Architecture of Australia's tax and transfer system

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Foreword

The fairness and efficiency of our tax and transfer systems are matters that touch the lives of all Australians.

These systems have largely evolved over time, in line with Australian society's demands and expectations. They will continue to evolve in line with the economic, social and environmental changes of the 21st century.

We often think of these systems as being separate, but in reality they are interlinked as one tax and transfer system that operates across and between all levels of government.

The combined effects of the tax and transfer systems can have an impact on the choices individuals and businesses make about working, saving, investing and consuming. This means these systems have a critical role to play in the living standards of Australians, now and into the future.

Australia faces significant economic, social and environmental challenges. The tax and transfer system will have a key role to play in how well we meet these challenges to secure Australia's future prosperity and the living standards of Australians.

As the first instalment of the Australian Government's comprehensive review of the tax and transfer systems, the Australian Treasury, in collaboration with the Department of Families, Housing, Community Services and Indigenous Affairs, the Department of Employment, Education and Workplace Relations and the Australian Taxation Office, has produced this paper — *Architecture of Australia's tax and transfer system*.

The paper describes Australia's tax and transfer systems from a factual and analytical perspective to inform public discussion. While this paper provides comprehensive coverage, it is not intended to be exhaustive, nor is it intended to limit discussion to the issues canvassed in this paper.

This paper does not put forward recommendations for reform. That is the task of the Review Panel.

The Review Panel will set out its plan for consultation and some key focusing questions by the end of August 2008. The questions will help guide the initial consultation and open the way for the community to tell the Panel what it thinks are the key issues to be considered in this review of Australia's tax and transfer systems.

Australian Treasury

Notes

(a) This paper generally uses Australian tax data for 2006-07, as this is the latest year for which data are available for all levels of government.

(b) Figures in tables and generally in the text have been rounded.

(c) The following notations are used:

na	not available
-	zero
*	unquantifiable
$m	$ million
$b	$ billion
cat. no.	catalogue number

(d) References to 'the States' or 'each State' include the Australian Capital Territory and the Northern Territory. The following abbreviations are used for the names of the States, where appropriate:

NSW	New South Wales
VIC	Victoria
QLD	Queensland
WA	Western Australia
SA	South Australia
TAS	Tasmania
ACT	Australian Capital Territory
NT	Northern Territory

(e) The term 'Australian Government' is used when referring to the current government and the decisions and activities made by the Government on behalf of the Commonwealth of Australia.

(f) The term 'Australian government' is used when referring to a past government or governments and the decisions and activities made by past governments on behalf of the Commonwealth of Australia.

(g) The term Commonwealth refers to the Commonwealth of Australia. The term is used when referring to the legal entity of the Commonwealth of Australia.

Contents

LIST OF TABLES

Acronyms

AAT	Administrative Appeals Tribunal
ABS	Australian Bureau of Statistics
ACE	allowance for corporate equity
AG	Australian Government
ATO	Australian Taxation Office
AWOTE	average weekly ordinary time earnings
CBIT	comprehensive business income tax
CCB	Child Care Benefit
CCTR	Child Care Tax Rebate
CGT	capital gains tax
COAG	Council of Australian Governments
COE	crude oil excise
CPI	consumer price index
CTR	corporate tax rate
DEEWR	Department of Education, Employment and Workplace Relations
DGR	Deductible gift recipient
DHS	Department of Human Services
DSP	Disability Support Pension
DVA	Department of Veterans' Affairs
EATRs	effective average tax rates
EMTRs	effective marginal tax rates
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FAO	Family Assistance Office
FDI	foreign direct investment

Acronyms (continued)

FBT	fringe benefits tax
FTB	Family Tax Benefit
GDP	gross domestic product
GST	goods and services tax
GSTAS	GST Administration Sub-committee
HELP	Higher Education Loan Program
HFE	horizontal fiscal equalisation
IGOT	Inspector-General of Taxation
IGR	Intergenerational Report
LITO	low income tax offset
MTAWE	male total average weekly earnings
NTLG	National Tax Liaison Group
OECD	Organisation for Economic Co-operation and Development
PAYG	pay as you go
PBI	public benevolent institution
PRRT	petroleum resource rent tax
PTR	participation tax rate
R&D	research and development
SATO	senior Australians tax offset
SFSS	Student Financial Supplement Scheme
SG	superannuation guarantee
SPPs	specific purpose payments
SRO	State Revenue Office
SSAT	Social Security Appeals Tribunal
VFI	vertical fiscal imbalance

Executive summary

Context of the review

The subject of this review — the tax-transfer system — is a fundamental part of Australia's social and economic infrastructure.

The 'tax-transfer system' refers to the combination of Australia's tax systems and transfer systems, and how they interact. It reflects the demands and expectations of Australians, about the level of income redistribution that should occur and the balance between private and public provision of goods and services.

All taxes and all transfers affect behaviour in some way. They change how much money people have and the incentives they face.

The design of the tax-transfer system also impacts on the distribution of income and opportunity, both between different social groups and between generations. The overall level of taxation and public expenditure, the level and targeting of transfers and the design of both these systems, influence the distribution of income across the Australian community.

A complex and inefficient tax-transfer system imposes costs on society and those more vulnerable in society will bear a disproportionate share of these costs.

Emerging challenges and opportunities

The review is being conducted at a time of significant social, environmental and economic challenges. Some of the challenges are driven by international circumstances, some domestic.

Climate change is likely to generate significant costs, affecting the lives of all Australians. As the world moves towards a low-emissions economy, Australia's response to climate change will impact upon, and make use of, the tax-transfer system.

Given Australia is a small, open and developed country operating in an increasingly globalised world with freer flows of ideas, investment and labour, there is increasing pressure for Australia's tax-transfer system to remain internationally competitive.

The demographic challenge of an ageing population is also profound. As our population ages the proportion of people in the workforce will fall. This has significant implications for economic growth and our future standards of living.

Intrinsic to the policy responses to these issues is the nature of our federation. Coordinated action across governments is imperative.

These challenges are substantial and interact in complex ways with the tax-transfer system. The review provides an opportunity for shaping the tax-transfer system in ways that position Australia to address these challenges, so as to modernise the economy and secure Australia's future prosperity.

An opportunity for reform

Australia's economic position provides an ideal opportunity for reform. The boost to national incomes from the significant increase in the terms of trade due to the resources boom, together with Australia's strong fiscal position, provides a platform on which to base a reform agenda. Given the challenges that lie ahead, it is important to have a tax-transfer system that enhances incentives and rewards effort.

In improving the way the tax-transfer system operates, a key focus will likely be to secure expanded opportunities for those who remain disadvantaged. However, it will be important to ensure that reforms to the tax-transfer system are durable, should the recent strength in the terms of trade abate.

The breadth of this review provides an opportunity to step back from the day-to-day processes and historical events that have shaped the tax-transfer system and consider how it might best be shaped to complement, and even facilitate, the reforms needed to address the challenges facing Australia as we move through the 21st century.

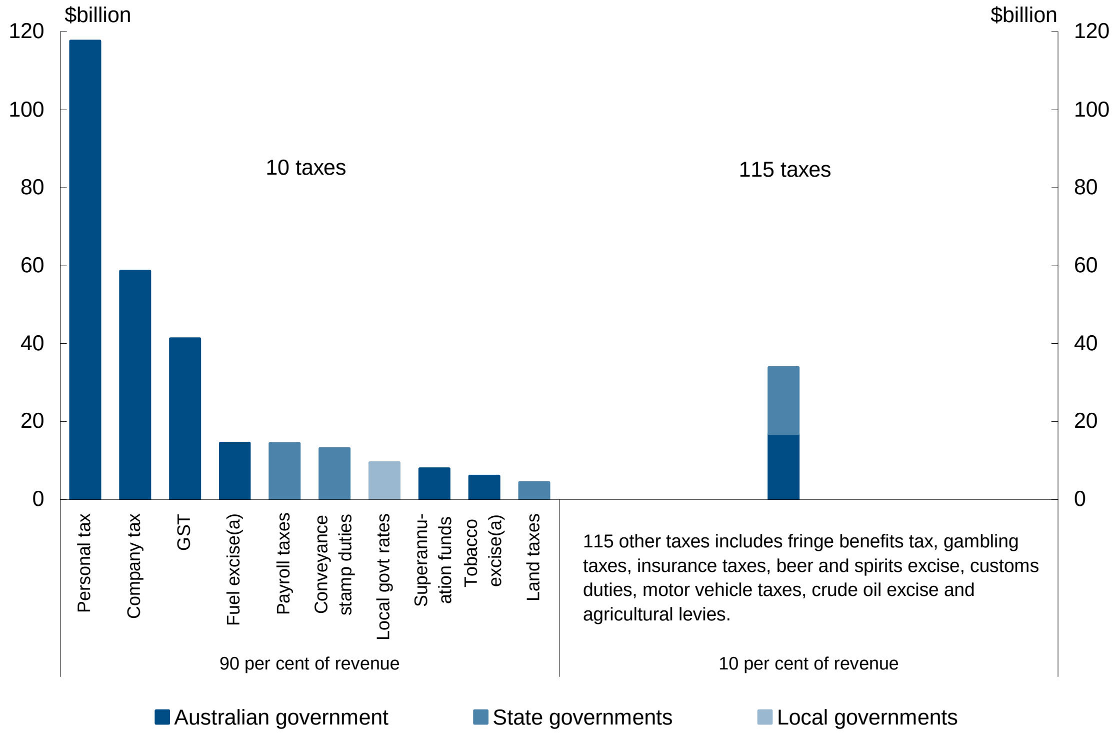
Overview of the tax-transfer system

Taxes

There are at least 125 taxes paid by Australians every year. Of these, 99 are levied by the Australian government, and 25 by the States and 1 by local government.

Of the total tax revenue collected by Australian governments in 2006-07, 90 per cent was derived from 10 taxes. These 10 taxes accounted for 95 per cent of Australian government revenue and over 70 per cent of state tax revenue (including 100 per cent of local government tax revenue). Ten per cent of tax revenue in 2006-07 was contributed by the remaining 115 taxes.

Ranking of Australian taxes by revenue in 2006-07



(a) Fuel excise and tobacco excise includes excise equivalent customs duties for these products.
Source: Budget Paper No. 1 2008-09, Budget Statement 5; ABS 2008a, Australian Treasury estimates.

Many taxes are levied on essentially similar transactions by different Australian governments with little consistency across jurisdictions.

In 2006-07, the Australian government collected $262.5 billion through income tax, GST, taxes on fuel, alcohol and tobacco, customs tariffs and a range of other indirect taxes.

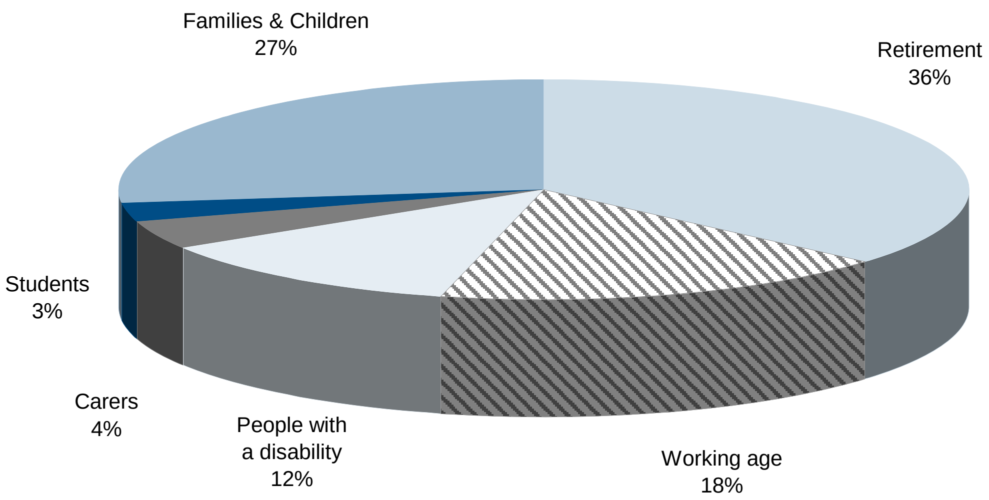
In the same year, the States collected $48.9 billion (with a further $9.4 billion raised through local government taxes) through their own taxes, including those on property, payroll, motor vehicles, gambling and insurance contracts.

Transfers

There are around 40 cash transfers paid to Australians by the Australian government, costing over $70 billion in 2006-07 and representing more than a quarter of Australian government spending.

The main Australian government transfers are income support payments and payments to families, including all Age and other pensions, Newstart Allowance and other allowance payments, Family Tax Benefit and supplementary payments.

Australian government program expenditure by payment group in 2006-07

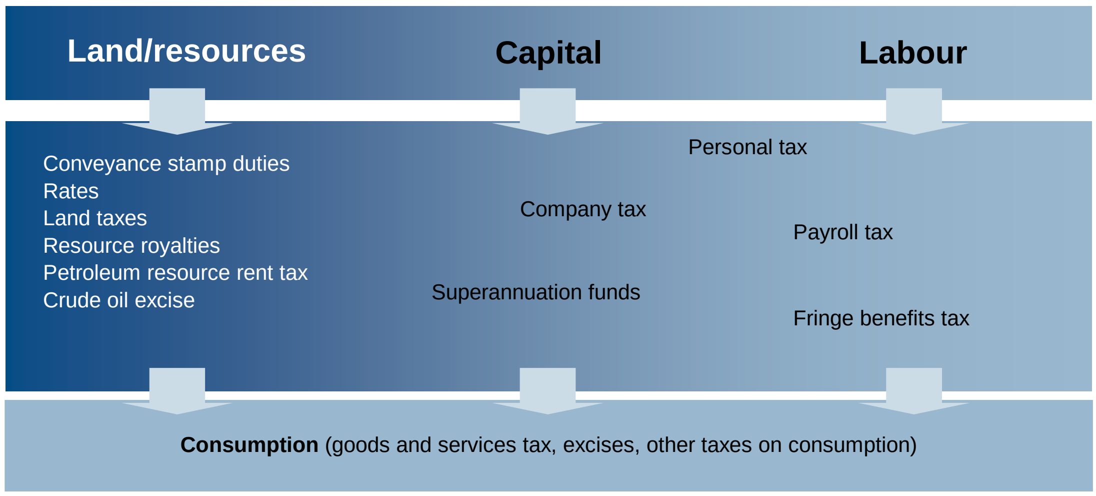


The States make very limited use of direct payments, relying mainly on indirect transfers, such as concessions.

The economic structure of the tax-transfer system

There are many taxes in Australia, all of which are ultimately borne by individuals on the earnings from only three factors of production: labour, capital and land (including natural resources). Individuals end up paying taxes in a range of ways, including as consumers through higher prices, as employees through lower wages, or as shareholders or investors through lower profits.

Relationship between economic bases and taxes



All taxes affect choices by encouraging individuals to shift from higher taxed to lower taxed goods and services or activities, and by lowering their available income. Similarly, transfers can impact on people's choices by increasing available income in certain circumstances. The costs of the tax–transfer system include its impacts on these choices (economic efficiency) and the costs of administering and complying with the system. These costs are significant.

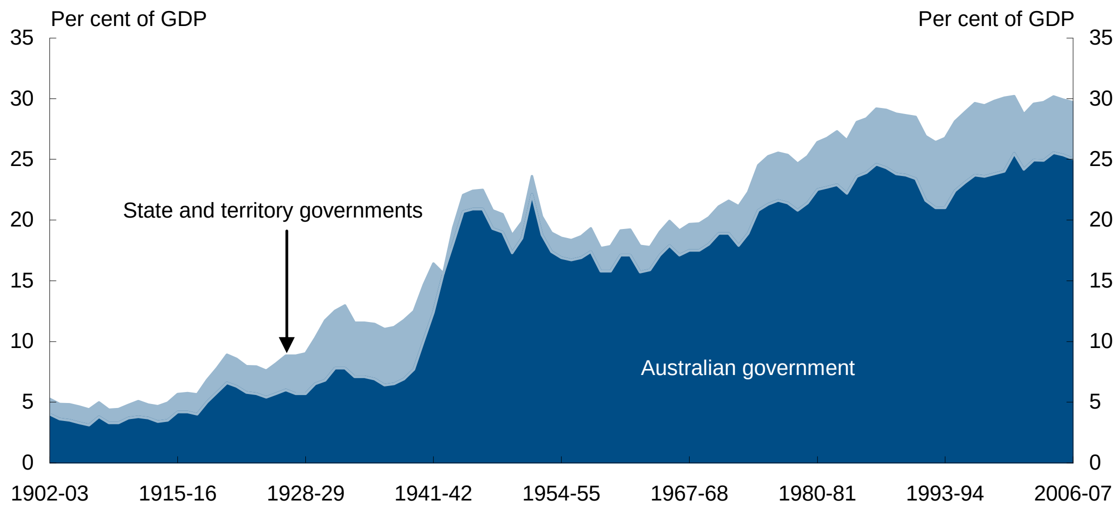
History of Australia's tax-transfer system

There have been two distinct periods in the historical development of Australia's tax system.

From federation to the mid-1970s, the focus was mainly on ensuring there were adequate levels of revenue to fund the increasing social provision of goods and services.

Since the mid-1970s, the focus has been on improving the equity, efficiency and simplicity of the tax system.

Australian government and state taxation (1902-03 to 2006-07)



Source: Budget Papers; ABS (2008a); ABS (2007a).

Transfers have evolved from basic payments linked to war service and old age (with a pension age well above average life expectancy) to a more extensive system of social support.

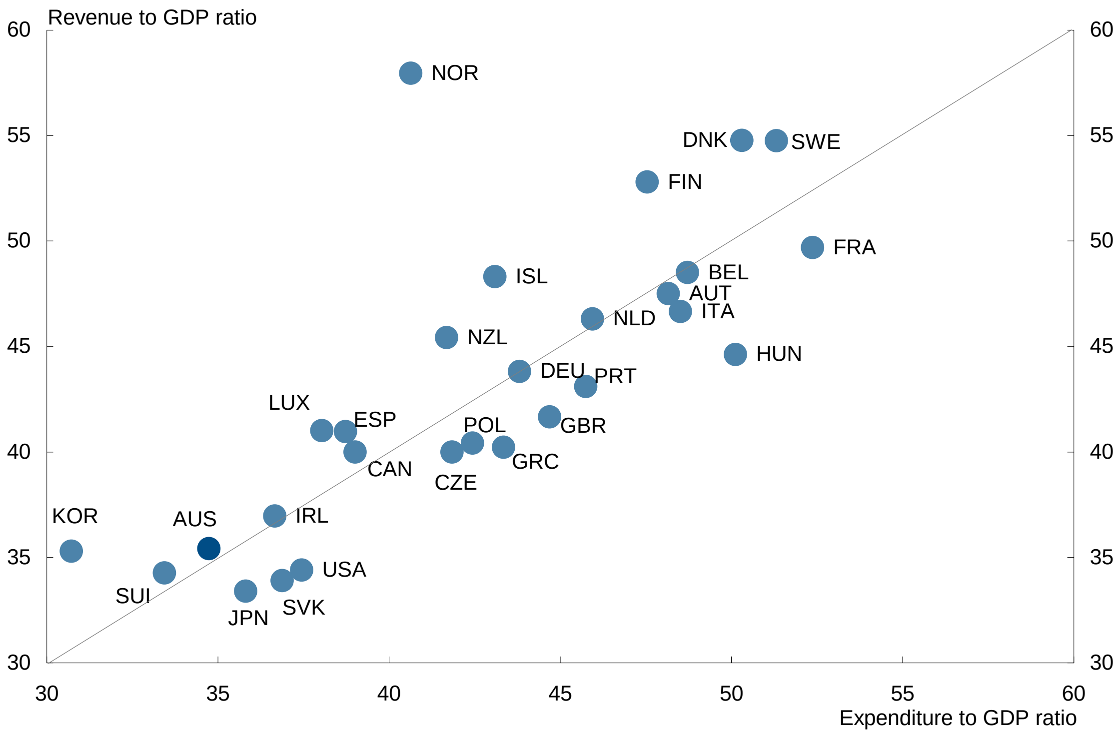
The principles of early transfers set the social support scene for the future — funded from general government revenue, based on circumstances rather than past earnings, and means tested to target assistance.

Since federation, the Australian government has been the predominant revenue raiser and revenue has been redistributed to the States.

Australia's tax-transfer system — an international comparison

By OECD standards Australia is a low tax country — the eighth lowest. Australia is also a low expenditure country — the third lowest in the OECD.

Size of government — OECD 2007[(a)(b)]



(a) Data for Mexico and Turkey not available.
(b) Revenue refers to receipts of tax and non tax revenue.
Source: OECD (2008a).

Our tax to GDP ratio is higher than that of our immediate neighbours, but this reflects the greater role of government in Australia's economy.

Australia's mix of direct and indirect taxes is broadly comparable to other OECD countries, but the composition differs.

Australia and New Zealand are the only OECD countries that do not levy a social security tax and have a dividend imputation system.

By OECD standards, Australia's:

- company tax rate is now above the average;
- reliance on broad-based consumption taxes (such as the GST) is lower than average;
- reliance on revenue from taxes on property is greater;
- top personal income tax rate is average, but the absence of social security tax means we have a higher tax burden on capital income;
- taxes on fuel are low; and
- tax-transfer system is highly redistributive.

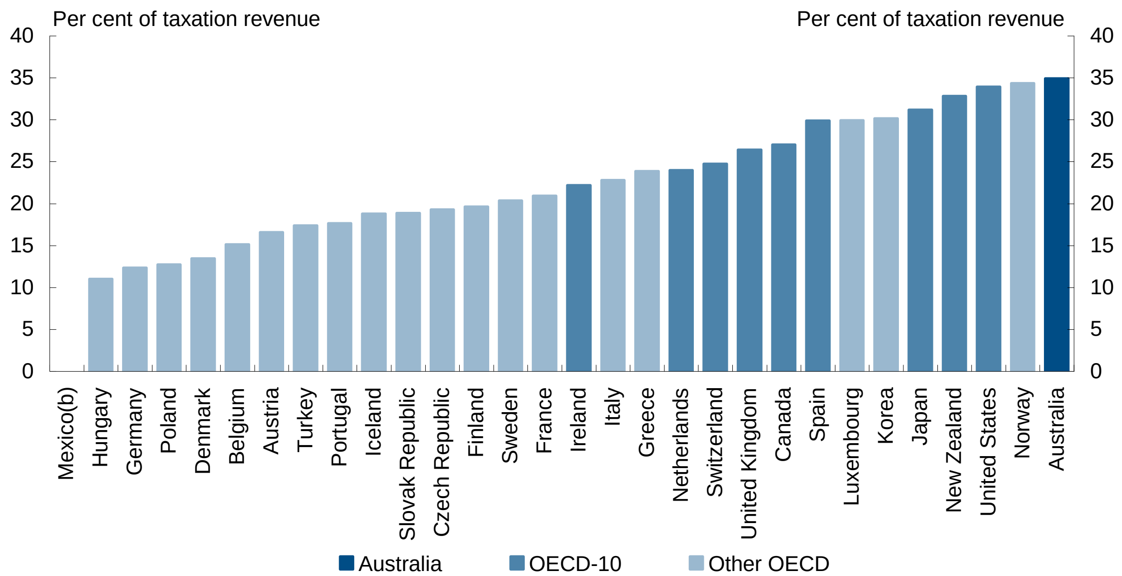
The mix of taxes on work, investment and consumption

Most countries have a tax system based on a mix of taxes on labour income, capital income and consumption.

Australia's tax mix is slightly skewed towards direct taxes on labour income. This accounts for around 40 per cent of revenue. Taxes on capital income account for about 33 per cent, while taxes on consumption account for 27 per cent.

Compared with other OECD countries, Australia has a low share of tax revenue from labour income and the greatest reliance on tax revenue from capital. In part, this reflects the relatively greater contribution of corporate income taxes to total tax revenue.

Estimated capital tax revenue — 2005[(a)]



(a) For Korea, Iceland, Switzerland and Turkey the share of personal income tax revenue derived from capital has been estimated using the average share of other OECD countries.
(b) Data for Mexico not available.
Source: OECD (2007a); Eurostat (2008), Treasury estimates.

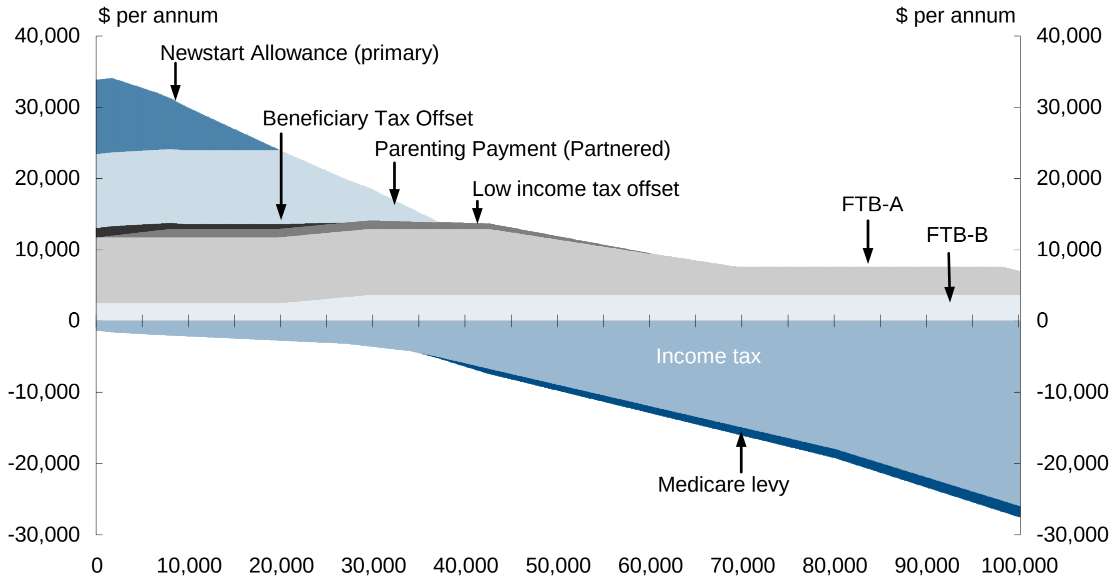
As a share of GDP, the total tax burden in Australia on capital is around 11 per cent (fourth highest in the OECD). The total burden on labour is 12 per cent (fourth lowest in the OECD), and the total burden on consumption is 9 per cent (also fourth lowest in the OECD).

The personal tax-transfer system

The Australian tax and transfer systems are separate systems that combine to affect the disposable income of individuals and families, and their incentives to work, save and invest (including in skills). There are different bases of assessment between and within the two systems, including the definition of income, the unit of assessment, the period of assessment and the basis of eligibility. These differences largely exist to achieve a targeted system, but the result is that the system as a whole is complex.

The combination of the personal tax and transfer systems is progressive and redistributive. There are many families and individuals who receive transfers and pay tax in the same year and from one year to the next. This 'churn' imposes costs on individuals as well as the administration of the system.

Transfers and taxes by level of income
Single income family, two children aged 3 and 8 (2008-09)



Source: Australian Treasury estimates.

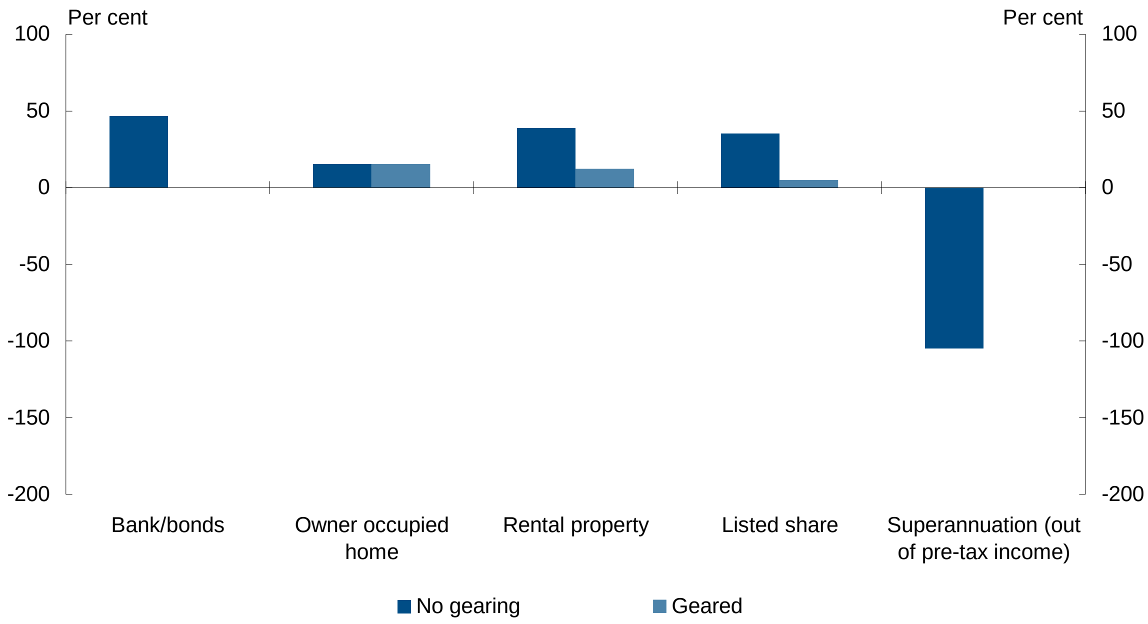
Significant demographic change, including ageing of the population, will influence the affordability of the transfer system in the future. Participation and productivity increases may offset some of the impact of demographic change.

Taxing saving and investment

The level and form of tax affects incentives to save and the level of savings, decisions on the types of investments and how they are financed, and whether investments are made in Australia or overseas.

In Australia the tax system interacts differently across different assets, forms of financing, types of entities and international flows. These different tax treatments can affect savings and investment decisions across the economy, including for housing.

Nominal effective marginal tax rate by asset type and financing arrangement



Source: Australian Treasury estimates.

The rapid growth in cross-border investments has highlighted the importance of international factors when considering how Australia taxes savings and investments. For example, company tax rates overseas continue to fall. There are ongoing challenges to our ability to tax residents on their foreign source income and non-residents on their income from investing in Australia.

Taxing goods and services

Historically, taxes on goods and services have raised revenue in a relatively simple way from narrow bases that are easy to tax. Over time, there has been a shift toward more efficient broad-based taxes such as the GST.

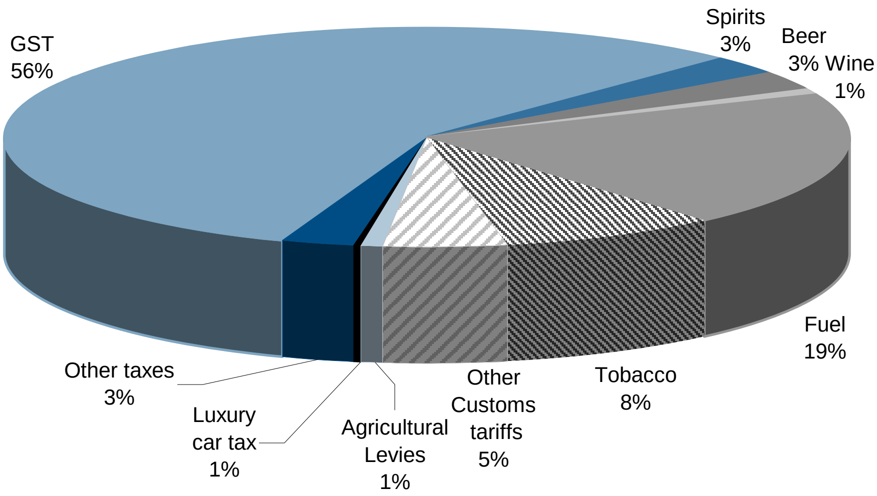
The GST is the principal tax on consumption, contributing over half of Australian government revenue from indirect taxes.

Taxes on specific goods and services still exist, some of which reflect a range of non-tax policy objectives. Some of these taxes are designed to reinforce social policy objectives, or provide assistance to domestic industry.

Specific taxes can also be levied to help correct market failures. For example, an effectively targeted tax creates incentives for individuals to respond to environmental concerns.

Improving technology is making it administratively feasible to replace some taxes with direct user charges.

Australian government taxes on goods and services in 2006-07

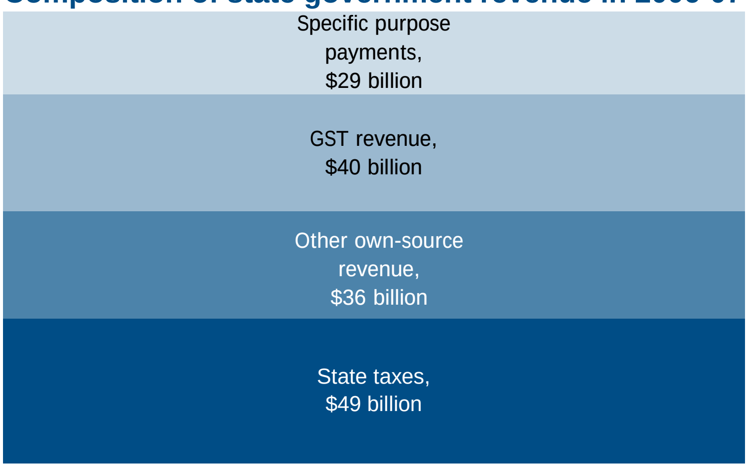


Source: Budget Statement 5, Budget Paper No. 1, 2008-09, Australian Customs Service Portfolio Budget Statement; Australian Treasury estimates.

State taxes

In 2006-07, taxes levied by the States accounted for 15 per cent of total tax revenue in Australia. Together with the States' other own-source revenue, this represented around 55 per cent of their total revenue. The remainder consisted of transfers from the Australian government.

Composition of state government revenue in 2006-07



Source: ABS (2008a); Australian Government (2007c).

State taxes have changed over time in response to the High Court's interpretation of the Constitution, and interstate competition.

The current array of state taxes includes transaction taxes and taxes levied on narrow tax bases. Thresholds, rates and the range of exemptions from these taxes differ between the States.

There are limited opportunities for the States to introduce new taxes, so often they have looked to narrowly-based taxes to realise some gain from a rapidly growing area of their economy.

The fiscal relationship between the Australian government and the States is characterised by 'vertical fiscal imbalance'. The States' own revenue sources are insufficient to fund their expenditure responsibilities, but the Australian government's revenue sources are greater than is necessary for its responsibilities.

There are both costs and benefits of this imbalance.

Some of the costs can include accountability problems in decision making, shifting responsibility for providing services, and the provision of a service being influenced by the relevant government providing the funding.

On the other hand, some of the benefits can include lower administration and compliance costs from a national tax system and increased opportunities for people to receive the same standard in national services.

Complexity and operating costs of the tax-transfer system

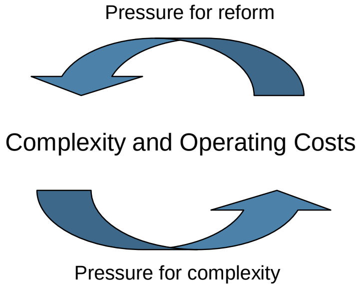
There are no reliable estimates of the complexity or operating costs of the tax-transfer system but there is a strong sense in the community that they are too high.

An excessive level of complexity impedes the ability of taxpayers and transfer recipients to make optimal decisions, diverts resources from more valuable uses, and gives rise to planning opportunities that undermine the fairness of the system. The impacts of this complexity tend to be greatest on those with the least capacity to deal with them.

A certain level of complexity and operating costs is required to implement the tax-transfer system in a manner that is efficient and equitable. However, at some point, equity or efficiency is likely to be compromised by increasing complexity.

Current levels of complexity and operating costs are likely to be above the level that is optimal for society as a whole. Two important reasons for this are incremental development of tax-transfer policy, based on partial assessments of the associated benefits and costs, and income maximising behaviours of taxpayers and transfer recipients. Broad reforms provide an opportunity to take a systemic view of the trade-offs between simplicity and other policy objectives.

A cycle of complexity



Household assistance measures for the Carbon Pollution Reduction Scheme

The Australian Government is committed to providing assistance to households for the introduction of the Carbon Pollution Reduction Scheme. The assistance is designed to help meet the overall cost of living from the scheme, especially for low-income households.

The mechanism for the delivery of assistance and the existing tax and transfer system will be considered by the Australia's Future Tax System review.

Introduction

In the 2008-09 Budget, the Australian Government announced a comprehensive review of Australia's tax system. The review will examine the current tax system and make recommendations to create a tax structure to help Australia deal with the social, economic and environmental challenges of the 21st century. The review will consider the relationships between Australia's tax systems and its transfer systems and other concessions (hereafter referred to as the 'tax-transfer system').

The review is being conducted by Dr Ken Henry AC (chair), Dr Jeff Harmer, Professor John Piggott, Ms Heather Ridout and Mr Greg Smith.

The Review Panel is supported by a working group from the Treasury, and is drawing on other Australian government and state agencies. The review will engage with the States and draw on external expertise where appropriate.

The scope of the review is broad, covering most aspects of the Australian government and state and territory (hereafter referred to as state) tax-transfer systems. However, the review is required to reflect the Australian Government's policies: not to increase the rate or broaden the base of the goods and services tax (GST); to preserve tax-free superannuation payments for the over 60s; and to take account of the Australian Government's announced aspirational personal income tax goals. The terms of reference for the review are at Appendix A.

The Review Panel will consult widely to allow community and business input. To assist this process, the terms of reference require the Treasury to release this paper on the architecture of the current system, including an examination of the existing tax rates and bases. This paper contains both a factual and an analytical description of Australia's tax-transfer system. It does not include any recommendations, as these must await the Review Panel's consultative processes and deliberations.

Under its terms of reference, the Review Panel is to make recommendations (due by the end of 2009) to enhance overall economic, social and environmental wellbeing, with a particular focus on ensuring there are appropriate incentives for:

- workforce participation and skill formation;
- individuals to save and provide for their future, including access to affordable housing;
- investment and the promotion of efficient resource allocation to enhance productivity and international competitiveness; and
- reducing tax system complexity and compliance costs.

As part of the review, the Minister for Families, Housing, Community Services and Indigenous Affairs, the Hon Jenny Macklin MP, announced that Dr Harmer is to investigate measures to strengthen the financial security of carers and seniors. Dr Harmer, who is the Secretary of FaHCSIA, will report by 28 February 2009 on:

- the appropriate levels of income support and allowances, including the base rate of the pension, with reference to the stated purpose of the payments;
- the frequency of payments, including the efficacy of lump sum versus ongoing support; and
- the structure and payment of concessions or other entitlements that would improve the financial circumstances and security of carers and older Australians.

A reference group, drawn from representatives of relevant groups, will support the carers and seniors component of the wider review. Submissions for Dr Harmer's review will be invited in August 2008, and consultations will be held across Australia later in the year.

Structure of this paper

The first two sections of this paper set the context for the review and provide a description of Australia's tax-transfer system.

The remaining 10 sections explore a range of topics relevant to the architecture of the system and the terms of reference, including:

- an economic perspective of the structure of the system;
- a historical perspective;
- some relevant international comparisons;
- the mix of taxes on work, investment and consumption;
- the personal tax-transfer system;
- the taxation of savings and investment;
- the taxation of consumption;
- state taxation;
- the complexity of the tax-transfer system; and
- assistance for the Carbon Pollution Reduction Scheme.

As noted in the Foreword, while the paper provides a comprehensive coverage, it is not intended to be exhaustive, nor is it intended to limit discussion to those issues canvassed in the paper.

A separate companion document prepared by FaHCSIA will be issued shortly, which looks in more detail at elements of the transfer system, including assistance for seniors, people with a disability and carers. This document will provide a background paper for the work to be pursued by Dr Harmer, supported by the reference group.

1 Context of the review

1.1 Introduction

The tax-transfer system is a fundamental part of the social and economic infrastructure of Australia. Its evolution reflects the demands and expectations of Australians, especially in relation to the balance between private and public provision of goods and services, and the level of income redistribution that should occur. These roles must be financed by government revenue.

At the Australian government level, the majority of this financing is done through the tax system. At the state level, the situation is not as clear. To help fund the services their citizens expect, States rely on payments from the Australian government (largely the GST and specific purpose payments) and a wide range of non-tax revenues (such as fees and charges) to supplement their own taxes.

Key determinants of how much tax needs to be raised are the level of income redistribution that society wants and its desired level of government provided goods and services — such as health and education services, defence and security, infrastructure and roads, appropriate forms of regulation, and support for social institutions.

The method for achieving income redistribution also has an impact on how much tax needs to be raised. For example, tax settings or tax collection mechanisms that more accurately reflect individuals' net tax-transfer positions require less tax to be raised and distributed.

At a macroeconomic level, the tax-transfer system also affects outcomes in the aggregate economy through its role as an 'automatic stabiliser' of fluctuations in economic growth. When the economy is growing more strongly, tax revenue will grow and transfers will tend to fall as a proportion of national income. This improves the government budget position, moderating the rate of expansion in the economy, unless a decision is taken to offset the increase in the budget through increased spending or reduced taxes. In periods of slower economic growth, the automatic stabilisers operate in the opposite direction, moderating the extent of the slowdown and the implications for unemployment and incomes.

All taxes and all transfers affect behaviour in some way. They change how much money people have and the incentives they face. For example, high levels of taxes on salary and wages reduce the disposable income of salary and wage earners, but can also make leisure (or at least doing unpaid work) more attractive. Put another way, it can dampen the incentive to work more to earn more money. In a similar way, the tax-transfer system can dampen incentives to save and invest.

The design of the tax-transfer system also impacts on the distribution of income and opportunity, both between different social groups and between generations. The overall level of taxation and expenditure, the level and targeting of transfers and the design of both these systems, influence the distribution of income across the Australian community.

1.2 Emerging challenges and opportunities

The review is being conducted at a time of significant social, environmental and economic challenges. Some of the challenges are driven by international circumstances, some domestic. To deal with these challenges cooperation across levels of government is needed. At its meeting on 3 July 2008, the Council of Australian Governments (COAG) noted the need to continue to progress reforms to boost productivity, increase workforce participation and mobility, and deliver better services for the community. COAG is progressing work on a wide range of fronts, including business deregulation and competition, health and ageing, education and training, housing, indigenous policy reform, infrastructure, climate change and water. These reforms will be underpinned by a new financial relations framework. Much of this work recognises that the States deliver, or at least facilitate, many of the services required by Australians, yet the Australian government raises the largest share of tax. The COAG reforms do not contemplate fundamentally redressing this imbalance.

A key driver of the urgency of COAG's reform agenda is the likely slowing of economic growth, due to our ageing population. This demographic challenge is profound. The second Intergenerational Report (IGR), released on 2 April 2007, makes clear that as our population ages the proportion of people in the workforce will fall. This has significant implications for economic growth and our future standards of living. Over the next 40 years economic growth is projected to slow, with growth in real per capita gross domestic product (GDP) to average 1.6 per cent per year compared with 2.1 per cent over the past 40 years. A quarter of the population is projected to be aged 65 or over by 2047 (almost double that today). Consequently, spending pressures in areas such as health, age pensions and aged care are projected to rise considerably.

Climate change is likely to generate significant costs, affecting the lives of all Australians. These costs will only increase with delay in mitigation activity. Recognising this, the Australian Government has committed to introducing a Carbon Pollution Reduction Scheme to curb greenhouse gas output in Australia. The Australian Government's Green Paper (Australian Government 2008c) sets out how the scheme will operate, including the preferred approach regarding the allocation of pollution permits and the nature of assistance for households and industry.

Given Australia is a small, open and developed country operating in an increasingly globalised world with freer flows of ideas, investment and labour, there is increasing pressure for Australia's tax-transfer system to remain internationally competitive. This is particularly important for the taxation of investment income because of the ease with which investment can be switched between alternative activities and locations, and the capacity to shift profit between jurisdictions. Of course, tax is not the only determinant of international investment decisions (a skilled workforce and high quality infrastructure are also significant), but it is nonetheless important.

Intrinsic to the policy responses to these issues is the nature of our federation. Coordinated action across governments is important. For example, COAG has acknowledged that Australia's overlapping and inconsistent regulations on business impede productivity growth. COAG noted that without change, Australia's future living standards would be compromised, the competitiveness of the economy reduced and our ability to meet the challenges posed by an ageing population diminished. Benefits of coordinated action should be balanced, where appropriate, with the need for States to tailor arrangements to be relevant to local issues.

These challenges are substantial and interact in complex ways with the tax-transfer system. The review provides an opportunity for shaping the tax-transfer system in ways that position Australia to address these challenges.

1.3 An opportunity for reform

Australia's economic position provides an ideal opportunity for reform. The boost to national incomes from the significant increase in the terms of trade due to the resources boom, together with Australia's strong fiscal position provides a platform on which to base a reform agenda. Given the challenges that lie ahead, it is important to have a tax-transfer system that enhances incentives and rewards effort.

In improving the way the tax-transfer system operates, a key focus will likely be to secure expanded opportunities for those who remain disadvantaged. However, it will be important to ensure that reforms to the tax-transfer system are durable, should the recent strength in the terms of trade abate.

It makes economic sense to design the tax-transfer system in a way that has minimal impact on incentives to work, save and invest and that achieves the intended outcomes with minimal complexity. This will allow Australia's productive resources to be better utilised. For example, every extra hour spent by households and business grappling with the myriad of tax rules and obligations (including the different regimes across the States) is an hour not used to produce goods and services (including utilising leisure time), that are of higher value to Australians. Likewise, every dollar needed to fund the administration of the tax-transfer system is a dollar that needs to be raised through taxation. Given the regressive nature of complexity, a complex and inefficient system is also likely to fall short of expectations for a fair distribution of opportunities and risk throughout the community.

The current tax-transfer system is a product of historical changes reflecting a range of policy objectives. Since federation, the primary focus of reforms has shifted from expanding the revenue base to fund growing expenditure programs, to improving the performance of the system in terms of its efficiency and equity, and reducing complexity, recognising that all three impact on the wellbeing of Australians.

It has been around 30 years since the last fundamental review of the tax system and around 20 years since the last major review of the transfer system. The Taxation Review Committee (the Asprey Review) which reported on 31 January 1975 provided a comprehensive set of proposals for reform of the Australian government tax system. Much of this agenda has been enacted over the ensuing 30 years. The income tax base has been broadened through capital gains tax and fringe benefits tax, the taxation of companies has been reformed through the imputation system, and a broad-based goods and services tax has been adopted. Similarly, on the transfer side, the reform agenda set by the Social Security Review (1986-88) introduced significant changes across all major social security programs.

Australia is now facing a different set of challenges. The breadth of this review provides an opportunity to step back from the day-to-day processes and historical events that have shaped the tax-transfer system. It is an opportunity to consider how the system might best be shaped to complement, and even facilitate, the reforms needed to address the challenges facing Australia as we move through the 21st century.

2 Overview of the tax-transfer system

Outline

This section provides an overview of the structure of the tax-transfer system, describing the taxes and transfers that comprise the system and the administrative framework that supports the system.

Key points

- Governments in Australia levy at least 125 different taxes. The 10 largest taxes account for over 90 per cent of the revenue raised by all governments in Australia. Moreover, many taxes are levied on essentially similar transactions by different Australian governments with relatively little harmonisation across jurisdictions.
- Governments provide transfers to individuals and families as direct payments and concessions. There are a significant number of income support, family and supplementary payments, with interlinking and overlapping application for different individuals and family types, as well as various tax concessions. State transfers are largely provided through housing assistance and concessions, some of which are linked to Australian government transfers.
- Tax is largely administered by a single agency in each jurisdiction. There are strong parallels between the roles and functioning of the Australian government and state administrative systems for tax.
- Australian government transfer system administration and policy formation rests with a large number of Australian government agencies. There is considerably less in the way of a dedicated administrative structure for transfers at the state level.

2.1 What the tax-transfer system looks like

Chart 2.1 provides a schematic representation of Australia's tax-transfer system, illustrating the way in which it impacts on individuals' economic behaviour. It also depicts the elements of the tax-transfer system that are relevant to the operations of Australian businesses. This is indicated by the light blue background shading to the tax elements of the chart. The chart is not intended to be a comprehensive representation of the tax-transfer system. Instead it summarises the major elements of the system and the key linkages between them.

At the core of the system are Australians who make choices about: investing in education; engaging in paid or unpaid work (such as family care responsibilities and home services); how much to spend and on what goods and services; and how much to save and to allocate to alternative investments. These choices are interdependent. The tax-transfer system can impact on these choices through one or more channels. For example, decisions about how much to work are influenced by the availability of income support, the rate of withdrawal of that support as income is earned, the potential loss of other concessions, the rate of tax on earned income and, if child care is required, the net cost to the individual of that care after allowing for government subsidies.

In Australia's federal system of government, taxes and transfers are administered by several levels of government. The separate Australian, state and local government systems are interlinked and can be thought of as one tax-transfer system with multiple components. Individuals tend to interact with the Australian government tax-transfer system, and the tax systems of the State and locality in which they reside. In contrast, businesses that operate across several States, or nationally, interact with multiple state tax systems and many local governments, in addition to the Australian government system.

The Australian government's role in the tax-transfer system is considerably larger than that of the States. While there is some overlap between their roles, the types of taxes and transfers administered by the Australian government and the States differ. This is in contrast to some other federations, such as Canada, where the federal government and the provinces and territories have the same or similar taxes and transfers.

On the Australian government side, individuals interact directly with four elements of the tax-transfer system: personal income tax; superannuation; taxes on goods and services; and transfers (including cash payments and non-tax concessions). Through the personal income tax system, individuals also interact with company tax.

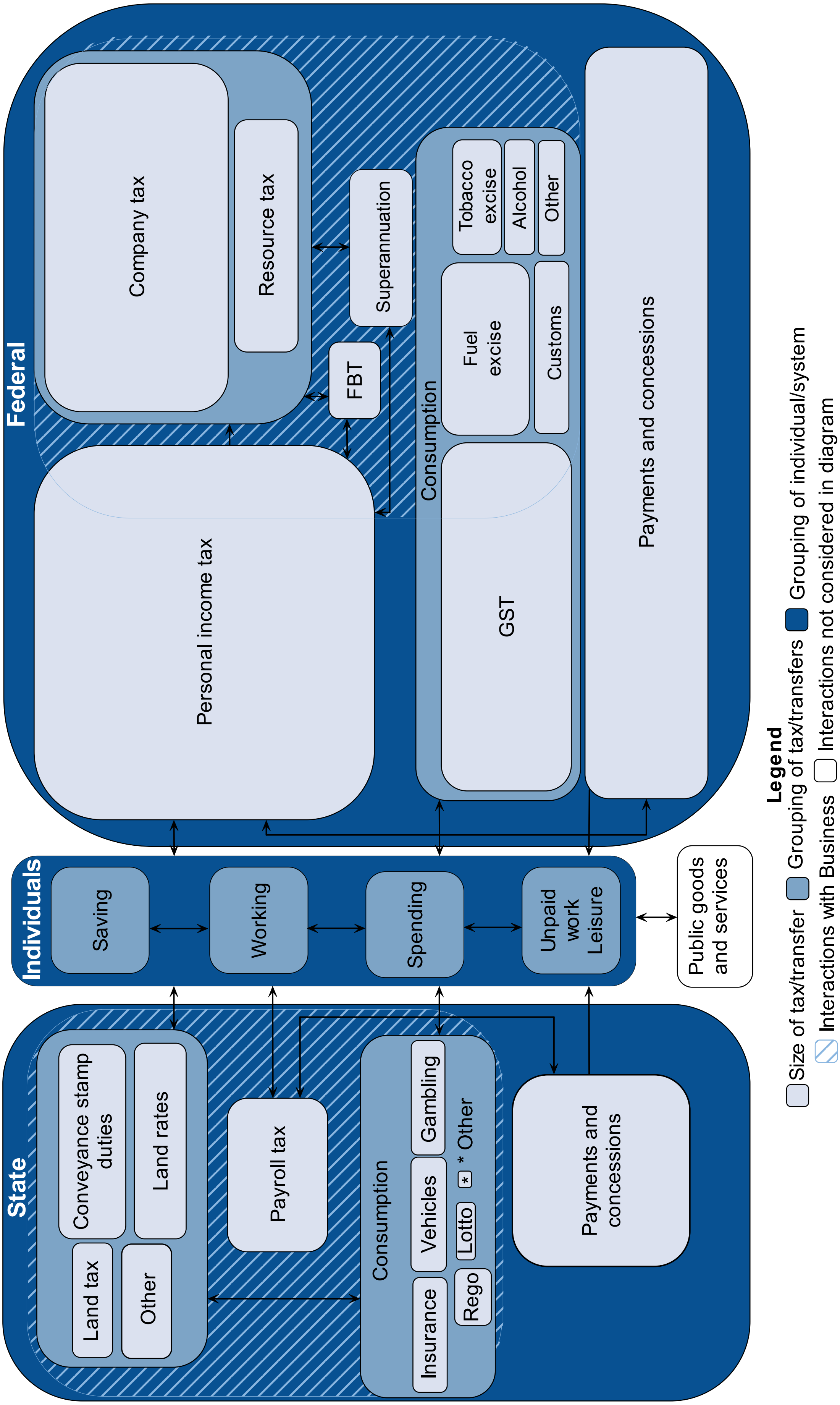
On the state side, individuals interact with a more restricted transfer system and a range of indirect and property taxes. They may also be indirectly affected by payroll tax via their employer, if liable to pay the tax.

Many Australians also interact with governments via government-provided services such as health and education. These services fall outside the scope of the review.

The tax-transfer system not only impacts on individuals but also on business. It is business that remits much of the personal income tax to the ATO through pay as you go (PAYG) withholding. Businesses may be required to pay fringe benefits tax (FBT) and make superannuation guarantee payments on behalf of their employees. Businesses also interact with the tax-transfer system in their own right — for example, through the company income tax system, the payment of payroll tax, GST, excise, various taxes on land, and a range of other taxes levied on business inputs. These interactions are represented in Chart 2.1 by the light blue background shading. Businesses operating in more than one State, or nationally, interact with multiple Australian and state government tax systems.

Some individuals and businesses conduct economic activity outside the tax-transfer system in the 'underground economy'. The size of the underground economy is difficult to determine but is considered by the ABS to be between 1 and 2 per cent of GDP (Box 2.1).

Chart 2.1: Schema of the tax-transfer system



Box 2.1: The size of the underground economy

The underground economy consists of legitimate economic activity that is not reported to government agencies. By its nature, the underground economy cannot be measured directly. Estimates of its size must rely on indirect approaches, some of which are methodologically contentious.

The ABS makes adjustments to its estimates of the income side of GDP based on information from aggregated income tax audits. The adjustments for 2000-01 added 1.3 per cent to the unadjusted level of GDP.

In 2003, the ABS (2003) attempted to identify the highest possible values for activity in the underground economy through a highly disaggregated analysis of the components of the income side of the GDP account. This work suggested that the largest possible adjustment to the income side of GDP to account for the underground economy would be around 5 per cent.

Breusch (2005) estimated that the cash economy probably accounts for between 1 and 2 per cent of observed GDP.

2.2 Components of Australia's tax-transfer system

Tables 2.1 and 2.8 summarise the main taxes and transfers of the Australian government and the States (including local government). A more detailed listing of the various taxes and transfers is provided at the end of this section, along with various tables describing tax bases and rate structures.

2.3 Many Australian taxes

Australians pay at least 125 different taxes each year. Of these, 99 are levied by the Australian government (including 67 agricultural levies), 25 by the States and 1 (council rates) by local government. The exact number of taxes is difficult to determine and may be higher than these estimates. This reflects ambiguity in distinguishing when a payment to government represents a separate tax or part of a broader tax and whether a payment is a tax rather than a fee for service (see Box 2.2 for further discussion). The estimates above take a conservative approach to these issues and therefore may understate the number of taxes paid by Australians.

Similarly, the estimates treat equivalent taxes levied by different States as one tax rather than up to eight different taxes. From the perspective of individuals or businesses operating across more than one jurisdiction, equivalent taxes levied by different States might be viewed as separate taxes, since they need to be accounted for separately and typically differ in terms of rates, thresholds and exemptions. Viewed from this perspective, there could be as many as 160 different state taxes (excluding local government rates) and 259 taxes nationally (excluding local government rates).

Box 2.2: What is a tax?

The ABS defines taxes as 'compulsory, unrequited transfers to the general government sector' and taxation revenue as 'revenue arising from compulsory levies imposed by government' (ABS 2005). This is consistent with the International Monetary Fund definition, which is based on the United Nations description of taxes as 'compulsory unrequited payments, in cash or in kind, made by institutional units to government units' (United Nations 1993, paragraph 8.43).

It is difficult to determine the precise number of taxes. Statistical agencies are concerned with classifying revenue rather than counting the legal or administrative mechanisms by which it is raised — the individual taxes. While personal income tax, the GST and company tax are clearly separate taxes, there are many cases where a particular type of payment could be regarded as a separate tax or as a subset of a broader tax. For example, capital gains tax (CGT) could be regarded as a separate tax or as a part of the income tax. This paper takes the latter view. Superannuation guarantee payments by an employer (other than the superannuation guarantee charge) are not payments of tax because they directly benefit the employee and are not made to government. The penalty component of the superannuation guarantee charge can be considered a tax but not the amount that is transferred to the employee's account.

A core characteristic of a tax is that there is no clear and direct link between the payment of the tax and the provision of goods and services to the taxpayer. The funds that the government raises from taxes may be used to provide goods or services to the community as a whole, and this may provide a benefit to the taxpayer, but the payment will still be considered a tax if there is no direct relationship between the amount of the payment and the benefit to the taxpayer. Where a government agency recovers the costs of supplying a product or service to an individual, the revenue is classified as non-tax revenue. Only if the fees charged exceed the agency costs are the payments (or part of the payments) classified as a tax.

The economic definition of a tax used in this paper may differ at the margin from the legal meaning of the term. In the context of the Commonwealth Constitution (s 51(ii)), a tax is 'a compulsory payment raised for government and public purposes which is not a payment for services rendered or a penalty, the exactions of which are not arbitrary and the liability for which is not incontestable' (LexisNexis 2008).

Table 2.1: Australian, state and local government taxes

Tax type	Revenue 2006-07 ($million)	Tax base description	Taxpayers and collection points	Number of taxpayers (approximate)
Australian government taxes				
Individuals and other withholding taxes	117,614	Taxable income of individuals, including from wages, salaries, allowances, interest, dividends and rents	Remitted by employers or paid by individuals through instalments to the ATO on an annual assessment	11.5 million
Company tax	58,538	Taxable income of companies	Paid by companies quarterly to the ATO	730,000
Goods and services tax	41,208	Taxable supplies of goods and services and taxable importations of most goods	Paid by registered entities to the ATO. Collected by Customs from importers at the border, or deferred and paid to the ATO	2 million
Excise duty	22,734	Fuel products, alcohol and tobacco	Paid by the manufacturer or owner of the goods to the ATO	400
Superannuation funds	7,879	Contributions to and earnings of superannuation funds	Paid by superannuation funds to the ATO	285,000
Customs duties	5,644	Various imported goods, including textiles, clothing and footwear and motor vehicles	Collected at border by Customs	na
Fringe benefits tax	3,754	Taxable benefits provided to employees (or their associates) in respect of their employment	Paid by employers to the ATO	69,000
Petroleum resource rent tax	1,594	Profits above a normal rate of return from extracting petroleum	Paid by companies extracting petroleum from most offshore petroleum projects	42
Wine equalisation tax	651	Wine and wine products, cider, perry, mead and sake	Paid by producers and/or wholesalers to the ATO	1,900
Agricultural levies	608	Various agricultural products	Paid by intermediaries (wholesalers, agents, brokers, processors, exporters etc) and/or agricultural producers to Levies Revenue Service	9,100
Luxury car tax	365	Vehicles with a GST-inclusive value above the luxury car threshold	Paid by suppliers to the ATO	1,100
Other taxes	1,922	Comprised primarily of revenue from other regulatory taxes, industry levies and licence fees		
Total Australian government tax revenue	262,511			
State taxes				
Payroll tax	14,398	Employers' payrolls, including most forms of employee benefits	Paid by employers via monthly returns to State Revenue Offices	na
Stamp duty on conveyances	13,054	Value of properties upon transfer	Paid by new purchasers via licensed legal and accounting firms, financial institutions or direct lodgement at State Revenue Offices	na
Motor vehicle taxes	5,915	Value of vehicles upon transfer and other fees associated with the registration of vehicles	Paid by new owners of vehicles and registered drivers	na

Table 2.1: Australian, state and local government taxes (continued)

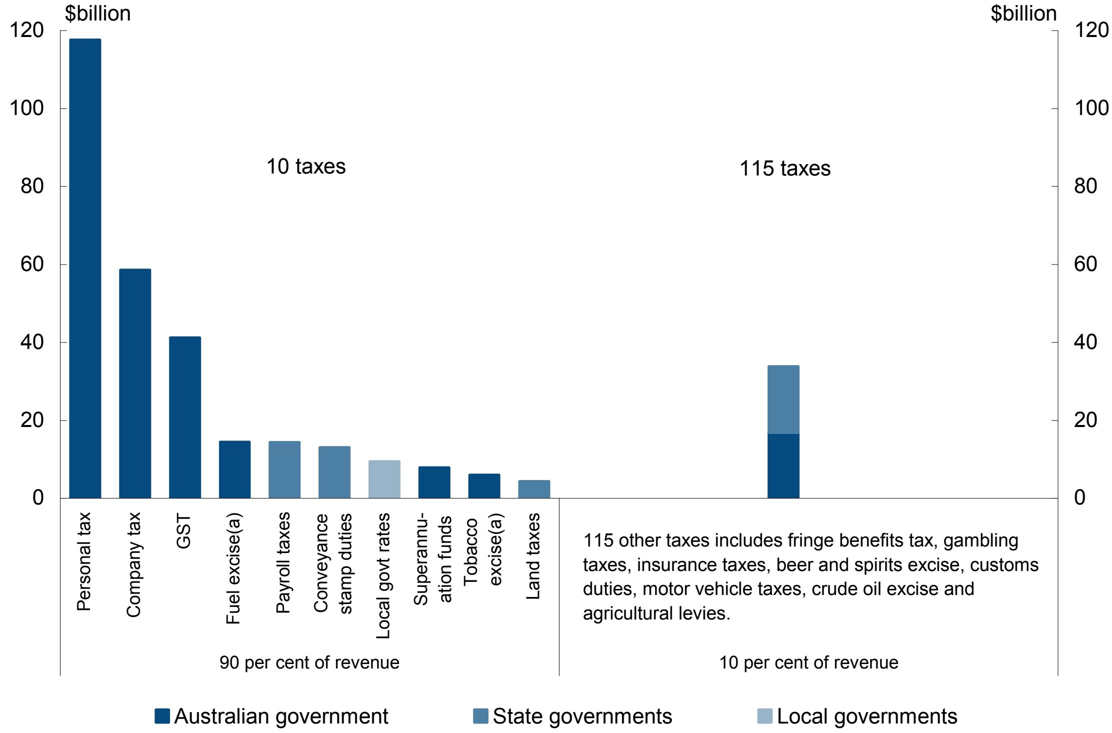
Tax type	Revenue 2006-07 ($million)	Tax base description	Taxpayers and collection points	Number of taxpayers (approximate)
State taxes (continued)				
Gambling taxes	4,772	Generally 'player loss' from various forms of gambling, including lotteries, gaming machines, casinos and racing	Paid by licensees (generally via monthly return) to State Revenue Offices in most States except Victoria where it is paid to the Victorian Commission for Gambling Regulation	na
Land tax	4,358	Unimproved value of land, generally exempting principal places of residence and land used in agricultural production	Paid by relevant landholders via annual account issued by State Revenue Offices	na
Insurance taxes	3,714	Insurance premiums and insurance policies	Generally paid by insurers via monthly return to State Revenue Offices, although Victorian insurance companies pay the levy directly to the metropolitan and country fire brigades	na
Other taxes	2,700	Includes a range of other levies and financial transaction taxes		
Total state tax revenue	48,911			
Local government taxes				
Municipal rates	9,388	Value of properties. Rates vary by jurisdiction and type of land. In some jurisdictions, local government tax revenue may also include other taxes on immovable property.	Paid by property holders via annual rates notice issued by local government authorities	na
Total local government tax revenue	9,388			
Total Australian government, state and local government taxation	320,299			

na: not available.

Source: Revenue for Australian government taxes is sourced from Budget Strategy and Outlook, 2008-09, Statement 5: Revenue. Revenue for state and local government taxes is sourced from ABS (2008a). The total for Australian government, state and local government taxation is different to the sum of the totals for each level of government because of intergovernmental taxes. Number of taxpayers sourced from information from the ATO, Australian Treasury and the Department of Agriculture, Fisheries and Forestry.

Of the total tax revenue collected by Australian governments in 2006-07, 90 per cent was derived from just 10 taxes (Chart 2.2). These 10 taxes accounted for 95 per cent of Australian government tax revenue and 70 per cent of state tax revenue (including 100 per cent of local government tax revenue). Ten per cent of tax revenue in 2006-07 was contributed by the remaining 115 taxes.

Chart 2.2: Ranking of Australian taxes by revenue in 2006-07



(a) Fuel excise and tobacco excise includes excise equivalent customs duties for these products.
Source: Budget Paper No. 1 2008-09, Budget Statement 5; ABS 2008a, Australian Treasury estimates.

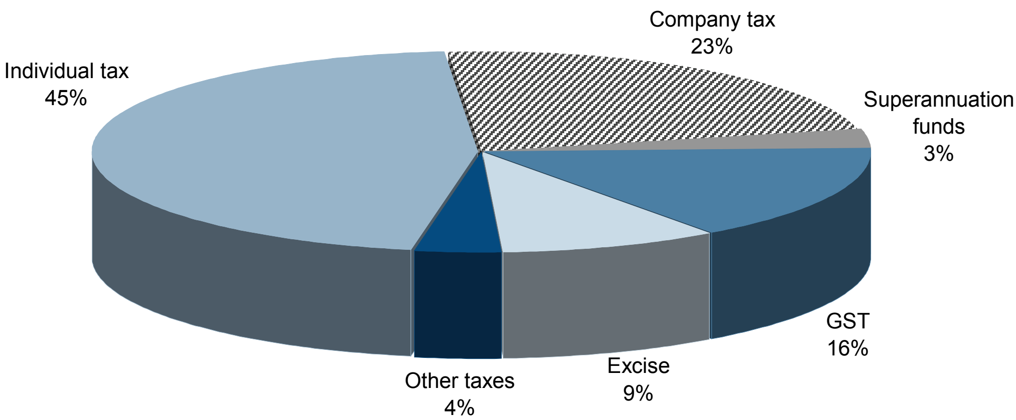
2.4 Australian government taxes

In 2006-07, the Australian government collected $262.5 billion in tax.[1] Income tax levied on individuals and companies is the most significant source of tax revenue for the Australian government, accounting for around 70 per cent of its tax revenue (Chart 2.3, Panel A). Taxes on goods and services provide around a quarter of Australian government tax revenue. Of this, GST raises over half, while a third is derived from taxes on fuel, alcohol and tobacco (Chart 2.3, Panel B). Revenue from customs tariffs and a number of smaller taxes and levies contributes less than 10 per cent.

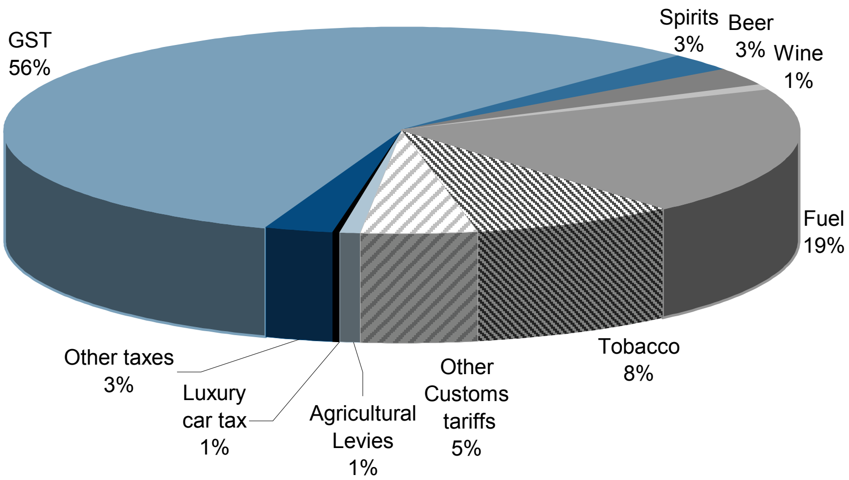
1 Australian tax revenue data are generally for 2006-07 as this is the latest year for which data are available for all levels of government.

Chart 2.3: Australian government sources of tax revenue in 2006-07

Panel A: Sources of tax revenue



Panel B: Revenue from taxes on goods and services



Source: ABS 2008a; Budget Statement 5, Budget Paper No. 1, 2008-09, Australian Customs Service Portfolio Budget Statement; Australian Treasury estimates.

Personal income tax

In Australia, personal income tax is levied on nominal income. Generally thresholds are not indexed but some thresholds and amounts are indexed, mostly to the consumer price index (CPI).

The individual is generally the unit of assessment for the personal income tax system. However, some income tested programs applied to individuals, such as the Medicare levy surcharge and senior Australians tax offset, take into account a spouse's income and/or family circumstances.

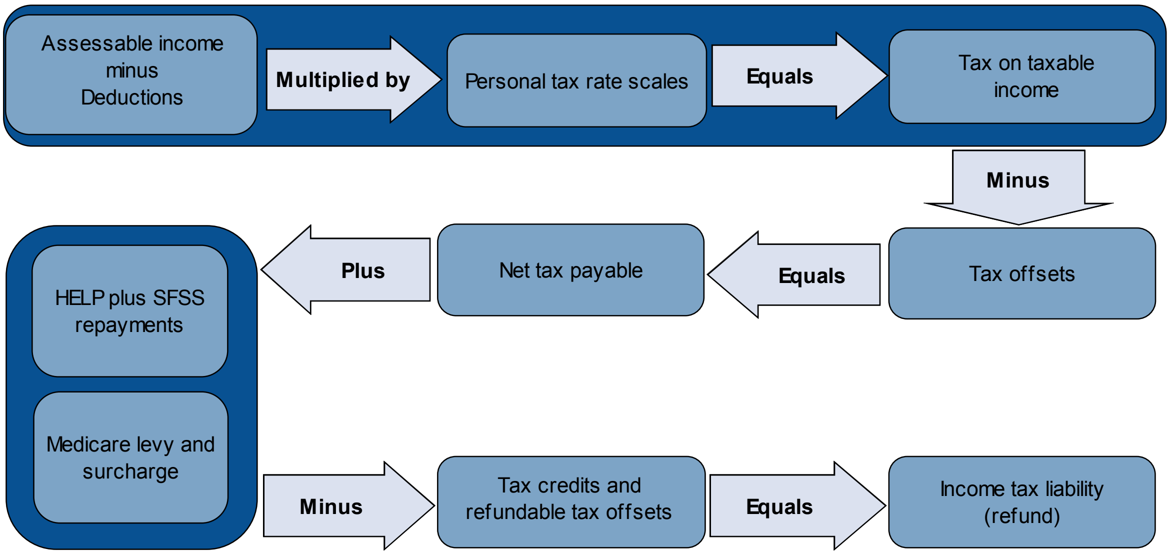
The period of assessment is the income year, which for most individuals corresponds to the financial year. As a general rule, income is assessed and deductions for expenses are allowed in the year they arise, although special rules apply for allowable capital expenditures.

Most appreciating assets are assessed on a realisation basis. That is, in the year of disposal CGT applies to the net gain on the asset during its period of ownership. Broadly, the capital gain or loss from the disposal of an asset is calculated as the difference between the capital proceeds from the disposal and the asset's cost base. Capital gains or losses arise by way of 'events' that centre on the disposal of an asset or a change in ownership of an asset.

Calculating an individual's income tax liability

The calculation of an individual's personal income tax liability or refund is illustrated in Chart 2.4.

Chart 2.4: Calculation of an individual's income tax liability (or refund)



Assessable income

The personal income tax base is broad. Assessable income includes: salary and wage income; allowances; dividends; interest; capital gains; business income; pensions; rents; royalties; partnership income; and distributions from trusts.

