hotels and clubs than to other forms of gambling. Gambling taxes that apply to the Adelaide Casino are negotiated with the Casino operator as are the taxes that apply to SA TAB and SA Lotteries.

SA TAB's current retail exclusivity arrangements will expire at the end of 2016. The Government is currently considering how best to structure future arrangements at the end of the exclusivity period.

On this basis, the only tax that could be considered for reform in the short to medium-term as part of this review is gaming machine tax for clubs and hotels.

The Government provides concessional tax rates to gaming that occurs in clubs relative to hotels. This concession is provided on the basis that these organisations provide opportunities and support for the community. The concessional tax rates applying to clubs are estimated to result in revenue foregone of around $8 million per annum.

Balancing the Government's regulatory role to limit problem gambling with the revenue the Government receives from gambling taxes is often viewed as a conflict for Government. The Government has separate revenue collection and regulatory roles to assist it in managing this perceived conflict. However, because gambling taxes are efficient, they are not likely to be an effective mechanism to mitigate the impact of problem gambling.

The following table provides a summary of the benefits and impacts of reforms to gambling tax.

Summary of reform options

Reform option	Benefits	Impacts
Move to taxing online gambling based on 'place of consumption' rather than 'place of supply'	Increase tax neutrality between traditional and online operators Better outcomes from Government regulation to mitigate problem gambling	Double taxation claims
Uniform gaming machine tax rates	Increased efficiency	Clubs will pay more tax than they currently do Government may be required to provide offsetting support to clubs

8.5 Insurance taxes

Taxes on insurance are amongst the most inefficient taxes levied by the Government. This is in part because they may lead to people and businesses underinsuring. However, revenue generated from these taxes is substantial (around $0.5 billion per annum).

AFTS, along with other tax reviews, recommended that taxes on insurance should be abolished and suggested that insurance products should only be subject to a broad-based consumption tax (GST).

For the State Government, the two most obvious replacement revenue sources are its property and payroll tax bases, although national tax reform may also provide an avenue for all Australian jurisdictions to move away from taxing insurance.

There is no perfect State revenue replacement for insurance taxes as insurance taxes are paid by homeowners, business and tenants and neither the payroll nor property base directly picks up all potential payers of insurance duty. The Government is interested in community views on insurance taxes, including how any revenue lost from reforming insurance taxes could be raised from a reformed State tax base.

The Commonwealth Grants Commission's assessment of tax effort (adjusted) found that South Australia's insurance tax effort is around 24 per cent above the national average. If South Australia was to move to an average tax effort for insurance taxes, it would cost in the order of $72 million per annum.

The following tables provide a summary of insurance duty revenue received in 2013-14 and possible reforms to insurance duty.

Insurance duty revenue in 2013-14 ($ million)

Insurance type	Revenue
General insurance	309
CTP renewal certificate	67
CTP insurance	52
Life insurance	7
Total	**435**

Summary of reform options

Reform option	Benefits	Impacts
Abolish	Increased efficiency	Large revenue impact if not offset by replacement revenues Replacement revenue will not be a perfect match for current incidence

8.6 Motor vehicle taxes

AFTS proposed major reform of road transport taxes, recommending that existing road transport taxes should move over time to user charging and broad-based taxes.

AFTS also recommended that motor vehicle taxes should only recover the costs necessary for road provision.

The Government believes that road user charging reform, especially with respect to heavy vehicles, is best considered in a national context.

Other reviews have identified replacing stamp duty on motor vehicle transfers with higher annual registration fees. Motor vehicle registration fees would need to increase by around $70 and $150 per annum for 4 and 6 cylinder vehicles, respectively, to enable stamp duty on motor vehicle registration transfers to be abolished with no impact on the budget.

Heavy vehicles that operate in the State do pay stamp duty on new and used vehicle transfers. As heavy vehicle registrations are currently set at a national level, it may be difficult to set different heavy vehicle registration fees to recover the cost of abolishing stamp duty from this sector.

8.7 Royalties

South Australia's royalty arrangements are very competitive when compared with other jurisdictions, mainly because some new South Australian mines pay reduced rates of royalties during the first five years of their operation.

The South Australian Government did increase some royalty rates in the 2009-10 and 2014-15 Budgets. Given the riskiness of mining investments and the need for certainty, the Government believes that there is a risk that frequent adjustments to royalty rates may threaten investment in our resources sector.

A reform often raised in relation to mining taxation is the introduction of a profits based tax, which is considered to be more efficient than ad valorem based royalties which are based on the value of resources sold (without considering the profitability of the resource). The AFTS recommended the introduction of a uniform resource rent tax imposed and administered by the Commonwealth Government.

A rent tax could generate more revenues as commodity prices increase, compared with royalties based on gross sales. While rates of royalties can be increased by State Governments on a discretionary basis to try and capture some of the wind-fall gains when commodity prices are high, this may not occur on a timely basis and be readily calibrated to particular mining operations. A rent tax would also generate less revenue when commodity prices fall and would be a more volatile source of revenue.

There are also a number of complications with mining rent taxes, including how to allow for risk in upfront capital project expenditures in deductible costs, and the transfer of costs and losses from exploration and other mining projects.

Ad valorem based royalties are simpler to administer, are accepted by the mining industry, result in returns to the State as soon as production commences and are a more stable revenue source for a State Government.

Initiative such as the minerals new mine rate and the proposed royalty deferral scheme for gas sourced from unconventional reservoirs are a reflection of how the current royalty rate structure has been able to take into account start-up costs, emerging costs and revenue developments in particular circumstances.

Appendix A Summary of State taxes

A.1 South Australia's current taxes

The State Government collects revenue from over 15 different taxes. The following section summarises the majority of these taxes.

A.1.1 Payroll tax

Payroll tax is generally paid monthly by employers based on the total wages paid in the previous month. If the employer is a member of a group, the total Australian wages paid or payable by all members of the group determines whether the employer will be liable for payroll tax.

The payroll tax base includes ordinary wages, employer-funded superannuation benefits, eligible termination payments and the grossed up value of fringe benefits, but excludes WorkCover premiums.

Wages paid by certain organisations are exempt including most non-profit organisations run for a charitable purpose, and religious or public benevolent institutions.

The payroll tax rate is 4.95 per cent and is levied on an employer's total South Australian taxable wages above $600 000.

