

# Overview - State Tax Review Discussion Paper

FEBRUARY 2015



Government of  
South Australia



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## Why Are We Reviewing Our State Tax 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

**Why Are We Reviewing Our State Tax System?** continued

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.

## 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:

### Revenue

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

### Business

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.

### Households

Our tax system should be fair and have regard to people's ability to pay.

### Efficiency

Our tax system should collect revenue as efficiently as possible.

### Stability

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.

## National Reviews

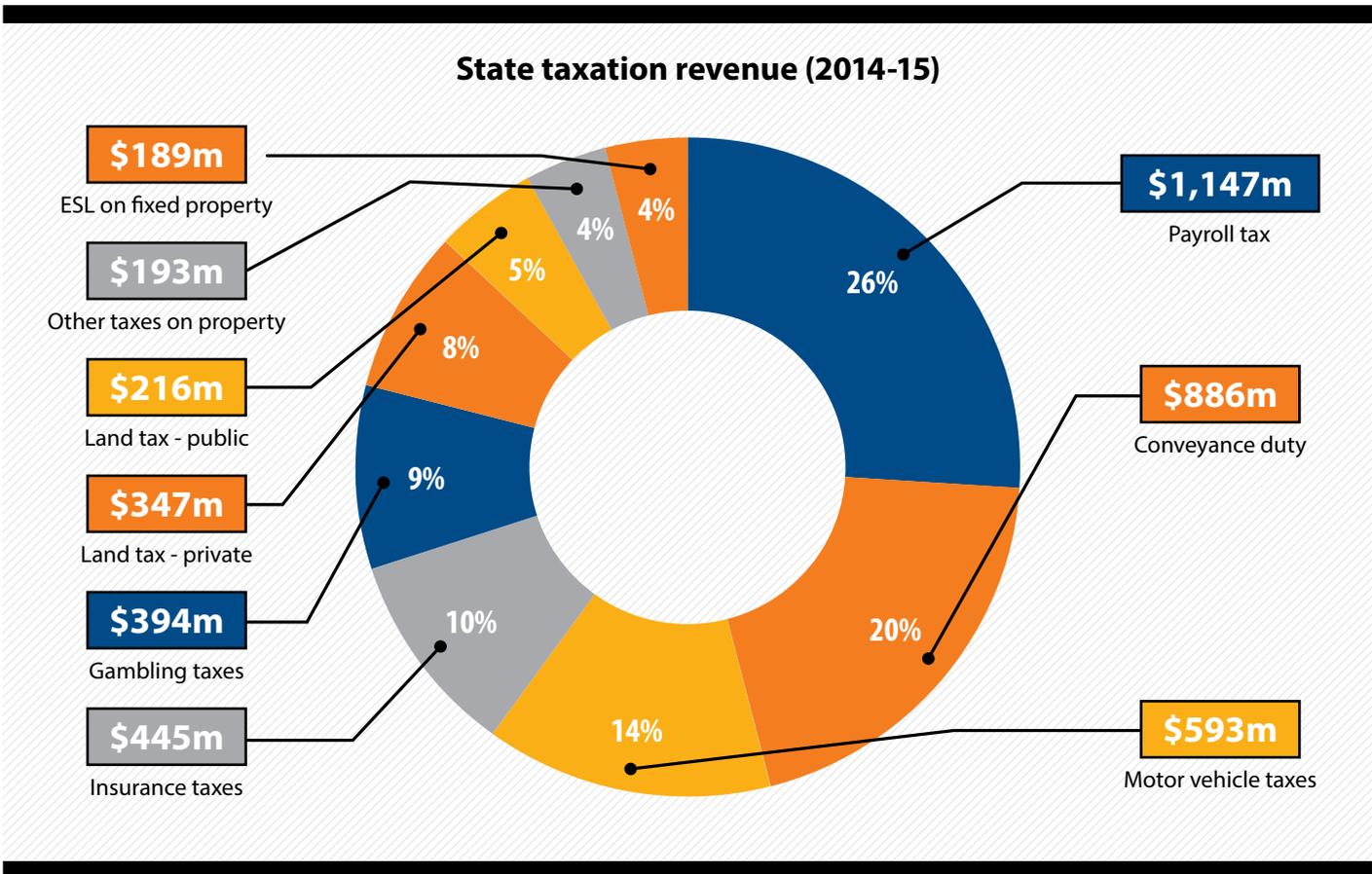
The Commonwealth Government is undertaking two major and related reviews – *the White Paper on the Reform of Australia’s Tax System* and *the Federation White Paper*. These reviews may have implications for the future reform of taxes at a State level, either through the level of services to be funded by the States or the mix of funding provided by the Commonwealth to fund 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 it can be a substantive and

