

Submission on



Australia's future tax system

***A submission focusing exclusively on revitalising
Queensland's taxation system***



Commerce Queensland

QUEENSLAND'S CHAMBER OF COMMERCE AND INDUSTRY

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1.0 Overview and Recommendations

- 1.1 As the State's peak business organisation, Commerce Queensland welcomes the opportunity to provide a submission on Australia's Future Tax System. Commerce Queensland regards taxation as one of the Government's foremost instruments of economic management.
- 1.2 Queensland's economy has become more dynamic, efficient and productive over recent decades. However, the State's tax system has not moved at the same pace. As a result, Commonwealth and State taxes are now considered by Queensland businesses to be a brake on the State economy achieving its full potential and being as internationally competitive as it can be. These problems will continue and grow into the future, particularly as globalisation increases and major demographic changes continue.
- 1.3 Now is a timely opportunity to ensure the economic and business policy settings are squarely focused on maintaining Australia's growth momentum into the future. A key challenge for governments will be keeping Australia's economy competitive in the face of fierce overseas competition.
- 1.4 Australia must respond to these challenges in a concerted and decisive manner. The Federal and Queensland State Governments must lay the foundations today if our country is to ensure that it continues to enjoy strong economic growth and prosperity well into the future. Quite simply there is no substitute for good forward planning and timely action.
- 1.5 This submission presents a suite of strategies focussing exclusively on State Taxation that will reinforce Queensland's competitive position and promote ongoing economic growth. Our recommendations, if adopted, will create the optimal environment for business success, laying the foundations for a strong economy and a prosperous Queensland community.
- 1.6 In terms of the National tax system, the Australian Chamber of Commerce and Industry (ACCI) is providing a submission to this process that Commerce Queensland has had extensive participation in its development and is accordingly strongly supported by our organisation.
- 1.7 Queensland's and Australia's strong economic performance has delivered a substantial benefit to the State Government through both increased State and Commonwealth taxation receipts. Commerce Queensland acknowledges the State Government has an important role in delivering social outcomes for the community. However, the State Government also has a role in sharing the benefits of our State's strong economic performance with the business community.
- 1.8 This Review must be about investing for the future to ensure we are well positioned to cope with the inevitable economic downturns as may now be occurring. Government must continue on a path of responsible economic management and pro-business policy settings.
- 1.9 Commerce Queensland recommends that the following actions progressively be adopted by the Queensland State Government to ensure that the State Economy continues to grow and provide employment and wealth for society. As stated ACCI will be making a separate submission focusing on Capital Gains Tax, aligning of Personal Income and Company Tax Rates, Fringe Benefits Tax on Child Care and other national taxes.

General Recommendations

- Taxes imposed on business need to reflect the economic imperative of Australia remaining internationally competitive, should not impede job growth and should encourage investment (see section 3.0).
- Greater priority must be given to examining and bringing down the cost of doing business in Queensland and Australia.
- Treasury must endeavour to become more accurate in their forecasting anticipated taxation revenue.
- An improvement in the efficiency of Government Agency service delivery must occur in order to offer significant scope for enhanced budget flexibility that can be directly used to fund taxation initiatives.
- A better balance must be reached between channelling taxation revenue entirely into social and infrastructure initiatives and enabling business to deliver greater economic dividends to society through lower taxation.
- Government should index all business tax thresholds on 1 July each year.
- The compliance and paperwork burden of taxes on all businesses must be reduced.

Payroll Tax

- The impost of payroll tax on the business community must be reduced to remove the disincentive this presents to business growth.
- An immediate reduction in the payroll tax rate from 4.75% to 4.5% to ensure Queensland remains internationally competitive.
- The immediate removal of the diminishing exemption threshold to be replaced by a flat exemption threshold set at least at \$1 million and then be indexed to annual wages growth.
- Employers be eligible to offset from the payroll tax wages and salaries base expenditure on broader business training to assist with ongoing skill shortages.
- The State Government provide a longer term commitment to completely phasing out payroll tax from the Queensland tax stable.

Stamp Duties

- Stamp duty on GST inclusive amounts be immediately removed.
- Stamp duties be reviewed in detail with the aim of eliminating those that are detrimental to the competitiveness of businesses in Queensland.
- The State Government should give a medium term commitment to abolish stamp duty on business asset transactions.

Land Tax

- The State Government increase the land tax threshold and reduce the rates payable.
- The number of land tax levels and marginal rates should be reduced in the rate structure to simplify land tax administration and make the revenue collection more efficient.

2.0 Queensland's Economic Climate & Business Priorities

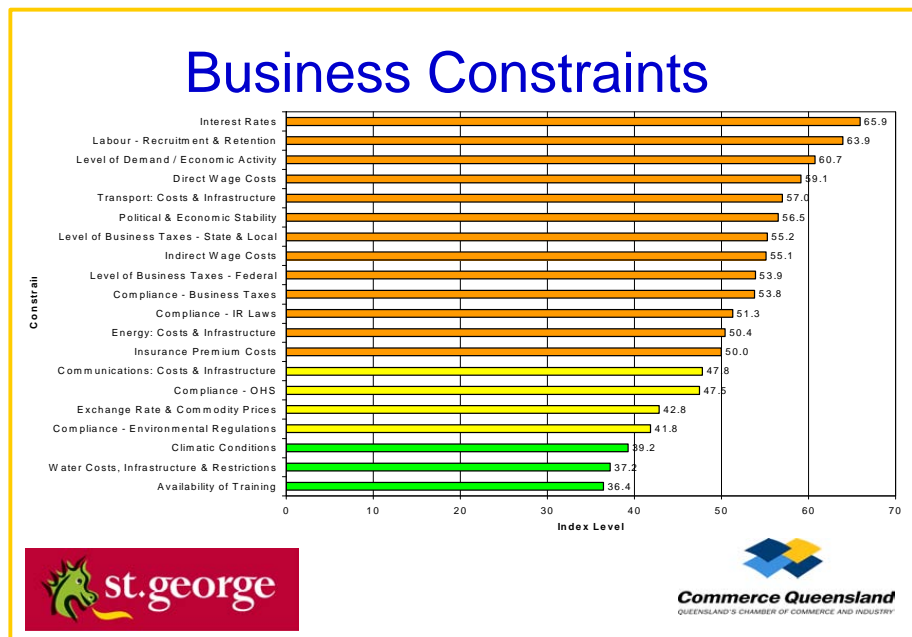
2.1 The outlook for the Queensland economy remains relatively healthy with significant support from the resources sector. However Queensland's economic growth has contracted sharply since 2006-07 and is estimated to expand by only 3.75% in 2007-08. This is consistent with the significant downturn in business confidence as measured by Commerce Queensland's St George Bank Pulse Survey. Tempering this worrying trend is the fact that Queensland is weathering the current economic downturn better than all other States except Western Australia. Growth in the Queensland economy is forecast to accelerate slightly to 4.25% in 2008-09, in contrast to an anticipated easing in national growth to 2.75%. Economic growth in Queensland is projected to remain around its average growth rate over the longer-term. Overall, economic growth of around 4.5% per annum is projected for the period 2009-10 to 2011-12.