In 2013-14 and 2014-15 the Government provided a small business payroll tax rebate for employers with taxable payrolls less than or equal to $1.2 million. A tax rebate of 2.45 per cent applied for payrolls between $600 000 and $1 million, and the rebate was progressive phased out for payrolls between $1 million and $1.2 million, with no rebate provided on payrolls above $1.2 million. For each of these years the rebate was calculated based on the prior year's payrolls.

From 1 July 2009, South Australia introduced harmonised legislation designed to simplify administration and reduce red tape for those organisations that operate across multiple jurisdictions. The harmonisation of payroll tax legislation by most jurisdictions means that the payroll tax legislation has the same rules although tax rates and thresholds still differ between jurisdictions.

A.1.2 Property taxes

Conveyance duty on property transfers

Conveyance duty on property transfers is generally paid by the purchaser on the transfer of property (land, buildings, statutory leases and licences – such as mining leases, taxi licences, aquaculture leases – and the sale of business assets including goodwill).

Conveyance duty is a progressive tax. Conveyance duty rates are summarised in the following table.

Property value ($)			**Conveyance duty payable**
0	to	12 000	1.00%
12 001	to	30 000	$120 + 2.00% on excess
30 001	to	50 000	$480 + 3.00% on excess
50 001	to	100 000	$1 080 + 3.50% on excess
100 001	to	200 000	$2 830 + 4.00% on excess
200 001	to	250 000	$6 830 + 4.25% on excess
250 001	to	300 000	$8 955 + 4.75% on excess
300 001	to	500 000	$11 330 + 5.00% on excess
	Above	500 000	$21 330 + 5.50% on excess

An exemption applies for primary production land transferred between relatives (transfers of 'family farms').

A partial stamp duty concession applies to purchases of off-the-plan apartments in the Adelaide City Council area and certain inner metro areas. This concession applies to all contracts entered into between 1 July 2014 and 30 June 2016.

Depending on how business assets are transferred, the transfer may be subject to share duty instead of conveyance duty. Where share duty applies but the business has large South Australian landholdings, conveyance duty landholder provisions may apply. Under these provisions, if control of an entity changes and that entity holds South Australian land worth over $1 million, conveyance rates of duty will apply to all the South Australian land assets being transferred. Entities listed on the stock exchange are included in these landholder provisions but duty for these entities is applied at a concessional rate of 10 per cent of the amount that would otherwise be charged.

Land tax

Land tax is levied annually on the site value of taxable land and is generally paid by the land owner. If a land owner owns more than one taxable property, the site values of all taxable properties owned are added together with the tax calculated on the total site value of all properties held by that ownership.

Under the *Residential Tenancies Act 1995,* landlords are responsible for the payment of any land tax and are unable to explicitly pass the charge onto tenants.

Land tax exemptions apply for certain properties, subject to various conditions being met, including the principal place of residence, primary production land, land used for charitable, benevolent, religious or philanthropic purposes, state subsidised hospitals, libraries, parklands, conservation of native flora and fauna, and sporting activities.

Land tax is a progressive tax, with higher marginal tax rates applying the greater the value of land owned. The tax brackets have been subject to annual adjustment since 2010-11 to take into account how property values are changing. Prior to this, the tax brackets were not automatically changed, and land owners could be pushed into higher tax brackets solely because of the general rise in property values.

The land tax rates applying to the 2014-15 land tax year are provided in the following table.

Site value ($)			**Land tax payable**
0	to	316 000	Nil
316 001	to	579 000	0.50% on excess
579 001	to	842 000	$1 315 + 1.65% on excess
842 001	to	1 052 000	$5 654.50 + 2.40% on excess
	Above	1 052 000	$10 694.50 + 3.70% on excess

Emergency services levy (ESL) on fixed property

The fixed property ESL is an annual levy on property that funds emergency services across South Australia.

The ESL is designed to fund the full cost of emergency services in South Australia. All monies raised from the ESL are paid into the Community Emergency Services Fund and can only be used for the purposes prescribed in the *Emergency Services Funding Act, 1999.*

Organisations funded by the ESL include the Metropolitan Fire Service, Country Fire Service, State Emergency Service and Volunteer Marine Rescue as well as rescue services provided by the South Australian Police, Surf Life Saving SA and the State Rescue Helicopter.

The fixed property ESL comprises a flat fee (generally $50) and a variable fee that is based on the capital value of the property.

ESL bills vary depending on the regional location of the land and what the land is used for.

People who receive an eligible Centrelink benefit or hold a Commonwealth Seniors Health Card receive a general remission on their ESL bills for their principal place of residence, and are also eligible for a further concession of up to $46.

The 2014-15 fixed property ESL rates are provided in the following table.

	Regional area 1		Regional area 2		Regional area 3		Regional area 4 (metropolitan Adelaide)	
	Fixed	Variable[(a)]	Fixed	Variable[(a)]	Fixed	Variable[(a)]	Fixed	Variable[(a)]
Residential	$50	0.0382%	$50	0.0239%	$0	0.0048%	$50	0.0477%
Residential – concession[(b)]	$50	0.0083%	$50	0.0052%	$0	0.0010%	$50	0.0104%
Commercial	$50	0.0996%	$50	0.0623%	$0	0.0125%	$50	0.1245%
Industrial	$50	0.1732%	$50	0.1083%	$0	0.0217%	$50	0.2165%
Other	$50	0.0477%	$50	0.0298%	$0	0.0060%	$50	0.0596%
Primary Production	$50	0.0286%	$50	0.0179%	$0	0.0036%	$50	0.0358%
Vacant Land	$50	0.0286%	$50	0.0179%	$0	0.0036%	$50	0.0358%
Special Community Use	$20	0.0095%	$20	0.0060%	$0	0.0012%	$20	0.0119%

(a) Variable rate applies to the non-discounted capital value of the property.

(b) Pensioners and concession car holders who are eligible for the concessional ESL rate on their principal place of residence will also receive a concession of up to $46, which is not included in table.

Save the River Murray Levy

The Save the River Murray Levy is paid by all SA Water customers that are able to be supplied with River Murray water.

SA Water collects the levy on behalf of the Government and all levy proceeds are transferred to the Save the River Murray Fund.

The levy is a flat charge that varies based on property type. The levy is indexed annually to the movement in the Adelaide consumer price index. 2014-15 levy amounts are provided in the following table.

Property type	2014-15 levy (per account)
Residential	$40
Non-residential	$180
Special category[(a)]	$40
Farming properties:	
Land holdings of 10 hectares or more	$180
Single Farming Enterprises with multiple water accounts	$180
'Supply by measure' customers	$40
Land holdings less than 10 hectares	$40

(a) Special category includes: charitable organisations, public places of worship, schools and non-profit organisations.