effective contributor to discussion of national tax reform options. It will also allow us to enter the national debate in an informed way knowing what South Australian’s think and what their priorities are.

The Government welcomes submissions on tax reforms that could be considered in the national context as part of this review, but will raise these reforms as part of the Commonwealth Government’s White Papers.

# What Does Our Current State Tax System Look Like?

It is expected that we will collect \$4.4 billion in State taxes in 2014-15, around 27 per cent of total revenue collections.



**Payroll tax** is paid by employers. It is levied at a rate of 4.95 per cent on an employer's total South Australian taxable wages above \$600,000.

**Conveyance duty** is paid by purchasers of property, including residential, commercial, industrial and other properties and business goodwill, and is based on the value of the property transferred. Higher rates of tax apply to higher valued property transfers. A median price house (\$410,000) is subject to conveyance duty of \$16,830, and a \$1 million office block would attract conveyance duty of \$48,830.

**Land tax** is paid by residential landlords and owners of commercial, industrial and some other property. The family home and farms do not pay land tax. Land tax is paid on the site value of the land. Higher tax rates apply for larger, more valuable landholdings, with tax calculated on the total value of all taxable property held by an owner above \$316,000.

**Insurance duty** is paid by insurers on the value of premiums received for life, general and compulsory third party insurance. A flat stamp duty charge is also applied to compulsory third party insurance renewal notices.

Providers generally pass on the cost of insurance duty through an explicit charge on insurance premiums.

**Gambling taxes** are paid by providers of gambling services, including hotels and clubs with gaming machines, the Adelaide Casino, SA Lotteries and the SA TAB. Tax rates are applied to the net gambling revenue of the operators.

**Motor vehicle taxes** are paid by owners of motor vehicles and include stamp duty on new registrations and transfers, registration fees and the emergency services levy on mobile property.

## How Do We Compare?

In general, most States have quite similar tax systems. However, the rates and exemptions applied to taxes can differ.

### Summary of interstate comparisons – ranking of 1 equals lowest

	Tax as a % of GSP	Tax per capita	Commonwealth Grants Commission tax effort ratio	Pitcher Partners (large business)	KPMG Competitive Alternatives*
	2013-14	2013-14	2012-13	2013-14	2014
NSW	8	6	7	5	4
Vic	7	5	6	2	2
Qld	=5	4	2	3	3
WA	2	8	4	4	na
SA	=5	3	8	1	1
Tas	4	1	3	na	na
ACT	3	7	5	na	na
NT	1	2	1	na	na

\* 2014 Edition, "Focus on Tax" Supplement.

## How Do We Compare? continued

Tax competitiveness varies depending on the tax and the approach to measuring competitiveness.



The most significant recent reform to State taxes is being undertaken by the Australian Capital Territory. They are increasing general rates (broadly equivalent to council rates in South Australia) over a twenty year

period to fund the phased abolition of conveyance duty and insurance duty, a reduction in land tax for certain property types and an increase in the payroll tax threshold.

## The Economic Impact Of State Taxes

Taxes influence the behaviour of businesses and individuals. These changes in activity can leave the economy worse off.

