

Business Coalition for Tax Reform

The State and Territory Business Transaction Taxes

A Submission for the Consideration of the Commonwealth, the States and the Territories in their Review of the Remaining Taxes Listed in the Intergovernmental Agreement of 1999

November 2004

The Business Coalition for Tax Reform

The Business Coalition for Tax Reform (BCTR) was formed in 1997. It is a forum for the consolidation of the views of the business community on tax reform issues. The members of the BCTR share a desire to provide a unified approach to building a better tax system that improves both international and domestic business competitiveness and fairness and that assists in creating a business climate conducive to investment, growth, job creation and private saving.

The BCTR's members are the Australian Food and Grocery Council; 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 & Securities Association Australia; Institute of Chartered Accountants; Insurance Council of Australia; Investment and Financial Services Association; Master Builders Australia; Meetings Industry Association of Australia; Minerals Council of Australia; Property Council of Australia; and the Real Estate Institute of Australia.

Overview

The BCTR submits that the Commonwealth, the States and the Territories should enter a new Agreement that maintains the objective of improving State and Territory taxation by removing those taxes listed in the Intergovernmental Agreement of 1999 that are still in force.

The BCTR also submits that the primary responsibility for financing the removal of these taxes rests with the States and Territories. The changed intergovernmental financial arrangements entered into in 1999 has given some of the States and Territories the capacity to remove all remaining IGA taxes from 1 July 2005. All other States and Territories have the capacity to remove some of these taxes from 1 July 2005. The capacity of these States and Territories to remove the remaining IGA taxes is set to improve over the next few years. The BCTR submits that all the States and Territories should remove the remaining IGA taxes as soon as they have the capacity to do so from the growing GST revenue allocated through the Commonwealth Grants Commission.

In light of the national benefits that will accrue as a result of the removal of the remaining IGA taxes and the increased income tax revenue that will flow from their removal, the BCTR further submits that the Commonwealth, the States and the Territories should consider transfers of revenue to the States and Territories to encourage and facilitate the earlier removal of the remaining IGA taxes.

The BCTR Involvement in the New Tax System Reforms

- Largely through the BCTR, the Australian business community supported the New Tax System reforms. The BCTR objective was, and remains, the improvement of the effectiveness and efficiency of Australian taxation.
- Business support for the New Tax System reforms involved a considerable trading off of sectoral interests in favour of broader national interests.
- Business also made significant investments in new accounting and compliance systems and an ongoing commitment to meet additional recurrent compliance costs.
- A further contribution was made by the business community through the sharp rise in company tax collections – particularly in the 2000-01 year – as a result of the New Tax System reforms. This facilitated the maintenance of a satisfactory fiscal position while delivering a generous program of income tax reductions and increases in income support – particularly for families.
- The reform of State and Territory indirect taxation was central to the business support for the New Tax System reforms.
- The BCTR recognised the relative inefficiency of the taxes listed in the Intergovernmental Agreement of 1999 and welcomed their replacement by the more efficient and more stable Goods and Services Tax.

Submission

In the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations of 1999 (the IGA), in return for a division of revenue from the Goods and Services Tax (GST) under the supervision of the Commonwealth Grants Commission, the States and the Territories agreed to:

- Forego their entitlements under the previous Financial Assistance Grants
- Remove Accommodation levies, Financial Institutions Duties and stamp duties on quotable marketable securities
- Remove Bank Accounts Debits taxes subject to review
- The objective of removing a further range of inefficient state and territory business transaction taxes
- Review the need to retain these taxes by 2005; and
- Refrain from introducing similar taxes.

The BCTR applauds the program of reforms that have occurred under this agreement and the additional improvements to taxation that various States and Territories have made ahead of and beyond the parameters set out in the IGA of 1999.

GST revenues have grown more strongly than anticipated at the time of the IGA. From 2004-05 all the States and Territories will receive more revenue under the new arrangements than would have been the case if the States had continued to receive the Financial Assistance Grants while retaining the taxes they have agreed to remove.

To facilitate meeting the objective of the IGA, the BCTR commissioned Access Economics to report on the efficiency of State and Territory taxes and on the current and prospective position of State and Territory revenues. A copy of the Terms of Reference for that report and the report itself (*Axing the Alcabala: A Program for a 21st Century State Tax System*) is attached for information.

On the basis of the analysis and modeling presented in *Axing the Alcabala*, the BCTR notes that:

- the remaining IGA taxes are highly inefficient
- their removal would improve business decisions, resource allocation and living standards
- as a result, the removal of these taxes would increase tax revenue through a relatively small, though ongoing, lift in incomes, consumption and employment; and
- removing the remaining IGA taxes on business transactions would eliminate a source of deductions against taxable incomes and therefore would also increase income tax collections.