Regional natural resource management (NRM) levies

NRM boards are responsible for managing and protecting each region's natural resources.

NRM levies are an annual charge paid by property owners and water licence holders to fund the activities of the eight regional NRM boards, with the levies collected by councils on behalf of the NRM boards.

The amount of the levy is set by the relevant NRM board to fund a proportion of the board's activities. Fees can vary within the region (by council area) for property owners, and water licence type.

The average fee payable on a median valued property ($410 000) located within the Adelaide and Mount Loft Ranges NRM region was around $38 in 2013-14. The average levy was around $43 for properties located within the Murray Darling Basin NRM region.

Share duty

Share duty is generally payable by the purchaser on the transfer of shares not listed on the Australian Stock Exchange. The share duty payable can be offset against any duty that is payable on the transfer of land assets of the business under the landholder model provisions for conveyance duty on property transfers.

Share duty applies at a rate of 0.6 per cent of market value.

A.1.3 Gambling taxes

Taxes on gaming machines in hotels and clubs

Hotels and clubs pay gaming machine tax based on annual net gambling revenue (NGR) of the hotel or club's gaming machines. The tax is applied per licenced premises. The tax is paid monthly with the amount payable based on the venue's previous month's gaming activity.

NGR is calculated as the total amount of all bets made on gaming machines in the licensed premises over a period less the total amount of all prizes won on the machines during the same period. The following table summarises the progressive rates that apply to gaming machine activity in hotels and clubs.

Annual NGR	**Tax rate**	
	Clubs and not-for-profits	**Hotels**
$0 - $75 000	Nil	Nil
$75 001 - $399 000	21% on excess	27.5% on excess
$399 001 - $945 000	$68 040 + 28.5% on excess	$89 100 + 37% on excess
$945 001 - $1.5m	$223 650 + 30.91% on excess	$291 120 + 40.91% on excess
$1.5m - $2.5m	$395 200 + 37.5% on excess	$518 170.50 + 47.5% on excess
$2.5m - $3.5m	$770 200.50 + 47% on excess	$993 170.50 + 57% on excess
Above $3.5m	$1 240 200.50 + 55% on excess	$1 563 170.50 + 65% on excess

Casino duty

Different tax rates apply to each type of gambling activity undertaken at the Adelaide Casino. The following table summarises the tax rates that apply to the Adelaide Casino.

	Gaming machines	**Table games and other gambling**
Normal gaming	41.0%[(a)]	3.41%
Premium gaming	10.91%	0.91%[(b)]
Automated gaming	n.a.	10.91%

(a) 41 per cent is the maximum tax rate which may be payable in any given year during the period.

(b) Less approved deductions for costs to attract premium customers.

SA Lotteries

Tatts Lotteries, the master agent of SA Lotteries' brands and products, is liable to pay tax on its lottery NGR.

The tax rate is 41 per cent of NGR.

SA TAB distributions

Tax paid by the SA TAB currently includes a fixed annual amount of $3 million, payable until 30 June 2016, and a 6 per cent tax on the NGR associated with its sports betting operations only.

From 1 July 2016, a 6 per cent tax will be payable on the NGR associated with its sports betting operations only.

The wagering tax on SA TAB race betting operations was abolished on 1 July 2012 and replaced with correspondingly higher distributions from the SA TAB to the racing codes.

SA TAB's current retail exclusivity arrangements will expire at the end of 2016. The Government is currently considering how best to structure future arrangements at the end of the exclusivity period.

A.1.4 Insurance taxes

Taxes on insurance include stamp duty on insurance premiums (including life insurance, general insurance and compulsory third party (CTP) insurance) as well as a flat stamp duty charge on CTP insurance renewal notices. Stamp duty is not applied to health insurance premiums.

Stamp duty on insurance policies is paid by insurers on the value of insurance premiums received. In general, insurance providers pass on the costs of insurance duty through an explicit charge on insurance premiums. The stamp duty rates that apply to insurers are provided in the following table.

Type of insurance	Rate of duty
General	11% of premium
Compulsory Third Party (CTP)	11% of premium
Life insurance	1.5% of premium
Renewal certificate for CTP Insurance	$60 p.a. (flat rate)

Where duty rates are set as a percentage of the premium, GST inclusive premiums are used.

A.1.5 Motor vehicle taxes

Registration fees

The *Motor Vehicles Act 1959* requires that all motor vehicles that travel on a public road are registered.

Vehicles can be registered for periods of 3 or 12 months, and the registration fee varies based on the number of cylinders the vehicle has (or the size of the engine for motor cycles). Motor vehicle registration fees are provided in the following table.

Vehicle type	Registration fee 2014-15
Motor vehicle:	
Four cylinders or less	$115
Five or six cylinder	$237
Seven or more cylinders	$343
Light commercial vehicle:	
Mass between 1 001kg and 1 500kg	$255
Mass greater than 1 500kg	$436

Various fees are payable when a vehicle is registered including the registration fee, administration fee, compulsory third party (CTP) insurance premium, stamp duty on the CTP premium, Lifetime Support Scheme Levy, stamp duty on the CTP renewal certificate and the mobile property ESL.

Stamp duty on new registrations and ownership transfers

Stamp duty applies when the ownership of a motor vehicle changes including when a new vehicle is registered for the first time. The duty is paid by the person or firm applying to register or transfer the vehicle and is based on the value of the vehicle and whether it is a commercial or non-commercial vehicle.

When calculating stamp duty the value of a new motor vehicle is the recommended retail price or manufacturer's list price (including GST and luxury car tax where applicable). This value is applicable for all new motor vehicles of the same make and model at a given date.

For second hand motor vehicles, stamp duty is calculated based on either the purchase price or the market value, whichever is higher.

The rate structure is provided in the following table.

Dutiable value	Stamp duty payable
Non-commercial vehicles:	
Up to $1000	1.0% (min $5)
$1001 to $2000	$10 + 2.0% on excess
$2001 to $3000	$30 + 3.0% on excess
Above $3000	$60 + 4.0% on excess
Commercial vehicles:	
Up to $1000	1.0% (min $5)
$1001 to $2000	$10 + 2.0% on excess
Above $2000	$30 + 3.0% on excess

ESL on mobile property

ESL on mobile property is levied at the time of initial registration or renewal of registration of motor vehicles and motor cycles. Recreational boats, trailers and caravans receive a full remission of their ESL.

