

South Australia State Tax Review

February 2015

On Wednesday 11 February 2015, the South Australian government released a discussion paper on reform to the South Australian taxation system. The discussion paper contains a summary of the state's current tax system and options for taxation reform to support business investment and job creation.

Premier Weatherill's press release on the discussion paper is available [here](#).

The South Australia State Tax Review Discussion Paper is available [here](#).

Submissions responding to the Discussion Paper are due on 10 April 2015. Submissions can be made via email at statetaxreview@sa.gov.au.

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Context

The discussion paper cites pressure on the health care system, and costs of investment in education and improvements to the justice system as incentives for taxation reform. The paper notes significant changes in the state economy resulting from the closure of the car industry and other pressures on the manufacturing sector. It emphasizes the role of tax reform in encouraging investment in new industries and businesses.

In addition to reviewing state taxes the government has committed to regulatory and planning reforms aimed at minimizing costs to business.

Outlined in the discussion paper are the implications of the *White Paper on the Reform of Australia's Tax System* and the *Federation White Paper* for the future of tax reform at a state level. It is posited that the current review of the state taxation system enables South Australia to be a substantive and effective contributor to the national tax reform debate.

Key Questions

The key questions arising from the discussion paper are:

- Should the government target tax revenue at a certain level of the economy (GSP) to ensure there is sufficient revenue?
- What are the key state taxes that constrain business expansion and investment and what tax reforms could address this?
- Would an annual property based tax be preferable to conveyance duty? If so, what transition arrangements could be implemented to minimize the impact on property owners?
- What effect would changes to conveyance duty or land tax have on property prices and how would any changes to property prices affect housing affordability and business investment?
- Does the community believe that landholders with a higher value of aggregate land holdings should pay proportionately more land tax than landholders with modest land holdings?
- Does either the payroll tax threshold or payroll tax rate have a greater impact on employment and business expansion decisions?
- Should an annual property tax replace insurance duty?

Key Areas of Reform

Conveyance Duty and Land Tax

Revenue raised from conveyance duty is around 22 per cent of total tax revenue . However it is volatile-with annual growth ranging 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 paper argues that the conveyancing duty is inefficient due to its effect on property transactions for both households and businesses. That is, that conveyancing duty is a disincentive for people to purchase property and for businesses to expand or restructure their businesses. However it is noted that conveyance duty may have cash-flow advantages over an annual property tax because conveyance duty is paid when people have funds from the sale of a previous property or can be factored into the size of a bank loan.

The paper cites various reviews that have called for conveyance duty to be abolished and replaced with a broad-based annual property tax. It is posited that replacing conveyance duty with another tax on property is more equitable as it balances any impacts on asset prices associated with tax reform.

Land Tax

The Australian Future Tax System (AFTS) report found that land tax is less efficient than it could be because it does not apply to all uses of land. Private land tax represents only 8 per cent of total South Australian tax revenues.

The paper recognises that taxes on land have the potential to be a very efficient source of revenue if it is applied with minimal exemptions.

An issue raised is that introduction of a broad based land tax may effect housing affordability and business investment, in particular primary production land. It is noted that though a progressive rate structure may result in larger landholdings paying more tax, in order for the structure to apply fairly, property holdings either need to be aggregated or progressive.

Payroll Tax

Payroll tax is a significant source of State tax revenue. The paper cites the AFTS Report on the impact of payroll tax which suggests that the burden of payroll tax is unlikely to be borne by business (in terms of lower profits) in the long-run. Rather the tax involves some combination of lower wages for employees and higher prices charged by firms who pay payroll tax. The AFTS advocated that payroll tax should eventually be abolished and replaced with a cash-flow tax.

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).

It is argued that phasing out the tax-free threshold would continue to provide small business with a concession from payroll tax but would partially remove the benefit of the tax-free threshold for larger businesses. The paper posits that 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.

Gambling Tax

The Government's regulation of gambling allows businesses to make economic rent (more profit than possible in a competitive market). Revenue from gambling taxes contributes around \$0.5 billion per annum to the Government's finances each year.

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.

In South Australia, separate tax settings apply to gambling in hotels and clubs than to other forms of gambling. SA TAB's current retail exclusivity arrangements will expire at the end of 2016. Therefore 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.

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.

Insurance Tax

The paper posits that taxes on insurance are amongst the most inefficient taxes levied by the Government because it leads people and businesses to underinsure. Revenue generated from these taxes is around \$0.5 billion per annum.

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

It is noted that 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 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 South Australia Tax Review Discussion Paper Overview Document provides key summaries of options under consideration in the paper these summaries have been extracted in the appendix below.



Process

The South Australian government invites submissions from interest groups and the broader community about their views on tax reform.

Interested parties are invited to make a submission to the state tax review.

Time Frame	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 can be lodged via the YourSAy website. www.yourSAy.sa.gov.au

or

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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

Appendix

Appendix 1

Conveyance duty and land tax reform options

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

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
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 pa
Lower top marginal tax rate from 3.7 per cent to 2.5 per cent	-\$74 million pa
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

Source: South Australia Tax Review Overview Document 2015, pp. 10

Appendix 2

Payroll tax reform options

Option	Benefits	Impacts
Lower (remove) tax free threshold and rates	• Increased efficiency and equity	• Small business commences paying
Remove exemptions and lower rate	• Increased efficiency and equity	• Employers currently exempt now 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 could be put towards reform of other more inefficient taxes	• May impact efficiency • Large employers face increase in payroll tax of up to \$29 700 pa

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

Source: South Australia Tax Review Overview Document 2015, pp. 11

Appendix 3

Insurance tax reform options

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

Insurance tax – selected fiscal / incidence impacts

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

Source: South Australia Tax Review Overview Document 2015, pp. 11

Appendix 4

Gambling tax reform options

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

Gambling tax – selected fiscal / incidence impacts

Increase clubs gaming machine tax rate to match hotels <i>Number of clubs worse off</i>	+\$8 million pa (approx.) 75 (approx.)
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Source: South Australia Tax Review Overview Document 2015, pp. 11