Individuals who are Australian residents, as a general rule, pay tax on their Australian source income and their foreign income. Non-resident individuals are subject to Australian tax on their Australian source income.

A broad array of tax concessions, each applicable to specific taxpayers or activities, can reduce the tax liability of individuals. These concessions may take the form of: exemptions from income tax for particular forms of income; deductions; offsets; reduced rates of tax; or deferrals of tax liability.

Assessable income consists of ordinary income and statutory income.

- Ordinary income comprises amounts that have the character of income according to judicial interpretation. It generally comprises: returns to labour such as salary or wages; returns from passive investments such as rent or dividends; and returns from a business. Amounts paid periodically (such as pensions) generally constitute ordinary income.
- Statutory income generally comprises gains in wealth that are specifically included within assessable income by the operation of the income tax legislation (for example, capital gains).

- Assessable income does not generally include income from gifts or hobbies. Returns from owner-occupied housing, such as capital gains, are not taxable and no deduction is allowed for related expenses.

Some forms of ordinary and statutory income are made exempt from income tax, including a number of payments made under social security and family assistance legislation (for example, Disability Support Pension for those under Age Pension age, Family Tax Benefit Parts A and B, Maternity Immunisation Allowance and most supplementary payments).

Some other forms of ordinary and statutory income are made non-assessable and non-exempt, which means they are both excluded from a taxpayer's taxable income and ignored when working out how much of a taxpayer's losses can be carried forward to be offset against future income. An example of non-assessable, non-exempt income is fringe benefits. Dividends, interest or royalties paid to a non-resident are subject to a withholding tax and are also made non-assessable and non-exempt. An individual's assessable income may be reduced through salary sacrifice arrangements (see Box 2.3).

The capital gains of an individual from an asset held for at least 12 months may be eligible for a 50 per cent discount, reducing the amount included in assessable income by half of the realised gain. Non-resident individuals only pay tax on capital gains on a limited range of assets.

Box 2.3: Salary sacrifice arrangements

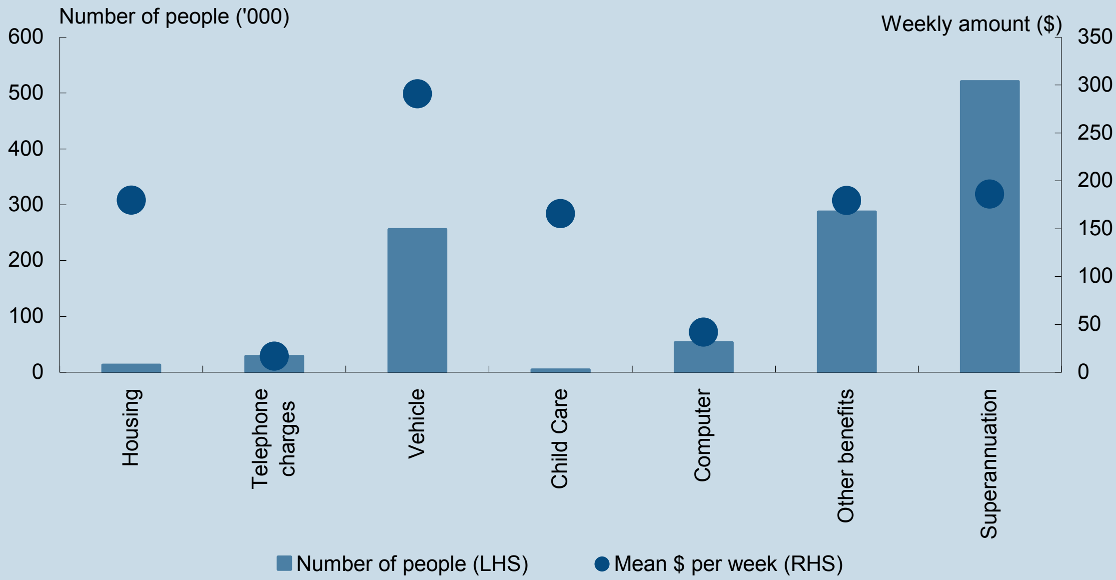
Under a salary sacrifice arrangement, an employer and an employee agree to reduce the employee's salary or wages in return for non-cash benefits. The arrangement means that an individual is subject to less tax on their salary or wages, while their employer may be required to pay tax on their non-cash benefits (this is discussed further in relation to FBT).

Technological changes mean that it is now much easier for employers and employees to utilise salary sacrifice arrangements. Several companies specialise in providing these arrangements, further enhancing their accessibility.

Chart 2.5 shows that superannuation is the most common item for which salary sacrifice arrangements are utilised (around 520,000 individuals), while motor vehicles represent the highest average amount (approximately $290 per week).

Chart 2.5: Salary sacrifice by category

Number of people and average amount per week in 2005-06



Source: Australian Treasury estimates.

Deductions

The personal income tax system allows for a range of general and specific deductions. Private expenses are not generally deductible.

General deductions are available for any loss or outgoing to the extent that it is incurred in gaining or producing assessable income or is necessarily incurred in carrying on a business for the purpose of gaining or producing assessable income. These include work-related expenses and expenses incurred in earning business or investment income (other than capital expenses). In the case of allowable capital items, deductions are spread over a number of years.

Work-related expenses are claimed by a high proportion of taxpayers and account for the largest amount of personal taxpayer deductions.

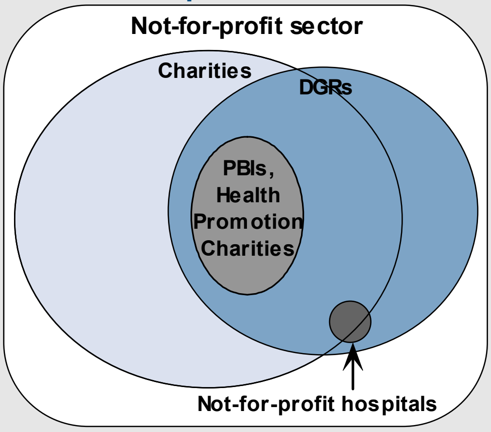
Individuals can deduct the costs of self-education expenses that have sufficient connection to their current employment. These costs are not deductible if the new skills are for a new career direction. The costs of training employees, as with other costs incurred in earning assessable income or carrying on a business, are generally deductible for the employer.

A range of specific deductions are also allowed in the income tax law — for example, for certain superannuation contributions, donations to organisations with deductible gift recipient status (see Box 2.4), and the expenses an individual incurs in managing their tax affairs.

Box 2.4: Tax concessions for philanthropic organisations

Organisations endorsed as charities and/or deductible gift recipients (DGRs) are eligible for various tax concessions. There are currently around 50,000 endorsed charities and approximately 25,000 DGRs. Chart 2.6 indicates the overlap between charity and DGR status.

Chart 2.6: Relationship between charities and DGRs



Charities

Charities are eligible for a range of tax concessions, including refunds of imputation credits, income tax exemptions and GST concessions. To be eligible for endorsement as a charity, an organisation must be operated for public charitable purposes. Charitable purposes are: the relief of poverty, sickness, or the needs of the aged; the advancement of education; the advancement of religion; and other purposes beneficial to the community. A charity can only carry on a business or commercial enterprise where that activity is merely incidental to its charitable purpose.

DGRs

DGRs are eligible for refunds of imputation credits, GST concessions and deductible gifts. In order to be a DGR, an organisation must fall within one of the general categories set out in the gift provisions of the *Income Tax Assessment Act 1997*, or be specifically listed by name under those provisions.

The general categories of DGRs include: public benevolent institutions (PBIs); public universities; public hospitals; approved research institutes; arts and cultural organisations; environmental organisations; school building funds; and overseas aid funds. As specific listing involves a legislative amendment, the general approach of government has been to consider DGR listing only in exceptional circumstances and where the organisation can demonstrate that it contributes to the broad public interest.

Negative income returns (where deductions exceed assessable income) arising from one source of assessable activity can generally be offset against an individual's other income. Non-commercial losses and capital losses are exceptions. For example, capital losses arising from assets subject to CGT can only be offset against capital gains. Box 2.5 provides further detail about the treatment of losses.

Box 2.5: The tax treatment of losses

Whenever a taxpayer has a 'tax loss' their taxable income for that period is generally deemed to be zero. The tax loss may be carried forward indefinitely and deducted against assessable income of a later income year.

Restrictions apply to the utilisation of losses in certain circumstances.

- Capital losses can only be offset against capital gains. They are quarantined from other losses and are not deductible from a taxpayer's taxable income. As is the case with income losses, they can be carried forward and offset against capital gains in a later income year.
- Non-commercial losses are losses arising from non-commercial business activities. They can only be offset against income from the same activity unless at least one of four tests for deductibility against other income (which cover the assessable income, real property, other assets or profits of the business activity) is satisfied, or the Commissioner of Taxation exercises a discretion to allow the loss to be deducted. The non-commercial loss rules do not apply in certain circumstances — for example, to some primary producers or activities that do not constitute a business, such as passive investments.
- While losses can be carried forward indefinitely, their utilisation by companies may be subject to a continuity of ownership test and same business test. The continuity of ownership test limits the extent to which the benefit of applying a loss can accrue to individuals who did not incur the loss. The same business test relaxes the continuity of ownership test where a business conducts essentially the same business activity in the year the loss is incurred and when it is claimed. Similar rules apply to income losses that are carried forward in a trust, but they do not apply to trust capital losses.

There are a number of provisions that make certain types of tax losses easier to use or ensure the value of the loss does not erode over time. Certain expenditure may be eligible for a refundable tax offset (research and development and films). Under the petroleum resource rent tax, carried forward losses are indexed to ensure the value of the loss is maintained.

Taxable income

An individual's taxable income is determined annually by subtracting their deductions and any prior year taxable losses from their assessable income.

Where, in aggregate, there is insufficient assessable income to fully offset deductions in the tax year, the individual will have a taxable loss. A taxable loss, unused CGT losses and non-commercial losses can be carried forward indefinitely and offset against assessable income in a future period, subject to certain loss offset restrictions (see Box 2.5). Losses derived from unrestricted activities, such as net rental losses, may be offset against income from any source, including capital gains.

Where an individual has taxable income for the income year, the personal tax rate scale is applied to determine their gross tax liability. The existing and projected personal rate scales for resident individuals are summarised in Table 2.2 (a separate tax rate scale applies to non-resident individuals). The Australian Government has announced an aspirational goal of reducing the number of personal income tax rates to three (15 per cent, 30 per cent and

40 per cent) by 2013-14. This goal is dependent on national and international economic conditions and maintaining, as a general principle, sound budget surpluses.

Under the PAYG withholding system, amounts are withheld from certain types of payments or transactions made by payers to payees (including salary and wages). These withheld amounts are remitted to the ATO and go toward meeting the payee's tax liability for the year. The excess of withheld amounts over the final amount of tax assessed for the year is refunded to the taxpayer.

Table 2.2: Current and projected personal tax rate scale for resident individuals

From 1 July 2008		From 1 July 2009		From 1 July 2010	
Taxable income ($)	Rate (%)	Taxable income ($)	Rate (%)	Taxable income ($)	Rate (%)
0 — 6,000	0	0 — 6,000	0	0 — 6,000	0
6,001 — 34,000	15	6,001 — 35,000	15	6,001 — 37,000	15
34,001 — 80,000	30	35,001 — 80,000	30	37,001 — 80,000	30
80,001 — 180,000	40	80,001 — 180,000	38	80,001 — 180,000	37
180,001 +	45	180,001 +	45	180,001 +	45

Offsets

Tax offsets can be applied to reduce an individual's tax liability. A range of offsets apply in the current system, including the low income tax offset, senior Australians tax offset, zone tax offset, foreign income tax offset, lump sum payment in arrears and employment termination payment tax offset, and the superannuation contribution annuity and pension tax offset (see Table 2.10). Most offsets are non-refundable. That is, they can only reduce an individual's net tax liability to zero. However, a refund can be claimed for some offsets where the value of the offset exceeds the individual's tax liability.

From 1 July 2008, a 50 per cent education tax refund can be claimed for eligible education expenses. Eligible families can claim up to $750 of eligible expenses for each child undertaking primary school studies (equivalent to a refund of up to $375 per child per year) and $1,500 for each child undertaking secondary school studies (a refund of up to $750 per child per year).

Medicare levy, Medicare levy surcharge, and Higher Education Loan Program/Student Financial Supplement Scheme repayments

In addition to basic income tax, individuals are subject to the Medicare levy, which is a general income tax levied at a rate of 1.5 per cent of taxable income and paid into the Consolidated Revenue Fund. Low-income individuals and families are not liable for the Medicare levy. For those taxpayers with income marginally above the relevant threshold, the Medicare levy is currently phased in at a rate of 10 cents for each dollar of taxable income above the relevant threshold. In addition, some taxpayers are able to obtain an exemption from the Medicare levy based on their current circumstances (for example, members of the Australian Defence Force who are provided with fee-free medical services).

The Medicare levy surcharge is an additional 1 per cent tax, payable by individuals with a taxable income above the relevant income threshold who do not have prescribed levels of private health insurance.

Where relevant, Higher Education Loan Program (HELP) repayments and Student Financial Supplement Scheme (SFSS) repayments are added to the individual's income tax assessment to determine their final tax liability (or refund). The HELP and SFSS payments are education loan schemes, managed through the tax system. HELP is described in Box 2.6.

Box 2.6: The Higher Education Loan Program (HELP)

Students in higher education are required to contribute to the cost of their education. Students can either pay their contribution upfront, with a 20 per cent discount, or defer the contribution via a Higher Education Loan Program (HELP) loan (formerly the Higher Education Contribution Scheme).

Students who choose to defer their contribution repay the loan through the tax system in future years when their taxable income exceeds a specified threshold ($41,595 in 2008-09). The repayment rate starts at 4 per cent and increases incrementally to 8 per cent for incomes of $77,248 and above. The deferred payment arrangements allow students who are unable to pay for their tuition upfront to participate in higher education.

The student contribution differs between courses. The contributions are set with reference to the potential higher lifetime wages that students receive from completing particular degrees. A lower student contribution rate applies to courses that the Australian Government determines are of national priority. From 1 January 2009, these courses will be education, nursing, mathematics, statistics and science.

Table 2.3: Student contribution for courses commencing from 1 January 2009

	Student contribution band	Student contribution range (per EFTSL[(a)])
Band 1	Humanities, behavioural science, social studies, foreign languages, visual and performing arts	$0 — $5,201
Band 2	Computing, built environment, health, engineering, surveying, agriculture	$0 — $7,412
Band 3	Law, dentistry, medicine, veterinary science, accounting, administration, economics, commerce	$0 — $8,677
National Priorities	Education, nursing, mathematics, statistics, science	$0 — $4,162

(a) Equivalent Full Time Student Load.
Note: For this purpose, income is defined as taxable income plus any net rental losses, reportable fringe benefit amounts and exempt foreign employment income. Outstanding loan balances are indexed each year to movements in the CPI.

Income from sole traders, partnerships, and trusts

The business and investment income of individuals operating as sole traders or as partners in a partnership is attributed to the individuals. In the case of a partnership, the income is attributed in proportion to each partner's share and included as part of their income or loss. The net losses of a partnership can be offset against the other income of the partners. The sale of a partnership interest is treated as a sale of the partnership assets by the relevant partner.

The treatment of trust income is broadly similar, with individuals including income to which they are entitled in their assessable income. However, a trust loss cannot be passed through to the individual beneficiaries of a trust. The sale of an interest in a trust is treated separately from the underlying trust assets. Further, income that is not attributable to a beneficiary of the trust is taxed in the hands of the trustee at the highest personal income tax rate, plus the Medicare levy.

Company income tax

Company income tax is levied at a rate of 30 per cent on the taxable income of Australian companies, including incorporated and unincorporated associations, limited partnerships and some corporate unit trusts and public trading trusts. Special tax rates apply to pooled development funds, to certain classes of taxable income of life insurance companies, credit unions and non-profit companies, to retirement savings account providers and to First Home Saver Account providers.

A group of wholly-owned entities headed by a company is able to elect to be treated as a single company for income tax purposes (known as 'consolidation'). Consolidation allows the income and losses of a wholly-owned group of companies to be pooled.

The calculation of taxable income for companies is generally the same as for individuals, but with some significant exceptions. These exceptions include that companies do not benefit from any discount on their net capital gains, as do individuals and superannuation funds, and that companies alone receive the research and development tax concessions, among other tax concessions. Further, most income from direct offshore investment by an Australian resident company is exempt from company income tax, regardless of whether it is retained offshore, paid as a dividend to the company or realised as a capital gain.

Under Australia's dividend imputation system, Australian shareholders receiving 'franked' dividends are provided a credit for company tax paid. A dividend can be franked up to the company tax rate of 30 per cent (fully franked), provided the company pays sufficient tax to cover the level of franking. Australian shareholders include the 'grossed-up' value of dividends (dividend income plus the franking credit) in their taxable income. They are then able to offset their income tax liability with the franking credit. Where the franking credit exceeds the amount of tax they would otherwise have to pay, they can claim the offset as a refund if they are: an individual; a complying superannuation fund; a life insurance company where the dividends relate to shares held for the benefit of policy holders; or an eligible tax exempt body or deductible gift recipient, such as a charitable institution.

Withholding taxes

Equity investments in Australia by non-residents are primarily subject to Australian tax through company income tax. Unfranked dividends, unless they constitute conduit foreign income, are subject to a final withholding tax upon distribution to the non-resident.

Final withholding taxes are also levied on interest, royalties and certain distributions to non-residents from Australian managed investment trusts. These taxes are generally levied on a gross basis (that is, on the gross income without allowing deductions) at a flat rate that varies depending on the type of income and whether a tax treaty applies. Income subject to a final withholding tax is excluded from assessable income for the purposes of Australian income tax.

Fringe benefits tax

Most non-cash payments to employees are taxed separately under FBT, which is paid by employers and is levied at the top personal income tax rate plus the Medicare levy (currently 46.5 per cent). Australia is one of two countries in the OECD that levy a separate fringe benefits tax instead of embedding it within their personal income tax system.

Fringe benefits are not included in the employee's taxable income but the value is included on their payment summary on a 'grossed-up' basis — that is, the value of the fringe benefit is increased to reflect the value of income tax (at the top personal rate) that would be paid if the fringe benefit were purchased out of after-tax income by the employee. A range of benefits are excluded from these reporting requirements, such as the hiring or leasing of entertainment facilities. The value of reportable fringe benefits is then taken into account for the purposes of the income tests for most transfer programs, including income support and family assistance.

A range of fringe benefits are exempt from FBT, including: minor benefits (currently subject to a threshold of $300); recreational or child care facilities on employer premises; small business employee car parking; housing benefits provided to employees in remote areas; certain eligible work-related items; and taxi travel to or from the workplace. These benefits are excluded from the fringe benefits reporting requirement.

FBT concessions apply in respect of: cars; certain types of meal entertainment; and housing assistance provided to remote area employees.

FBT concessions also apply to certain philanthropic organisations such as public benevolent institutions (Box 2.4). The Australian Government has asked the Review Panel to examine the complexity and fairness of existing FBT arrangements for the not-for-profit sector, and the treatment of fringe benefits in other parts of the tax-transfer system, and to make recommendations to improve equity and simplicity for the long term.

Taxation of superannuation

Contributions to a superannuation fund made by an employer on behalf of an employee, including those made under a salary sacrifice arrangement, are not included in the employee's personal income and are taxed at a rate of 15 per cent in the complying superannuation fund or retirement savings account. People who are not employees can generally claim a tax deduction for their personal contributions. These contributions are taxed at 15 per cent in the fund and are also subject to an indexed annual cap of $50,000 ($100,000 for people aged over 50 until 30 June 2012).

Personal contributions made by individuals from after-tax income, for which no deduction has been claimed, are generally not subject to tax in the hands of the superannuation fund. An annual limit of $150,000 a year (indexed) applies to these contributions, with people under age 65 permitted to bring forward up to two years of future contributions.

The realised earnings of superannuation funds are taxed at a flat rate of 15 per cent. Capital gains of complying superannuation funds are subject to a 33⅓ per cent discount where the assets have been held for at least 12 months. Complying superannuation funds are ineligible for the general CGT exemption that applies to assets acquired prior to the introduction of CGT. Earnings in the fund are not taxed once an individual's account starts to be paid as an income stream (pension). Funds can claim dividend imputation credits.

Superannuation benefits may comprise a tax-free and a taxable component.

- The tax-free component mainly reflects contributions made from after-tax income and amounts representing the portion of the superannuation benefit that accrued before 1 July 1983. This component is always tax-free on distribution.

- The taxable component is the total value of the superannuation benefit less the tax-free component. It usually consists of employer and deductible personal contributions, along with earnings on all contributions.

For 90 per cent of individuals, the taxable component is comprised entirely of contributions and earnings that are taxed in the fund. However, in some schemes, such as public sector superannuation plans, the taxable component of a benefit may include contributions or earnings that have not been taxed in the fund.

Different taxation arrangements apply to amounts that are taxed in the fund and those that are not (see Tables 2.11 and 2.12). Broadly, superannuation benefits derived from a previously taxed source are exempt from tax after age 60. Benefits paid before age 60 are taxed at concessional rates. Where the superannuation benefit is paid from a fund which did not pay tax on its contributions and earnings (such as many government superannuation funds), tax is paid on the benefit. The tax rate varies depending on whether the individual is over 60 years of age.

Different rules apply to superannuation benefits for the purposes of assessing the rate of payment for social security entitlements. Under the income test for pensions, superannuation income streams are generally assessed on the basis of gross income, reduced by an allowance for the return of the capital used to purchase the product. For the majority of people who have acquired their income stream with an accumulated lump sum, this method of assessment is not linked to the taxation treatment of the income stream.

GST

GST is a broad based value-added tax on most goods and services consumed in Australia. GST applies at a uniform rate of 10 per cent to the supply or importation of taxable goods and services, based on the selling price. GST revenue is paid to the States. GST is levied on businesses at all stages of the production process. Businesses are generally able to claim a credit for GST paid on business inputs. While the coverage of GST is broad, there are exemptions for some categories of goods and services including health, education, basic food and charitable supplies. GST is not levied on residential rents and financial services, but suppliers of these products and services are generally not able to claim a credit for GST paid on production inputs.

Excise

Excises are specific taxes on certain goods, including liquid fuel, alcohol and tobacco. A key feature of the excise system is the licensing of sites where excisable products are manufactured. An excise-equivalent customs tariff is applied to imports, and is collected at the border.

Excise rates for tobacco, beer and spirits are indexed twice a year to the consumer price index. Tobacco is taxed on a per stick basis, for cigarettes and cigars, or by overall weight of tobacco for other products. Beer and spirits are taxed on alcohol volume, although there are different rates for different types of beer, with lower rates for lower-alcohol beers and beer packaged in containers with a volume of 48 litres or more. Spirits are subject to a higher rate of excise than full strength beer.

Liquid fuels, primarily petrol and diesel, are subject to excise of 38.143 cents per litre, which is not indexed. Fuel tax credits are provided for fuel used for certain off-road uses and for on-road use in heavy vehicles. Aviation fuels used for domestic trips are taxed at a rate of 2.854 cents per litre, while fuels used in aircraft on international journeys are not subject to excise. Biofuels (ethanol and biodiesel) are also taxed at a rate of 38.143 cents per litre. However, there are separate mechanisms to provide an effective excise free status for biodiesel and for domestically produced fuel ethanol. Fuels that can be used for transport that are based on compressing or liquefying gases, including liquefied petroleum gas (LPG), are not subject to excise.

Wine equalisation tax

Wine is not subject to excise. It is subject to a separate wine equalisation tax (WET), which applies as a percentage of the price of wine products. This is normally 29 per cent of the wholesale price of wine, cider, perry, mead and sake, and certain other wine-based products. Unlike the excise on beer and spirits, the amount of tax payable on wine is independent of alcohol volume. There is a $500,000 WET producer rebate that reduces the WET paid by wine producers, often to zero in the case of smaller producers of wine.

Resource taxes and royalties

In addition to income tax, the Australian government raises revenue from the extraction of certain oil and gas natural resources through specific resource taxes and royalties. Petroleum resource rent tax (PRRT) is a profits-based tax that applies to oil and gas production in Australian territorial waters outside the coastal limit (except the North West Shelf exploration permit area and the Joint Petroleum Development Area in the Timor Sea). PRRT applies at a rate of 40 per cent of the profits of a petroleum project, after deducting exploration, development and operating costs. Costs that are carried forward as an offset against income in a future period are uplifted at designated rates depending on the type of expense — the long term bond rate (LTBR) plus 15 per cent for exploration expenditure and the LTBR plus 5 per cent for development and operating expenditures. Exploration in certain frontier areas is currently eligible for an initial 150 per cent uplift.

The Australian government collects crude oil excise from the production of liquid hydrocarbons from the North West Shelf production area, onshore fields and coastal waters. Crude oil excise is levied on a per barrel basis. The first 30 million barrels of cumulative production from a field is exempt. There is also an annual exemption for each field of 3.1 million barrels once the 30 million barrel limit is reached. Excise is levied on an increasing rate scale tied to the level of production. The top rate for fields currently subject to crude oil excise is 30 per cent of the gross value of production. The excise scales that apply to production from each field are determined by the date of discovery and/or the commencement of production.

The Australian government collects revenue from the extraction of oil and gas resources through several royalties it shares with Western Australia (see Table 2.4). The Australian government also collects royalties on uranium mining in the Northern Territory, which are shared between the Northern Territory Government and the Aboriginal Benefits Trust Account.

Table 2.4: Petroleum royalties

	Offshore petroleum royalty and the internal waters royalty	Resource rent royalty
Location	North West Shelf project area	Barrow Island
Rate	10-12.5 per cent of net well head value	Specific agreement payment
Share	Western Australia approximately two thirds and the Australian government approximately one third	Western Australia one quarter and the Australian government three quarters

Other taxes

Customs tariffs apply to a range of imported textiles, clothing and footwear, passenger motor vehicles and other imported goods including foods, chemicals, industrial supplies, machinery and equipment, and household electrical items. Businesses are not credited for tariffs paid on their imports.

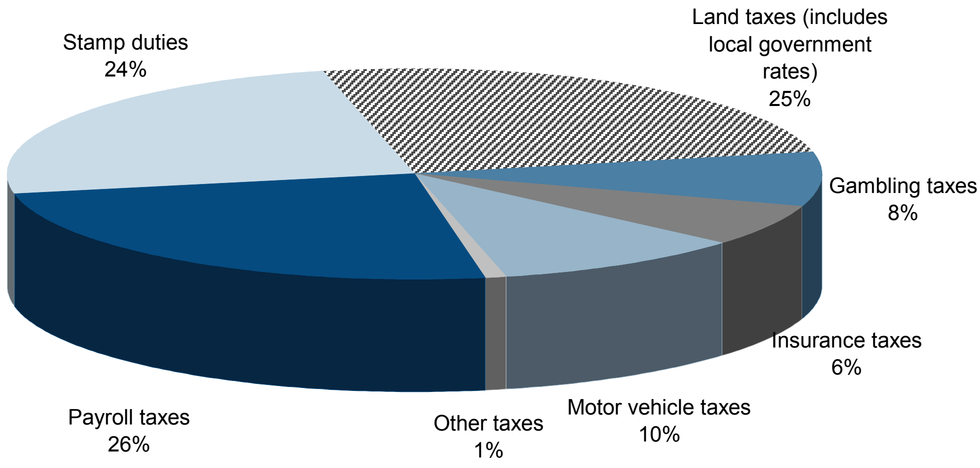
The luxury car tax applies to the value of a domestic or imported vehicle in excess of a certain threshold, $57,180 in 2008-09. In the 2008-09 Budget, the Australian Government announced an increase in the rate of the luxury car tax to 33 per cent from 1 July 2008.

There is a broad range of smaller taxes administered by a range of Australian government departments, including charges for notional cost-recovery, penalties, levies and licence fees. These are not imposed primarily for general revenue raising purposes, but are still classified as taxes. For example, the passenger movement charge is levied on departing international travellers as a notional charge for government services relating to international travel. More than 60 separate levies are imposed on agricultural products, the revenue from which is earmarked to fund services and research within specific agricultural industries.

2.5 State taxes

State and local governments accounted for around 18 per cent of total Australian tax revenue in 2006-07. The States collected $48.9 billion through their own taxes, with a further $9.4 billion being raised through local government taxes. Taxes on property, including land tax, rates and stamp duty, make up around half of state tax revenue, with payroll taxes making up a further quarter (Chart 2.7). Other important sources of tax revenue are taxes on motor vehicles, gambling and insurance contracts. In total, the States levy around 26 different types of taxes, including local government rates. Nevertheless, in comparison to the Australian government, the overall state tax base is relatively narrow. While there are similarities in the main taxes used in each State, the thresholds, rates and range of exemptions from the taxes differ. See Table 2.18 for a detailed description of state taxes.

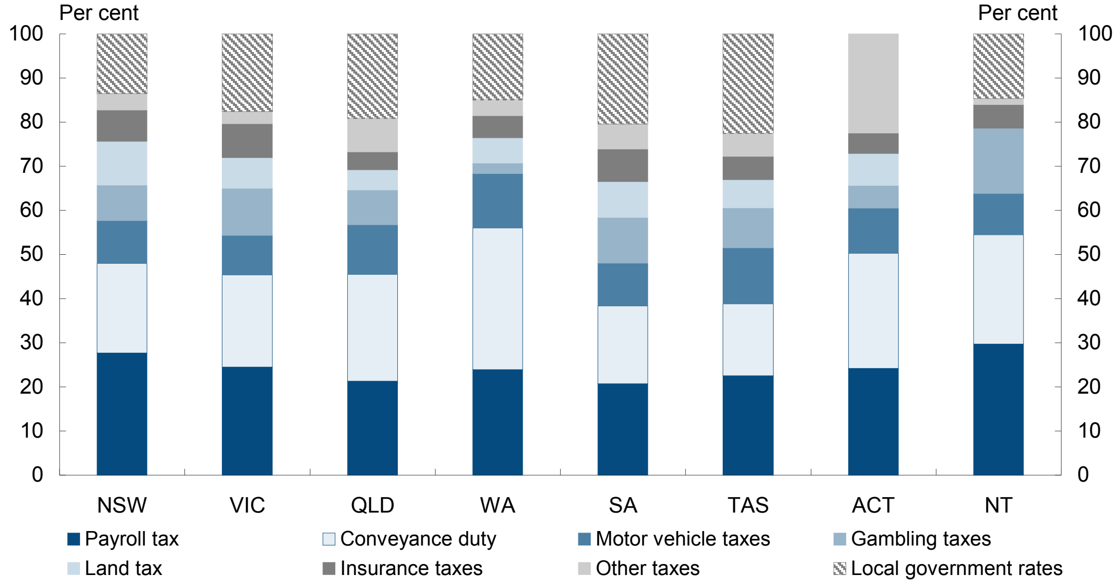
Chart 2.7: Sources of state tax revenue in 2006-07
(All States including local government)



Source: ABS (2008a).

Chart 2.8 highlights the relative importance of the main state taxes to each State.

Chart 2.8: Sources of tax revenue in 2006-07 by State[(a)]



(a) As the ACT does not have local councils, the ACT's other taxes include $159 million in rates.
Source: ABS (2008a).

Payroll tax

All States levy payroll tax on employers that have total payments for employee wages and salaries exceeding specified tax-free thresholds. Wages and salaries are defined to include most forms of employee benefits, including commissions, bonuses and fringe benefits, although there are differences in the definitions across the States. Some organisations are generally exempt from payroll tax, such as religious institutions. The tax-free threshold exempts a significant proportion of businesses and employees from the payroll tax base. For example, in NSW more than 90 per cent of businesses are exempt from payroll tax under the current tax free threshold (IPART 2008). Each State determines its own threshold and rate.

All States have a single flat rate, except for Queensland where the tax-free amount is gradually eroded in incremental rates once the threshold has been exceeded.

The States are undertaking payroll tax harmonisation, with several having harmonised their payroll tax arrangements (except for thresholds and rates), and the other States agreeing to harmonise across eight areas.

Stamp duty on conveyances

Each State levies stamp duties on the transfer of property. The duty is usually paid by the purchaser based on the sale price of the property (or its market value if higher). Table 2.18 shows the rates and thresholds which apply in each State for the purchase of residential property. Different rates and thresholds may apply to the purchase of different types of property. There are programs in each of the States that provide concessions for first home buyers and other groups.

Land tax

All States except for the Northern Territory levy land tax on the total holding of unimproved land value, excluding principal residences. Land used for primary production is exempt or deductible in all States. Other exemptions include caravan parks and aged care facilities in some States. Most jurisdictions also have tax-free thresholds. Land tax rates are generally progressive. In assessing the value of land, the States either take the value at a specified time in the year or an average of the value over the previous three years.

Local government rates

Local government rates are a tax charged by local councils on the value of property (the ACT does not have local councils and rates in the ACT are charged by the ACT Government) (Table 2.20). Most types of land are subject to rates, though the rate that is charged can vary by the land type, for example residential or commercial use. The valuation method for rates also varies considerably across councils, with unimproved value, capital improved value (that is, the total value of the property) or rental value used as alternate benchmarks. Councils have some autonomy in setting rates, although in NSW (and for the next three years, the Northern Territory) the State government restricts the rate of annual increases. The average rate varies significantly across jurisdictions, with councils in areas of lower land value tending to charge higher rates. This may reflect the fact that if land values in one area are lower than in a neighbouring area, the rate must be higher to provide the same level of service.

Insurance taxes

All States impose taxes on general insurance premiums. The rate ranges from 7.5 per cent in Queensland to 11 per cent in South Australia. New South Wales, Queensland and Tasmania have special rates on particular classes of general insurance business. All States, apart from Western Australia, also impose taxes on life insurance policies at different rates. NSW, Victoria and Tasmania impose taxes on insurance companies or their policies to fund fire brigades. Additionally, NSW and the ACT apply a health insurance levy (known as the Ambulance Service Levy in the ACT) on health insurance policies. Victoria, Queensland, Western Australia, South Australia and Tasmania impose taxes on motor vehicle third party insurance, in addition to registration, other motor vehicle taxes and licence fees.

Motor vehicle taxes

The States impose a variety of taxes on vehicle registrations and transfers of ownership. Registration transfer charges (stamp duty) are usually based on the price of the vehicle or its market value if higher. The States use a range of methods for applying rates. Passenger vehicles are generally treated differently from other vehicles. Annual motor vehicle registration fees may also apply before a vehicle is allowed to be driven on public roads. These taxes, which apply to the stock of registered vehicles, are levied in different ways by the States, either according to the weight of the vehicle or the number of cylinders. Vehicles for business use have different rates in some States. Motor cycles also have separate flat fees in all States.

Gambling taxes

The States levy a range of taxes on different forms of gambling, which are generally based on the gross value of gambling activity. These include taxes on government and/or private lotteries, gaming machine taxes, casinos, race betting and other gambling such as internet gaming, keno and betting exchanges. The rates of tax vary across States, by the type of gambling listed above, and within the types of gambling activity.

Non-tax resource revenue

A variety of resource royalties and payment arrangements are used by the States to price the use of natural resources. Table 2.5 provides a summary of some features of state mineral royalty arrangements. These include specific royalties levied as a constant amount per physical unit of production, *ad valorem* royalties levied as a constant percentage of the value of production, or profit based royalties levied on the profit derived on sale. At a more detailed level, the arrangements are very complex, covering over 60 different royalty arrangements. The details of each of these royalty arrangements (including applicable rates) are outlined in Table 2.19.

Table 2.5: State mining royalties

Location	Mineral	Royalty
All States	Generally	Ad valorem royalty, generally ranging between 2.5 and 7.5 per cent of the value of mine output
All States	Certain low value commodities such as clay and sand	Specific royalty (amount per tonne)
Queensland	Coal	Base rate of 7 per cent of value. An additional 3 per cent applies to value above $100/tonne
Tasmania	Most minerals	Hybrid royalty arrangements comprised of an *ad valorem* and profit-based royalty.
Northern Territory	Most minerals except petroleum	Profit-based royalty

There are various arrangements for charging for non-mineral natural assets. These include:

- a forestry royalty for trees accessed from public land (state forests), (see Section 8.5 for an explanation);
- licence fees and access charges for the use of water resources. These vary between jurisdictions. For example, in NSW, the Independent Pricing and Regulatory Tribunal sets the prices that can be charged for water, including the fees for licence applications and annual water charges; and

- licensing arrangements for fisheries and aquaculture resources. For example, in Queensland licences are required to undertake commercial fishing, buy fish from a person licensed for commercial fishing, provide charter fishing services, fish in the Torres Strait, own a commercial fishing boat, or own a boat that transports fish caught on a commercial fishing boat.

2.6 Tax expenditures

The tax-transfer system also includes a set of tax concessions called 'tax expenditures'. Tax expenditures typically provide a benefit to a specified activity or class of taxpayer relative to a benchmark taxation treatment. Tax expenditures can be provided in many forms, including exemptions from tax, tax deductions, tax offsets, concessional rates of tax or a change in the timing of a deduction or the deferral of a tax liability. A negative tax expenditure can arise where arrangements impose a higher tax burden than the benchmark.

Governments may choose to implement policy through the tax system for a range of reasons. In some cases, this may be an efficient way to deliver government assistance or other programs. Issues surrounding the measurement and aggregation of tax expenditures are discussed in Box 2.7.

Box 2.7: Tax expenditures

Australia uses the revenue forgone approach to measure tax expenditures. This approach measures the difference in tax paid by taxpayers who receive a particular concession, relative to similar taxpayers who do not receive the concession. It compares the current or prospective treatment to the 'benchmark' treatment, assuming taxpayer behaviour is unchanged. The setting of the benchmark against which tax expenditures are measured involves an element of judgment. Hence, the benchmark can vary across jurisdictions.

Two guiding principles in setting the benchmark are that a standard tax treatment should apply across similar taxpayers or transactions and that the benchmark may incorporate structural elements of the tax system, such as the progressive personal income tax rate structure and our nominal income tax approach. The estimated tax expenditures would differ considerably if measured against a real income tax benchmark or an expenditure tax benchmark.

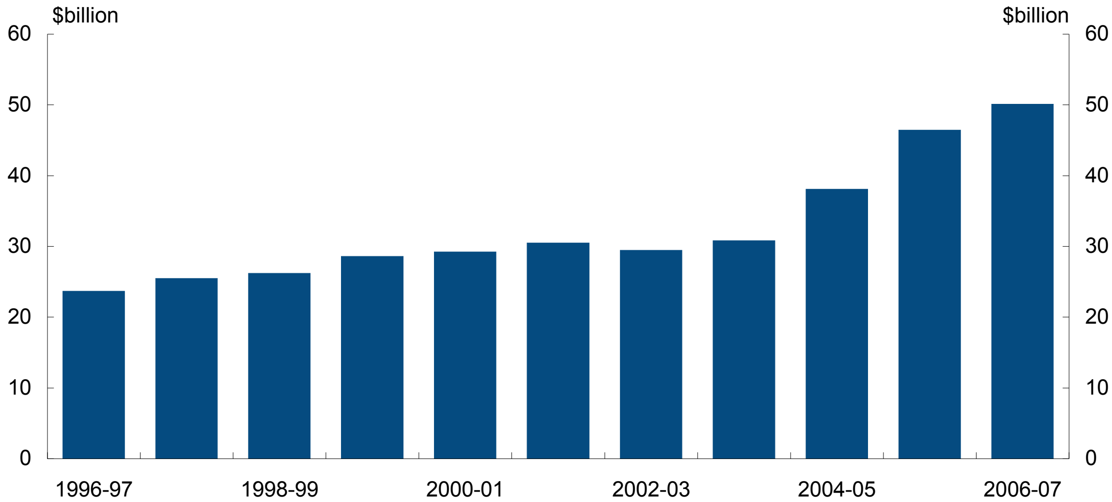
Tax expenditure estimates may differ from budget estimates. Tax expenditure estimates reflect the amount of revenue forgone as a result of a tax expenditure, assuming the existing level of activity or use is unchanged. Budget costings measure the revenue impact of changing the existing treatment and take into account timing effects and the behavioural responses of taxpayers to the policy change. Estimates of tax expenditures are therefore not necessarily reliable indicators of the budget impact of certain tax arrangements.

Aggregate estimates of tax expenditures, such as those presented in Table 2.6, are not necessarily reliable indicators of the revenue cost of tax expenditures, because different tax expenditures may overlap and there may be interactions between the behavioural responses to the removal of different expenditures. Tax expenditure estimates cannot be readily compared across different jurisdictions, due to differences in tax rates and tax benchmarks.

Australian government tax expenditures

Approximately 300 tax expenditures are identified in the *2007 Tax Expenditures Statement* (Australian Government 2007a), excluding those associated with the GST. Around 100 new tax expenditures have been added to the Australian government tax system (excluding GST) over the past 10 years and many more identified. Less than 30 have been deleted and only a few of these reflect policy decisions taken during that time. These include the removal of two tax expenditures in the 2008-09 Budget, along with the reduction in the concessionality of a further eight. The value of tax expenditures has more than doubled in the past 12 years or so, rising from an estimated $23.5 billion in 1996-97 to an estimated $50 billion in 2006-07 (Chart 2.9). However, aggregations of individual tax expenditure estimates need to be treated with caution (see Box 2.7).

Chart 2.9: Total measured Australian government tax expenditures 1996-97 to 2006-07



Source: Australian Government, Tax Expenditures Statement, various years.

The largest measured tax expenditures are found in the social security and welfare functions of government (see Table 2.6). Included in this function are superannuation concessions, estimated at around $25 billion in 2006-07. Also included are the exemption from income tax of Family Tax Benefit (around $2.5 billion) and the senior Australians tax offset (around $1 billion). Significant tax expenditures not included in the social security and welfare function include the capital gains tax discount for individuals and trusts (estimated at $6.9 billion) and the application of the statutory formula to car fringe benefits (around $1.5 billion).

Table 2.6: Measured tax expenditures 2006-07

	$m
Social security and welfare	34,833
Other economic affairs	14,018
Fuel and energy	1,390
Health	876
Other purposes	700
Housing and community amenities	605
Agriculture, forestry and fishing	524
General public services	508
Transport and communication	295
Defence	202
Recreation and culture	183
Education	6
Public order and safety	0
Mining, manufacturing and construction	-4,020
Total	**50,120**

Source: Australian Government (2007a).

State tax expenditures

Table 2.7 sets out tax expenditures provided across the main state taxes as well as in relation to local government rates. These estimates of tax expenditures are calculated by each State using benchmarks defined by that State. Differences between benchmarks can be significant, hence it is not possible to make a direct comparison of tax expenditures between jurisdictions.

Table 2.7: Tax expenditures for main state taxes in 2006-07 ($million)[a]

	NSW	VIC(b)	QLD	WA	SA	TAS	ACT	NT
Payroll tax								
Exemptions/concessions	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Value	819	2,424	1,514	861	567	7	5.5	99
Land tax								
Exemptions/concessions	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Tax not levied
Value	536	1,491	556	302	613	84	5	
Stamp duty on conveyances								
Exemptions/concessions	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Value	757	134	597	95	25	11	36	26
Motor vehicle taxes								
Exemptions/concessions	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Value	293	65	na	105	9.3	4.6	na	0.8
Gambling taxes								
Exemptions/concessions	Yes	Yes	Yes	No	Yes	No	No	No
Value	489	73	120	–	19	–	–	–
Insurance taxes								
Exemptions/concessions	Yes	No	Yes	Yes	Yes	No	Yes	Yes
Value	659	–	263	201	18	–	na	14
Local government rates								
Exemptions/concessions	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Value(c)	72	na	na	56	31	16	6	na

(a) The estimates are reported value. Many tax expenditure statements acknowledge that some expenditures are unable to be costed or are not included due to their low value.
(b) Estimates from the 2007-08 Victorian Budget Update — except for land tax and payroll tax where threshold related expenditures documented in the 2007-08 Victorian Budget were added to the non-threshold related expenditures documented in the 2007-08 Budget Update.
(c) These estimates are problematic due to the difficulties of obtaining a benchmark for the large number of local governments in Australia.
na: not available.
Source: State treasuries.

Some States consider the payroll tax exemption for businesses whose payroll is beneath the threshold to be a tax expenditure, while other States do not. This can have a significant effect on the size of the estimated tax concession. In its 2008-09 Budget, Victoria estimates its payroll tax expenditure (excluding the payroll tax threshold) to be $740 million in 2007-08, while if the threshold is considered a tax concession, the tax expenditure would increase to $2,613 million (that is, the threshold concession is estimated at $1,873 million). Conversely, the 2008-09 Western Australian Budget reports a tax expenditure in relation to payroll tax of $959 million in 2007-08, which would reduce to $25.2 million if the threshold were not considered a tax expenditure.

The size of the tax expenditure will also vary according to the rate at which the tax is levied. Even if the amount of activity exempted is the same in two States, the cost of a tax expenditure would be larger in a State with a higher tax rate.

2.7 Many Australian transfers

There are around 40 Australian government transfers. As is the case with taxes, there is some ambiguity as to what constitutes a separate payment.

Many other types of transfers are delivered by the States, particularly as non-tax concessions. See Box 2.8 for a description of what is included as a transfer.

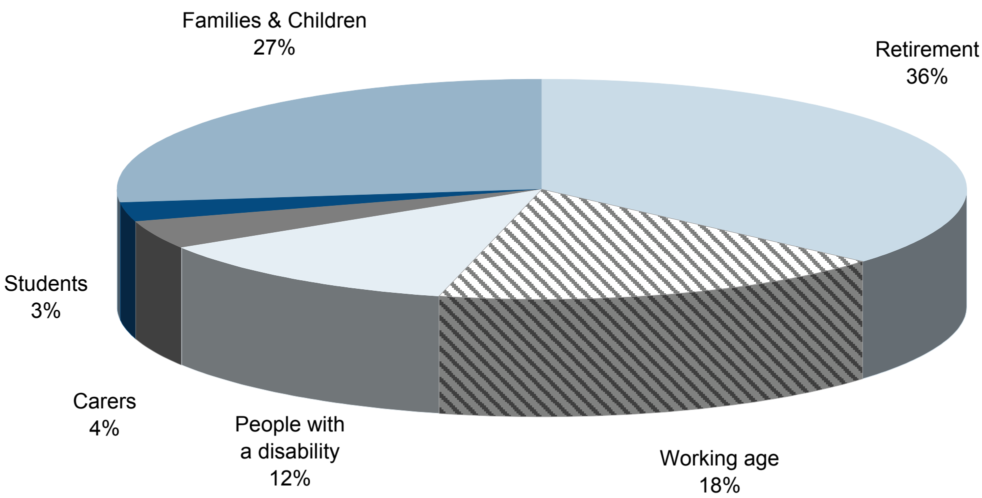
Cash transfers cost the Australian government around $70 billion in 2006-07, equivalent to 6.8 per cent of GDP. The States make very limited use of direct payments, relying mainly on indirect transfers, such as services and concessions.

2.8 Australian government transfers

Spending on the transfer payment system accounted for more than a quarter of Australian government spending in 2006-07. The main Australian government transfers are income support payments and payments to families — including all Age and other pensions, Newstart and other allowance payments, Family Tax Benefit, supplementary payments and bonuses (Table 2.8).

In 2006-07, the allocation of funding to the main transfers was as follows: the Age Pension ($25.5 billion, including Service Pensions); Family Tax Benefit ($16 billion); Disability Support Pension ($8.7 billion); Parenting Payment ($5.9 billion); and Newstart Allowance ($4.5 billion) (Chart 2.10).

Chart 2.10: Australian government program expenditure by payment group in 2006-07



Box 2.8: What is a transfer?

A transfer is a cash payment or non-tax concession provided by government to individuals and families that contributes to their overall income or consumption. Defined broadly, transfers include all government payments and subsidies to individuals and families, including universal subsidies such as education and health care. However, for the purposes of this paper, government-provided services such as health and education are not included as transfers.

This paper focuses primarily on cash payments and certain concessions, as listed below.

- income support pensions such as the Age Pension and Disability Support Pension;
- income support allowances such as Newstart Allowance and Youth Allowance;
- family payments, mainly Family Tax Benefit and payments to assist families with the cost of childcare;
- supplementary payments such as Rent Assistance, Utilities Allowance, education supplements and one-off bonus payments;
- concession cards that provide access to lower-cost goods and services such as public transport, household utilities and medicines (through the Pharmaceutical Benefits Scheme); and
- housing assistance delivered through public housing provided at below market rent and through various first home owner schemes.

Tax concessions are also a means to provide transfers. They include items like the superannuation tax concessions; the medical expenses tax offset; reduced council rates; motor vehicle registration charges; and residential stamp duty for low income households. Many tax concessions are provided to recipients of Australian government concession cards.

Table 2.8: Australian government transfers in 2006-07[(a)]

	Expense ($million)	Payment description/aim	Labour force criteria	Number of recipients and payment points
Aged				
Age Pension	22,598	Income support for people who have reached age pension age.	None	1,952,686
Widow B Pension	4	Income support for previously partnered women born before 1 July 1937 or a single parent at age 45 born before 1 July 1942 (closed 20 March 1997).	None	732
Wife Pension (Age)	161	Income support for female partners of Age pensioners (closed 1 July 1995).	None	14,045
Age pensioners — DVA (b)		Age Pension paid to eligible service pensioners and their partners. It is paid by DVA as an agent of FaHCSIA.	None	6,068
Service Pension Veterans — DVA (b)	2,949	Income support for people who have reached service pension age. Similar to Age Pension paid by Centrelink.	None	113,698
Service Pension (partners) — DVA (b)		Income support for wives of service pensioners. Similar to Wife Pension paid by Centrelink.	None	96,864
Utilities Allowance	147	Supplementary payment available to income support recipients aged over Age Pension age.	N/A	2,000,000
Seniors Concession Allowance	226	Supplementary payment available to Commonwealth Seniors Health Card holders (CSHC).	N/A	302,583
Telephone Allowance	12	Supplementary payment available to CSHC holders. Also available to pensioners and selected allowance recipients and paid quarterly with income support payment.	N/A	292,155
Total	26,097			
Working age				
Newstart Allowance (NSA)	4,494	Income support for people aged between 21 and Age Pension age, including those regarded as unemployed, non-full time students available for and willing to undertake suitable work. Includes *people with a disability with a partial capacity to work* and *principal carers of older children* (aged 6 of more if partnered, or 8 or more if single).	Must satisfy an activity test by seeking and accepting suitable work or participate in agreed activities designed to improve employment prospects (unless exempted). People with a *partial capacity* to work have requirements that match their assessed capacity to work. *Principal carers* must seek at least 15 hours work per week (unless exempted).	417,793
Parenting Payment (Partnered)	1,217	Income support for the principal carer of a child aged under 6 (under 16 if granted payment before 1 July 2006).	Part-time participation requirements (see NSA principal carers) if youngest child is over 6. (Over 7 if granted payment before 1 July 2006)	144,427
Parenting Payment (Single)	4,696	Income support for the principal carer of a child aged under 8 years (or under 16 if granted payment before 1 July 2006).	Part-time participation requirements (see NSA principal carers) if youngest child is over 6. (Over 7 if granted payment before 1 July 2006)	395,495

Table 2.8: Australian government transfers in 2006-07 (continued)

	Expense ($million)	Payment description/aim	Labour force criteria	Number of recipients and payment points
Working age (continued)				
Sickness Allowance	85	Income support for people who are temporarily incapacitated for work or study as a result of illness.	Must have a job or full-time study (if aged 25 and over) to return to.	7,624
Mature Age Allowance	88	Income support for people aged 60 years to Age Pension age receiving an income support payment for 9 months or more (closed September 2003, phased out by September 2008).	No recent workforce experience at time of claim.	5,032
Partner Allowance	522	Income support for partners of income support recipients (at time of claim) born on or before 1 July 1955 (closed 20 September 2003).	No recent workforce experience at time of claim.	45,988
Widow Allowance	505	Income support for older women (phased out from 1 July 2005 with new grants from that date limited to women born on or before 1 July 1955) who were widowed, divorced or separated prior to turning 40.	No recent workforce experience at time of claim.	40,247
Youth Allowance (Other)	482	Income support for young people aged 16 to 20 seeking or preparing for work or temporarily unable to work.	Must seek and accept suitable work or participate in agreed activities (unless exempted).	68,698
Exceptional Circumstances Relief Payment	260	Income support for farmers in drought affected areas.	None	28,601
Utilities Allowance	7	Supplementary payment paid to Mature Age, Partner and Widow Allowance recipients who are not of Age Pension age. (From March 2008 also paid to Carer Payment, Wife Pension, Disability Support Pension, Widow B Pension and Bereavement Allowance recipients).	N/A	2,000,000
Pensioner Education Supplement	73	Supplementary payment for certain pensioners (and former pensioners) undertaking study.	Must be undertaking an approved course.	44,802
Education Entry Payment	16	Supplementary lump sum payment to assist with the cost of commencing an approved study course (available annually if continuing study and receiving Pensioner Education Supplement).	Must be commencing or continuing (PES recipients) an approved course.	76,394
Mobility Allowance	106	Supplementary payment for people with a disability who are aged 16 or over and who are unable to use public transport without substantial assistance.	None	54,492
Total	12,551			
People with a disability				
Disability Support Pension	8,651	Income support payment for people aged 16 and over (new entrants must be under Age Pension age) with a serious physical, intellectual or psychiatric impairment. Special rules apply for the blind.	Because of their impairment, unable to work or be re-skilled to work at least 15 hours a week (or 30 hours if on payment at 10 May 2005) at or above the minimum wage for at least the next two years.	714,156
Total	8,651			

Table 2.8: Australian government transfers in 2006-07 (continued)

	Expense ($million)	Payment description/aim	Labour force criteria	Number of recipients and payment points
Carers of people with a disability				
Carer Payment	1,408	Income support for a person providing constant care for an adult or child with a disability, medical condition or who is frail-aged.	None	116,614
Wife Pension (DSP)	234	Income support for female partners of DSP recipients (closed 1 July 1995).	None	21,228
Carer Allowance	1,349	Supplementary payment for people who provide daily care and attention at home to an adult or child with disability or medical condition.	None	393,263
Total	2,291			
Students				
Youth Allowance (Student)	1,591	Income support for full-time students aged 16-24 years in secondary or tertiary education or training and apprentices aged 16-24.	Must be undertaking an approved course of study.	263,257
Austudy	218	Income support for people aged 25 and over who are studying or training full-time.	Must be undertaking an approved course of study.	28,269
ABSTUDY	156	Income support for full-time secondary and tertiary students and apprentices who are Aboriginal or Torres Strait Islander.	Must be undertaking an approved course of study.	34,134
Total	1,965			
Special				
Special Benefit	67	Income support for people who are not eligible for any other type of payment and who are in financial hardship.	As for NSA.	6,244
Bereavement Allowance	1	Income support for a recently widowed person following the death of their partner. Paid for up to 14 weeks.	None	553
Total	68			
Families and children				
Family Tax Benefit Part A (c)(d)	18,823	Per child payment for dependent children aged under 16; and dependent young people aged 16-20 and 21-24 year old full-time students not in receipt of an income support payment. Includes Rent Assistance (children aged under 16), Large Family Supplement and Multiple Birth Allowance.	N/A	1,769,091
Family Tax Benefit Part B (c)(d)		Per family payment to single income families including single parents, subject to a primary earner income limit ($150,000) from 1 July 2008.	N/A	1,376,917
Child Care Benefit	1,478	Payment to help with the costs of child care.	Work/study/training test applies depending on hours claimed.	560,300
Child Care Tax Rebate (CCTR)	450	CCTR meets 50 per cent of the out-of-pocket child care expenses for approved care, up to a limit of $7,500 per child per annum.	Must be eligible for Child Care Benefit.	586,674
Baby Bonus	1,162	Lump sum payment on the birth of a newborn or adopted child. Subject to family income test and paid by instalments from 1 January 2009.	None	286,770

Table 2.8: Australian government transfers in 2006-07 (continued)

	Expense ($million)	Payment description/aim	Labour force criteria	Number of recipients and payment points
Families and children				
Maternity Immunisation Allowance	56	One-off lump sum payment for children who are aged 18-24 months and fully immunised (unless exempted). From 1 January 2009, payment will be made as two instalments. The first instalment will be made to children aged 18 months and 2 years. The second will be made to children aged between 4 years one month and 5 years.	N/A	242,518
Double Orphan Pension	3	Payment for guardian or approved care organisation with the care and control of a child where both parents have died or one parent has died and the other parent is unable or unavailable to care for specific reasons.	N/A	1,330
Total	19,273			

(a) Expenditure on income support payments also includes expenditure on supplements paid as part of the income support entitlement (Rent Assistance and Pharmaceutical Allowance) and other supplements paid in addition to an ongoing income support entitlement (for example, Telephone Allowance and Remote Area Allowance). Table includes DVA pension expenditure but not other supplements.
(b) Expenditure for these DVA programs has been combined.
(c) Expenditure for FTB Part A and FTB Part B has been combined.
(d) FTB expenditure includes both Centrelink fortnightly instalments and end-of-year payments made through the ATO. The number of recipients includes those paid fortnightly instalments by Centrelink but excludes those paid through the ATO.

Direct cash transfers

Cash transfers fall into several categories. Income support payments provide for the basic living costs of adults, and are paid on a fortnightly basis. These payments are paid at a flat rate (that is, unrelated to prior earnings or employee or employer contributions) and on an indefinite basis, provided a person continues to meet the means test and payment requirements. A range of family assistance and other payments are also available to assist people with other specific costs such as those associated with raising children.

Income support payments are the primary form of financial assistance for individuals who are unable, or not expected, to fully support themselves. These include payments for people no longer expected to work (Age Pension); unable to undertake significant part-time work (Disability Support Pension); not currently expected to work due to caring responsibilities (Parenting and Carer Payments) or full-time study (student payments); and for people with a capacity to work and generally expected to work (Newstart Allowance).

There are two main categories of income support payment — pensions and allowances (which are also referred to as 'benefits'). Pensions are paid at higher rates and have more generous income and assets tests than allowances. Student payments, a sub-category of allowances, have more generous personal income testing than pensions and less generous rates than other allowances. Special Benefit is a safety net payment for people in hardship who are ineligible for other payments.

Family assistance is paid in addition to income support, and is also paid to a large proportion of families with children where the parents are working and do not receive income support. Family assistance includes per child assistance to assist with the costs of raising children; additional assistance for single-income families, including single parents; assistance on the birth or adoption of a child; and assistance with the costs of child care.

Income support and family assistance recipients who are private renters may also receive Rent Assistance.

Means testing

Support provided through the tax-transfer system is generally targeted to lower income families and individuals through the use of means tests.

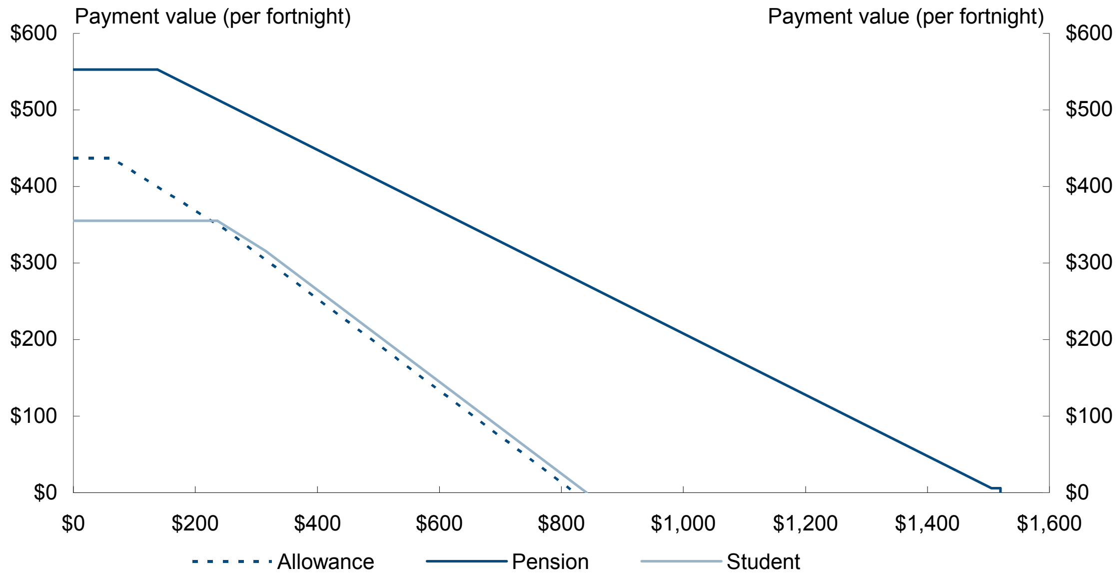
Means testing operates on a couple or family basis, on the principle that targeting support should take into account other sources of financial support, including from close family members (spouse, parents of dependent children).

The means test generally has two components: an income test and an assets test. Income support is tested on the basis of both income and assets, whereas family assistance is tested on income only, in a similar manner to tax programs. Entitlement to most supplementary payments relies upon entitlement to a primary income support payment, concession card or family assistance payment.

Pension rates are separately calculated under both the income and the assets test and the lower of these two rates is paid. This means that people paid the same rate under the income test can have very different asset holdings. Allowances are only available if assets do not exceed specified limits, with rates calculated under the income test. Both arrangements are more generous for pensioners than for allowees.

Under the income tests, allowances reduce more quickly with private income than pensions, as they have higher taper rates, and pensions allow more private income before they start to reduce (or have a higher 'free area') than most allowances. Pensions are reduced by private income at a rate of 40 cents for each dollar over the free area (or 20 cents for each member of a couple), whereas Newstart Allowance is reduced by 50 cents between $62 and $250 per fortnight and then 60 cents for amounts over $250. For allowee couples (that is, where neither partner receives a pension), one person's private income generally only reduces their partner's payment once it has reduced their own payment to zero, whereas a pensioner's income reduces their own and their partner's payment simultaneously. Chart 2.11 shows the impact of the different rates and income tests for single people without children.

Chart 2.11: Comparison of single pension, allowance and student rates, by private income(a)



(a) Rates and income test parameters for the period 1 July 2008 — 19 September 2008.
Source: FaHCSIA estimates.

Under the assets test, different thresholds apply depending on whether the individual or couple is a homeowner. The way the assets test applies is more generous for pensioners than for allowees. Assets over the threshold immediately cancel allowances, whereas they phase out pensions gradually by $1.50 per fortnight per $1,000 of assets over the threshold.

While the majority of means tested assistance is provided through the transfer system, a range of targeted payments are also delivered through the tax system. Eligibility for support (or means tested liabilities) delivered through the tax system is determined by income. This can be either based on the individual's income (for example, the low income tax offset), family income (for example, the exemption from the Medicare levy and the Medicare levy surcharge and the senior Australians tax offset) or another person's income (for example, the dependent spouse offset, and the spouse superannuation contributions offset).

Income support payments are paid on a fortnightly basis. Eligibility for pensions and allowances is assessed on a fortnightly basis using 'ordinary' income, making them responsive to short–term changes in an individual's or family's circumstances. Most family assistance is assessed on the basis of current financial year 'adjusted taxable income' but for the majority of recipients is paid on a fortnightly basis using an estimate of adjusted taxable income.

Pensions

Pensions are one class of income support payment, and cover Age Pension, Disability Support Pension, Carer Payment, Parenting Payment (Single), Bereavement Allowance and Wife and Widow B Pensions (the latter two of which are closed to new claimants). Payments to veterans and their dependants have most of the characteristics of other pension payments.

Parenting Payment for single parents is classed as a pension, but has some elements of an allowance (for example, the assets test). Parenting Payment is discussed in more detail under 'Allowances'.

Although income support is generally taxable, Disability Support Pension, Carer Payment and Wife Pension are non-taxable if their recipient is below Age Pension age[2] (Box 2.9).

The maximum basic rates and dependants payments made to veterans are indexed twice a year in line with increases in the higher of male total average weekly earnings (MTAWE) and the CPI. Pension supplements are also indexed to CPI twice yearly. The income test free areas and assets test limits are indexed on 1 July each year.

Box 2.9: How are Australian government transfers taxed?

Transfers (including allowances, pensions, family assistance and supplementary payments) are taxed differently, depending on the specific payment.

- Some payments are taxed as income, such as the Age Pension, Carer Payment and Disability Support Pension for people of Age Pension age, Newstart Allowance and Parenting Payment. Whilst these payments are included as income for tax purposes, there are specific tax offsets (see Table 2.10) that are designed to ensure the tax liability for maximum rate full-year recipients is zero (and in some cases additional income can be earned without incurring tax).
  - For example, in 2007-08 a person receiving Parenting Payment (Single) of $13,990 pays no tax on their pension or on additional income they may earn if their total income is less than $22,921, due to their entitlement to the pensioner tax offset and the low income tax offset.
- Some payments are non-taxable — that is, they are not included as income for tax purposes — including Family Tax Benefit, childcare assistance payments, Carer Payment and Disability Support Pension for recipients and care receivers under Age Pension age, and most supplementary payments (for example, Rent Assistance).

Age Pension

The Age Pension is available to men and women who have reached Age Pension age of 65 for men or 63 ½ for women. The Age Pension age will increase to 65 for women by 2013.

2 The person being cared for, and the partner of a Wife pensioner, must also be below Age Pension age.

Generally, a claimant needs to be an Australian resident and in Australia at the time of claim, unless claiming under an international social security agreement. To receive the Age Pension, a person must generally have lived in Australia for 10 years or more, with at least five years in a continuous block, although recipients of certain other payments may transfer to the pension on reaching pension age.

Payments to veterans and their dependants

A Service Pension is paid to veterans on the grounds of age or invalidity, and to eligible partners, widows and widowers. The Age Service Pension is paid to veterans who have qualifying service, and the Partner Service Pension is paid to eligible partners and widows. These service pensions are paid five years earlier than the Age Pension would be paid. The Invalidity Service Pension may be granted at any age up to 65 years.

Disability Pension is available to compensate veterans for injuries or diseases caused or aggravated by war service or certain defence service rendered on behalf of Australia before 1 July 2004. It is a non-taxable pension.

The War Widow's/Widower's and Orphan's Pension is paid to compensate widowed partners and dependants of veterans who have died as a result of war service or eligible defence service. War Widow's/Widower's Pension is not affected by other income except from other compensation payments.

Disability Support Pension

The Disability Support Pension is for people aged 16 and over (new entrants must be under Age Pension age), with a serious physical, intellectual or psychiatric impairment that prevents them from working or being re-skilled for work for at least 15 hours a week at or above the minimum wage for at least the next two years. Recipients of the payment at 10 May 2005 are required to be unable to work at least 30 hours a week.

Special provisions allow recipients who begin work or increase their earnings on a long-term basis to have their eligibility 'suspended' for up to two years, rather than 'cancelled'. This allows them to return to payment if they cease work or reduce their hours.

Similar prior residence requirements to those for the Age Pension apply unless the person became unable to work while in Australia.

Carer Payment

Carer Payment is a pension for a person providing constant care for: a person with a physical, intellectual or psychiatric disability; a child with a profound disability; two or more children with disabilities; or an adult and their dependent child who needs care permanently or for an extended period. The person being cared for must generally receive an income support or Service Pension or meet the Special Care Receiver income and assets limits. A Carer Payment recipient can participate in employment, education, training or unpaid voluntary work for up to 25 hours a week without affecting their eligibility.

Allowances

Allowances are the other class of income support, of which the main ones are Parenting Payment (Partnered), Newstart Allowance, and Youth Allowance. Other allowances are: Sickness, Partner, Mature Age and Widow allowances; Special Benefit; Crisis Payment;

Exceptional Circumstances Relief Payment; Farm Family Restart; and the student payments of Austudy and ABSTUDY.

Allowance payments are taxable, although their receipt establishes eligibility for the beneficiary tax offset. They are subject to income testing on personal and partner income and not available if assets exceed the allowance assets limits. Rates are adjusted in line with upward movements in the CPI. In most cases, this occurs in March and September.

Parenting Payment

Parenting Payment has the main characteristics of a pension if it is paid to a sole parent, and of an allowance if the recipient is partnered. These characteristics include the rate of payment, the indexation arrangements, and the income test. Parenting Payment is not available if assets exceed the relevant allowance assets limits.

Parenting Payment claimants must have a qualifying child aged under age six if the carer is partnered, or under age eight if the carer is single. The carer must enter into an activity agreement to seek and accept suitable part-time work if the youngest child is aged six or more. There are special provisions for individuals on Parenting Payment at 30 June 2006. In this case, their youngest child must be aged under 16 and they must enter into an activity agreement with part-time work requirements when their youngest child turns seven or more.

Newstart Allowance

Newstart Allowance is for people aged between 21 and Age Pension age who are regarded as unemployed and who satisfy the requirements of an activity test (or who are exempt from activity testing). Activity requirements are tailored to the individual's capacity to work. For example, reduced requirements apply to people with a disability, with a partial capacity to work and principal carers of older children (aged 6-15 if partnered or aged 8-15 if single). The most common activity requirement is to seek and accept suitable work. Other agreed activities are designed to improve employment prospects.

Youth Allowance

Youth Allowance (Student) is for full-time students in secondary or tertiary education or training and full-time Australian apprentices aged 16 to 24 years. The student must be undertaking an approved course of study. Youth Allowance (Other) is for young people aged 16 to 20 not in full-time study who are seeking or preparing for work or temporarily unable to work.

While rates for people with children are similar to equivalent Newstart Allowance rates, lower rates are paid to partnered young people without children or living away from home, and young people living at home. Youth Allowance for non-independent young people is paid subject to parental means testing.

Family assistance

Family assistance covers payments made to assist families with the costs of raising dependent children, subsidies for child care, and maternity-related payments. Payments are income tested but not assets tested. The period of assessment of income testing is the current financial year for the major payments, although most families receive Family Tax Benefit payments on a fortnightly basis, their Child Care Tax Rebate on a quarterly basis, or have their Child Care Benefit paid direct to their child care provider. Family assistance payments are not taxable.

Family Tax Benefit

Family Tax Benefit (FTB) is paid as a fortnightly payment to most families based on an estimate of total family adjusted taxable income. Families can elect to wait until their adjusted taxable income is known and claim their payment as a lump sum. FTB supplements are available at the end of the tax year and can be used to offset any debt arising from an incorrect estimate of income. Where two adults substantially share the care of a child, FTB can be shared.

FTB Part A is a per child payment to assist families with the direct costs of raising children. It has a 'maximum' rate and a 'base' rate that is income tested on family income. Children aged 13-15 have a higher maximum rate than those aged under 13. Lower rates of payment are available for children aged 16-24, as Youth Allowance becomes available to children in low income families once a child turns 16. FTB Part A rates are increased in line with upward movements in the CPI each July. The maximum rates for children aged under 16 are also benchmarked against pension rates, which provides an indirect link to MTAWE.

FTB Part B is a per family payment, paid to single parents and couples with one main income earner and a dependent child aged under 16 or a qualifying full-time student aged 16-18. FTB Part B for couple families is paid subject to an income test on the second earner. FTB Part B has a higher rate for families with a child aged under five. FTB Part B rates are increased in line with upward movements in the CPI each July.

Child care and other family assistance

In addition to FTB, the family assistance system includes: assistance on the birth or adoption of a child (Baby Bonus); a payment to reward and encourage age-appropriate immunisation (Maternity Immunisation Allowance); and assistance with the costs of child care (Child Care Benefit and Child Care Tax Rebate).

Families using child care provided by an approved service or registered carer may receive Child Care Benefit (CCB). Approved services can include long day care, family day care, outside school hours care, vacation care and some occasional and in-home care. Registered care includes nannies, relatives or friends registered as carers. Families who are eligible for CCB for approved care can get up to 24 hours of CCB per child per week regardless of their work status. Families where both parents or a single parent are working, studying, training or looking for work for at least 15 hours a week (unless exempt) are eligible for up to 50 hours of CCB per child per week for approved care. CCB for registered care is paid only where both parents or a single parent are working, studying, training or looking for work at any time in the week. There is a weekly limit of 50 hours of CCB for registered care.

CCB for approved care is subject to a family income test. The maximum rate is payable if a parent is on income support, or if their family income is below the relevant income threshold. Most families using approved care choose to receive their CCB as a reduction in fees. The other option is as a lump sum after the end of the year. There is no income test for CCB for registered care.