Mobile property ESL rates are flat fee amounts that vary based on mobile property type. The following table summarises mobile property ESL rates that apply from 1 August 2014 (effective levy rate).

Mobile property type	Prescribed levy rate	Effective levy rate
Cars and larger motorcycles	$32	$32
Metropolitan primary production goods vehicle	$32	$12
Recreational boat	$12	$0
Trailers and caravans	$8	$0
Historic vehicles	$8	$8

Lifetime Support Scheme (LSS) levy

The Lifetime Support Scheme (LSS) levy is applied to all South Australian motor vehicle registrations, with the amount of the levy dependent on the class of vehicle being registered.

A duty rate of 11 per cent applies to the value of LSS revenue collected by the Lifetime Support Authority.

These costs are passed on to the owner of the vehicle through the total fee charged when the vehicle is registered.

A.1.6 Royalties

Royalties are the price mining companies pay the Government for mineral resources.

In South Australia two systems of mineral royalty collection are used, specific rates and ad valorem rates.

Ad valorem royalties are calculated as a proportion of the royalty value of the mineral and apply to minerals such as copper, iron ore, petroleum and uranium. New mines pay lower royalty rates for the first five years of their operation.

Specific rates are calculated as flat rates per tonne of mineral and apply to extractive minerals such as sand and gravel.

The following table summarises royalty arrangements applying in South Australia for selected resources mined.

Mineral	On-going rate	New mine rate
Copper		
Concentrate	5.0%	2.0%
Metallic form	3.5%	2.0%
Iron Ore	5.0%	2.0%
Gold		
Concentrate	5.0%	2.0%
Metallic form	3.5%	2.0%
Uranium	5.0%	2.0%
Petroleum (well head value)	10.0%	n.a.
Extractive minerals	55 cents per tonne	n.a.

A.2 Tax expenditures

The Government foregoes revenue each year through tax expenditures. Tax expenditures are reductions in tax revenue resulting from differential tax treatment where the difference constitutes a departure from the tax standard or benchmark. Tax expenditures include:

- tax exemptions;
- reduced rates of taxation;
- tax rebates or deductions; and
- the deferral of the payment of tax liabilities.

The key tax expenditures provided by the Government include:

Payroll tax:

- Threshold exemption (~$450 million p.a.) – Payroll tax is levied on wages paid by employers and is applied at a rate of 4.95 per cent above an annual threshold of $600 000. This threshold exemption results in a large number of small businesses not being liable for payroll tax. In addition, those businesses that are liable for payroll tax do not have tax liabilities in respect of annual wages below the threshold.

Land tax:

- Primary production exemption (~$430 million p.a.) – An exemption applies to land used wholly or mainly for the business of primary production and meeting certain other conditions.

- Principal place of residence exemption (~$265 million p.a.) – An exemption applies where the land in an ownership is the principal place of residence of the owner, the owner is a natural person, the buildings on the land have a predominately residential character, and less than 25 per cent of the total floor area of all buildings on the land are used for any business or commercial purpose (other than the business of primary production).

- Threshold exemption (~$200 million p.a.) – No tax is payable if the total taxable value of all land held in an ownership is less than the tax-free threshold level. The tax-free threshold is currently $316,000. A marginal tax rate structure applies above this threshold, with increasing marginal tax rates applied as the value of landholdings increase.

- Other exemptions (~$140 million p.a.) – Exemptions apply for land which meets certain criteria such as being used for religious purposes, state subsidised hospitals, libraries, parklands, conservation of native flora and fauna, sporting activities and so on.

Stamp duty:

- CTP exemption for pensioners and low income earners (~$13 million p.a.) – State concession card and Commonwealth pension card holders are exempt from the $60 stamp duty on compulsory third party insurance.

- Corporate reconstructions relief (~$10 million p.a.) – An exemption is available for businesses undertaking genuine corporate reconstructions, where there is no change in beneficial ownership.

- Family farm exemption (~$9 million p.a.) – An exemption applies for primary production land transferred between relatives.

Taxes on other property:

- Pensioner concessions on ESL (~$23 million p.a.) – Eligible pensioners and low income earners continue to receive an ESL remission on their principal place of residence, and also receive a concession of up to $46, on their principal place of residence.

- Save the River Murray Levy ($6 million p.a.) – Eligible pensioners and low income earners are exempt from the levy.

- Other ESL remissions on fixed property (~$5 million p.a.) – Reduced effective levy rates and/or fixed charge applies to certain land use types and for properties within certain regions.

- Mobile ESL remissions (~$3 million p.a.) – Remissions apply for ESL on certain classes of vehicles such as recreational boats, caravans and trailers, and primary production goods vehicles.

These tax expenditure estimates are based on the existing general structure of a tax being applied to those tax payers receiving a differential treatment and assume no change in tax payer behaviour. Therefore these estimates provide a broad indication of revenue foregone and may not equal the actual revenue that would be collected if the differential treatment was removed.

Appendix B Interstate comparisons

The following tables summarise, for a selection of key State taxes, the tax payable in each Australian jurisdiction. An interstate comparison of royalty arrangements is also provided.

New South Wales Treasury produces an annual *Interstate Comparison of Taxes* publication that provides detailed information on the rates of taxes and other levies applied by each jurisdiction. This publication can be accessed via the following link:

http://www.treasury.nsw.gov.au/Treasury_Research_Papers

B.1 Conveyance duty

CONVEYANCE DUTY PAYABLE ON SELECTED PROPERTY VALUES[(a)]

Property value	SA	NSW	Vic	Qld	WA *Residential*	Tas	NT	ACT
$	$	$	$	$	$	$	$	$
100 000	2 830	1 990	2 150	1 925	1 900	2 435	2 157	2 000
200 000	6 830	5 490	7 070	5 425	5 035	5 935	5 629	4 000
250 000	8 955	7 240	10 070	7 175	6 935	7 935	7 857	5 750
350 000	13 830	11 240	16 070	10 675	10 735	11 935	13 300	9 575
400 000	16 330	13 490	19 070	12 425	13 015	13 997	16 514	11 650
500 000	21 330	17 990	25 070	15 925	17 765	18 247	23 929	15 800
750 000	35 080	29 240	40 070	26 775	29 740	28 935	37 125	28 300
1 000 000	48 830	40 490	55 000	38 025	42 615	40 185	49 500	44 550
5 000 000	268 830	290 490	275 000	268 025	248 615	220 185	272 500	262 500
10 000 000	543 830	640 490	550 000	555 525	506 115	445 185	545 000	525 000

(a) The above table does not reflect any conveyance duty concessions available (e.g. first homebuyers).

