

Business Coalition for Tax Reform

Level 29, 242 Exhibition Street, Melbourne VIC 3000
Telephone: 03 9634 6737 Facsimile: 03 9632 4231 Web Site: www.bctr.org

State Tax Review
Department of Treasury and Finance
Governor Stirling Tower
197 St Georges Terrace
PERTH WA 6000
statetaxreview@dtf.wa.gov.au

Dear Sir/Madam

The Business Coalition for Tax Reform is an apolitical organisation comprising 19 industry bodies drawn from all sectors of the economy (see Appendix A - Business Coalition for Tax Reform (BCTR) Members).

This submission is based on the BCTR's principles for a competitive tax system (see Appendix B - BCTR Views on State Taxes).

In short, the BCTR encourages the WA Government to commit to major reform of the state tax system. One element of reform is to establish a timetable for removing the inefficient taxes identified in the June 1999 Intergovernmental Agreement between the Commonwealth, States and Territories (IGA).

BCTR Position on Indirect Tax Reform

Business had called on the States and Territories to remove all nine taxes listed in their GST funding agreement with Federal Government.

As a recent poll of small businesses demonstrates, 90% of small businesses in Western Australia agree with this reform agenda.

The GST was specifically introduced to replace inefficient taxes; all of which are listed in an agreement signed by every State and Territory in 1999.

These archaic taxes hurt business, investment and employment. Reducing these taxes will boost economic growth and increase job opportunities for Western Australians.

GST revenue flows have exceeded all expectations. The States and Territories are already better off under the GST by around \$1.9 billion in the current financial year. Over the five years from 1 July 2005, the States and

Territories stand to be better off by a further \$16.1 billion relative to the pre-GST system.

The BCTR believes a large part of this tax windfall should be returned to the community by reducing business overheads, which would lead to lower prices and stronger economic growth.

It was the States and Territories that proposed the original list of nine taxes to be replaced by the more efficient GST and the BCTR believes all nine taxes should be eliminated in line with increases in GST windfall. Indeed, if the States and Territories were committed to long term tax reforms that result in economic growth, in line with net increase in GST revenue flows.

The BCTR has also called on the States and Territories to refresh their commitment not to reintroduce any of the nine taxes listed in the 1999 IGA (or similar taxes) at any time in the future.

The BCTR endorses the indirect tax reform proposal recommended by the Australian Government to state and territory treasurers. In short, this involves a three-step program.

- removing the following nuisance taxes from 1 July 2006:
 - stamp duty on non-quotable marketable securities;
 - stamp duty on leases;
 - stamp duty on mortgages, bonds debentures and other loan securities;
 - stamp duty on credit arrangements, installment purchase arrangements and rental agreements; and,
 - stamp duty on cheques, bills of exchange and promissory notes.
- removing stamp duty on business conveyances other than real property on 1 July 2007; and,
- stamp duty on cheques, bills of exchange and promissory notes.
 - removing stamp duty on business conveyances other than real property on 1 July 2007; and,
 - removing stamp duty on business conveyances on real property at a date to be determined.

In short, all nine taxes listed in the IGA should be removed. This includes stamp duty on commercial property conveyances, which is by far the least efficient indirect tax.

The BCTR believes that the IGA is a reform deal: the States and Territories are entitled to 100% of GST receipts; however, they have an obligation to reform their inefficient taxes in line with the clear intention of the IGA.

The States and Territories entitlement to 100% of the GST diminishes to the extent that they fail to implement indirect tax reform.

There is a case for a thorough re-examination of Commonwealth/State financial relations but this should not cloud the need for the removal of the

state taxes on business transaction. The States and Territories are being asked to do no more than allocate the GST windfall (the GST revenue that exceeds the Guaranteed Minimum Amount) to reform.

Rationale for Reforming Taxes

There are two reasons for committing to a tax reform program.

1. There is a mandate for reform from business, particularly small business.

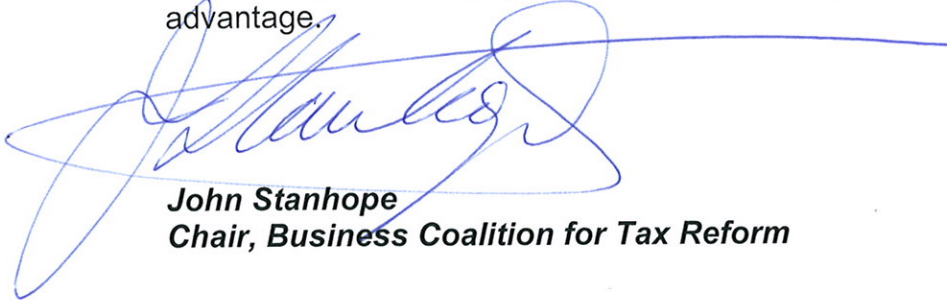
As the attached poll results illustrate, 90% of Western Australians want the IGA agreement to stick (see Appendix C – Poll Results).

2. It is good for the WA economy.

As the attached report from Access Economics demonstrates, reform will forge a more competitive state (see Appendix D – *Axing the Alcabala*)

Conclusion

WA is in a position to pay for reform that will improve the state's competitive advantage.



John Stanhope
Chair, Business Coalition for Tax Reform

Appendix A

Business Coalition for Tax Reform (BCTR) Members

Australian Industry Group

Australian Institute of Company Directors

Australian Retailers Association

Australian Stock Exchange

Business Council of Australia

Corporate Tax Association of Australia

CPA Australia

Council of Small Business Organisations of Australia

Federal Chamber of Automotive Industries

International Banks and Securities Association Australia

Insurance Council of Australia

Investment and Financial Services Association

Master Builders Australia

Minerals Council of Australia

Property Council of Australia

Real Estate Institute of Australia

The Institute of Chartered Accountants in Australia

Appendix B

BCTR Objectives for Tax Reform

"To enhance international competitiveness and fairness in taxation and to create a climate favourable for investment, job creation and saving."

In addition, we have conducted discussions over the broad principles we consider should form the basis of business taxation changes. The development of the BCTR business tax principles is ongoing and revolves around the six draft principles set out below.

BCTR Draft Business Tax Principles

1. The business tax system should be simple, transparent and minimise uncertainty.
2. The tax system should not favour or disadvantage particular business structures over others.
3. Taxation for the purpose of raising revenue should not favour particular industry sectors or firms over others. At the same time potential should be preserved for the use of taxation measures to assist in achieving particular industry and social objectives. Such objectives should be justified on the basis of transparent and rigorous criteria and on the condition that the tax system provides a suitable instrument for achieving the stated objectives.
4. The tax system should avoid the double taxation of business income and provide relief for all business expenses.
5. The tax system should not impede organisational restructuring.
6. The business tax system should be internationally competitive and supportive of increased national savings."