Child Care Tax Rebate (CCTR) meets 50 per cent of the out-of-pocket child care expenses for approved care up to a limit of $7,500 per child per annum. It can be paid quarterly or annually. To receive payment, the claimant must have been assessed as eligible for CCB and be working, studying, training or looking for work.

Supplementary payments including Rent Assistance

In addition to pensions, allowances and family payments, the Australian government also provides a broad range of supplementary payments and assistance. These include Pharmaceutical Allowance, a supplement for people living in remote areas, and assistance for specific costs (such as Utilities Allowance). A number of supplementary payments are also available for additional assistance with the cost of education and training.

Rent Assistance is one of the major supplementary forms of assistance. Australians receiving more than the base rate of FTB Part A, pensions or allowances are eligible if they are renting in the private market at rates above a threshold level (the threshold and payments depend on family size). Different taper rates of pensions, allowances and family payments mean that Rent Assistance is reduced by a lower level of private income, and at a faster rate, if it is received with an allowance payment, than if it is received with a pension or FTB Part A.

While a person can only receive one income support payment at any point in time, they can receive multiple supplements. Most supplementary payments are non-taxable.

Since 2000 there has been an increased use of 'one-off' lump sum payments. For example, carers have received lump sum payments of up to $1,600 in each of the past five budgets. Seniors have received lump sum payments of up to $500 in each of the past three budgets.

Superannuation co-contribution

Under the government superannuation co-contribution scheme, post-tax contributions by low-income and middle-income earners are matched at $1.50 for every dollar contributed, up to a maximum contribution of $1,500. The maximum contribution is available for individuals on incomes below $30,342 and phases out at the upper threshold of $60,342 (2008-09).

Private health insurance rebate

Families and individuals who pay private health insurance premiums are eligible for a rebate of at least 30 per cent of the cost of a complying private health insurance policy. For people aged between 65 and 69 years, the rebate is 35 per cent and for people aged 70 years and over, the rebate is 40 per cent. The rebate can be claimed as a premium reduction, as a direct payment through Medicare Australia, or at the end of the year as part of a tax return. It is paid for both hospital and/or ancillary cover, for people who are eligible for Medicare. The rebate is not means tested.

Concession cards

Pensioners and specified allowance recipients are issued a Pensioner Concession Card. Allowance recipients (excluding student payment recipients) and eligible FTB families are issued with a Health Care Card. A low-income Health Care Card can also be claimed subject to an income test. Self-funded retirees can claim a Commonwealth Seniors Health Card subject to a more generous income test.

Concession card holders have access to a range of reduced cost services — particularly through state governments (Section 2.9) and some concessions on private sector goods and services. The most notable concession available to card holders relates to lower cost pharmaceuticals through the Pharmaceutical Benefits Scheme and a lower Medicare Safety Net threshold.

Recent 'one-off' lump sum payments to seniors and carers have also been made to recipients of income support payments such as Widow Allowance and Partner Allowance, and to holders of the Commonwealth Seniors Health Card.

The Community Development Employment Projects (CDEP) program

The Community Development Employment Projects (CDEP) program is an Australian government funded initiative for unemployed Indigenous people. The program provides participation opportunities through activities which develop skills to improve employability of participants, in order to assist them to move into employment outside the CDEP program. CDEP activities can also lead to the development of business enterprises. Candidates must meet certain eligibility requirements to allow them to participate in CDEP.

Tax expenditures

The Australian government also provides significant tax concessions, which can be a form of transfer. Some relevant examples are the superannuation tax concessions and the 20 per cent medical expenses tax offset.

2.9 State transfers

State transfers are provided in the form of public housing schemes that assist low income people with affordable accommodation, publicly funded services for people in need, and a range of concessions to eligible Australians. Eligibility for state concessions often relies on meeting Australian government eligibility tests for the Pensioner Concession Card and the Commonwealth Seniors Health Card. As such, there is an important connection to the Australian government transfer system.

The States do not have a system of general income support but provide transfers to individuals in a number of ways (see Tables 2.27 to 2.34), including:

- through services directed to assist low income people — for example, public housing schemes to provide affordable accommodation;
- subsidised services, such as electricity, water and public transport; and
- tax concessions, such as motor vehicle registration concessions and stamp duty concessions to eligible first home owners (see also Section 2.6).

All States provide transfers to first home buyers through the First Home Owners Scheme.

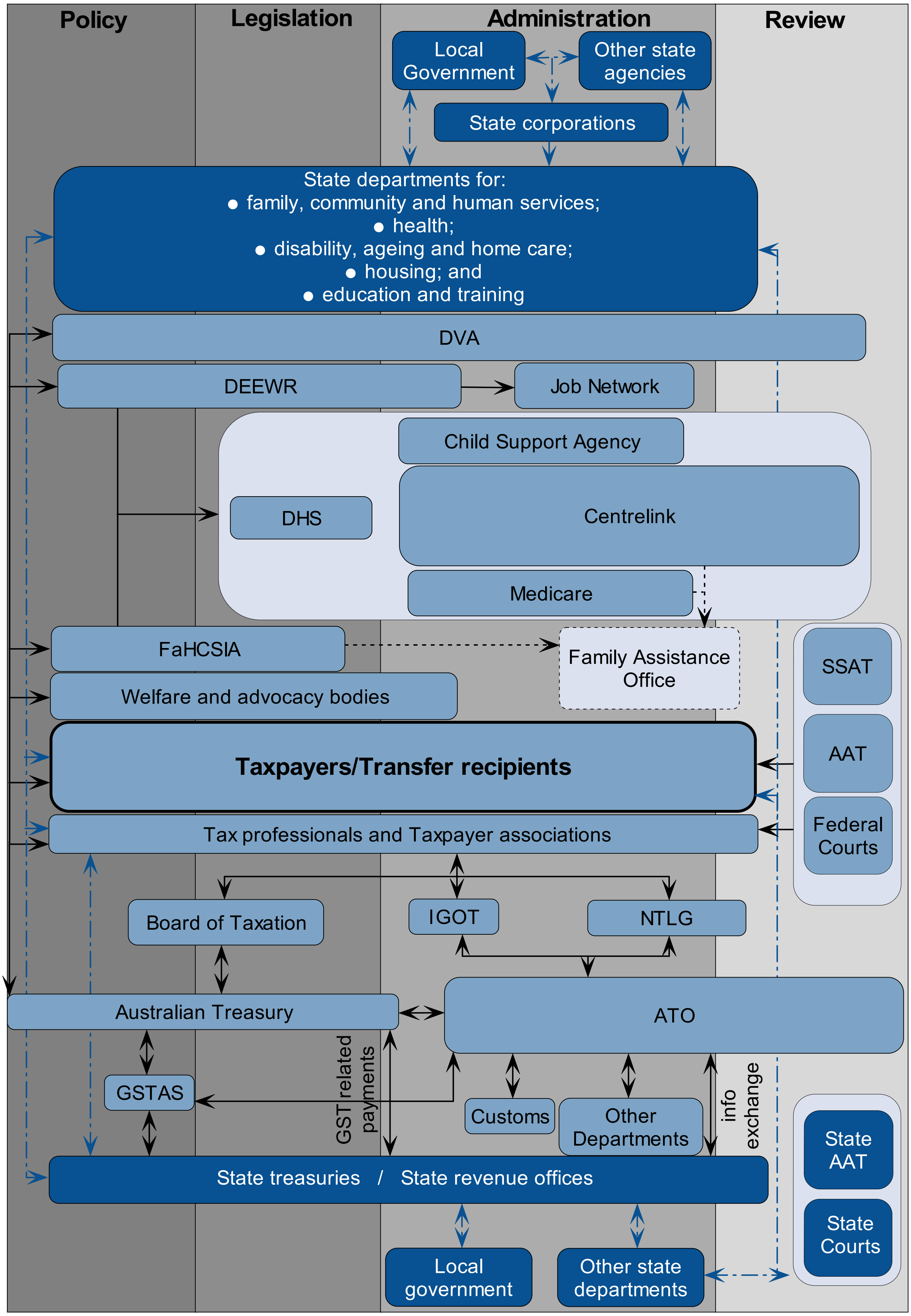
2.10 Administration of the tax-transfer system

Chart 2.12 outlines the administrative framework of the tax-transfer system from the broad perspective of the formation of tax and transfer policy, through to the implementation of that policy and the resolution of any disputes between administering authorities and taxpayers/transfer recipients. For the purposes of simplicity, it does not include the ministerial and parliamentary processes that underpin the formation of tax and transfer policy. The location of the participants in Chart 2.12 indicates where they tend to be involved in the development of policy and its administration.

At the core of the diagram are taxpayers and transfer recipients. The transfer system is reflected in the upper half of the diagram, the tax system in the lower half. The state tax and transfer arrangements are depicted at the outer margins of the diagram but operate parallel to the Australian government tax and transfer systems.

The tax and transfer systems have different objectives. These objectives have influenced how the agencies administer their part of the system. While represented as spatially separate, there are strong links between the tax and transfer components at the Australian government level, and to a lesser extent between the two arms of the state tax-transfer systems and between the Australian government and state tax-transfer systems.

Chart 2.12: Administrative framework of the tax-transfer system



Relationships with the Australian Government
Relationships with State Governments
Relationships with the Family Assistance Office

Administration of the Australian government tax system

The development of Australian government tax policy and its implementing legislation is the responsibility of the Treasury Ministers, advised by the Australian Treasury. The Australian Taxation Office (ATO) is a key player in the policy formation and legislative process, as is the Office of Parliamentary Counsel, reflecting the interdependence of the policy, legislation and administrative aspects of the tax system. Taxpayers, often through representative agencies and associations, may also engage in the formation of policy and legislation. This can be through correspondence with members of parliament, representations to the Treasurer or other ministers, representations to the Australian Treasury, the ATO, the Board of Taxation, or through consultative forums such as the ATO's National Tax Liaison Group (NTLG) and specific consultation arrangements.

The Commissioner of Taxation has statutory independence to administer, through the ATO, the principal Australian government taxes. The ATO's primary function is to administer tax and superannuation legislation passed by Parliament. To do this the ATO develops administrative arrangements to implement tax law, educates and advises taxpayers about their rights and obligations, collects tax revenue, and ensures compliance with the law. It is the only agency with which most taxpayers and tax professionals interact in fulfilling their tax obligations. Taxpayers can rely on, or ask the Commissioner to give, rulings or advice in relation to their tax obligations.

Under the income tax self-assessment system, taxpayers lodge their tax returns with the ATO, which then uses the information to issue a notice of assessment. For most other tax types, taxpayers also lodge statements or returns that report their liability or entitlements but it is generally not necessary for the ATO to make and issue an assessment.

The ATO may make an adjustment to an income tax assessment, such as where the taxpayer has made a mistake adding up figures, but does not take responsibility for the accuracy of the details on a tax return. That is the responsibility of the taxpayer. At a later date, the ATO may check some details on a tax return more thoroughly. The ATO has two years to review tax returns for most taxpayers and, if necessary, increase or decrease the tax payable by issuing an amended assessment. Returns for taxpayers with more complex affairs can be reviewed within four years.

Should the taxpayer be dissatisfied with the assessment (or a ruling) the taxpayer may object — effectively requiring the Commissioner to reconsider the assessment (or ruling). If the Commissioner disallows any of the objection, the taxpayer has the right to take the matter to the Administrative Appeals Tribunal (AAT) or the Federal Court. Disputes between the Commissioner and taxpayers are arbitrated through the legal system with the courts providing authoritative interpretation of tax law.

In practice, a significant majority of taxpayers engage professionals to work out their tax obligations. The ATO works closely with the tax profession through a range of consultative forums, particularly the National Tax Liaison Group, to improve tax administration and voluntary compliance.

The Commissioner has substantial powers to collect and recover amounts of tax payable under the assessments and can apply penalties and interest where appropriate. The ATO is subject to external scrutiny — through Parliament and the Inspector-General of Taxation

(IGOT), as well as the usual channels such as the Ombudsman and the Australian National Audit Office.

An ancillary role is played by the Australian Customs Service in collecting GST and excise equivalent duties and tariffs on imported goods. A range of minor industry specific taxes are administered by other Australian government departments.

Administration of the Australian government transfer system

In contrast to the tax system, many government ministers, advised by their relevant agencies, have responsibility for policy formation and administration of the transfer system. These agencies include: the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA); the Department of Education, Employment and Workplace Relations (DEEWR); and the Department of Veterans' Affairs (DVA). They are responsible for providing advice on policy, including advice on issues such as eligibility, rates and means testing.

Separate agencies such as the Department of Human Services (DHS), Centrelink and Medicare are responsible for delivering transfers to recipients. Their responsibilities can include processing applications, determining initial and ongoing eligibility by assessing customers against means testing and activity test requirements, and transferring payments into customer bank accounts.

The transfer payment system is based on self-identification — an individual needs to apply for most payments. Eligibility is assessed by an agency using information provided by the individual. Individuals seeking or receiving transfers may need to deal with more than one agency, in part because it is possible for individuals and families to receive a number of different transfers at the one time. To streamline an individual's access to government services, Family Assistance Offices have been set up in Medicare Australia offices, Centrelink Customer Service Centres and ATO shopfronts across the country. They deliver FTB, Child Care Benefit, Child Care Tax Rebate, Baby Bonus, Maternity Immunisation Allowance and Rent Assistance.

The right to have a decision reviewed exists for almost every decision made by Centrelink or the Family Assistance Office (FAO). The first step is for a customer to request internal review by the original decision maker or authorised review officer. Reconsideration by the original decision maker is not a formal review but an administrative check for obvious errors. An authorised review officer is a senior and expert officer who undertakes the first formal review of the decision, having regard to the facts of the case as well as the correct application of the policy and the law.

If a customer is dissatisfied with the outcome of an internal review, they may apply to the Social Security Appeals Tribunal (SSAT) for independent external review. The SSAT conducts a merits review based on the facts and the law. Further merits review may also be undertaken by the Administrative Appeals Tribunal (AAT). Beyond this, appeal to the courts can only be made on a matter of law.

Administration of the state tax-transfer system

There are parallels between the state administrative structures for taxation and that at the Australian government level. The process for the development of state taxes involves consultation between the respective state treasuries, state revenue offices (SROs) and taxpayer and industry representative groups. The degree of involvement of the state revenue offices in tax policy and legislation varies across the States. Commissioners for State Taxation and their respective revenue offices are responsible for administering most state tax laws. However, other government departments are engaged in the collection of some taxes.

Like the ATO, the state revenue offices have a role in clarifying the application of the legislation and providing rulings. As is the case with the Australian government, state revenue offices consult with taxpayer representative groups on implementation and compliance issues. State taxes are administered through a mix of self-assessment and state revenue office assessment, depending upon the extent of compliance costs. Taxpayer disputes are handled through an appeals process and the state courts, in addition to the usual channels such as State Ombudsmen.

As noted in Section 2.9, the primary ways in which States redistribute income or provide income support are through the direct provision of public services, such as subsidised public housing, through the provision of concessions, such as reduced charges for household utilities and public transport, or via tax concessions. The key agencies engaged in the provision of this assistance are the state departments for housing and for communities, and various other agencies operated by individual States; state government corporations (for example, utilities and public transport concessions); local government (rate concessions); and the state revenue offices (for example, stamp duty concessions). As with taxation, disputes are arbitrated through an appeals process and the state courts.

Linkages between tax and transfer systems

Although separate administrative architectures exist for the tax system and for the transfer system, there are strong links between these systems. At the Australian government level these links exist because entitlement to assistance payments can be determined by taxable income and because parts of some transfers are delivered through tax. Reflecting this link, the agencies administering the tax and transfer systems exchange data to ensure that consistent information is used. At the state level, there are interdependencies between the tax and transfer systems, with both mechanisms being used to deliver assistance to target groups.

There are also links between the Australian government tax-transfer system and the state tax-transfer systems. Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* all revenue from the GST is distributed among the States. GST policy is coordinated through the GST Administration Sub-committee (GSTAS). The States interact with the ATO in relation to the collection and administration of the GST legislation. The costs of administering the GST are recovered by the Australian Treasury from the States. The States also interact more broadly with the ATO under information sharing agreements to ensure that consistent information is used across the Australian government and state tax systems. For example, information on house sales is used for the collection of stamp duty on conveyancing and for checking capital gains tax on investment property sales. Linkages also exist between the Australian government and state transfer systems, as some state transfers are linked to Australian government transfer policy through the concession card arrangements.

2.11 Additional tax and transfer tables

Table 2.9: Australian government taxes as at 1 July 2008

Tax	Tax base	Tax rates		Taxpayers and collection points
Income taxation — resident individuals	Taxable income of resident individuals	Marginal rate	Thresholds	Employer PAYG, ATO
		0%	$0-$6,000	
		15%	$6,001-$34,000	
		30%	$34,001-$80,000	
		40%	$80,001-$180,000	
		45%	$180,001+	
Low Income Tax Offset	Taxable income of resident individuals	Maximum amount of $1,200. Reduces by 4 cents for every dollar of income over $30,000. This results in an effective tax free threshold of $14,000 for those eligible.		
Medicare levy	Taxable income of resident individuals	1.5%	Payable if income exceeds a threshold which varies between singles, couples, pensioners and seniors. Phases in at 10% over some income ranges.	
Medicare levy surcharge	Taxable income of resident individuals without private patient hospital insurance	1%	Payable if income exceeds a threshold which varies between singles and couples.	
Income taxation — non-resident individuals	General income of non-resident individuals	Marginal rate	Thresholds	Employer PAYG, ATO
		29%	$0-$34,000	
		30%	$34,001-$80,000	
		40%	$80,001-$180,000	
		45%	$180,001+	
	Exceptions			
	Unfranked dividends from Australian payer (final withholding tax) other than conduit foreign income.	30% (domestic law). 0%-15% (under tax treaties)		
	Franked dividends not subject to withholding tax.			
	Interest payments from Australian payer (final withholding tax)	10% if not exempt (domestic law). 0% — 10% (tax treaties)		
	Royalties paid from Australian payer (final withholding tax)	30% (domestic law). 5% — 15% (under tax treaties)		

Table 2.9: Australian government taxes as at 1 July 2008 (continued)

Tax	Tax base	Tax rates		Taxpayers and collection points
Income taxation — non-resident individuals (continued)	Australian source net income (other than dividends, interest and royalties) from managed investment trusts.	Resident of information exchange country — 22.5% withholding tax on distribution net of investor's deductions. Other non-resident — 30% final withholding tax.		
Fringe benefits tax	Tax-inclusive value of non-exempt fringe benefits	46.5%		Paid by employer to the ATO
Corporate income taxation				Paid by entity to the ATO
Companies	The taxable income of companies.	30%		
Strata title bodies, unincorporated clubs/societies	Taxed like companies, but 'mutual income' is not assessable	30%		
Retirement Savings Account (RSA) providers (other than life insurance companies)	Taxable income	30% 15%	On standard component On RSA component	
First Home Saver Account (FHSA) providers (other than life insurance companies)	Taxable income	30% 15%	On standard component On FHSA component	
Life insurance companies	Taxable income	30% 15%	Ordinary class Complying superannuation/FHSA class	
Credit unions with notional taxable income less than $50,000	Interest received	30%		
Credit unions with notional taxable income of at least $50,000 but less than $150,000	Interest received	0 to $49,999: 0%; over $49,999: 45%		
Credit unions with notional taxable income of at least $150,000		30%		

Table 2.9: Australian government taxes as at 1 July 2008 (continued)

Tax	Tax base	Tax rates		Taxpayers and collection points
Corporate income taxation (continued)				
Pooled development funds	Taxable income	15%	On SME regulated component	
		25%	On unregulated component	
		30%	On component excess on becoming/ceasing to be a PDF	
Corporate unit trusts, public trading trusts and corporate limited partnerships	Taxable income	30%		
Non-profit companies	Taxable income	0 — $415: 0 %; $416-$915: 55%; over $915: 30%		
Superannuation funds				Paid by superannuation fund to the ATO
Complying superannuation funds	Income (including realised capital gains and assessable contributions)	15% (certain non-arm's length income, e.g. private company dividends, taxed at 45%). No-TFN contributions 46.5%		
Non-complying superannuation funds	Income (including realised capital gains and assessable contributions)	45%		
Complying approved deposit funds	Income (including realised capital gains and assessable contributions)	15% (certain non-arm's length income, e.g. private company dividends, taxed at 45%)		
Non-complying approved deposit funds	Income (including realised capital gains and assessable contributions)	45%. No-TFN contributions 46.5 %		
Pooled superannuation trust	Income (including realised capital gains and assessable contributions)	15% (certain non-arm's length income, e.g. private company dividends, taxed at 45%)		

Table 2.9: Australian government taxes as at 1 July 2008 (continued)

Tax	Tax base	Tax rates		Taxpayers and collection points
Trusts				Paid by trustee to the ATO
Trustee of trust (other than public trading trusts, corporate unit trusts and FHSA trusts)	Income that not otherwise assessable to a beneficiary	46.5%		
FHSA trusts	Taxable income	30%		
Resource taxes				
Petroleum resource rent tax	'Economic rent' generated by a petroleum project. It is levied on project receipts, less all project related expenditures (including capital expenditures) and other eligible exploration expenditures transferred to the project. Deductible expenditure not offset against project receipts in a tax year is compounded at varying rates and carried forward to be available as a deduction against project receipts in future years.	40%	Of taxable profit (that is, project receipts less deductible expenditures)	Petroleum projects located offshore (except the North West Shelf project). Paid quarterly.
Crude oil excise	Value of production of crude oil	Varies from 0% to 55%	The first 30 million barrels of production from a field is exempt from the crude oil excise	Levied on extracting crude oil from the North West Shelf project area and onshore. Also applies to the production of condensate. Paid monthly.
Resource rent royalty	Profits from extraction of petroleum. Revenue is shared with Western Australia	40%	Of net project receipts	Levied on extracting petroleum from Barrow Island. Paid quarterly.
Offshore & internal waters petroleum royalty	Value of production of petroleum. Revenue is shared with Western Australia	10-12.5% of net well head value		Levied on extracting petroleum from North West Shelf project area. Paid monthly.

Table 2.9: Australian government taxes as at 1 July 2008 (continued)

Tax	Tax base	Tax rates		Taxpayers and collection points
Excise taxation				Paid by the manufacturer or owner of the goods to the ATO.
	Beer			
	Beer not exceeding 3% by volume of alcohol packaged in an individual container not exceeding 48 litres	$33.77	Per litre of alcohol calculated on that alcohol content by which the percentage by volume of alcohol of the goods exceeds 1.15, CPI indexed.	
	Beer exceeding 3% but not exceeding 3.5% by volume of alcohol packaged in an individual container not exceeding 48 litres	$39.36		
	Beer exceeding 3.5% by volume of alcohol packaged in an individual container not exceeding 48 litres	$39.36		
	Beer not exceeding 3% by volume of alcohol packaged in an individual container exceeding 48 litres	$6.74		
	Beer exceeding 3% but not exceeding 3.5% by volume of alcohol packaged in an individual container exceeding 48 litres	$21.17		
	Beer exceeding 3.5% by volume of alcohol packaged in an individual container exceeding 48 litres	$27.70		
	Other excisable beverages, of an alcoholic strength not exceeding 10% alc/vol	$66.67	Per litre of alcohol, CPI indexed	
	Spirits and other Excisable Beverages > 10 per cent alc/vol			
	Brandy	$62.25	Per litre of alcohol, CPI indexed	
	Spirits, including: Fruit Brandy, Whisky, Rum, Liqueurs	$66.67	Per litre of alcohol, CPI indexed	
	Other excisable beverages, of an alcoholic strength exceeding 10%	$66.67	Per litre of alcohol, CPI indexed	
	Spirits for various purposes other than consumption in beverages	Free		

Table 2.9: Australian government taxes as at 1 July 2008 (continued)

Tax	Tax base	Tax rates		Taxpayers and collection points
Tobacco products	In stick form not exceeding 0.8 grams per stick tobacco	$0.24757	Per stick, CPI indexed	
	Tobacco, other	$309.47	Per kilogram of tobacco content, CPI indexed	
Petroleum based oils and lubricants, not for use as fuel	Oils and recycled oils, excluding greases	$0.05449	Per litre	
	Greases and recycled greases	$0.05449	Per kilogram	
Fuel Products	Gasoline and Kerosene for use as fuel in aircraft			
	Liquid fuels, including	$0.02854	Per litre	
	Gasoline (other than for use as fuel in aircraft)	$0.38143	Per litre	
	Diesel			
	Biodiesel			
	Fuel oil, heating oil, kerosene			
	Denatured ethanol for use as fuel in an internal combustion engine			
Goods and services tax	Taxable supplies of goods and services	10%		Paid by registered entities to the ATO
	Importations of most goods	10%		Collected by Customs at border, or deferred and paid to the ATO
Customs duty				Paid by importers to Customs at the border
Textiles, clothing and footwear	Cotton sheeting, fabric, carpet and footwear	10%		
	Sleeping bags, table linen and footwear parts	7.5%		
	Clothing and finished textiles	17.5%		
Passenger motor vehicles	PMVs and replacement components	10%		
	Four-wheel drive and light commercial vehicles	5%		
Excise like goods	Spirits, fuel ethanol, brandy and 'other excisable beverages'	An equivalent to the applicable excise rate plus the general tariff rate		
	Other goods (including beer)	An equivalent to the applicable excise rate		

Table 2.9: Australian government taxes as at 1 July 2008 (continued)

Tax	Tax base	Tax rates		Taxpayers and collection points
Customs duty (continued)				
Other imports	General tariff	5%		
	Tariff Concession Scheme	0%	Applies when there is no import-competing domestic production	
Wine equalisation tax	Wine and wine products, cider, perry, mead and sake	29%	Of wholesale value	Paid by producers and or wholesalers to the ATO
Luxury car tax	Vehicles with a GST-inclusive value above the luxury car threshold	33%(a)	Of the value above the luxury car tax threshold, adjusted to remove the GST component of this value	Paid by suppliers to the ATO
Agricultural levies				Paid by producers to Levies Revenue Service.
Dairy (All Milk Levy)	Milk protein	2.6448 cents	Per kilogram	
	Milk fat	6.4438 cents	Per kilogram	
Dairy Adjustment Levy	Milk	11 cents	Per litre	
Coarse grains	Barley	1.02%	Farm gate value	
	Triticale	1.02%	Farm gate value	
	Oats	1.02%	Farm gate value	
	Cereal rye	1.01%	Farm gate value	
	Sorghum	1.02%	Farm gate value	
	Maize	0.72%	Farm gate value	
	Millet	1.01%	Farm gate value	
	Canary seed	1.01%	Farm gate value	
Cotton	Cotton	$2.25	Per 227kg bale	

Table 2.9: Australian government taxes as at 1 July 2008 (continued)

Tax	Tax base	Tax rates		Taxpayers and collection points
Agricultural levies (continued)				
Grains — legumes	Field peas	1.02%	Farm gate value	
	Lupins	1.02%	Farm gate value	
	Faba beans	1.02%	Farm gate value	
	Chick peas	1.02%	Farm gate value	
	Mung beans	1.02%	Farm gate value	
	Pigeon peas	1.02%	Farm gate value	
	Peanuts	1.005%	Farm gate value	
	Navy beans	1.02%	Farm gate value	
	Vetch	1.02%	Farm gate value	
	Cow peas	1.02%	Farm gate value	
	Lentils	1.02%	Farm gate value	
Oil seeds	Sunflower	1.02%	Farm gate value	
	Linseed (inc linola)	1.02%	Farm gate value	
	Soybean	1.02%	Farm gate value	
	Safflower	1.02%	Farm gate value	
	Rape seed (inc canola)	1.02%	Farm gate value	
Pasture seeds	Pasture seeds — category one (medics)	$10.00	Per tonne	
	Pasture seeds — category two (lucernes)	$15.00	Per tonne	
	Pasture seeds — category three (clovers)	$15.00	Per tonne	
	Pasture seeds — category four (subclovers)	$11.00	Per tonne	
	Pasture seeds — category five (serradella)	$10.00	Per tonne	
Rice	For Rice delivered to a processor	$3.00	Per tonne	
Wheat	Wheat	1.02%	Farm gate value	
Wheat export	Wheat export (effective 1 October 2003)	22 cents	Per tonne	
Almonds	In shell	$0.01	Per kilogram	
	Shelled	$0.02	Per kilogram	
	Nonpareil in shells	$0.02	Per kilogram	

Table 2.9: Australian government taxes as at 1 July 2008 (continued)

Tax	Tax base	Tax rates		Taxpayers and collection points
Agricultural levies (continued)				
Apples and pears (excluding Nashi)	Apples (domestic)	1.845 cents	Per kilogram	
	Pears (domestic)	2.099 cents	Per kilogram	
	Apples (export)	1.845 cents	Per kilogram	
	Pears (export)	2.099 cents	Per kilogram	
	Apples (juicing)	$2.75	Per tonne	
	Pears (juicing)	$2.95	Per tonne	
	Apples (processing)	$5.50	Per tonne	
	Pears (processing)	$5.90	Per tonne	
Avocado	Fresh	7.5 cents	Per kilogram	
	Processing	$0.01	Per kilogram	
Banana	Domestic	$0.017	Per kilogram	
Cherry	Domestic	$0.07	Per kilogram	
	Export	$0.07	Per kilogram	
Chestnut	Domestic	$0.10	Per kilogram	
	Export	$0.10	Per kilogram	
Citrus	Export and domestic oranges in bulk	$2.75	Per tonne	
	Oranges not in bulk	5.5 cents	Per box (20kg)	
	Other citrus in bulk	$2.00	Per tonne	
	Other citrus not in bulk	$0.04	Per box	
Custard Apple	Domestic and export package	$0.40	Tray or box	
	Bulk	$50.00	Per tonne	
Dried fruits	Dried vine fruits	$11.00	Per tonne	
	Dried plums (prunes)	$13.00	Per tonne	
	Dried tree fruits (other than prunes)	$32.00	Per tonne	
Dried vine fruit	Dried vine fruits	$7.00	Per tonne	
Honey	Domestic rate	2 cents	Per kilogram	
	Export rate	2 cents	Per kilogram	
Lychee	Fresh lychee	8 cents	Per kilogram	
	Processing lychee	1 cent	Per kilogram	

Table 2.9: Australian government taxes as at 1 July 2008 (continued)

Tax	Tax base	Tax rates		Taxpayers and collection points
Agricultural levies (continued)				
Macadamia	Dried kernel — domestic/export	25.21 cents	Per kilogram	
Mangoes	Domestic rate	1.75 cents	Per kilogram	
	Export rate	1.75 cents	Per kilogram	
Mushrooms, agaricus	Domestic	$2.16	Per kilogram	
Nashi	Domestic	10 cents	Per single layer tray (4kg)	
	Export	10 cents	Per single layer tray (4kg)	
	Juicing	$1.80	Per tonne	
	Processing	$3.60	Per tonne	
Nursery products	Domestic and export	5.00%	Purchase price	
Onion	Domestic and export	$2.00	Per tonne	
Papaya	Fresh papaya	2 cents	Per kilogram	
	Processing papaya	0.25 of a cent	Per kilogram	
	Export papaya	2 cents	Per kilogram	
Passionfruit	Domestic and export	20 cents	Per 18 litre carton	
		20 cents	Per 8kg, if not in cartons	
		1.5 cent	Per kilogram processing passionfruit	
Persimmons	Domestic and export	6.25 cents	Per kilogram fresh Persimmons	
Potato	Domestic	$0.50	Per tonne	
	Export	$0.50	Per tonne	
	Potato processing	$0.50	Per tonne	
Rubus	Domestic and export	$0.11	Per kilogram rubus	
Stone Fruit	Domestic and export	$0.01	Per kilogram	
Strawberry	Runners	$8.00	Per 1000 (or part thereof)	
Table Grapes	Domestic and export	$0.01 cent	Per kilogram	
Turf	Domestic	1.5 cents	Per square metre turf	
	Export	1.5 cents	Per square metre turf	

Table 2.9: Australian government taxes as at 1 July 2008 (continued)

Tax	Tax base	Tax rates		Taxpayers and collection points
Agricultural levies (continued)				
Vegetables	Vegetables excluding asparagus, garlic, hard onions, herbs (other than fresh culinary shallots and parsley), melons, mushrooms, potatoes (other than sweet potatoes), seed sprouts or tomatoes	0.50%	value	
Beef production	Beef production (cattle slaughter)	0.6 of a cent	Per kilogram	
Buffalo export	Buffalo export charge	$4.60	Per head	
Buffalo slaughter	Buffalo slaughter	$9.60	Per head	
Cattle and livestock delivered for export (producers)	Cattle	$5.00	Per head	
	Lot-fed cattle	$5.00	Per head	
	Bobbies	$0.90	Per head	
	Sheep (defined sale price) more than $5, maximum 20 cents	2%		
	Lambs (defined sale price) more than $5 value, maximum $1.50	2%		
	Goats (defined sale price)	37.7 cents	Per head	
	Sheep (no defined sale price)	20 cents	Per head	
	Lambs (no defined sale price)	80 cents	Per head	
	Goats (no defined sale price)	37.7 cents	Per head	
Cattle and Livestock Exporters Charge	Cattle	0.9523 of a cent	Per kilogram	
	Sheep	60 cents	Per head	
	Lambs	60 cents	Per head	
	Goats	50 cents	Per head	
Cattle and Livestock Transaction Levy	Same as cattle and livestock delivered for export			
Chickens — laying	Laying chicken	7.87 cents	Per chick	
Chickens — meat	Meat chicken	26.74 cents	Per 100 chicks	
Deer export	Deer Export Charge –(1 July 2007 — 30 June 2010)	$5.00	Per head	
Deer slaughter	1 July 2007 — 30 June 2010	8 cents	Per kilogram	
Deer velvet	1 July 2007 — 30 June 2010	2%	Sale value	
	Deer Velvet Export Charge (1 July 2007 — 30 June 2010)	2%	Declared value	

Table 2.9: Australian government taxes as at 1 July 2008 (continued)

Tax	Tax base	Tax rates		Taxpayers and collection points
Agricultural levies (continued)				
Game animals — (goats and pig)	Game goats	3 cents	Per head	
	Game pigs	25 cents	Per head	
Goat fibre	Goat fibre	1.50%	Ad valorem	
Horses slaughter	Horse slaughter	$5.00	Per head	
Livestock slaughter	Sheep	15 cents	Per head	
	Lambs	16 cents	Per head	
	Goats	10 cents	Per head	
Macropod — animal consumption	All macropods processed (for animal consumption)	3 cents	Per head	
Macropod — human consumption	Kangaroos processed (for human consumption)	7 cents	Per head	
	Other macropods processed (for human consumption)	4 cents	Per head	
Pig slaughter	Pigs	$2.53	Per head	
Ratite slaughter	Emus	$2.00	Per head	
	Ostriches	$1.25	Per head	
Grape research	Less than 20 tonnes	$0.00	Exempt	
	20 tonnes and over	$2.00	Per tonne	
Wine Export Charge	$0.0 to $20m	0.20%	Value	
	$20m to $70m	0.10%	Value between $20m and $70m plus above	
	$70m and over	0.05%	Value over $70m plus both above	
Wine Grapes Levy	Up to and including 10 tonnes	$200	Plus $5.00 per tonne	
	Over 10 to and including 3,000 tonnes	$180	Plus $9.20 for each tonne(including first 10 tonnes)	
	Over 3,000 to and including 6,000 tonnes	$27,780	Plus $8.80 for each tonne over 3,000 tonnes	
	Over 6,000 to and including 9,000 tonnes	$54,180	Plus $7.00 for each tonne over 6,000 tonnes	

Table 2.9: Australian government taxes as at 1 July 2008 (continued)

Tax	Tax base	Tax rates		Taxpayers and collection points
Agricultural levies (continued)				
Wine Grapes Levy (continued)	Over 9,000 to and including 12,000 tonnes	$75,180	Plus $6.30 for each tonne over 9,000 tonnes	
	Over 12,000 to and including 20,000 tonnes	$94,080	Plus $5.60 for each tonne over 12,000 tonnes	
	Over 20,000 to and including 40,000 tonnes	$138,880	Plus $5.50 for each tonne over 20,000 tonnes	
	Over 40,000 tonnes	$248,880	Plus $5.40 for each tonne over 40,000 tonnes	
Egg promotion	Egg promotion	32.5 cents	For each laying chicken	
Farmed prawns	Banana prawn (penaeus merguiensis)	3.64 cents	Per kilogram whole farmed prawns	
	Black tiger prawn (penaeus monodon)	3.64 cents	Per kilogram whole farmed prawns	
	Brown tiger prawn (penaeus esculentis)	3.64 cents	Per kilogram whole farmed prawns	
	Kuruma prawn (penaeus japonicus)	3.64 cents	Per kilogram whole farmed prawns	
	School prawn (metapenaeus macleayi)	3.64 cents	Per kilogram whole farmed prawns	
Forest & wood products	Other Softwood sawlogs(other than cypress sawlogs)	29 cents	Per cubic metre	
	Cypress sawlogs	22 cents	Per cubic metre	
	Hardwood sawlogs	29 cents	Per cubic metre	
	Plywood and veneer logs	15 cents	Per cubic metre	
	Wood panel pulplogs	10 cents	Per cubic metre	
	Low grade softwood log	8 cents	Per cubic metre	
	Softwood roundwood log	8 cents	Per cubic metre	
	Export woodchip hardwood pulplogs	3.5 cents	Per cubic metre	
	Export woodchip softwood pulplogs	$0.00	Per cubic metre	
	Paper pulplogs	$0.00	Per cubic metre	

Table 2.9: Australian government taxes as at 1 July 2008 (continued)

Tax	Tax base	Tax rates		Taxpayers and collection points
Agricultural levies (continued)				
Forest growers	Forest growers	5 cents	Per cubic metre	
Queen bee	Queen Bee sold for $20 and under	0.50%	Sale price	
	Queen Bee sold for over $20	10 cents	Per queen bee	
Sugar cane	Sugar cane	$0.14	Per tonne	
Wool	Shorn wool	2%	Ad valorem	

(a) In the 2008-09 Budget, the Australian Government announced an increase in the rate of the luxury car tax to 33 per cent from 1 July 2008.

Table 2.10: Major tax offsets, 2006-07[1]

Offsets	Value of entitlement ($ million)	Number of individuals receiving
The low income tax offset is designed to reduce the tax paid by Australian low- and middle-income earners. In 2006-07, the maximum offset of $600 was available to taxpayers who earned less than $25,000. In 2007-08, the maximum value of the offset increased to $750, and was available to taxpayers who earned less than $30,000. In 2008-09 it has been further increased to $1,200 and will rise to $1,350 and $1,500 in 2009-10 and 2010-11 respectively.	2,168	5,195,500
The lump sum payment in arrears tax offset is available to taxpayers who include in their assessable income a lump sum payment for unused annual leave or for unused long service leave which is categorised as 'eligible assessable income'. The eligible termination payment tax offset applies to limit the maximum rate of tax applied to the taxed and untaxed elements of a post-June 1983 component of an eligible termination payment.	1,322	196,300
The superannuation contribution annuity and pension tax offset is applied to taxable annuity or pension income included in a taxpayer's tax return at a rate of 15%.	1,150	431,300
The senior Australians tax offset (SATO), when combined with the low income tax offset, ensured that eligible single older Australians could have income up to $24,867 in 2006-07 without paying income tax or the Medicare levy. As part of the Government's plan to reduce income taxes, this amount has increased to $28,867 in 2008-09, and will increase to $29,867 for 2009-10 and $30,685 for 2010-11. Similarly, a senior Australian who is a member of a couple could earn up to $20,680 for 2006-07 without paying income tax or the Medicare levy. This amount has increased to $24,680 in 2008-09 and will increase to $25,680 for 2009-10 and $26,680 for 2010-11.	1,083	604,800
The mature age worker tax offset is aimed at encouraging older workers to remain working or rejoin the workforce. The offset is available to workers aged 55 years and over who have net income from working[2] of less than $63,000. The maximum offset has been $500 since it became available on 1 July 2004.	491	1,147,700
The dependent spouse tax offset is available to taxpayers who maintain a dependent spouse but not during periods in the income year where either they or their spouse are eligible for Family Tax Benefit Part B. The maximum spouse offset available was $1,655 in 2006-07. In 2007-08 it was increased to $2,100 and is indexed annually.	452	344,700
The pensioner tax offset is available to taxpayers who are not entitled to the senior Australians tax offset and who receive certain pension payments. The effect of the offset is to ensure that no tax is paid by a person whose assessable income consists of the full pension and, in some cases, a small amount of non-pension income. In 2006-07, the maximum amount of the pensioner tax offset was $2,018 for singles, $1,522 for each member of a couple or $1,879 for a person who is a member of a couple separated by illness. These amounts are increased annually in line with pension increases.	444	285,300
The medical expenses tax offset is available to taxpayers for net medical expenses over $1,500 at a flat rate of 20%. No upper limit is applied.	401	642,500

Table 2.10: Major tax offsets, 2006-07[1] (continued)

Offsets	Value of entitlement ($ million)	Number of individuals receiving
The child care tax rebate is available to taxpayers for the difference between fees incurred for approved child care and the Child Care Benefit (30% of the difference). The maximum amount of rebate was $4,211 in 2006-07. The rebate has risen to 50% with a maximum amount of $7,500 in 2008-09 and is delivered through the Family Assistance Office.	344	436,800
The zone and overseas forces tax offset is available to individuals who are classed as residents of specified remote areas (Zone A or Zone B) of Australia for more than half the income year, or are serving in a qualifying overseas locality as a member of the Australian Defence Force. A resident of a special area of either Zone A or Zone B is entitled to an offset of $1,173 plus 50% of the relevant rebate amount. A resident of ordinary Zone A and a Defence Force member serving in a qualifying overseas locality is entitled to a zone tax offset of $338 plus 50% of the relevant rebate amount. A resident of ordinary Zone B is entitled to a zone tax offset of $57 plus 20% of the relevant rebate amount.	225	530,800
The baby bonus (first child) tax offset is available to taxpayers for the first child for whom legal responsibility is taken between 1 July 2001 and 30 June 2004, where the child was under 5 years when legal responsibility was taken. Over the next five years, some or all of the tax paid by the mother in the income year prior to the gaining of the legal responsibility of the child is refunded through instalments. Taxpayers claiming this offset must lodge their claim by 30 June 2009.	176	304,100
The private health insurance rebate is worked out as a percentage of the premium paid to a registered health insurer for a complying private health insurance policy. Taxpayers are able to choose to claim a certain percentage of the cost of their private health insurance premiums as a tax offset or as a direct payment or reduced health insurance premiums. Taxpayers aged less than 65 years can claim a 30% tax offset, those aged between 65 and 69 can calm 35% and those 70 years or older can claim 40%.	168	253,500
The entrepreneurs' tax offset is equal to 25% of the income tax liability attributable to the business income of small businesses entities with an aggregated turnover of less than $75,000. The offset phases out where the aggregated turnover for a year is between $50,000 and $75,000.	145	295,300
The beneficiary tax offset is paid to taxpayers whose assessable income includes certain government 'benefit' payments, and is calculated on the benefit income returned in their tax return.	124	266,900

1 Data current for 2006-07 tax returns processed as at 25 June 2008
2 The income test that applies to the mature age worker tax offset is defined as net income from working. This concept captures personal services and business income associated with employment and reduces it by a taxpayer's deductible expenses relating to the generation of this income.

Table 2.11: Taxable component of a superannuation benefit — taxation of element taxed in the fund

Age	Superannuation lump sum	Superannuation income stream
60 and above	Tax free (non-assessable, non-exempt income)	Tax free (non-assessable, non-exempt income)
Preservation age to age 59	Zero per cent up to the low rate cap of $145,000 (indexed); 15 per cent on amounts above the cap	Marginal tax rates, less a 15 per cent offset
Below preservation age	20 per cent	Marginal tax rates

Table 2.12: Taxable component of a superannuation benefit — taxation of element untaxed in the fund

Age	Superannuation lump sum	Superannuation income stream
60 and above	15 per cent up to the untaxed cap of $1.045 million (indexed), and then at the top marginal tax rate	Marginal tax rates, less a 10 per cent offset
Preservation age to age 59	15 per cent up to the low rate cap of $145,000 (indexed), 30 per cent up to the untaxed cap of $1.045 million (indexed), and then at the top marginal tax rate	Marginal tax rates
Below preservation age	30 per cent up to the untaxed cap of $1.045 million (indexed), and then at the top marginal tax rate	Marginal tax rates

Table 2.13: Overview of the tax treatment of outbound investment

Investment type	Income	Capital gains
Direct investment (non-portfolio investment, that is an equity interest of greater than 10 per cent in foreign branches or companies)	*Resident investor is an Australian company* As earned: active business income exempt; passive income taxed under anti-tax-deferral rules, with credit for foreign tax paid. On distribution: exempt (irrespective of whether active or passive income). *Resident investor is not an Australian company* As earned: taxed, unless active income derived by foreign company. On distribution: taxed with credit for direct foreign taxes, unless income was previously subject to tax under anti-tax-deferral rules.	*Resident investor is an Australian company* Capital gain from disposal of interest in a foreign company that has more than 90% active assets is exempt. *Resident investor is not an Australian company* Capital gain from disposal of interests in foreign company is taxed, with credit for foreign taxes paid.
Portfolio equity	*All resident investors* As earned: taxed as derived by the foreign entity or, under anti-tax-deferral rules (unless exemption available). In some cases, credit for foreign taxes paid by foreign entity may be available. On distribution: taxed, with credit for any direct foreign taxes, unless income has been previously taxed under anti-tax-deferral rules.	*All resident investors* Capital gain taxed unless it represents income that has been previously taxed (eg. under anti-tax-deferral rules)
Portfolio debt	*All resident investors* Taxed with credit for foreign interest withholding tax.	*All resident investors* Generally not applicable.

Table 2.14: Overview of the tax treatment of inbound investment

Investment type	Income	Capital gains
Direct investment	Company income tax — 30% on taxable income of Australian companies and branches of foreign companies. Unfranked dividends of Australian companies (paid from untaxed or tax preferred income) — dividend withholding tax (30% if non-treaty; generally 0-15% if treaty) unless conduit foreign income. Royalties from Australian company — royalty withholding tax (30% if non-treaty; generally 5-15% if treaty). Other Australian source income derived by non-resident directly (eg. investment in Australian land) — taxed on assessment at relevant tax rate.	Capital gains from the sale of shares in Australian company not taxed unless the company is land-rich. Capital gains from the sale of business assets of an Australian permanent establishment taxed. Capital gains from the sale of Australian land and non-portfolio interests in land-rich entities taxed.
Portfolio equity	Company income tax — 30% on taxable income. Unfranked dividends — subject to dividend withholding tax (at 30% if non-treaty; 10- 15% if treaty) unless conduit foreign income. Certain distributions from managed investment trusts — subject to new withholding tax regime. Once fully implemented, residents of countries with which Australia has effective exchange of information will be subject to 7.5% withholding tax; other foreign residents will be subject to 30% withholding tax. Distributions of net income from other trusts — taxed at non-resident investor's tax rate.	Capital gains on sale of shares not taxed. Capital gains from sale of other interests not taxed unless non-portfolio interests in land-rich entity.
Portfolio debt	Interest — subject to interest withholding tax (at 10%) unless exemption available (either under domestic law or treaty).	Generally not applicable.

Table 2.15: Tax treatment of typical resident holding entities for a resident individual investor

Treatment of entity's:	Direct/partnership	Non-fixed trust	Fixed trust	Company	Complying superannuation fund
Taxable income	Individual taxed at personal rate	Individual taxed at personal rate (1)	Individual taxed at personal rate (1)	Company taxed at 30% When distributed, individual taxed at personal rate with franking credit	Fund taxed at 15% Payment of benefits, tax-free if member is aged over 60 years (2)
Other income					
tax-preferred income	Tax preference partially clawed back on realisation of gain, generally when asset is disposed of	Tax preference partially clawed back on realisation of gain, generally when asset is disposed of	Tax preference partially clawed back on realisation of gain, generally when asset is disposed of (3)	Company benefits from tax preference When distributed, individual taxed with no franking credit	Fund benefits from tax preference Payment of benefits tax-free if member is aged over 60 years (2)
capital gains	Individual can benefit from 50% discount Small business CGT concessions may apply	Individual can benefit from 50% discount (4) Small business CGT concessions may apply	Individual can benefit from 50% discount (4) Small business CGT concessions may apply but may be clawed back through CGT (5)	No 50% discount (6) Small business CGT concessions may apply but when distributed, individual may be taxed (5)	Fund can benefit from 33⅓% discount
foreign source income	Individual taxed (with credit for direct foreign taxes paid)	Individual taxed (with credit for direct foreign taxes paid)	Individual taxed (with credit for direct foreign taxes paid)	Company exempt or taxed with credit for foreign tax When distributed, individual taxed on amount net of foreign tax	Fund taxed with credit for direct foreign taxes paid
Losses (other than capital losses)	Individual can use to offset other income subject to non-commercial loss rules	Quarantined in trust and subject to carry-forward rules	Quarantined in trust and subject to carry-forward rules	Quarantined in company and subject to carry-forward rules	Quarantined in fund
Disposal of interest in entity	Individual taxed on disposal of partnership interest 50% discount and small business CGT concessions may apply	Not applicable	Individual taxed on sale of interest 50% discount and small business CGT concessions may apply	Individual taxed on sale of interest 50% discount and small business CGT concessions may apply	Not applicable

Notes:
(1) The trustee is taxed if no beneficiary is presently entitled to some income of the trust or a beneficiary under a legal disability is presently entitled to income of the trust.
(2) Special rules apply if member is aged less than 60 years.
(3) Where a beneficiary receives a payment of non-assessable income from the trust it reduces the cost base of the interest in the trust held by the beneficiary. Once the cost base reaches zero any further non-assessable amount leads to a taxable capital gain.
(4) If trustee is taxed because no beneficiary is presently entitled to some trust income, trustee is not eligible for CGT discount.
(5) Some small business CGT concessions are subject to clawback. For those subject to claw back, it operates for trusts as described in note (3) and for companies as a consequence of unfranked dividends being taxed.
(6) If capital gain arises from disposal of a non-portfolio interest held in a foreign company with more than 90 per cent active assets, it is not taxable to the company. For life insurance companies, 33⅓ per cent discount applies to complying superannuation/first home saver account business. For listed investments companies, to the extent that distributions represent capital gains, shareholders effectively get the benefit of the CGT discount.

Table 2.16: Tax treatment of typical resident holding entities for a non-resident individual investor

Treatment of entity's:	Direct/partnership	Non-fixed trust	Fixed trust	Company
Australian source taxable income				
business income (active)	Individual taxed at personal rate (1)	Individual taxed at personal rate (2)	Individual taxed at personal rate (2)	Company taxed at 30% When distributed, no dividend withholding tax
investment income (passive)	Investment income may be subject to withholding tax (otherwise individual taxed at personal rate)	Investment income may be subject to withholding tax (otherwise individual taxed at personal rate)	Investment income may be subject to withholding tax (otherwise individual taxed at personal rate)	Company taxed at 30% When distributed, no dividend withholding tax
Other income				
tax-preferred income	Individual benefits from tax preference	Individual benefits from tax preference	Individual benefits from tax preference (3)	When distributed, subject to dividend withholding tax at 30% (typically, a lower rate applies under a tax treaty)
capital gains	Exempt unless taxable Australian property (4). If taxable, individual can benefit from 50% discount	Exempt unless taxable Australian property (4). If taxable, individual can benefit from 50% discount (5)	Exempt unless taxable Australian property (4). If taxable, individual can benefit from 50% discount (5	Company taxed at 30% (6) When distributed, no dividend withholding tax
foreign source income	Exempt	Exempt	Exempt	Company exempt or taxed with credit for foreign tax When distributed, no dividend withholding tax (conduit foreign income)
Losses (other than capital losses)	Individual can use to offset other income subject to non-commercial loss rules	Quarantined in trust and subject to carry-forward rules	Quarantined in trust and subject to carry-forward rules	Quarantined in company and subject to carry-forward rules
Disposal of interest in entity	Exempt unless taxable Australian property (4)	Not applicable	Exempt unless taxable Australian property (4)	Exempt unless taxable Australian property (4)

Notes: (1) Where a tax treaty applies, business income is only taxable to the extent it constitutes business profits attributable to an Australian permanent establishment.
(2) The trustee is taxed if no beneficiary is presently entitled. Trustee may also be liable to tax on behalf of a presently entitled non-resident beneficiary.
(3) If the interest in the trust is taxable Australian property (see note (4)), a payment of non-assessable income (tax-preferred income) from the trust reduces the cost base of the interest in the trust held by the beneficiary. Once the cost base reaches zero, any further non-assessable amount leads to a taxable capital gain.
(4) Taxable Australian property is, broadly, an interest in Australian land, a non-portfolio interest in an Australian-land-rich entity or a business asset of an Australian permanent establishment.
(5) If trustee is taxed because no beneficiary is presently entitled to some trust income, trustee is not eligible for CGT discount.
(6) If capital gain arose from disposal of a non-portfolio interest held by the company in a foreign business with more than 90 per cent active assets, it is not taxable to the company.

Table 2.17: Sources of state tax revenue, 2006-07 ($million)[(a)]

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Payroll tax	5,664	3,479	2,232	1,607	845	218	225	128	14,398
Conveyance duty	4,166	2,961	2,542	2,158	721	157	242	107	13,054
Motor vehicle taxes	1,980	1,280	1,176	825	395	123	96	40	5,915
Gambling taxes	1,653	1,508	825	164	422	86	48	65	4,772
Land tax	2,036	989	485	386	332	62	67	—	4,358
Insurance taxes	1,443	1,095	421	335	301	51	43	23	3,714
Other taxes	771	390	803	243	234	51	208	5	2,700
Total state tax revenue	17,713	11,702	8,484	5,718	3,250	748	929	368	48,911
Local government taxes	2,768	2,502	2,003	1,001	833	218	—	63	9,388

(a) As there are no local governments in the ACT, rates are levied by the territory government. Other taxes for the ACT include $159 million in rates.

Source: ABS Taxation Revenue, cat. no. 5506.0, 2006-07.

Table 2.18: Interstate comparison of taxes, 2008-09

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
PAYROLL TAX								
Basic Flat Rate	6.00% (5.75% from 1 January 2009, 5.65% from 1 January 2010 and 5.5% from 1 January 2011)	4.95%	4.75%	5.50%	5.0% (4.95% from 1 July 2009)	6.10%	5.9%	6.85%
Method of calculation of tax	Single marginal rate.	Single marginal rate.	Deduction System.	Single marginal rate.	Single marginal rate.	Single marginal rate.	Single marginal rate.	Single marginal rate.
Tax Scale and Small Business Concession	First $623,000 exempt. From 1 July 2008: Threshold will be indexed annually from 1 July each year.	First $550,000 exempt.	First $1,000,000 exempt. For payrolls $1,000,000 up to $5,000,000, deduction of $1,000,000 reducing by $1 for every $4 payroll exceeds $1,000,000. No deduction for payrolls of $5,000,000 or more.	First $750,000 exempt.	First $552,000 exempt. (Threshold $600,000 from 1 July 2009.)	First $1,010,000 exempt.	First $1,250,000 exempt.	First $1,500,000 exempt.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
PAYROLL TAX (continued)								
Tax Scale and Small Business Concession (continued)	Employer superannuation contributions included in the tax base. Employment termination payments and the grossed up value of fringe benefits included in the tax base from 1 July 2002. Termination payments to non-executive directors and share plans and share options included in the tax base from 1 July 2003. NSW and Victoria have implemented identical Payroll Tax Acts from 1 July 2007. Differences in the Acts appear in Schedules 1,2 and 3 due to 2007-08 NSW Budget announcement changes to thresholds and rates and references to State based legislation. From 1 July 2008, Tasmania introduced a new Payroll Tax Act based on the NSW/VIC Act.	Employer superannuation contributions included in the tax base. Eligible termination payments and the grossed up value of fringe benefits included in the tax base from 1 July 2001. From 1 January 2005, employment agencies are liable for payroll tax for their on-hired workers. An exemption from payroll tax applies to wages paid in respect of workers on-hired to a client that is exempt under section 10 of the Pay-roll Tax Act 1971.	Employer superannuation contributions included in the tax base. Eligible termination payments (not including death benefit eligible termination payments) and the grossed up value of fringe benefits included in the tax base from 1 July 2002.	Employer superannuation contributions included in the tax base. Eligible termination payments included in the tax base from 1 July 2003. Grossed up value of fringe benefits included in the tax base from 1 January 2002.	Employer superannuation contributions included in the tax base. Eligible termination payments (as defined for income tax purposes) and the grossed up value of fringe benefits included in the tax base from 1 July 2002.	Employer superannuation contribution included in the tax base. Eligible termination payments and the grossed-up value of fringe benefits included in the tax base from 1 July 2003.	Employer superannuation contribution included in the tax base. Eligible termination payments included in the tax base from 1 July 2002. Grossed up value (type 2 grossed-up rate) of fringe benefits included in the tax base from 1 July 2002. From 1 July 2008 the NT Payroll Tax Act is harmonised with every other State and Territory in relation to the following areas: lodgement and payment dates, motor vehicle allowances, accommodation allowances, a range of fringe benefits, work performed in another country, superannuation contributions, employee share acquisition scheme and grouping of employers.	Employer superannuation contributions included in the tax base. Eligible termination payments and the grossed up (Type 2 factor) value of fringe benefits included in the tax base. From 1 July 2005 eligible maternity, adoption and/or primary carer leave is exempt. From 1 July 2005 tax base includes employer contributions to employee share schemes, and eligible termination payments. From 1 July 2008, employee share schemes are only taxable if the corporation is registered in the ACT. Commencing on 1 June 2006 approved not-for-profit Group Training Organisations are exempt from paying payroll tax on the wages of trainees and apprentices for the full term of an approved training contract, which can be up to four years.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
PAYROLL TAX (continued)								
Reference Period:	Receipts relate to the previous month's payroll. The July return includes an annual reconciliation.	Receipts relate to the previous month's payroll.	Receipts relate to the previous return period's payroll (usually monthly).	Receipts relate to the previous month's payroll, including superannuation and non-remote fringe benefits.	Receipts relate to the previous month's payroll.	Receipts relate to the previous month's payroll.	Receipts relate to the previous month's payroll.	Receipts relate to the previous month's payroll. The June return, payable in July, includes an annual adjustment.
TAXES ON FINANCIAL TRANSACTIONS								
Transfer Duty (Also known as Contracts & Conveyances Duty) Marginal rates are applied per $100 or part of the excess above the lower limit of the range unless explicitly specified. Rate for the highest value range is underlined.	General Rates For Non-Residential Property $0-$14,000: 1.25% (min $2) $14,001-$30,000: $175+1.50% $30,001-$80,000: $415+1.75% $80,001-$300,000: $1,290+3.50% $300,001-$1,000,000: $8,990+4.50% Over $1,000,000: $40,490 + 5.50% From 1 June 2004	General duty rates $0-$25,000: 1.40% $25,001-$130,000: $350 + 2.40% $130,001-$960,000: $2,870 + 6.00% Over $960,000: 5.50% of total value.	$0-$5,000: Nil $5,001-$75,000: 1.50% $75,001-$540,000: $1,050+3.50% $540,001-$980,000: $17,325+4.50% Over $980,000: $37,125+5.25%	General duty rates $0-$80,000: 1.90% $80,001-$100,000: $1,520+2.85% $100,001-$250,000: $2,090+3.80% $250,001-$500,000: $7,790+4.75% Over $500,000: $19,665+5.15%	$0-$12,000: 1.00% $12,001-$30,000: $120+2.00% $30,001-$50,000: $480+3.00% $50,001-$100,000: $1,080+3.50% $100,001-$200,000: $2,830+4.00% $200,001-$250,000: $6,830+4.25% $250,001-$300,000: $8,955+4.75% $300,001-$500,000: $11,330+5.00% Over $500,000: $21,330+5.50%	$0-$1,300: $20 $1,301-$10,000: 1.50% $10,001-$30,000: $150+2.00% $30,001-$75,000: $550+2.50% $75,001-$150,000: $1,675+3.00% $150,001-$225,000: $3,925+3.50% Over $225,000: $6,550+4.00%	$0-$525,000: Duty calculated by the formula: $D=(0.06571441V^2)+15V$ Where D = duty payable in $ V = (total value/1000) Over $525,000: 4.95% of total value.	$0-$100,000: $20 or $2.00 per $100 whichever is greater. $100,001-$200,000: $2,000+$3.50 per $100 or part thereof. $200,001-$300,000: $5,500+$4.00 per $100 or part thereof. $300,001-$500,000: $9,500+$5.50 per $100 or part thereof. $500,001-$1,000,000: $20,500+$5.75 per $100 or part thereof. Over $1,000,000: $49,250+$6.75 per $100 or part thereof.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
TAXES ON FINANCIAL TRANSACTIONS (continued)								
Transfer Duty (continued)	For Residential Property $0-$14,000: 1.25% (min $2) $14,001-$30,000: $175+1.50% $30,001-$80,000: $415+1.75% $80,001-$300,000: $1,290+3.50% $300,001-$1,000,000: $8,990+4.50% $1,000,000-$3,000,000: $40,490 + 5.50% Over $3,000,000: $150,490 + 7.00% Liability includes contents of buildings. Various exemptions are available.	Duty rates for principal place of residence purchases $0-$25,000: 1.40% $25,001-$130,000: $350 + 2.40% $130,001-$440,000: $2,870 + 5.00% $440,001-$550,000: $18,370 + 6.00% $550,001-$960,000: $28,070 + 6.00% Over $960,000: 5.50% of total value.		Duty rates for principal place of residence purchases $0 – $120,000: 1.90% $120,000 – $150,000: $2,280 + 2.85% $150,000 – $360,000: $3,135 + 3.80% $360,000 – $725,000: $11,115 + 4.75% Over $725,000: $28,453 + 5.15%				

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
TAXES ON FINANCIAL TRANSACTIONS (continued)								
Transfer Duty (continued)	Non-Real Business Property: Transfer duty on non land (non-real property) business conveyances to be abolished from 1 January 2011.		Transfer duty on core business assets to be 50% abolished on 1 January 2010 and fully abolished on 1 January 2011.	Duty on non-real business property will be abolished from 1 July 2010.	From 1 July 2009 Stamp duty rates halved for non-real property transfers. From 1 July 2010 Stamp duty abolished for non-real property transfers.	Non-Real Business Property Conveyance duty on non-real-property business conveyances to be abolished from 1 July 2008.	Non-Real Business Property Conveyance duty on non-real property business conveyances to be abolished from 1 July 2009 Stamp duty is payable at conveyance rates for certain lease and franchise transactions that are similar to conveyances of dutiable property, including the conveyance of a lease or franchise and the grant of a lease where a premium is paid.	Non-Real Business Property Commencing 1 July 2006, duty will no longer be chargeable on transfers and transactions involving the goodwill of a business, intellectual property and a statutory licence or permission under Commonwealth and Territory law. Up to 30 June 2006: If the value of business assets is $1m or more then the duty rate is $6,000 + $5.50 per $100 or part thereof over $1m. Up to 30 June 2006: If the value of business assets is less than $1m, then the rate of duty is $0.60 per $100 or part thereof.
Gaming Machine Surcharge					Effective from 28 November 2002: Gaming Machine Surcharge applies to the transfer of ownership of a gaming business. Surcharge rate: 5% of annual net gambling revenue of the gaming venue.			

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
TAXES ON FINANCIAL TRANSACTIONS (continued)								
Reference Period:	Payments are due within 3 months of when a transfer of dutiable property occurs or within 3 months of execution of an instrument transferring dutiable property.	Payments are due within 3 months of execution of instrument.	Payments are generally due within 30 days of the date of assessment.	Documents to be lodged within 3 months of execution and payment required within 3 months of the issue of the assessment notice.	Payments due within 2 months of execution of instrument.	Payments due within 3 months after the liability to pay the duty arises.	Payments due within 60 days of instrument being executed, except for eligible conditional agreements where payment is due from the earliest of: a) 60 days upon which all relevant conditions are satisfied; b) 60 days from date conveyee has right to possession of property; c) 60 days from a sub sale; d) date specified by written notice by the Commissioner; e) i) 24 months after execution for off the plan or subdivision agreement; or ii) 12 months after agreement first executed.	Documents to be lodged and payment required within 90 days of the liability arising.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
HOME PURCHASE ASSISTANCE								
(This assistance is generally in addition to the $7,000 grant available under the First Home Owners Grant Scheme (FHOGS) where applicable.)	First Home Plus Scheme (Effective after midnight on 3 April 2004) For first homes Up to $500,000: Nil $500,001-$600,000: 22.49% less $112,450 For vacant land Up to $300,000: Nil $300,001-$450,000: 10.49% less $31,470. Full tax rates apply above the upper threshold. First Home Plus One Scheme (Effective from 1 May 2007) First home buyers purchasing a home in conjunction with equity partners who take 50% or less interest will be eligible for proportional transfer duty concessions under First Home Plus One.	For Concession Card Holders – from 6 May 2008, full exemption for properties valued up to $330,000 and a partial exemption for properties valued between $330,000 and $440,000. First homebuyers who qualify for the $7,000 First Home Owner Grant, will qualify for a $3,000 First Home Bonus (subject to a price cap of $500,000). The value of the Bonus increases to $5,000 for purchases of newly constructed homes in Melbourne and $8,000 for purchases of newly constructed home purchases in Regional Victoria until 30 June 2009. The $3,000 and $5,000 Bonuses apply to eligible transactions made on or after 1 January 2007, while the $8,000 Bonus applies to eligible transactions made on or after 6 May 2008.	For first homes (Effective 1 September 2008) In addition to the homes concession (below): Where the unencumbered value of home is $505,000 or less – up to $8,750 rebate. Where the unencumbered value of home is $505,001-$550,000 and consideration not less than the unencumbered value: $8,750 rebate which reduces by $875 for every $10,000 above $505,000. Where unencumbered value above $550,000 – no additional concession beyond home concession. For Homes (not first) Concessional rate of 1% for values up to $350,000 plus scheduled transfer duty on the excess.	The purchaser of a small business or principal place of residence valued at less than $100,000 is entitled to a concessionary rate of duty of 1.5%. The concessional rate phases out between $100,000 and $200,000. First home buyers whose home purchases are below $500,000 are exempt from conveyance duty. The exemption phases out between $500,000 and $600,000. First home buyers who buy vacant land valued at $300,000 or less are exempt from conveyance duty. The exemption phases out between $300,000 and $400,000.	For first home contracts entered into from 5 June 2008 First homebuyers who qualify for the $7,000 First Home Owners Grant will qualify for a $4,000 first home bonus grant on properties valued up to $400,000. The grant will be phased out for first home purchases valued between $400,000 and $450,000. A rebate of up to $1,500 is available in respect of home units in the City of Adelaide, regardless of the underlying nature of the title, but is restricted to new dwellings on allotments of 350 square metres or less.	Duty on first homes valued $120,000 or less can be paid by instalments over a two year interest free period. From 20 May 2004, first home owners that qualify for the First Home Owner Grant Scheme (FHOGS): In relation to the purchase of a property up to the maximum value of $350,000, will qualify for duty relief on transfer duty up to a maximum of $4,000; or In relation to the construction of a first home upon land purchased with a dutiable value of up to $175,000, may apply for a duty refund of $2,400. Land owners have two years to complete the eligible transaction, either the construction of the first home on vacant land or enter into a comprehensive home building contract to have a home built on the land, from the date of agreement to purchase the land and a subsequent three months to apply for the duty refund.	All first homes (regardless of value) receive concession of duty on first $385,000. For principal place of residence (not first home), duty is reduced by maximum of $2,500.	Home Buyers: $20 duty for eligible home buyers where purchase price or value of property, whichever is the greater, does not exceed $333,000. Graduated concession where value of property falls between $333,000 & 412,000– rate of duty is $19.80 for each $100 or part thereof by which value exceeds $333,000. Land Buyers: $20 duty for eligible home buyers where purchase price or value of land, whichever is the greater, does not exceed $185,300. Graduated concession where value of property falls between $185,300 & $227,600– rate of duty is $15.60 for each $100 or part thereof by which value, exceeds $185,300. Income threshold: Gross household income less than $120,000 pa for all applicants.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
HOME PURCHASE ASSISTANCE (continued)								
		Principal Place of Residence Concession From 6 May 2008, the 6 per cent marginal tax rate was reduced to 5 per cent for home purchases valued between $130,000 and $440,000. In addition, purchases of homes valued between $440,000 and $550,000 will receive a $3,100 flat reduction in duty. Eligible first home buyers are able to receive both the First Home Bonus and the principal place of residence (PPR) stamp duty on land transfers concession.	First Home Vacant Land Concession for the purchase of vacant land to build a first home. An exemption applies on land up to the value of $150,000 with a partial concession up to $300,000.					The threshold increases by $3,330 pa for each dependent child to a maximum of $136,650. Pensioner Duty Concession Scheme Home Buyers $20 duty for eligible home buyers where purchase price or value of property, whichever is the greater, does not exceed $412,000. Graduated concession where value of property falls between $412,000 & $516,000 – rate of duty is $20.60 for each $100 or part thereof by which value exceeds $412,000. Land Buyers $20 duty for eligible home buyers where purchase price or value of land, whichever is the greater, does not exceed $185,300. Graduated concession where value of property falls between $185,300 & $227,600– rate of duty is $15.60 for each $100 or part thereof by which value, exceeds $185,300.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
HOME PURCHASE ASSISTANCE (continued)								
								Land Rent Scheme Rent is charged at the discount rate of 2% of unimproved land value. The standard rate is 4%. Income Threshold Gross lessee income less than $75,000 pa for all lessees. The threshold increases by $3,330 pa for each dependent child to a maximum of $91,650. From 1 July 2008 To enhance the accessibility of the Home Buyer Concession Scheme, the upper property threshold for house and land purchases will be increased to the median price for those properties from 1 July 2008. The sliding scale for the concession will be adjusted to facilitate the upper threshold for the property range equalling the median price of properties based on ACT Planning and Land Authority sales data in the preceding two full quarters. Conveyance duty on properties may also be deferred for up to 5 years for those eligible for the Home Buyers Concession Scheme.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
MOTOR VEHICLE REGISTRATION DUTY								
(Based on the dutiable value of the vehicle being the greater of the consideration given or the market value of vehicle.)	$3.00 per $100, or part, except for Passenger Vehicles* $1,350+$5.00 per $100, or part, of the dutiable value of the motor vehicle in excess of $45,000. * a vehicle: a) with a dutiable value of not less than $45,000, and b) that is constructed primarily for the carriage of not more than 9 occupants, including a sedan, station wagon, coupe, convertible, four wheel drive vehicle with seats and windows, two wheel drive panel van with seats and windows, three wheel car, forward control vehicle passenger vehicle, small bus (seating not more than 9 persons, including the driver), motor home, and snow vehicle, but **not** including: a motor cycle (with or without a side car), large bus (seating more than 9 persons, including a driver), hearse or invalid conveyance.	Passenger Vehicles $0-$57,009: $5.00 per $200 or part. Over $57,010: $10.00 per $200 or part. Other Vehicles (Including Non Passenger) $5.00 per $200 or part. Previously Registered Vehicles $8.00 per $200 or part.	From 1 January 2008 1 to 4 cylinders or 2 rotors or steam vehicles: 3.0% 5 or 6 cylinders or 3 rotors: 3.5% 7 or more cylinders: 4.0% Hybrid/Electric: 2.0% Special vehicles (as defined) Flat rate of $25	New and Used Heavy Vehicles 3.0% Max duty $12,000 Other Vehicles $0-$25,000: 2.75% $25,001-$50,000: 2.75%-6.50% Over $50,000: 6.50% flat. *There is a sliding rate scale between $25,000 and $50,000.	$0-$1,000: $1 per $100 (min $5) or part $100. $1,001-$2,000: $10+$2 per $100 or part $100 above $1,000. $2,001-$3,000: $30+$3 per $100 or part $100 above $2,000. Over $3,000: $60+$4 per $100 or part $100 above $3,000. Except for commercial vehicles where the rate is: 0-$1,000: $1 per $100 (min $5) or part $100. $1,001-$2,000: $10+$2 per $100 or part $100 above $1,000. Over $2,000: $30+ $3 per $100 or part $100 above $2,000.	Passenger vehicles Under $600: $20.00 $600-$34,999: $3.00 per $100 or part in excess of $600. $35,000-$40,000: $1,050+$11 per $100 or part in excess of $35,000. Over $40,000: $4.00 for each $100 or part of $100 of the value of the vehicle. Vehicles subject to manufacturers fleet discount $3.50 per $100 Heavy Vehicles Under $2,000: $20.00 Over $2,000: 1 July – 30 September 2007 $3.00 per $100 or part. 1 October 2007 onward $1.00 per $100 or part. (as stated in 2007-08 Budget Papers) All Other Vehicles Under $600: $20.00 Over $600: $3.00 per $100 or part.	$3.00 per $100 or part.	Passenger Vehicles Under $45,000: $3.00 per $100 or part thereof. $45,000 or over: $1,350+$5 for each $100 or part thereof in excess of $45,000. All Other Vehicles $3.00 per $100 or part thereof. A passenger vehicle is a vehicle that is constructed primarily for the carriage of not more than 9 occupants, including a sedan, station wagon, coupe, convertible, four wheel drive vehicle with seats and windows, two wheel drive panel van with seats and windows, three wheel car, forward control vehicle passenger vehicle, small bus (seating not more than 9 persons, including the driver), motor home, and snow vehicle, but not including: a motor cycle (with or without a side car), large bus (seating more than 9 persons, including a driver), hearse or invalid conveyance.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
MOTOR VEHICLE REGISTRATION DUTY (continued)								
Reference Period:	Duty is payable at the time the motor vehicle is first registered or transferred.	Payments are due at the time of application or transfer of vehicle registration.	Payments are due at the time of application to register, or transfer registration of, a vehicle.	Payments are due within 14 days of exchange.	Payments are due within 14 days of exchange.	Duty is payable at the time the motor vehicle is registered or transferred.	Payments are due within 14 days of transfer or issue.	Due at time of application for registration or transfer of registration.
DEBITS TAX								
(Applied to accounts with cheque drawing facilities.)	Abolished 1 January 2002.	Abolished 1 July 2005.	Abolished 1 July 2005.	Abolished 1 July 2005.	Abolished 1 July 2005.	Abolished 1 July 2005.	Abolished 1 July 2005.	Abolished 1 July 2005.
ELECTRONIC BANKING DUTY								
	Not imposed.	Not imposed.	Not imposed.	Not imposed.	Not imposed.	Not imposed.	Abolished 1 July 2005.	Not imposed.
CREDIT CARD TRANSACTION DUTY								
	Not imposed.	Not imposed.	Abolished 1 August 2004.	Not imposed.	Not imposed.	Abolished 1 July 2005.	Not imposed.	Not imposed.
SHARE TRANSFER DUTY (Marketable Securities Duty)								
	On Market Transactions Abolished.	On Market Transactions Abolished.	On Market Transactions Abolished.	On Market Transactions Abolished.	On Market Transactions Abolished.	On Market Transactions Abolished.	On Market Transactions Abolished.	On Market Transactions Abolished.
Unless otherwise stated the purchaser is liable for off-market transactions.	Off Market Transactions **Listed securities** (on recognised exchanges) Abolished. **Unlisted Securities** 60 cents/$100 (or part). To be abolished 1 January 2009.	Off Market Transactions **Listed transactions** Abolished. **Unlisted Companies** Abolished.	Off Market Transactions Abolished 1 January 2007.	Off Market Transactions Abolished.	Off Market Transactions **Listed Companies** Abolished. **Unlisted Companies** 60 cents/$100 or part thereof. From 1 July 2009: Stamp duty rates halved From 1 July 2010: Abolished.	Off Market Transactions **Listed Companies** Abolished. **Unlisted Companies** Abolished.	Off Market Transactions **Quoted securities** Abolished. **Unlisted Companies** Abolished from 1 July 2006.	Off Market Transactions **Quoted on a stock exchange** Abolished. **Not quoted on a stock exchange** 60 cents/$100 or part thereof (unless land rich provisions apply). Minimum duty $20. To be abolished from 1 July 2010.
Reference Period:	Payments are due within 3 months of execution of instrument.				Payments are due within 2 months of execution of instrument.		Payments are due within 60 days of execution of instrument.	Documents are to be lodged and payment received within 90 days of the liability arising.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
MORTGAGES & LOAN SECURITY DUTY								
(Based on sum secured)	General duty rate: $0-$16,000: $5.00 Above $16,000: $5.00 plus $4.00 per $1,000 or part of excess. Exemption for additional advances up to $10,000 in any 12 month period. Exemption applies for the refinancing of loans up to the maximum amount originally secured with the existing lender. Loans refinanced through a different lender are exempt up to the first $1 million of a loan. From 1 September 2007: Duty abolished for new housing finance commitments to owner-occupiers for the purposes of buying or renovating their own home. From 1 July 2008: Duty abolished for new housing finance commitments to individuals for the purpose of residential property investment. From 1 July 2009: Full abolition.	Abolished from 1 July 2004.	Abolished from 1 July 2008.	Abolished from 1 July 2008.	Mortgage for owner occupation homes Exempt from 1 July 2005. Refinance mortgages Exempt from 1 July 2005. Other Mortgages $0-$400: Exempt $401-$6,000: $10.00 Over $6,000: $10+15c/$100 or part of excess. To be abolished from 1 July 2009.	Abolished from 1 July 2007.	Abolished.	Abolished.
Reference Period:	Payments are due weekly based on the previous week's transactions.			.	Payments are due within 2 months of execution of the instrument.			