CONVEYANCE DUTY PAYABLE ON SELECTED PROPERTY VALUES - principal place of residence[(a)]

Property value	SA	NSW	Vic	Qld	WA	Tas	NT[(b)]	ACT
$	$	$	$	$	$	$	$	$
100 000	2 830	1 990	2 150	1 000	1 900	2 435	—	20
200 000	6 830	5 490	6 370	2 000	5 035	5 935	—	20
250 000	8 955	7 240	8 870	2 500	6 935	7 935	857	20
350 000	13 830	11 240	13 870	3 500	10 735	11 935	6 300	20
400 000	16 330	13 490	16 370	5 250	13 015	13 997	9 514	20
500 000	21 330	17 990	21 970	8 750	17 765	18 247	16 929	9 477
750 000	35 080	29 240	40 070	19 600	29 740	28 935	30 125	28 300
1 000 000	48 830	40 490	55 000	30 850	42 615	40 185	42 500	44 550
5 000 000	268 830	290 490	275 000	260 850	248 615	220 185	265 500	262 500
10 000 000	543 830	640 490	550 000	548 350	506 115	445 185	538 000	525 000

(a) The above table does not reflect any conveyance duty concessions available (e.g. first homebuyers).

(b) New Homes only.

B.2 Land tax

LAND TAX PAYABLE ON SELECTED PROPERTY VALUES

Site value	SA	NSW	Vic	Qld		WA(a)	Tas	ACT
				Residential	*Commercial*			*Residential*
$	$	$	$	$	$	$	$	$
50 000	—	—	—	—	—	—	188	1 105
100 000	—	—	—	—	—	—	463	1 328
150 000	—	—	—	—	—	—	738	1 568
200 000	—	—	—	—	—	—	1 013	1 872
250 000	—	—	—	—	—	—	1 288	2 177
300 000	—	—	375	—	—	—	1 563	2 637
350 000	170	—	475	—	—	125	1 838	3 252
400 000	420	—	575	—	2 300	250	2 588	3 867
450 000	670	388	675	—	3 150	375	3 338	4 482
500 000	920	1 188	775	—	4 000	500	4 088	5 097
550 000	1 170	1 988	875	—	4 850	625	4 838	5 712
600 000	1 662	2 788	975	—	5 700	750	5 588	6 327
650 000	2 487	3 588	1 225	1 000	6 550	875	6 338	6 942
700 000	3 312	4 388	1 475	1 500	7 400	1 000	7 088	7 557
750 000	4 137	5 188	1 725	2 000	8 250	1 125	7 838	8 172
800 000	4 962	5 988	1 975	2 500	9 100	1 250	8 588	8 787
850 000	5 847	6 788	2 225	3 000	9 950	1 375	9 338	9 402
900 000	7 047	7 588	2 475	3 500	10 800	1 500	10 088	10 017
950 000	8 247	8 388	2 725	4 000	11 650	1 625	10 838	10 632
1 000 000	9 447	9 188	2 975	4 500	12 500	1 750	11 588	11 247
1 100 000	12 471	10 788	3 775	6 150	14 200	2 470	13 088	12 477
1 500 000	27 271	17 188	6 975	12 750	21 000	5 350	19 088	17 397
2 000 000	45 771	25 188	11 975	21 000	29 500	8 950	26 588	23 547
10 000 000	341 771	182 624	182 475	150 000	175 000	152 140	146 588	121 947
20 000 000	711 771	382 624	407 475	325 000	375 000	424 440	296 588	244 947

(a) Includes Metropolitan Regional Improvement Tax of 0.14 per cent for site values above $300 000.

B.3 Payroll tax

PAYROLL TAX SCALES

	SA	SA (w/rebate)[(a)]	NSW[(b)]	Vic	Qld[(c)]	WA	Tas[(d)]	NT[(e)]	ACT
Basic Rate	4.95%	4.95%	5.45%	4.85%	4.75%	5.50%	6.10%	5.50%	6.85%
Tax-free threshold	$600 000	$600 000	$750 000	$550 000	$1 100 000	$800 000	$1 250 000	$1 500 000	$1 850 000

(a) A small business payroll tax rebate of 2.45 per cent applied to payrolls in 2012-13 and 2013-14 between $0.6 million and $1.0 million, then reduces by 0.5 percentage points for every additional $50 000, with no rebate provided on payrolls above $1.2 million.

(b) A $5000 rebate is provided over two years for each additional FTE created and maintained by an employer over that period (Jobs Action Plan).

(c) For payrolls $1.1 million to $5.5 million, deduction of $1.1 million reducing by $1 for every $4 payroll exceeds $1 million. No deduction for payrolls over $5.5 million.

(d) A rebate will be provided for all new full or part-time positions created between 10 December 2012 and 30 June 2014 (maintained until 30 June 2015).

(e) For payrolls $1.5 million to $7.5 million, deduction of $1.5 million reducing by $1 for every $4 payroll exceeds $1.5 million. No deduction for payrolls over $7.5 million.

TAX PAYABLE AT SELECTED PAYROLLS

Annual Payroll	SA $	SA(w/rebate) $	NSW $	Vic $	Qld $	WA $	Tas $	NT $	ACT $
$500 000	—	—	—	—	—	—	—	—	—
$1 000 000	19 800	10 000	13 625	21 825	—	11 000	—	—	—
$2 000 000	69 300	69 300	68 125	70 325	53 438	66 000	45 750	34 375	10 275
$3 000 000	118 800	118 800	122 625	118 825	112 813	121 000	106 750	103 125	78 775
$5 000 000	217 800	217 800	231 625	215 825	231 563	231 000	228 750	240 625	215 775
$10 000 000	465 300	465 300	504 125	458 325	475 000	506 000	533 750	550 000	558 275
$20 000 000	960 300	960 300	1 049 125	943 325	950 000	1 056 000	1 143 750	1 100 000	1 243 275