	2006-07	2007-08	2008-09	2009-10 to 2011-12
Queensland				
Gross State Product	5.70	3.75	4.25	4.50
Employment	4.60	2.75	2.50	2.50
Inflation	3.30	4.00	3.50	2.50
Wage Price Index	4.50	4.50	4.50	4.00
Population	2.20	2.25	2.25	2.25
Australia				
Gross State Product	3.20	3.50	2.75	3.00
Employment	2.70	2.50	1.25	1.25
Inflation	2.90	3.25	3.50	2.50
Wage Price Index	4.00	4.25	4.25	4.00
Population	1.50	1.50	1.50	1.50

Source: Queensland aState Budget Papers 2008-09

2.2 As part of the Pulse Survey respondents are asked to indicate the level of constraint various factors are on business' growth. Four of the top ten identified constraints can be directly influenced by this review. They include:

- Level of Demand / Economic Activity (3rd)
- Level of Business taxes State & Local (7th)
- Level of Business taxes – Federal (9th)
- Compliance - Business Taxes (10th)



Commerce Queensland St George Bank Pulse Survey – June Quarter 2008

2.3 Commerce Queensland believes these results should be used as a guide in determining priorities / initiatives as part of this Review.

3.0 Commerce Queensland Taxation Policy Principles

- 3.1 Commerce Queensland believes Australia needs a tax system that supports the growth of the economy. As with all government economic and regulatory programs, Australia's competitiveness should be enhanced by the tax system not disadvantaged. The situation whereby 115 of Australia's 125 taxes and charges raise only 10% of overall taxation revenue is massively inefficient.
- 3.2 Tax revenue should be adequate to meet governments' reasonable expenditure needs, consistent with the exercise of sound fiscal responsibility principles. There needs to be a much closer correlation between responsibility for expenditure and the revenues necessary to fund it. This requires correction of the current vertical fiscal imbalance between the Commonwealth and the States.
- 3.3 Commerce Queensland's overarching policy objective is to achieve fundamental reform of Australia's taxation system consistent with the following objectives and criteria for a competitive tax system:
- **equity** - fairness in the distribution of resources between high and low income earners as well as similar tax burdens for taxpayers with similar means;
 - **economic efficiency** - taxation impacting neutrally on taxpayer groups and economic sectors with commercial decisions not skewed by tax considerations;
 - **adequacy** - tax systems raising sufficient revenue for public expenditure needs;
 - **simplicity** - taxpayers being able to clearly understand their obligations;
 - **transparency** - taxpayers understanding how and when they are paying tax, and how much tax they are paying;
 - **cost** - compliance and collection costs minimised; and
 - **anti avoidance** - minimum incentive and potential for avoidance of taxation.
- 3.4 Further specific objectives of this process should be to:
- improve the overall competitiveness of Australian goods and services;
 - ensure that the tax system does not discourage employment, savings and productive investment;
 - make the tax system more neutral between different industries, types of business and activities and remove impediments and distortions which reduce productivity;
 - raise revenue more efficiently with lower collection and compliance costs;
 - foster adequate, efficient and enduring tax bases for all levels of government, which in the longer term reduces tax as a percentage of GSP / GDP, and place a greater emphasis on expenditure rather than income and asset taxes;
 - ensure transparency in the ultimate impact of various taxes (ie no hidden taxes);
 - improve fairness and equity in the tax system;
 - minimise the black economy and other avoidance / evasion; and
 - develop broad community support for a better tax system.
- 3.5 In adopting these principles and objectives, Commerce Queensland recognises that comprehensive taxation reform will necessarily impact on and require the commitment of the Commonwealth and all the States and Territories. Many of the taxes most unsatisfactory for business are State taxes which for reasons of competitiveness and efficiency should be abolished, or where this is not possible, redesigned. In our view the Queensland State Government has not embraced its full responsibilities arising from the 1999 IGA on Reform of Commonwealth State Financial Relations (see section 6.53).
- 3.6 Fundamentally taxes imposed on business need to reflect the economic imperative of Australia remaining internationally competitive, should not impede job growth and should encourage investment.
- 3.7 Commerce Queensland will work with all levels of government in an endeavour to achieve comprehensive tax reform which encompasses the foregoing critical elements.

4.0 Argument for Business Tax Reform

4.1 The role of Government

Commerce Queensland recognises the vital role that Government plays in building and sustaining the Queensland economy. However the Chamber sees the responsibility of Government as creating an environment which is conducive to economic growth. Greater priority must be given to examining and bringing down the cost of doing business in Queensland and Australia. Creating a strong business operating environment that allows local industries to compete globally is pivotal to the economic well-being of Queensland. The challenge for Government is to identify the areas where we can improve, and systematically address them. State taxation is one of these areas. Having a competitive advantage on some aspects is no reason to be complacent. In those areas that are within our control, our target must be the best in every aspect affecting the business operating environment.

4.2 Improving the competitiveness of the Queensland and National economies

Every region in Australia is in competition with each other to some extent in the area of investment attraction through competitive taxation regimes. As a result, Queensland needs to have a business operating environment that is the most competitive. Business in the State is facing increasingly tough competition not only from domestic markets but from overseas.

The competition is not standing still and a number of State Governments have sought to greatly improve their State's competitiveness. If Queensland and Australia does not respond to initiatives occurring elsewhere our attractiveness is diminished in the eyes of potential and existing investors. In order to maintain our competitiveness Queensland and Australia must also improve its own taxation regimes. It is important to note that if all State's adopt this 'competitive federalism' approach then Australia as a whole would dramatically improve its international competitiveness.