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
TRANSFER OF MORTGAGE DUTY								
	Abolished.	Not imposed.	$5.00 where transfer of mortgage or loan is solely secured by land – otherwise charged at scheduled transfer duty rates.	Abolished.	Abolished.	Abolished.	Abolished.	Abolished.
DEEDS OF SETTLEMENT								
	Declarations of Trust over property that is not dutiable property – $200 per declaration.	Declarations of Trust over property that is not dutiable property – $200 per declaration.	Duty imposed at transfer duty rates on trust creations where trust holds dutiable property.	Not imposed.	Abolished 1 July 2006.	$20 or transfer duty rates if applicable.	$20 or transfer duty rates if applicable.	Abolished on and from 1 July 2008. Duty remains imposed at transfer duty rates on trust creations where trust holds dutiable property.
LOANS DUTY								
	Not imposed.	Not imposed.	Credit Business Duty: Abolished 1 January 2006.	Not imposed.	Not imposed.	Not imposed.	Not imposed.	Not imposed.
DISCOUNT TRANSACTIONS DUTY								
	Abolished.	Not imposed.	Abolished 1 January 2006.	Abolished.	Abolished.	Not imposed.	Not imposed.	Not imposed.
INSURANCE DUTY								
Life: **(Based on sum insured, except in SA.)**	$0-$2,000: $1.00 Over $2,000: $1.00+20c per $200 or part thereof in excess of $2,000.	$200-$2,000: 12c per $200 or part. Over $2,000: $1.20+24c per $200 or part above $2,000.	$0-$2,000: 0.05% Over $2,000: $1.00+0.1% of balance.	No duty on life insurance policies.	$1.50 per $100 or part thereof of net premiums of previous year paid as annual licence (Min $100).	Up to $2,000: 10c per $200 or part. Over $2,000: $1.00+20c per $200 or part in excess of $2,000.	10c per $100 or part thereof the sum insured.	Life insurance (other than a temporary or term insurance policy, or disability income insurance) $0-$2,000: $1.00 Over $2,000: $1.00+20c per $200 or part thereof in excess of $2,000.
Term/Temporary:	Term or Temporary: 5% of first year premium. Life insurance riders: 5% of first year premium on the life insurance rider.	Term insurance: 5% of first year premium.	Term or Temporary insurance: 5% of first year premium.			Term or Temporary policy: 5% of first year premium.	Term or Temporary: 5% of first year premium.	Term or Temporary insurance policy: 5% of the first year premium. Life insurance rider: 5% of the first year premium.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
INSURANCE DUTY (continued)								
Term/Temporary (continued)	Insurance under which an amount is payable in the event of the disablement of the insured by accident or sickness. 5% of the premium paid.							Insurance in the event of the disablement of the insured by accident or sickness: 10% of the premium paid. Annuities exempt.
General Insurance:	9% of the premium. Concessional 5% of premium payable on aviation, consumer credit, disability, directors' liability, motor vehicle, professional indemnity. Concessional 2.5% of premium paid on crop and livestock.	10% of previous month's premiums.	7.5% of the premium for contracts of general insurance not mentioned below. 5% of premium for motor vehicle (other than compulsory 3rd party), professional indemnity insurance, personal injury related to a person's travel on an aircraft, home mortgage that is a first mortgage, and life insurance riders. 5% of net premium for workers' compensation. 10c flat on compulsory 3rd party motor vehicle.	10% of gross premiums. 10% of premiums on compulsory 3rd party insurance for motor vehicles.	$11 per $100 or part thereof of premiums (including compulsory 3rd party premiums).	8% of premiums. $6 flat on 3rd party motor vehicle insurance.	10% of premiums (including indemnity insurance).	10% of gross premium.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
INSURANCE DUTY (continued)								
General Insurance (continued)	Exemptions: Annuities, workers' compensation, compulsory 3rd party motor vehicle personal injury insurance, marine insurance, cargo insurance, insurance taken out by or on behalf of certain non-profit organisations, and medical benefit insurance.	Exemptions: No duty on workers' compensation, insurance for hospital or medical benefits, goods and merchandise, or the freight thereof, carried by land, sea and air, hulls of floating commercial vessels, and damage by hail to cereal or fruit crops.	Exemptions: Insurance premiums for hull of commercial vessel, goods in transit, health insurance and reinsurance between insurers. Premiums paid for policies of public liability insurance by "not for profit organisations" (note that exemption is provided under an administrative arrangement.	Exemptions: Policies covering transport of goods, commercial marine hulls, health insurance, workers' compensation insurance and life insurance.	Exemptions: No duty on workers' compensation, commercial marine insurance, private guarantee fidelity insurance and policy of insurance by a registered medical benefits organisation.	Exemptions: Insurance covering property of the Crown, workers' compensation, medical benefits insurance by a registered medical benefits organisation, insurance taken out by proprietor of medical establishment, freight of goods, reinsurance, insurance taken out by a self-insurer to indemnify themselves from liability and hull of a floating commercial vessel. No duty on workers compensation. No duty on public liability insurance. Mortgage: 2% of the premium on the policy. $20 is chargeable on an annuity issued by a life company, or purchased by a person from a life company.	Exemptions: Policies covering workers' compensation, transport of goods & commercial marine hulls exempt.	Exemptions: Amateur sporting and community not-for-profit bodies exempt from duty on public liability insurance and other prescribed general insurance required to hold a public event. No duty on workers' compensation, compulsory 3rd party motor vehicle personal injury insurance, health insurance and international trade insurance.
Reference Period:	Payments relate to the previous month's transactions. Due and payable by 21st of each month.	Payments relate to the previous month's transactions. Due and payable by the 14th of the next month for life and the 21st for general insurance.	Monthly returns for previous month's transactions, due and payable the 14th day of the month following the return period.	Payments relate to the previous month's transactions.	Payments relate to the previous month's transactions.	Payments relate to the previous month's transactions. Due on or before the 21st of each month.	Payments relate to the previous month's transactions.	Payments relate to the previous month's transactions. Due and payable by 21st of each month.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
INSURANCE PROTECTION TAX								
	Introduced on 1 July 2001 to assist meeting claims against policies held with HIH Insurance in relation to CTP and Home Owner Warranty Schemes. The tax consists of an annual levy of $69m. General insurers registered with APRA contribute $65m, based on an apportionment by market share of premiums. The balance is contributed by a 1% *ad valorem* tax imposed on brokers to overseas general insurers and domestic general insurers who are not registered with APRA.	Not imposed.	Not imposed.	Not imposed.	Not imposed.	Not imposed.	Not imposed.	Not imposed.
AGREEMENTS DUTY								
Under Hand:	Abolished.	Not imposed.	Not imposed.	Not imposed.	Not imposed unless specifically charged under another head of duty.	Abolished 1 July 2002.	Not imposed.	Not imposed.
Under Seal:	Abolished.	Abolished.	Not imposed.	$20.00	Abolished 1 July 2006.	Abolished 1 July 2002.	$20.00 (if in deed form).	Not imposed.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
HIRING ARRANGEMENTS DUTY (GOODS)								
Including motor vehicle leases. Sometimes called "RENTAL DUTY".	Abolished from 1 July 2007.	Abolished from 1 January 2007.	Abolished from 1 January 2007.	Abolished from 1 January 2007.	Equipment finance – includes commercial hire purchase and other equipment financing arrangements for terms greater than 9 months: Contracts written: Prior to 1 October 2003: 1.8% of rental income. From 1 October 2003: 0.75% of rental income From 1 July 2007: 0.5% of rental income From 1 July 2008: 0.25% of rental income To be abolished from 1 July 2009. All other types of rental arrangements: Prior to 1 July 2003 1.8% on general rental income in excess of $52,000 per annum. From 1 July 2003 1.8% on general rental income in excess of $6,000 per month or $72,000 per annum. From 1 July 2007 1.2% of rental income in excess of $6,000 per month or $72,000 per annum.	Abolished 1 July 2002.	Abolished from 1 July 2007.	Abolished from 1 July 2007.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
HIRING ARRANGEMENTS DUTY (GOODS) (continued)								
Including motor vehicle leases. Sometimes called "RENTAL DUTY" (continued)					From 1 July 2008 0.6% of rental income in excess of $6,000 per month or $72,000 per annum. To be abolished from 1 July 2009.			
Reference Period:					Payments relate to the previous month's transactions.			
HIRE PURCHASE ARRANGEMENTS DUTY								
	Abolished from 1 July 2007.	Abolished from 1 January 2007.	Abolished from 1 January 2007.	Abolished from 1 July 2007.	To be phased out by 1 July 2009. See Hiring Arrangements Duty (Equipment Financing Arrangements).	Abolished 1 July 2002.	Abolished from 1 July 2007.	Abolished from 1 July 2007.
LEASES OF LAND OR PREMISES DUTY (TENANCIES)								
(Residential leases are tax exempt.)	For leases executed before 1 January 2008: 35c/$100 of total rent. Exemption for a lease whose total cost is no more than $20,000. Movable dwelling sites are also exempt. Duty on franchise agreements abolished on 1 July 2001. Full abolition of lease duty from 1 January 2008.	Abolished.	Abolished.	Abolished.	Abolished.	Abolished.	Stamp duty on rent paid for the grant, renewal of leases and franchises was abolished from 1 July 2006.	50c/$100 of total cost of lease (minimum $20). However, if the yearly cost of the lease is no more than $10,000, and the yearly value of the lease is no more than $10,000, no duty applies. To be abolished from 1 July 2009.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
LEASES OF LAND OR PREMISES DUTY (TENANCIES) (continued)								
Transfer of Lease:	Transfer duty payable in NSW.		Transfer duty applies to the transfer or grant of lease – on the value of the consideration paid for the transfer/grant and the consideration paid for, or the value of, chattels taken over. Exempt: Grant of lease over private dwelling, provided that no premium, fine or other consideration is payable for the grant and the premises is not used for a business or commercial venture.				Transfer duty applies on the value of the lease.	Liable as a transfer of an interest in land. Transfer duty rates apply.
Reference Period:	Payments are due within 3 months after duty becomes liable.		Payment of lease duty generally required within 30 days of assessment. Grant, transfer or surrender of lease – as for transfer duty.	Payments relate to the previous month's transactions.			Payments are due within 60 days of execution of instrument.	Documents to be lodged and payment required within 90 days of the execution (signing) of the lease.
HEALTH INSURANCE LEVY								
(Known as Ambulance Services Levy in ACT)	As of 1 February 2007, $1.12 per individual (single) per week and $2.24 per week for families for policies written by Health Insurance Funds.	Not imposed.	Not imposed.	Not imposed.	Not imposed.	Not imposed.	Not imposed.	As of 1 January 2007, $1.72 per single contributor per week, and $3.44 per family policies written by Health Insurance Funds.
Reference Period:	Payments determined by total membership of the health fund on the 1st of the month. Payments due on the 15th of the same month.							Payments are monthly and are in relation to a period three months prior (i.e. April return is for January).

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
PARKING SPACE LEVY								
	From 1 July 2008: $950 per annum on liable spaces within the City of Sydney and a prescribed area of the Municipality of North Sydney. $470 per annum on liable spaces in St. Leonards, Chatswood, Parramatta and Bondi Junction. Since 2004-05, the levy has been indexed annually to movements in the Sydney CPI over the year to the previous March quarter. Exemptions and concessions apply, including boundary of City of Sydney.	From 1 January 2008: (known as the Congestion Levy) $820 per annum per liable car parking space in Melbourne CBD and the surrounding areas of Southbank, St Kilda Road, Docklands and East Melbourne. For the area bounded by Montague Street, the West Gate Freeway, City Link and the Yarra River, the levy is $400 for 2008. Exemptions and concessions apply.	Not imposed.	$212.00 per annum per bay for long stay non-residential tenant parking within the prescribed Perth city area. $183.00 per bay for short stay public parking. $91.50 per bay for motor cycle parking.	Not imposed.	Not imposed.	Not imposed.	Not imposed.
EMERGENCY SERVICES FUNDING								
	Fire Services Funding In NSW, fire fighting services are partly funded through a levy on the providers of certain types of insurance. Once the cost of operating the services is determined, the insurance industry, Local Councils and State Budget contribute in the following proportions:	Fire Services Levy In Victoria, fire fighting services are funded through the Fire Services Levy. Once the cost of operating the services is determined, the insurance industry, Local Councils and State Budget contribute in the following proportions:	Fire Levy The Qld Fire and Rescue Authority is funded through a fire levy that is collected on behalf of the State Government through local government authorities. The levy varies according to property type and location.	Emergency Services Levy The Emergency Services Levy replaced the fire services levy from 1 July 2003. The new levy is property based and collected by the local government authorities. The levy rates vary by property type and by region.	Fixed Property Fixed fee $50 ($20 for special community use category and $0 if outside Local Govt. Areas) plus variable Levy rate based on capital value adjusted for location and land use as follows: $50 + variable component (Capital Value x Area Factor x Land Use Factor x Levy Rate).	Fire Service Levy *Insurance* Loss by fire, loss of profits, Contractor's risk, boiler explosion and other: 28% of gross premium. Marine and cargo: 2% of gross premium. Aviation: 14% of gross premium.	Not imposed.	Fire and Emergency Services Levy Residential and rural properties: $91.20 per annum. Commercial properties: The formula is – (AUV – 16,500) x 0.3859%. Where AUV is the 3 year average unimproved land value. Pensioners provided with a 50% concession.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
EMERGENCY SERVICES FUNDING (continued)								
	NSW Fire Brigades Insurance industry: 73.7% Local Government: 12.3% State Government: 14.0% Rural Fire Service Insurance industry: 73.7% Local Government: 13.3% State Government: 13.0%	Melbourne Fire & Emergency Services Board Insurance Industry: 75.0% Local Government: 12.5% State Government: 12.5% Country Fire Authority Insurance Industry: 77.5% Local Government: 0.0% State Government: 22.5%	Community Ambulance Cover (CAC) CAC replaced the voluntary Queensland Ambulance Service Subscription Scheme and transport charges for non-subscribers. It is collected through a payment of 26.773 cents per day or $97.99 per year on electricity accounts (for 2007-08). (Increased by CPI each year.)		Concessions: Up to $40 concession applies to recipients of specified pensions and Government allowances and to qualifying self-funded retirees. Where properties are from a Contiguous (abutting) or a Single Farming Enterprise group, the Fixed fee applies to only one property in the group (subject to additional criteria). Mobile Property (Levy rates net of remissions) Cars and larger capacity motor cycles: $24.00 Smaller capacity motor cycles: $12.00 Commercial fishing vessels: $12.00 Historic vehicles: $6.00 (conditions apply) Goods carrying vehicles: $32 unless primary producer which is $12. Public passenger vehicles: $32 unless community which is not liable. (Certain variations for country based mobile property apply.)	Local Council Minimum levy of $32.00 applies. Rates are based on assessed annual value (AAV) of properties. Motor Vehicles Registration of motor vehicle: $14.00 per vehicle ($9 per vehicle for pensioners).		Ambulance Levy Charged to Health Insurance providers. From 1 January 2008 the levy is calculated at the rate of $1.79 per person per week and $3.58 per family per week. Contributions exempt from the levy are defined under the Emergencies Regulations 2004.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
SAVE THE RIVER MURRAY LEVY								
	Not imposed.	Not imposed.	Not imposed.	Not imposed.	Charged at a flat rate to SA Water customers and indexed annually by movements in the Adelaide CPI. From 1 July 2008: $34.40 per annum residential customers. $154.60 per annum non-residential customers.	Not imposed.	Not imposed.	Not imposed.
Exemptions:					Pensioners who are eligible for a concession on SA Water rates and charges are exempt.			
LAND TAX								
Tax Scale: Marginal rates apply to excess above the lower limit of the range unless explicitly specified.	<u>For 2008 land tax year:</u> $0-$359,000: Nil Over $359,000: $100 + 1.6% of value over $359,000. The threshold is a three year average and is indexed annually according to movements in State-wide property prices. The threshold cannot fall. The minimum land tax payment is $100. Non-concessional companies and special trusts are taxed at the flat rate of 1.6%.	<u>For 2009 land tax year:</u> <u>General:</u> Less than $250,000: Nil $250,000-$599,999: $275 + 0.2% $600,000-$999,999: $975 + 0.5% $1,000,000-$1,799,999: $2,975 + 0.8% $1,800,000-$2,999,999: $9,375 + 1.3% $3,000,000 and over: $24,975 + 2.25%	<u>For the 2008-09 land tax year</u> <u>For resident individuals</u>: Less than $600,000: nil $600,000 to $999,999: $500 + 1.0% $1,000,000 - $2,999,999: $4,500 + 1.65% $3,000,000 and over: 1.25% on full value.	<u>For 2008-09 land tax year:</u> $0-$300,000: Nil $300,001-$1,000,000: 0.1%. $1,000,001-$2,200,000: $700+0.5%. $2,200,001-$5,500,000: $6,700+1.3% $5,500,001-$11,000,000: $49,600+1.55%. Over $11,000,000: $134,850+2.30%.	<u>For 2008-09 land tax year:</u> $0-$110,000: Nil Exceeding $110,000-$350,000: 0.30% Exceeding $350,000-$550,000: $720 + 0.70% Exceeding $550,000-$750,000: $2,120 + 1.65% Exceeding $750,000-$1,000,000: $5,420 + 2.40% Over $1,000,000: $11,420 + 3.70%	<u>Effective 1 July 2005</u>: $0-$24,999: Nil $25,000-$349,999: $50.00+0.55% $350,000-$749,999: $1837.50+2% $750,000 or more: $9,837.50+2.50%	Not imposed.	<u>For 2008-09</u> *Residential Properties Marginal Rates* Up to $75,000: 0.60% $75,001-$150,000: 0.89% $150,001-$275,000: 1.15% Over $275,000: 1.40% Based on Average Unimproved Value, which includes the 2006, 2007 and 2008 Unimproved Land Values.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
LAND TAX (continued)								
Tax Scale (continued)	Premium Property Tax was abolished from the 2005 land tax year.	Special trusts: Less than $25,000: Nil $25,000-$249,999: $82 + 0.375% $250,000-$599,999: $926 + 0.575% $600,000-$999,999: $2,938 + 0.875% $1,000,000-$1,799,999: $6,438 + 1.175% $1,800,000-$2,999,999: $15,838 + 0.7614% (a) $3,000,000 and over: $24,975 + 2.25% (a) Surcharge on special trusts effectively phased out for land holdings valued above $1.8 million; Above $3.0 million, no surcharge applies. Since 1 July 2004 land tax has been payable on electricity transmission easements (from 2007, with a top rate of 5% instead of 3%).	For Companies, trustees and absentee: Less than $350,000: nil $350,000 to $2,249,999: $1,450 + 1.7% $2,250,000 and over: 1.50% on full value.	The Metropolitan Region Improvement Tax is levied on the unimproved value of land situated in the metropolitan region at the rate of 0.15c per $1 for land valued at over $300,000.				*Commercial Properties Marginal Rates* Up to $150,000: 0.89% $150,001-$275,000: 1.25% Over $275,000: 1.59% Based on Average Unimproved Value, which includes the 2006, 2007 and 2008 Unimproved Land Values.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
LAND TAX (continued)								
Tax Scale (continued)		The Metropolitan Parks Charge is levied annually on all metropolitan properties via water bills. It is calculated by multiplying the property's 1990 Net Annual Valuation by a rate in the dollar. The minimum yearly Parks Charge in 2006-07 is $53.84.						
Exemptions: **Primary Residence:**	All principal places of residence exempt except if owned by a special trust or company.	Exempt, except if owned by a company or by certain trusts.	Exempt or deductible depending on circumstances.	Exempt, except principal places of residence owned by companies and trusts.	Principal place of residence exempt. Additional criteria apply where a business activity is conducted from the principal place of residence (full or partial exemptions may apply).	Exempt.		Exempt, apart from parcels of land that are rented or owned by a corporation or trust.
Primary Production Land:	Exempt if rural/non-urban zoning, otherwise exempt if meet business test.	Exempt with conditions.	Deductible.	Exempt.	Exempt with conditions.	Exempt.		Exempt.
Other exemptions: (Note: Generally Charitable, Religious and Educational Bodies are exempt with conditions)	Exemption for child care centres, aged care facilities and caravan parks used for retirement purposes. An exemption also exists for an owner of a PPR that does not rent their residence and moves into a nursing home.	Exemptions for aged care facilities, supported residential services, rooming houses and caravan parks. Various other exemptions.	Exemption for certain caravan or residential parks where more than 50% of all sites occupied or available for occupation for periods of more than 6 weeks at a time. Various other.	50% concession for caravan parks. New exemption for private aged care providers from 1 July 2007.	Caravan parks are exempt, while retirement villages, supported residential facilities and re-locatable home parks are exempt with conditions.			

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
LAND TAX (continued)								
Reference Period:	Based on the three year average of unimproved land values at 30 June, if owned at midnight 31 December of the previous year.	Based on aggregate value of land owned as at midnight 31 December of the previous year to the assessment year.	Based on three year average of land values at midnight on 30 June. Averaged land values increases are also capped at 50% each year for three years from 1 July 2007. The land tax value is the lesser of the unimproved value at 30 June and the average of the unimproved values at 30 June over the last three years.	Based on value of land as at 30 June of the previous year.	Based on aggregate value of land as at midnight on 30 June immediately proceeding the financial year.	Based on aggregate value of land as at 1 July of the assessment year.		Based on the rolling three year average of unimproved land values. Liability is assessed quarterly on the liability dates of 1 July, 1 October, 1 January and 1 April.
ELECTRICITY DISTRIBUTORS' LEVY								
	Suspended from 1 July 2001.	Abolished.	Not imposed.	Not imposed.	Not imposed.	Abolished.	Not imposed.	Commencing 1 January 2007, Imposed as a Utilities (Network Facilities) Tax on all utility networks.
RACING TAXES								
	Privatised entity.	Privatised entity.	Privatised entity.				Privatised entity.	

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
ON-COURSE TOTALIZATOR TAX								
Gross deduction from investment:	Maximum, including FootyTAB, of 16% over the year. (Maximum commission from any one pool 25%.) Fixed Odds (Futures) Racing Betting Not applicable (Gross margin basis).	Maximum of 25% from any one pool and from 1 July 2007, commissions applying to wagering events specified as: Place, 14.25% Win, 14.50% Duet, 14.50% Quinella, 14.75% Exacta, 16.50% Double, 17.00% Quaddie, 20.00% Trifecta, 20.00% First 4, 22.50% Mystery 6, 25.00%	Maximum of 16% over the year. (Amount of deduction percentage can vary from type of bet and from time to time depending on policy. The percentage is limited to a maximum of 25% on any one event but out of the total amount invested in a financial year in totalizators the percentage will not exceed 16%.)	Percentage of bets belonging to a race club. Win: 14.5% Place: 14.25% Non-combined win/place average of: 15.60% Novelty Bets: Doubles, Quinella, Quartette, Trifecta, Sweepstakes, Superfecta: 20.00% Favourite numbers: 25.00%	The deduction percentage is limited to a maximum of 25% from investment. Deduction percentage can vary according to type of bet.		Abolished. All Pools combined with TABQ. Maximum of 16% over the year. (Amount of deduction percentage can vary from type of bet and from time to time depending on policy. The percentage is limited to a maximum of 25% on any one event but out of the total amount invested in a financial year in totalizators the percentage will not exceed 16%). Fixed Odds Betting TABQ has rights to a licence from 1 January 2001.	
Net percentage received by Government:	From 1 July 2000 Parimutuel Tax rate: 19.11% of player loss (i.e. gross deduction). Subject to approval by the Treasurer, tax on 'domestic' non-TAB totalizator investments fully rebated to clubs.	Tax rate: 19.11% of player loss (i.e. gross deduction). (Average 84% returned to players). Payment of taxation is required within 14 days after the event.	20% of commission (gross deduction) of which 8.5% is allocated to the Community Investment Fund. Tax is collected monthly in arrears. GST credit provided. Quarterly licence fee $169,900. Increases to $174,300 on 1 October 2007. Increases on 1 October each year based on CPI.	11.91% of net of GST gross margin for off-course racing totalisator wagering. Fixed odds racing wagering remains unchanged at 2.0% of turnover. Note: State Government reimburses GST paid by racing clubs on their gross totalizator margin.	Abolished 1 July 2005.		Totalizator 40% of licensee's commission deducted less GST. For races other than thoroughbred, harness horse and greyhound races and prescribed sporting events held In Australia: 20% of licensee's commission deducted less GST. Outside Australia: 10% of licensee's commission deducted less GST.	Government receives: Licence fee monthly of 10% of capital value divided by 12 less GST. Dividend and Tax Equivalent Payments (2000-01 = 3.6%). In addition clubs receive 4% and RDF 0.5%.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
OFF-COURSE TOTALIZATOR TAX								
Gross deductions from investments:	Parimutuel Pools As for on-course Totalizators.	As for on-course Totalizators.	As for on-course Totalizators.	Percentage of bets belonging to Racing and Wagering Western Australia. Win: 14.50% Place: 14.25% Non-combined Win/Place average of: 15.60% Novelty Bets: Doubles, Quinella, Quartette, Trifecta, Sweepstakes, Superfecta: 20.00% Favourite numbers: 25.00% Some flexibility to move commission deductions to meet operational needs (but not to exceed prescribed amounts for non-combined pool operations).	As for on-course Totalizators.	Abolished.	As for on-course Totalizators.	As for on-course Totalizators.
Net percentage received by Government:	Parimutuel Pools As for on-course Totalizators.	As for on-course Totalizators.	As for on-course Totalizators.	Racing 11.91% of net of GST gross margin for off-course racing totalisator wagering (equivalent to a tax rate of around 3.5% on turnover). Fixed odds racing wagering remains unchanged at 2.0% of turnover. Note: State Government reimburses GST paid by TAB on gross gambling margin.	1 July 2008 3% of net wagering revenue (deductions). 1 July 2009 2.1% of net wagering revenue (deductions). 1 July 2010 1.2% of net wagering revenue (deductions). 1 July 2011 0.6% of net wagering revenue (deductions). 1 July 2012 Abolished.		As for on-course Totalizators.	As for on-course pools.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
OFF-COURSE TOTALIZATOR TAX (continued)								
Net percentage received by Government (continued)				Sports Parimutuel sports betting tax is set at 5% of turnover. Fixed odds sports betting is set at 0.5% of turnover. In addition, 25% of net return after tax is remitted to the Sports Wagering Account for disbursement by the Gaming and Wagering Commission on the direction of the Minister for Sport and Recreation.				
BOOKMAKER'S TURNOVER TAX								
Net percentage received by Government **Racing:**	Abolished.	Abolished.	Abolished.	All courses Racing: 0.00% Note: State Govt reimburses GST paid by bookmakers on gross gambling margin.	Abolished.	On Course 1.0 % of turnover on horse racing & greyhound racing in either Tasmania or outside Tasmania. Bookmakers can offset the amount of tax payable by GST amounts they have paid.	0.33% of turnover on racing events (the rate is GST exclusive).	All courses Racing: 0.00%
Sports Betting:	TAB Totalizator Sports Betting (FootyTAB) Maximum deduction: 25.00% Note: Included in maximum commission average of 16% across parimutuel pools. Tax Rate: 19.11% of player loss.	Totalizator Sports Betting Maximum deduction: 25.00% Tax Rate: 19.11% of deduction. Payment of taxation is required within 14 days after the event.	From investments: Totalizator As for on-course and off-course Race Totalizator.	At a racecourse: 0.5%, of which half is retained by the race club and the balance is remitted to the Sports Wagering Account. At a sporting venue: 2.0%, of which all is remitted to the Sports Wagering Account.	Bets made by persons outside of Australia: 0.25% of turnover. Other Bets: Nil	The tax payable in relation to a month and the gaming business conducted in respect of a sports betting endorsement is 0.25% of the licensed provider's turnover for that month on wagers relating to sports events.	Domestic sourced bets: reduced to Nil (Bets are subject to GST.) International sourced bets: 0.25% of turnover. (Bets are not subject to GST.)	0.25% on designated international sports. Head to head bets <$15,000,000: 0.50% >$15,000,000: 0.17% Other fixed odds <$40,000,000: 1.00% >$40,000,000: 0.60% 6.75% index betting. 6.00% parimutuel. GST credit provided.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
BOOKMAKER'S TURNOVER TAX (continued)								
Sports Betting (continued)	Fixed Odds Sports Betting TAB Tax Rate: 10.91% of gross margin. Bookmakers Tax rate Abolished.	Fixed Odds Sports Betting Tax Rate: 10.91% of player loss. Payment of taxation is required monthly within 7 days of the end of the month.	Fixed Odds Betting Not applicable (based on gross revenue i.e. bets taken less payouts). Gross deductions Net percentage received by Government: Totalizator 20% of commission (gross deduction) of which 8.5% is allocated to the Community Investment Fund. Tax is collected monthly in arrears. GST credit provided. Fixed Odds Betting Tax Rate 20% of gross revenue of which 8.5% is allocated to the Community Investment Fund. Tax is collected monthly in arrears. GST credit provided.					
GAMING MACHINE TAX								
(Also known as Poker Machine Tax)						The Federal Group has exclusive rights to operate gaming machines in Tasmania (further detail under Casino heading).		

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
GAMING MACHINE TAX (continued)								
Clubs:	From 1 September 2007: Levied on gross revenue (or player loss). Refer Attachment B for application of tax free threshold where revenue is above $1 million. Up to $200,000: 0.0% $200,001-$1m: 10.00% $1m-$5m: 21.00% $5m-$10m: 26.00% $10m - $20m: 29.00% >$20m: 30.90% (Under the Community Development and Support Expenditure Scheme, the marginal tax rate on clubs' earnings above $1m is reduced by 1.5% if clubs contribute 1.5% of gaming revenue in excess of $1m to eligible community projects.) Club tax rates will remain frozen from 1 September 2007 until 31 August 2012 (see Table 1, Attachment B).GST rebate payments will continue to be provided to all clubs on the first $200,000 of gaming profits from 2004-05.	24.24% of gross profit (equates to player loss or gross margin of operator).	Based on monthly metered win (i.e. amount bet less payout to players). <u>Monthly Metered Win</u> $0-$9,500: 0.0% $9,501-$75,000: 17.91% $75,001-$150,000: 20.91% $150,001-$300,000: 23.91% $300,001-$1,400,000: 25.91% Over $1,400,000: 35.91% (includes a levy of 8.5% for the Community Investment Fund). Note: These tax rates are Post-GST.	No gaming machines	Tax based on annual net gambling revenue in a financial year. $0-$75,000: Nil $75,001-$399,000: 21% of excess. $399,001-$945,000: $68,040+28.5% of excess. $945,001-$1.5m: $223,650+30.91% of excess. $1.5m-$2.5m: $395,200.50+37.5% of excess. $2.5m-$3.5m: $770,200.50+47% of excess. Over $3.5m: $1,240,200.50+55% of excess. These rates apply to all clubs and other not-for profit licensees.	Tax based on annual net gambling revenue in a financial year. <$35m: 20.88% ≥$35m: 25.88% of excess. In addition, a community support levy of 4% of gross profit is levied.	Based on monthly gross profits: $0-$5,000: 12.91% $5,001-$50,000: 22.91% $50,001-$150,000: 32.91% >$150,000: 42.91%	Tax is levied on gross monthly gaming machine revenue (<u>player loss</u>) as follows: <$15,000: 0.0% $15,000<$25,000: 15% $25,000<$50,000: 17% >$50,000: 21% Unlawful: 100%

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
GAMING MACHINE TAX (continued)								
Reference Period:	Payments are quarterly, relating to the previous 3 months' transactions.	Payment of taxation is required weekly within 7 days of the end of the week.	Payments are made monthly relating to previous month's activity.		Payments are made monthly relating to previous month's activity.	Payments are made on or before the 7th day of the following month and relate to previous month's activity.	Payments are made monthly relating to previous month's activity.	Payments are monthly and relate to transactions in the previous month.
Hotel:	From 1 July 2008 Levied on gross revenue (or player loss) derived from gaming machines. Up to $25,000: 5.30% $25,001-$200,000: 15.30% $200,001-$400,000: 22.40% $400,001-$1m: 28.80% $1m-$5m: 33.80% >$5m: 44.50% Hotel tax rates changes are being phased in up until 1 July 2010 (see Table 2, Attachment B).	32.57% of gross profit of which 8.33% is allocated to a Community Support Fund. In addition, Tattersalls is required to pay additional tax equal to 7% of its gross gaming revenue at clubs and hotels (in lieu of a licence fee payment).	35.91% of monthly metered win (i.e. amount bet less payout to players). (Includes 8.5% levy for the Community Investment Fund). In addition, hotels are required to contribute to the Health Services Fund. Based on monthly metered win (i.e. amount bet less payout to players). Monthly Metered Win $0-$100,000: 0.0% $100,001-$140,000: 3.5% $140,001-$180,000: 5.5% $180,001-$220,000: 7.5% $220,001-$260,000: 13.5% over $260,000: 20.0% Note: These tax rates are Post-GST.	No gaming machines.	Tax based on annual net gambling revenue in a financial year. $0-$75,000: Nil $75,001-$399,000: 27.5% of excess. $399,001-$945,000: $89,100+37% of excess. $945,001-$1.5m: $291,120+40.91% of excess. $1.5m-$2.5m: $518,170.50+47.5% of excess. $2.5m-$3.5m: $993,170.50+57% of excess. Over $3.5m: $1,563,170.50+65% of excess.	As for clubs.	42.91% of gross profit plus a Community Benefit Levy at 10% of gross profit.	25.9% of gross monthly gaming machine revenue.
Reference Period:	Payments are quarterly, relating to the previous 3 months' transactions.	Payment of taxation is required weekly within 7 days of the end of the week.	Payments are made monthly relating to previous month's activity.		Tax payments are made monthly relating to previous month's activity.	Payments are made on or before the 7th day of the following month and relate to previous month's activity.	Payments are made monthly relating to previous month's activity.	Payments are monthly and relate to transactions in the previous month.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
GAMING MACHINE TAX (continued)								
Gaming Machine Levy:		Health Benefit Levy: From 2007-08: $4,333.33 per annum for each operating machine. The levy is payable by the two gaming operators and the casino operator in two equal instalments by 15 December and 15 June each year.			A stamp duty surcharge applies to the transfer of a gaming machine business. See transfer duty.			
CASINO								
Licence fee:	A once only non-refundable lump sum payment of $256 million (fully paid).	$358.4 million (fully paid).	$183,000 per quarter. Increases on 1 July each year based on CPI.	$2.28 million (2008) (indexed annually according to CPI).	Nil	For 2008-09, $129,600 per month (amount is indexed annually).	Not imposed.	Annual fee $733,821 for 2007-08 CPI linked.
Tax rate:	From 1 July 2007 10.91% of gross revenue from table gaming plus super tax on table revenue above $291 million per annum at 1% per each $7.3 million to a maximum of 35.91%. 13.41% of gross revenue from slots. The International "high-roller" program was reactivated on 1 January 2006. Under the agreement a non-refundable instalment of $3m is paid in January and July. An additional 10% duty applies to gross gaming revenue in excess of $60m.	Regular Players 21.25% of gross gaming revenue from table games and gaming machines plus a super tax. Super tax: 1% for each $20m of gross gaming revenue above $500m (CPI adjusted from 1994) up to maximum of 20% on gross gaming revenue over $880m (CPI adjusted from 1994). The maximum total tax on marginal revenue for regular players is 42.25%, inclusive of the Community Benefit Levy (discussed below).	20% of monthly gross revenue for Gold Coast and Brisbane casinos and 10% of gross revenue for Townsville and Cairns casinos. Junkets (Premium players): 10% of monthly gross gaming revenue for Gold Coast and Brisbane casinos and 8% for Cairns and Townsville casinos. (Gross gaming revenue equates to amount bet less amount won by players.) Taxes are collected monthly in arrears. GST credit provided.	International Commission Business (ICB) 12% Dec'04 – Dec'06 11% Dec'06 onwards EGMs & Trackside 20% Dec'04 onwards Table Games & Keno 17% Dec'04 – Dec'06 18% Dec'06 onwards.	Table games at 0.91% of net gambling revenue. plus Gaming machines at 34.41% of net gambling revenue.	The Federal Group has exclusive rights to conduct casino operations and operate gaming machines in Tasmania for a 15 year period starting from 1 July 2003. At the conclusion of this period, the licence converts to a rolling five year licence renewable annually. The tax is based on gross profit earned in a financial year.	Lasseters Casino Table Games 8% of gross profit (effective rate is 0% after GST). Poker Machine Tax 21% on gross profit. (Tax payable is calculated at the prescribed rate and is to be reduced by an amount equal to GST.) Internet Casino Australian sourced bets are not permitted. International sourced bets: 4% of gross profit. (Bets are not subject to GST.) Skycity Darwin Casino	General Gaming Operations: 10.90% of gross revenue. Commission-based Operations: 0.90% of gross revenue. Interactive Gaming Licence Fee: $200,000 on the day licence is granted; $100,000 on each anniversary of that day. Tax rate: Tax payable is 20% of gross profit each month. This drops to 10% in the month after total profit for the year exceeds $10m.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
CASINO (continued)								
Tax rate (continued)	The NSW Government is required to pay the casino a rebate on the gross amount of GST paid on the program.	Commission-based Players 9% of gross gaming revenue from dedicated gaming tables plus a super tax. Super tax: 1% for each $20m of gross gaming revenue over $160m (CPI adjusted from 1994) up to a maximum of 12.25% on gross gaming revenue over $380m (CPI adjusted from 1994). The maximum total tax on marginal revenue for commission-based players is 22.25%, inclusive of the Community Benefit Levy (discussed below). There are no dedicated gaming machines for commission-based players. Where commission-based players play on gaming machines, the 21.25% tax rate applying to regular players applies. GST credit provided. Payment of taxation is required monthly within 7 days of the end of the month.				Keno & Table Gaming The tax rate applying to keno is 5.88% of gross profit. The gaming tax rate applying to casino table games is 0.88% of gross profit. Gaming Machines <$35m: 20.88% ≥$35m: 25.88% of excess. From 1 July 2013, a single flat tax rate of 25.88% will apply to all gross profit.	In-house Keno & Table Games 12% of gross profit less GST. Commission-based Games 9.09% of gross profit less GST. Poker Machine Tax 20% of gross profit. (Tax payable is calculated at the prescribed rate and is to be reduced by an amount equal to GST.)	The month after profits first exceeds $20m, the rate drops to 5% until the end of the financial year. Not subject to GST.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
CASINO (continued)								
Tax rate (continued)		Super tax is calculated annually and payment is required by 7 July of the following financial year.						
Other State Charges:	Responsible Gambling Levy of 2% of gross gaming revenue.	1% of gross revenue of both regular and commission-based players (Community Benefit Levy).	1% of monthly gross revenue to Community Benefit Fund.	From 1 January 2007, 1.5% of gross gambling machine revenue will be for Swan/Canning River conservation and upkeep of Burswood Park. This rate will increase further to 2% from 1 January 2008.				
LOTTERIES								
	66.1% of player loss (i.e. subscriptions less outgoings for the public lottery).	79.4% of player loss where GST is payable. 90.0% of player loss where GST is not payable. (The minimum return to players is 60%.) (Revenue transferred by standing appropriation from Consolidated Fund to Hospitals and Charities Fund and Mental Health Fund.) Payment of taxation is required within 7 days of the determination of the lottery.	62% of monthly gross revenue for declared lotteries of which 8.5% is allocated to the Community Investment Fund. 55% of monthly gross revenue for Instant Scratch-its of which 8.5% is allocated to the Community Investment Fund. 45% of monthly gross revenue for Golden Casket of which 8.5% is allocated to the Community Investment Fund. 59% of monthly gross revenue for Soccer Pools of which 8.5% is allocated to the Community Investment Fund.	Weekend Lotto, Oz Lotto, Powerball, Super 66 and Instants Under the Lotteries Commission Act 1990: 40% of net subscriptions to Hospitals, 5% to the Arts, 5% to Sport and 12.5% to eligible organisations. Up to 5% to Festival of Perth and Australian Commercial Film Industry. (Net subscriptions = sales less prizes.)	Lotto, Oz Lotto Powerball, Super 66 and Instant lotteries (scratchies): 41% of net gambling revenue is paid into Hospitals Fund. Distributable surplus and income tax equivalent is paid into the Hospitals Fund.	No State Lotteries. Tasmania receives 100% of duty paid to the Victorian Government for Tasmanian subscriptions to Tattersall's Lotteries.	Northern Territory receives a share of duty paid to the Victorian Government for NT subscriptions to Tattersall's Lotteries. The Australian Territory Company, Global Players Network Pty Ltd, DK Marketing Pty Ltd and CMS Pty Ltd have licences to conduct a mail order lottery.	Victoria: ACT receives 79.4% of the proportion of player loss on all tickets sold in the ACT for all games except Soccer Pools which is 57.52% of player loss. NSW: ACT receives 66.1% of the proportion of player loss on all tickets sold in the ACT for all games.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
LOTTERIES (continued)								
		Footy Tipping: This licence expired in December 2007. Previous tax arrangements shown below. 58.41% of player loss where GST is payable. 67.50% of player loss where GST is not payable. (The minimum return to players is 60%.) Payment of taxation is required within 7 days of the determination of the lottery.	(Monthly gross revenue equates to total receipts less prizes.) Taxes are collected monthly in arrears. GST credit provided.					
Soccer Pools:	As per above.	57.52% of player loss where GST is payable. 68.0% of player loss where GST is not payable. (The minimum return to players is 50%.) Payment of taxation is required within 7 days of the determination of the lottery.	As above.	As above.	41% of net gambling revenue from soccer pools and the net proceeds of soccer pools are paid into the Recreation and Sport Fund.	As for lotteries. Tasmania receives 100% of duty paid to the Victorian Government for Tasmanian soccer pools subscriptions.	57.52% of player loss.	As above.
Licence Fee:			$177,100 per quarter payable by Golden Casket Lottery Corporation. $7,300 per quarter payable by QLD Lottery Corporation. Increases on 1 October of each year based on CPI.					

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
OTHER GAMBLING TAXES								
	Fixed Odds (Futures) Racing Betting 10.91% of monthly gross profit (i.e. sales less payments). Fixed Odds Sports Betting 10.91% of monthly gross profit. (i.e. sales less payments). FootyTAB, Soccer TAB, SportsTAB 19.11% of player loss (commission)	Nil	Interactive Tax – if the game is a game approved under a gaming Act − the rate of tax specified in that Act applies, otherwise the following arrangements apply: 50% of gross profit of which 8.5% is allocated to the Community Investment Fund. (Gross profit equates to the amount bet on a game less amount won by players.) The tax is collected monthly in arrears. GST credit provided. Quarterly licence fee of $63,200. Increases on 1 October each year based on CPI.	Australian Rules, Football and Cricket TAB betting Gross Commission: 25.0% Tax to Government: 5.0% 75% of sport betting receipts are paid out in dividends and the remainder (i.e. net of the sports betting tax and after the TAB has deducted its administrative expenses) is made available for allocation by the Minister for Sport and Recreation.	Fixed Odds Sports Betting conducted by TAB State Tax: 6.0% of net wagering revenue.	Taxes related to minor gaming activities including lucky envelopes; bingo; instant draw bingo; sweepstakes; raffles and gratuitous gaming abolished from 1 July 2004.	Nil	Interactive Gaming Licence Fee $200,000 on the day licence is granted. $100,000 on each anniversary of that day. Tax Rate: Tax Payable is 20% of gross profit each month. This drops to 10% in the month after total profit for the year exceeds $10m. The month after profits first exceed $20m, the rate drops to 5% until the end of the financial year. Not subject to GST.
Keno:	For Keno played in registered clubs and casino: For all games of Keno including Heads or Tails 8.91% of player loss (total amount wagered less contribution to the Keno Prize Fund) where player loss is less than or equal to $86.5 million, and 14.91% of player loss thereafter.	Club Keno 24.24% of player loss subject to a minimum player return of 75%. Payment of taxation is required weekly in respect of the week ending Saturday and is payable on the following Tuesday.	Jupiters Keno (Statewide) 29.40% of monthly gross revenue, after deducting casino commissions, of which 8.5% is allocated to the Community Investment Fund. The tax is collected monthly in arrears. GST credit provided. Quarterly Licence Fee $177,100.		Keno (Operated by SA Lotteries.) 41% of net gambling revenue is paid into the Hospitals Fund. Distributable surplus and income tax equivalent is paid into the Hospitals Fund.	TAS Keno 5.88% of gross profit.	NT Keno 20% on gross profit. (Tax payable is calculated at the prescribed rate and reduced by the GST amount.)	VIC Keno Refer to Victorian Keno under Lotteries. ACTTAB Keno: 2.53% of turnover.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
OTHER GAMBLING TAXES (continued)								
	For Keno played in hotels: For all games of Keno including Heads or Tails 8.91% of player loss (total amount wagered less contribution to the Keno Prize Fund) where player loss is less than or equal to $37.7 million, and 14.91% of player loss thereafter. For all games of Keno, payment of taxation is required weekly and is payable on the following Monday.		Increases on 1 October each year based on CPI. Brisbane and Gold Coast Casinos Receive 25% commission on sales of Jupiters Keno and pay tax at 21% (including a 1% Community Benefit Levy (CBL)) on commissions. Townsville and Cairns Casinos Receives 25% commission on sales of Jupiter Keno and pay 11% tax (including a 1% CBL) on commissions.					
Internet Gaming						Internet Gaming: Sportsbetting Endorsement: 0.25% of turnover. Fixed Odds Wagering Endorsement: 1.0% of turnover. Simulated Gaming (Internet Gaming) Endorsement: Within Australia for gross profit: <$10m: 20% $10m-<$20m: 17.5% of excess. >$20m: 15.0% of excess. Outside Australia: 4.0% of total gross profits. Major Lottery Endorsement:: 35.55% of turnover.		

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
BETTING EXCHANGES								
						Applies to holder of a Tasmanian Gaming Licence with a Betting Exchange endorsement.		
Annual licence fee						Annual licence fee indexed annually; fee in 2008-09 is $448,000.		
Tax						10% of commission entitled to in respect of brokered wagering events outside Australia, paid monthly. 15% of commission entitled to in respect of brokered wagering events within Australia, paid monthly.		
Product levy						20% of total commission received from Australian racing each month.		
MOTOR VEHICLE TAXES								
Fee Implementation Date:	Effective from 1 July 2008.	Effective from 1 July 2007.	Effective from 1 July 2008.	Effective from 1 July 2007.	Effective from 1 July 2008.	Effective from 1 July 2008.		Effective from 1 July 2008.
Motor Vehicle Registration Fee	Car: $52.00 Cycle: $52.00 Lorry: $52.00 Lorry mass 5 tonnes or more: $229.00 Articulated: $343.00	Appointment and Inspection Fee: $34.30 Standard Number Plate Fee: $29.20 (2 plates)	Traffic Improvement fee: $44.45 Plate fee: $22.05 Charged on original registration	Recording fee: Car: $12.15 Cycle: $12.15 Lorry: $12.15 Plate Fee: $13.00 Charged on original registration.	Administration Fees *Renewal of Registration* Car: $6.00 Cycle: $6.00 Lorry: $6.00 *New Registration* Car: $21.00 Cycle: $21.00 Lorry: $21.00	Car: $72.85 Cycle: $58.85 Trailer, caravan or horse float: $25.60 (includes motor vehicle fire levy).	For vehicles over 3 years old and < 4.5 tonnes GVM: $8.40 surcharge plus inspection fee of $38.50 (incl. GST). Inspection fee for heavy vehicles and trailers: $77.00 (incl. GST) Upgrade/Temporary Upgrade of Con – figurations: $18.00	Establishment of Registration: $69.30 Not charged separately in the ACT on renewal of registration.

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
MOTOR VEHICLE TAX								
(Charged annually, unless stated otherwise, on the basis of vehicle weight, or engine capacity or number of cylinders and the number of axles for heavy vehicles) (not Heavy Vehicles – see below and Attachment A.)	Based on Vehicle Tare Weight with Gross Vehicle Mass (GVM).	Victorian registration fees are based on Mass Rating Charges and are not classified by the intended use of the vehicle (i.e. private or business use). From 1 January 1996 Light Vehicles (motor vehicles with Mass Rating for Charges [MRC] not exceeding 4.5 tonne) and not otherwise entitled to be registered for a lesser fee (various exemptions): Flat Fee: $178.00	Based on the number of cylinders for passenger vehicles: 1 July 2008.	Based on vehicle type and tare (unladen) weight with Gross Vehicle Mass (GVM).	Registration fees are not levied by the intended use of the vehicle. Fees for Non Commercial vehicles (sedans etc.) with a GVM of 4,500kgs or less, is based on the number of cylinders. Fees for Commercial vehicles with an unladen mass of 1,000kgs or less are based on the number of cylinders. For vehicles with an unladen mass exceeding 1,000kg but with a GVM of 4,500kg or less, the fee is calculated according to the unladen mass.	Based on the number of cylinders or vehicle weight. Effective 1 July 2008. Pensioners and farmers may be entitled to a 40% rebate on motor tax for Class A vehicles and other light vehicles.	Based on engine capacity.	Based on vehicle type and tare (unladen) weight. Road Rescue Fee for the grant or renewal of registration annual fee-payable for any motor vehicle other than a veteran, vintage or historical vehicle and vehicles registered to Jervis Bay residents. Annual Fee: $16.00
Motor Vehicles Private: (not Heavy Vehicles – see below and Attachment A).	0-975Kg: $166.00 976-1154Kg: $187.00 1155-1504Kg: $217.00 1505-2504Kg: $331.00	Flat Fee: $178.00	<u>No. of Cylinders</u> 1,2 & 3: $171.80 4: $218.55 5 & 6: $335.90 7 & 8: $470.35 9-12: $551.65 <u>No. of Rotors</u> 2: $218.55 3: $335.90 <u>4.01t to 4.5t GVM</u> $527.25	$16.00 per 100kg. Discount for the registration of 'Family' vehicles $60.00 for 12-month period or $30.00 for a 6-month period.	For passenger carrying vehicles the fee is based on the number of cylinders. to 4 cyl.: $95.00 5 to 6 cyl.: $193.00 7 and over: $280.00 Rotary or electric:: $95.00	As at 1 July 2008 3 cyl. or less: $77.00 4 cyl.: $89.00 5 or 6 cyl.: $112.00 7 or 8 cyl.: $154.00 Over 8 cyl.: $172.00 Rotary or electric: $89.00	<u>Engine Size</u> <u>Less than or equal to 4 cylinders</u> 0-500: $15.00 501-1000: $30.00 1001-1500: $48.00 1501-2000:$64.00 2001-3000: $70.00	For a passenger and goods carrying vehicle with a GVM not exceeding 4.5 tonnes, where the vehicle weighs: *For Business Use* 975kg or less: $310.65 976-1154: $344.00 1155-1504: $396.15 1505-4500: $579.60

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
MOTOR VEHICLE TAX (continued)								
Motor Vehicles Private (continued) (not Heavy Vehicles – see below and Attachment A).							Greater than 4 cylinders 2001-2500:$90.00 2501-3000$108.00 3001-3500: $133.00 3501-4000: $152.00 4001-4500: $180.00 4501-5000: $200.00 5001-5500: $231.00 5501-6000: $252.00 6001-7000: $294.00 7001-8000: $301.60	*For Private Use* 975kg or less: $205.35 976-1154: $227.25 1155-1504: $257.45 1505-2504: $374.25 2505-2794: $570.20 2795-4500: $579.60 Examination or Inspection of Vehicles Trailers not exceeding 4.5 tonnes GVM: $29.80* Motor Cycles: $40.00* Motor Vehicles not exceeding 4.5 tonnes GVM: $52.10* Trailers exceeding 4.5 tonnes GVM: $72.55* Motor Vehicles exceeding 4.5 tonnes GVM: $118.80* Follow up inspections all vehicles: $12.80 * Includes GST.
Motor Vehicles Business: (not Heavy Vehicles – see below and Attachment A).	0-975kg: $269.00 976-1154kg: $302.00 1155-1504kg: $352.00 1505-2504kg: $531.00 The rate varies in many steps up to $1,541 at 4,500kg.	Flat Fee: $178.00	Registration fee as for private motor vehicles.	Standard Vehicles Motor Car $16.00 per 100kg tare weight. Motor Wagon $16.00 per 100kg tare weight.	Light Commercial Vehicles (i.e. do not have a GVM or GCM greater than 4,500 kg.) Based on number of cylinders for vehicles with a Tare Mass not exceeding 1,000 kg 1 to 4 cyl.: $95.00 5 to 6 cyl.: $193.00 7 and over: $280.00	Trailer with GVM of 4.5 tonnes or less: $17 Non-agricultural machinery: $88 Tractors (agricultural): exempt	Registration fee as for private motor vehicles.	Registration of Vehicles. Fixed Load Trailer 250kg or less: $57.40 251-764: $145.95 765-975: $223.05 976-1154: $244.95 1155-1504: $275.20 1505-2499: $391.95 2500-2504: $599.40 2505 2794: $945.50

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
MOTOR VEHICLE TAX (continued)								
Motor Vehicles Business (continued) (not Heavy Vehicles – see below and Attachment A).					Rotary or electric $95.00 Based on Tare Mass for vehicles over 1,000 kg 1001-1500kg: $209.00 >1500kg: $356.00	Other Light Vehicles A truck with a GVM of 3.0 tonne or more: 4: $172.00 5 to 6: $200.00 7 to 8: $229.00 >8: $258.00 A bus with 10 adult seats including the driver's seat:: $114.00 A bus with more than 10 adult seats including the driver's seat: $200.00 *From 1 October 2007* A truck with a GVM of 3.0 tonne or more: 4: $166.00 5 to 6: $193.00 7 to 8: $221.00 >8: $249.00 A bus with 10 adult seats including the driver's seat: $110.00 A bus with more than 10 adult seats including the driver's seat: $193.00		2795-3054: $1,068.55 3054-3304: $1,165.50 3305-3564: $1,261.40 3565-3814: $1,351.05 3815-4064: $1,450.10 4065-4324: $1,541.85 4325-4500: $1,638.80 Motor Tractors 2000kg or less: $113.60 2001-4000: $189.70 4000 & over: $431.55 Motor Implements 975kg or less: $84.50 976-1154: $88.80 1155-1504: $94.20 1505-4500: $115.70

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
MOTOR VEHICLE TAX (continued)								
Heavy Vehicles: (see also Attachment A)	Motor Vehicles of more than 4.5 tonnes GVM: The National Heavy Vehicle Charging Regime applies, where the various rates are based on Gross Vehicle Mass, number of axles, body type and trailer use. An additional bridge levy of $125.00 applies to Omnibus, Tourist vehicles and Coaches with a tare weight of 3,565 kg upwards.	Motor vehicles of more than 4.5 tonne GVM: The National Heavy Vehicle Charging Regime applies, where the various rates are based on Gross Vehicle Mass, number of axles, body type and trailer use, where they are not otherwise entitled to be registered for a lesser fee, i.e. primary producers.	Motor vehicles of more than 4.5 tonne GVM: The National Heavy Vehicle Charging Regime applies, where the various rates are based on Gross Vehicle Mass, number of axles, body type and trailer use.	Motor vehicles of more than 4.5 tonne GVM: The National Heavy Vehicle Charging Regime applies, where the various rates are based on Gross Vehicle Mass, number of axles, body type and trailer use.	Motor vehicles of more than 4.5 tonne GVM: The National Heavy Vehicle Charging Regime applies, where the various rates are based on Gross Vehicle Mass, number of axles, body type and trailer use.	Motor vehicles of more than 4.5 tonne GVM: The National Heavy Vehicle Charging Regime applies, where the various rates are based on Gross Vehicle Mass, number of axles, body type and trailer use.	Motor vehicles of more than 4.5 tonne GVM: The National Heavy Vehicle Charging Regime applies, where the various rates are based on Gross Vehicle Mass, number of axles, body type and trailer use.	Motor vehicles of more than 4.5 tonne GVM: (Gross vehicle mass over 4.5 tonnes) are charged according to the *Road Transport Charges (Australian Capital Territory) Act 1993.* These are nationally agreed charges.
Motor Cycles:	Flat Tax: $49.00 (Weight Tax)	Flat Tax: $35.60	Flat Tax: $73.80	Up to 250cc: $32.00 Over 250cc: $48.00	Flat tax: $32.00	Flat tax: $12.00	Up to 600cc: $10.00 Over 600cc: $15.00	Up to 100cc: $86.70 Over 100cc: $86.70
TRANSFER FEE								
	Private Transfer Car: $26.00 Cycle: $26.00 Lorry: $26.00 Motor Dealer Transfer: $26.00	Private Transfer (vehicle): $31.20 Motor Car Dealer Transfer (vehicle): $15.90 Cycle and/or Trailer: $5.40	Car: $20.40 Cycle: $20.40 Lorry: $20.40	Car: $12.20 Cycle: $12.20 Lorry: $12.20	Car: $21.00 Cycle: $21.00 Lorry: $21.00	Car: $23.00 Cycle: $23.00 Lorry: $23.00 Trailer: $23.00	Car: $14.40 Cycle: $14.40 Lorry: $14.40	Flat charges of $30.30 apply. Car: $30.30 Cycle: $30.30 Lorry: $30.30
DRIVERS' LICENCES								
	1 Year: $ 44.00 3 Years: $106.00 5 Years: $143.00 Excludes $2 Drug Testing Levy	3 years: $45.30 10 years: $154.00	1 Year: $27.65 2 Years: $38.50 3 Years: $49.35 4 Years: $60.20 5 Years: $71.05 Duplicate: $26.50	1 Year: $36.60 5 Years: $116.00	1 year: $26.00 10 years: $260.00 Note: In addition to the above fees an Administration Fee of $15.00 applies.	Standard 1 year: $26.55 2 years: $43.20 3 years: $59.85 4 years: $76.45 5 years: $91.85	1 year: $24.00 2 years: $36.00 3 years: $48.00 4 years: $60.00 5 years: $72.00	Standard 1 Year: $28.35 5 Years: $141.90

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
DRIVERS' LICENCES (continued)								
	Pensioner Concession card holders and certain Department of Veteran Affairs (DVA card holders are exempt from licence fees).					Pensioner 1 year: $17.60 2 years: $25.25 3 years: $34.24 4 years: $41.90 5 years: $48.30 Persons who have attained the age of 65 are exempt from the licence renewal fee but must pay a fee of $8.65 for a driver's licence photo.		
RIDER'S LICENCE								
	As above, or free if car or lorry licence is held.	As above, or free if car or lorry licence is held & visa versa.	As above.	As above.	As above for Driver Licence, or free if car or lorry licence is held.	As above.	As above.	As above. No additional fee payable if holder of licence for both Motor Cycle and Motor Vehicle.
LEARNER'S PERMIT								
	Car: $18.00 Cycle: $18.00 Excludes $2 Drug Testing Levy	Motor Car: $19.30 (Valid for a period of 10 years). Motor Cycle: $19.30 (Valid for a period of 15 months).	$68.40 (3 years – or part of a 3 year period including logbook fee of $15.70). Logbook fee: $15.70 Exemption from logbook requirements: $31.40 Exemption from high-powered vehicle restriction: $31.40 Exemption from late night driving restriction: $31.40	Light Vehicle: $68.30 (Valid for 1 Year). Heavy Combination Vehicles: $154.30 (Includes application fee and 1 practical driving test.) MC: $36.20 (assessment conducted by approved service providers)	$25.00 plus an administration fee of $15.00 (issued for a period of 24 months).	$26.55	Cars: $18.00 (12 months) Cycles: $18.00 (3 months)	Valid for two years: $33.25

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
LICENCE TEST FEE								
	$44.00 (Valid for 1 practical driving or riding test). Driver Qualification Test: $36.00 Driver Knowledge Test: $36.00 Hazard Perception Test: $36.00	Motor Car Appointment Fee: $11.10 Learner Knowledge Test (Written): $19.00 Learner Driving Test (Practical): $35.00 Hazard Perception Test: $14.50 Motor Cycle VicRoads no longer provides a motorcycle learner permit and licence testing service. Accredited motorcycle providers offer tests with an accompanying training service on a commercial basis. Heavy Vehicle Accredited heavy vehicle providers of heavy vehicle licence testing services, and offer tests with an accompanying training service on a commercial basis. VicRoads continues to provide a testing service. Heavy Vehicle Practical Test: $38.30 (GST included)	$42.35 (Valid until a driving test is conducted). $18.05 (Road Rules Test). $15.00 (Hazard Perception Test)	Learner Knowledge Test (CTT): $17.40 Subsequent knowledge test: $17.40 $68.30 (valid 3 years) for application fee which includes Learner's permit plus 1 practical driving test. Subsequent tests: $71.80 each. Phase 2 Logbook: $18.40 Hazard Perception Test (HPT): $19.30 Subsequent HPT: $19.30 $154.30 – heavy vehicle combinations-application fee which includes Learner's permit plus 1 practical driving test. Subsequent tests $160.60	Written test: $10.00 Plus an administration fee of $15.00 (practical test by private providers) Motor Cycle courses Level 1: $313.00 (Learner's Permit) Level 2: $276.00 (Full Licence) Note: In addition to the above fees, an Administration Fee of $15.00 applies. Motor Vehicle Test 40 minutes test: $40.00 Greater than 40 minutes test: $90.00 Booking fee: $15.00 Administration fee: $15.00	Car test: $33.25 Novice driver test: $54.65 Instructors licence test: $64.00 Motor Cycle and Heavy Vehicle practical testing are to be conducted by accredited external service providers.	Driving Test: $26.40 Riding test for provisional or open licence: $26.40 Instructors licence test: $92.40 (including GST)	Driving Test: $78.40 (Up to 60 minutes) (including GST)

Table 2.18: Interstate comparison of taxes, 2008-09 (continued)

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
SURCHARGE / LEVY ON MOTOR VEHICLE THIRD PARTY VEHICLE INSURANCE								
	Nil	10% stamp duty on insurance premium.	10 cents duty per policy. Levies and Fees range from $15.00 - $62.80 depending on class.	10% stamp duty on insurance premium.	Yearly policy: $60.00 9 monthly policy: $45.00 6 monthly policy: $30.00 3 month policy: $15.00	$6 per policy. Note: this refers to duty on the premium. A surcharge of 3% applies to periodic payments.	Nil	Nil

Source: Table compiled by NSW Treasury from information supplied by states and territories as part of the process for updating the annual Interstate Comparison of Taxes publication.
All care has been taken in the preparation of the table, however, the Australian Government Treasury and NSW Treasury take no responsibility for any errors in the information provided.

Attachment A: National Transport Commission rates

Effective 1 July 2008

Truck configurations

Rigid truck (no trailers over 4.5t GTMR)

- Type 1 (lower GVM limit)

Number of truck axles	*Gross vehicle mass (GVM) up to:*	Configuration code	Annual charge
2	12.0t	1R2	$380
3	16.5t	1R3	$652
4	20.0t	1R4	$652
5+	20.0t	1R5	$652

- Type 2 (higher GVM limit)

Number of truck axles	*Gross vehicle mass (GVM) up to:*	Configuration code	Annual charge
2	12.0t	2R2	$652
3	16.5t	2R3	$859
4	20.0t	2R4	$859
5+	20.0t	2R5	$859

- Short combination truck (up to and including 6 axles in combination)

Number of truck axles	Configuration code	Annual charge
2	SR2	$652
3	SR3	$859
4+	SR4	$1,593

- Medium combination truck (more than 6 axles in combination)

Number of truck axles	Configuration code	Annual charge
2	MR2	$5,161
3	MR3	$5,161
4+	MR4	$5,574

- Long combination truck (2+ trailers)[a]

Number of truck axles	Configuration code	Annual charge
2	LR2	$7,120
3	LR3	$7,120
4+	LR4	$7,120

(a) Victoria has no such classification.

Prime mover configurations

- Short combination prime mover (1 trailer only)

Number of mover axles	Configuration code	Annual charge
2	SP2	$1,000
3	SP3	$3,930
4+	SP4	$4,322

- Medium combination prime mover (B-double)

Number of mover axles	Configuration code	Annual charge
2	MP2	$7,050
3	MP3	$7,050
4+	MP4	$7,755

- Long combination prime mover (road train)

Number of mover axles	Configuration code	Annual charge
2	LP2	$7,050
3	LP3	$7,050
4+	LP4	$7,755

Trailers

Number of axles	Configuration code	Annual charge
1	HT1	$380
2	HT2	$760
3	HT3	$1,140
4-9	HT4-HT9	$1,520-$3,420

Bus configurations

- Bus (type 1 and 2)

Number of axles	*Gross vehicle mass (GVM)*	Configuration code	Annual charge
2 (type 1)	Up to12.0t	1B2	$380
2 (type 2)	Over 12.0t	2B2	$380
3 (type 2)	Over 4.5t	2B3	$2,087
4+ (type 2)	Over 4.5t	2B4	$2,087

- Articulated bus

Number of axles	Configuration code	Annual charge
3	AB3	$380
4+	AB4	$380

Bus configurations (continued)

- Special Purpose Vehicle Configurations (Type P, T and O)

Number of axles	Configuration code	Annual charge
Any (Type P - Plant)	PSV	$NIL[a]
Any (Type T - Truck)	TSV	$248[a]
1 (Type O - Overmass)	OSV1	$310
2 (Type O - Overmass)	OSV2	$310
3 (Type O - Overmass)	OSV3	$620
4 (Type O - Overmass)	OSV4	$930
5-12 (Type O - Overmass)	OSV5-12	$1,240-$3,410

(a) In Western Australia, the annual charges for PSV and TSV are $86.