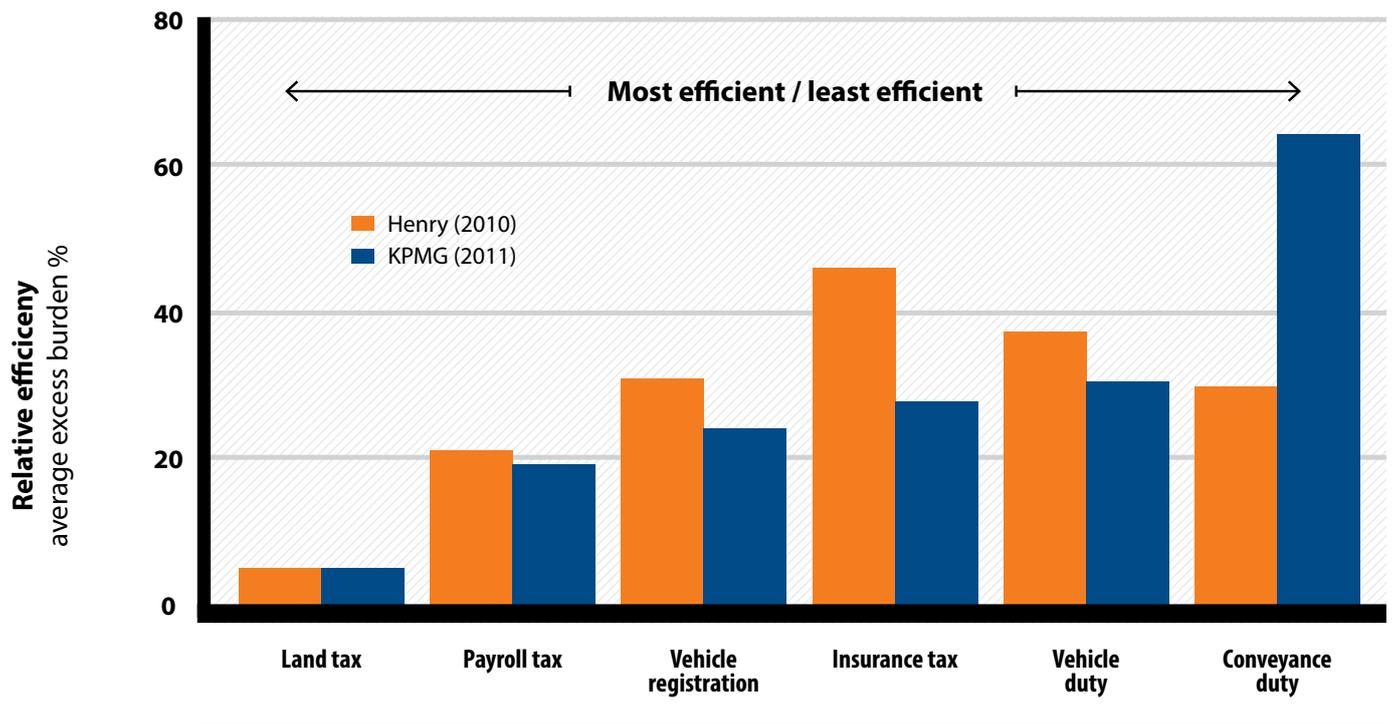
An efficient tax system is one which raises revenue in a way that minimises harm to the economy.

Taxes that apply as broadly across the economy as possible on fixed bases (eg land) are likely to be more efficient than taxes that apply to a narrow range of activities or mobile bases.

A number of reports have attempted to quantify the economic efficiency

of taxes in recent years. The results are reproduced below and are based on national average tax rates and bases.

Deloitte Access Economics has been engaged 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.