Interstate Competitiveness		2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	% Increase \$ Increase 00-01 to 08-09	
Taxation Per Capita	QLD	\$1,359	\$1,211	\$1,321	\$1,480	\$1,614	\$1,708	\$1,927	\$2,226	\$2,342	\$983	72.3%
	AUS	\$1,734	\$1,637	\$1,757	\$1,892	\$2,056	\$2,135	\$2,272	\$2,357	\$2,616	\$882	50.9%
		-\$375	-\$426	-\$436	-\$412	-\$442	-\$427	-\$345	-\$131	-\$274		
Taxation Effort	QLD	79.3	85.7	85.8	86.9	85.5	85.2	84.6				5.3
	AUS	100	100	100	100	100	100	100				0.0
Taxation as a % of GSP	QLD	3.9%	4.0%	4.4%	4.7%	4.4%	4.1%	4.3%				0.4%
	AUS	4.9%	4.8%	4.9%	5.0%	4.7%	4.7%	4.8%				-0.1%

Dollar values in millions and in current prices

Source: ABS Catalogue 6401.0 and Queensland State Budget Papers, Budget Strategy and Outlook, Budget Paper No.2

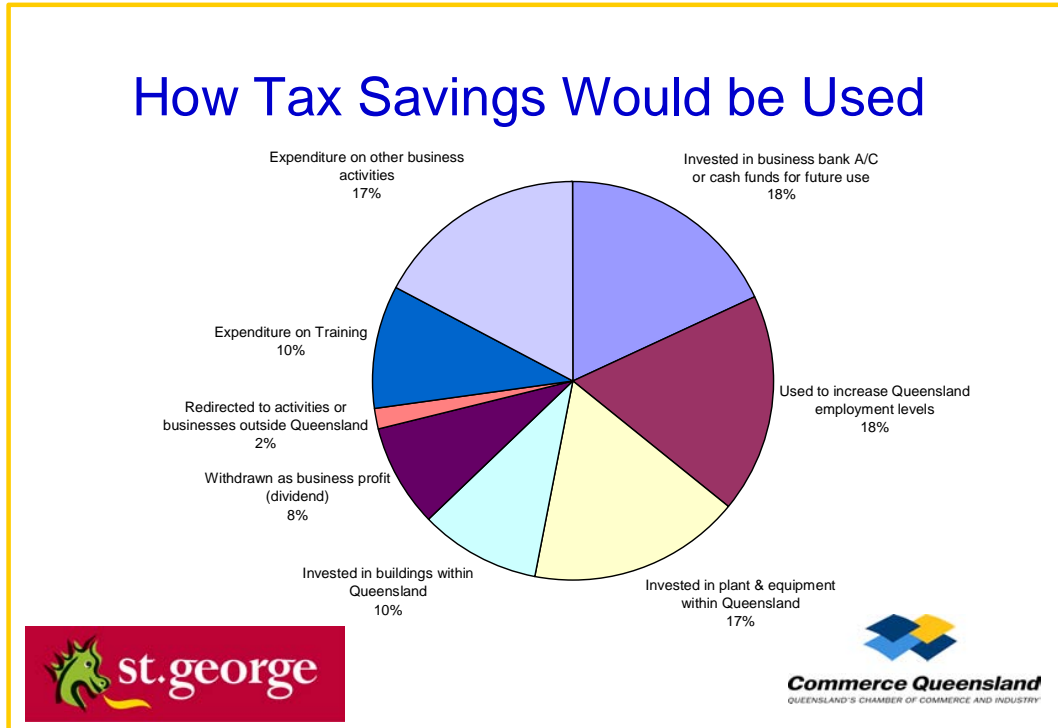
In summary Queensland's tax system continues to be attractive however its competitiveness has continually been eroded since 2000-2001 following a number of other State Government's being very aggressive in lowering their own business tax regimes. Taxation per capita in Queensland since 2000-01 has increased by \$983 to currently be at \$2,342 but nationally it has only increased by \$882 to be at \$2,616. Accordingly the difference has narrowed from \$375 in 2000-01 to \$274 in 2008-09.

Taxation revenue as a percentage of GSP since 2000-01 in Queensland has increased by 0.4% whilst decreasing nationally by 0.1%. Commerce Queensland urges the Queensland State Government to adopt a longer term strategy that will ensure that we continue to have a business tax regime that is the most competitive of all States. Furthermore we urge the Australian Federal Government to embrace a strategy that ensures Australia's business tax regime is internationally competitive.

4.3 Business tax reform will create additional tax receipts

Commerce Queensland believes that positive action by Government to improve the business environment will ultimately result in increased taxation receipts stimulated through greater business activity. Carefully crafted business tax reductions ultimately do not reduce Government income as they generate significant improvement in economic activity further stimulating tax receipts. A competitive business taxation regime, does to some extent involve a leap of faith as in the short term there are possible revenue implications.

There can be no doubt however that the best way to maximise Government revenue is to generate private sector economic activity. Queensland's strong growth in employment and population and increased business tax receipts can undoubtedly be attributed to Queensland's historical low tax State status.



Commerce Queensland St George Bank Pulse Survey – December Quarter 2007

As part of the Commerce Queensland St George Pulse Survey, survey respondents earlier this year were asked to indicate that if taxes were to be reduced how the tax savings would be allocated. The above chart indicates that derived savings would be used to contribute to employment and the economy. Businesses indicated they would predominantly spend any savings on investment in plant and equipment, employment of more staff, investment for future use and training of staff. These results provide strong evidence that tax savings are utilised to the direct benefit of the economy and that tax reductions lead to increased investment and employment and not merely boosted profits or funds being redirected elsewhere. It adds weight to Commerce Queensland representations that carefully crafted business tax reductions ultimately do not reduce Government income as they generate significant improvement in economic activity further stimulating tax receipts.

4.4 Business tax reform will enable greater delivery on social objectives

A key consideration when setting taxes is the tension between taxation acting as an impediment to business growth and taxation providing a revenue stream to deliver social and economic benefits to the broader community. Commerce Queensland believes tax reform will assist in meeting Government's social goals by providing higher employment levels, resulting in improved community wealth and greater social inclusion through increased participation in society. It will also result in greater economic development which will allow the Government to provide increased funding to social and environmental areas. The single greatest contribution a business can make to enhancing Australia's social wellbeing is quite simply providing a job.