Notes:

Vehicle configuration codes

The first number/letter denotes configuration type (see definitions below) and the last number denotes the number of axles:

1R	=	Rigid truck (type 1)
2R	=	Rigid truck (type 2)
SR	=	Short combination truck
MR	=	Medium combination truck
LR	=	Long combination truck
SP	=	Short combination prime mover
MP	=	Medium combination prime mover
LP	=	Long combination prime mover
HT	=	Trailers
1B	=	Bus (type 1)
2B	=	Bus (type 2)
AB	=	Articulated bus
PSV	=	Special purpose vehicle (type P)
TSV	=	Special purpose vehicle (type T)
OSV	=	Special purpose vehicle (type O)

Vehicle configuration definitions for charges

Rigid truck types 1 and 2	A truck nominated not to haul a trailer over 4.5 tonnes gross trailer mass rating (GTMR) at any time. The difference between the types is that Type 1 has lower gross vehicle mass (GVM) limits. Includes truck-based plant that is not SPVs.
Short combination truck	A truck nominated to haul one trailer, where: (a) the combination has six axles or less and (b) the maximum total mass that is legally allowable for the combination is 42.5 tonnes or less.
Medium combination truck	A truck, other than a short combination truck nominated to haul one trailer, where the combination has more than 6 axles and is over 42.5 tonnes.
Long combination truck	A truck nominated to haul two or more trailers.
Short combination prime mover	A prime mover nominated to haul a maximum of one trailer only.
Medium combination prime mover (B-Double)	A prime mover nominated to haul two semi-trailers where the second semi-trailer is mounted on the rear of the first semi-trailer.
Long combination prime mover (road train)	A prime mover nominated to haul two or more trailers, not including a medium combination prime mover.
Trailer	A load-carrying vehicle without motive power, with a GTMR or aggregate trailer mass (ATM) over 4.5 tonnes, designed to be hauled by another vehicle. Includes plant trailers that are not SPVs.
Bus	For New South Wales registration, a vehicle currently fitted to carry more than nine seated adults including the driver. For Federal Interstate registration, a vehicle currently fitted to carry more than twelve seated adults including the driver.
Special purpose vehicle (SPV)	A vehicle whose primary purpose for which it was built, or permanently modified, is not the carriage of goods or passengers.
SPV — Type P (plant) (all axles within mass limits)	Built, or permanently modified, primarily for: (a) off-road use; (b) use on a road related area; or (c) use on an area of road that is under construction or repair. Examples include: tractors, bulldozers, backhoes, graders and front end loaders.
SPV — Type T (truck) (all axles within mass limits)	Built, or permanently modified, primarily for use on roads and that has no axle or axle group loaded in excess of the mass limits. Examples include: mobile cranes, cherry pickers, concrete pumps and boring plants.
SPV — Type O (overmass) (1 or more axles over mass limits)	Built, or permanently modified, primarily for use on roads and that has at least one axle or axle group loaded in excess of the mass limits. Examples include: mobile cranes, concrete pumps and boring plants.

Attachment B: NSW gaming machine rates

Annual club gaming machine rates

Annual gaming revenue[(a)] ($)							
Marginal Tax Rates from 1 September (%)	Up to 200,000	200,001 to 1,000,000		1,000,001 to 5,000,000	5,000,001 to 10,000,000	10,000,001 to 20,000,000	20,000,001 and above
		Clubs earning up to 1,000,000	*Clubs earning 1,000,001 and over[(b)]*				
2007	0.0	0.0	10.0	21.0	26.0	29.0	30.9
2008	0.0	0.0	10.0	21.0	26.0	29.0	30.9
2009	0.0	0.0	10.0	21.0	26.0	29.0	30.9
2010	0.0	0.0	10.0	21.0	26.0	29.0	30.9
2011	0.0	0.0	10.0	21.0	26.0	29.0	30.9

(a) For gaming revenue higher than $1,000,000, rates shown are before the 1.5 percentage point Community Development and Support Expenditure (CDSE) Scheme duty rate reduction. Under the CDSE Scheme, marginal duty rates on gaming revenue above $1,000,000 are reduced by 1.5 percentage points if clubs contribute 1.5 per cent of gaming revenue in excess of $1 million to eligible community projects.

(b) For clubs earning gaming revenue above $1,000,000 a year from 1 September 2007 the benefit of the tax-free threshold in the $200,000 to $1,000,000 revenue range will be withdrawn dollar for dollar as gaming revenue exceeds $1,000,000, with complete withdrawal when revenue reaches $1,800,000.

Annual hotel gaming machine rates

Annual gaming revenue ($)						
Rates from 1 July (%):	Up to 25,000	25,001 to 200,000	200,001 to 400,000	400,001 to 1,000,000	1,000,001 to 5,000,000	5,000,001 and above
2007	5.4	15.4	21.1	28.2	33.2	41.8
2008	5.3	15.3	22.4	28.8	33.8	44.5
2009	5.1	15.1	23.7	29.4	34.4	47.3
2010	5.0	15.0	25.0	30.0	35.0	50.0

Table 2.19: State and Territory mineral resources revenue

	NSW	VIC	QLD	WA	SA	TAS	NT
2006-07 revenue	$489m	$40m	$1,361m	$1,484m(1)	$145m	$34m	$81m
Coal (all types)	Open cut coal 7% of the ex mine value, underground coal 6% of the ex mine value and deep underground coal (coal greater than 400m), 5% of the ex mine value.	From the *Minerals Resources Development Act 1990*, as of 1 January 2006, derived by multiplying $0.0588 per gigajoule of energy by [A, B]: where A is consumer price index number for the quarter ending on 30 June immediately preceding the financial year for which the determined amount is being calculated; and B is consumer price index number for the financial year ending on 30 June 2005.	The royalty rate equals 7% plus ((Average Price — 100)/Average Price x 3%). For example, if the coal price is A$150, the rate is 8%, at A$200 the rate is 8.5%.	Export — 7.50% free on board value. Non export — $2.54/tonne escalated annually.	Derived by multiplying $0.0270 per gigajoule of energy by [A, B]: where A is consumer price index in respect of relevant quarter; and B is consumer price index in respect of the quarter ending 30 June 2000.	Profits based royalty. (mine gate)(2) 1.6% on net sales plus profit component (1.6% only where net sales less than $100,000 p.a.) Maximum royalty limited to 5% of net sales.	Coal is classed as a mineral and royalty on all minerals is subject to the Mineral Royalty Act (MRA). The Act sets a profit based royalty at 18% of the 'Net Royalty Value' (if Net Royalty Value exceeds $50,000) under the MRA.
Crude oil, petroleum, condensate, LPG & LNG	10% based on the net well head value. The net well head value is generally determined by deducting allowable costs from the point that a market value can be independently established for the petroleum product (usually the point of sale) back to the well head. NSW has a royalty holiday for the first 5 years. The royalty rate is 6% in the 6th year of production and increases by 1% each subsequent year.						
Geothermal					2.5% of the net wellhead value.		
Iron Ore-Iron Stone	4% of ex mine value (mine mouth).	2.75% of net market value (No production)	2.7% of value. Rate applies to the revenue base less statutory exemption of $100,000 per annum (3). Discount of 20% applies when processed in the State to 95% contained metal.	Lump export — 7.5% free on board, fine export — 5.625%, beneficiated — 5.0% (a number of different rates are also contained in various State Agreement Acts for specific projects).	Minimum $1.10/tonne plus agreed adjustments delivered to steelworks ('BHP Indenture Act').	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.

Table 2.19: State and Territory mineral resources revenue (continued)

	NSW	VIC	QLD	WA	SA	TAS	NT
Gold & Silver	4% of ex mine value (mine mouth).	Gold — nil Silver –nil, if silver is a product of the gold recovery process, otherwise 2.75% of net market value.	Fixed rate of 2.7% or variable ad valorem rate (1.5%-4.5%) as advised by Department each quarter applied to payable metal value (4). Rate applies to the revenue base less statutory exemption of $100,000 per annum.	Gold — 2.5% of royalty value (5) Silver — 2.5% of royalty value.	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For gold, mines in existence prior to 1 January 2006, $0.42/gram until 31 December 2008. For Olympic Dam under the Roxby Downs Indenture Act, a surplus royalty may be applicable as per the Mining Act 3.5% of market value, ex lease.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.
Copper	4% of value (mine mouth).	2.75% of net market value.	Fixed rate of 2.7% or variable ad valorem rate (1.5%-4.5%) as advised by Department each quarter applied to payable metal value. Rate applies to the revenue base less $100,000 per annum. Discount of 20% applies when processed in the State to 95 % contained metal.	5% of royalty value for concentrates, 2.5% for metallic copper (for copper sold as nickel by product 2.5% of copper metal value).	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For Olympic Dam under the Roxby Downs Indenture Act, as per the Mining Act 3.5% of market value, ex lease.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.
Lead/Zinc	4% of ex mine value (mine mouth).	2.75% of net market value (No production)	As for copper except processing discounts are 25% for lead and 35% for zinc.	5% of royalty value for concentrates, 2.5% for metallic form.	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.

Table 2.19: State and Territory mineral resources revenue (continued)

	NSW	VIC	QLD	WA	SA	TAS	NT
Bauxite/Alumina	$0.35/tonne -bauxite Alumina is not defined as a mineral in NSW.	2.75% of net market value. (No production)	For bauxite mined for consumption outside the State royalty is: a) 10% of value, or b) $2 per tonne, whichever is the higher The royalty rate per tonne payable on bauxite mined for consumption within the State is 75% of the amount per tonne worked out under the above provisions or $1.50 per tonne, whichever is the greater.	Bauxite — 7.5% of value (alumina — 1.65% of value — rate specified in several State Agreement Acts).	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value', except for Gove project where a special historical arrangement exists.
Silica	Silica is not defined as a mineral in NSW.	$1.43 per cubic metre.	$0.90 per tonne (when used for its chemical properties).	$0.56/tonne from 1 July 2005 moving in equal increments to $0.80/tonne on 1 July 2009 (from 1 July 2010 subject to five yearly reviews in accordance with increases in ABS Non-Metallic Mineral Products Price Index).	Industrial 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, $0.14/tonne until 31 December 2008. Extractive minerals $0.35/tonne.	Metallurgical, greater of $1.20 tonne or 5% of value, other uses $0.60/tonne.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.

Table 2.19: State and Territory mineral resources revenue (continued)

	NSW	VIC	QLD	WA	SA	TAS	NT
Nickel	4% of ex mine value (mine mouth).	2.75% of net market value. (No production)	Fixed rate of 2.7% or variable ad valorem rate (1.5%-4.5%) as advised by Department each quarter applied to payable metal value. Rate applies to the revenue base less $100,000 per annum. Discount of 20% applies when processed in the State to 70% contained metal.	2.5% of value of contained nickel.	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.
Mineral Sands(6)	4% of ex mine value (mine mouth).	2.75% of net market value.	5% of the value of the concentrate.	4.5% of royalty value. Currently 5% of royalty value for 2008-09.	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.
Kaolin	$0.70/tonne (mine mouth).	2.75% of net market value.	$1.00/tonne.	5% of royalty value(7).	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years For mines in existence prior to 1 January 2006, $0.28/tonne until 31 December 2008.	$1.20/tonne (mine gate).	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.

Table 2.19: State and Territory mineral resources revenue (continued)

	NSW	VIC	QLD	WA	SA	TAS	NT
Limestone-Lime Earth(8)	$0.35/tonne (Agricultural lime) $0.40/tonne Limestone	$1.43 per cubic metre.	Limestone (when used for its chemical properties) — $0.75/tonne. Lime, earth — $0.50/tonne.	Limestone (including limesands and shellsands) used for agricultural or construction purposes or as a neutralising agent. $0.34 per tonne from 1 July 2005 moving in equal increments to $0.50/tonne on 1 July 2009. Limestone (including limesands and shellsands) used for metallurgical purposes $0.56 per tonne from 1 July 2005 moving in equal increments to $0.80/tonne on 1 July 2009.	Industrial 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, $0.28/tonne (1st grade) $0.14/tonne (2nd grade) until 31 December 2008. Extractive minerals $0.35/tonne.	Chemical and metallurgical: $1.20/tonne. Other Uses: $0.60/tonne (mine gate).	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value', if the material is used as a mineral and not as an 'extractive' mineral product.
Salt	4% of ex mine value (mine mouth) — Magnesium Salts. $0.40/tonne — Sodium Salts and Potassium Salts.	It is outside the scope of mineral, extractive and the petroleum legislations in Victoria.	$1.50/tonne	$0.34/tonne from 1 July 2005 moving in equal increments to $0.50/tonne on 1 July 2009 (from 1 July 2010 subject to five yearly reviews in accordance with increases in ABS Non-Metallic Mineral Products Price Index). (A number of different rates are also contained in various State Agreement Acts for specific projects.).	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, $0.28/tonne until 31 December 2008. Certain existing operations pay royalty under State or Crown Agreements.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.

Table 2.19: State and Territory mineral resources revenue (continued)

	NSW	VIC	QLD	WA	SA	TAS	NT
Gemstone	4% of ex mine value (mine mouth).	2.75% of net market value. (No production)	2.5% of value after deducting $100,000.	7.5% of royalty value.	Currently not applicable but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value', unless produced by recreational fossicking which is exempt.
Magnetite	4% of ex mine value (mine mouth).	2.75% of net market value. (No production)	Same as for iron ore.	N/A	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. OneSteel Whyalla, minimum $1.10/tonne plus agreed adjustments delivered to steelworks ('BHP Indenture Act').	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.
Bentonite	$0.70/tonne (mine mouth).	2.75% of net market value. (No production)	$1.80/tonne	N/A	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal.	Exempt from Act.

Table 2.19: State and Territory mineral resources revenue (continued)

	NSW	VIC	QLD	WA	SA	TAS	NT
Clay(9)	$0.35/tonne — Structural, Brick and Pipe Clay $0.35/tonne — Bloating Clay $0.70/tonne — Fire and Pottery Clay	Fine clay 2.75% of net market value. Building clay $1.43 per cubic metre.	Clay used for fired clay products — $0.50/tonne.	$0.34/tonne from 1 July 2005 moving in equal increments to $0.50/tonne on 1 July 2009 (from 1 July 2010 subject to five yearly reviews in accordance with increases in ABS Non-Metallic Mineral Products Price Index).	Industrial 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, $0.28/tonne (1st grade) $0.14/tonne (2nd grade) until 31 December 2008. Extractive $0.35/tonne.	$1.20/tonne (mine gate).	Exempt from Act.
Tin Concentrate	4% of ex mine value (mine mouth).	2.75% of net market value. (No production)	As for 'miscellaneous' — 2.5% of value after deducting $100,000.	2.5% of royalty value of tin metal (or 2.5% of contained tin metal value).	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.
Dolomite	$0.40/tonne (mine mouth).	2.75% of net market value. (No production)	$1.00/tonne.	$0.34/tonne from 1 July 2005 moving in equal increments to $0.50/tonne on 1 July 2009 (from 1 July 2010 subject to five yearly reviews in accordance with increases in ABS Non-Metallic Mineral Products Price Index).	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, $0.35/tonne (1st grade) $0.18/tonne (2nd grade) until 31 December 2008.	Chemical and metallurgical: $1.20/tonne, other uses $0.60/tonne (mine gate).	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value', if the material is used as a mineral and not as an 'extractive' mineral product.

Table 2.19: State and Territory mineral resources revenue (continued)

	NSW	VIC	QLD	WA	SA	TAS	NT
Diatomite	$0.70/tonne (mine mouth).	$1.43 per cubic metre. (No production)	$1.50/tonne.	N/A	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal.	Exempt from Act.
Perlite	$0.70/tonne (mine mouth).	2.75% of net market value. (No production)	$1.00/tonne.	N/A	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal.	Exempt from Act.
Peat	$0.70/tonne (mine mouth).	2.75% of net market value.	As for 'miscellaneous' — 2.5% of value after deducting $100,000.	Nil	N/A under the Mining Act.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.
Phosphate	$0.70/tonne (mine mouth).	2.75% of net market value. (No production)	Phosphate rock royalty formula per tonne of phosphate rock: $\$1 \times \frac{G}{32.3} \times \frac{Pcurr}{\$72.50}$ Where: G is the average P2O5 content of the rock for the period. Pcurr is the average price in $A of Moroccan phosphate rock with 32.3% P2O5 content. Minimum rate is $0.80 per tonne. Other phosphatic minerals — as for 'miscellaneous' — 2.5% of value after deducting $100,000.	N/A	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, $0.14/tonne until 31 December 2008.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.

Table 2.19: State and Territory mineral resources revenue (continued)

	NSW	VIC	QLD	WA	SA	TAS	NT
Magnesite	$0.70/tonne (mine mouth).	2.75% of net market value. (No production)	$1.50/tonne.	N/A	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, $0.28/tonne until 31 December 2008.	As for silica.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.
Tungsten	4% of ex mine value (mine mouth).	2.75% of net market value. (No production)	2.7% of value after deducting $100,000. Discount of 20% applies when processed in the State to 89% contained metal.	N/A	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.
Marble(10)	$0.70/tonne (mine mouth).	$8.07 per cubic metre as dimension stone.	$1.00/tonne.	$0.56 per tonne from 1 July 2005 moving in equal increments to $0.80/tonne on 1 July 2009 (from 1 July 2010 subject to five yearly reviews in accordance with increases in ABS Non-Metallic Mineral Products Price Index).	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, $0.28/tonne (1st grade) $0.14/tonne (2nd grade) until 31 December 2008.	As for coal.	Exempt from Act.
Chromite	4% of ex mine value (mine mouth).	2.75% of net market value. (No production)	As for 'miscellaneous' — 2.5% of value after deducting $100,000.	5% of royalty value (7).	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.

Table 2.19: State and Territory mineral resources revenue (continued)

	NSW	VIC	QLD	WA	SA	TAS	NT
Granite/Sandstone	$0.70/tonne — Dimension Stone.	$1.43 per cubic metre(11).	$1.00/tonne (rock mined in block or slab form for building or monumental purposes).	$0.56 per tonne from 1 July 2005 moving in equal increments to $0.80/tonne on 1 July 2009 (from 1 July 2010 subject to five yearly reviews in accordance with increases in ABS Non-Metallic Mineral Products Price Index).	Dimension Stone 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, $1.75/cubic metre $0.58/tonne until 31 December 2008. Extractive minerals $0.35/tonne.	Building stone — $5/cu.m. (mine gate).	Exempt from Act.
Calcite	$0.40/tonne (mine mouth).	$1.43 per cubic metre(11).	$1.00/tonne.	N/A	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value', if the material is used as a mineral and not as an 'extractive' mineral product.
Serpentine	$0.70/tonne (mine mouth).	$1.43 per cubic metre(11).	As for 'miscellaneous' — 2.5% of value after deducting $100,000.	N/A.	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal.	Exempt from Act.

Table 2.19: State and Territory mineral resources revenue (continued)

	NSW	VIC	QLD	WA	SA	TAS	NT
Cobalt	4% of ex mine value (mine mouth).	2.75% of net market value. (No production)	Fixed rate of 2.7% or variable ad valorem rate (1.5%-4.5%) as advised by Department each quarter applied to payable metal value. Rate applies to the revenue base less $100,000 per annum. Discount of 20% applies when processed in the State to 50% contained metal.	2.5% of royalty value in metallic form, 5% in concentrate form (for cobalt sold as nickel by-product 2.5% of cobalt metal value).	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.
Gypsum	$0.35/tonne (mine mouth).	2.75% of net market value.	$0.50/tonne.	$0.34 per tonne from 1 July 2005 moving in equal increments to $0.50/tonne on 1 July 2009 (from 1 July 2010 subject to five yearly reviews in accordance with increases in ABS Non-Metallic Mineral Products Price Index).	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, $0.28/tonne (1-3 grade) $0.14/tonne (4-8 grade) until 31 December 2008.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value', if the material is used as a mineral and not as an 'extractive' mineral product.
Manganese Ore	4% of ex-mine value (mine mouth).	2.75% of net market value. (No production)	2.7% of value after deducting $100,000. Discount of 35% applies when processed in the State to 75% contained metal.	Ore — 7.5% of royalty value Concentrate — 5% of royalty value.	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.

Table 2.19: State and Territory mineral resources revenue (continued)

	NSW	VIC	QLD	WA	SA	TAS	NT
Platinoids	4% of ex mine value (mine mouth).	2.75% of net market value. (No production)	As for 'miscellaneous' — 2.5% of value after deducting $100,000.	2.5% of royalty value for metals.	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.
Construction Materials(16)	Various (mine mouth).	$1.43 per cubic metre.	$0.50/tonne (only if used on mining lease).	Rock — $0.34 per tonne from 1 July 2005 moving in equal increments to $0.50/tonne on 1 July 2009 (from 1 July 2010 subject to five yearly reviews in accordance with increases in ABS Non-Metallic Mineral Products Price Index).	Extractive minerals $0.35/tonne.	Building stone $5/$m^3$ Gravel $0.60/tonne Pebbles $2.40/tonne Stone crushed and broken $0.60/tonne (mine gate).	Exempt from Act.
Quartzite	$0.70/tonne (mine mouth).	$1.43 per cubic metre(11).	As for 'miscellaneous' — 2.5% of value after deducting $100,000.	N/A	Extractive minerals $0.35/tonne.	As for coal.	Exempt from Act.
Diamonds	4% of ex-mine value (mine mouth).	2.75% of net market value. (No production)	2.5% of value after deducting $100,000.	7.5% of realised value. (For Ellendale project — 7.5% free on board or 22.5% of accounting profit if greater) (For Argyle project — from 1 January 2006, a flat royalty rate of 5% of gross revenue).	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.
Spodumeme	Spodumene is not defined as a mineral in NSW.	2.75% of net market value. (No production)	As for 'miscellaneous' — 2.5% of value after deducting $100,000.	5% of royalty value(7).	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.

Table 2.19: State and Territory mineral resources revenue (continued)

	NSW	VIC	QLD	WA	SA	TAS	NT
Talc	$0.70/tonne (mine mouth).	2.75% of net market value. (No production)	As for 'miscellaneous' — 2.5% of value after deducting $100,000.	$0.56 per tonne from 1 July 2005 moving in equal increments to $0.80/tonne on 1 July 2009 (from 1 July 2010, subject to five yearly reviews in accordance with increases in ABS Non-Metallic Mineral Products Price Index).	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, $0.70/tonne (1st grade) $0.35/tonne (2nd grade) until 31 December 2008.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.
Tantalum	4% of ex mine value (mine mouth).	2.75% of net market value. (No production)	2.7% of value after deducting $100,000. Discount of 35% applies when processed in the State to 95% contained metal.	5% of royalty value for concentrates (or 5% of the value in concentrate form if processed further before sale).	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.
Pyrophyllite	$0.70/tonne (mine mouth).	2.75% of net market value. (No production)	As for 'miscellaneous' — 2.5% of value after deducting $100,000.	N/A	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value'.
Uranium Oxide	Uranium mining in NSW is prohibited.	Uranium mining is prohibited in Victoria.	As for 'miscellaneous' — 2.5% of value after deducting $100,000 — no production in Queensland.	WA Government policy does not support mining and export of uranium. All mining leases granted after 22 June 2002 exclude uranium mining.	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For Olympic Dam under the Roxby Downs Indenture Act, as per the Mining Act 3.5% of market value, ex lease.	As for coal.	NT uranium is owned by the Commonwealth which determines the royalty rate to applying to each mine on a case by case basis(12).

Table 2.19: State and Territory mineral resources revenue (continued)

	NSW	VIC	QLD	WA	SA	TAS	NT
Miscellaneous	Various.	Various.	Unless otherwise specified 2.5% of value after deducting $100,000.	Any other mineral not specifically listed in the Mining Regulations Table - if sold as crushed or screened material, 7.5% of the royalty value or if sold as a concentrate, 5% of the royalty value.	For mines in existence prior to 1 January 2006, various $/tonne until 31 December 2008. All minerals other than extractives 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	Various.	Subject to the Mineral Royalty Act at 18% of the 'Net Royalty Value', if the material is used as a mineral and not as an 'extractive' mineral product.

Base metals — copper, lead, zinc, bauxite/alumina, nickel, magnetite, tin, iron ore, magnesite, tungsten, chromite and cobalt.
Precious metals — gold, silver, gemstones, diamonds, platinoids, manganese and tantalum.
Other minerals — mineral sands, silica, limestone/lime earth, bentonite, salt, kaolin, clay, dolomite, diatomite, phosphate, perlite, peat, marble, granite, calcite, serpentine, construction materials, gypsum, pyrophilites, quartzite, spodumene, talc and uranium.

Notes

1 Western Australia also levies lease rentals in relation to exploration and production licences. The value of the rentals was $63 million in 2006-07.

2 As per Regulations 8-11 of the 'Mineral Resources Regulations 1995'.

3 A person must elect to apply the exemption to the first $100,000 of value of only one of the minerals sold, disposed of or used in the year. However, if less than $100,000 of value of the mineral elected is sold, disposed of or used in the year, the person may apply the unused part to another mineral.

4 Queensland has announced that a fixed rate will no longer be available and the ad valorem rates and thresholds will be increased from 1 January 2011.

5 The first 2,500 oz. /per annum is exempt.

6 Applies to rutile, monazite, zircon and ilmenite.

7 Unless an 'extractive mineral lease' (EML) or 'extractive mineral permit' (EMP) has been granted under the Mining Act (in which case no royalty is payable). Rental of an EMP or an EML is higher to compensate the lack of royalty.

8 Included under construction materials.

9 As kaolin in Victoria.

10 Provided under construction materials for Victoria.

11 Under Extractive Industries Development Act.

12 A range of relevant issues, including the world market for uranium, previously negotiated non-statutory payments to Aboriginal communities, the loss or damage likely to be suffered by Aboriginal communities and the royalty rates set for other mines are taken into account. Ranger is subject to a 5.5 per cent ad valorem royalty comprising a 4.25 per cent payment to Aboriginal Benefit Account and a 1.25 per cent payment to the NT in lieu of royalties.

Source: Table taken from the Ministerial Council on Mineral and Petroleum Resources' February 2006 publication *Minerals and Petroleum Taxation: A Review of Australia's Resource Industry Fiscal Regimes and their International Competitiveness* with updated information provided by state treasuries.

Table 2.20: Local government rates and property charges

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Principal legislation	*Local Government Act 1993*	*Local Government Act 1989*	*Local Government Act 1993*	*Local Government Act 1995*	*Local Government Act 1999*	*Local Government Act 1993*	*Rates Act 2004*	*Local Government Act 2008*
Type of rate	Ordinary (s. 492), special (s. 492)	General (s. 158), service (s. 162) or special (s. 163)	General or differential general, separate or special (s. 963)	General, specified area (s. 6.37)	General, separate or service rates (s. 146)	General (s. 90), service (s. 93), construction (s. 97)	General rates	General (s. 155), special (s. 156)
Type of charge	Annual charges for domestic waste management, other annual charges (s. 496)	Municipal charges (s. 159), service charges (s. 162) and special charges (s. 163)	Separate charges (s. 972), special charges (s. 971) and utility charges (s. 973)	Service charges (s. 6.38)	Annual service charges (s. 155)	Service charges (s. 94), construction charges (s. 97) or separate charges (s. 100)	na	Charges (s. 157)
Rate structure	Wholly ad valorem or base amount plus ad valorem (ss. 497-499). Categories of rateable land include farmland (s. 515), residential (s. 516), mining (s. 517), business (s. 518). Optional sub-categories (s. 529).	Uniform rates (s. 160), differential rates where CIV is used (s. 161) or limited differential rates where CIV is not used (s. 161A). Limited differential rates include urban farm rates, farm rates or residential use rates (s. 161A).	Minimum general rate levy (s. 967). Special rates may include a minimum amount (s. 971(2a)). Councils may decide by resolution the categories of land for the purpose of levying differential general rates (s. 977).	Uniform or differential (s. 6.32(1)(a)). Specified area rates or minimum charges (s. 6.32(2)(b)). Differential rates may be imposed based on the purpose of the land, whether it is vacant or other characteristics (s. 6.33).	General rates may be based on land value, or a combination of both land value/fixed charge (s. 151(1)). Differential rates may vary according to the use of the land, the locality of the land or both (s. 156).	General rates may include a land value and a fixed charge component (s. 91). Variation in rates according to any of the factors under s. 107. If a fixed charge is not set, a minimum amount payable may be set (s. 90(4)).	Fixed charge plus a rate charged on the amount that the average UV exceeds a rate-free threshold (s. 14). Differential rates for residential, commercial and rural properties.	Fixed charge for each allotment, a valuation based charge, or a combination of (i) fixed charges (for different purposes) or (ii) a fixed charge and a valuation-based charge (s.148).
Land valuation method	LV (s 498(2), *Valuation of Land Act 1916*, s. 6A).	SV, NAV or CIV (s. 157; s. 13DC *Valuation of Land Act 1960*).	UV (schedule 2; Part 3 *Valuation of Land Act 1944*).	Rural: UV (s. 6.28(2)(a)). Non-rural: GRV (s. 6.28(2)(b)).	CV (s. 151(2)) and under some circumstances SV or AV (s. 151(3)).	LV, CV or AAV (s. 90).	UV averaged over the previous three years (s. 6).	UCV, AV or CIV (s. 149).
Rate pegging	Yes	No (current); Yes (fixed period in 1990s).	No	No	No (current); Yes (fixed period in 1990s).	No	No. However, the growth in total rates revenue is capped at WPI plus growth for new properties.	No (pre 2008); Yes (limit on rates for a period of 3 years commencing 1 July 2008. Refer to s. 268).

Notes: LV = Land value. SV = Site value. NAV = Net annual value. CIV = Capital improved value. UV = Unimproved value. CV = Capital value. AV = Annual value. GRV = Gross rental value AAV = Assessed annual value. UCV = Unimproved capital value. WPI = Wage Price Index.
Source: Based on Table B.1 from Productivity Commission (2008a) with updated information provided by state treasuries.

Table 2.21: Income support payments as at 1 July 2008[1]

Rates (per fortnight)	Income test (per fortnight)	Assets test
Pensions — includes Age Pension, Disability Support Pension, Carer Payment, Parenting Payment Single, Bereavement Allowance, Wife Pension, Widow B Pension and Service Pension		
Single: $546.80 Partnered: $456.80 (each) *Single DSP under 21, no children* (Youth Allowance plus Youth Disability Supplement of $100.60, total cannot exceed adult DSP rate): <18, at home: $295.10 18-20, at home: $334.50 16-20 independent: $456.00 Member of a couple: $456.00 Rates are adjusted each March and September in line with increases in the CPI. Single adult rates are also benchmarked against 25% of MTAWE, with a proportional flow-on to partnered rates. Pensions are taxable, except for DSP and Invalidity Service Pension paid to people under Age Pension age, and Carer Payment and Wife Pension spouse where the person being cared for or the spouse is receiving a non-taxable pension.	Free Area: $138 (single) $240 (couple) plus $24.60 per child Taper: Singles: 40% of income above free area Couples: 20% of combined income above free area for each member of couple. Working Credit* available if aged under Age Pension age. Income test does not apply to a permanently blind person receiving Age, Service or Disability Support Pension. Some income types are subject to different arrangements (eg, compensation payments may be deducted directly from the rate otherwise payable).	*Homeowners for full pension:* Single $171,750 Partnered (combined): $243,500 *Non-Homeowners for full pension:* Single: $296,250 Partnered (combined): $368,000 Assets over the limit reduce pensions by $1.50 per fortnight for every $1,000 above the threshold. *Homeowners for part pension:* Single: $540,250 Partnered (combined): $856,500 *Non-Homeowners for part pension:* Single: $664,750 Partnered (combined): $981,000 *(Amounts are higher if receiving RA or separated due to illness)* For Parenting Payment Single, see Allowances. Asset test does not apply to a permanently blind person receiving Age, Service or Disability Support Pension.
Allowances — excluding student and youth payments. Includes Newstart Allowance, Parenting Payment Partnered, Sickness Allowance, Mature Age Allowance, Widow Allowance and Partner Allowance		
Higher single rate: $472.80 Lower single rate: $437.10 Partnered: $394.40 Higher single rate applies to: a person with a dependent child; or a person aged 60 or more and on income support for at least 9 months; and to partnered people separated due to ill-health, infirmity or because the partner is in gaol. Lower single rate applies to singles not covered by the higher rate. Rates are adjusted each March and September in line with increases in the CPI. Payments are taxable.	Free Area: $62 Tapers: 50% of income $62-$250, 60% of income above $250 *Partner income test:* Free Area: $751 Taper: 60% If partner is a pensioner, then a joint income test applies. Individual income is calculated as half the combined income of the couple. This amount is then subject to the person's individual income test. If partner is not a pensioner, a sequential income test applies. Individual income test is applied to own income. Partner income over the partner income free area is subject to a 60% taper. Working Credit* applies.	*Homeowners ineligible for allowance if assets exceed:* Single: $171,750 Partnered (combined): $243,500 *Non-Homeowners ineligible if assets exceed:* Single: $296,250 Partnered (combined): $368,000

Table 2.21: Income support payments as at 1 July 2008 (continued)

Rates (per fortnight)	Income test (per fortnight)	Assets test
Allowances - youth and student payments. Includes Youth Allowance (Student), Austudy and Abstudy.		
Youth Allowance (YA) <18, at home: $194.50 18 +, at home: $233.90 *YA and Austudy* Partnered, no children; and Away from Home: $355.40 Single, with children: $465.60 Partnered, with children: $390.20 Higher rates are available to long-term income support recipients aged 21 or over commencing full-time study or an apprenticeship. YA with partial capacity to work receive YA rates plus Youth Disability Supplement of $100.60 (total is capped at adult Newstart rates). Rates are adjusted each January in line with increases in the CPI. Payments are taxable.	*Personal income test* Free Area: $236 Tapers: 50% of income $236-$316; 60% of income above $316 Student Income Bank** available. *Partner income test as for other allowances.* *Parental income test* YA for non-independent young people is paid subject to a parental income test, unless a parent receives income support or holds a low-income Health Care Card. The family actual means test applies to specified families.	YA for independent young people and Austudy payment are assets tested as for other allowances. YA for non-independent young people is paid subject to a family assets test, unless a parent receives income support or holds a Health Care Card.
Income support — veterans (does not include payments of a compensatory nature)		
Income Support Supplement (ISS) is payable to eligible war widow(er)s with a maximum fortnightly rate of $163.20. Indexed in March and September with reference to CPI and MTAWE. ISS is not taxable when recipient is aged less than 65, but is taxable otherwise.	Free area for ISS: $1,097 (single). ISS Taper: 40% of income above free area. Different ISS free areas and taper rates apply for members of a couple.	*Homeowners for full ISS*:* Single: $427,500 *Non-Homeowners for full ISS*:* Single: $552,000 Assets over this limit reduce the ISS by $0.375 per fortnight for every $250 above the threshold. Different thresholds apply for members of a couple.
Safety net		
Special Benefit rate is discretionary but cannot exceed Newstart or Youth Allowance rates otherwise applicable.	No Free Area. $1 for $1 withdrawal rate. Plus strict liquid asset limits.	As for allowances.

1 Veterans and their dependants are entitled to a further range of payments which are of a compensatory nature, and as such are not detailed here.

* Working Credit: a credit accrues for each $1 of unused free area (up to $48 per fortnight) up to a maximum of 1,000 credits. Credits can be used to reduce the amount of earned income subject to the personal income test.

** Student Income Bank: students can accrue up to $6,000 of unused free are to reduce income in other periods.

Table 2.22: Family assistance payments as at 1 July 2008

Payment type	Rate/s	Income test (no assets test)
Family Tax Benefit (FTB)		
FTB Part A Must have a dependent child aged under 21 or qualifying dependent full-time student aged 21-24. Child is not a dependent child (not an FTB child) if they receive an income support payment; or they are a non-full time student aged 5-15 or aged 16-24 years with income at or exceeding the FTB Child Income Limit. *Rent Assistance* is paid as part of the maximum rate of FTB Part A for families with children under 16. Families eligible for the maximum rate of FTB Part A (prior to the application of the Maintenance Income Test) are also issued a *Health Care Card*.	*Maximum rate per fortnight:* 0-12 $151 13-15 $196.84 *Base rate per fortnight:* Under 18: $48.30 18-24: $64.96 *FTB Part A supplement per child*: $686.20 per annum *Large Family Supplement* paid for third and each subsequent child: $10.36 per fortnight, $270.10 per annum *Multiple Birth Allowance:* Triplets: $125.58 per fortnight, $3,274.05 per annum Quads or more: $167.44 per fortnight, $4,365.40 per annum	*Maximum rate income test per annum* Lower income threshold: $42,559 Taper rate: 20% *Base rate income test per annum* Higher income threshold: $94,316 Additional Child Amount: $3,796 Taper rate: 30% FTB Child Income Limit: $12,287 per annum FTB Part A income test does not apply if parent receives an income support payment. Income for the FTB Part A income test is the 'adjusted taxable income' (ATI)* of the person claiming payment and their partner for the financial year FTB is claimed. The Maintenance Income Test applies to FTB Part A above the base rate (including Rent Assistance). *Maintenance income-free areas per year:* Single parent, or one of a couple receiving maintenance: $1,292.10 Couple, each receiving maintenance: $2,584.20 For each additional child: $430.70 Maintenance over these amounts may reduce FTB Part A by 50 cents in the dollar, until the base rate of FTB Part A is reached.
FTB Part B Must have a dependent child (FTB child) aged under 16 or qualifying dependent full-time student aged 16-18.	*Maximum rate per fortnight:* Under 5 $128.80 5-18 years $89.74 *FTB Part B supplement per family*: $335.80 per annum	*Second earner income test:* Income threshold: $4,526 per annum Taper rate: 20% For couples, the second earner income test applies to the ATI of the lower income earner. The second earner income test does not apply to single parents. FTB Part B income limit: payment only available if primary earner ATI is $150,000 or less.
Baby Bonus		
Paid following birth (including stillbirth) or adoption of a baby. From 1 January 2009 will be extended to the adoption of children aged under 16. Parents are required to formally register the birth of their child.	$5,000 per child. Paid by 13 fortnightly instalments for claimants aged 17 and under. Others recipients can be paid as a lump sum, or a combination of lump sum and fortnightly payments. From 1 January 2009, all customers will be paid by fortnightly instalment paid from the date of claim.	Baby Bonus income limit (from 1 January 2009) — family must have income of $75,000 or less in the six months following birth or adoption.

Table 2.22: Family assistance payments as at 1 July 2008 (continued)

Payment type	Rate/s	Income test (no assets test)
Maternity Immunisation Allowance		
Paid for children aged 18-24 months who are fully immunised, or have an approved immunisation exemption.	One-off payment of $236.70. From 1 January 2009, payment will be made as two instalments. The first instalment will be made to children aged 18 months and 2 years. The second will be made to children aged between 4 years one month and 5 years.	No income test.
Child Care Benefit (CCB)		
Child must attend approved or registered care. Claimant or partner must be liable for the payment of child care fees. Child aged under 7 must have age appropriate immunisation, or have an exemption. All families eligible for up to 24 hours of approved care per week paid subject to family income test. For approved care parents must meet work/study/training test during the week child care is used to receive more than 24 hours and up to 50 hours of CCB per child. For registered care, parents must meet the work/training/study test sometime during the week child care used to receive up to 50 hours CCB. Special rules apply to grandparents with the primary care of a grandchild(ren).	*Maximum rate — approved care:* $3.47 per hour ($173.50 for 50 hour week) for a non-school child. *Minimum rate — registered care:* $0.581 per hour ($29.05 per week) for a non-school child. Rates for school children 85% of non-school rates.	*Income test on maximum rate:* Income threshold: $36,573 Taper rates: One child: 10% Two children: 15% then 25% Three or more children: 15% then 35% Income test does not apply to families on income support. CCB for approved care no longer available when family income reaches, per annum: One child: $126,793 Two children: $131,457 Three children: $148,452 (plus $28,028 for each child after the 3rd)
Child Care Tax Rebate		
Child must have attended approved care. Claimant must be assessed as eligible for CCB. Claimant and partner must have passed the CCB work/study/training test (for the purposes of the rebate).	50 per cent of out-of-pocket child care expenses for approved care, up to $7,500 for 2008-09. Payment made quarterly from October 2008 (for July to September).	No income test.

* Income for FTB and CCB purposes is 'adjusted taxable income' (ATI) for the financial year FTB is claimed. ATI is 'taxable income' plus the value of adjusted fringe benefits, target foreign income, net rental property loss, and tax free pension or benefit, less deductible child support paid. Family assistance payments are non-taxable.

Table 2.23: Supplementary payments as at 1 July 2008

Payment type	Payment rates	Other features
Supplements included as part of the maximum rate of income support		
Pharmaceutical Allowance (PhA) is automatically paid to pensioners and recipients of Mature Age and Sickness Allowances. PhA can also be paid to other allowance recipients, depending upon their circumstances (see details in third column).	PhA is paid at a rate of $5.80 per fortnight for single people (and illness separated) and $2.90 per fortnight for each eligible member of a couple. PhA is paid in addition to the base pension or allowance. Non-taxable.	PhA can be paid to recipients of allowances if they are in certain special circumstances, such as: being temporarily incapacitated, or having a partial capacity to work, or being a single 'principal carer' of a dependent child, or being aged over 60 years in receipt of income support continuously for at least nine months.
Remote Area Allowance (RAA) provides additional assistance to income support customers residing in remote areas. It recognises that many customers do not get the full benefit of zone tax offsets. RAA makes a contribution towards some of the costs associated with living in particularly remote areas.	$18.20 per fortnight for a single person. $15.60 per fortnight for each eligible member of a couple. $7.30 per fortnight for each dependant. RAA is in addition to the relevant pension or payment. RAA is not indexed, and while it is not taxable, it does reduce the amount of any Tax Zone Offsets otherwise available.	RAA is payable to pensioners and allowees (and Abstudy recipients) who usually reside in ordinary Tax Zone A (including, with certain exceptions, Special Tax Zone A) and Special Tax Zone B. RAA is not reduced under the income and assets tests, it is added to any pension or payment after the income and assets tests have been applied.
Supplements paid in addition to income support or concession card entitlement		
Telephone Allowance (TAL) is a payment to assist with the cost of maintaining a telephone service. It is paid to pensioners, certain allowees and CSHC holders who are telephone subscribers. A higher rate of TAL is payable for income support recipients of Age Pension age, CSHC holders, and DSP and CP if a person, or their partner, has a home internet connection.	$88.00 per annum ($22 per quarter) for singles and couples combined. The higher rate of TAL for home internet subscribers is $132.00 per annum ($33 per quarter) for singles and couples combined. Non-taxable.	TAL is paid quarterly with the customer's regular income support payment. Eligibility test dates are 1 January, 20 March, 1 July and 20 September. TAL is adjusted annually for increases in the CPI.
Utilities Allowance (UA) is a payment to people of Age (or Veteran) Pension age in receipt of an income support payment, and to recipients of Mature Age, Widow and Partner Allowances, Disability Support Pension, Carer Payment, Bereavement Allowance, Widow B Pension, Wife Pension, Invalidity Service Pension and Income Supplement regardless of age.	$500 per annum ($125 per quarter) for singles. $250 per annum ($62.50 per quarter) for each eligible member of a couple. Non-taxable.	UA is paid quarterly. Eligibility test dates are 20 March, 20 June, 20 September and 20 December each year. UA is adjusted twice a year for increases in the CPI. UA is intended to provide assistance towards regular household bills and is paid regardless of whether a person is liable for utilities bills.
Seniors Concession Allowance (SCA) is a similar payment to UA paid to Commonwealth Seniors Health Card and Department of Veterans' Affairs Gold Card holders of pension age are also eligible for SCA who do not already receive UA.	$125 per quarter for each recipient of SCA, whether single or partnered.	Similar to UA.

Table 2.23: Supplementary payments as at 1 July 2008 (continued)

Payment type	Payment rates	Other features
Supplements paid in addition to income support or concession card entitlement (continued)		
Pensioner Education Supplement (PES) is paid to the following income support customers if they are studying: Parenting Payment (Single), Disability Support Pension, Carer Payment, Special Benefit (in some circumstances), Widow Allowance, Widow B Pension, Wife Pension (in some circumstances), Newstart Allowance/Youth Allowance (previously received PES while on Parenting Payment), and certain other allowees transferred from Disability Support Pension previously receiving PES.	PES is paid at two rates: $62.40 per fortnight or $31.20 per fortnight. Rate depends on study load and the person's income support payment. A person can get the $62.40 per fortnight rate if their approved study load is 50% or more of a full time study load; or they are a Disability Support Pensioner or an Invalidity Service Pensioner with an approved study load of at least 25%; or they are a War Widow(er) Pensioner with a dependent child with an approved study load of at least 25%. A person can get the $31.20 per fortnight rate if their approved part-time study load is at least 25% of a full-time study load.	To receive PES, a person must be enrolled in an approved course of secondary or tertiary study. Part-time study load students can usually get the supplement for twice the minimum period it takes to finish their course as a full-time student. Fares Allowance is payable to tertiary PES students who live away from a partner or child to study.
Education Entry Payment (EdEP) is a lump-sum payment to assist with the cost of beginning approved study (available annually for continuing study if receiving PES). It is available to income support recipients who qualify for PES, and to recipients of Mature Age Allowance, Newstart Allowance, Parenting Payment (partnered), Partner Allowance and Widow Allowance if they have been on income support for at least 12 months.	$208	Only one EdEP payment per calendar year is payable. EdEP is a taxable payment.
Work for the Dole Supplement is a fortnightly supplement to assist Newstart and Youth Allowance recipients with the cost of participating in Work for the Dole programs.	$20.80 per fortnight.	
Language, Literacy and Numeracy Supplement is a fortnightly supplement to assist people on eligible income support payments with the costs associated with participating in the Language, Literacy and Numeracy program.	$20.80 per fortnight.	

Table 2.23: Supplementary payments as at 1 July 2008 (continued)

Payment type	Payment rates	Other features
Supplements paid in addition to income support or concession card entitlement (continued)		
Pension Bonus Scheme pays a one-off lump sum to people who defer receipt of Age Pension and continue to work. A number of qualification rules apply.	The maximum rate is $33,409.50 (singles) and $27,910.50 (each member of a couple). The maximum amount is paid if the person has accrued 5 full years of bonus periods and receives maximum rate of Age Pension when they eventually claim.	Non-taxable. The scheme is funded through the Age Pension appropriation.
Pension Bonus Bereavement Payment is a one-off lump sum paid to the surviving partner of a deceased Pension Bonus Scheme member who did not make their claim for a Pension Bonus before their death.	See Pension Bonus Scheme.	Non-taxable. Commenced from 1 January 2008. Funded from the Age Pension appropriation.
Crisis Payment is a one-off payment to help people who are in severe financial hardship. It is available to social security income support recipients who are forced to leave their own home due to extreme circumstances, such as natural disaster, or who are victims of domestic violence, newly released prisoners or newly arrived humanitarian entrants.	Equivalent to one week's payment of the person's income support payment without add-ons.	Must claim within 7 days after the event leading to the Crisis Payment claim.
Other supplementary payments		
Mobility Allowance is a non–means tested income supplement for people with a disability who are aged 16 or over and who are unable to use public transport without substantial assistance.	There are two rates of Mobility Allowance. Basic rate: $75.90 per fortnight Higher rate: $106.20 per fortnight Non-taxable.	Standard rate — must be engaged in approved activity for at least 32 hours every 4 weeks (combination of employment, voluntary work or vocational training). Higher rate — must be in receipt of DSP, NSA, YA (other) and working at least 15 hours a week or looking for such work.
Carer Allowance is for people who provide daily care and attention at home to a person with a disability or medical condition who is: aged 16 or over with substantial functional impairment; or a dependent child under age 16 who needs substantially more care than child without a disability. *Child Disability Assistance Payment* (CDAP) is available to recipients of CA (Child) at 1 July each year.	$100.60 per fortnight. Child Disability Assistance payment: $1,000 per annum Non-means tested. Non-taxable. Carer Allowance is indexed annually. CDAP is not indexed.	The child and the carer must live together in the same private residence, or if the child is hospitalised, there must be an intention for the child to return home to live with the carer. CDAP is intended to help with the purchase of support, aids, intervention, therapies or respite care.

Table 2.23: Supplementary payments as at 1 July 2008 (continued)

Payment type	Payment rates	Other features
Other supplementary payments (continued)		
Carers Bonus Payments Carer Payment — one-off lump sum paid to recipients of: Carer Payment; DVA Carer Service Pension; or Wife Pension and Carer Allowance; or DVA Partner Service Pension and Carer Allowance. Carer Allowance — one-off lump sum paid to Carer Allowance recipients.	The Carer Payment Bonus is $1,000. The Carer Payment Bonus is $600. Non-taxable.	Paid by June 30 after the following Budget speeches: 2004-05 2005-06 2006-07 2007-08 2008-09
Seniors Bonus payments — eligible recipients vary between years. In 2008, eligible recipients include: income support recipients of Age (or Service) Pension age; recipients of Mature Age, Partner and Widow Allowances; and people who qualify for Seniors Concession Allowance. In 2008, the one-off payment was extended to recipients of Wife Pension and Widow B Pension.	In June 2008, the Seniors Bonus payment was $500. Non-taxable.	Bonus (or similar bonus) paid by June 30 after the following Budget speeches: 2006-07 2007-08 2008-09

Table 2.24: Rent assistance

Payment type	Payment rates	Other features
Rent Assistance (RA) is additional financial assistance to private renters paying private rent. RA is paid at the rate of 75 cents for each dollar of private rent above specified minimum rent thresholds until the maximum rate is reached. RA is paid as part of the maximum rate of income support for people without dependent children aged under 16. RA is paid as part of the maximum rate of FTB Part A for families with dependent children aged under 16.	**RA WITH INCOME SUPPORT** **Maximum rates** Single: $107.20 pf Single, sharer: $71.47 pf Couple: $101.00 pf **Rent thresholds** Single: $95.40 pf Couple: $155.20 pf **Maximum RA paid if rent is more than:** Single: $238.33 pf Single, sharer: $190.69 pf Couple: $289.87 pf **RA PAID WITH FTB PART A** **Maximum rates:** One or two children: $125.86 Three or more children: $142.38 **Rent thresholds:** Single: $125.44 Couple: $185.64 **Maximum RA paid if rent is more than:** Single, 1,2 child: $293.25 Single, 3 or more: $315.28 Couple 1,2: $353.45 Couple 3 or more: $375.48 **Taper rates** RA is not separately income tested but is subject to the income test of the payment it is included in. This is 20% (FTB Part A), 40% (pension), 60% (allowance). (RA paid with FTB Part A can also reduced by receipt of child support — at a MIT rate of 50%)	RA is not generally available for income support recipients aged under 25 (under 21 for DSP) living with a parent or guardian. To get RA you must be receiving an income support payment or more than the base rate of FTB Part A. Unless eligible to receive the Rent Assistance component of FTB Part A for a regular care child(ren) (that is, at least 14 % and less than 35% care). To receive RA, a level of proof of rent expenditures is required. People in retirement villages, aged care homes and community housing can receive RA (subject to a range of conditions). Government tenants are not eligible. Maintenance income can reduce RA paid with FTB Part A but not RA paid with income support. Disability Support Pension and Carer Payment recipients are not subject to the reduced sharers' rate, nor are people in some forms of group accommodation such as boarding houses. RA is non-taxable.

Table 2.25: Community Development Employment Projects program (CDEP)

Average per participant (APP) rates	Eligibility conditions which need to be met include
• For CDEP Participants living in Remote Locations: – Youth Participants — $189.70 per week; and – CDEP Participants who are not Youth Participants — $249.27 per week. • For CDEP Participants living in Non-Remote Locations: – Youth Participants — $180.60 per week; and – CDEP Participants who are not Youth Participants — $224.49 per week.	• Gross quarterly income from sources other than CDEP Wage Funds must not be more than $5,166. • Gross quarterly income from CDEP Wage Funds must not be more than $5,166. • Gross quarterly income from a non–participant partner must not exceed $10,332.

Table 2.26: Concessions provided by the Australian Government and selected pension concessions, as at 1 July 2008

Description	Claim required	Income/assets tests	Primary Qualification
Pensioner Concession Card (PCC) provides access to cheaper pharmaceuticals and Medicare services. The Australian Government makes a contribution payment to the States towards the cost of core concessions for part-rate pensioners and certain allowance recipients– that is, for discounts on vehicle registration, rates (water and council), utilities (electricity), public transport and Australia Post services. Some concessions on Great Southern Rail and Australia Post.	N/A Auto issued on receipt of primary payment.	N/A Primary payment is means tested.	Automatic issue to: • All pensions. • Partial capacity for work/ and single principal carers in receipt of Newstart or Youth Allowance. • Other allowance recipients aged 60 and over and more than 9 months on income support. • Certain Pension Loan Scheme participants. Income support recipients aged under Age Pension age in an 'employment nil rate period' or no longer receiving payment due to employment income may be able to retain their PCC for an extended period (up to 12, 26 or 52 weeks).
Health Care Card (HCC) auto issue provides access to cheaper pharmaceuticals and Medicare services.	N/A Auto issued on receipt of primary payment.	N/A Primary payment is means tested.	Automatic issue to: • Allowance recipients not in receipt of a PCC (excluding YA (student); • Austudy and Abstudy recipients; • Recipients of Exceptional Circumstances Relief Payment, Farm Help Income Support and CDEP participants taken to be in receipt of income support; • Carer Allowance (Child) and Carer Allowance (Child) – HCC only care receivers; and • Mobility Allowance (if not in receipt of a pension). Income support recipients in an 'employment income nil rate period' or no longer receiving payment due to employment income may be able to retain a concession card for an extended period (up to 12 or 26 weeks).
HCC provides access to cheaper pharmaceuticals and Medicare services. Foster child HCC. Ex-Carer Allowance HCC.	Yes	No	Foster child meeting the definition of an FTB child. Former holders of a Carer Allowance-HCC aged 16-25 in full-time study who held a HCC the day before their 16th birthday.
Low Income Health Care Card (LIC) provides access to cheaper pharmaceuticals and Medicare services	Yes	Yes Income in previous 8 weeks	Income below certain limits in an 8 week period.
Commonwealth Seniors Health Card (CSHC) provides access to cheaper pharmaceuticals and Medicare services. Some concessions on Great Southern Rail services.	Yes	Yes Adjusted taxable income	Over Age Pension age, not receiving an income support payment, and income below $50,000 single or $80,000 couple.

Table 2.27: Concessions — New South Wales

	Council rates	Energy	Water	Public transport	Vehicle registration	Driver's licence	TAFE fees	Ambulance	Outpatient pharma-ceuticals	Spectacles	Transport costs	Translation services	Crown land rent	National park entry	Boat registration	Fishing licence
ATSI students							•									
Cwth Benefit Recipients							•									
Students				•												
PHB Card Holders		•	•	•				•	•			•	•	•	•	•
People on life support		•														
Seniors card				•										•		
Welfare recipients				•												
Low income and assets										•						
Charities			•								•		•	•		
Pensioner concession cards	•	•	•		•	•							•	•	•	•
Large families in hardship			•													
Consumers in hardship		•	•													
Repatriation Health Cards					•	•									•	•

Note: Only concessions estimated to reduce revenue to the provider by at least $1 million or more are included. Minor concessions involving losses of less than $1 million each year to the provider are listed in the NSW Tax Expenditures and Concessional Charges Statement in Budget paper 2 Appendix E.
Source: New South Wales Treasury.

Table 2.28: Concessions — Victoria

	Municipal rates	Stamp duty	Water and sewerage	Carted and non mains water	Energy — mains electricity	Energy — mains gas	Energy — non mains	Public transport	Motor vehicle registration	TAC insurance charge	Education Maintenance Allowance
Provided through	Reduced bill	Reduced bill	Reduced bill	Rebate on expenditure	Reduced bill	Reduced bill	Rebate on expenditure	Reduced fare	Reduced fee	Reduced insurance charge	Payment
Pension Card(a)	•	•	•	•	•	•	•	•	•	•	•
Health Care Card(b)		•	•	•	•	•	•	•	•		•
Veterans(c)	(d)	•	•	•	•	•	•	•	•	•	•

	Education Conveyance Allowance	Kindergarten Fee Subsidy	Primary health: dental	Primary health: community health	Ambulance	Off peak concession	Electricity transfer fee waiver	Service to property charge	Medical cooling concession	School dental service	Eye care and glasses
Provided through	Reimbursement	Reduced fees	Full or partial bill reduction	Full or partial bill reduction	Free service	Reduced bill	Fee waiver	Reduced bill	Reduced bill	Free dental treatment	Free examinations and discounts
Pension Card(a)	•	•	•	•	•	•	•	•	•	•	•
Health Care Card(b)	•	•	•	•	•	•	•	•	•	•	•
Veterans(c)	•		(e)	•	•	•	•	•	•	•	•

Table 2.28: Concessions — Victoria (continued)

	Patient travel(f)	Multi Purpose Taxi Program(g)	Recreation facilities	Recreation fishing licences	Pet registration	Utility Relief Grant Scheme	Homewise	Life support machines	Firewood licence
Provided through	Subsidy on travel and accommodation	Discount on taxi fares	Discount	Licence fee exemption	Registration concession	Full or partial payment	Appliance replacement cost	Discount	Discount licence
Pension Card(a)			•	•	•	•	•	•	•
Health Care Card(b)			•		•	•	•	•	•
Veterans(c)			•	•		•	•	•	•

(a) Centrelink or Department of Veterans' Affairs Pensioner Concession Card.
(b) Centrelink Health Care Card.
(c) Department of Veterans' Affairs Gold Card.
(d) Department of Veterans' Affairs Gold Cards with TPI (totally and permanently incapacitated) and WW (war widow) codes only.
(e) Dental services for Department of Veterans' Affairs Gold Card holders are funded through the Department of Veterans' Affairs.
(f) All rural and remote Victorians.
(g) Permanent residents with severe permanent disability.
Source: Victorian Treasury.

Table 2.29: Concessions — Queensland

	Electricity (a)	Gas (b)	Water (c)	Council rates (d)	Urban fire levy (e)	Spectacles (f)	Medical aids (g)	Oral health (h)	Housing (i)	Patient travel (j)	Transport (k)	School transport (l)	Motor vehicle registration (m)
Pensioners	•	•	•	•	•	•	•	•			•		•
Seniors	•	•				•	•	•			•		•
Veterans (various eligibility)	•	•		•	•						•		•
Students											•	•	
Students with disabilities												•	
Low-income	•	•							•			•	
Medical need										•			
Rural and remote areas								•		•		•	

(a) Queensland Government Electricity Rebate Scheme provides a rebate on the cost of domestic electricity supply to the home of eligible holders of a Pensioner Concession Card, Queensland Seniors Card or a Repatriation Health Card for All Conditions (Gold Card) who receive a War Widow or Special Rate Totally and Permanently Incapacitated (TPI) pension. The Home Energy Emergency Assistance Scheme provides one-off emergency assistance to low income households suffering a short term financial crisis and who are unable to pay their current electricity and/or reticulated natural gas account and are at risk of disconnection.

(b) The Reticulated Natural Gas Rebate Scheme provides a rebate off the cost of reticulated natural gas supplied to the home of eligible holders of a Pensioner Concession Card, Queensland Seniors Card or Repatriation Health Card for All Conditions (Gold Card) who receive a War Widow or Special Rate TPI pension. The Home Energy Emergency Assistance Scheme provides one-off emergency assistance to low income households suffering a short term financial crisis and who are unable to pay their current electricity and/or reticulated natural gas account and are at risk of disconnection.

(c) The South East Queensland Pensioner Water Subsidy Scheme will apply to eligible pensioners in the SEQ Water Grid. It will be phased in over three years with the increased water prices and will provide a subsidy of $40 in 2008-09, $70 in 2009-10 and $100 from 2010-11.

(d) The Pensioner Rate Subsidy Scheme alleviates the impact of local government rates and charges on pensioners.

(e) Pensioners are eligible for a 20 per cent discount on the Urban Fire Levy payable on prescribed properties of which they are the owner or part-owner.

(f) The Spectacles Supply Scheme assists eligible Queensland residents by providing a comprehensive range of free basic spectacles.

(g) The Medical Aids Subsidy Scheme provides eligible Queensland residents with permanent and stabilised conditions or disabilities with access to subsidy funding assistance for the provision of a range of aids and equipment.

(h) The Oral Health Scheme provides free dental care to eligible clients and their dependents who possess a current Health Care Card, Pensioner Concession Card, Queensland Seniors Card or Commonwealth Seniors Card. In rural and remote areas where no private dental practitioner exists, access to dental care for the general public is provided at a concessional rate.

(i) The Public Rental Housing Rebate targets low income families. The Aboriginal and Torres Strait Islander Housing Rental Rebate targets low income Indigenous families and individuals.

(j) Queensland Health's Patient Travel Subsidy Scheme provides financial assistance to patients who need to access specialist medical services which are not available within their local area. The Scheme provides a subsidy towards the cost of travel and accommodation for patients and, in some cases, an escort.

(k) Eligible categories to receive a concession include Pensioner Concession Card holders, Seniors Card holders, children and secondary and tertiary students. Members of the Taxi Subsidy Scheme also receive concessions on taxi travel. The Queensland Rail Concessions Scheme assists pensioners, veterans and seniors to reduce the cost of public transport.

(l) Assistance is provided to students with disabilities in the form of the provision of taxis or specialised contracted minibuses, payment of fares on regular buses or trains, or an allowance for parents who drive their children to school. The Non-State School Transport Assistance Scheme assists families of students attending non-state schools outside Brisbane whose bus fare is over a weekly threshold amount. The School Transport Assistance Scheme is a program for students whose access to school is disadvantaged by distance or who are from defined low income groups. Assistance is provided towards the cost of travel on bus, rail and/or ferry with allowances for private vehicle transport.

(m) Motor vehicle and boat registration concessions are provided to holders of the Pensioner Concession Card, Queensland Seniors Card and to those receiving a TPI Ex service person Pension.

Note: Major concessions indicated in Queensland Budget Paper No. 2: Budget Strategy and Outlook 2008-09, Appendix B — Concessions Statement. Does not include the fuel subsidy scheme, which is generally available to motorists.

Source: Queensland Treasury.

Table 2.30: Concessions — Western Australia

	Council rates	Energy		Water, sewerage & drainage		Health					Public transport			Vehicle and driver licensing and fees			Education and training	
	Owner occupier (a)	Synergy and Horizon Power residential customers		Water Corporation annual charges	Water Corporation water usage charges(e)	Dental treat-ment	Spectacles Subsidy Scheme	St John ambulance services(g)	Patient assisted travel scheme(h)	The community aids and equipment program(i)	Transperth Network (bus, train & ferry services)	Transwa	Taxi Users' Subsidy Scheme(j)	Driver's licence fees	Motor vehicle registration and stamp duty	Motor vehicle registration	Secondary Assistance Scheme	TAFEWA education courses(m)
Value	Up to 50% rebate or deferment of payment	Rebate on supply charges, account establish-ment fees (c)	Rebate on supply charges	Up to 50% rebate or deferment of payment	A 50% concession on consumption		Up to $50 for spectacles once every two years	50% on all emergency and necessary ambulance services	Financial assistance on travel and accom. expenses	Home modifications to assist people with disabilities	Discounts of 57-62% on standard fares	50% discount on all Transwa services				50% on licence fee	Clothing Allowance of $115 Education Program Allowance of $135	Up to 25% on course fees
Provided through	Rebate	Rebate	Rebate	Rebate	Discount	Subsidy	Subsidy	Discount	Allowance	Subsidy	Subsidy	Subsidy	Subsidy	Exemption	Exemption	Discount	Allowance	Discount
Health care card		•				•	(f)			•	•	•					•	•
Pensioner concession card	•	•		•	•	•	(f)			•	•	•		(k)	(l)	•	•	•
WA seniors card	(b)		(d)	(b)			•				•	•		(k)		(d)		•
Cwth seniors health card	(b)		•	(b)						•				(k)		•		
State concession card	•			•	•													

Table 2.30: Concessions — Western Australia (continued)

	Council rates	Energy		Water, sewerage & drainage		Health					Public transport			Vehicle and driver licensing and fees			Education and training	
	Owner occupier (a)	Synergy and Horizon Power residential customers		Water Corporation Annual Charges	Water Corporation water usage charges(e)	Dental Treat-ment	Spectacles Subsidy Scheme	St John ambulance services(g)	Patient assisted travel scheme(h)	The community aids and equipment program(i)	Transperth Network (bus, train & ferry services)	Transwa	Taxi Users' Subsidy Scheme(j)	Driver's Licence Fees	Motor Vehicle Registration and Stamp Duty	Motor Vehicle Registration	Secondary Assistance Scheme	TAFEWA education courses(m)
Eligible veterans' beneficiary		•					•							(k)	(l)		•	•

(a) Deferment is an option available to pensioners or State Concession Card holders to allow them to delay payment without incurring interest.
(b) Seniors Card holders only entitled to receive up to a 25 per cent rebate. If also the holder of a Commonwealth Seniors Health Card, an entitlement of up to a 50 per cent rebate or deferment is allowed.
(c) May also be eligible for reduced fees on meter testing and customers with dependent children are entitled to an additional rebate from their electricity account depending on the number of children listed on their card.
(d) Must be holder of a Commonwealth Seniors Health Card.
(e) Conditions apply. Concessions are also available on applications to PCC and SCC holders who occupy a residential property but who may not own it.
(f) Concession available to aged and disabled pensioners.
(g) Transport must be to or from a hospital or other approved medical facility (ambulance transport between hospitals is not covered by this arrangement). This service is provided to all seniors of 65 years and older with proof of age and residential status or current Age Pensioner Concession Card. St John Ambulance also provides people receiving aged pensions with a 50 per cent discount. Therefore primary ambulance services are free for people receiving an Age Pension. This service is not provided to EVB Gold Card holders and some holders of white (specific treatment) Cards — these are dealt with by the Department of Veterans' Affairs.
(h) This assistance is for country residents who require specialist medical services. Conditions apply.
(i) Applicant must have a permanent disability and be PCC, HCC or CSHC holder (or a carer payment card).
(j) Must be a permanent resident of WA and have a severe disability that prevents them using public transport.
(k) Only available to aged pensioners and EVB holders. WA Senior Card holders are entitled to the rebate if also the holder of a Commonwealth Seniors Health Card. If not a holder of a Commonwealth Seniors Health Card, a reduced concession of 50 per cent on each applicable charge applies.
(l) This applies to disabled and blind only or where a letter is provided by Veteran Affairs in regards to a pensioner.
(m) Conditions apply on the types of courses and providers.
Source: West Australian Treasury.

Table 2.31: Concessions — South Australia

	Council rates		Energy(d)	Water rates		Sewerage rates	Emergency Services Levy	Public transport	Save the River Murray Levy	Motor vehicle registration	Driver's licence fees	$60 CTP renewal charge
	Other	Self funded retirees		Owner occupier	Tenant	Owner						
Value (annual)	lower of 60% of bill or $190	lower of 60% of bill or $100	up to $120	20% of bill min $95 max $200	20% of bill min $55 max $160	lower of 60% of bill or $95	up to $40	approximately 50% discount	Exempted from levy	50% reduction	50% reduction	Exemption ($60)
Provided through	Discount on rates	Discount on rates	Discount on electricity bill	Discount on bill	Discount on bill	Discount on bill	Discount on bill	Discount on normal fare	Exemption	Discount on registration charge	Discount on licence fee	Exempted from charge
Pensioner concession card	•		(e)	•	•	•	•	(g)	•	•	•	•
DVA Gold Card — (TPI, EDA or War Widow only)	•		(e)	•	•	•	•	(g)	•	(i)	(i)	•
British and New Zealand War Widow	•		(e)	•	•	•	•		•			
Centrelink beneficiary(a)	•		(e)	•	•	•	•	(g)	•	•	•	•
Austudy or Abstudy	•		(e)	•	•	•	•	(h)	•			
Low Income Health Care Card				•	•				•			
Low income(b)	•			•	•	•			•			
State Seniors Card(c)		•					(f)	(g)				
Commonwealth Seniors Health Card			(e)									
State Concession Card	•		(e)	•	•	•	•	(g)	•	•	•	•

(a) Eligible Centrelink payments are Newstart Allowance, Sickness Allowance, Widow Allowance, Partner Allowance, Youth Allowance, Special benefit, Community Development Employment Project, Farm Help, Parenting Payment Partnered, Exception Circumstances Allowance, New Enterprise Incentive Scheme.
(b) Low income provisions are assessed by the Department of Families and Communities and are based on annual income limits.
(c) State Seniors Cards are issued to persons 60 years of age or over, who are not employed for more than 20 hours per week. No means test applies.
(d) While the concession for energy is designed to cover both electricity and gas, it is provided as a concession on electricity bills due to the more widespread utilisation of electricity.
(e) Applicant must be receiving a Centrelink benefit or pension, pension from the Department of Veterans Affairs or hold a Commonwealth Seniors Health Card and must not be sharing a house with someone with an income more than $3,000 per annum unless that person is a spouse or is in receipt of a Centrelink benefit or pension, or a pension from the Department of Veterans Affairs.
(f) For married couples or domestic partnerships, both partners must qualify for a State Seniors Card, or if only one holds a State Seniors Card the other must be in paid employment for no more than 20 hours per week.
(g) For travel on metropolitan public transport services or regional city transport services as recognised by the South Australian Department for Transport, Energy and Infrastructure.
(h) Apply through education institution (that is, eligible student identification required).
(i) 66 per cent reduction in charge for incapacitated ex-service persons.
Source: South Australian Treasury.

Table 2.32: Concessions — Tasmania

	Electricity and heating		Land tax	Rates remission(a)	Healthcare		Transport		Motor vehicle			Driver's licence fees
	Electricity	Heating	Land tax on general land	Includes water rates	Dental services	Visual aids	Public transport (buses) Metro/ Merseylink	Taxis	Motor vehicle registration	Motor tax		
Value (annual)	All year rebate of 85.43 cents per day	$56 a year to assist with heating costs		Maximum of $366		Up to a maximum of $275 per item	Single flat fare of $1.80 and off-peak multi-trip fares of $2.80	Maximum subsidy of $25 per single journey	(cars) not over 4.5 tonnes ($32.15) Trailers and Caravans ($12.80) Motorcycles ($29.45)	40% rebate(l)	100% rebate (m)	Discount for Under 65 yrs: 1 yr $8.95 2 yrs $17.95 3 yrs $25.60 4 yrs $34.55 5 yrs $43.55 Exemption for over 65 years(j)
Provided through	Fixed rebate per day	Payments of $28 in May and September	Exemption	A 30% reduction on local government rates(b)	Free and subsidised services	Subsidies of 70%(h)	Single flat fare	50% concession on the cost of travel by non-wheelchair accessible taxi	Discount on registration charge	% rebate	% rebate	Discount on licence fee and exemption for over 65 yrs
Eligibility												
Centrelink Pensioner Concession Card	•	(c)	•	•	(f)	•	•	•	•	•		
Centrelink Health Care Card	•			•	(g)	(i)	•	•	•			•
TPI Gold Card			•	•							(k)	
Repatriation Health War Widow				•								
Department of Veterans' Affairs Pension Concession Card (PCC-V)	•	(d)	•	•		•		•	(k)	(k)		(k)
Senior Card Holders							(e)					

Table 2.32: Concessions — Tasmania (continued)

	Electricity and heating		Land tax	Rates remission(a)	Healthcare		Transport		Motor vehicle		Driver's licence fees
	Electricity	Heating	Land tax on general land	Includes water rates	Dental services	Visual aids	Public transport (buses) Metro/ Merseylink	Taxis	Motor vehicle registration	Motor tax	
Cwth Seniors Health Card (CSHC)								•			

(a) As announced in the 2008-09 Budget, eligibility for this concession will be extended to Centrelink Health Care Card Holders.
(b) Applications for the remission must be made before March 31 in the relevant year.
(c) A single pensioner must not have more than $1,750 in cash assets and married/de facto pensioners must not have more than $2,750 — other conditions also apply.
(d) Available to persons receiving the following Centrelink or Department of Veterans' Affairs pensions: age, service, widow (class B), disability support, parenting payment-single carer pension.
(e) Available to all Senior Card Holders from all States and Territories.
(f) Includes free emergency dental services and subsidised general services and dentures.
(g) Free services to children under six and dependent children (up to and not including 18 years) of Centrelink Concession Card Holders and subsidised service available to all other children under 18.
(h) On scheduled items such as lens, basic frame and extras, also on low vision aids, non-cosmetic contact lenses, prostheses and intra-ocular implants.
(i) Eligible people include pre-school age children, adults post year 12 who are permanent Tasmanian residents (for at least 3 continuous months prior to application — this does not apply to refugees). Low income earners may be eligible for the subsidy under hardship provisions.
(j) There is a small charge if a photo is required.
(k) People who have a severe disability and are members of the Transport Access Scheme can also access the discounts.
(l) For goods vehicles (utes and vans) not over 4.5 tonnes and not used for trade or business.
(m) A vehicle with mass less than 3 tonnes and not used for trade and business. Can only apply to one vehicle registered in the name of the eligible person.
Source: Tasmanian Treasury.