## The Key Questions

The Government is interested in hearing views on how we can reform the tax system. To assist with the preparation of submissions a range of issues are detailed below that respondents may want to consider. In considering these issues stakeholders should think about how we can reform the tax system to

support business investment and job creation, and the broader objectives of the tax review. This may involve cutting or eliminating some taxes, but where this would involve a significant loss of revenue we will also need to consider generating more revenue from taxes that are less damaging to economic growth.

### Economy

Should the Government target tax revenues at a certain level of the economy (GSP) to ensure there is sufficient revenue to maintain the services necessary to make South Australia a great place to live?

### Business

What are the key State taxes that constrain business expansion and investment? What tax reforms could address this?

### Property

The ACT Government is progressively phasing out conveyance duty and replacing it with an annual property tax - would an annual property based tax be preferable to conveyance duty? If so, what transition arrangements could be implemented to minimise the impact on property owners and the Government's finances?

### Property

What effect would changes to conveyance duty or land tax have on property prices and how would any changes to property prices, in combination with the effects of changes to conveyance duty or land tax, affect housing affordability and business investment?

### Land Tax

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

### Payroll Tax

Does either the payroll tax threshold or payroll tax rate have a greater impact on employment and business expansion decisions?

### Insurance Duty

Should an annual property tax replace insurance duty? Are there other options for offsetting the revenue loss associated with a removal of insurance duty?

**The Key Questions** continued

A comprehensive discussion of issues respondents may want to consider is contained in the Discussion Paper.

A number of potential tax reform options have been raised as part of other reviews. The table below summarises some of the proposed reforms and provides broad

information on the potential impacts if they were to be adopted. These options **do not** indicate the Government's intention with respect to tax reform, but are intended to assist with the preparation of submissions.

### Conveyance duty and land tax reform options

Option	Benefits	Impacts
<b>Abolish or reduce conveyance duty and introduce a broad-based land tax</b>	<ul style="list-style-type: none"> <li>Increased efficiency and equity</li> <li>Revenue stability</li> </ul>	<ul style="list-style-type: none"> <li>All owners of property will pay an annual tax not just when they purchase property               <ul style="list-style-type: none"> <li>Charge on a median value home could be around \$1 200 per annum (pa)</li> </ul> </li> <li>Significant transition impacts</li> <li>Community acceptance</li> </ul>
<b>Levy land tax based on the per square-metre value of land</b>	<ul style="list-style-type: none"> <li>Increased efficiency through better targeting economic rent</li> <li>Better treatment for large scale investment in rental residential property</li> </ul>	<ul style="list-style-type: none"> <li>Significant change to the way land tax is levied</li> <li>Incidence impacts</li> <li>Community acceptance</li> </ul>
<b>Reform land tax aggregation</b>	<ul style="list-style-type: none"> <li>Increased equity and fairness</li> </ul>	<ul style="list-style-type: none"> <li>More complex to administer</li> </ul>

### Conveyance duty - selected fiscal / incidence impacts

Conveyance duty on a median value property (\$410 000)	\$16 830
Potential annual charge on median value home under a broad based land tax	\$1 200
Number of conveyance duty transactions (2013-14)	47 000
Total number of private properties in South Australia (2013-14)	787 500

### Land tax – selected fiscal / incidence impacts

Remove aggregation	-\$130 million pa
Reform aggregation to be like NSW, Vic or Qld	+\$30 million pa (approx.)
Move to a flat rate land tax with no threshold on a revenue neutral basis	Indicative flat rate of 0.6 per cent
<i>Number of ownerships that benefit</i>	9 300
<i>Number of ownerships that are worse off</i>	220 600
<i>Including ownerships that currently fall under the \$316 000 threshold</i>	179 500
Lower the tax-free threshold by \$50 000	+\$14 million pa
Lower top marginal tax rate from 3.7 per cent to 2.5 per cent	-\$74 million pa
<i>Number of ownerships that benefit</i>	4 700
To be revenue neutral the tax-free threshold would need to be reduced to	\$137 000
<i>Number of ownerships that are worse off</i>	128 000
<i>Including ownerships that currently fall under the \$316 000 threshold</i>	83 000