5.0 Capacity to Deliver Business Tax Reform

5.1 Commerce Queensland believes the Queensland and Federal Governments have a great deal of flexibility to pursue significant business tax reform arising from this process. Commerce Queensland's tax recommendations can progressively be delivered through:

- Business tax initiatives will create additional tax receipts;
- A strong Queensland Economy has delivered significant increased revenue to both the Queensland Federal Governments;
- Windfalls from greater than budgeted taxation revenue;
- Increasing revenue the State Government receives and will receive from the Commonwealth;
- Savings from greater Government efficiency.

5.2 As discussed in section 4.4 properly targeted tax reform ultimately does not reduce Government income as they generate significant improvement in economic activity further stimulating tax receipts.

5.3 Commerce Queensland congratulates successive Governments in overseeing a strong and vibrant Queensland and Australian Economy. This economic base has delivered a robust revenue base particularly for Queensland.

State Taxation Revenue	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	\$ Increase	% Increase
Payroll Tax	\$1,170	\$1,202	\$1,334	\$1,479	\$1,674	\$1,917	\$2,232	\$2,482	\$2,702	\$1,532	130.9%
Stamp Duties											
Transfer	\$700	\$1,056	\$1,382	\$1,863	\$1,744	\$1,963	\$2,542	\$2,970	\$3,141	\$2,441	348.7%
Vehicle registration	\$167	\$184	\$234	\$271	\$267	\$269	\$289	\$380	\$518	\$351	210.2%
Insurance	\$206	\$238	\$286	\$315	\$316	\$328	\$361	\$386	\$403	\$197	95.6%
Mortgage	\$103	\$144	\$183	\$251	\$256	\$297	\$343	\$335	\$15	-\$88	-85.4%
Other duties	\$119	\$106	\$96	\$132	\$60	\$73	\$25	\$6	\$14	-\$105	-88.2%
Total Duties	\$1,294	\$1,728	\$2,182	\$2,832	\$2,642	\$2,930	\$3,560	\$4,077	\$4,091	\$2,797	216.2%
Gambling Taxes and Levies	\$522	\$568	\$638	\$726	\$806	\$841	\$825	\$886	\$950	\$428	82.0%
Land Tax	\$230	\$231	\$279	\$313	\$419	\$404	\$485	\$622	\$797	\$567	246.5%
Debits Tax	\$207	\$200	\$191	\$191	\$189	\$0	\$0	\$0	\$0	-\$207	-100.0%
Motor Vehicle Registration	\$558	\$596	\$649	\$703	\$767	\$819	\$887	\$945	\$991	\$433	77.6%
Fire Levy	\$185	\$192	\$203	\$213	\$225	\$239	\$252	\$264	\$279	\$94	50.8%
Community Ambulance Cover	\$0	\$0	\$0	\$96	\$112	\$118	\$115	\$128	\$133	\$133	
Other Taxes	\$620	\$98	\$122	\$123	\$119	\$127	\$148	\$148	\$163	-\$457	-73.7%
Total Taxes	\$4,786	\$4,815	\$5,598	\$6,676	\$6,952	\$7,396	\$8,484	\$9,552	\$10,106	\$5,320	111.2%
Consumer Price Index - Brisbane	132.4	136.3	140.7	144.8	148.5	153.2	158.3	164.8	170.6		28.9%

Dollar values in millions and in current prices

Source: ABS Catalogue 6401.0 and Queensland State Budget Papers, Budget Strategy and Outlook, Budget Paper No.2

- Payroll tax receipts since 2000-01 have increased by over \$1.5 billion or 130.9%.
- Stamp duties since 2000-01 have increased by nearly \$2.8 billion or 216%.
- Total state taxation receipts since 2000-01 have increased by over \$5.3 billion or 111%.

Treasury explanations for these massive increases are strong growth in land values; growth in employment and wages with particular strength in industries such as construction, mining and property and business services; and strength in housing and non residential property transactions.

However this represents a very high and growing level of reliance on businesses to fund Government services. Queensland business is understandably alarmed by this trend. Queensland needs a state tax system that does not penalise employers for working hard, expanding and making a positive contribution to the economy. The Government must take steps to reduce the financial impediments to business growth. Business acknowledges and accepts that certain levels of taxation are necessary to ensure the provision of social and business services. The Queensland Government's response to previous Commerce Queensland representations for reviewing state taxes has been to highlight Queensland's position as the 'low tax State' – asserting that there is no justification for making significant changes to the current tax arrangements. However increasingly sourcing State revenue from Queensland businesses has eroded our competitive position over recent years both domestically and internationally.

5.4 The Queensland State Government is profiting significantly from buoyant economic conditions through increased business taxation receipts and it is time some of the gains were used on properly targeted business tax initiatives. It is clear that the Queensland State Government has received unexpectedly larger returns from various forms of State Taxation and accordingly has an obligation to reinvest some of this windfall into the future growth of the State. These greater than expected taxation receipts have

repeatedly been received for the past three years. Considerable further increases in receipts for 2008-2009 are also anticipated. Receipts from business taxes in particular have led to greater taxation receipts than expected. Over the past three years the Queensland State Government has received above their own forecasts an additional:

- \$342 million in payroll tax receipts or a 5.8% windfall;
- \$843 million in stamp duties or a 15% windfall; and
- \$345 million in GST revenue or a 1.4% windfall and \$1 billion from the C/W or a 2.5% windfall.