Table 2.33: Concessions — Northern Territory

	Local Council		Power and Water Corporation			Motor Vehicle Registry		Travel			Health		Recreation
	Rates and garbage collection	Guide dog and pet registration	Electricity	Water rates	Sewerage rates	Registration & stamp duty	Driver's licence fees	Public transport	Interstate and overseas travel	Taxi subsidy	Spectacles	Oral health	Public swimming pool
Value (annual)	Rate discount of 62.5% of bill to maximum $200(d)	Varies in each municipality	Lower of 50% of quarterly account or $1 per day(e)	Lower of 62.5% of bill or 27.4 cents per day(f)	27.4 cents per day(f)		$3 per annum		Approx 50% discount(l)	Approx 50% discount(m)			
Provided through	Discount on bill	Discount on fee	Discount on bill	Discount on bill	Discount on bill	Discount on registration	Discount on fee	Discount on fare	Discount on fare	Discount on fare	Discount on bill(n)	Free service(o)	Discount on entry fee(p)
Eligibility													
NT Pensioner and Carer Concession Card(a)	•	•	•	•	•	(g)	•	(j)	•	•	•	•	•
DVA Gold Card — (TPI, EDA or War Widow only)(b)						(i)		(k)		•			
NT Seniors Card(b)(c)						(h)	•	(j)		•			•
Centrelink Pensioner Concession Card(b)								(j)		•		•	
Cwth Seniors Health Card(b)								(j)		•		•	•
Centrelink Health Care Card(b)		•						(j)		•		•	
Student Card								(j)		•		•	•

Table 2.33: Concessions — Northern Territory (continued)

	Local Council		Power and Water Corporation			Motor Vehicle Registry		Travel			Health		Recreation
	Rates and garbage collection	Guide dog and pet registration	Electricity	Water rates	Sewerage rates	Registration & stamp duty	Driver's licence fees	Public transport	Interstate and overseas travel	Taxi subsidy	Spectacles	Oral health	Public swimming pool
Vision Impaired Card								(k)		•			

(a) To be eligible for the Northern Territory Pensioner and Carer Concession Card a person must be a permanent resident in the Territory and belong to one of the following categories: Carers, Senior Citizens, Non-Pensioner Aged War Service Veterans, Pensions and Low–Income Superannuants.
(b) Cardholders may also be entitled to a NT Pensioner and Carer Concession Card.
(c) NT Seniors Card members are also entitled to discounts on a range of goods and services provided by participating businesses. These discounts are listed in the Seniors Card Businesses Directory.
(d) Rate and Garbage Collection concessions are only available to cardholders who are owner/occupiers. Garbage Collection concession varies in each municipality and only applies to services provided by local councils or their contractors.
(e) Cardholders who generate their own power or purchase power from a caravan park may claim the same concession rate upon production of receipts to cover the period.
(f) Concession only available to cardholders who are owner/occupiers of the residence named on the account.
(g) Discounted registration fee of $52 for 6 months or $104 for 12 months. The concession applies to one vehicle during any period and must be registered in the cardholder's name.
(h) Discounted registration fee of $27.50 for 6 months or $55 for 12 months. The concession applies to one vehicle only and must be registered in the cardholder's name.
(i) Cardholders are entitled to an exemption on stamp duty for the transfer of a motor vehicle.
(j) Concession fare of $0.50 for travel on Darwin and Alice Springs urban bus services. (Note normal cost of an adult fare is $2.00.)
(k) Cardholders are entitled to free travel on Darwin and Alice Springs urban bus services.
(l) Under specified conditions, cardholders who fall into the category of Seniors, TPI's, Aged War Service Pensioners and Non-Pension Aged War Service Veterans may be entitled to claim travel concessions. For interstate travel the standard concession is equivalent to 50 per cent of the return economy airfare by the most direct route to any Australian capital city or 50 per cent of the actual fare (whichever is lesser). For overseas travel the standard concession is 50 per cent of a return economy fare to Adelaide or 50 per cent of the actual fare (whichever is the lesser). In lieu of an airfare there is an allowance for private vehicle travel. Cardholders are also able to use their travel entitlements to bring a friend or family member living interstate or overseas to visit them in the Territory.
(m) Cardholders may be entitled to a 50 per cent discount on taxi fares if they are an NT resident and cannot use public transport due to dependence on a wheelchair/scooter, visual impairment, physical or intellectual disability.
(n) Cardholders are entitled to one claim in a two year period towards the cost of one pair prescription spectacles. This includes cost of lenses to a maximum of $38 (plus GST), repairs to frames and contact lenses if prescribed for medical purposes. The concession only applies to spectacles obtained through an approved Northern Territory supplier.
(o) The NT Department of Health and Families provides free dental services at Government Dental clinics to infants, students (limited to preschool, primary and high school), Pension Concession card holders and Health Care card holders.
(p) Local Councils offer discounted rates for use of public swimming pools. Concessions vary in each municipality.

Source: Northern Territory Treasury

Table 2.34: Concessions — Australian Capital Territory

	Education and Training		Essential Services		Health and Wellbeing										
	Special needs transport	Secondary Bursary	Energy	Water and wastewater	Ambulance transport fee	Artificial limb	Dental services	Funeral assistance	Nutrition Scheme	Interstate patient transport	Life support	Low vision aids	Medical equipment	Seniors spectacles	Spectacles subsidy
Provided through	Free transport to school	$500 per year	Cents per day, summer and winter rate	Percentage of supply charge	Free transport	Free or subsidised limb	Discount	Contribution to funeral cost, transport assistance	Co-payt of $45 per week	Mileage allowance, accomm rebate	Rebate on electricity bill	$100 every 2 years	Co-payt of $22 to 10% of item cost	$35 rebate every 2 years	$100 every 2 years
Eligibility															
Pensioner Concession Card			•	•	•		•					•			•
Health Care Card		•	•	•	•		•					•			•
DVA Pension Concession Card			•	•	•										•
Community Organisation															
Referral						•			•	•			•		
Assistance Dog Users															
Low income		•						•							
First home buyers moderate income															
Pty owner using LS equipment											•				
ACT Seniors Card														•	
Students															
Assessable household income															
Student with a disability	•														
Medical assessment															

Table 2.34: Concessions — Australian Capital Territory (continued)

	Housing and Land				Municipal Services							Transport				
	Direct Sale to Comm Orgs	First and Home Buyer Concession	Rental Assistance	Pensioner Duty Concession	Charity Groups venue and waste	Dog Rego	Fire and Emergency Services Levy	Library Fines	General Rates	Govt Venues	Yarralumla Nursery	Swimming Pools	Vehicle Rego and Licence	Public Transport	Student Transport	Taxi Subsidy
Provided through	Less than mkt price	Concessional duty	Pay 25% income or market rent	Concessional duty	Discount	Discount free for vision impaired	50% rebate	Concession, waiver	50% rebate to limit of $431[(a)]	Discount on entry fee	15% discount on plants	Concession entry	10% (ACTSC) or 100% (pensioners) concession	Concession fare	Free school bus ticket	Single payt, 50% and 75% scheme
Eligibility																
Pensioner Concession Card				•		•	•	•	•	•		•	•	•	•	
Health Care Card										•			•	•	•	
DVA Pension Concession Card				•			•	•	•				•	•	•	
Community Organisation	•				•											
Referral																
Assistance Dog Users						•										
Low income			•											•		
First home buyers moderate income		•														
Pty owner using LS equipment																
ACT Seniors Card											•	•	•	•		
Students														•		
Assessable household income																

Table 2.34: Concessions — Australian Capital Territory (continued)

	Housing and Land				Municipal Services							Transport				
	Direct Sale to Comm Orgs	First and Home Buyer Con-cession	Rental Assist-ance	Pensioner Duty Con-cession	Charity Groups venue and waste	Dog Rego	Fire and Emergency Services Levy	Library Fines	General Rates	Govt Venues	Yarralumla Nursery	Swimming Pools	Vehicle Rego and Licence	Public Trans-port	Student Trans-port	Taxi Subsidy
Disability over 50				•												
Medical assessment																•

(a) General rates rebate is 50% for pre-1997 pensioners with no limit. The 50% to limit of $431 applies from 1 July 2008, and it only applies to post-1997 pensioners.
Source: Australian Capital Territory Treasury.

3 The economic structure of the tax-transfer system

Outline

This section sets out an economic framework for assessing how the tax-transfer system affects the living standards of Australians through its impacts on the economic decisions of individuals and businesses and on the distribution of economic opportunities amongst individuals.

Key points

- There are many taxes in Australia, all of which are ultimately paid from the earnings from only three factors of production: labour, capital and land (including natural resources).
- Individuals (rather than businesses) own these factors of production and therefore ultimately bear the burden of taxation. Who bears a tax or benefits from a transfer payment can be very different to who pays the tax or receives the payment.
- All taxes affect choices by encouraging individuals to shift from higher taxed to lower taxed goods and services or activities and by lowering their available income. Similarly, transfers can impact on people's choices by increasing available income in certain circumstances. The costs of the tax–transfer system include its impacts on these choices (economic efficiency) and the costs of administering and complying with the system. These costs are significant.
- Equity is an important objective of the tax-transfer system. There is no unanimity about how best to assess equity but two fundamental principles are: horizontal equity, which requires that individuals in the same economic circumstances pay the same tax; and vertical equity, which is generally considered to mean that those with greater capacity pay more tax than those with less capacity.
- The top 20 per cent of tax payers are estimated to receive around 46 per cent of wage and salary income. The distribution of capital income is more skewed, particularly dividend income and capital gains. The distribution of wealth is less equal than the distribution of income but this reflects lifecycle effects to a significant extent.
- Australia's tax-transfer system places a relatively greater net burden on those with higher incomes. It also redistributes income from the young working age population to the retired elderly.

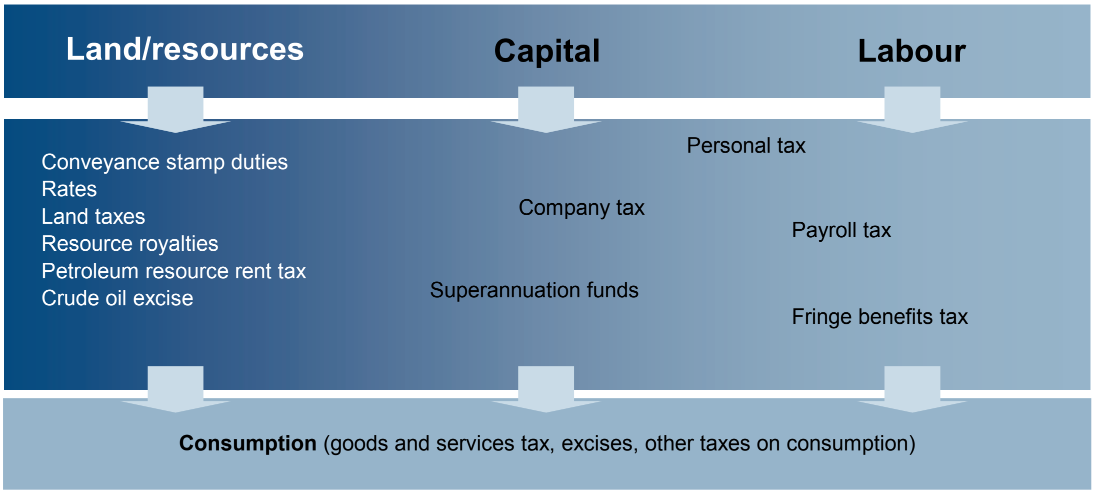
3.1 The economic impacts of the tax-transfer system

Many taxes but only three tax bases

Individual tax bases are often described in terms of the nature of the tax and the things that are taxed. For example, payroll tax applies to the payrolls of business (subject to a threshold), land tax applies to land used for particular purposes, the GST applies to the consumption of particular goods and services and the queen bee levy applies to the production and export of queen bees.

All taxes, whether payroll tax, land tax, GST or the queen bee levy, are ultimately borne by individuals on the earnings from only three factors of production: labour, capital and land (including natural resources). Taxes are levied either on the income derived from these factors or on the use of that income to consume goods and services. Individuals end up paying taxes in a range of ways, including as consumers through higher prices, as employees through lower wages, or as shareholders or investors through lower profits. Chart 3.1 provides a schematic overview of how some of the main Australian taxes relate to income derived from these factors of production.

Chart 3.1: Relationship between economic bases and taxes



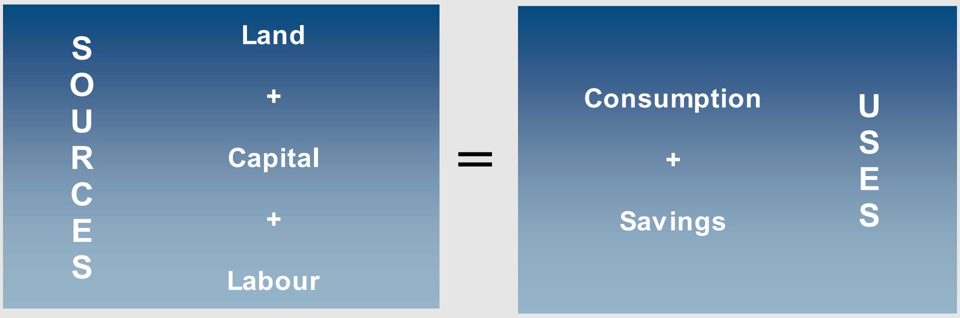
It does not matter whether the taxes are levied on activities, entities, goods or transactions, all taxes are ultimately paid out of the incomes of individuals. See Box 3.1 for a discussion of the relationship between income derived from the three factors of production and the use of that income.

Box 3.1: The relationship between sources and uses of income

The *earnings* from the three factors of production — labour, land (including natural resources) and produced capital — comprise the income of individuals. This includes income received by individuals in the form of transfers from the government, as such payments are derived from taxes levied on the earnings from the factors of production.

The aggregate of each individual's income from labour, land and produced capital represents the income of the nation. This income can be either consumed or saved to finance consumption in a later period (see Chart 3.2).

Chart 3.2: Sources and uses of income



The equivalence of income to consumption and saving, means that in the long run taxes on consumption (such as the GST and excise) can be broadly thought of as taxes on labour (see Appendix B). For example, a payroll tax that reduces the after-tax income of a worker means the worker has less money to buy goods and services. The payroll tax can therefore be viewed as a tax on labour *income* or, equivalently, as a tax on the *consumption* of goods and services. In theory, a tax on goods and services and a payroll tax should therefore have similar effects on the incentive to work, since both reduce the goods and services that can be purchased through working. Indeed, all taxes — from small transaction based taxes to broad based income taxes — tax people's jobs (by taxing their wage income), their savings (by taxing their return to saving) or the returns they derive from natural resource endowments. In practice, however, the impacts of direct taxes on labour income and taxes on goods and services may differ. This reflects imperfect information about the ultimate burden of different taxes and the tendency for individuals to make decisions about complex matters such as the burden of different taxes using relatively simple procedures.

The aggregate of each individual's income from these sources represents the income of the nation (see Box 3.2 for a discussion of alternative measures of national income). The exact breakdown of national income between the three factors is difficult to determine for a number of reasons. In particular, many small businesses only report overall income and it is difficult to determine how much of that reflects a return to invested capital and how much is a return to labour. Returns to land and resources are also difficult to distinguish from returns to capital. However, it is clear that more than half of national income comes from labour.

Box 3.2: Measuring national income

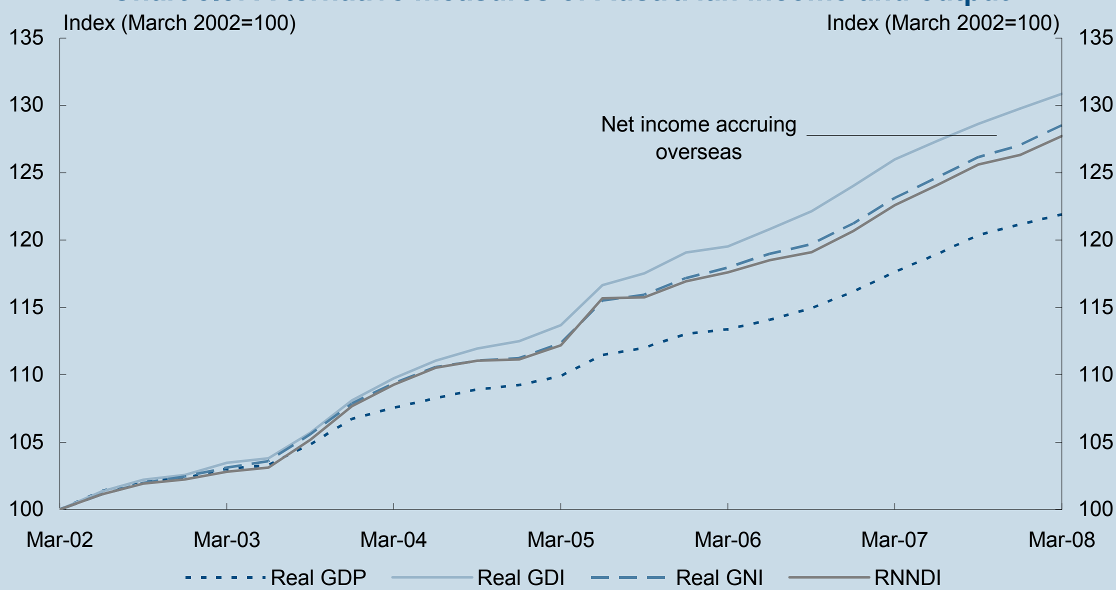
The Australian Bureau of Statistics produces a number of indicators of national income. Different ways of measuring national income are suitable for different purposes. For example, there are important differences between income generated in Australia and the income actually accruing to Australians. Some of the key measures of national income are discussed below.

Nominal gross domestic product (GDP) is the value of all goods and services produced in Australia. Nominal GDP is the major driver of revenue collections. However, it is not a good measure of wellbeing because it includes price changes, which can lift nominal GDP but not raise Australians' actual spending power.

Real GDP shows the volume of goods and services produced in the economy by removing price impacts from nominal GDP. Real GDP is a measure of the productivity and participation outcomes in the economy. However, by removing all price impacts, it ignores the income changes that arise from changes in the terms of trade (as Australia has experienced during the recent boom in export prices).

Real net national disposable income (RNNDI) shows the amount of income accruing to Australians that can be consumed without diminishing the economy's productive capital. It is derived through several adjustments to real GDP. Adjusting real GDP for the income effect of the terms of trade results in real gross domestic income (GDI), which has grown significantly faster than real GDP during the terms of trade boom. Net income accruing to foreigners is then subtracted (resulting in real gross national income (GNI)), reflecting the fact that this income is not available to raise Australian wellbeing. Net income accruing to foreigners has grown strongly during the recent terms of trade boom. Finally, depreciation of the capital stock is deducted to achieve RNNDI. As RNNDI is a real measure, it captures the capacity of Australians to consume actual goods and services.

Chart 3.3: Alternative measures of Australian income and output



Source: ABS cat. no. 5206.0, National Income, Expenditure and Product, March 2008.

Tax and transfer incidence

Who bears the burden of a tax bears the 'incidence' of a tax. 'Legal incidence' is borne by the person who is required to pay the tax to the administrative authority. 'Economic incidence' is borne by the person who ultimately bears the cost burden of the tax. The economic incidence of a tax is less apparent than its legal incidence, but it is the economic incidence that is important when considering the efficiency and equity implications of the tax-transfer system.

Taxes can be shifted from one person to another through changes in the prices of inputs to the production process, through changes in the price of goods produced, or through changes in the distribution of the returns to economic activity.

There is no authoritative view as to the economic incidence of our tax-transfer system. Determining precisely the economic incidence of a tax is extremely difficult. Further, the interrelationships between the influences that determine incidence need not be static, due to changing economic conditions and tax-transfer settings, so that the economic incidence of a tax may vary over time.

While determining the exact incidence of the tax system or a specific tax is problematic, economic relationships provide insights into the likely economic incidence of at least some taxes (Box 3.3). Some generally accepted outcomes are that the economic incidence will fall to a greater extent on:

- a good or factor, the demand or supply for which is unresponsive to a change in its price;
- a good with no ready substitutes; and
- a factor of production that is relatively immobile.

Where a tax is levied on a good or factor which does not have these characteristics, or on a business entity, the burden of the tax will tend to be shifted to goods or factors of which the demand or supply is relatively less price responsive, less substitutable or less mobile.

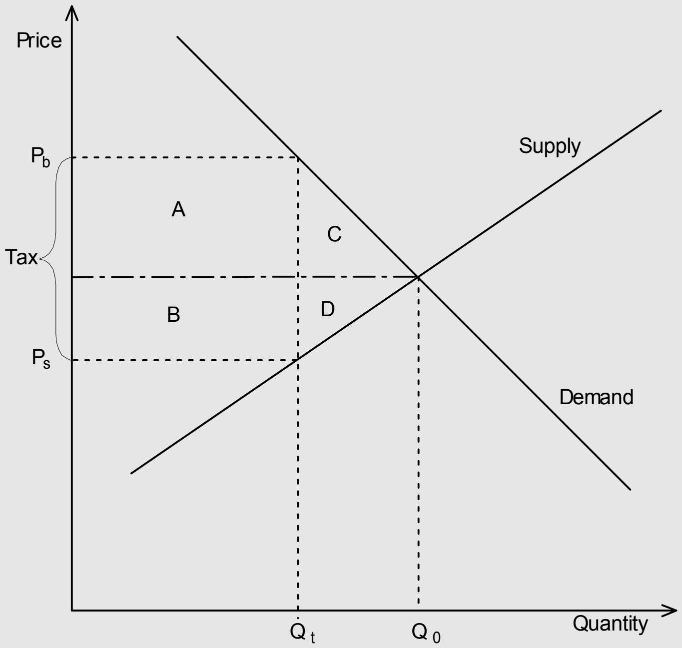
For example, foreign investment is generally considered to be more mobile than the resident labour force. It is generally accepted that for existing investment, the incidence of a change in company tax falls on shareholders in the short-run. However, in the longer run, it is more likely the incidence falls on land and labour, particularly where domestic consumers can substitute foreign goods for goods produced by the resident company. Under these conditions, a high rate of tax on capital income may discourage some new capital investment resulting in a smaller stock of productive capital. With reduced capital investment, average labour productivity could be expected to fall, and with lower labour productivity wages would be likely to be lower. It is through lower wages that, in the longer run, labour may bear the economic incidence of the company tax.

Similarly, it can be difficult to determine who ultimately benefits from some forms of transfer payment. In most cases the incidence of untied cash transfers to individual recipients is likely to fall on those individuals, with the possible exception of transfers to the elderly, which may also benefit future generations by allowing more savings to be passed on as bequests. Where cash payments are tied to the purchase of particular goods or services, as with rent assistance and public transport, part of the benefit of the concession may be captured by the provider of the goods or services in the form of higher prices to which the concession is applied, depending on the demand response.

Box 3.3 Understanding the economic incidence of taxes

Consider a market for a factor (labour, capital or land, including natural resources) or for goods and services (intermediate or final). A tax, whether paid by the buyer or the seller, places a wedge between the buyer price (P_b) and the seller price (P_s).

Chart 3.4: The effects of taxation



This results in:

- a fall in quantity produced and consumed from Q_o to Q_t (unless one of demand or supply is perfectly inelastic — that is, unresponsive to a change in price)
- a rise in the price paid by the buyer to P_b (unless supply is perfectly inelastic or demand is perfectly elastic)
- a fall in the price received by the seller to P_s (unless demand is perfectly inelastic or supply is perfectly elastic)
- a transfer of revenue to the government (of area A + B)
- losses of economic value to buyers (of area A + C) and sellers (of area B + D)
- a net loss of economic value (C + D — which is equal to the loss of producer and consumer surplus less the revenue transfer to the government), referred to as the 'efficiency cost' of taxation.

The share of the final economic incidence of the tax borne by buyers and sellers depends on the relative price responsiveness of the demand and supply curves, with the less elastic side bearing most of the final burden. To minimise the loss of economic surplus, taxes need to be higher on relatively inelastic goods.

Note: Strictly speaking the demand curve represented in Chart 3.4 should be the compensated demand curve.

Incentive and income effects

All taxes — whether on labour, capital or land and natural resource income — have two types of effects.

- First, taxes affect individuals' *incentives* by encouraging them to shift from taxed to untaxed activities and goods or from heavily taxed to lightly taxed activities and goods (that is, the substitution effect). For example, taxes on wages may discourage people from working additional hours, or encourage them to find alternative forms of remuneration that are not taxed. Taxes on capital income encourage people to save less or shift their savings into vehicles which are taxed less. The loss in economic value due to these incentive effects is what economists call the efficiency costs of taxation (see Box 3.4).
- Second, taxes reduce individuals' *incomes*, which can also affect their behaviour. For example, taxing wages might encourage an individual to work longer hours if they desire a given level of income to meet their spending requirements. Similarly, taxing the return to saving might encourage individuals to increase their level of savings to achieve a desired level of income in retirement.

The incentive and income effects of taxes can interact in complicated ways. For instance, a higher tax on labour income would have an incentive effect of discouraging people from working, while the income effect may encourage more work, to ensure that the individual or family has enough after-tax income to meet their expenditure needs.

Government spending, particularly on transfers to individuals, can also have important incentive and income effects. Transfers act like reverse taxes. Rather than raising money in ways that affect individuals' incentives and reduce their after-tax incomes, transfers give money in ways that affect individuals' incentives and increase their after-transfer incomes. For example, transfers can reduce the incentive to work, particularly means tested payments, and to save.

Box 3.4: Efficiency costs of taxes and transfers

Tax revenue is used by government to fund goods and services, including transfers — past, present and future. The revenue raised by government is not a cost to society as a whole. Revenue collections are transferred from one set of Australians to another through the tax-transfer system and the broader functions of government. The impact of this transfer on wellbeing depends upon the value assigned by individuals to the goods and services provided by government.

In contrast, efficiency costs represent losses to the Australian community. The vast majority of taxes and transfers affect the choices that individuals and businesses make by altering incentives to work, save, invest or consume things that are of value to them. Individuals and businesses generally respond to taxes by choosing more of lower taxed items and less of higher taxed items than they otherwise would. (They may respond to transfers in ways that increase the payment they receive.) These changes in behaviour can ultimately leave the economy and society as a whole worse off than if the revenue had been raised (or distributed) without affecting their behaviour. It is this consequential loss of value that is referred to by economists as efficiency costs.

The size of these efficiency costs varies across different taxes and transfers. For example, taxes that alter production decisions will tend to have higher efficiency costs than taxes that alter consumption decisions. This is because such taxes alter both the mix of business inputs used to produce a good or service, as well as the final consumption choices of individuals. At a system level, the efficiency costs of taxation in Australia have been estimated to be around 6 per cent of GDP (Freebairn 1998). These estimates are broadly consistent with 'rules of thumb' developed from studies of the efficiency costs of taxation in the United States (Government Accounting Office 2005). Additional efficiency costs could be expected to result from the effects of the transfers system on individuals' choices. However, it is the marginal efficiency cost of raising the last dollar of revenue from a particular tax that is relevant for comparing the efficiency of different taxes or additional spending. Some taxes, such as taxes on economic rent, are likely to have negligible marginal efficiency costs if well designed, whereas the marginal cost of other taxes can be high.

There are also additional costs of raising revenue. These are the costs of administering the tax-transfer system and the costs to taxpayers and transfer recipients of complying with the requirements of the system. Administration and compliance costs are considered further in Section 11.

The existence of these efficiency, administration and compliance costs does not automatically imply that reducing taxes will result in increased GDP or social wellbeing. Provided that the goods and services supplied by government are of sufficient value to society to offset these costs, the overall wellbeing of society is enhanced. It may, however, be possible to reduce efficiency costs by altering how some taxes are used to raise revenue.

Minimising efficiency costs through tax design

In the absence of administration and compliance costs, and with perfect information, an optimal design for a tax system would be where the rate of tax is inversely related to the responsiveness of economic choices to the imposition of the tax. That is, minimising the efficiency costs of taxation would require higher tax rates on factors of production, the supply of which is relatively unresponsive to the rate of tax, and on goods and services for which demand is relatively unresponsive to the rate of tax.

Such a tax system is impractical, due to deficiencies in our understanding of the efficiency impacts of individual taxes and because the considerable costs of administration and compliance associated with such an approach would likely outweigh much of the gain in economic efficiency. The principles underlying this approach are, however, applied in many aspects of tax design. For example, high rates of excise are applied to goods for which demand is relatively unresponsive to the rate of tax and for which there is a degree of control over the supply of untaxed production. Similarly there is a widely held view in academic circles that capital should be taxed at lower rates than labour or consumption, particularly for a small, open and geographically isolated country like Australia, because of the higher international mobility of capital relative to labour.

It is also this general principle that has underpinned an OECD wide trend towards financing lower rates of tax by broadening the tax base and applying a uniform rate of taxation across the tax base. One rationale for this approach is that if all goods and services are taxed at the same rate, relative prices will be unaffected and therefore there will be less impact on the decisions of individuals and firms. A supporting rationale is that efficiency costs tend to increase more than proportionately with the rate of tax and, hence, for a given revenue target efficiency costs will be lower where revenue is raised across a broad base.

In applying this approach, however, a key question is how widely the base to which a uniform rate of tax is applied should be defined. For example, is it more efficient to apply a uniform rate of income tax across all forms of income, or to have differentiated rates across different types of income, such as that accruing to labour, to the extraction of natural resources and to capital?

If there were no limitations to our understanding of the efficiency implications of different tax settings and if economic efficiency were our only policy objective, it would be appropriate to differentiate the tax base so long as the efficiency benefits exceeded any additional administration and compliance costs. In reality, information constraints and other policy objectives will be important determinants of the extent of differentiation in the tax base.

Inflation may also affect the efficiency of the tax system. Some of its impacts are outlined in Box 3.5.

Box 3.5: Inflation and the tax system

A major issue in the Asprey Report (1975) was the adverse interaction between a nominal tax system and inflation on incentives, especially for savings and investment. This was at a time when inflation was over 10 per cent. The 1985 draft White Paper also had a significant focus on the impacts of inflation, including reasons why tax on income such as capital gains should exclude the inflationary component. There have been major developments in monetary policy over the last 20 years, including independence of the Reserve Bank in setting interest rates to target an inflation range of 2 to 3 per cent. This has helped reduce the negative interactions between tax and inflation, especially unanticipated changes in inflation. However, even with lower and more stable rates, inflation can have significant impacts on the incentives created in the tax system. Its impacts can be very different for labour and capital income.

Australia does not have a formal system for annual indexation of income tax thresholds like many OECD countries but the frequent adjustments to thresholds over the last decade have more than compensated for inflation over the past two decades. Australia generally indexes its pensions and allowances to at least compensate for inflation.

Inflation can represent a very significant part of the return to capital. For instance, with an inflation rate of 2.5 per cent and nominal interest rates of 6 per cent, inflation accounts for some 40 per cent of the amount assessed as income for tax purposes. This proportion has changed over time, varying from up to 90 per cent in the 1970s, through to around 30 per cent in recent years. The inflation component of the return to capital does not increase the purchasing power of the investor. Taxing the inflation component under a nominal income tax results in an effective tax rate on the change in purchasing power that is higher than the nominal income tax rate.

3.2 What does equitable distribution mean?

There is no commonly accepted benchmark for what constitutes an equitable distribution of opportunity in an economy. Whether elements of the current tax-transfer system improve equity or not depends on a range of judgements. People put different degrees of emphasis on different priorities of a tax-transfer system and these priorities can sometimes conflict. For example, some people believe that high marginal tax rates on capital improve equity since they may help to redistribute income from rich to poor. Others believe that high rates harm equity because they may reduce the level of investment and capital income formation, and through that channel result in lower growth in wages, as well as imposing a higher tax rate on Australians who decide to save rather than consume.

There are a number of perspectives on equity that people use to inform their assessments of the tax-transfer system, including:

- *inter-temporal equity*, which looks at how the tax-transfer system impacts on longer term decisions of individuals, such as work, saving, family structure and education. Equity therefore requires some consideration of dynamic or future lifetime resources;

- *intergenerational equity*, which looks at how the decisions of today's individuals affect future generations. In general, this includes the objective of ensuring that the wellbeing of future generations is at least no lower than the current generation;
- *spatial equity*, which focuses on the degree to which the tax-transfer system should deliver individuals in different geographic areas similar consumption opportunities, at least for certain types of goods and services;
- the *opportunity and freedom* of individuals to participate in society and to achieve the things they value. Considered here is the role of the tax-transfer system in providing individuals with capabilities and opportunities rather than specific outcomes; and
- *'rights based'* frameworks, which emphasise that the tax-transfer system should not violate fundamental rights and the procedural fairness necessary to sustain a liberal democracy. For example, the tax-transfer system needs to treat issues of privacy carefully and certain forms of inequality — such as direct discrimination on the basis of race, gender or sexual preference — should be ruled out altogether.

While equity can mean different things to different people, there are some common concepts often used to discuss whether the tax-transfer system contributes to equity, or not, according to different equity perspectives; in particular, the beneficiary principle and the ability to pay principle.

The beneficiary principle and ability to pay

The beneficiary principle states that people should pay tax according to the benefits they receive from spending funded by tax revenue, regardless of their income. The principle could be appropriate for funding the public provision of services where it is possible for a user charge to apply (such as public transport, electricity and water). There are, however, a range of government-provided services where access to the service for one person has no impact on access for others: the services are 'non-rival in consumption'. Examples include national defence, law and order, public health services and fire protection. The marginal cost of providing such services is usually close to zero, so excluding some people from consuming them can be inefficient. The beneficiary principle can, nevertheless, be used to justify higher tax burdens on groups that benefit disproportionately from public goods. For example, the principle may support progressive income taxation if higher income earners use relatively more public goods. It may also support taxing foreigners through company tax, as they benefit from government funded infrastructure, legal institutions, and a skilled workforce.

The ability to pay principle states that those who are more capable of bearing the burden of taxes should pay more taxes than those with less ability to pay. For transfers, this principle suggests assistance should increase with the level of disadvantage. This principle requires a measure of ability to pay, such as overall wealth, income, or consumption. Ability to pay may vary considerably depending on the measure chosen. For example, a taxpayer's ability to pay, measured by property and financial wealth, may differ significantly from his or her ability to pay measured by income. A taxpayer who works for many years and then retires may accumulate a significant amount of wealth relative to others, typically in the form of owner-occupied housing, but have a relatively low income.

The period of measurement and the choice of tax-transfer unit can also have a significant bearing on the redistributive implications of the tax-transfer system. Annual income may not be representative of the past or future consumption opportunities of individuals. For example, some students may have the same current income as chronically unemployed job seekers but are likely to have significantly better prospects and significantly higher lifetime consumption opportunities. Lifetime consumption opportunities may provide a better reflection of society's view of equity but are more difficult to measure.

The choice of unit — individual, family or household — also has implications for distribution based on measures of ability to pay. While some are critical of the individual as the unit of taxation, it avoids specifying a family structure that is preferred for tax purposes, and minimises workforce disincentives for secondary earners, such as mothers in families. See Box 3.6 for further discussion about the choice of unit.

Box 3.6: Individual versus family unit

The tax and transfer systems differ in terms of the unit of assessment to which they are applied. The individual is generally the unit of assessment for the taxation system. However, there are exceptions, as the Medicare levy surcharge and the senior Australians tax offset take into account the incomes of partners.

The unit of assessment in the transfer system is the couple or family, based on the principle that providing targeted support should take into account other sources of financial support, including from close family members (spouse, parents of dependent children). The type of household also determines eligibility for assistance.

The possibility of using the family unit to determine tax liabilities has been debated regularly. Some people consider that using the family as the unit of taxation better reflects the ability to pay of individuals in a family. Others argue that the individual unit of taxation avoids specifying what is a suitable family structure for tax purposes and promotes the autonomy of individuals within a family, particularly secondary earners.

The family unit of taxation tends to reduce work incentives for secondary earners since the family's tax rate reflects the income of the primary earner. This also increases the incentive for home production inherent in the tax system due to the exclusion of home production from tax. The individual tax unit of taxation is generally thought to be less complex to administer and comply with, but it may provide some opportunity for informal income splitting of unearned income.

In Australia, the income needs of families are addressed through the transfer system as well as the tax system. Those with children in particular receive government support according to an assessment of the family's income and circumstances. More broadly, many OECD countries have moved away from family based tax in favour of individual based systems (although the Czech Republic is an exception, introducing joint tax in 2005). Consistent with this direction, reform in Australia over the past decade and a half has been focused on facilitating the employment of secondary earners, where this is compatible with their personal circumstances.

Horizontal and vertical equity

The concepts of horizontal and vertical equity are refinements of the ability to pay principle. Horizontal equity requires individuals in the same economic position to be treated the same by the tax-transfer system. Vertical equity is generally considered to mean that individuals in different economic positions should be treated differently, usually with those having greater economic capacity paying more.

The 'same economic position' is often defined by reference to criteria such as individual income, family circumstances (such as the number of dependants) or geographic area. For example, Family Tax Benefit is sometimes justified on the basis of the demands on a given level of income for individuals who are raising children.

Different perspectives on the 'same economic position' can lead to different judgements about whether a policy is horizontally equitable. Consider two individuals who earn the same amount of income but do so from different sources, such as wages and dividends. Taxing these two individuals in an equivalent manner may be considered horizontally equitable by some but others may consider it appropriate to tax wages less as this income is derived from an individual's work effort while dividend income may be derived from inherited wealth. As noted in Section 7, the basis for determining 'capacity to pay' differs fundamentally between the tax system focus on the individual and the transfer system focus on the family.

Vertical equity deals with differences in ability to pay. Subjective judgments about vertical equity are reflected in debates about the overall fairness of the following three types of personal tax rate structure:

- progressive tax rates — where the tax liability as a percentage of a taxpayer's income increases as their income increases;
- proportional tax rates — where the tax liability as a percentage of income stays the same, regardless of the taxpayer's income; and
- regressive tax rates — where the tax liability as a percentage of a taxpayer's income declines as their income increases.

A progressive statutory rate structure for the personal income tax does not ensure that the overall tax system is progressive. Progressive statutory tax rates could be offset by other features of the tax system that reduce the average rate of tax paid by individuals with higher incomes.

The transfer system provides a number of benefits, including pensions, allowances and income tested payments which affect the overall redistributive impact of the tax-transfer system. Whether people think higher or lower taxes will improve the distribution of income or consumption, it is generally acknowledged that both income and consumption need to be measured broadly and consistently to determine whether a system is vertically or horizontally equitable.

Some further considerations regarding horizontal and vertical equity

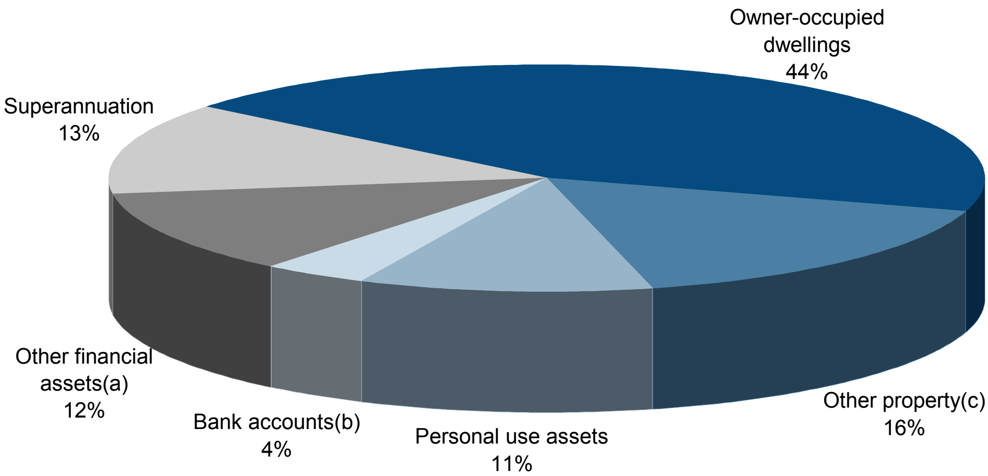
Importantly, the horizontal and vertical equity of the tax-transfer system depends on who actually bears a tax or benefits from a transfer. As noted above, the actual burden of a tax or benefit of a transfer does not always fall on the people or businesses that actually pay the tax to the government or receive the transfer payment. Horizontal and vertical equity outcomes will also be influenced by the level of compliance with tax and transfer obligations and the ability of taxpayers to avoid the payment of tax or receive increased transfers through income planning arrangements. Many of the tax reforms introduced in the latter part of the 1980s were intended to address a widespread perception that higher income individuals were able to reduce their tax liabilities through income structuring arrangements. The design of the tax-transfer system and the level of compliance enforcement are important determinants of the extent to which intended and actual equity outcomes align.

3.3 The distribution of wealth, income and taxes

The composition of wealth

In 2005-06, the average value of household assets held by Australian households was estimated at $655,300. Owner-occupied dwellings accounted for 44 per cent of household assets (Chart 3.5). Personal use assets, including contents of dwellings and motor vehicles contributed around 11 per cent. Superannuation balances constituted 13 per cent of total assets, with other investment assets (non-owner occupied property, and financial assets) accounting for a further third of household assets.

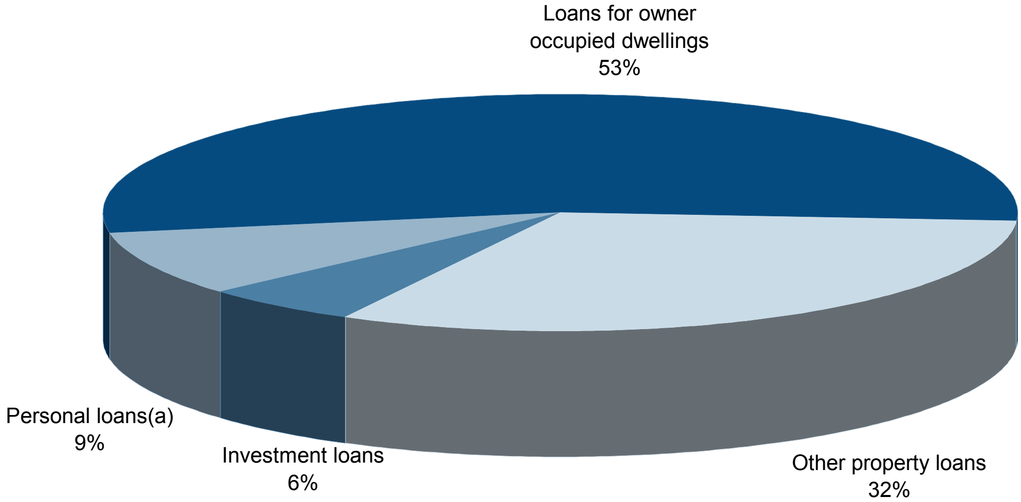
Chart 3.5: Composition of assets of households, average all households, 2005-06



(a) Includes value of shares (including own incorporated businesses) and value of trusts.
(b) Includes value of debentures and bonds.
(c) Includes value of own unincorporated entities.
Source: ABS (2007a).

Average household liabilities in 2005-06 were $92,500, consisting mainly of property loans (Chart 3.6). Loans relating to owner-occupied dwellings accounted for about half of the value of household liabilities, with other property loans accounting for a further third. Investment loans were the single most significant other liability, contributing around 6 per cent to household liabilities. All personal loans, including study loans, credit cards and car loans, accounted for 9 per cent of household liabilities.

Chart 3.6: Composition of liabilities of households, average all households, 2005-06

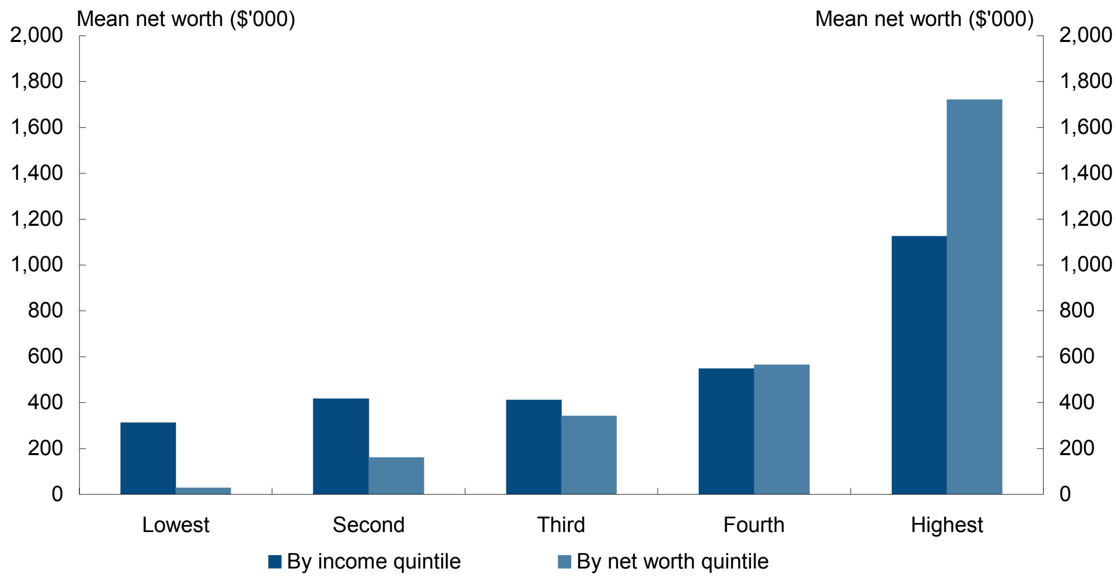


(a) Includes study loans, credit cards, vehicle loans and other loans, nec.
Source: ABS (2007a).

The distribution of wealth

Chart 3.7 shows the distribution of the net worth of Australian households by income and net worth quintiles (a quintile is 20 per cent of the population). The distribution of net worth by income quintile is more even than the distribution by net worth quintile. In part, this reflects differences in relativities between wealth and income across a person's lifecycle. For example, retirees and pensioners tend to have low incomes but substantial assets in the form of equity in owner-occupied dwellings or superannuation.

Chart 3.7: Net worth of Australian households by income and net worth quintiles, 2005-06

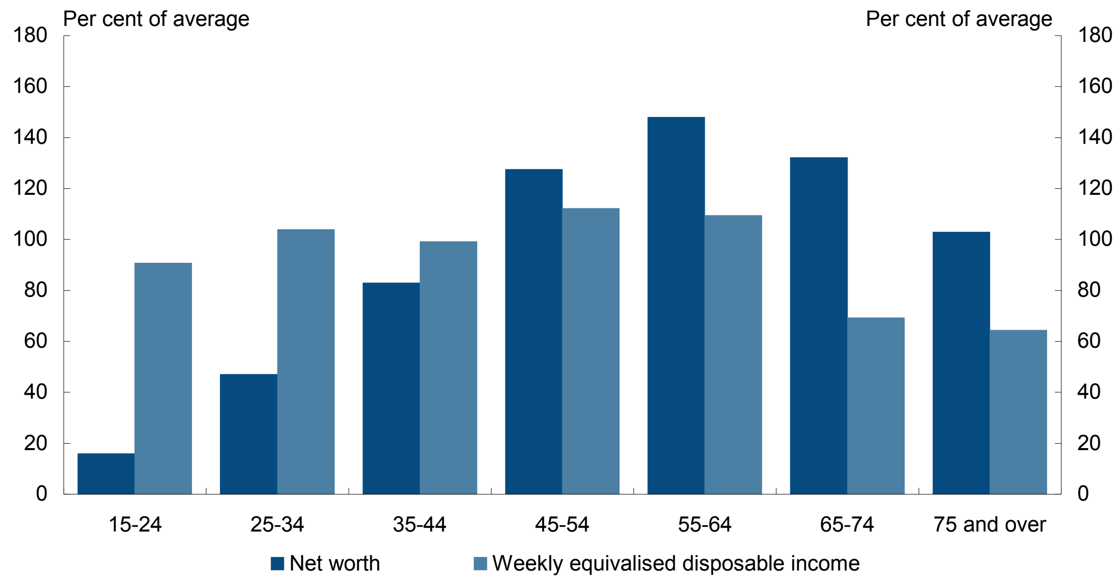


Source: ABS (2007a).

The importance of lifecycle influences is illustrated in Chart 3.8. Households towards the right hand side of the chart (older households) have higher average net worth but lower average incomes than those towards the left hand side of the chart (younger households).

This profile is to be expected, with households saving part of their incomes and accumulating wealth through the early to middle parts of their lifecycle, and drawing on that wealth towards the end of their lifecycle. The higher incomes through to retirement age reflect the accumulation of human capital across the lifecycle.

Chart 3.8: Net worth and mean weekly equivalised disposable income of Australian households by age of reference person, 2005-06 (per cent of household average)



Source: ABS, Survey of Income and Housing, FaHCSIA estimates.

The distribution of income

The distribution of wage and salary income and of capital income is important when considering the overall structure of our tax-transfer arrangements.

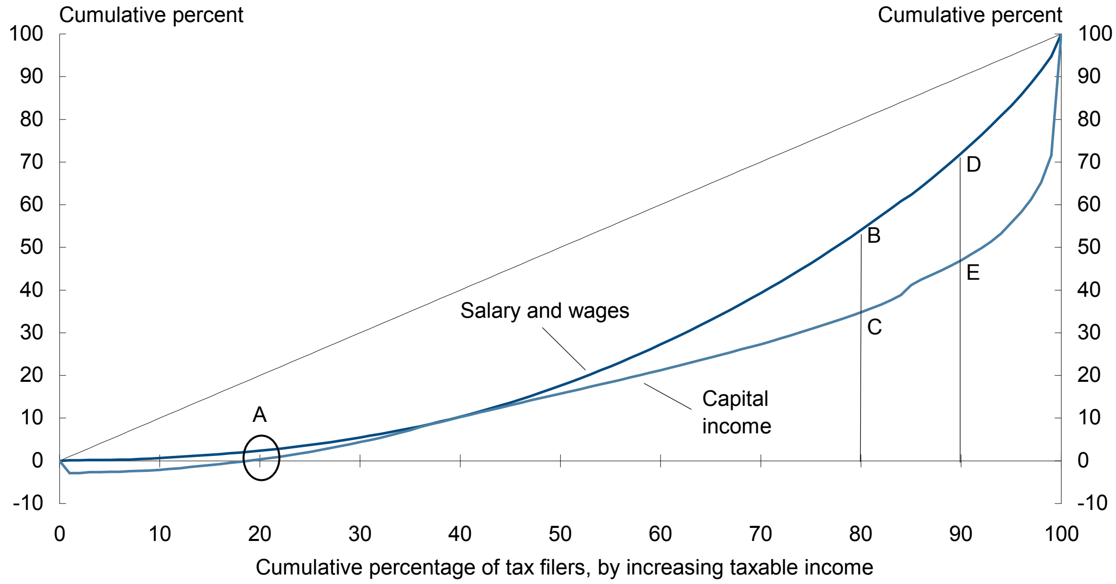
For most households the principal source of income[1] in 2005-06 was wages and salaries (59 per cent of households), followed by government pensions and allowances (26 per cent of households), incorporated business income (6 per cent of households), with other forms of income being most significant for 8 per cent of households. Less than one per cent of households reported no income or an overall net loss, due to business or property losses. Approximately 17 per cent of households relied on government pensions and allowances for at least 90 per cent of their income. These households were more likely to be composed of lone people or people aged 65 years and over than households with higher private income.

Chart 3.9 plots the percentage of wage and salary income, and capital income, against the percentage of taxpayers, ranked according to their taxable income. Points along the 45-degree line represent a proportional distribution of income, with a given percentage of income being earned by an equivalent percentage of taxpayers. The chart illustrates that both wage and salary income and capital income are skewed toward higher income earners but that capital income is more highly skewed (indicated by the greater curvature of the line at higher incomes).

1 The principal source of income is that source from which the most positive income is received. If total income is nil or negative the principal source is undefined. As there are several possible sources, the principal source may account for less than 50 per cent of gross income.

For example, the bottom 20 per cent of taxpayers accounted for very little salary and wages or capital income in 2005-06 (point A). This reflects the cluster of pension and beneficiary recipients at the lower end of taxable incomes and individuals with significant net losses, such as net business losses. In contrast, the top 20 per cent of taxpayers are estimated to receive around 46 per cent of salary and wage income (point B) and around 65 per cent of capital income (point C). The top 10 per cent of taxpayers receive 28 per cent of salary and wage income (point D) and 53 per cent of capital income (point E). Table 3.1 provides further comparisons of the distribution of wage and salary and capital income.

Chart 3.9: Distribution of salary and wage income and capital income, 2005-06[(a)]



(a) Includes tax filers without a tax liability.
Source: Australian Government administrative data.

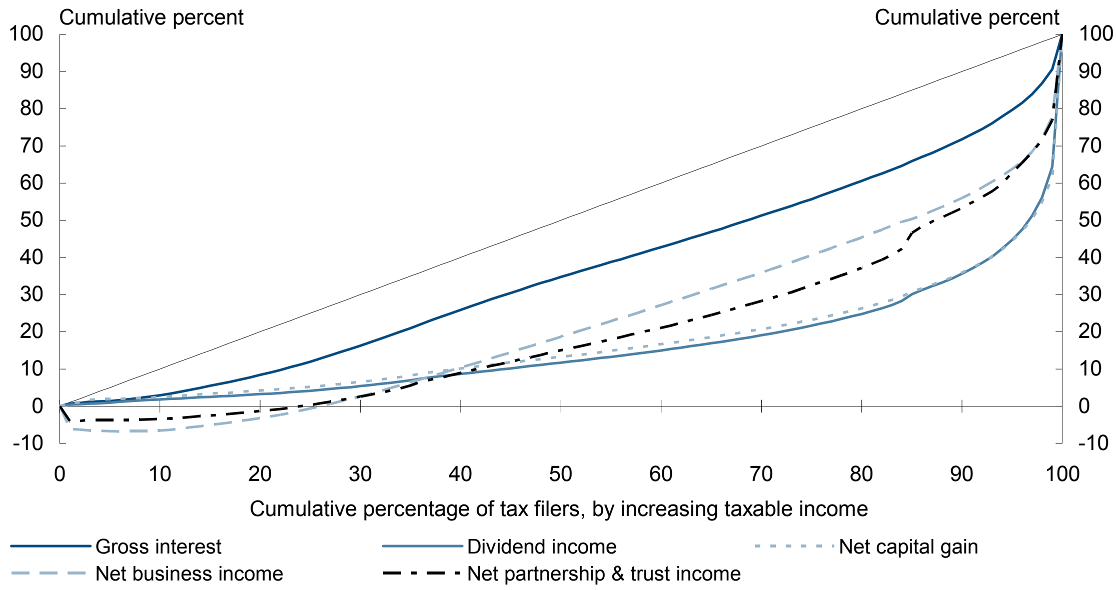
Table 3.1: Estimated distribution of wage and salary income and capital income in 2005-06

	Bottom		Top		
	20 per cent	50 per cent	20 per cent	10 per cent	1 per cent
Salary or wages	2.4	17.6	45.9	28.0	5.3
Net rent	18.8	31.3	38.8	24.0	4.0
Gross interest	8.4	34.7	39.4	28.2	9.4
Dividend income	3.2	11.7	75.2	64.4	35.7
Net capital gain	4.2	13.3	73.7	64.2	38.6
Net business income	-3.2	18.7	54.6	44.0	22.2
Net partnership & trust income	-1.3	15.0	62.9	46.8	23.1
Capital income	0.4	15.8	65.2	53.0	28.5

Source: Australian Government administrative data.

There are also considerable differences in the distribution of the individual components of capital income — interest income, dividends, net rent, net capital gains, net business income and net distributions from partnerships and trusts (Chart 3.10). The bottom 20 per cent of taxpayers earned around 8 per cent of gross interest income but only around 3 per cent of dividend income and around 4 per cent of net capital gains. In contrast the top 10 per cent of taxpayers receive around 28 per cent of gross interest income but over 64 per cent of net capital gains and dividends.

Chart 3.10: Distribution of selected capital income items, 2005-06[a]

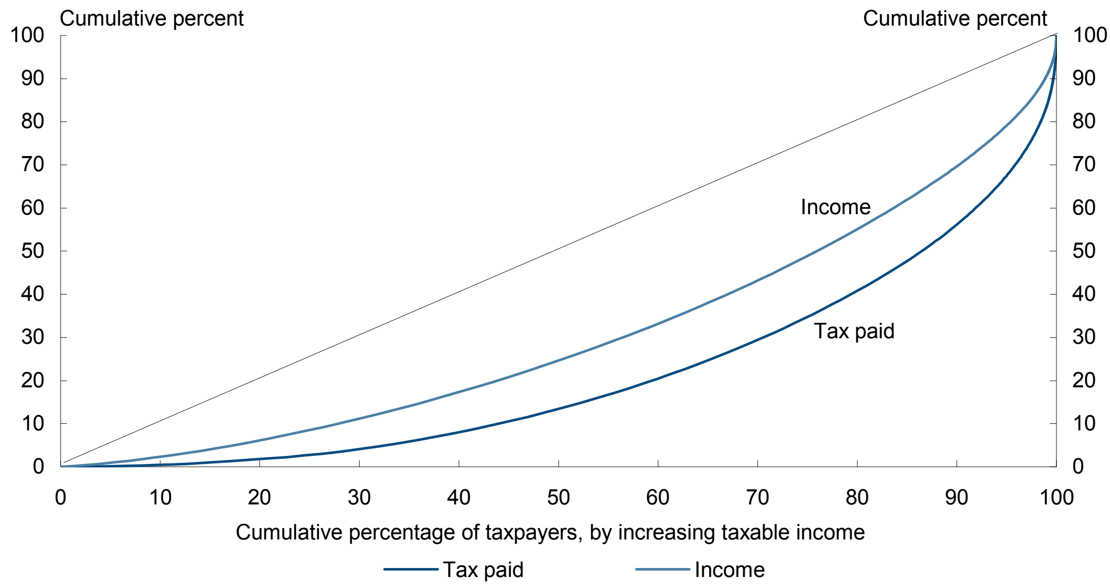


(a) Includes tax filers without a tax liability.
Source: Australian Government administrative data.

The distribution of tax paid

The distribution of taxable income and the tax burden across individuals is shown in Chart 3.11 for 2005-06. While the distribution of taxable income is skewed toward those on higher incomes, the tax burden is even more skewed, indicating a progressive personal income tax system. The bottom 20 per cent of taxpayers accounted for 6.5 per cent of taxable income but only 2.0 per cent of tax paid. In contrast, the top 20 per cent of taxpayers accounted for 45 per cent of taxable income and 59 per cent of tax paid.

Chart 3.11: Distribution of taxable income and tax paid, 2005-06[a]

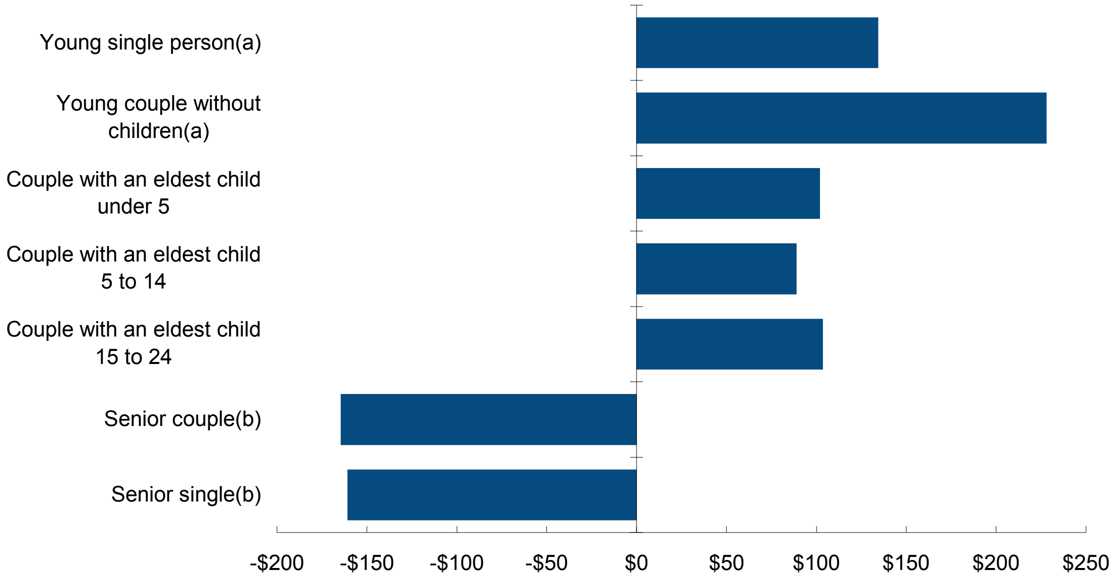


(a) Taxpayers are those people with a positive tax liability.
Source: Australian Government administrative data.

3.4 The distribution of taxes and transfers through time

The tax-transfer system also distributes income over a person's life-cycle. That is, the tax-transfer system can treat the same people differently at different times in their lives. At different stages of their lives individuals may be net taxpayers (pay more in tax than they receive in transfers) or net recipients of transfers (receive more in transfers than they pay in tax). This is illustrated in Chart 3.12 at an aggregate level for different household types. Net tax paid is defined as tax paid less cash transfers received.

Chart 3.12: Average weekly net tax for different household types in 2003-04



(a) Reference person under aged under 35.
(b) Reference person aged 65 and over.
Source: ABS (2007b).

On average, younger households are net taxpayers. The average net tax paid by a single person aged under 35 in 2005-06 was relatively low, reflecting generally lower private incomes for this group, higher levels of unemployment and higher numbers of individuals in receipt of student allowances. Young single people working full-time would have a net tax burden above this average. Couples with children had a higher average tax burden than young single persons but a lower tax burden than young couples without children, in part because they receive family tax benefit and other child related transfers, such as higher rent assistance. Couples with older children, where the eldest child is aged 15 to 24, paid more tax than couples with younger children, primarily because they were likely to be more advanced in their careers and have higher net worth, and hence have higher average private incomes than young couples without children. Retired individuals and couples were net recipients of transfers, primarily reflecting the Age Pension and reduced private income.

Cameos can also show the impact of the tax-transfer system over the life-cycle

Chart 3.12 presented aggregate data on the effect of the tax-transfer system on different household types. Another way to explore the effect of the tax-transfer system on households as they age is to construct a set of hypothetical cameos of a household at different stages of its lifecycle. The following cameos describe the net tax position of the household in terms of the average net tax rate — defined as the net tax paid by the household as a proportion of household private income.

Box 3.7: A young single

Jason is a single person who has just completed education. Given his lack of work experience he has a lower income than established workers. Jason earnt $42,000 in 2008-09, roughly 70 per cent of average ordinary time earnings. His average tax rate is 15.5 per cent. His disposable income (his income after tax and transfers) is $35,490. These figures take into account the small amount of low income tax offset (LITO) that Jason can claim and his liability to pay the 1.5 per cent Medicare levy. Jason deferred payment of his course fees and is therefore also required to repay his Higher Education Loan Program (HELP) debt at a rate of 4 per cent of his gross income. His overall net tax rate is 19.5 per cent. Through the superannuation guarantee scheme Jason is already building savings which will enhance his retirement income.

If Jason lost his job he might be eligible for Newstart Allowance and possibly other supplementary payments such as Rent Assistance. These payments are also available to families, although in this case the family's assets and income will be used to determine eligibility. Families with children also have interactions with family assistance, such as Family Tax Benefit. These benefits can significantly reduce average net tax rates.

Box 3.8: Seven years later Jason has a young family

Jason is earning $60,000 a year. His partner, Melissa, stays at home to look after their two young children aged 2 and 4. Jason is eligible for Family Tax Benefit Part A and Melissa can claim Family Tax Benefit Part B. Together these payments add $9,469 to Jason and Melissa's income. After Jason pays income tax and Medicare levy, the family is left with a disposable income of $56,569, equivalent to a net tax rate of 5.7 per cent.

Melissa is on unpaid leave from her job as a social worker. If she had returned to her job for three days a week, she would have been earning $27,000 a year. With their children in long day care for three days a week at $5.60 per hour, Jason and Melissa would be eligible to claim $12,404 in Child Care Benefit and Child Care Tax Rebate. The family's private income would be $87,000 and their disposable income would be $70,568, giving them a net tax rate of 18.9 per cent.

These outcomes depend on the age of Jason and Melissa's children, because the amount of Family Tax Benefit they can receive depends on the age of the children. As a one-earner couple with $60,000 in wage income, Jason and Melissa would have $58,012 in disposable income and face a net tax rate of 3.3 per cent if their children were aged 11 and 13.

Box 3.9: At 48 years of age Jason and Melissa are without dependent children

As an established couple without dependent children earning $80,000 and $45,000, Jason and Melissa face a net tax rate of 21.4 per cent. Their household disposable income is $98,225.

Older people can qualify for the age pension, as well as Pharmaceutical Allowance, the senior Australians tax offset (SATO), the mature aged worker tax offset (MAWTO) and different Medicare levy thresholds.

Box 3.10: Enjoying retirement

Jason and Melissa have vigorously pursued a healthy work-life balance and are enjoying good health in their retirement. Aged 66 and 65 with private non-working income of $12,000 and $6,000 respectively, Jason and Melissa are able to claim a part pension, entitling them to a concession card. They face a net tax rate of less than negative 100 per cent. That is, they receive a net transfer which more than doubles their disposable income.

3.5 Measuring taxation of labour, savings and investment — analytical tools

To assess the impact of taxes on the production and distribution of resources in the Australian economy it is necessary to look beyond statutory tax rates. For example, companies do not pay the company tax rate each year on all of their profits, as corporate financing policies, generally available deductions, concessions for particular industries or activities, and tax planning opportunities may impact on the amount of tax payable.

To understand the impact of the tax-transfer system on labour supply, it is also necessary to consider the effects of tax and transfers on disposable income. A number of measures are available that take into account the effect of tax offsets and transfers, and the withdrawal of these transfers (which has the effect of reducing the return from work and/or saving).

To describe accurately how much tax is actually paid, it is necessary to find alternative measures to the statutory tax rate. There are several other ways of measuring the tax rates on labour, savings and investment, each with its own advantages and disadvantages (see Table 3.2).

Tax to GDP

Tax to GDP ratios are commonly used for comparing the level of taxation across countries. These measures can be calculated for taxes paid by particular industries or under particular revenue heads and are calculated as the tax revenue expressed as a percentage of GDP. Tax to GDP ratios are a 'backward' looking measure of the tax burden, in that they are an estimate of taxes already paid.

Average tax rate

Average tax rates (ATRs) are commonly used to measure the tax burden on income. They are based on micro data and express tax paid as a percentage of an appropriate measure of income, such as profits from the annual accounts of a business or total income obtained from tax returns. ATRs incorporate most aspects of the tax system, such as variations in tax rates, deductions and offsets. ATRs also implicitly take into account impacts of tax planning, evasion and minimisation.

ATRs on labour can be structured in a number of different ways, for example, to measure tax as a proportion of total wage and salary income and transfers, or tax net of transfers as a proportion of earned income.

Effective tax rates on labour

Effective tax rates on labour take account of the complete wedge between gross income and disposable income, including any reductions in transfers, as well as income tax. The effective tax rate on an additional dollar of income is often referred to as an effective marginal tax rate (EMTR). Effective tax rates on larger increases in income (for example, an additional $100 per week) are often called effective average tax rates (EATRs), while the effective tax rate when moving into the workforce is referred to as the participation tax rate (PTR).

For labour, EMTRs, EATRs and PTRs are measured in the same way, but over different ranges of income. EATRs measure the effect of the tax-transfer system over broader increments of income.

These measures do not directly measure the incentive to work, but rather the return from additional work (labour supply elasticities would need to be coupled with the effective tax rates to determine incentives). They do, however, provide an indication of the magnitude of potential incentive effects.

Effective tax rates on capital

EMTRs on savings and investment measure the effect of taxation on the return to an investment in a marginal project. A marginal investment is one where the investor is indifferent between undertaking the investment or investing elsewhere (that is, where the expected net present value of the investment is zero). The EMTR is defined as the difference between the pre-tax and the post-tax return on the project as a proportion of the pre-tax return.

EMTRs measure the tax burden on an extra dollar of marginal investment, and are indicative of the extent to which saving or investment is discouraged and of tax driven distortions in investment choices. They do not, however, show all the potential impacts on investment choices. For example, stringent preservation requirements for superannuation and lock-in effects in respect of assets with unrealised capital gains, are not captured in these measures.

The EMTR is a forward looking measure because it calculates the tax burden on a hypothetical investment under the current tax system. As such, the EMTR can be used to estimate incentive effects arising from the tax system.

In contrast to the EMTR, the EATR on savings and investment measures the effective tax burden on projects that earn more than the marginal rate of return (that is, projects generating so-called supernormal returns or economic rents). The EATR for a future investment project is calculated as the ratio of the future tax liabilities to the pre-tax financial profit (or some other parameter for the value of the firm over the estimated life of the project).

The primary use of EATRs in the empirical literature has been in examining the effect of the tax system on managerial decisions such as investment location.

Table 3.2: Comparing measures of tax

Method	Advantages	Disadvantages
Statutory tax rates	Simplest of all measures	Is a primary component of other measures such as EATRs but does not reflect all aspects of actual burden (does not include base adjustments and does not include withdrawal of transfers)
Tax to GDP	Relatively simple to calculate Internationally recognised as a measure of comparing the level of taxation across countries	Backward looking (does not identify incentive effects) Changes in the estimated rate may reflect variations in economic profit to GDP rather than tax changes Tax paid and GDP may not relate to same income year Problem with carried forward losses, tax expenditures Excludes tax at shareholder level with respect to corporate income tax Limited usefulness for analysing tax structures within a country
Average tax rate	Relatively simple to calculate Calculates rates for particular taxpayers, groups or industries Good estimate of the tax burden	Backward looking (does not identify incentive effects) Issues with including loss making firms, upward bias Problem with carried forward losses Excludes tax at shareholder level with respect to corporate income tax Provides no indication of incentives at the margin, particularly in relation to labour taxation
Effective tax rates (labour)	EMTRs and EATRs measure returns to additional labour supply Calculates rates of tax and transfers for individuals and different family types Provides an indication of returns to increased labour supply — particularly when examined over ranges of income	Focusing on EMTRs can lead to too great a focus on marginal return, when labour supply is 'lumpy' and effective rates over a broader range of income may illustrate returns more accurately. May not take into account all costs (for example, childcare) Provides only a static measure of the returns to labour (that is, excludes long-term returns of increased labour supply) Useful only for analysing substitution effect of taxes-transfers on labour, not the income effect
Effective marginal tax rates (capital)	Forward looking measure. Can incorporate taxes at shareholder level Calculates rates for particular taxpayers, groups or industries for various asset types and financing arrangements. Long-standing, internationally recognised measure	Complex calculation Not appropriate if project/asset earns inframarginal gains
Effective average tax rates (capital)	Forward looking measure. Measure for examining location decisions for investments Measures the tax burden of an inframarginal investment Can incorporate taxes at shareholder level	Complex calculation Problems with determining inframarginal gains

4 History of Australia's tax-transfer system

Outline

This section provides an overview of the development of Australia's tax-transfer system since federation and of the shifting balance between Australian government and state revenue powers.

Key points

- The development of the Australian tax system can be categorised into two distinct periods. In the first period, from federation to the mid-1970s, the focus was largely on revenue adequacy to fund increasing levels of social provision of goods and services. In the second period, since the mid-1970s, there has been a greater focus on improving the equity, efficiency and simplicity of the tax system.
- Transfers have evolved from basic payments linked to war service and old age (with Age Pension age well above average life expectancy) to a more extensive system of social support. The principles of early pension payments set the social support scene for the future: funded from general government revenue; based on circumstances rather than past earnings; and means tested to target assistance.
- Since federation the Australian government has been the predominant revenue raiser and revenue has been redistributed to the States.