### Payroll tax reform options

Option	Benefits	Impacts
<b>Lower (remove) tax free threshold and rates</b>	<ul style="list-style-type: none"> <li>Increased efficiency and equity</li> </ul>	<ul style="list-style-type: none"> <li>Small business commences paying</li> </ul>
<b>Remove exemptions and lower rate</b>	<ul style="list-style-type: none"> <li>Increased efficiency and equity</li> </ul>	<ul style="list-style-type: none"> <li>Employers currently exempt now liable</li> </ul>
<b>Replace with cash-flow tax</b>	<ul style="list-style-type: none"> <li>Increased efficiency and equity</li> </ul>	<ul style="list-style-type: none"> <li>Difficult for State to implement individually</li> </ul>
<b>Phase out tax-free threshold above a certain payroll value</b>	<ul style="list-style-type: none"> <li>Increased revenue could be put towards reform of other more inefficient taxes</li> </ul>	<ul style="list-style-type: none"> <li>May impact efficiency</li> <li>Large employers face increase in payroll tax of up to \$29 700 pa</li> </ul>

### Payroll tax – selected fiscal / incidence impacts

Number of grouped employers that currently pay payroll tax	8 500
ABS estimate of number of businesses in SA	145 000
0.5 percentage point change in payroll tax rate	+/- \$12 million pa
\$50 000 increase in the tax free threshold	-\$12 million pa
\$50 000 decrease in the tax free threshold	+\$14 million pa (approx.)
Cost of the tax-free threshold for employers paying payroll tax	\$130 million pa

### Gambling tax reform options

Option	Benefits	Impacts
<b>Move to taxing online gambling based on 'place of consumption' rather than 'place of supply'</b>	<ul style="list-style-type: none"> <li>Increase tax neutrality between traditional and online operators</li> <li>Better outcomes from Government regulation to mitigate problem gambling</li> </ul>	<ul style="list-style-type: none"> <li>Double taxation claims</li> </ul>
<b>Uniform gaming machine tax rates</b>	<ul style="list-style-type: none"> <li>Increased efficiency</li> </ul>	<ul style="list-style-type: none"> <li>Clubs will pay more tax than they currently do</li> <li>Government may be required to provide offsetting support to clubs</li> </ul>

### Gambling tax – selected fiscal / incidence impacts

Increase clubs gaming machine tax rate to match hotels	+\$8 million pa (approx.)
Number of clubs worse off	75 (approx.)

### Insurance tax reform options

Option	Benefits	Impacts
<b>Abolish</b>	<ul style="list-style-type: none"> <li>Increased efficiency</li> </ul>	<ul style="list-style-type: none"> <li>Large revenue impact if not offset by replacement revenues</li> <li>Replacement revenue will not be a perfect match for current incidence</li> </ul>

### Insurance tax – selected fiscal / incidence impacts

<b>Abolish insurance taxes</b>	
General insurance	-\$310 million pa
CTP certificate	-\$70 million pa
CTP insurance	-\$50 million pa
Life insurance	-\$7 million pa

## Where To From Here?

The Government wants to hear from interest groups and the broader community about their views on tax reform.

The full version of the State Tax Review Discussion Paper is available on the Government's YourSAy website.

Interested parties are invited to make a submission to the State Tax Review. Public consultation with interest

groups and the broader community will also occur.

The table below sets out the key dates for the State Tax Review. These dates may change as the review progresses. Updated key dates and further information on the consultation process will be maintained at the State Tax Review page of the Government's YourSAy website ([www.yourSAy.sa.gov.au](http://www.yourSAy.sa.gov.au)).

Timeframe	Task
11 February 2015	Discussion Paper released
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

Submissions to the State Tax Review are due by **10 April 2015**.

Submissions can be lodged via the YourSAy website.

[www.yourSAy.sa.gov.au](http://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.

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