State Taxation Revenue	2005-06 Budgeted	Actual	% Difference	2006-07 Budgeted	Actual	% Difference	2007-08 Budgeted	Actual	% Difference	3 Year \$ Windfall	Ave 3 Year % Windfall
Payroll Tax	\$1,767	\$1,917	8.5%	\$2,054	\$2,175	5.9%	\$2,411	\$2,482	2.9%	\$342	5.8%
Stamp Duties											
Transfer	\$1,582	\$1,963	24.1%	\$2,116	\$2,450	15.8%	\$2,842	\$2,970	4.5%	\$843	14.8%
Vehicle registration	\$259	\$269	3.9%	\$279	\$285	2.2%	\$385	\$380	-1.3%	\$11	1.6%
Insurance	\$332	\$328	-1.2%	\$346	\$366	5.8%	\$393	\$386	-1.8%	\$9	0.9%
Mortgage	\$237	\$297	25.3%	\$310	\$345	11.3%	\$300	\$335	11.7%	\$130	16.1%
Other duties	\$76	\$73	-3.9%	\$26	\$25	-3.8%	\$14	\$6	-57.1%	-\$12	-21.6%
Total Duties	\$2,487	\$2,930	17.8%	\$3,078	\$3,471	12.8%	\$3,935	\$4,077	3.6%	\$978	11.4%
Gambling Taxes and Levies	\$892	\$841	-5.7%	\$881	\$826	-6.2%	\$868	\$886	2.1%	-\$88	-3.3%
Land Tax	\$431	\$404	-6.3%	\$500	\$523	4.6%	\$622	\$622	0.0%	-\$4	-0.6%
Motor Vehicle Registration	\$793	\$819	3.3%	\$846	\$865	2.2%	\$900	\$945	5.0%	\$90	3.5%
Fire Levy	\$232	\$239	3.0%	\$247	\$252	2.0%	\$264	\$264	0.0%	\$12	1.7%
Community Ambulance Cover	\$112	\$118	5.4%	\$121	\$123	1.7%	\$128	\$128	0.0%	\$8	2.3%
Other Taxes	\$130	\$127	-2.3%	\$144	\$140	-2.8%	\$144	\$148	2.8%	-\$3	-0.8%
Total Taxes	\$6,843	\$7,396	8.1%	\$7,871	\$8,375	6.4%	\$9,272	\$9,552	3.0%	\$1,337	5.8%
Commonwealth Revenue											
GST Revenue	\$7,721	\$7,773	0.7%	\$7,972	\$8,053	1.0%	\$8,384	\$8,596	2.5%	\$345	1.4%
Specific Purpose Payments	\$4,852	\$5,039	3.9%	\$5,280	\$5,729	8.5%	\$6,348	\$6,399	0.8%	\$687	4.4%
Total Australian Government Payments	\$12,756	\$12,991	1.8%	\$13,253	\$13,782	4.0%	\$14,732	\$14,995	1.8%	\$1,027	2.5%

Dollar values in millions and in current prices

Source: Queensland State Budget Papers, Budget Strategy and Outlook, Budget Paper No.2

Whilst clearly recognising the difficulty in forecasting revenue receipts Queensland Treasury must endeavour to become more accurate in their forecasting and / or deliver some of these windfalls back to the business community. In light of these outcomes it would not be unreasonable for the Queensland State Government to hand back some of this windfall to the business community through tax initiatives arising from the Review.

5.5 The Goods and Services Tax is a growing revenue stream which has already created greater flexibility in meeting various State Government funding priorities. According to Commonwealth Treasury the State Government is receiving significantly higher than anticipated taxation receipts delivered by the GST. GST revenue since 2000-01 has increased by over \$4 billion or 87% with total Australian Government payments to Queensland increasing by over \$6.3 billion or 70.3%. The introduction of the GST had the goal of replacing many of the inefficient State taxes levied on businesses. While the scope of the GST fell short of what was originally intended, over time revenue from the GST has risen above expectations and can be used to fund tax initiatives replacing existing business taxes.

Commonwealth Revenue	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	\$ Increase 00-01 to 08-09	% Increase
GST Revenue	\$4,658	\$5,019	\$5,890	\$6,515	\$7,354	\$7,773	\$8,092	\$8,596	\$8,686	\$4,028	86.5%
Specific Purpose Payments	\$3,637	\$3,947	\$4,115	\$4,359	\$4,730	\$5,039	\$5,808	\$6,399	\$6,486	\$2,849	78.3%
Total Australian Government Payments	\$8,909	\$9,638	\$10,182	\$10,962	\$12,228	\$12,991	\$13,900	\$14,995	\$15,172	\$6,263	70.3%
Consumer Price Index - Brisbane	132.4	136.3	140.7	144.8	148.5	153.2	158.3	164.8	170.6		28.9%

Dollar values in millions and in current prices

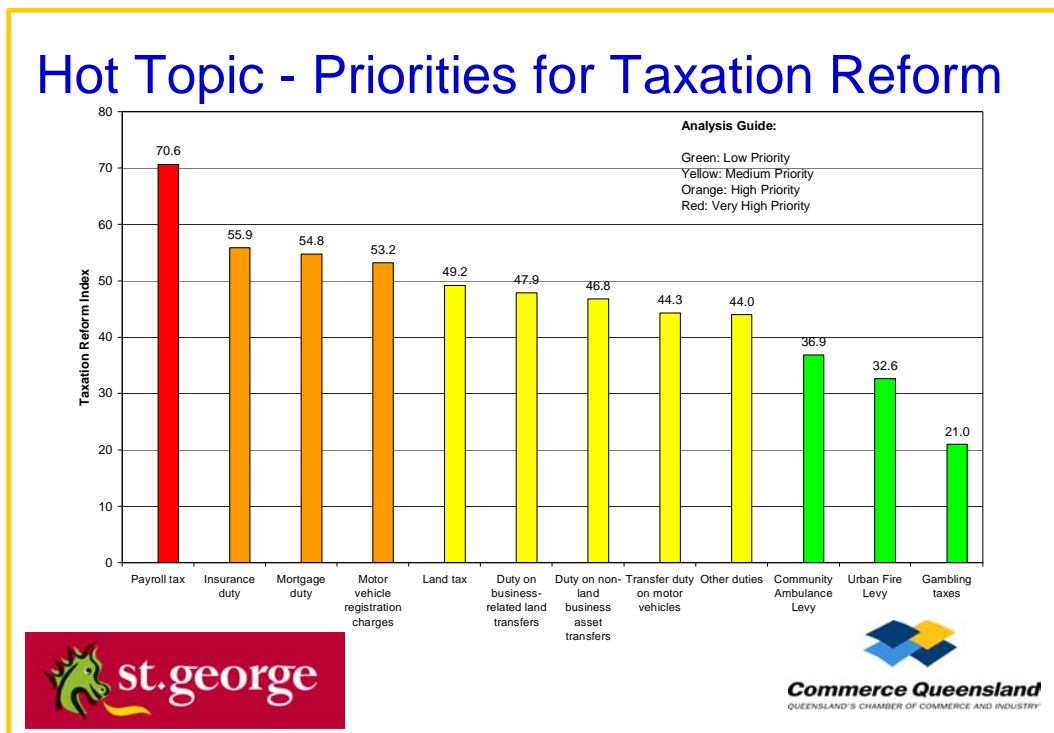
Source: Queensland State Budget Papers, Budget Strategy and Outlook, Budget Paper No.2

5.6 Government must continue to monitor and seek out efficiencies in government department program delivery. Due to the dominance of the public sector in the economy, the efficiency and effectiveness of government is essential if productivity is to improve across the economy. Anything short of optimum efficiency in the delivery of public services means that taxpayers are paying more in taxes and charges than they would otherwise need to. An improvement in the efficiency of Government Agency service delivery offers significant scope for enhanced budget flexibility that can be directly used to fund taxation initiatives.