4.1 Historical trends in tax

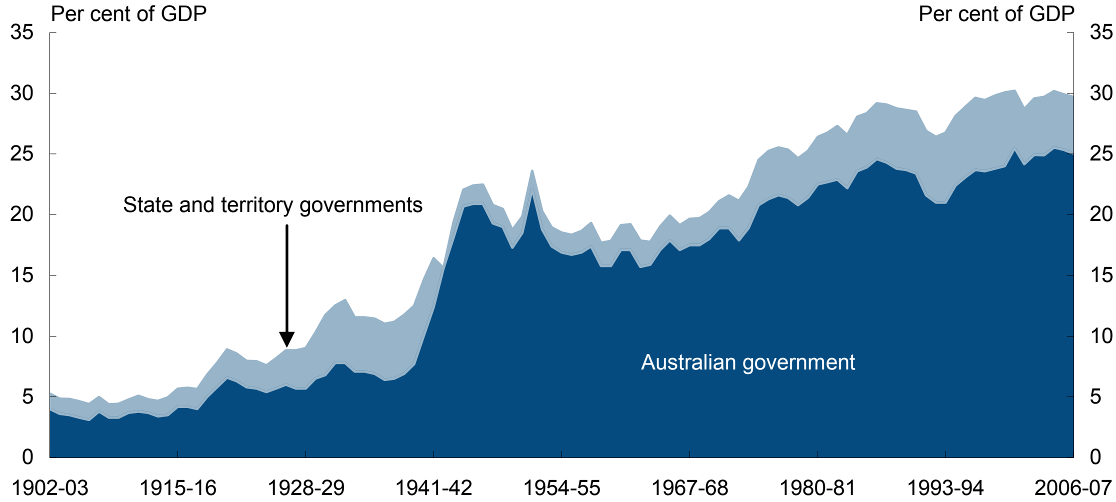
The Australian tax-transfer system has changed significantly since the end of the 19th century. The six colonies raised the bulk of their tax revenue from selective customs and excise duties. The original design of the tax systems of the six colonies was driven largely by the feasibility of administration, rather than principles of equity or efficiency. Customs duties were easy to collect from the limited number of wharves where goods entered the colonies. Although highly regressive, customs and excise duties levied on necessities ensured a relatively secure source of revenue. They also acted as trade barriers between the colonies. One of the significant results of federation in 1901 was the removal of all duties on goods traded between Australian States.

Since federation, developments in tax policy can be broadly classified into two periods. Up until the mid-1970s, the primary driver of significant changes to the tax system was expanding the revenue base to fund expenditure programs. Since then, the revenue requirement has been relatively stable. Increased attention has been paid to reforming the tax system to improve equity and efficiency and, more recently, attempting to reduce tax system complexity.

A revenue adequacy focus (1901 to mid-1970s)

At the time of federation Australia's tax to GDP ratio was around 5 per cent. This ratio remained reasonably constant until the introduction of the Australian government income tax in 1915, which was used to fund Australia's war effort. Between the two World Wars, government expenditure and tax revenues grew significantly and by the beginning of the Second World War, Australia's tax to GDP ratio was over 11 per cent (Chart 4.1).

Chart 4.1: Australian government and state taxation (1902-03 to 2006-07)



Source: Budget Papers; ABS (2008a); ABS (2007a).

When income tax was first introduced in 1915, companies were taxed on their profits after deduction of dividends — that is, only on retained profits. Subsequently, this deduction was changed to a rebate for shareholders. In 1940, with additional revenue needed to fund Australia's involvement in the Second World War, the rebate of tax on dividends received by individual shareholders and non-resident companies was removed. The company tax rate was increased and an undistributed profits tax was imposed on public companies.

By the end of the Second World War, tax revenue had grown to over 22 per cent of GDP. The further increase in tax largely reflected Australia's involvement in the war and the introduction of government support programs, such as the Widows' Pension in 1942 and Unemployment Benefit in 1945. This marked the beginning of the modern social security system which is discussed in more detail in Section 4.2.

Tax revenues declined during the 1950s and by 1963-64 the tax to GDP ratio was around 18 per cent. In the early 1970s, tax revenue increased significantly, partly driven by funding requirements for social programs such as the introduction of free higher education.

Since the late 1980s Australia's overall tax to GDP ratio has been relatively stable and is currently around 30 per cent of GDP. The majority of tax revenue, equivalent to 25 per cent of GDP, is raised by the Australian government with around 5 per cent raised by the state governments.

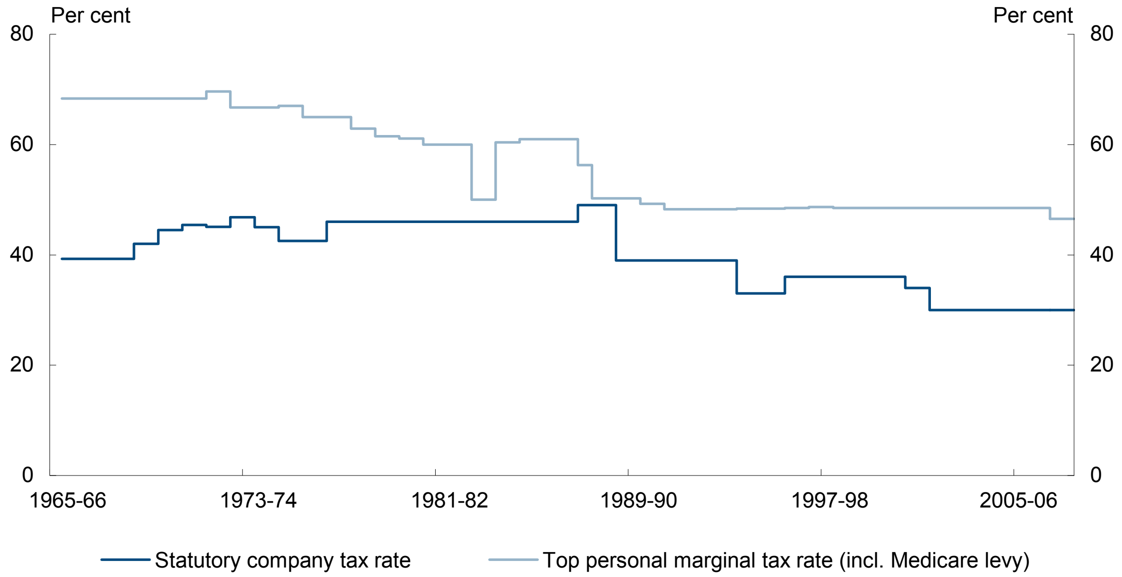
Improving efficiency, equity and simplicity (mid-1970s onwards)

From the early 1970s, a growing concern about the equity of the tax system led to the establishment of the Taxation Review Committee (Asprey et al 1975). A key theme of the Asprey Report was the need to broaden the tax base. In 1985, the Australian government released a draft White Paper which recommended a broadening of the tax base through the adoption of a broad-based consumption tax, the introduction of a capital gains tax and comprehensive taxation of fringe benefits, and a broader foreign income tax base (Australian Government 1985). The capital gains tax and fringe benefits tax were introduced in the second half of the 1980s and the GST was introduced in 2000.

The broadening of the foreign income tax base, in part driven by the opening of the Australian economy, was achieved initially by making most foreign income taxable with a credit for foreign tax paid. However, to reduce compliance costs and reflecting competitiveness concerns, in 1990 dividends from non-portfolio interests in foreign companies and active business profits of branches in comparable tax jurisdictions were made exempt from company tax. Further, to ensure residents could not defer tax by accumulating passive income offshore, attribution regimes (in particular, controlled foreign company and foreign investment fund regimes) were introduced in the early 1990s.

The focus of reforms since the mid-1970s has been to improve the efficiency, equity and simplicity of the tax system. As such, a key element of the reform agenda has been to broaden the personal and business tax base and lower the rate of tax (Chart 4.2).

Chart 4.2: Top personal income tax rate and company tax rate (1965-66 to 2007-08)



Source: Australian Treasury estimates.

Until 1987, Australia maintained a classical company taxation system, under which profits were taxed at the company rate and at personal rates when distributed. In 1987 an imputation system was introduced. Under this system, resident shareholders receive a credit for tax paid at the company level, thereby eliminating double taxation of dividends. Where the resident shareholder's marginal tax rate is below the company tax rate, the excess credit can be used to offset tax payable on other income (for example, wages and salary). Full refundability of excess tax credits for most resident shareholders was introduced to the Australian imputation system in 2000.

Under the imputation system, Australia's company income tax system operates as a withholding tax on the income that Australian residents earn through Australian resident companies, and as a final tax on (primarily Australian source) income earned by non-residents through an Australian resident company or permanent establishment in Australia.

A review of business taxation was conducted in 1999. Key elements of the review included: lowering the company tax rate; more concessional capital gains tax arrangements; replacing accelerated depreciation with effective life depreciation arrangements; revised 'thin capitalisation' rules to prevent profits being shifted offshore; and simplifying the tax system for small business. *The New Tax System* package was introduced from 2000. The GST was introduced as a replacement for the multi-rate wholesale sales tax and a range of inefficient state taxes. The GST revenue was provided to the States as a replacement for their state taxes and Australian government financial assistance grants. The package also included reductions in personal income and business taxes; reforms to the family payments system (outlined in more detail below); and reforms to the tax instalment arrangements for business income.

In response to the 2002-03 *Review of International Taxation Arrangements*, a package of reforms was implemented to improve the competitiveness of Australian managed funds and companies with offshore operations, and reform other aspects of the international tax rules. The reforms included reducing the commercial constraints and compliance costs arising from the controlled foreign company and foreign investment fund rules, as well as extending the exemption for non-portfolio dividends and branch profits to all foreign countries.

Retirement income taxation

Prior to the 1980s, no tax was paid on contributions to superannuation funds, earnings of superannuation funds were tax exempt and tax was only imposed on 5 per cent of lump sum benefits. In contrast, benefits paid as pensions or annuities were generally taxed at the recipient's marginal rates.

Changes made in 1983 reduced the scope for tax minimisation that resulted from the concessional treatment of lump sum superannuation and termination payments, by introducing a tax regime for eligible termination payments (ETPs). Under these arrangements, the full value of ETPs was included as income, with the post-1983 component of the benefit taxed at a maximum rate of 30 per cent. For those aged 55 and over, this rate was reduced to 15 per cent on the amount up to a threshold.

The superannuation taxation arrangements were restructured in 1988 to bring forward the receipt of tax revenue. This involved reducing tax on the post-1983 component of ETPs and imposing a 15 per cent tax on contributions and earnings of superannuation funds. A 15 per cent rebate was also introduced for the specified component of annuities and pensions paid to persons aged 55 and over.

In 1992, the superannuation guarantee was introduced which, enforceable through the Australian government's taxation powers, required employers to make minimum contributions to a superannuation fund on behalf of their employees. A superannuation contributions surcharge was introduced in 1996 to reduce the concessionality of superannuation contributions for higher income earners, but was subsequently reduced in a number of stages until its removal in 2005.

Reforms to superannuation in 2007 aimed to make superannuation easier to understand, and improve incentives to work and save. Under the reforms, superannuation benefits paid from a taxed fund to people aged 60 and over became tax free. The treatment of ETPs was also changed to differentiate between payments received from employers and those received from superannuation funds.

4.2 Historical trends in transfers

Before 1907, social security in Australia consisted of charitable relief provided by benevolent societies, sometimes with financial help from authorities. In 1907, the Harvester Judgment established the concept of an arbitrated 'living wage' — a non-market wage paid to a 'breadwinner' wage earner for the support of themselves and dependants. This effectively introduced a model where welfare outcomes were pursued via wage-related benefits rather than tax assistance or transfers, either in cash or kind.

From 1 July 1909, an Australian government old-age Pension replaced similar schemes operating in various states. An Australian government 'invalid' pension followed in 1910. The first form of family assistance, a non-means tested maternity allowance, began in 1912. Other than the maternity allowance, these payment programs focused assistance on those with no income and no capacity to work. The principles of these schemes set the Australian social security scene going forward, being: funded from general government revenue; based on circumstance 'categories', not past earnings; and means tested to direct assistance to those regarded as most in 'need'.

The establishment of the modern social security system (1940 to 1970s)

The impact of the Second World War saw the expansion in scope of the social security system at the national level (Chart 4.3). The Australian government also progressively took over and expanded state transfers. This period saw the introduction of:

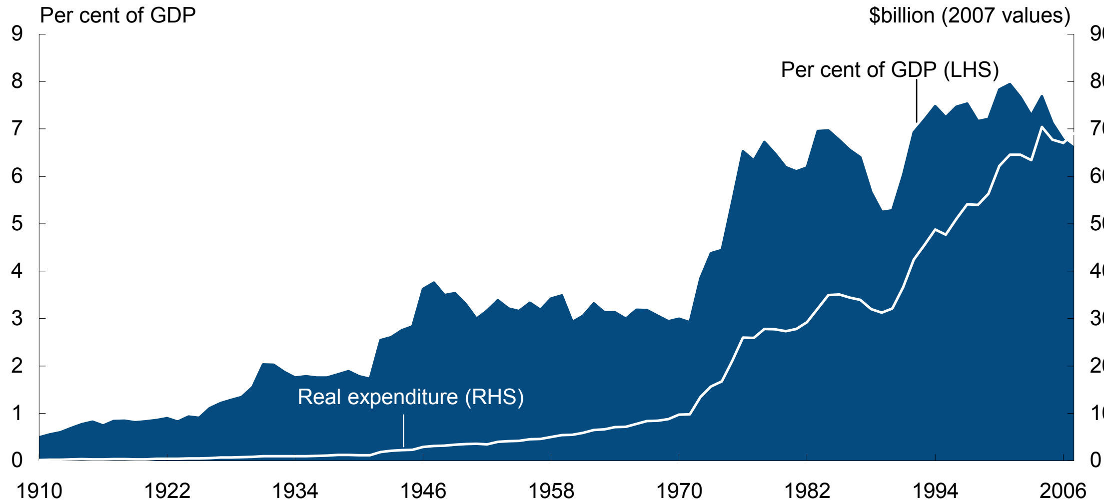
- Child Endowment (1941) — a family allowance paid at a fixed rate with no means test;
- Widow's Pension (1942) — designed to provide support to those who could not reasonably be expected to work, due to either the care of a child or their own age;
- allowances for the children of pensioners (1943) and allowees (1945);
- unemployment and sickness benefits (1945); and
- Special Benefit (1945) — to provide for people who had no other entitlement and were unable to provide for themselves. It was and is tightly means tested.

These changes formed a basic social security architecture, the essential elements of which are discernible in the current income support payment structures.

Over the next few decades the Australian social security system continued to expand. Additional assistance was introduced for those paying rent and for single adults with children. Income support underwent changes to liberalise the means test, to raise single rates in recognition of the higher relative cost of living alone, to provide a common rate structure for pensions and allowances, and to index rates.

In 1972 the Australian government provided its first funding for child care services. A 'universal' Family Allowance was introduced in 1976, replacing Child Endowment and tax rebates for children.

Chart 4.3: Australian government transfers as a proportion of GDP (1910 to 2007)



Source: FaHCSIA estimates.

Towards a more 'active' system of social protection (1980 to mid-1990s)

The *Social Security Review* was established in 1986, as recognition that economic, social and demographic change had created the need to establish a long term perspective on the priorities and directions of the system. The system was broadened from a predominant focus on poverty alleviation, to a system that also encouraged and rewarded self-provision (through work and saving) and that was better integrated with other social services and with economic, labour market and tax policies.

The main changes from the review aimed to improve payments for low income families with children and encourage and facilitate economic and social participation of payment recipients. This was particularly aimed at people with disabilities, single parents, widows, partners of income support recipients and the long term unemployed (through improved labour market assistance). Family payment 'benchmarks' were introduced and later increased. The benchmarks represented the level of assistance required by a couple without private income to raise a child and achieve a similar living standard as a couple without a child.

In the late 1980s and up to 1995, changes were made to social security payments to recognise the changing role of women in the labour force and the increased availability of part-time work. This included gradually increasing the Age Pension age for women; the phasing out of dependency based payments for women; and individual entitlement to income support for partners of income support recipients. The 1995 changes included the introduction of allowances without an obligation to seek work for partnered parents with a child aged under 16 and for older widows and partners of income support recipients with a labour market disadvantage. Other claimants were generally required to claim an activity tested allowance payment.

Also occurring in 1995 was the liberalisation of the allowance income test — the 100 per cent taper was reduced to 70 per cent to improve the reward for part-time work and couples became subject to an income test designed to improve work incentives for secondary earners.

Other changes during this period included: an increase in the coverage and level of Rent Assistance; the introduction of an 'earnings credit' for pensioners and allowees to improve the rewards for part-time work; the implementation of the Child Support Scheme; and the introduction of child care fee relief.

Increased assistance for pensioners and families and further work-related obligations (mid-1990s onwards)

In 1997 the benchmarking of the single pension to 25 per cent of male total average weekly earnings was included in legislation. Since 1 July 2000, a pension supplement available to all Age Pension recipients increases the rate beyond 25 per cent of male total average weekly earnings.

The Australian government established a reference group to consider and report on *Welfare Reform* in the late 1990s. The Australian government's initial response to the report of the reference group was the *Australians Working Together* (AWT) package in 2001. This included: a 'working credit'; the closing of Mature Age and Partner Allowances to new entrants; and new or improved supports and services for parents, people with a disability, the mature-aged and the long-term unemployed.

Building on the AWT changes, the *Welfare-to-Work* changes were announced in 2005. These imposed obligations to work part-time or look for part-time work on parents with older children and on new claimants of the Disability Support Pension with a partial capacity for work. New claimants were paid Newstart Allowance rather than a pension. Existing single parents on a pension with older children also became subject to part-time activity requirements, whereas existing Disability Support Pensioners with a moderate capacity did not. The income test for allowances was also liberalised, with the 70 per cent taper being lowered to 60 per cent to improve part-time work incentives.

This period was also characterised by further increases in support for families. In 2000, as part of *The New Tax System* package, the Family Tax Benefit (FTB) was introduced, replacing a range of pre-existing payments and increasing the assistance provided to families with children. Additional assistance for the direct costs of children was provided through an ad hoc increase to both the maximum and base rates of FTB Part A. FTB Part B further increased the level of assistance for single income families including single parents.

In subsequent years, FTB supplements, more generous means testing, and the Maternity Payment resulted in significant increases in family assistance outlays. After a period of tightening, assistance for child care costs was also increased.

In 2005 the Australian government accepted the main recommendations of the Ministerial Taskforce on Child Support. The recommendations were aimed at better aligning child support with community attitudes and have been progressively implemented, with a new child support formula introduced from 1 July 2008.

Retirement incomes policy was a strong focus in the mid to late 1990s, including the 'extended deeming' of financial investments and changes to the treatment of retirement income stream products. Assistance to carers has increased and lump sum payments to both older Australians and carers have been used since 2000.

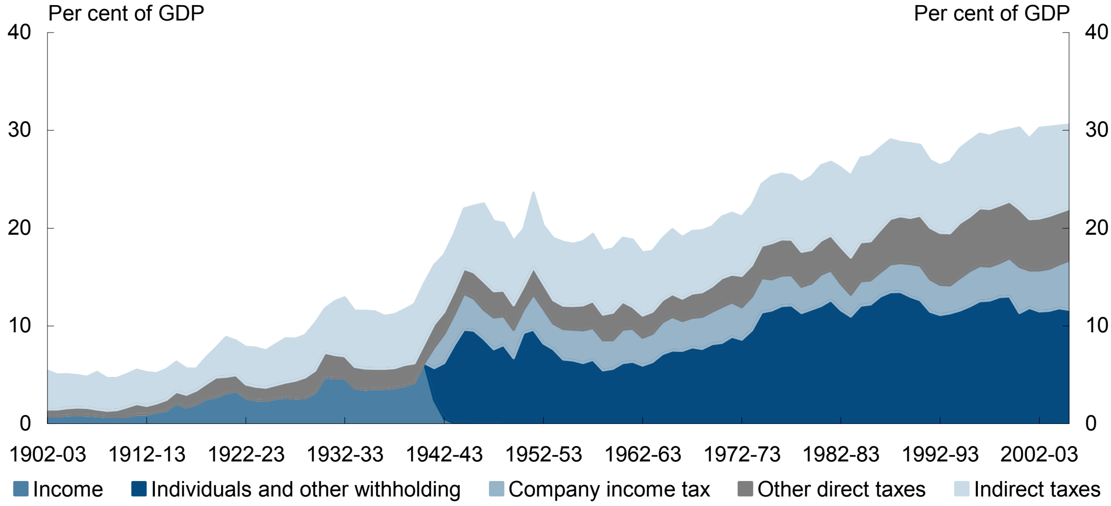
4.3 Australian government and state revenue powers

One of the challenges accompanying federation was the creation of a two-tier system of government that centralised control of some functions, while allowing each State sufficient autonomy to meet the social preferences of its constituency. The Australian Constitution specifically enumerates areas of legislative power to the Australian government, leaving the majority of expenditure responsibilities to the States as residual powers. Australian government powers were viewed as involving functions that the States were not able to conduct efficiently themselves, such as defence and foreign affairs.

In 1901 uniform Australian government tariff and excise duties replaced state customs and excise duties, in part, to secure free interstate trade and ensure adequate protection for Australian industry (Groenewegen 1985). They largely applied to the goods that had been taxed by the former colonies — tobacco products, beer and spirits and some basic food and clothing.

Although the States retained control of land and income taxes, at the time of federation customs and excise duties were by far the greatest source of tax revenue (Chart 4.4). The States were left with a shortfall of funding for their areas of expenditure responsibilities, whereas Australian government revenues exceeded the requirements of its limited role. To resolve this fiscal imbalance, the Constitution provided for a revenue sharing arrangement for the first 10 years following federation. The Australian government kept one quarter of customs and excise duty revenue with the remainder distributed to the States, along with any revenue that was surplus to Australian government needs.

Chart 4.4: Composition of Australian tax revenue (1902-03 to 2006-07)



Source: Australian Government Budget Papers; ABS (2008a); ABS (2007c).

It was not long after federation that fiscal inequality between the States led to federal funding in support of fiscal equalisation. In 1910-11 Western Australia requested fiscal assistance to compensate for the loss of tariffs, which had been its primary revenue source. In 1911-12 Tasmania also received Australian government grants, and South Australia became a recipient in the 1920s. Over time, horizontal fiscal equalisation was formalised with an independent body recommending the distribution of Australian government grants based on fiscal need.

The Australian government introduced its own income tax in 1915 to raise funds for Australia's involvement in the First World War. The Second World War also saw fundamental changes to Australia's tax system. In 1942, the Australian government assumed control of income tax, as a war-time measure, in exchange for government grants to the States. As a result the States' tax base was reduced until 1971 when the Australian government ceded control of payroll taxes to the States to supplement their tax base with a 'growth' tax. With the introduction of the GST in 2000, the States gained access to a further 'growth' tax, as a replacement for Australian Government Financial Assistance Grants and a range of inefficient indirect state taxes. Horizontal fiscal equalisation is applied through the distribution of the GST revenue to the States.

The role of the High Court and its interpretation of the Australian Constitution has been a significant contributor to determining the current distribution of taxing powers across levels of government. Both during and after the Second World War, the States unsuccessfully challenged, in the High Court, the means by which the Australian government, as a practical matter, excluded the States from the field of income tax. In a series of cases the High Court has considered the ability of the States to impose various kinds of indirect taxes (such as business franchise fees), in the context of the Australian government's exclusive power to impose duties of excise. The 'wide view' of excise duties adopted by the High Court in the late 1990s has meant that the power of the States to impose such taxes is severely limited.

5 International comparison of Australia's tax-transfer system

Outline

This section provides an international comparison of some key aspects of Australia's tax-transfer system.

Key points

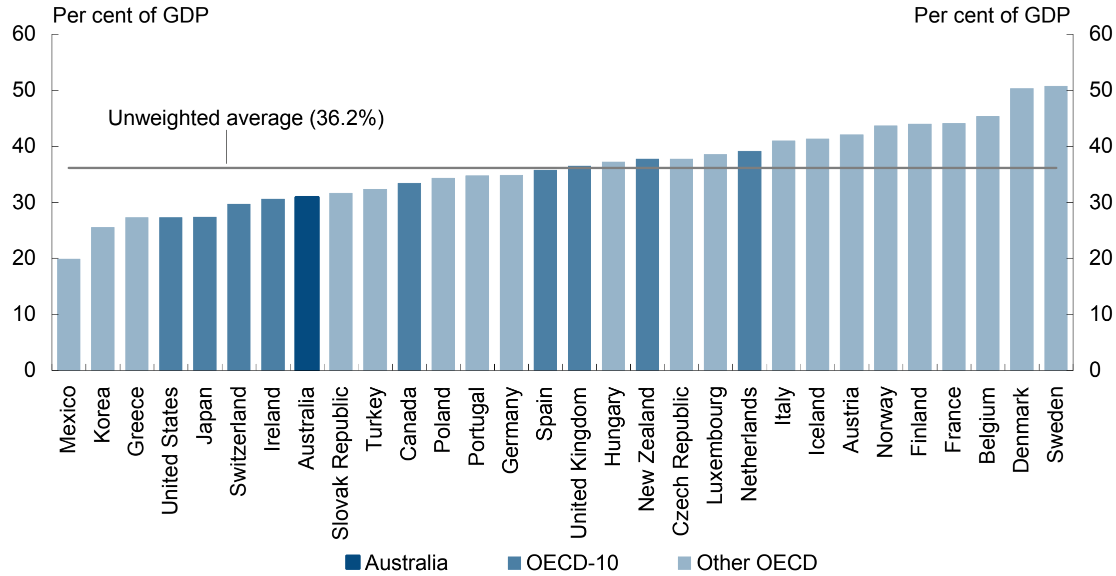
- Australia is a low tax country by OECD standards but our tax to GDP ratio is above that of our immediate neighbours, reflecting the greater role of government in our economy.
- While Australia's mix of direct and indirect taxation is broadly comparable to other OECD countries, its composition differs in several respects. Australia is one of two countries, with New Zealand, that do not levy a social security tax and which have a dividend imputation system. Our reliance on broad-based consumption taxes is below the OECD average, while our reliance on revenue from taxes on property is greater.
- Although Australia's top personal income tax rate is typical of the OECD, the absence of a social security tax means that Australia has a high tax burden on capital income relative to comparable OECD countries, taking into account differences in capital tax settings.
- Australia's corporate tax rate is the eighth highest in the OECD and above the OECD average. Corporate tax revenue as a percentage of GDP is the fourth highest in the OECD.
- Australia's taxes on fuel are low in comparison to other OECD countries.
- Australia's tax-transfer system is highly redistributive by OECD standards.

5.1 Australia's tax to GDP ratio by OECD standards

Australia's tax to GDP ratio is the eighth lowest in the OECD and substantially below the OECD average of 36.2 per cent (Chart 5.1). Government spending in Australia is the third lowest of all 30 OECD countries (Chart 5.2).

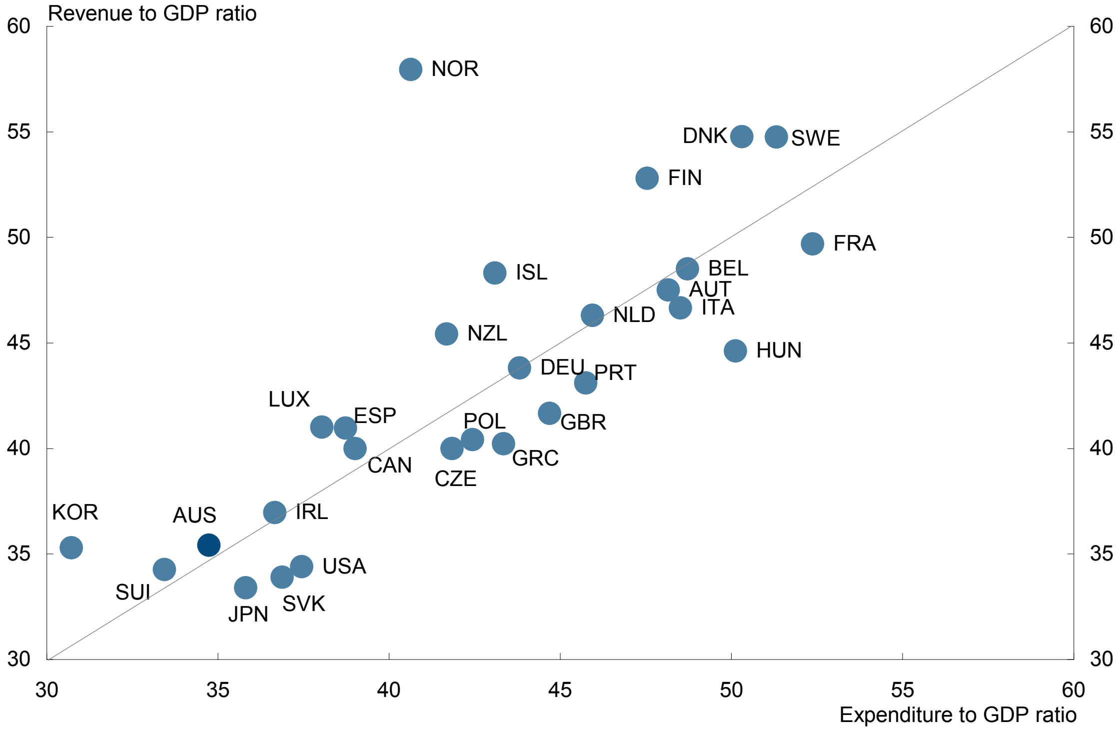
The gap between Australia's tax to GDP ratio and the OECD average has remained relatively constant at around 5.5 percentage points of GDP since 1965. Compared with the nine most comparable OECD countries (see Box 5.1), Australia's tax to GDP ratio is about average. However, two of the nine countries with lower tax to GDP ratios than Australia also run significant fiscal deficits (the United States and Japan).

Chart 5.1: Tax revenue as a percentage of GDP — OECD 2005



Source: OECD (2007a).

Chart 5.2: Size of government — OECD 2007(a)(b)



(a) Data for Mexico and Turkey not available.
(b) Revenue refers to receipts of tax and non-tax revenue.
Source: OECD (2008a).

Box 5.1: Comparator countries — the OECD-10

In the *International Comparison of Australia's Taxes* (Australian Government 2006) nine OECD countries were identified as being more suitable for drawing comparisons about specific tax settings. A key determinant of the countries selected was that they had broadly similar revenue to GDP and government spending to GDP ratios, as well as a similar role of government in their economies. One country, the Netherlands, was also included on the basis that it has strong investment and trade links with Australia and offered some interesting comparisons in terms of its capital tax settings. These nine countries — Canada, Ireland, Japan, the Netherlands, New Zealand, Spain, Switzerland, the United Kingdom and the United States — are also used in this paper to draw international comparisons of Australia's tax settings, in addition to the broader 30 OECD countries.

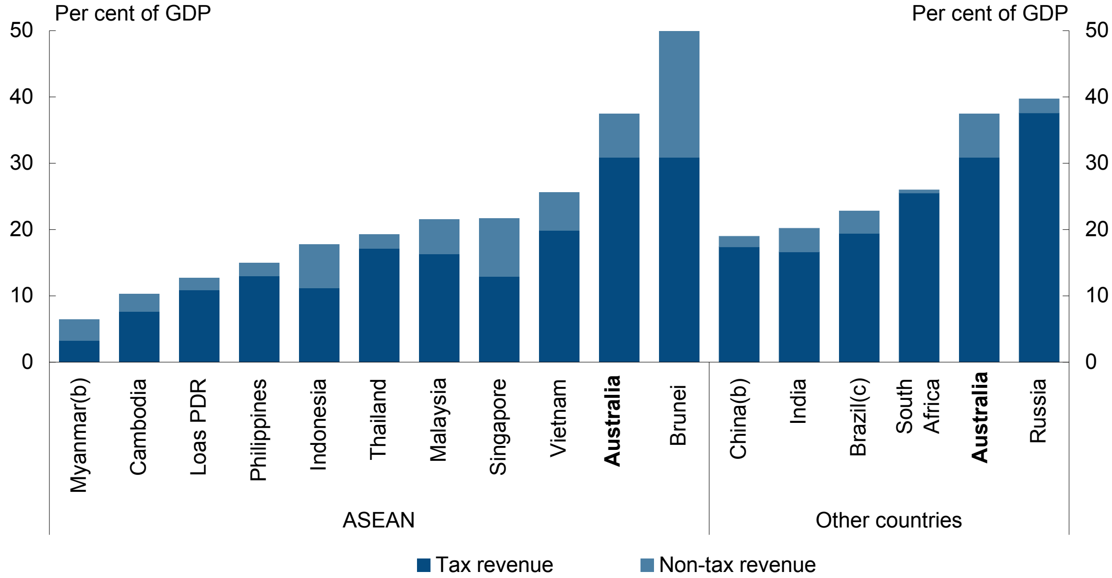
5.2 Tax to GDP ratios in other countries including our immediate neighbours

As a percentage of GDP, tax revenue in Australia is significantly higher than most ASEAN countries, as shown in Chart 5.3. While tax revenue in Brunei Darussalam is around the same as that of Australia as a percentage of GDP, 95 per cent of this comes from oil and gas companies. For many of these countries non-tax revenues, such as land sales and official development assistance, contribute a more significant proportion of overall government revenue. The role of government also tends to be more limited. When considering investment decisions, tax is only one of a range of factors, including: macroeconomic stability; a supportive legal and regulatory framework; skilled labour and labour market flexibility; and well-developed infrastructure. It is plausible that as these economies grow and the standards of living of our immediate neighbours rise, the role of government and the level of taxation in these countries will expand, as has been the case across most OECD countries over past decades.

The chart also shows a range of other countries, including Brazil, China, India, Russia and South Africa. Brazil, China, India and Russia represent around a quarter of world GDP and are increasingly integrating into the world economy. China and India are important trading partners and competitors for Australia. Brazil and Russia are significant commodity exporters, particularly in agricultural and resource commodities. South Africa is also an important commodity producer and exporter, particularly of minerals.

Relative to Brazil, China and India, Australia's tax to GDP ratio is high. It is more comparable with that of Russia and South Africa. In part, this reflects differences in the role of government expenditure. In Russia and South Africa, social expenditure as a proportion of total government expenditure is more comparable with Australia.

Chart 5.3: Tax and non-tax revenue as a percentage of GDP
Australia, ASEAN and selected other countries (2005)[(a)]

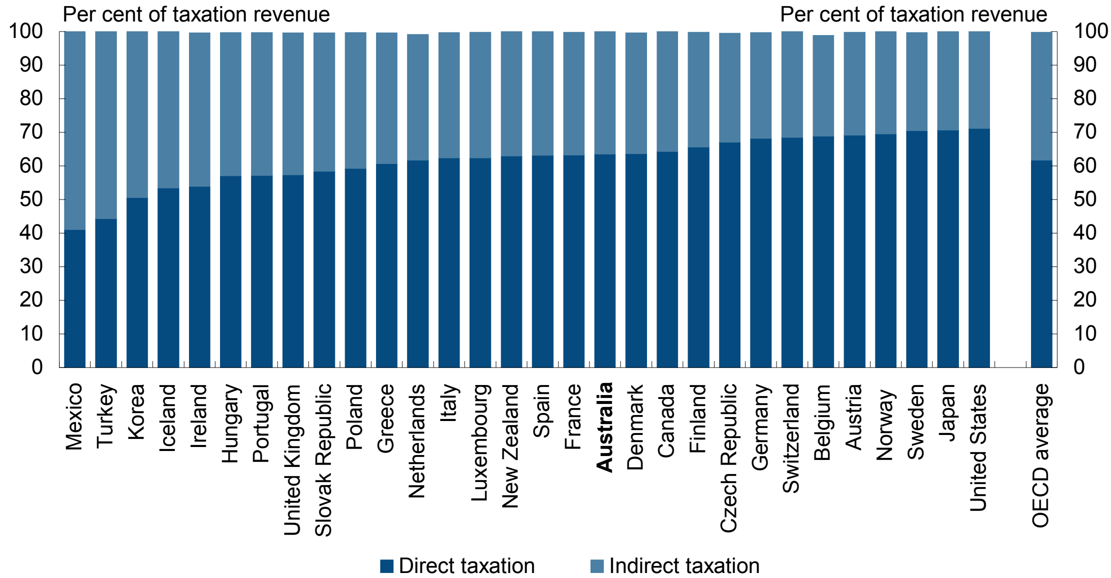


(a) Unless otherwise indicated, data reflect revenues at all levels of government.
(b) Data for 2004.
(c) Brazilian central government only.
Source: OECD (2007a); International Monetary Fund country reports; national governments; Australian Treasury estimates.

5.3 Australia's tax mix compared with other OECD countries

The Australian tax mix is broadly comparable with most OECD countries. Like most of these countries, Australia raises the majority of its tax revenue (64 per cent) from direct taxes on incomes. The OECD average is 62 per cent (Chart 5.4). The remaining 36 per cent of Australia's tax revenue is raised through indirect taxes including GST, excise and customs duties, and property taxes.

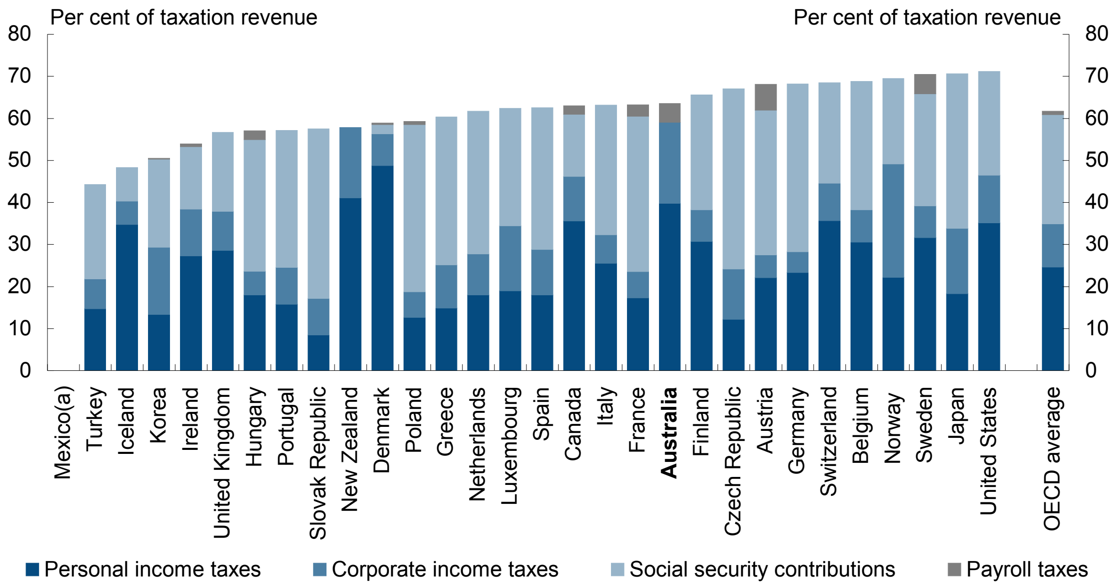
Chart 5.4: Direct and indirect taxes as a proportion of total tax revenue
OECD 2005



Source: OECD (2007a).

While the share of direct and indirect taxes in Australia is broadly comparable with the OECD average, there are some distinguishing features in terms of its composition. Australia is one of two OECD countries that do not raise tax revenue from social security contributions (Chart 5.5). The contribution of corporate income tax is higher for Australia than for most OECD countries.

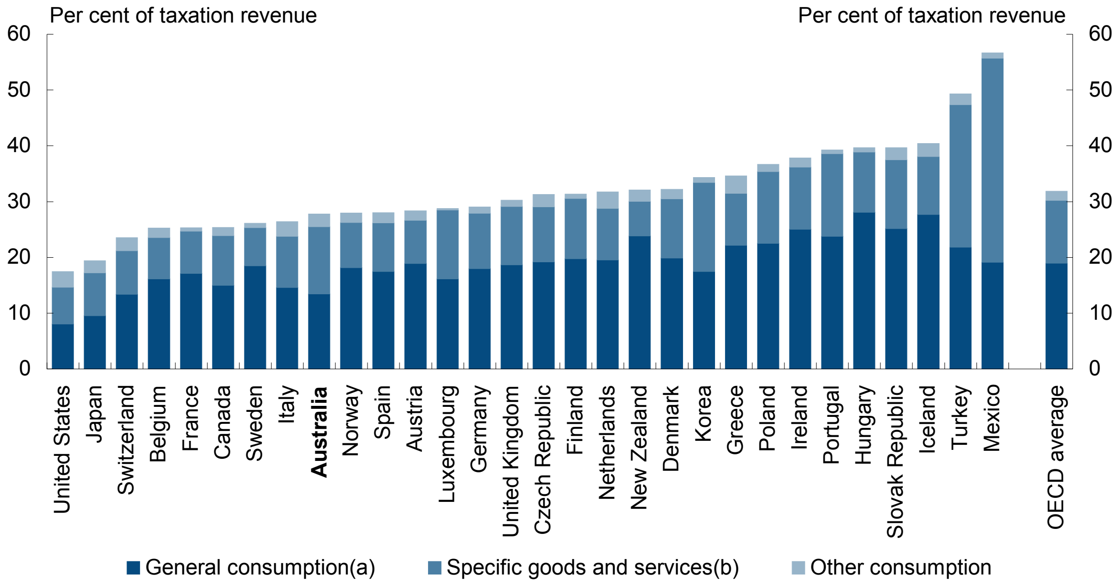
Chart 5.5: Components of direct taxation — OECD 2005



(a) Disaggregated income tax data for Mexico not available.
Source: OECD (2007a).

As with direct taxes, there are differences between the components of consumption tax in Australia and in other OECD countries. The most significant is the contribution to total tax revenue from general consumption taxes, which include value added taxes like the GST. In Australia, general consumption taxes (mainly the GST) contribute 13 per cent of tax revenue compared with an OECD average of 19 per cent (Chart 5.6).

Chart 5.6: Components of consumption taxation — OECD 2005

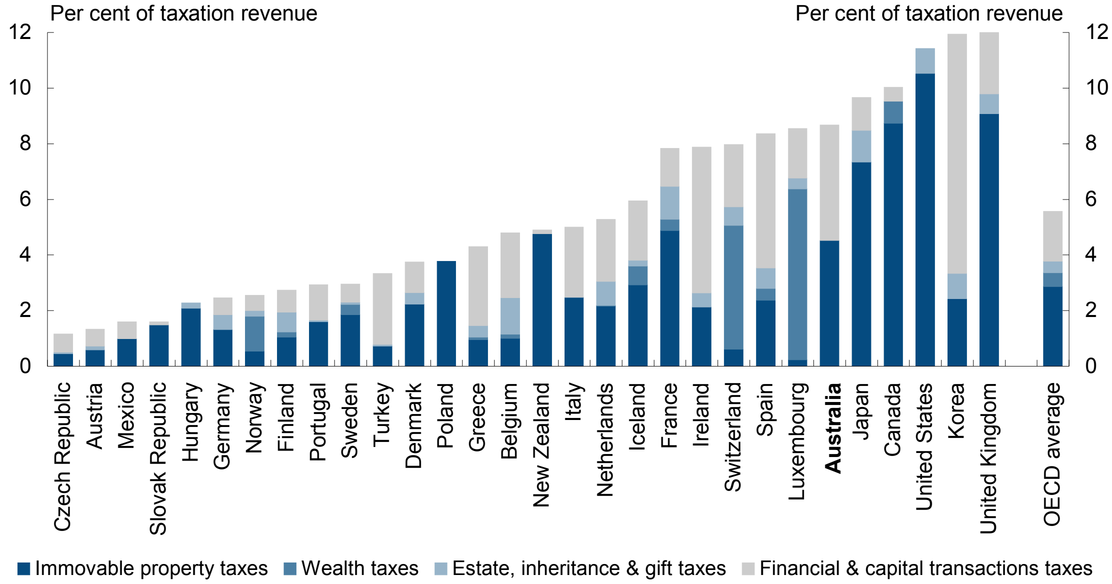


(a) Includes value added taxes.
(b) Includes excises.
Source: OECD (2007a).

Property taxes contribute just under 9 per cent of total Australian tax revenue compared with an OECD average of just under 6 per cent (Chart 5.7). Australia's property taxes come from two main sources. Taxes on immovable property contribute around 4.5 per cent to total tax revenue compared with an OECD average of around 3 per cent. Taxes on financial and capital transactions, which include conveyancing stamp duties, contribute around 4 per cent of tax revenue, compared with an OECD average of around 2 per cent.

Australia is one of 17 OECD countries that does not levy wealth taxes. This is an important source of revenue for only two countries — Switzerland (4.5 per cent of total tax revenue) and Luxembourg (6.2 per cent of total tax revenue). Australia is one of four OECD countries that does not levy estate, inheritance or gift taxes. However, in those countries that do, these taxes make a negligible contribution to total tax revenue, with an average across the OECD of around half of one per cent.

Chart 5.7: Components of property tax — OECD 2005



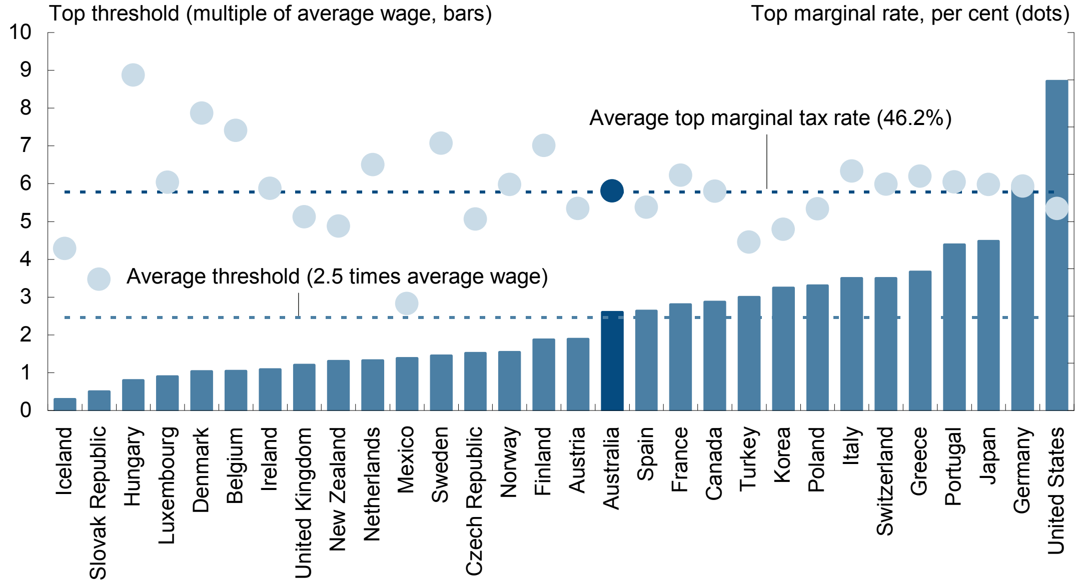
Source: OECD (2007a).

5.4 Australia's top personal tax rate

Chart 5.8 compares Australia's top marginal tax rate and threshold (as a multiple of the average wage) with other OECD countries in 2007. Australia's top marginal tax rate is average for the OECD.

Australia's top personal tax rate threshold was 2.6 times the OECD's measure of average wages — comparable with the OECD average of 2.5 times the average wage. The top threshold is within the same range as other OECD-10 countries. Increases in the top threshold over the past five years have improved Australia's relative position. This position may change again with the 1 July 2008 increase in this threshold. However, the relative position will depend on changes in other OECD countries.

Chart 5.8: Top marginal tax rates and thresholds for employees — OECD 2007
(unweighted averages)



Source: OECD Tax Database.

5.5 Approaches to taxing retirement savings

In Australia, retirement savings vehicles are subject to tax. Superannuation contributions and earnings are generally taxed at a flat rate of 15 per cent and benefits from a taxed fund are paid tax free from age 60 (see Section 2 for further detail).

Warburton and Hendy (Australian Government 2006) found that it was not possible to draw a conclusion about the relative ranking of the concessionality of the taxation arrangements applying to Australian retirement savings, owing to the lack of data and methodological issues with the various studies on the subject. However, their study found that Australian retirement savings are taxed concessionally compared to other savings. Section 8 compares the nominal effective marginal tax rate of superannuation with other assets and financing arrangements.

Australia's approach to taxing retirement savings follows a comprehensive income tax model, although generally at concessional rates of tax on contributions and earnings compared to the rates applied to income. In contrast, most retirement savings systems across the world follow variants of the expenditure tax model (Box 5.2).

Box 5.2: Definitions of alternative taxation regimes

In the academic literature, retirement savings tax regimes are generally classified by three letters which indicate the point(s) at which taxation is imposed. The presence of a 'T' reflects the imposition of tax, while an 'E' indicates an exemption from taxation. It does not reflect the overall burden of the tax imposed (for example, a system that imposes 1 per cent tax on contributions, 1 per cent tax on earnings, and 1 per cent tax on benefits would be described as 'TTT').

An expenditure tax model exempts contributions and earnings from tax, and taxes benefit payments ('EET'). In contrast, a comprehensive income tax model taxes contributions and earnings, and exempts benefit payments from tax ('TTE').

From a theoretical perspective, a TEE model produces an equivalent retirement income outcome to an EET model (for the same value of 'T'). Similarly, an ETT model produces an equivalent retirement income result to a TTE model.

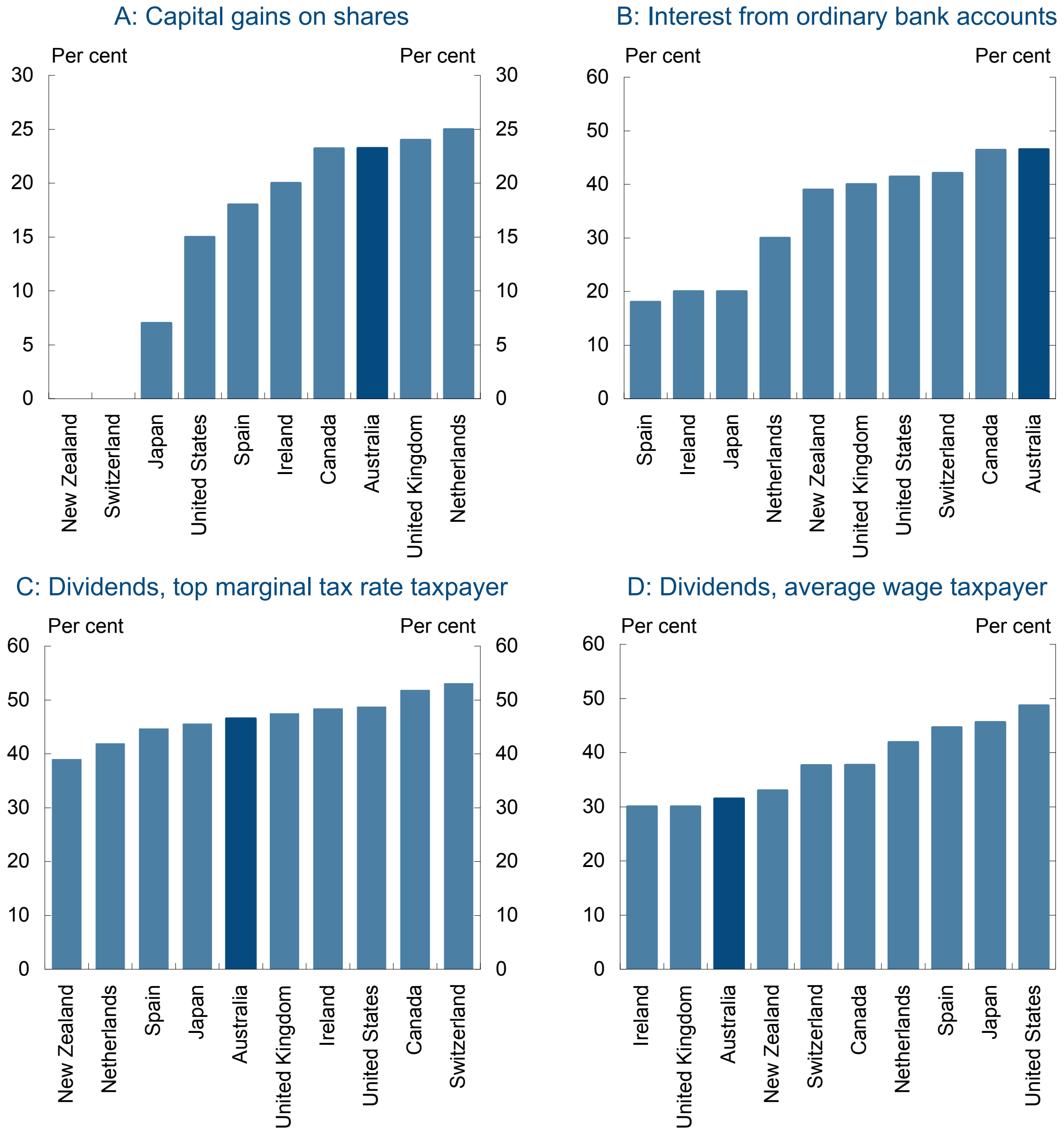
5.6 Comparisons of the top personal tax rate on capital income

Chart 5.9 shows the top personal tax rate for the OECD-10 countries for three major classes of capital income, with Panel D showing tax on dividends at the marginal tax rate for the average worker.

Among the OECD-10 countries, Australia has one of the higher top personal tax rates on capital gains, notwithstanding the 50 per cent discount available for gains on assets held for at least 12 months. There is significant divergence between countries in the treatment of capital gains (Panel A). New Zealand does not impose capital gains tax (CGT) and of those that have a CGT regime, some have a flat rate, two have a stepped rate (as the holding period increases the tax rate decreases), and others (such as Australia and Canada) use a discount system for taxing capital gains (that is, only a proportion of the gain is taxable). For shares, Switzerland does not tax capital gains and the Netherlands only does so for gains on substantial holdings (greater than 5 per cent ownership).

Notwithstanding its comparable top personal income tax rate, Australia has a relatively high rate of tax on interest income compared with other OECD-10 countries. Many countries in the OECD-10 have a lower tax rate on interest income compared to the personal tax rate on wages and salaries. This generally arises because social security contributions apply to wage and salary income and not to capital income. For the Netherlands, a lower tax rate on capital income is a key feature of their schedular approach to tax. Half of the OECD-10 treat interest income as ordinary personal income for taxation purposes, namely: Australia; Canada; New Zealand; Switzerland; the United Kingdom; and the United States. Ireland, Japan and Spain impose final withholding taxes on interest at source while the Netherlands, which uses a schedular tax system, taxes an imputed return on deposits (Panel B).

Chart 5.9: Comparative tax rates on capital income, OECD-10 (2007)



Source: OECD Tax Database, unpublished OECD estimates, International Bureau of Fiscal Documentation, national tax administrations, Australian Treasury estimates.

Panels C and D illustrate tax rates on distributions of domestic source income to a resident individual shareholder, including corporate income tax, personal income tax and any type of integration or relief to reduce the effects of double taxation. The charts show that Australia's top overall tax rate on dividends sourced from domestic profits is in the middle of the range of other OECD-10 countries for high income earners, and relatively low for average income earners.

For Australia and New Zealand, the charts highlight the use of a full imputation system (where the credit depends on company tax paid). For the majority of the remaining countries, the top overall tax rate on dividends is greater than the top marginal personal tax rate, which primarily reflects their integration systems only providing partial relief of the double taxation of dividend income. The imputation system also has different equity implications as indicated by the change in Australia's ranking from fifth lowest for high income earners to second lowest for average income earners.

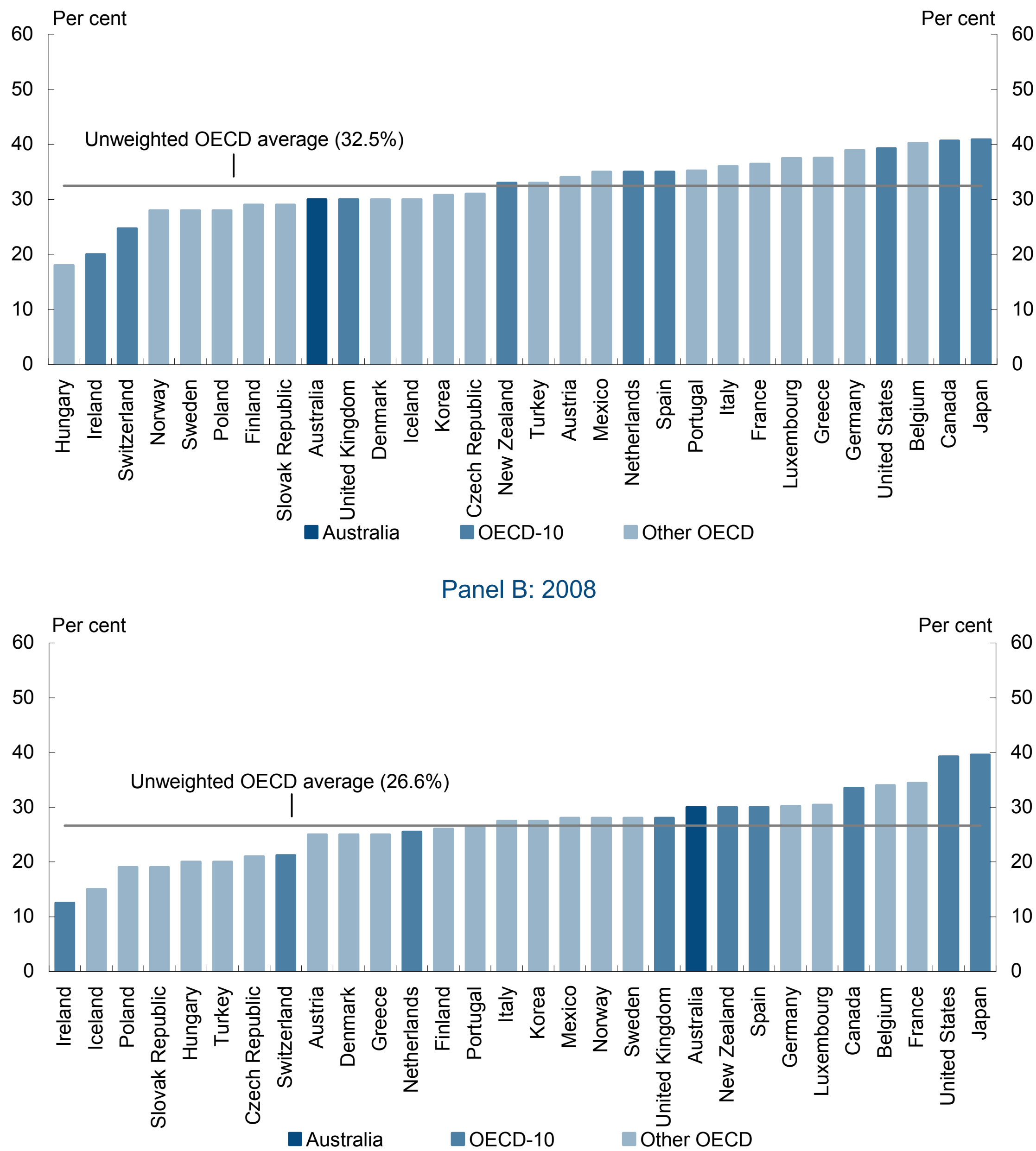
5.7 OECD comparison of Australia's corporate tax rate

Australia's corporate tax rate is above the OECD average. In 2001, following the reduction in the company tax rate from 36 per cent to 30 per cent, Australia's corporate tax rate was ranked 9th lowest in the OECD, equal to Demark, Iceland and the United Kingdom. The OECD average was 32.5 per cent (Panel A of Chart 5.10). In 2008, the corporate tax rate was 21st lowest, equal with New Zealand and Spain, and above the OECD average of 26.6 per cent (Panel B of Chart 5.10).

Since 2001 the unweighted average corporate tax rate for OECD countries has decreased by around 6 percentage points. This reflects the trend among OECD countries toward lower corporate tax rates driven, in part, by concerns about global capital mobility and economic efficiency.

Chart 5.10: Statutory corporate tax rate — OECD[(a)]

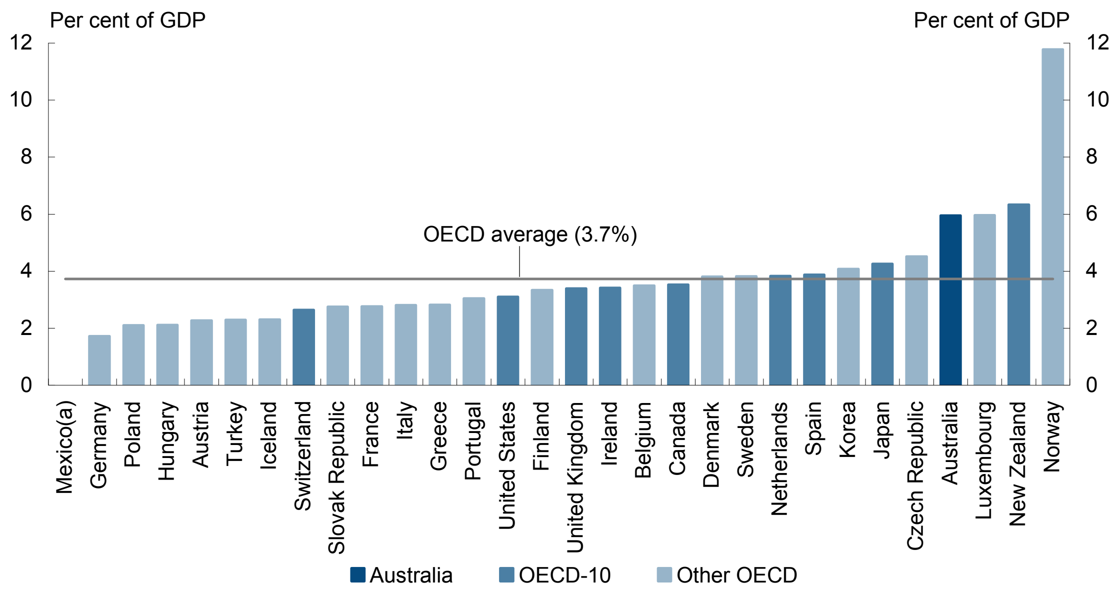
Panel A: 2001



(a) Rates are full (national, sub-national and surcharge) statutory corporate tax rates.
Source: OECD Tax Database.

Australia's corporate tax revenue as a proportion of GDP is the fourth highest in the OECD and significantly higher than the OECD average of 3.7 per cent (Chart 5.11). This largely reflects structural differences in the composition of the incorporated sector in Australia compared with other OECD countries, the imputation system, as well as the strong performance of the Australian corporate sector in recent years.

Chart 5.11: Corporate tax revenue as a proportion of GDP — OECD 2005

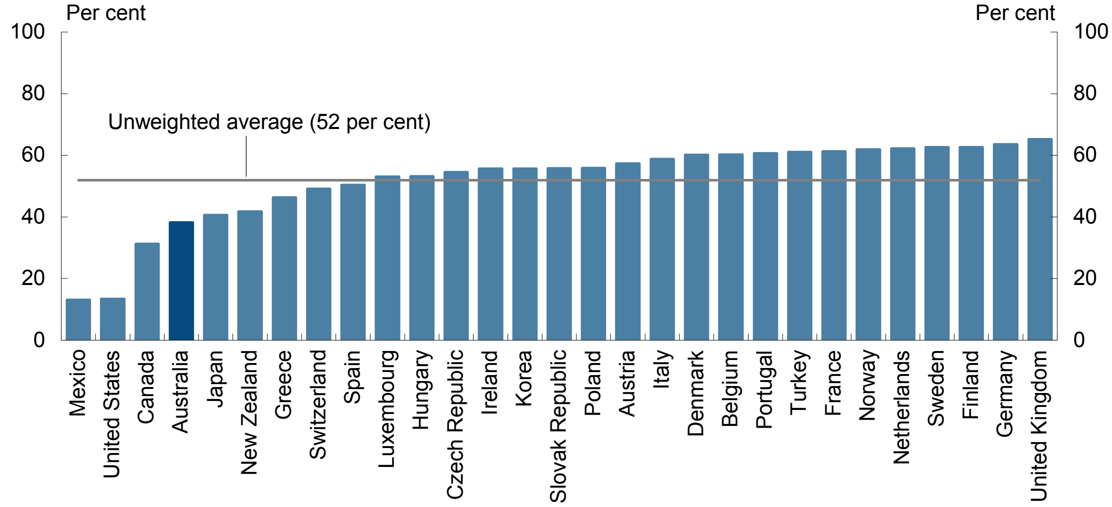


(a) Data for Mexico not available.
Source: OECD (2007a).

5.8 Taxes on fuel

All OECD countries impose taxes on petrol (Chart 5.12). The latest comparable data (first quarter 2008) show that Australia's petrol taxes are lower than the OECD average. The percentage of the total price attributable to taxes in Australia is the fourth lowest of the 28 OECD countries for which data are available.

Chart 5.12: Taxes as percentage of unleaded petrol price in 28 OECD countries
Includes excise/VAT-GST/sales taxes

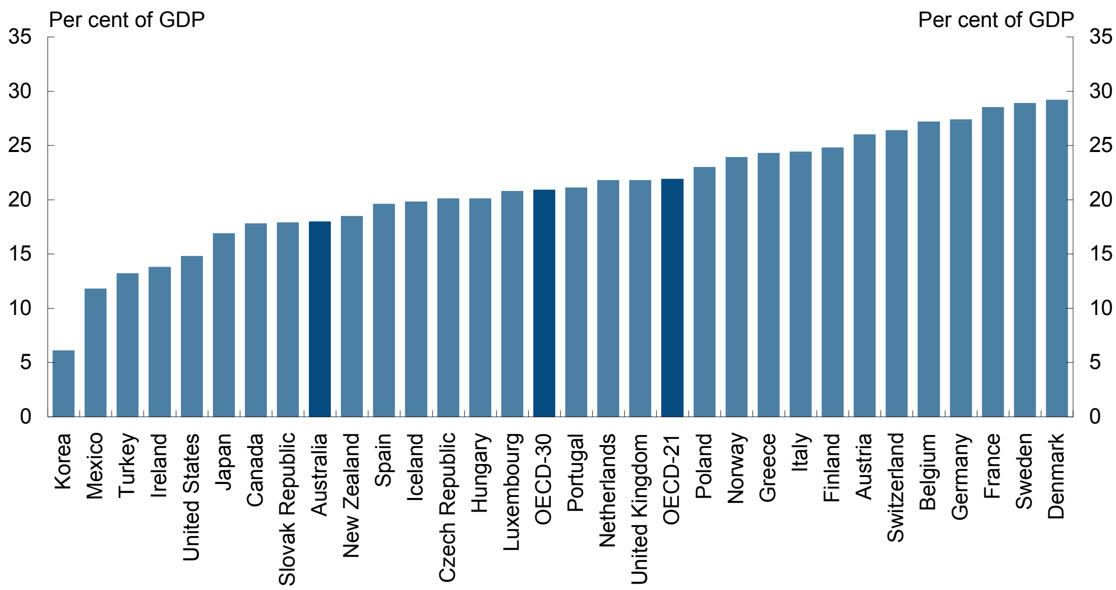


Source: International Energy Agency (2008).

5.9 OECD comparison of Australia's tax-transfer system

Compared with other OECD countries the Australian tax-transfer system is highly redistributive to those with least means. Australia's spending on social security is below the OECD average (Chart 5.13). This reflects a range of factors, including benefit levels that are unrelated to previous earnings, employer rather than public provision of sick leave and other important structural differences from most OECD countries.

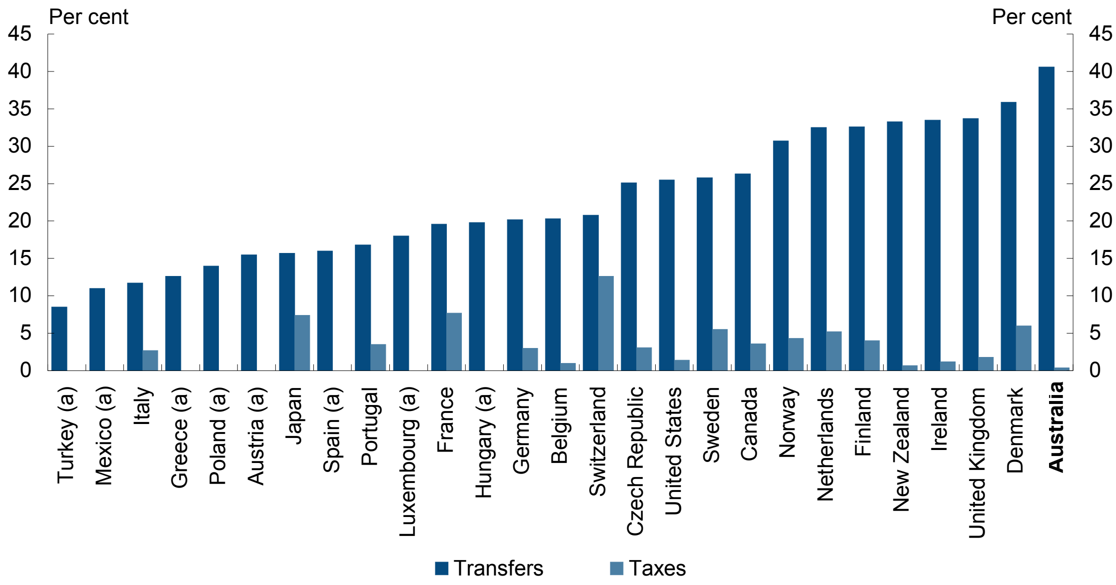
Chart 5.13: Social welfare spending as a percentage of GDP in 2001[(a)]



(a) 1999 data for Turkey for 2000 and 2001 OECD averages. OECD averages exclude countries where data are not available for related time series. OECD-21 exclude Austria, Czech Republic, Hungary, Iceland, Korea, Mexico, Norway, Poland and Slovak Republic.
Source: Whiteford (2007).

Despite Australia's relatively low level of aggregate spending, of the 27 OECD countries for which data are available, it has the highest proportion of public transfers flowing to the quintile of the population with the lowest private incomes (Chart 5.14). It also has the lowest rate of direct taxation on this quintile of the 19 countries that provide these data. This reflects the highly targeted nature of the Australian tax-transfer system.

Chart 5.14: Proportion of cash transfers received and direct taxes paid by households in the bottom quintile of the private income distribution — OECD 2005

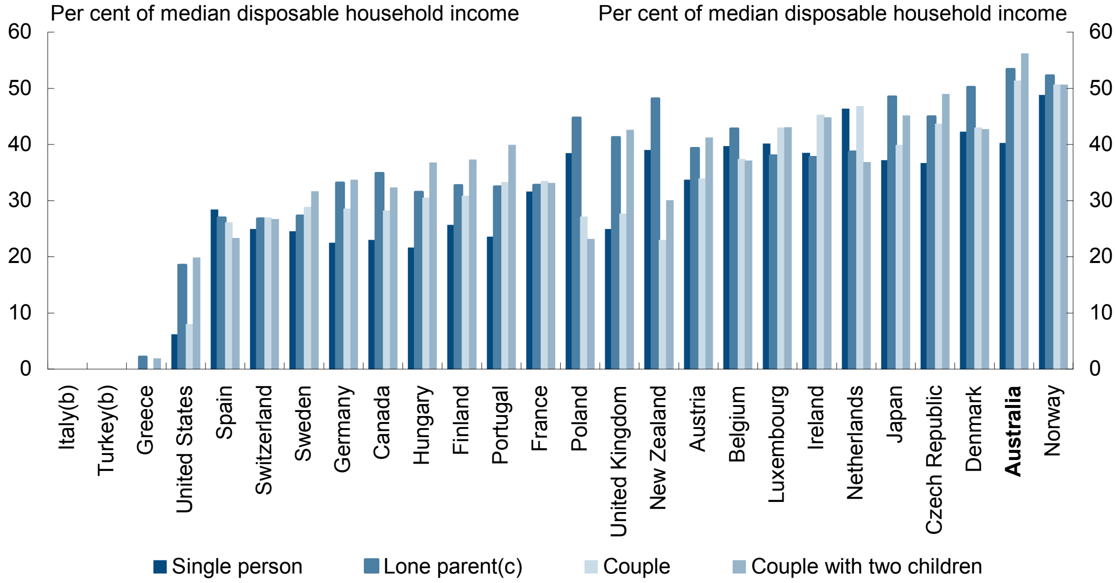


(a) Tax data not available.
Source: Whiteford (2005).

International comparisons of transfers can be complex because of the extent to which some countries often have short-term income related payments. However, the fundamental social assistance component of Australia's support to working aged families and individuals in periods of unemployment or other joblessness, provides a much higher replacement rate of income than most other OECD countries. Of the four family types for which the OECD publishes data, Australia has the highest replacement rate, relative to median disposable household income, for three family types, including both family types with children (Chart 5.15).