AVERAGE TAX RATES

Annual Payroll	SA	SA (w/rebate)	NSW	Vic	Qld	WA	Tas	NT	ACT
$500 000	—	—	—	—	—	—	—	—	—
$1 000 000	1.98%	1.00%	1.36%	2.18%	—	1.10%	—	—	—
$2 000 000	3.47%	3.47%	3.41%	3.52%	2.67%	3.30%	2.29%	1.72%	0.51%
$3 000 000	3.96%	3.96%	4.09%	3.96%	3.76%	4.03%	3.56%	3.44%	2.63%
$5 000 000	4.36%	4.36%	4.63%	4.32%	4.63%	4.62%	4.58%	4.81%	4.32%
$10 000 000	4.65%	4.65%	5.04%	4.58%	4.75%	5.06%	5.34%	5.50%	5.58%
$20 000 000	4.80%	4.80%	5.25%	4.72%	4.75%	5.28%	5.72%	5.50%	6.22%

B.4 Stamp duty on motor vehicle registration transfers

	NEW CARS																
	Victoria		NSW		WA	South Australia		Queensland				Tasmania		NT	ACT		
Market value	Passenger	Other	Passenger	Non-passenger	Light vehicle	Standard vehicle	Commercial vehicle	Up to 4 cyl (2 rotors)	5-6 cyl (3 rotors)	7 or more cyl	Hybrids, electric	Passenger	Other	All	B-rated	C-rated or non-rated	D-rated
$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$
5 000	160	135	150	150	138	140	120	150	175	200	100	132	150	150	100	150	200
10 000	320	270	300	300	275	340	270	300	350	400	200	282	300	300	200	300	400
15 000	480	405	450	450	413	540	420	450	525	600	300	432	450	450	300	450	600
20 000	640	540	600	600	550	740	570	600	700	800	400	582	600	600	400	600	800
25 000	800	675	750	750	688	940	720	750	875	1 000	500	732	750	750	500	750	1 000
30 000	960	810	900	900	1 050	1 140	870	900	1 050	1 200	600	882	900	900	600	900	1 200
35 000	1 120	945	1 050	1 050	1 488	1 340	1 020	1 050	1 225	1 400	700	1 050	1 050	1 050	700	1 050	1 400
40 000	1 280	1 080	1 200	1 200	2 000	1 540	1 170	1 200	1 400	1 600	800	1 600	1 200	1 200	800	1 200	1 600
45 000	1 440	1 215	1 350	1 350	2 588	1 740	1 320	1 350	1 575	1 800	900	2 925	1 350	1 350	900	1 350	1 800
50 000	1 600	1 350	1 600	1 500	3 250	1 940	1 470	1 500	1 750	2 000	1 000	3 250	1 500	1 500	1 100	1 600	2 100
55 000	1 760	1 485	1 850	1 650	3 575	2 140	1 620	1 650	1 925	2 200	1 100	3 575	1 650	1 650	1 300	1 850	2 400
60 000	1 920	1 620	2 100	1 800	3 900	2 340	1 770	1 800	2 100	2 400	1 200	3 900	1 800	1 800	1 500	2 100	2 700
65 000	3 380	1 755	2 350	1 950	4 225	2 540	1 920	1 950	2 275	2 600	1 300	4 225	1 950	1 950	1 700	2 350	3 000
70 000	3 640	1 890	2 600	2 100	4 550	2 740	2 070	2 100	2 450	2 800	1 400	4 550	2 100	2 100	1 900	2 600	3 300
75 000	3 900	2 025	2 850	2 250	4 875	2 940	2 220	2 250	2 625	3 000	1 500	4 875	2 250	2 250	2 100	2 850	3 600
80 000	4 160	2 160	3 100	2 400	5 200	3 140	2 370	2 400	2 800	3 200	1 600	5 200	2 400	2 400	2 300	3 100	3 900
85 000	4 420	2 295	3 350	2 550	5 525	3 340	2 520	2 550	2 975	3 400	1 700	5 525	2 550	2 550	2 500	3 350	4 200
90 000	4 680	2 430	3 600	2 700	5 850	3 540	2 670	2 700	3 150	3 600	1 800	5 850	2 700	2 700	2 700	3 600	4 500
95 000	4 940	2 565	3 850	2 850	6 175	3 740	2 820	2 850	3 325	3 800	1 900	6 175	2 850	2 850	2 900	3 850	4 800
100 000	5 200	2 700	4 100	3 000	6 500	3 940	2 970	3 000	3 500	4 000	2 000	6 500	3 000	3 000	3 100	4 100	5 100

USED CARS

	Victoria	NSW		WA	South Australia		Queensland				Tasmania		NT	ACT*
Market value	All	Passenger	Non-passenger	Light vehicles	Standard vehicle	Commercial vehicle	Up to 4 cyl	5-6 cyl	7 or more cyl	Hybrids, electric	Passenger	Other	All	All
$	$	$	$	$	$	$	$	$	$	$	$	$	$	$
5 000	210	150	150	138	140	120	150	175	200	100	132	150	150	150
10 000	420	300	300	275	340	270	300	350	400	200	282	300	300	300
15 000	630	450	450	413	540	420	450	525	600	300	432	450	450	450
20 000	840	600	600	550	740	570	600	700	800	400	582	600	600	600
25 000	1 050	750	750	688	940	720	750	875	1 000	500	732	750	750	750
30 000	1 260	900	900	1 050	1 140	870	900	1 050	1 200	600	882	900	900	900
35 000	1 470	1 050	1 050	1 488	1 340	1 020	1 050	1 225	1 400	700	1 050	1 050	1 050	1 050
40 000	1 680	1 200	1 200	2 000	1 540	1 170	1 200	1 400	1 600	800	1 600	1 200	1 200	1 200
45 000	1 890	1 350	1 350	2 588	1 740	1 320	1 350	1 575	1 800	900	2 925	1 350	1 350	1 350
50 000	2 100	1 600	1 500	3 250	1 940	1 470	1 500	1 750	2 000	1 000	3 250	1 500	1 500	1 600
55 000	2 310	1 850	1 650	3 575	2 140	1 620	1 650	1 925	2 200	1 100	3 575	1 650	1 650	1 850
60 000	2 520	2 100	1 800	3 900	2 340	1 770	1 800	2 100	2 400	1 200	3 900	1 800	1 800	2 100
65 000	2 730	2 350	1 950	4 225	2 540	1 920	1 950	2 275	2 600	1 300	4 225	1 950	1 950	2 350
70 000	2 940	2 600	2 100	4 550	2 740	2 070	2 100	2 450	2 800	1 400	4 550	2 100	2 100	2 600
75 000	3 150	2 850	2 250	4 875	2 940	2 220	2 250	2 625	3 000	1 500	4 875	2 250	2 250	2 850
80 000	3 360	3 100	2 400	5 200	3 140	2 370	2 400	2 800	3 200	1 600	5 200	2 400	2 400	3 100
85 000	3 570	3 350	2 550	5 525	3 340	2 520	2 550	2 975	3 400	1 700	5 525	2 550	2 550	3 350
90 000	3 780	3 600	2 700	5 850	3 540	2 670	2 700	3 150	3 600	1 800	5 850	2 700	2 700	3 600
95 000	3 990	3 850	2 850	6 175	3 740	2 820	2 850	3 325	3 800	1 900	6 175	2 850	2 850	3 850
100 000	4 200	4 100	3 000	6 500	3 940	2 970	3 000	3 500	4 000	2 000	6 500	3 000	3 000	4 100