5.7 The Queensland State Government plainly has a great deal of flexibility to pursue significant business tax initiatives as part of this process. Rather than channelling these excess funds entirely into social and infrastructure initiatives the Queensland State Government and other Australian Governments should commit at least some of the consolidated funds into creating an incentive for business to deliver greater economic dividends to society.

6.0 Business Taxes and Recommendations

- 6.1 The Queensland and Australian Governments have acknowledged the central importance of an attractive cost environment however business taxation reform must remain an ongoing reform priority. Taking into account the all-round increased cost of doing business in Queensland, including increased electricity prices, labour costs and other business related expenses, Commerce Queensland believes that Government must take action to ease the taxation burden of doing business in this State in order to minimise the impact on the business community.
- 6.2 The Commerce Queensland Pulse Survey for the December Quarter 2007 confirms that payroll tax was identified as the number one tax burden on Queensland business and has a very high priority for reform over the next three years. Other State taxes considered to have high priority for reform over the next three years include insurance duty, mortgage duty and motor vehicle registration charges. Of particular interest is that the importance of payroll tax did not vary significantly among business sizes. 95% of the Queensland business community do not currently pay payroll tax yet these businesses also believe the tax should have high priority for a reduction offering them seemingly no immediate financial benefit (see appendix two).



Commerce Queensland St George Bank Pulse Survey – December Quarter 2007

Commerce Queensland believes this is a reflection that many business owners, who are not currently paying payroll tax, are aspiring to grow their businesses, and believe the tax will become an issues for them in the future or are intentionally capping themselves so they do not pay the tax. Commerce Queensland also believes that small businesses are mindful that much of their economic activity derives from businesses who pay payroll tax and accordingly some of the benefit of reduction in this tax would ultimately be passed on to their direct benefit. This argument mirrors general business community sentiments that payroll tax impedes economic activity and is ultimately a tax on employment impacting on the entire Queensland community.

Also interesting from this survey is the significant importance of payroll tax to medium and large sized businesses (see appendix two). This is more so for medium businesses as they compete against small businesses that do not have to pay the tax and subsequently experience a competitive disadvantage through its payment.

6.3 Indexing of Thresholds

There is a tendency amongst policymakers to index fees and charges but not tax thresholds. This damaging and distorting practice means that businesses are quickly caught in the 'tax trap' due to the economy's inflationary trends. To counteract this impact Commerce Queensland is recommending that the Government index all business tax thresholds on 1 July each year.

6.4 Payroll Tax

6.4.1 Payroll tax impedes economic growth

One of the most burdensome taxes upon business is payroll tax and changes to reduce the complexity and burden of payroll taxes are necessary if Queensland businesses are to remain competitive. Commerce Queensland believes that the Queensland State Government has the opportunity to provide substantial payroll taxation relief to the business community to enable improved employment outcomes, increased productivity and a stronger economy.

Payroll tax directly impedes employment and industry growth. Payroll tax represents a substantial disincentive for investments of significance either expanding or relocating. The burden of payroll tax invariably falls upon labour intensive industries such as mining, manufacturing and communications. Payroll tax compliance acts as a direct disincentive to employers expanding their workforce above the payroll tax threshold. It moves resources away from business investment and expansion.

We recognise the relative importance of particularly payroll tax to Queensland State Government receipts but believe that the negative effects of this regressive taxation and its adverse impact on international competitiveness clearly places it at the head of any taxation reform strategy. Accordingly Commerce Queensland recommends a long term view of completely phasing out payroll tax and that consideration be given to an immediate reduction in the payroll tax rate from 4.75% to 4.50% saving the business community in excess of \$127 million and an increase in the exemption threshold. Commerce Queensland also argues that the significance of payroll tax requires it be addressed in a transparent and programmed manner.

6.4.2 Increasing Reliance on Payroll Tax

Queensland Government is increasingly relying on payroll tax to fund State services. The demonstrated growth in payroll tax from 24.4% to 26.7% of State taxation revenue shows an increasing dependency on payroll tax for the generation of state taxation revenue.

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	% Increase	
										\$ Increase	00-01 to 08-09
Payroll Tax	\$1,170	\$1,202	\$1,334	\$1,479	\$1,674	\$1,917	\$2,232	\$2,482	\$2,702	\$1,532	130.9%
Payroll Tax as a % of Total State Taxes	24.4%	25.0%	23.8%	22.2%	24.1%	25.9%	26.3%	26.0%	26.7%		2.3%

Dollar values in millions and in current prices

Source: Queensland State Budget Papers, Budget Strategy and Outlook, Budget Paper No.2

6.4.3 Reducing Exemption Threshold

Queensland is the only State whereby the payroll tax exemption threshold reduces to zero for payrolls between \$1 and \$5 million. Accordingly for employers with payrolls just over \$5 million they do not enjoy any benefit of an exemption threshold. For a band of employers in Queensland approaching \$5 million and over \$5 million they are at a competitive disadvantage with several others States. Commerce Queensland recommends the removal of the diminishing exemption threshold to be replaced by a flat exemption threshold set at least at \$1 million. Commerce Queensland notes that this recommendation is consistent with the Harmonisation of Payroll Tax arrangements project currently underway across Australia.

6.4.4 Indexing of Payroll Tax Threshold

There is a clear case for a major upgrade of the threshold given bracket creep which has occurred through wage and wage 'on cost' increases all of which has whittled away considerably at the value of the threshold. It is particularly salient at this time given the pressure on the private sector due to skill shortages placing significant upward pressure on wages. The Payroll tax threshold should be indexed to annual wages growth. Adjustments should also be made if there are legislative changes to other components of payroll tax, such as the superannuation guarantee levy.

The threshold set at \$1.0 million several years ago was not factored on Queensland employment numbers rising to the current extent.