The BCTR further notes there is a range of other State and Territory taxes on business transactions the removal of which would have similarly favourable impacts on resource allocation, aggregate economic performance and tax revenues from other sources. The estimates of State and Territory revenues presented in *Axing the Alcabala* show that, relative to the financial position that would have arisen under the previous financial arrangements between the Commonwealth, the States and the Territories:

- All States and Territories have IGA surpluses that can be devoted to removing at least some IGA taxes from 1 July 2005
- Some of the States and Territories will be in a position to remove all their remaining IGA taxes from 1 July 2005
- A further number of States and Territories will be in a position to remove all their remaining IGA taxes from 1 July 2007
- By 1 July 2007 only NSW will not have a sufficient IGA surplus to remove all its remaining IGA taxes.

A New Intergovernmental Agreement to Improve State and Territory Taxation

The BCTR submits that in order to secure the removal of the remaining IGA taxes the Commonwealth, the States and Territories should commit to a new Intergovernmental Agreement. Under this agreement:

- The Commonwealth and all the States and Territories should commit to the objective of improving the efficiency of taxes levied by the States and Territories
- All the States and Territories should recommit to the objective of removing the remaining IGA taxes and commit to the objective of removing any similar taxes introduced since the IGA
- All the States and Territories should remove their remaining IGA taxes to the maximum extent permitted by their IGA surpluses from 1 July 2005
- States and Territories whose IGA surpluses are not yet sufficient to finance the removal of IGA taxes (and similar taxes introduced since the IGA), should commit to removing these taxes as soon as those surpluses permit.

The BCTR further submits that, as a second step, a more thorough and timely program of State Tax Reform should be facilitated by adding a further dimension to the new Intergovernmental Agreement. Under the agreement:

- States and Territories with the potential to remove further inefficient State and Territory taxes with their IGA surpluses should remove these taxes
- The Commonwealth should devote extra income tax collections arising from the removal of the IGA taxes to the States and Territories to encourage and facilitate the improvement of State and Territory taxation.
- The Commonwealth, the States and the Territories should commit to attaching priority to the improvement of the efficiency of State and Territory taxation in a reconfiguration of intergovernmental financial relations - including through the Commonwealth Grants Commission.

**Table 1: Capacity of the States and Territories to Remove Remaining IGA Taxes
2002-03 to 2007-08**

1.A IGA Surpluses (see Attachment <i>Axing the Alcabala</i> , Table 4.1.2, p.24)						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
NSW			270	244	541	908
Victoria		127	360	291	505	794
Queensland	76	504	797	590	787	1035
Western Australia		157	286	228	319	458
South Australia		99	183	160	234	319
Tasmania		70	107	94	124	150
ACT		39	57	52	66	89
Nthn Territory		112	139	131	142	150
1.B Revenue Forgone if Remaining IGA Taxes are Removed (see Attachment <i>Axing the Alcabala</i> , Table 5.1.3, p.30)						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
NSW	1346	1465	1453	1558	1610	1696
Victoria	695	806	573	533	544	569
Queensland	555	667	546	571	598	635
Western Australia	235	368	295	294	304	314
South Australia	179	218	176	180	185	193
Tasmania	35	42	36	37	38	39
ACT	44	52	48	49	50	52
Nthn Territory	15	18	16	18	18	19
1.C Revenue Deficits/Surpluses if Remaining IGA taxes are Removed (1.A-1.B)						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
NSW	-1346	-1465	-1183	-1314	-1069	-788
Victoria	-695	-679	-213	-242	-39	225
Queensland	-479	-163	251	19	189	400
Western Australia	-235	-211	-9	-66	15	144
South Australia	-179	-119	7	-20	49	126
Tasmania	-35	28	71	57	86	111
ACT	-44	-13	9	3	16	37
Nthn Territory	-15	94	123	113	124	131

Terms of Reference Provided to Access Economics

The Project will:

- Establish the economic case for the removal of these taxes. This would involve identifying a measure or measures of tax inefficiency and distortion. Some BCTR members already have research that could be used for this purpose.¹
- Include a conceptual treatment (and perhaps modeling) of the benefits of the removal of these taxes (including benefits relating to extra taxation revenues at the State and Federal levels).
- Develop estimates of future GST revenue against which the capacity of the states to remove these taxes would be measured and benchmarked.
- Recommend a short, medium and long-term program for removing the taxes based on measures of inefficiency and in the context of fiscal capacity and reform dividends (such a program may well need to be packaged, so that reform of different taxes occurs in tranches).
- Recommend ‘triggers’ for each step of the reform program.
- Suggest proposals for assisting in the process, such as Federal Government top up (i.e. a further round of Budget Balancing Assistance); and,
- In line with the BCTR objectives of removing other inefficient state and territory taxes and in discussion with the BCTR, some, non-IGA taxes will be identified and added to the analysis.

¹ Much of the analytical work has already been done – most recently as input into the Harvey Review of State Taxes in Victoria. The submissions commissioned by the Property Council and the Insurance Council of Australia, for example, included strong evidence of the inefficiency of these (and some other) state taxes.