B.5 Motor vehicle registration and associated costs

6 CYLINDER CAR

			Compulsory third party				Lifetime Support Scheme					
	Registration Fee	Admin fee/ Other	Insurance premium excl. stamp duty(a)	Stamp duty on CTP insurance premium	Stamp duty fee on CTP renewal certificate	Emergency services levy	Levy excl. stamp duty	Stamp duty on LSS levy	Stamp duty on comprehensive insurance(b)	Total	Total less CTP premium and LSS levy (excl. stamp duty)	Total less CTP premium, LSS levy and stamp duty on comprehensive insurance
	$	$	$	$	$	$	$	$	$	$	$	$
SA	***237.00***	***7.00***	***333.33***	***36.67***	***60.00***	***32.00***	***95.50***	***10.50***	***93.50***	***905.50***	***476.67***	***383.17***
NSW(c)												
private	284.00	62.00	594.53 (d)	—	—	—	83.04 (d)	—	42.50	1 066.07	388.50	429.04
business	447.00	62.00	606.07 (e)	—	—	—	84.65 (e)	—	42.50	1 242.21	551.50	593.65
Victoria	270.40	—	443.00	44.30	—	—	—	—	85.00	842.70	399.70	314.70
Qld(f)	443.45	48.85	336.10 (g)	10 cents	—	—	—	—	76.50	905.00	569.00	492.50
WA(h)												
family	292.23	19.65	264.49	26.45	—	—	—	—	85.00	687.82	423.33	338.33
business	292.23	19.65	280.76	28.08	—	—	—	—	85.00	705.72	424.96	339.96
Tas	155.00	68.08	318.00	20.00	—	42.00	—	—	85.00	688.08	370.08	285.08

All rates quoted are for metropolitan areas. Rates may vary in some States for non-metropolitan areas.

(a) Assumes no input tax credit entitlement (ITC).

(b) Assumes premium of $850.

(c) Registration fee calculated by weight. Fee quoted is based on a 1500kg vehicle.

(d) CTP insurance premium figure quoted for private used is an average of insurers' quoted on the NSW Motor Accidents Authority website based on a passenger vehicle 8 years old registered in the Sydney metropolitan area for a male drivers 30 years of age. Lifetime care levy is a percentage of the CTP premium and dependant on location.

(e) CTP insurance premium figure quoted for business use is an average of insurers' quotes on the NSW Motor Accidents Authority website based on a passenger vehicle 8 years old registered in the Sydney metropolitan area for a male drivers 30 years of age. Lifetime care levy is a percentage of the CTP premium and dependant on location.

(f) $48.85 under the administration fee column is a traffic improvement fee.

(g) Average of 4 quotes – non-ITC entitled.

(h) Registration fee calculated by weight. Based on a 1500 kg vehicle. Private includes a $69 discount for the registration of a 'family' vehicle.

B.6 Gaming machine tax

GAMING MACHINE TAX PAYABLE

NGR/year		NSW[a][b]	QLD[a][c]	WA	SA	TAS[a]	NT[a]	ACT[d]	Average revenue/month[e]	Vic[a][f]
		$	$	$	$	$	$	$	$	$
$50 000	Clubs	—	7 254	No gaming machines	—	14 940	10 455	5 750	500	—
	Hotels	—	17 500		—	14 940	15 455	13 250		42
$100 000	Clubs	—	16 959		5 250	29 880	21 910	16 250	1 000	—
	Hotels	—	35 000		6 875	29 880	31 910	26 500		83
$250 000	Clubs	—	51 324		36 750	74 700	76 275	47 750	2 500	—
	Hotels	16 500	98 150		48 125	74 700	101 275	66 250		208
$500 000	Clubs	—	115 099		96 825	149 400	183 550	100 250	5 000	1 090
	Hotels	99 000	235 000		126 470	149 400	233 550	132 500		1 506
$1 000 000	Clubs	—	252 149		240 651	298 800	398 100	205 250	10 000	3 425
	Hotels	264 000	510 000		313 621	298 800	498 100	265 000		4 258
$5 000 000	Clubs	876 000	1 635 789		2 065 000	1 494 000	2 114 500	1 045 250	50 000	24 917
	Hotels	1 704 000	2 710 000		2 538 170	1 494 000	2 614 500	1 325 000		29 082
$10 000 000	Clubs	2 096 000	3 385 789		4 815 000	2 988 000	4 260 000	2 095 250	100 000	52 017
	Hotels	4 204 000	5 460 000		5 788 170	2 988 000	5 260 000	2 650 000		60 347

(a) Includes Community Support Levy / Community Investment Fund Levy.

(b) Clubs that earn gaming revenue of $1 million or less per annum are exempt from gaming tax, and clubs earning gaming revenue between $1 million and $1.8 million per annum face a 28.05 per cent gaming tax rate applicable to earnings in that threshold band only.

(c) Includes contributions to the Health Services Fund.

(d) Includes a problem Gambling Assistance Levy.

(e) Average monthly revenue per machine.

(f) Monthly tax per gaming machine.