6.4.5 Payroll Tax and Training

Currently wages of apprentices and trainees are exempt from payroll tax. The exemption applies to the wages of persons who are apprentices or trainees under the Vocational Education, Training and Employment Act 2000, during the period they are working as apprentices or trainees, including a probationary period. Commerce Queensland believes the State's skill shortages would be significantly alleviated if employers were able to offset their broader business training expenditure from wages and salaries under Payroll Tax.

6.4.6 Recommendations:

- The impost of payroll tax on the business community must be reduced to remove the disincentive this presents to business growth.
- An immediate reduction in the payroll tax rate from 4.75% to 4.5% to ensure Queensland remains internationally competitive.
- The immediate removal of the diminishing exemption threshold to be replaced by a flat exemption threshold set at least at \$1 million and then be indexed to annual wages growth.
- Employers be eligible to offset from the payroll tax wages and salaries base expenditure on broader business training to assist with ongoing skill shortages.
- The State Government commit to completely phasing out payroll tax from the Queensland tax stable.

6.5 Stamp Duties

6.5.1 Importance of Stamp Duty

Duties on insurance, transfer of property and other business assets, vehicle registration and mortgages are of critical importance to Queensland businesses. Commerce Queensland urges the Queensland State Government to take further action in increasing the competitiveness of Stamp Duties.

6.5.2 Increasing Reliance on Stamp Duties

Stamp duties since 2000-01 have increased by \$2.8 billion or 216% with its proportion of State taxation revenue increasing from 27% to 40.5%.

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	\$ Increase	% Increase
Stamp Duties											
Transfer	\$700	\$1,056	\$1,382	\$1,863	\$1,744	\$1,963	\$2,542	\$2,970	\$3,141	\$2,441	348.7%
Vehicle registration	\$167	\$184	\$234	\$271	\$267	\$269	\$289	\$380	\$518	\$351	210.2%
Insurance	\$206	\$238	\$286	\$315	\$316	\$328	\$361	\$386	\$403	\$197	95.6%
Mortgage	\$103	\$144	\$183	\$251	\$256	\$297	\$343	\$335	\$15	-\$88	-85.4%
Other duties	\$119	\$106	\$96	\$132	\$60	\$73	\$25	\$6	\$14	-\$105	-88.2%
Total Duties	\$1,294	\$1,728	\$2,182	\$2,832	\$2,642	\$2,930	\$3,560	\$4,077	\$4,091	\$2,797	216.2%
Stamp Duties as a % of Total State Taxes	27.0%	35.9%	39.0%	42.4%	38.0%	39.6%	42.0%	42.7%	40.5%		13.4%

Dollar values in millions and in current prices

Source: Queensland State Budget Papers, Budget Strategy and Outlook, Budget Paper No.2

6.5.3 Intergovernmental Agreement

The Queensland Government under the terms of the 1999 Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations committed itself to review the need for inefficient stamp duties, including those applied to non residential conveyances, leases, credit and rental arrangements, and unquoted marketable securities. Commerce Queensland acknowledges that the State Government has removed some duties, in accordance with the Intergovernmental Agreement.

However, reform of duties to date has not focused on taxes that inhibit economic growth. Under the IGA, Queensland committed itself to completely abolishing transfer duty on core business assets in 2011, with a 50 per cent reduction occurring on Jan 1, 2010. In doing so however, Queensland and the other States argued for the maintenance of stamp duties levied on real property conveyances for the business sector. Taxes and duties that remain in place must now be reviewed in detail, and include extensive public consultation with the aim of eliminating those that are detrimental to the competitiveness of businesses in Queensland.

6.5.4 Removal of stamp duty on the GST inclusive amount of fees and charges.

Commerce Queensland also recommends the removal of stamp duty on the GST inclusive amount of fees and charges (as the first step towards phasing out stamp duty on business transactions). Stamp duty on the GST inclusive amount of fees and charges is a tax on a tax and is a significant design flaw of the current taxation system.

6.5.5 Stamp Duties on Property Transfers

In recent years, due to the large increase in property prices, stamp duty paid on both residential and non-residential transactions has come to the fore as an issue requiring an immediate solution. Rising land tax costs have put enormous pressure on small business as the unrealised gain in the value of property has not been met by increased revenue. This has created a perverse situation where the Queensland State Government is significantly benefiting from a cash windfall stemming from stamp duty on business property transfers.

6.5.6 Stamp Duties on Insurance

Commerce Queensland highlights that insurance premiums continue to be a hindrance to business operating circumstances (see Section 5.0) and accordingly recommends a reduction in stamp duty on insurance for businesses. Taxes on insurance in Queensland are inequitable and are actively discouraging companies from adequately protecting their assets with appropriate insurance. Commerce Queensland urges the Queensland State Government to further adjust duty rates to at a minimum ensure that taxation receipts remain neutral to increasing insurance premiums. Commerce Queensland believes it is time for the State Government to reconsider the burden placed on businesses through insurance taxes.

6.5.8 Recommendations:

- Stamp duty on GST inclusive amounts should be immediately removed.
- Stamp duties should be reviewed in detail with the aim of eliminating those that are detrimental to the competitiveness of businesses in Queensland.
- The State Government should give a medium term commitment to abolish stamp duty on business asset transactions.

6.6 Land Tax

6.6.1 Increasing reliance on Land tax

In recent years, due to significant rises in property prices, the issue of land tax has become increasingly important to business. As stated rising land tax costs have put enormous pressure on small businesses as the unrealised gain in the value of property has not been met by an increase in profit margins or revenue. Commerce Queensland believes that because of the land tax regime, industry is increasingly being penalised for operating their businesses. Land tax in Queensland is becoming an increasing burden on both the business community and investors.

As a result of the recent property boom the market value of properties has increased dramatically. This has forced land values up and increased the amount of land tax levied on investors and the business community. As the value of land has risen, so has land tax. As a consequence, businesses frequently find their land tax bill double that paid previously. Land tax receipts since 2000-01 have increased by over \$567 million or 247% with its proportion of State taxation revenue increasing from 4.8% to 7.9%

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	\$ Increase	% Increase
Land Tax	\$230	\$231	\$279	\$313	\$419	\$404	\$485	\$622	\$797	\$567	246.5%
Land Tax as a % of Total State Taxes	4.8%	4.8%	5.0%	4.7%	6.0%	5.5%	5.7%	6.5%	7.9%		3.1%

Dollar values in millions and in current prices

Source: Queensland State Budget Papers, Budget Strategy and Outlook, Budget Paper No.2

6.6.2 Recommendations:

- The Queensland State Government should commit to maintaining the value of the land tax threshold.

- The Queensland State Government should consider increasing the land tax threshold and reduce the rates payable.
- The number of land tax levels and marginal rates should be reduced in the rate structure to simplify land tax administration and make the revenue collection more efficient.

6.7 Compliance Costs

There exists a high compliance burden facing business in relation to business taxes. Commerce Queensland would like to work with both the Federal and State tiers of Government to lower the compliance costs of regulations and taxes. To further this issue we would propose that COAG establish and fund a permanent consultative body of business representatives and policy makers to research and develop practical ways to lower this burden on business. Taxation simplification whilst not significantly impacting on revenues has the potential to deliver enormous benefits to business and accordingly Commerce Queensland recommends reducing the compliance and paperwork burden on all businesses, but on small business in particular.

Recommendation:

- The compliance and paperwork burden of taxes on all businesses must be reduced.

Appendix One

Policy Development & Representation




Workplace Health & Safety



Workplace Relations & Employer Advice



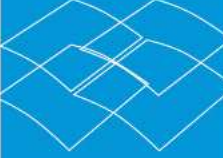
Human Resource Management



International Business



Vocational Education & Training



Eco Efficiency Advice

COMMERCE QUEENSLAND PROFILE

Commerce Queensland is Queensland's largest business organisation and is the trading name of the Queensland Chamber of Commerce and Industry. It has a statewide membership drawn from all industry sectors and has been the state's peak employer body since 1838.

Commerce Queensland is a non-Government organisation that seeks to work with Government and other groups to shape Queensland's economic and social environments in a way that promotes business growth and community prosperity.

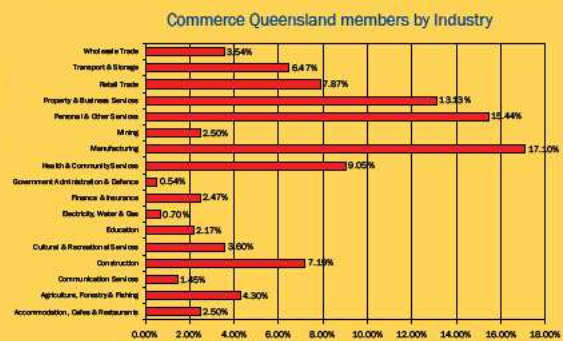
Commerce Queensland is called upon by thousands of enterprises to deliver a broad range of business services including advocacy and representation, workplace and industrial relations, staff development and training, workplace health and safety, environmental management and international business facilitation. We are commercially-minded and expertly-qualified.

Commerce Queensland is a founding member and influential partner of the Australian Chamber of Commerce and Industry (ACCI) and part of the worldwide network of Chambers of Commerce and affiliated business service organisations.

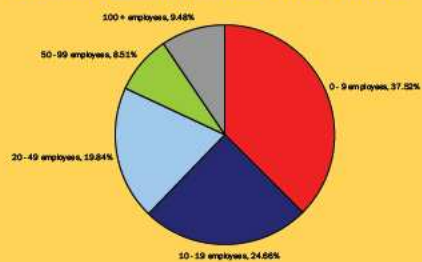
Commerce Queensland has in excess of 3,700 direct members across 8 regional offices and acts for over 135 local chambers of commerce and 60 trade and professional associations. In total, Commerce Queensland represents in excess of 25,000 businesses and our vision is to be the leading facilitator of business success in Queensland.



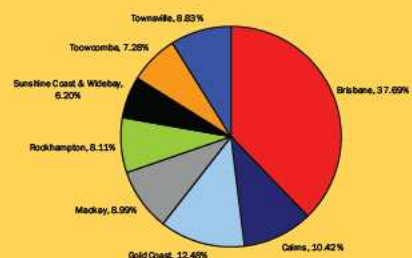
The diversification of Commerce Queensland's membership is illustrated in the following charts:



Commerce Queensland members by Employment Size



Commerce Queensland members by Region



Appendix Two – State Taxation Reform Priorities

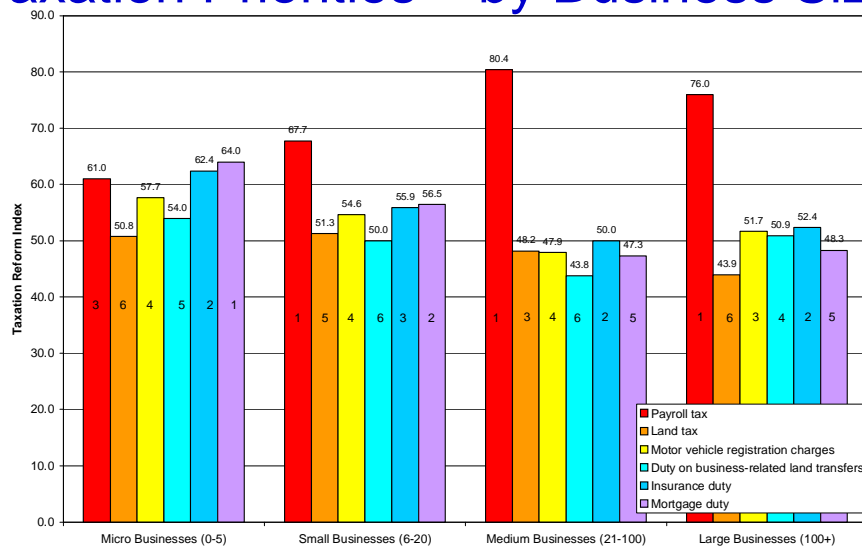
Taxation Priorities – by Business Size

Priority	Micro (0-5 employees)	Small (6-20 employees)	Medium (21-100 employees)	Large (100+ employees)
1	Mortgage Duty	Payroll Tax	Payroll Tax	Payroll Tax
2	Insurance Duty	Mortgage Duty	Insurance Duty	Insurance Duty
3	Payroll Tax	Insurance Duty	Land Tax	Motor Vehicle Registration



Commerce Queensland St George Bank Pulse Survey – December Quarter 2007

Taxation Priorities – by Business Size



Commerce Queensland St George Bank Pulse Survey – December Quarter 2007