GAMING MACHINE AVERAGE TAX RATES

NGR/year		NSW(a)(b)	QLD(a)(c)	WA	SA	TAS(a)	NT(a)	ACT(d)	Average revenue/month(e) $	Vic(a)(f)
$50 000	Clubs	—	15%	No gaming machines	—	30%	21%	12%	500	—
	Hotels	—	35%		—	30%	31%	27%		8%
$100 000	Clubs	—	17%		5%	30%	22%	16%	1 000	—
	Hotels	—	35%		7%	30%	32%	27%		8%
$250 000	Clubs	—	21%		15%	30%	31%	19%	2 500	—
	Hotels	7%	39%		19%	30%	41%	27%		8%
$500 000	Clubs	—	23%		19%	30%	37%	20%	5 000	22%
	Hotels	20%	47%		25%	30%	47%	27%		30%
$1 000 000	Clubs	—	25%		24%	30%	40%	21%	10 000	34%
	Hotels	26%	51%		31%	30%	50%	27%		43%
$5 000 000	Clubs	18%	33%		41%	30%	42%	21%	50 000	50%
	Hotels	34%	54%		51%	30%	52%	27%		58%
$10 000 000	Clubs	21%	34%		48%	30%	43%	21%	100 000	52%
	Hotels	42%	55%		58%	30%	53%	27%		60%

(a) Includes Community Support Levy / Community Investment Fund Levy.

(b) Clubs that earn gaming revenue of $1 million or less per annum are exempt from gaming tax, and clubs earning gaming revenue between $1 million and $1.8 million per annum face a 28.05 per cent gaming tax rate applicable to earnings in that threshold band only.

(c) Includes contributions to the Health Services Fund.

(d) Includes a problem Gambling Assistance Levy.

(e) Average monthly revenue per machine.

(f) Monthly tax per gaming machine.

B.7 Insurance duty

	STAMP DUTY ON INSURANCE							
	SA	NSW	VIC	Qld	WA	Tas	NT	ACT
Tax Base								
General Insurance	Premiums received							
Workers' Compensation	nil[(a)]	nil	nil	Premiums received	nil	nil	nil	nil
CTP Insurance	Premiums received							
Life Insurance	Premiums received	Sum insured	nil	Sum insured	nil	Sum insured	Sum insured	Sum insured
Duty Rate								
General Insurance	11%	9%[(c)]	10%	9%	10%	10%	10%	6%[(b)]
Workers' compensation	nil[(a)]	nil	nil	5%	nil	nil	nil	nil
CTP Insurance	11%	nil	10%	10c flat	10%	$20 flat	10%	nil
Life Insurance	1.50%	**0-2 000**	nil	**0-2 000**	nil	**0-2 000**	0.10%	**0-2 000**
		$1.00		0.05%		$0.10 for every $200		$0.40
		Over 2 000		**Over 2 000**		**Over 2 000**		**Over 2 000**
		$1 + $0.20 for every $200		$1 + 0.1% of balance		$1 + $0.20 for every $200		$0.40 + $0.08 per $200
	Riders: 11% of premium	Term, Temporary, Riders and Trauma/Disability: 5% of 1st year's premium	Riders: 10% of previous month's premiums.	Term or Temporary: 5% of 1st year's premium		Term or Temporary: 5% of 1st year's premium	Term or Temporary: 5% of 1st year's premium	Term, Temporary and Rider[(d)]: 2% of 1st year's premium

(a) Only for workers under 25 years old. Otherwise, general insurance tax base and duty rate applies.

(b) Includes insurance premiums in the event of the disablement of the insured by accident or sickness (not covered by life insurance).

(c) Other NSW insurance rates: 5 per cent for motor vehicle, aviation, disability income, occupational indemnity and hospital and ancillary benefits insurance; 2.5 per cent for crop and livestock insurance.

(d) Insurance in the event of the disablement of the insured by accident or sickness: 4 per cent of net premiums received.

B.8 Royalties

Commodity	SA On-going rate	SA New mine rate[(a)]	NSW	Vic	Qld	WA	Tas	NT
Copper								
Concentrate	5.0% (net)	2.0%	4.0% of ex-mine value (net)	2.75% (net)	2.5% to 5.0% (a processing discount applies)	5.0% of value	1.9% of net sales plus profit royalty up to a max of 5.35% of net sales	20.0% (net) less $50,000 royalty free threshold p.a.
Metallic form	3.5% (net)	2.0%	4.0% of ex-mine value (net)	2.75% (net)	As above	2.5% of value	As above	As above
Iron Ore	5.0% (net)	2.0%	4.0% of ex-mine value (net)	2.75% (net)	$1.25 per tonne plus 2.5% of value above $100 per tonne (a processing discount applies)	Beneficiated: 5.0% Other ore: 7.5%	As for copper	As for copper
Gold								
Concentrate	5.0% (net)	2.0%	4.0% of ex-mine value (net)	n.a.	2.5% to 5.0%	2.5% of value	As for copper	As for copper
Metallic form	3.5% (net)	2.0%	4.0% of ex-mine value (net)	n.a.	2.5% to 5.0%	2.5% of value	As for copper	As for copper
Uranium	5.0% (net)	2.0%	Prohibited	Prohibited	5.0% up to $220 per kg and 10% for value above $220 per kg (a royalty free threshold of $100,000 p.a. applies)	5.0% if sold as a uranium oxide concentrate 3.5% of the free on board value	As for copper	5.5% of value
Petroleum (well head value)	10.0% (net)	n.a.	10.0% (net)	10.0% (gross)	Lesser of 10% or WTI% formula[(b)]	10.0% to 12.5% of value (net)	12.0% (gross)	10.0% (gross)
Extractive minerals	55 cents per tonne	n.a.	0-70 cents per tonne	87 cents per tonne	50 cents per tonne	62 cents per tonne	66 cents per tonne	[(d)]

(a) Available for the first 5 years of the mine's life.

(b) $WTI\% = \left(\left[\frac{CPI_{base}}{CPI_{now}} \times WTI\right]^2 \div 1000\right) + 0.5$. Where CPI base is 61.2, CPI now is the CPI for the relevant calendar quarter and WTI is the average crude oil price.

(c) Royalty is paid as a percentage of net sales and of profit. 1.9 per cent of net sales plus profit (only where net sales are less than $100 000 per annum). A rebate of up to 20.0 per cent is available for the production of a metal within the State. Maximum royalty payable is 5.35 per cent of net sales.

(d) Either no royalty payable or the same as copper. Extractive minerals that are authorised to be recovered under the terms of an extractive mineral permit, an extractive mineral lease or an authorisation to occupy an extractive mineral lease (or a mineral authority that corresponds to an extractive permit or an extractive mineral lease) that has been granted under the relevant Northern Territory mining legislation, are not subject to royalties. Extractive minerals that are authorised to be recovered under the terms of a mineral lease or mineral claim (prior to conversion to a new mining title under the *Mineral Titles Act 2010 (NT))* that has been granted under the relevant Northern Territory mining legislation are subject to royalties.

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