The highly targeted nature of the tax-transfer system has resulted in Australia having higher effective tax rates (ETRs) for certain household types than in other OECD countries. In three of the four household types with children, Australia has ETRs above the OECD average (OECD 2007b).

Chart 5.15: Net incomes of social assistance recipients relative to median household disposable income — OECD 2005[a]



(a) The OECD data for Australia is based on people receiving allowances. The replacement rates will be higher if the particular family type shown is receiving a pension.
(b) Data for Italy and Turkey not available.
(c) The lone parent family shown has two children aged four and six years.
Source: OECD (2007c), FaHCSIA estimates.

6 The mix of taxes on work, investment and consumption

Outline

This section examines the mix of taxes in Australia on labour income, capital income and consumption and compares this with outcomes in other OECD countries.

Key points

- Most countries have a tax system based on a mix of taxes on labour income, capital income and consumption.
- Australia's tax mix is slightly skewed toward direct taxes on labour income. This accounts for around 40 per cent of tax revenue. Taxes on capital income account for about 33 per cent, while taxes on consumption account for 27 per cent.
- Compared with other OECD countries, Australia has a low share of tax revenue from labour income and the highest share from capital income. In part, this reflects the relatively greater contribution of corporate income taxes to total tax revenue.
- As a share of GDP, the total tax burden in Australia on capital is around 11 per cent (the fourth highest in the OECD). The total burden on labour is 12 per cent (the fourth lowest in the OECD), and the total burden on consumption is 9 per cent (also the fourth lowest in the OECD).

Most countries have a tax system comprising a mix of taxes on labour income, capital income and consumption. A key issue when considering the mix of taxes is whether some forms of tax impose larger efficiency costs than others. A key theme in tax literature over the past 30 years has been whether tax systems should be based on the concept of comprehensive income or the taxation of expenditure (see Box 6.1).

The OECD (Johansson et al 2008) has recently undertaken a cross-country study of the effects of different taxes on economic growth. The indications from this analysis are that property taxes have the least detrimental impact on growth, followed in order by taxes on consumption, taxes on labour income and taxes on capital income. The OECD analysis only looks at the issue of the tax mix from the perspective of economic efficiency. Considerations about the distributional impacts of the tax structure also need to be taken into account when considering the findings of that study. Further, as the authors note, the general findings of the study need to be considered carefully within the context of each country's tax system and broader economic structure.

Box 6.1: The income tax versus expenditure tax debate

A key debate is whether tax systems should be based on the concept of comprehensive income ('Haig-Simons' income, defined as consumption plus the change in the real value of net assets) or the taxation of expenditure (which excludes saving from the tax base).

- The comprehensive income base referred to by economists is based on real income — that is, the inflationary elements should be excluded from taxation.
- Two types of expenditure tax have been identified in the literature — the so-called pre-paid expenditure tax based on direct taxation of labour income with an exemption for saving and the so-called post-paid expenditure tax based on the taxation of a direct measure of expenditure or of goods and services. Apart from the point of taxation, a key difference between these two approaches is the generally accepted view that only under a post-paid expenditure tax are the returns to pure economic rent and good luck taxed.

Proponents of the expenditure tax argue this approach delivers greater economic efficiency because taxing the return to saving under an income tax results in future consumption being taxed more heavily than present consumption. This reduces the incentive of individuals to save, which can in turn reduce the level of investment in the economy, the size of the capital stock and the return to labour. It can also affect equity issues, by increasing the level of tax on those that wish to save for items such as education and retirement. Proponents of an income tax have generally argued that the efficiency gains from an expenditure tax are diminished by the need to levy the tax at a higher rate to achieve a given revenue target and that an income tax is more equitable because the distribution of wealth is greatly skewed.

Since the Meade Report (1978), where the arguments in favour of expenditure taxes were considered clear, more recent literature has cast doubt on the premise that expenditure taxes are necessarily superior to income taxes. However, the view of the literature is that capital income should be taxed at a lower rate than labour income solely from the perspective of efficiency considerations (Diamond and Banks 2008).

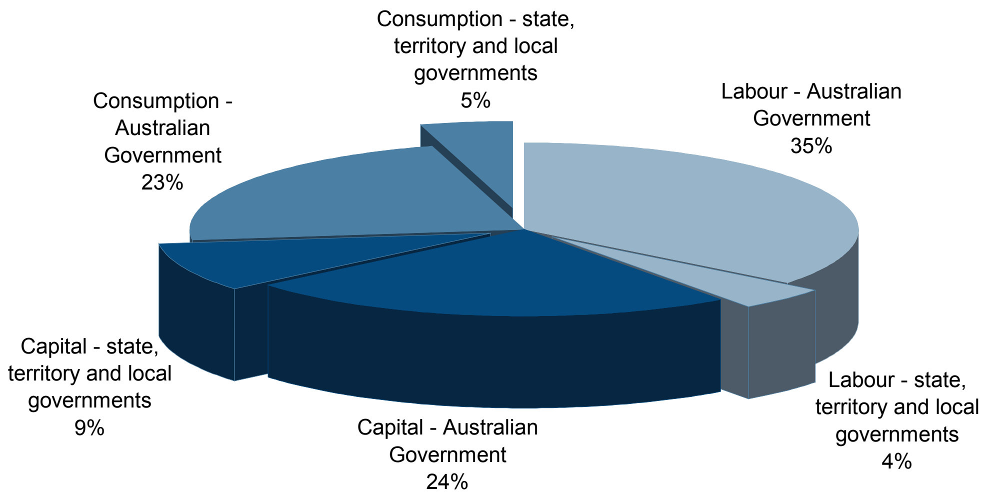
A second key theme in the tax literature has been concerned with the definition of the tax base, particularly in terms of its comprehensiveness. It is generally accepted that within any appropriately defined base, a broad tax treatment will impose fewer efficiency costs on the economy, because of the neutral treatment of alternative sources of income or expenditure and a lower average tax rate for a given revenue objective. In practice it is extremely difficult to assess the comprehensiveness of a tax base defined as broadly as labour income, capital income or consumption. Where different rates are applied to different goods, a judgement needs to be made as to whether these represent different sub-components within the labour, capital and consumption tax bases, or deviations from the comprehensive base. There are parallels between this and the benchmark issues surrounding the identification of tax expenditures (see Box 2.7).

6.1 Australian government and state taxes on labour, capital and consumption

Australia's tax mix is slightly skewed towards the direct taxation of labour income, accounting for around 40 per cent of revenue raised (Chart 6.1). This includes taxes on salary and wages and fringe benefits, taxes on superannuation contributions and payroll taxes. Taxes on capital income account for around a third of revenue, while taxes on consumption account for slightly more than a quarter. Taxes on capital include company tax, taxes on individual capital income (interest, dividends, capital gains and some business income), the petroleum resource rent tax, crude oil excise and taxes on property such as land taxes and stamp duties on conveyances. Taxes on consumption include the GST, excises on tobacco, alcohol and fuels and other taxes on consumer goods.

The allocation of revenue according to capital, labour and consumption differs between the two levels of government (Chart 6.1). At the Australian Government level the contribution from taxes on labour is around 50 per cent higher than the contributions from taxes on capital and consumption. At the state government level, the contribution from taxes on consumption and labour are roughly equal, while taxes on capital are around 50 per cent higher.

Chart 6.1: Tax revenue from labour, capital and consumption
Australian Government and States — 2006-07



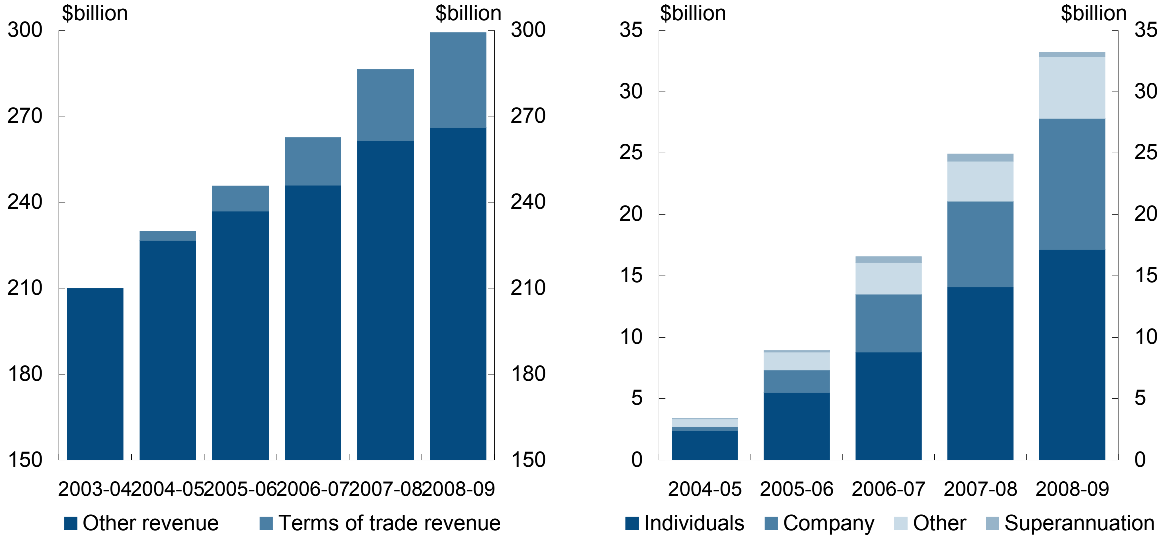
Source: ABS (2008a); Australian Treasury estimates.

Australian Government tax mix — recent history

The boom in the terms of trade is estimated to have generated around $87 billion in additional revenue over the five years to 2008-09 (Australian Government 2008a). Around $33 billion is expected to accrue in 2008-09 (Chart 6.2).

The components of this estimated increase in revenue are shown in Panel B of Chart 6.2. In 2008-09, company tax revenue is estimated to be $10.7 billion, or 14 per cent, higher than would otherwise be the case. This reflects higher company profits flowing from increased bulk commodity prices. Personal tax collections have also increased as a result of higher income tax payments from individuals arising from higher wages and employment.

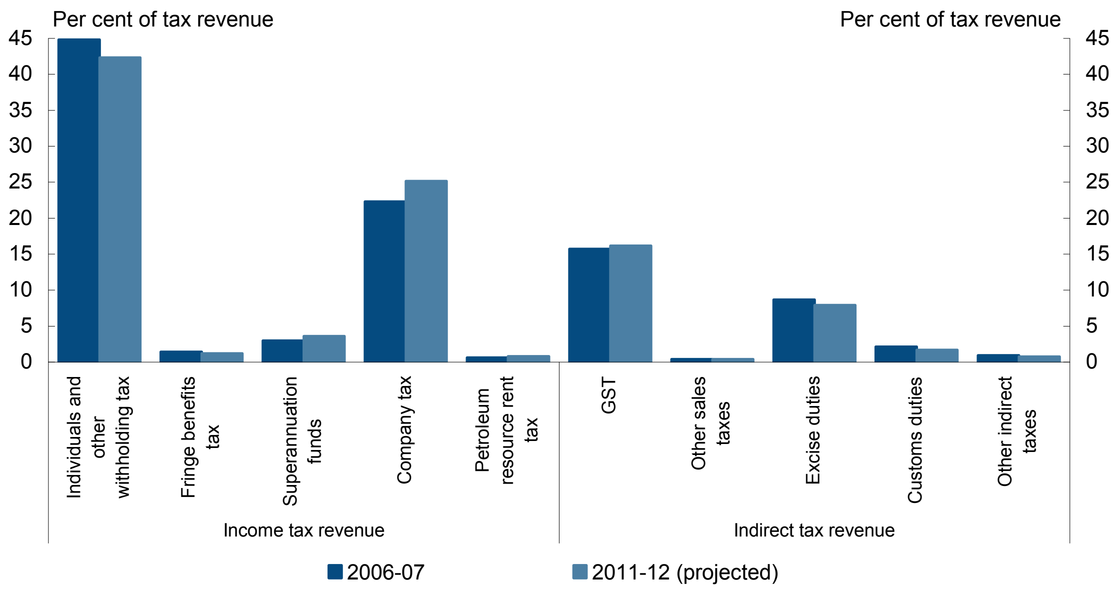
Chart 6.2: Estimated increase in tax revenue due to the terms of trade boom



Source: Australian Treasury estimates, Australian Government (2008a), Statement 5, see Box 2.

Relative to 2006-07, the Australian Government share of revenue from individuals' income and fringe benefits tax is projected to decline, to be around 43.5 per cent by 2011-12 (Chart 6.3). This reflects the recent and announced future cuts in the personal income tax scales. Company income tax is expected to account for a higher share of Australian Government tax revenue in 2011-12 than in 2006-07, along with taxes on superannuation funds and resource taxes. GST revenue is also projected to increase slightly as a share of Australian Government revenue, but overall, indirect taxes are expected to decline slightly in importance.

Chart 6.3: Shares of Australian Government tax revenue in 2006-07 and 2011-12



Source: Australian Government (2008a).

6.2 Taxes on labour, capital and consumption — Australia in the OECD

Chart 6.4 shows the balance of taxes on labour, capital and consumption in OECD countries. In this chart, taxes on labour include taxes on labour income, social security contributions and payroll taxes. Taxes on capital include company tax, taxes on personal capital income and property taxes.[1] Taxes on consumption include value added taxes (like the GST) and excises, as well as taxes such as motor vehicle stamp duties and gambling taxes.

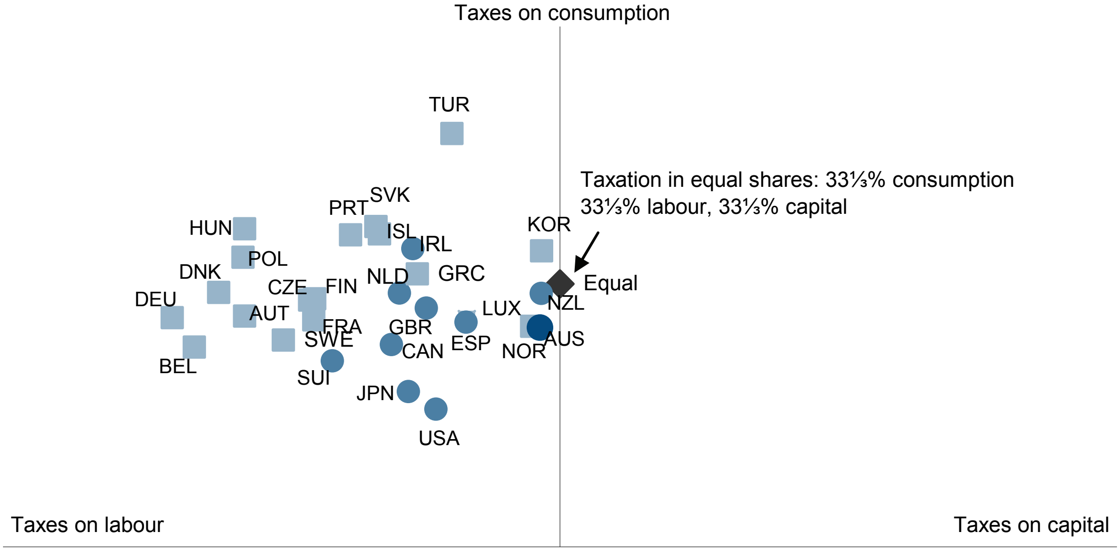
The position of a country in the chart shows its relative reliance on revenue from the taxation of labour income, capital income or consumption. A position on the vertical axis in the centre of the chart represents an equal weighting between revenue from taxes on labour and taxes on capital. To the left of the vertical axis, relatively more revenue is derived from labour taxes than capital taxes while the converse is true to the right of the vertical axis. The closer the country is to the horizontal axis, the lower its reliance on taxes on consumption. For example, the United States (Point 'USA' in Chart 6.4) derives a greater share of its revenue from taxes on labour income than from taxes on capital income and has the lowest share of revenue derived from taxes on consumption.

Compared with other OECD countries, and the OECD-10, Australia has a relatively low reliance on tax revenue from labour, representing around 37 per cent of tax revenue by this measure. In other OECD countries, the reliance on labour taxation is significantly greater. This reflects the significant use of social security contributions in other countries, which are levied on wages, salaries and similar income. Social security contributions represent a significant source of revenue for many OECD countries. For many, this is a larger source of revenue than personal income taxes, in some cases contributing up to 40 per cent of total tax revenue. Australia's closest taxes are the payroll taxes levied by the States, which account for around 5 per cent of tax revenue.

Australia's reliance on consumption taxes, such as the GST and excise, is around the middle of the OECD-10 countries but at the lower end of the OECD as a whole.

1 There are some differences in the classification of taxes on capital income and labour income between Charts 6.4 to 6.6 and Chart 6.1, due to differences in available data.

Chart 6.4: Estimated tax mix, Australia (dark dot), OECD-10 (light dots) and other OECD countries (squares) — 2005[(a)]



(a) Does not include Mexico. For Korea, Iceland, Switzerland and Turkey the share of personal income tax revenue derived from capital has been estimated using the average share of other OECD countries.
Source: OECD (2007a); Eurostat (2008), national governments; Australian Treasury estimates.

Chart 6.5 provides a perspective on the relative weight given to capital taxation in Australia. It is a surprising result in a globalising world with increasingly mobile capital flows for a small open economy to have the highest weight given to the taxation of capital income.

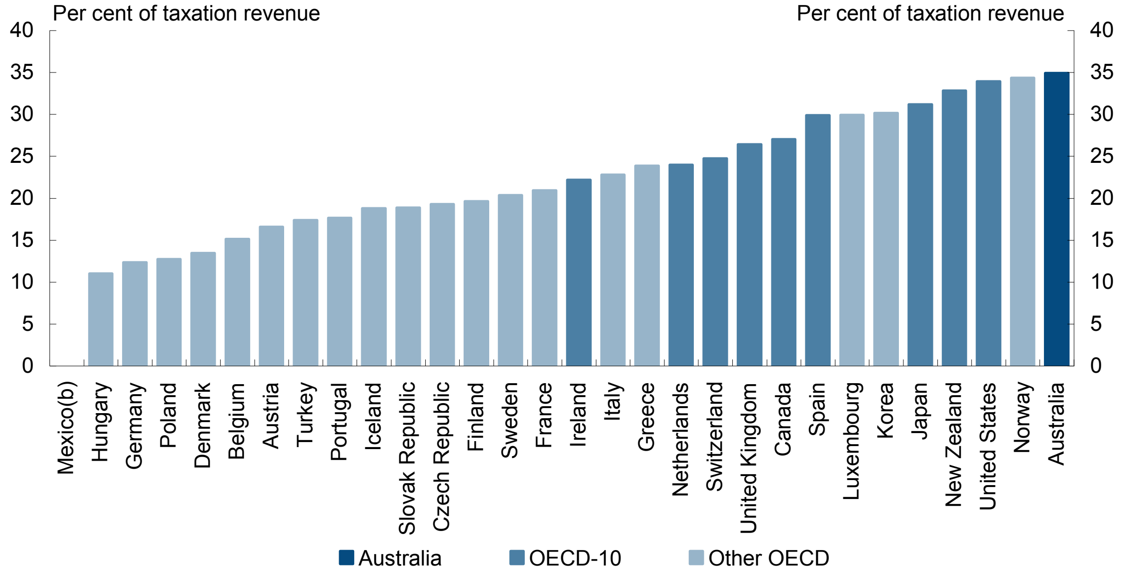
This overall result for Australia flows from a combination of the relatively high contribution of company tax to total tax compared with other OECD countries (driven by a relatively broad base and Australia's superannuation arrangements), a relatively high share of tax revenue from property, and relatively high taxation of personal capital income. The contributions of company and property taxes to total tax revenue are discussed in Section 5 and shown in Charts 5.5 and Chart 5.7. A comparison of top personal tax rates on capital income is also included in Section 5.

The relative contribution of taxes on labour, capital and consumption is indicative of the distribution of the tax burden but it does not necessarily give an indication of the absolute size of the tax burden on labour, capital or consumption. While Australia's reliance on capital taxes as a share of total tax revenue is the highest in the OECD (Chart 6.5), the total tax burden, measured in terms of tax to GDP, is relatively low (Chart 6.6).

Nevertheless, as a share of GDP, the total tax burden on capital is around 11 per cent, which is the fourth highest in the OECD. The total burden on labour is around 12 per cent of GDP (the fourth lowest in the OECD) and the total burden on consumption is around 9 per cent of GDP (also the fourth lowest in the OECD).

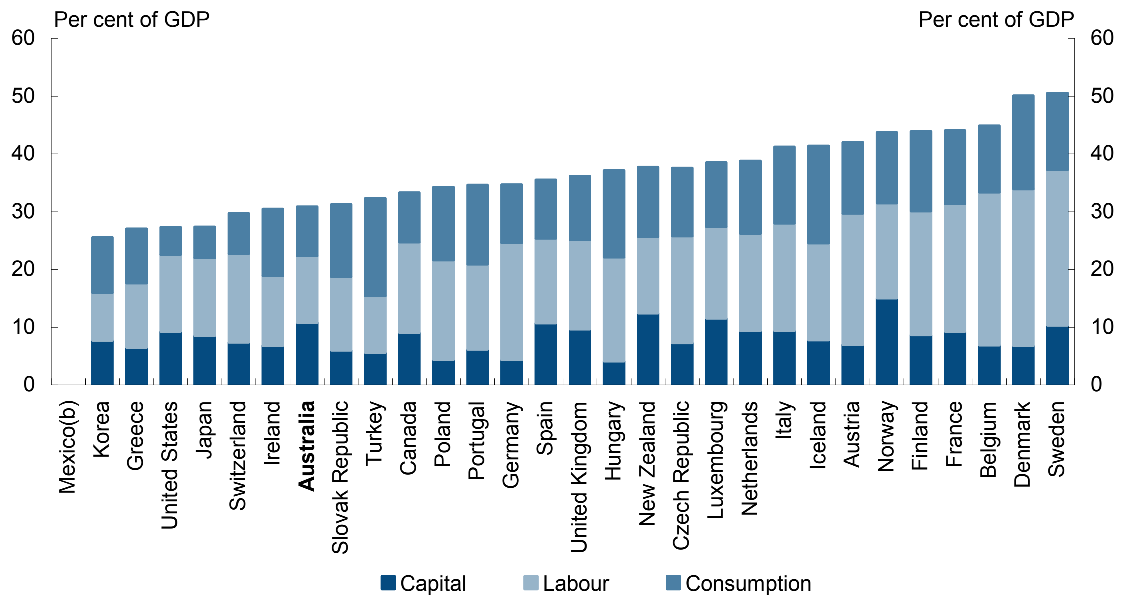
Chart 6.5: Estimated capital taxation revenue in 2005[(a)]

OECD-30 and OECD-10 countries



(a) For Korea, Iceland, Switzerland and Turkey the share of personal income tax revenue derived from capital has been estimated using the average share of other OECD countries.
(b) Data for Mexico not available.
Source: OECD (2007a); Eurostat (2008), Treasury estimates.

Chart 6.6: Estimated contribution of capital, labour and consumption taxes to total tax burden — OECD 2005[(a)]



(a) For Korea, Iceland, Switzerland and Turkey the share of personal income tax revenue derived from capital has been estimated using the average share of other OECD countries.
(b) Disaggregated data for Mexico not available.
Source: OECD (2007a); Eurostat (2008), national governments; Australian Treasury estimates.

Chart 6.4 and Chart 6.6 indicate the relative contribution to tax revenue from taxes on labour income, capital income and consumption. However, differences in the weightings do not necessarily imply differences in tax competitiveness across countries. The amount of tax revenue derived from a particular base and its relative contribution to total revenue will be a product not only of the rate of tax and the comprehensiveness of the tax base but also of size of the activity of the base to which the tax applies. For example, while Australia has one of the highest levels of corporate tax as a percentage of GDP among OECD countries, and this ratio has increased in recent years, the average effective rate of tax on corporate income, which is a better measure of competitiveness, has not increased markedly (Chart 6.7). The increase in the corporate tax to GDP ratio has been due primarily to strong growth in corporate income, particularly in the resource sector. However, there is no readily available data on how average effective rates of tax on corporate income have moved in other OECD countries. These may or may not have shifted downwards relative to Australia in line with the reductions in the statutory company tax rate.

Chart 6.7: Measures of the effective corporate tax rate in Australia

Source: Australian Treasury estimates.

7 The personal tax-transfer system

Outline

This section examines the way in which the personal tax and transfer systems interact to affect the disposable income of individuals and families, and their incentives to work, save and invest (including in skills).

Key points

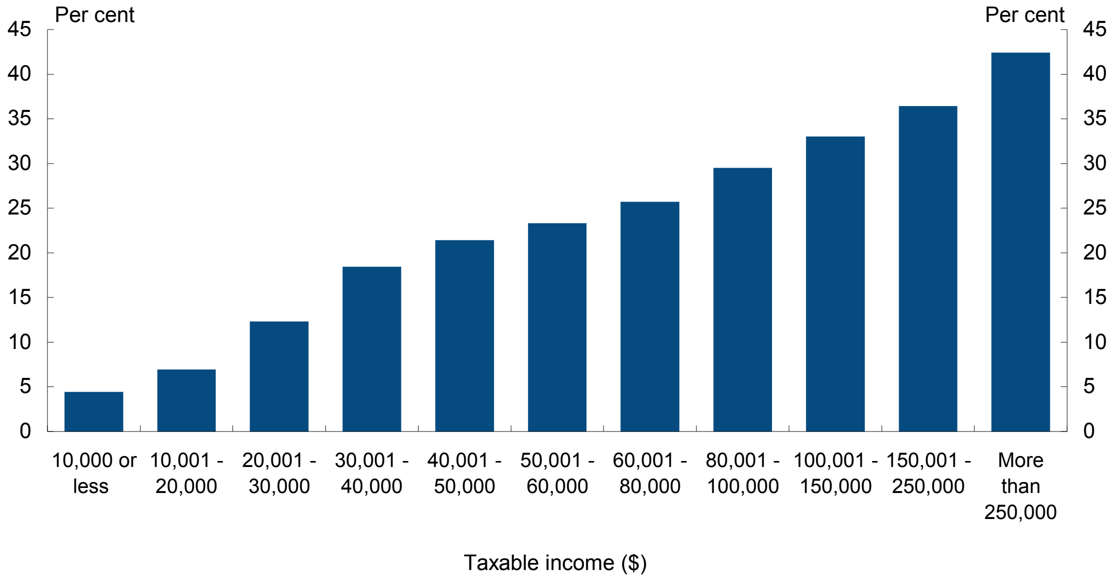
- The tax and transfer systems combine and interact to be targeted, progressive and redistributive. There are many families and individuals who receive transfers and pay tax in the same year and from one year to the next.
  - Successive tax cuts since 1985 mean that taxpayers at all income levels pay less tax than if the tax thresholds had been indexed for inflation.
- The Australian tax and transfer systems are separate systems. There are different bases of assessment between and within the two systems, including the definition of income, the unit of assessment, the period of assessment and the basis of eligibility. These differences largely exist to achieve a targeted system, but a result is that the system as a whole is complex.
- Significant demographic change, including ageing of the population, will influence the affordability of the transfer system in the future. Participation and productivity increases may offset some of the impact of demographic change.
  - Some workers appear to be more responsive to incentives than others. For example, part-time workers seem to be more responsive than males working full-time hours.
- In combination, the tax and transfer systems determine the disposable income of an individual or family. They also affect their incentives to participate in paid work and to acquire skills, and their decisions about when and how to save.
  - The adequacy of transfers is determined by the sum of income support payments, supplementary payments, in-kind benefits and concessions.

7.1 The role of Australia's personal tax-transfer system

The primary roles of the tax-transfer system are revenue collection and income redistribution. Income is redistributed to Australians through the combination of a progressive tax system and targeted transfers. The personal tax system raised around 45 per cent of total Australian Government revenue in 2006-07. Under Australia's progressive tax system, those with a higher capacity to pay bear a greater than proportional share of the tax burden. Tax offsets and exemptions are also used to target assistance to individuals and families with lower means or to assist individuals in particular circumstances.

On average, taxpayers with taxable incomes of $10,000 or less in 2005-06 paid 4.4 per cent of their income in income tax (Chart 7.1). Those with taxable incomes over $250,000 paid 42.4 per cent of their income in tax on average.

Chart 7.1: Average tax rates by income range in 2005-06[(a)]

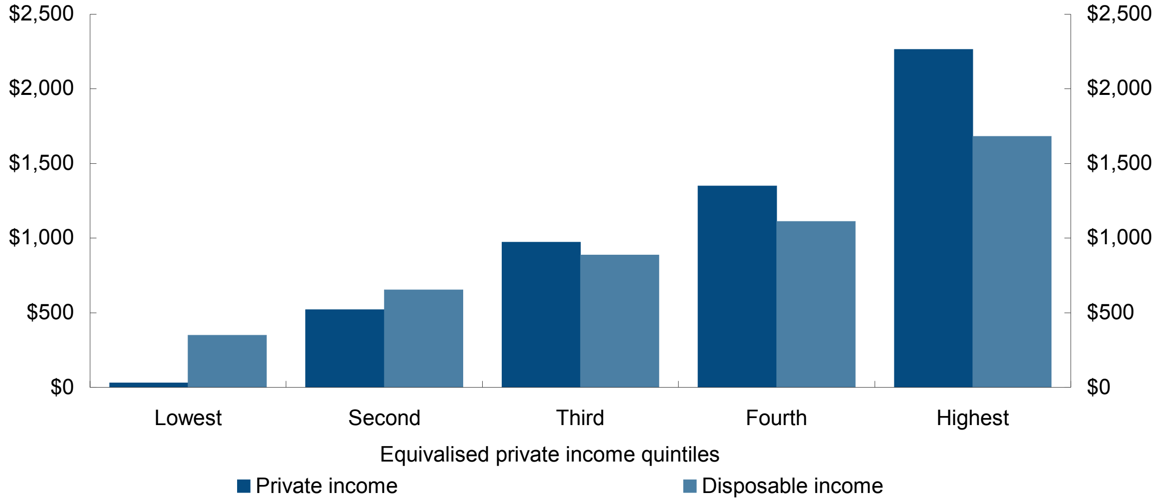


(a) Excludes taxpayers with nil taxable income.
Source: Australian Government administrative data.

Spending on the transfer system by the Australian Government amounted to over 25 per cent of revenue collected in 2006-07. Transfers provide financial assistance to individuals who are unable, or not expected, to fully support themselves, and to families to help meet the costs of raising children.

The net effect of the personal tax-transfer system is to reduce the incomes of higher income households, and increase the incomes of lower income households (see Chart 7.2). The combined effect of taxes and transfers is to make the distribution of income across households more equal. The ABS reports that there was no significant change in income inequality from the mid-1990s to 2005-06 (ABS 2007d). This is despite a more pronounced increase in private incomes at higher income levels than the increases for those on low and middle incomes.

Chart 7.2: Average weekly private and disposable incomes in 2003-04[(a)]



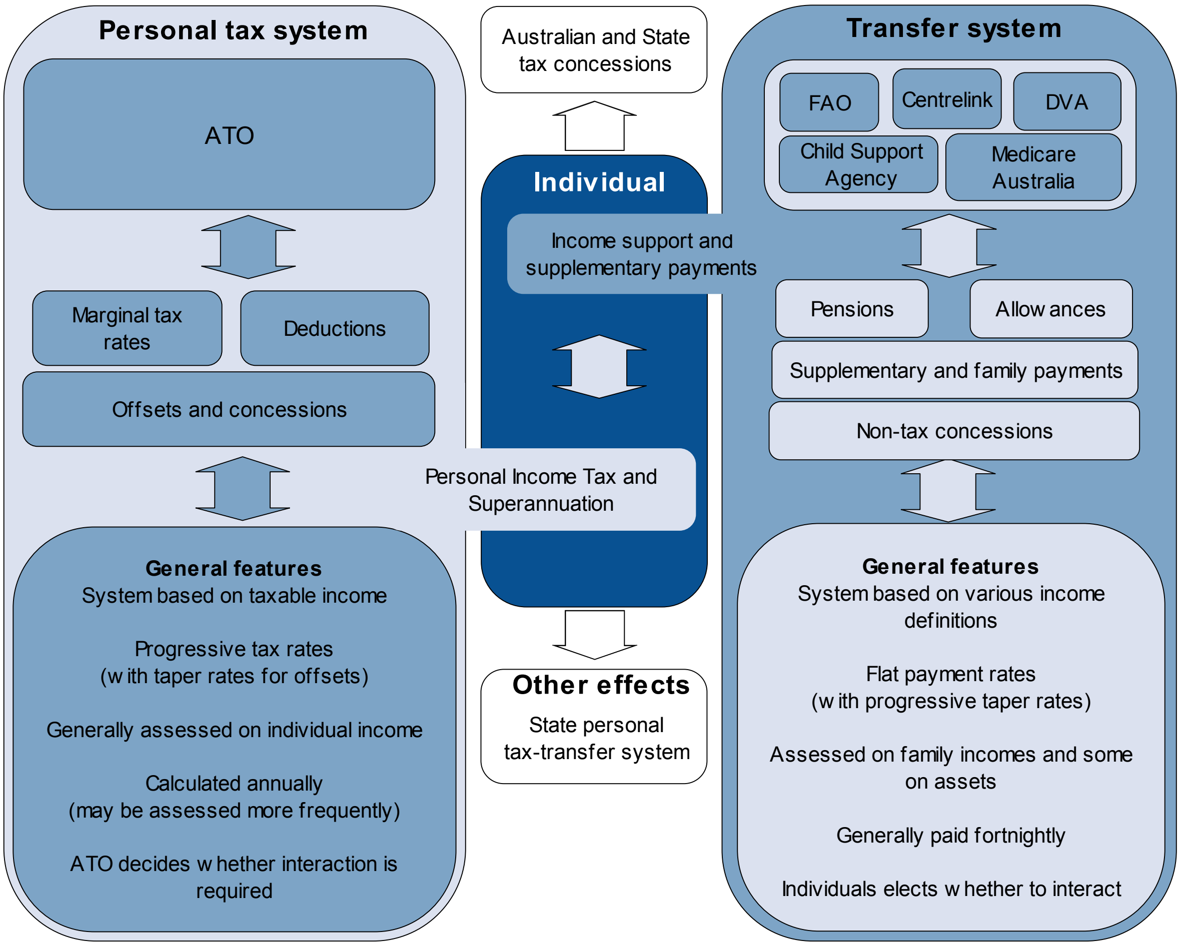
(a) Household equivalised incomes. Equivalised incomes take account of different household sizes and structures by identifying the amount needed to provide an equivalent standard of living to that of a single person.
Source: ABS (2007b).

7.2 How individuals interact with the personal tax-transfer system

The components of the personal tax–transfer system affect a household's disposable income and impact on incentives to work, save and develop skills. Marginal tax rates and means test tapers affect the financial return from additional work and the return from savings and investments. Transfers, tax exemptions for some forms of income, and tax offsets add to disposable income and can reduce incentives to work. Superannuation is facilitated through a mixture of compulsory saving and tax concessions which are designed to improve retirement income.

Chart 7.3 shows the elements of the personal tax-transfer system and how it interacts with an individual or family unit. Other effects outside the Australian Government tax-transfer system, such as the state tax-transfer systems, also impact on the individual or family unit but are not included in this chart.

Chart 7.3: Personal tax-transfer system



Individuals interact with different agencies depending on whether they pay tax or they are eligible for transfers (the left and right sections respectively of Chart 7.3). The type of interactions can also differ between the agencies. This can lead to increased compliance costs for individuals depending on how many agencies they must deal with during a year.

The tax and transfer systems have different objectives which influence how the agencies administer their part of the system. Differences between the tax and transfer systems include: the financial basis of assessment (income versus income and assets); the income unit (individual versus family); and frequency (annual assessment versus fortnightly assessment) as outlined in Box 7.1.

The measurement of income is a particular area of difference (Table 7.1). Income support (pensions and allowances) are assessed on a social security definition of income, while only taxable income is used to assess the senior Australians tax offset and the low income phase-in of the Medicare levy. Differences in what is assessed can also relate to the calculation period — fortnightly for income support and annually for tax assessment and family assistance. Another way in which income definitions vary is whether they are applied to an individual or a couple.

Box 7.1: Different characteristics of the personal tax-transfer system

Individual versus family

The individual is generally the unit of assessment for the taxation system. However, there are exceptions where income tested programs are applied to individuals taking into account their spouse's income and/or family circumstances, such as the senior Australians tax offset and the Medicare levy surcharge.

The unit of assessment in the transfer system is the couple or family, based on the principle that the provision of targeted support should take into account other sources of financial support, including from close family members (spouse, parents of dependent children). The type of household also determines eligibility for assistance.

Income and assets tests

The income definitions used to assess the appropriate level of taxation and transfers differ within and between the two systems (see Table 7.1). 'Taxable income' in the tax system permits a range of deductions, while 'ordinary income' used for income support payments is a far more comprehensive definition of income.

Eligibility for most transfers is subject to means tests that target assistance based on an assessment of need. Income support payments are subject to both income and assets testing, with more generous assets test limits for those who do not own a home. Family assistance and the Commonwealth Seniors Health Card are tested on income but not assets.

Assessment periods

Tax is assessed on annual financial year income[1], though amounts are withheld and remitted to the ATO on a regular basis through the pay as you go (PAYG) withholding arrangements.[2] The effect of these arrangements is to remove employees from the majority of transactions occurring in the tax system. Income support payments are assessed and paid on a fortnightly basis, to provide timely support to recipients. Income support means tests are therefore highly responsive to short–term changes to an individual's or family's circumstances. Family assistance is provided to the majority of recipients on a fortnightly basis, with the income test based on annual income.

Agency assessment versus self-assessment

The personal taxation system is generally based on self-assessment — particularly in relation to deductions and non-salary income sources. The transfer system is based on self-identification — an individual needs to apply for most payments and allowances. Eligibility is assessed by an agency based on information provided by the individual.

1 Primary producers, artists and composers can average their income over a number of years.
2 Some people pay quarterly instalments, such as sole traders and people with investment and business income.

Table 7.1: Selected definitions of income in the tax-transfer system

	Income base	Key components of the income base			
		Employer fringe benefits	Salary sacrifice-superannuation contributions[(a)]	Net losses (rental property and financial)[(b)]	Tax exempt income (including superannuation, foreign, defence income)
Pensions	Ordinary income	Non-grossed fringe benefits included	Not included, except when over age pension age	Losses cannot reduce other assessable income	Some forms included
Allowances	Ordinary income	Non-grossed fringe benefits included	Not included, except when over age pension age	Losses cannot reduce other assessable income	Some forms included
Family Assistance	Adjusted taxable income	Non-grossed reportable fringe benefits included	Not included	Net rental property losses added back	Some forms included
Commonwealth Seniors Health Card	Taxable income with adjustments	Assessable fringe benefits included	Not included	Net rental property losses added back	Some forms included
Child support	Taxable income with adjustments	Grossed-up reportable fringe benefits included	Not included	Net rental property losses added back	Some forms included
Superannuation co-contribution	Assessable income with adjustments	Grossed-up reportable fringe benefits included	Not included	Losses not deducted from assessable income	Not included
Personal income tax	Taxable income	Not included	Not included	Losses included in taxable income	Not included
Higher Education Loan Program	Taxable income with adjustments	Grossed-up reportable fringe benefits included	Not included	Net rental property losses added back	Some forms included
Medicare levy surcharge	Taxable income with adjustments	Grossed-up reportable fringe benefits included	Not included	Losses included in taxable income	Not included
Senior Australians tax offset	Taxable income	Not included[(c)]	Not included	Losses included in taxable income	Not included

(a) To be included in most programs from 1 July 2009.
(b) To be included in some programs from 1 July 2009.
(c) To be included from 1 July 2009.

Definitions
'Ordinary income' for social security purposes includes salary, wages, net business income, rent and deemed income on financial investments. It also includes certain periodic payments such as some gifts and allowances, and payments to employees for particular purposes such as relocation or travel, where the employee has the discretion whether to spend the money on that purpose. Exceptions to ordinary income include emergency or like assistance, payments by States or Territories to assist a person to purchase or build their own home, payments made to a person for a dependent child, or insurance or compensation payments made for the loss or damage to buildings, plant or personal effects.
'Adjusted taxable income' is taxable income, adjusted fringe benefits, target foreign income, net rental property losses, tax free pensions or benefits, less any deductible child support paid.
'Assessable income' is ordinary income plus statutory income (provided it is neither exempt nor non-assessable non-exempt).

Interactions within the year

As people's circumstances change, their interactions with the personal tax-transfer system also change. In some cases only the tax system will affect income, while in others it is the transfer system. There will also be times when people are paying tax as well as receiving transfers or paying tax on a transfer. This is referred to as 'churning', as the total payments received offset part or all of the tax they pay.

Analysis of churning is highly sensitive to the time period in question. Income support payments are targeted on the basis of an immediate current need, such as unemployment, and are mostly assessed fortnightly. In such cases, the transfer system is responsive to an immediate set of circumstances for which people typically cannot cover their costs. The tax system has an annual basis, with some expectation that individuals can manage variations in income over the period. As an individual's or couple's earnings increase, transfers are recouped through payment withdrawal. Tax liabilities also increase.

While churning is a consequence of a targeted redistributive system, it can be costly. One set of costs relates to the separate administration of the tax-transfer system, to the extent that a similar outcome could be achieved with less churn. Another set of costs relates to the compliance costs on individuals, who are subject to different information and compliance requirements from the combined effects of the two systems.

At an aggregate level, Australia has a low level of churn by international standards, as the personal tax-transfer system is tightly targeted, highly progressive and substantially redistributive. OECD estimates (Whiteford 2005) indicate that Australia has the lowest level of churn of any OECD country, on the basis of direct taxes and transfers. Widening the assessment to include indirect taxes and non-cash benefits does not significantly change this analysis (Harding et al, 2006).

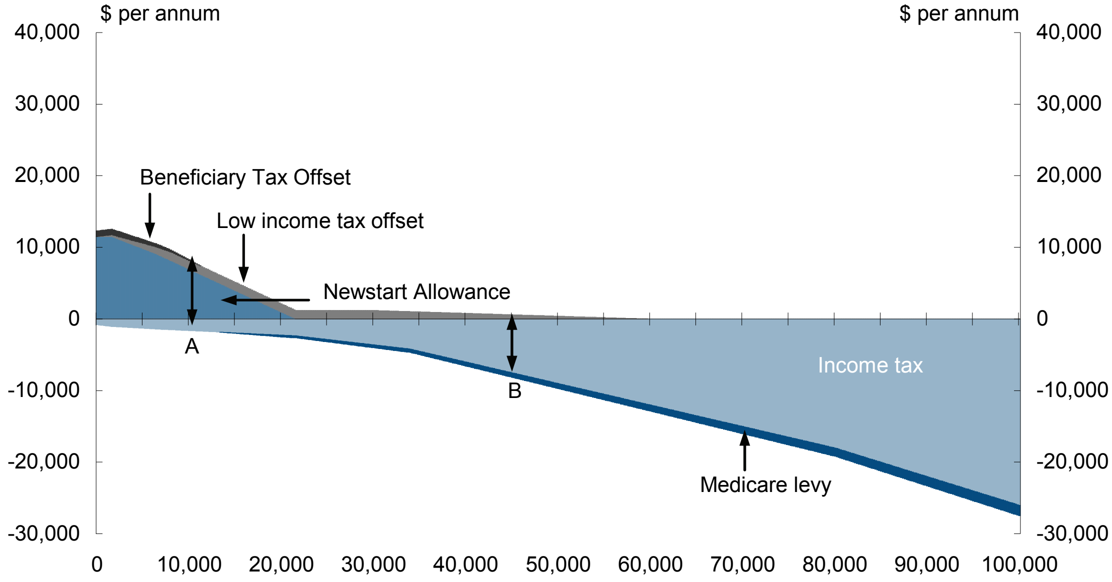
Individuals experience churn in two main ways. Many families who receive family assistance (Family Tax Benefit (FTB) or child care assistance) also pay income tax. Families can choose whether to receive FTB after their taxable income has been assessed at the end of the year. However, fewer than 10 per cent of families choose this option, instead preferring fortnightly payments despite the associated churn. Historically, redistribution of family assistance from breadwinners to primary carers within couples has been an important reason why governments have supported direct payments rather than delivery of assistance for children through the tax system.

Individuals and families also experience churn when they receive income support and have low to moderate levels of private income. For example, a person on a part–rate Newstart Allowance with an ongoing part-time job is in both systems at the same time. If they move off Newstart into full-time work, they would still be in both the tax and transfer systems over the course of the income year. Similarly, older Australians with savings may also receive the Age Pension and still pay tax even after the operation of the low income tax offset (LITO) and the senior Australians tax offset. Churning of income support recipients with private income has increased since the 1980s, as income support payments have risen from below the tax free threshold to well above it. While a relatively low tax free threshold increases this form of churn, a higher tax free threshold would have the disadvantage of increasing opportunities for tax planning.

Interactions over time

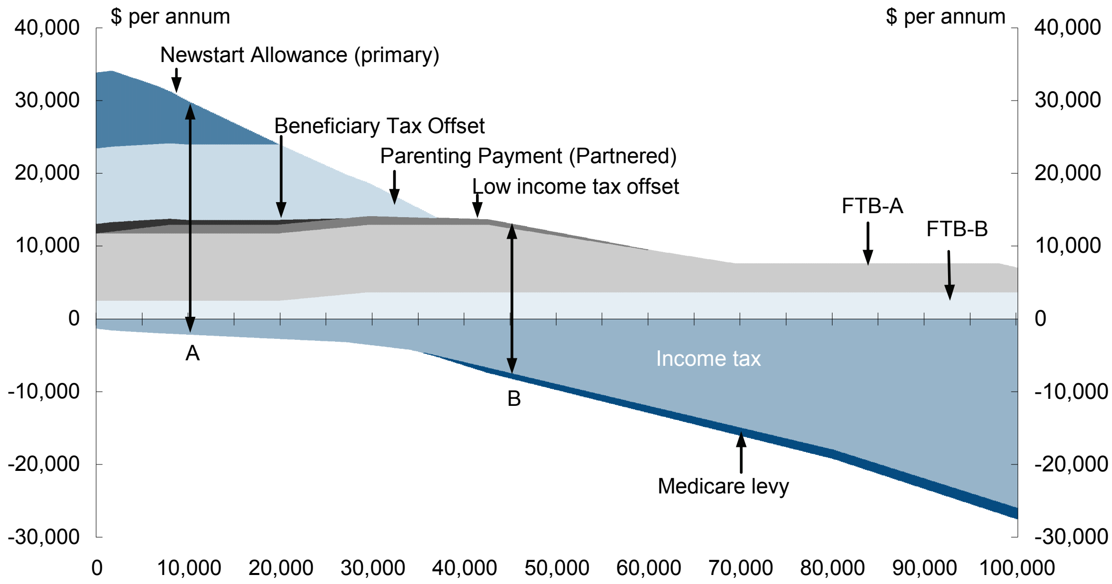
Charts 7.4 and 7.5 show how the personal tax-transfer system interacts to determine an individual's disposable income for two single income family types — one with no children and one with a partner and two children aged three and eight. Point A shows the effect of the tax-transfer system at an income of $10,000. Point B shows the effect where the level of earned income is $45,000. They also show the extent of 'churn' which can occur in the system.

Chart 7.4: Transfers and taxes, by level of income
Single income no children (2008-09)



Source: Australian Treasury estimates.

Chart 7.5: Transfers and taxes, by level of income
Single income family, two children aged 3 and 8 (2008-09)



Source: Australian Treasury estimates.

The amounts above zero show the components of the personal tax-transfer system which have a positive effect on disposable income. These are Newstart Allowance, Parenting Payment (Partnered), LITO and Family Tax Benefit A and B. The items below zero reflect the individual's tax and Medicare levy liability. As the individual earns more income they start to lose their payments and offsets and pay more tax. The effect on disposable income is shown in Tables 7.2 and 7.3.

Table 7.2: Disposable income based on family type — $10,000 earned income (2008-09)

	Individual — no children	Single income couple — children 3 and 8
Earned income	$10,000	$10,000
Newstart	$6,946	$5,825
Parenting Payment (Partnered)	-	$10,369
Gross income	$16,946	$26,194
Gross tax (Medicare levy threshold not reached)	$1,642	$2,129
- less beneficiary tax offsets	$142	$655
- less LITO	$1,200	$1,200
Net tax payable	$300	$274
Family Tax Benefit Part A + B (tax exempt income)	-	$11,789
Total disposable income	$16,646	$37,709

Table 7.3: Disposable income based on family type — $45,000 earned income (2008-09)

	Individual — no children	Single income couple — children 3 and 8
Earned income	$45,000	$45,000
Gross taxable income	$45,000	$45,000
Gross tax on gross income (including Medicare levy)	$8,175	$8,175
- less LITO	$600	$600
Net tax payable	$7,575	$7,575
Family Tax Benefit Part A + B (tax exempt income)	-	$12,469
Total disposable income	$37,425	$49,894

The interactions between the components of the personal tax-transfer system mean that some individuals and families will not become net taxpayers until their private income is well above the tax–free threshold of $6,000. This point is sometimes called the 'net tax threshold' and represents the point where cash transfers equal tax paid. After this point the individual or family will become net taxpayers. As shown in Table 7.4, the net tax threshold differs for different family types.

Table 7.4: Net tax threshold for different family types (2008-09)

Family types	Net tax threshold
Single person, no children	$19,448
Single income couple, no children	$33,864
Dual income couple (75-25 split), no children	$35,579
Sole parent, two children aged 3 and 8	$53,819
Single income couple, two children aged 3 and 8	$53,819
Dual income couple (75-25 split), two children aged 3 and 8	$59,367

Over a lifecycle, people receive greater subsidies at times of higher need, such as when they have young children and in old age, and pay higher levels of tax at times when they can better afford to do so, such as in later working years when their children have left home. In this way, the tax-transfer system 'smooths' income through more difficult periods and bears some of the risks associated with unemployment, illness and other life contingencies.

Inflation and the personal tax-transfer system

The personal income tax settings affect a person's real disposable income (income adjusted for changes in inflation). Where a progressive tax scale is not adjusted over time, wage increases can result in an individual paying a higher average tax rate on the same level of real income. This can reduce the progressivity of the tax system and is known as bracket creep or fiscal drag.

Australia has returned fiscal drag through regular (though unscheduled) tax cuts in the form of changes to rates, thresholds and adjustments to LITO. Compared to 1985, successive tax cuts have meant that taxpayers at all income levels pay less tax than they would have if the thresholds had been indexed to the consumer price index (CPI) or even to wages growth.

Table 7.5 shows the effect on average tax rates of the return of fiscal drag since 1985 for a single person earning half average weekly earnings (AWE), AWE, and twice AWE. For example, if the tax thresholds had only been indexed to CPI or wages, an individual earning AWE would have an average tax rate today of 22.8 per cent and 21.4 per cent, respectively. The changes to personal tax thresholds since 1985 have meant that this individual has an average tax rate of 18.1 per cent.

Table 7.5: Fiscal drag has been more than returned since 1985

		Average tax rate in 2008-09 if the 1985-86 personal tax thresholds had been indexed to:	
Earnings	Actual average tax rate in 2008-09	Inflation	Wage growth
Half AWE ($24,070)	7.8	14.7	13.5
AWE ($48,140)	18.1	22.8	21.4
Twice AWE ($96,280)	27.0	37.2	34.8

Assumes CPI/AWE indexation applies to personal tax thresholds, LITO amount and threshold, and the Medicare low-income threshold.
Source: Australian Treasury estimates.

Inflation can also affect the purchasing power of transfers through the effects on payment rates and thresholds. The combination of the indexation to CPI and benchmarking of Age and Service Pensions to male total average weekly earnings (MTAWE) has resulted in increased purchasing power over time, while the indexation of allowances to CPI has sought to ensure that the value of these payments is not eroded by changes in consumer prices. The indexation of income support payments is discussed in more detail in the next section.

7.3 Important impacts of the personal tax-transfer system

Adequacy of support

The personal tax–transfer system plays a key role in the social support of individuals. The primary source of income for the majority of Australians is earnings from work. The tax system provides concessions to reduce the tax paid by lower income earners, particularly those receiving transfers. The transfer system plays the societal function of providing support for people who are transitioning into the workforce or are unable to work, or not expected to work (due to age, disability, study or carer responsibilities).

A central issue for the personal tax-transfer system is the level of support that it should provide to people with lower resources. This is usually expressed in terms of the 'adequacy' of the rate of assistance.

There are many views on what constitutes adequacy, and how it should be measured. Common adequacy measures include the use of fixed and relative benchmarks, such as replacement rates, budget standards, wellbeing outcomes and poverty lines (see Box 7.2). Measuring the adequacy of income support against these benchmarks can give different results.

Adequacy measurements that look solely at the base level of income support can misrepresent the total level of support provided to individuals and families. Supplementary payments, other sources of income and in-kind benefits are also important determinants of the overall level of support.

The issue of adequacy of income support payments is dealt with in more detail in the companion document to be issued by FaHCSIA.

Box 7.2: Types of adequacy benchmarks

Common measurements of adequacy of income support payments include: replacement rates; budget standards; wellbeing outcomes and poverty lines.

Replacement rates

There are two main types of replacement rates. The first compares an individual's post-retirement spending power with their spending power before retirement. The other compares the income of an individual with that of a particular group (for example, a comparison of the income of an Age Pensioner to a person who earns the average wage). An increase in the proportion of income support to wage income suggests an income support recipient has become relatively better off.

Budget standards

Budget standards are used to estimate the budget to fund the goods and services a person or family needs to achieve a particular standard of living. The Social Policy Research Centre at the University of New South Wales has developed budget standards for two levels, a 'median living standard', for households somewhere around the median standard of living in Australia, and a 'low-cost' budget which requires frugal management but still allows social and economic participation consistent with community standards.

Financial stress indicators

These are determined by survey responses to questions on financial wellbeing. The responses enable comparisons of income support recipients to the community as a whole. A series of financial stress indicators has been included in the ABS's Household Expenditure Survey.

Poverty lines

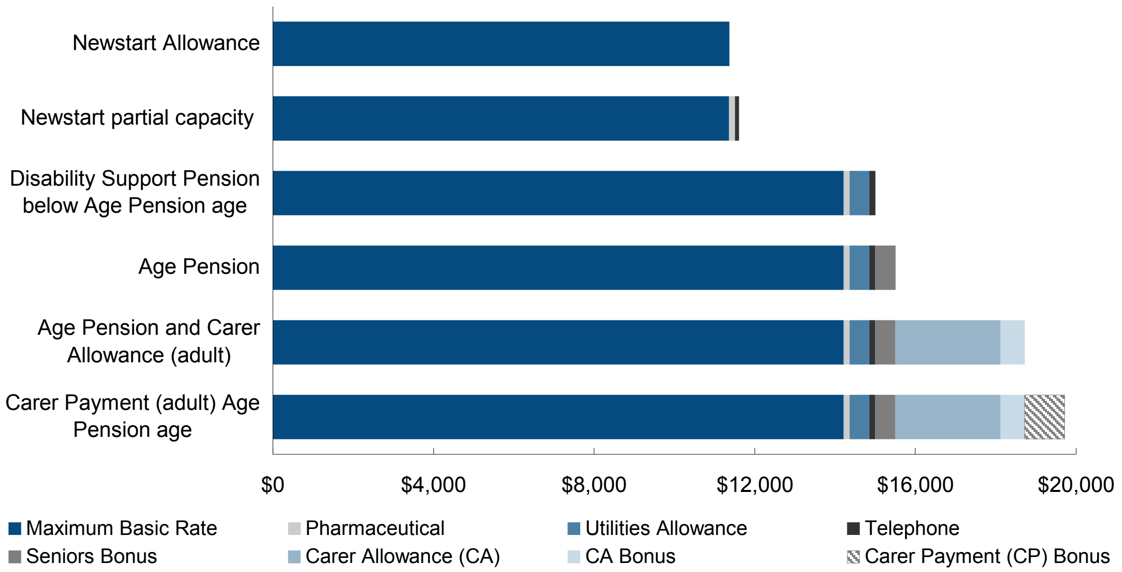
Poverty lines set a benchmark income below which a person or household is considered to be living in poverty. A commonly used line is 50 per cent of average or median household income. An equivalence scale is often used to adjust the income of different household types to that of a standard household type used for the poverty line.

Adequacy benchmarks are dealt with in more detail in the companion document to be issued by FaHCSIA.

Measuring the level of support

Many transfer recipients receive an amount which is greater than the base rate of payment. The total income support package received depends on both the type of payment and the supplementary amounts available with that payment. The recent introduction of Utilities Allowance and 'one-off' lump sums, in addition to Telephone and Pharmaceutical Allowance and support for carers, has increased the total cash benefits well above the base rate of payment for carers and pensioners. These supplements have also significantly altered the relationship between various income support packages. Chart 7.6 illustrates the different levels of support given to recipients, which for a single person can range from $11,364 per annum for a Newstart allowee to $19,715 for a Carer pensioner of Age Pension age. Further support of up to $2,782 a year is available for private renters through Rent Assistance.

Chart 7.6: Income support packages for selected single recipients — March 2008



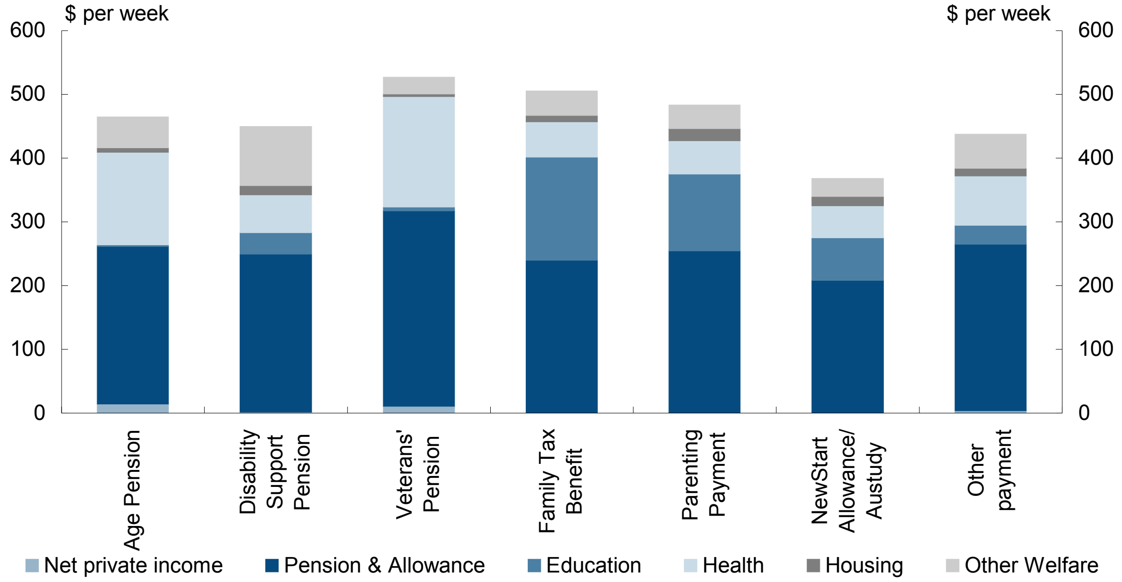
Excludes non-cash benefits and tax expenditures.
Source: FaHCSIA estimates, rates as at 20 March 2008.

Beyond cash payments

The support provided by governments to individuals and families also includes government services, concessions and in–kind benefits. ABS estimates show that, for welfare dependent households receiving the Age Pension, the average equivalised[1] value of these benefits is $203 per week. This is almost equal to the average value of income support cash payment ($247 in 2003-04 dollars). These in-kind benefits therefore are an important part of the total support provided to households and individuals (Chart 7.7).

1 Equivalised incomes seek to identify the equivalent level of income households need to achieve a comparable level or pattern of consumption to a single person.

Chart 7.7: Components of final income of income support dependent households
Classified by main type of payment in 2003-04[(a)]



(a) Households reliant upon income support for 90 per cent or more of disposable income classified by main income support payment, equivalised components of final income.
Source: FaHCSIA estimates derived from ABS (2006a).

Many households that receive income support have private sources of income and wealth. This is particularly the case for Age pensioners where a growing number of recipients are retiring with increasing levels of wealth, including superannuation savings. This trend is expected to continue as more people retire with higher levels of superannuation. However, the proportion of people receiving the Age Pension is not expected to decrease significantly. Projections prepared for the second Intergenerational Report (Australian Government 2007b) indicate that even with the maturation of the superannuation guarantee (SG), there will only be a modest increase in the proportion of older Australians who will not receive at least a partial Age Pension. However, the proportion of retirees on full-rate pensions will fall from over two thirds to less than half.

Replacement rates

One approach to measuring adequacy is to consider the value of income support as a replacement for earnings — defined as the level of income that payments provide relative to the take-home pay of an employed person. Using this approach, the replacement rate for a single allowee, such as a person on Newstart Allowance, is currently 46 per cent of the net earnings of a minimum wage earner, while a single Age pensioner receives 60 per cent. In comparison with a male on average wages, a single allowee receives 25 per cent, while an Age pensioner receives 33 per cent.[2]

Further discussion of benchmarks of adequacy can be found in the companion document prepared by FaHCSIA.

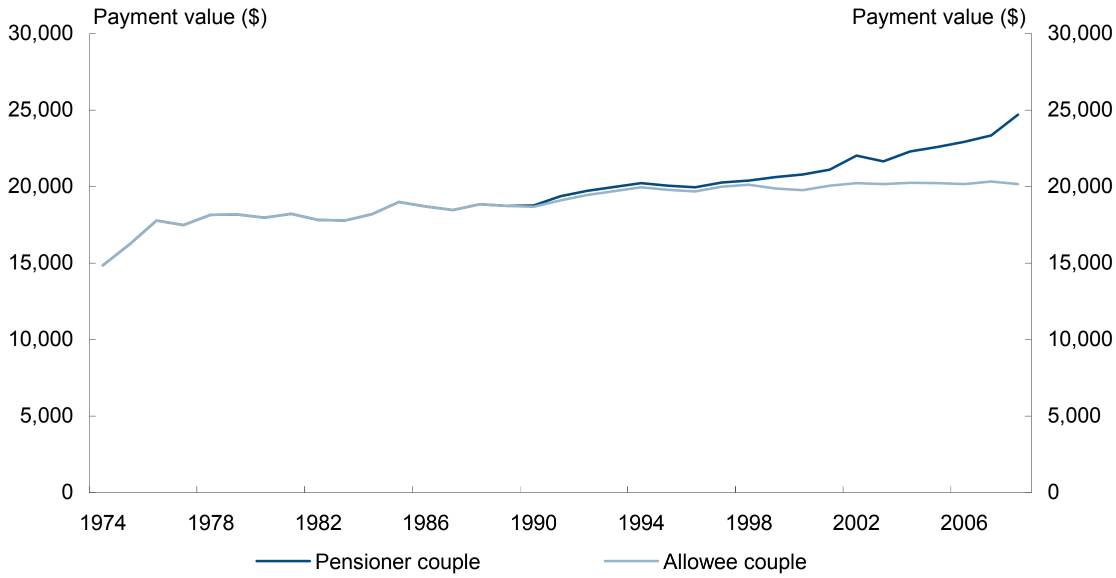
2 'Net earnings' are after-tax earnings of a single adult who receives this rate over the entire tax year. The average wage comparison is based on net MTAWE. Pension rates include Telephone, Pharmaceutical and Utilities allowances, but exclude bonuses. Pension and allowance rates both exclude Rent Assistance.

Changes to the real value of basic income support over time

Both pensions and allowances are indexed by the CPI to maintain their purchasing power in the face of price increases. In addition, pensions are benchmarked to earnings as measured by MTAWE. This means that pension recipients benefit from productivity growth in the economy.

The rate and indexation of pensions and allowances has changed over time (Chart 7.8). In the past 10 years, the real value of the pension has increased. Over the same period, allowances have remained flat in real terms, being linked to the CPI. The difference in real value partly reflects the different rationale for allowances which have historically been designed to provide temporary assistance and pensions which are for longer-term assistance. Chart 7.8 illustrates this divergence for the case of couples. Allowances such as Newstart are estimated to be 50 per cent of the pension by 2035 under current indexation arrangements if real wages continue to grow at their long term average rate.

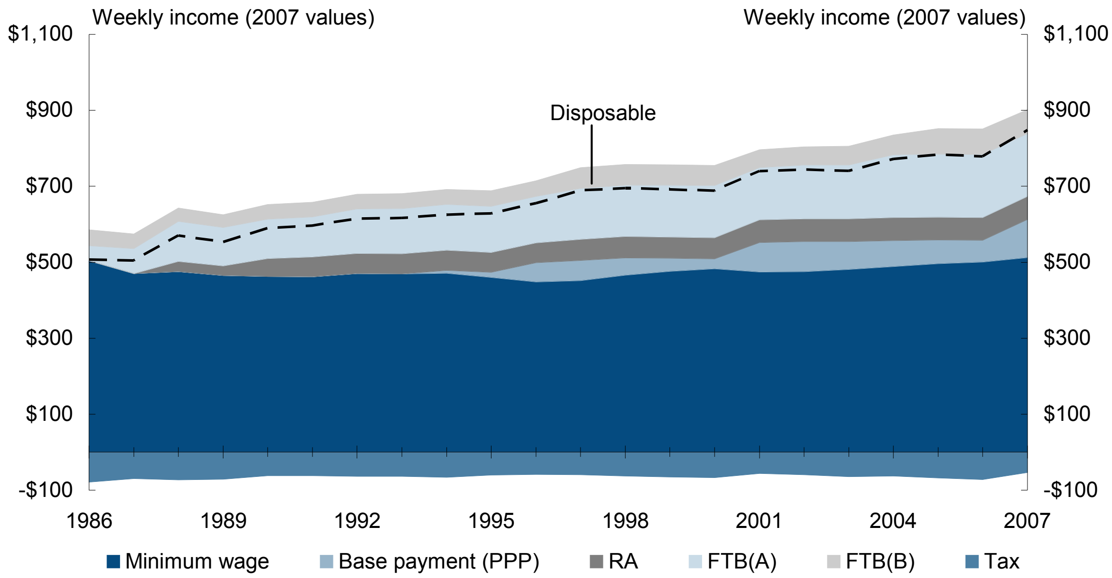
Chart 7.8: Real rates of selected pensions and allowances 1970-2008[(a)(b)]



(a) Annualised rates of assistance applying as at 1 January, adjusted by the All Groups Consumer Price Index.
(b) Rates include Telephone, Pharmaceutical and Utilities allowances, but exclude bonuses.
Source: FaHCSIA estimates.

The value of assistance provided to families has increased substantially, as has its role in complementing the earnings of low income working families. Over the last 21 years, transfers have increased the disposable income of a single income family earning the minimum wage by 67 per cent (Chart 7.9). In contrast, there has been little change in the real value of the minimum wage over that period.

Chart 7.9: Real income components — minimum wage single income family[(a)]



(a) Couple family with a single income earner on the minimum wage with two children aged 3 and 8 and receiving full Rent Assistance.
Source: FaHCSIA estimates.

Maintaining value over time

The effect of the SG on future retirees' income will be significant. The SG commenced in 1992 and did not reach the maximum rate of 9 per cent until 2002. The influence of the SG on an individual's retirement income will depend on when they retire, whether the individual has made voluntary contributions and how long they are in paid employment.

Under a fully mature SG system, an individual who earns 75 per cent of Average Weekly Ordinary Time Earnings (AWOTE) (approximately $43,000) is estimated to have a replacement rate[3] of 78.4 per cent. The same individual earning AWOTE (approximately $58,000) will have a replacement rate of 68.5 per cent. Although the replacement rate is lower for the individual earning AWOTE, their actual retirement income will be higher. If there was no SG and these individuals retired only on a full-rate Age Pension, the replacement rates would be 48.5 per cent and 38.1 per cent respectively.

Affordability

In 2007-08, transfers constituted approximately $70 billion or over a quarter of total Australian Government expenditure.

The affordability and sustainability of the personal tax-transfer system is influenced by a range of factors, including: workforce patterns, such as shifting patterns of part-time, full-time and unpaid household employment; the levels of different payments; and other non-financial policy settings. In addition, the size of the budget (now and in the future) and competing priorities for government expenditure will affect overall policy settings.

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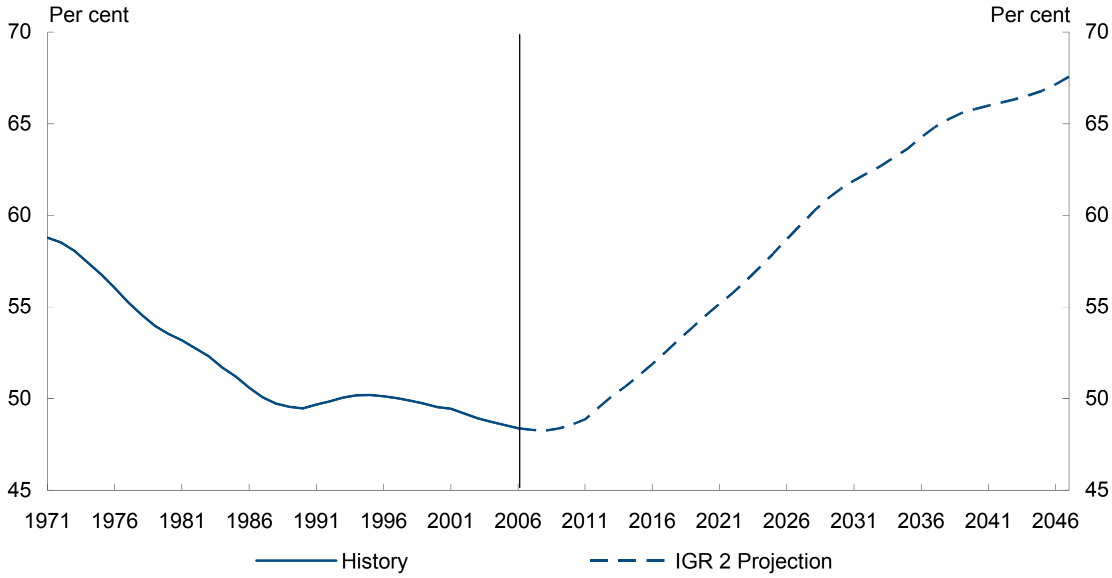
3 This includes income from the Age Pension and superannuation and assumes a male who works for 35 years and retires at age 65, income indexed at 4 per cent per annum, net earnings of 7 per cent per annum and inflation of 2.5 per cent per annum.

Demographic trends will play a significant role through their impact on the aggregate level of income support payments and the number of people in the workforce who will support these payments through the tax system.

The second Intergenerational Report (Australian Government 2007b) estimates that the ageing of Australia's population, coupled with higher life expectancies, will drive a net increase in payments to individuals from 6.7 per cent to 7.1 per cent of GDP over the next 40 years. Notwithstanding the maturation of the SG arrangements and the expected reduction in the proportion of individuals receiving a full-rate Age Pension, Age Pension outlays are expected to increase from 2.5 to 4.4 per cent of GDP.

Non-working age people as a proportion of working age people will increase as the population ages. This is reflected in the dependency ratios illustrated in Chart 7.10.

Chart 7.10: Past and projected total dependency ratios in Australia



Note: The dependency ratio is the ratio of the dependent population (those aged less than 15 or 65 or more) to the working age population.
Source: Australian Treasury projections for Australian Government (2007b).

7.4 Workforce participation

Taxes on earned income are a significant source of government revenue. An increasing dependency ratio will affect the ability of the working age population to support government programs. This gap can be filled by increased participation of people in the workforce and increased productivity.

The personal tax-transfer system can affect workforce participation decisions by altering the financial rewards of working — that is, disposable incomes. Where transfers are high enough to meet an individual's needs, their incentives to work longer hours are reduced. Tax, together with reductions in transfers as people earn more income, reduces the financial rewards from work, making it less attractive. Policy settings thus need to consider participation goals alongside other concerns such as adequacy and affordability.

Workforce participation is an important driver of economic growth and has benefits for broader social inclusion. While the proportion of the population in paid work is currently at an all time high, the increased prevalence of part-time work and employment of female workers have increased the importance of personal tax-transfer settings that encourage participation. These groups seem more responsive to incentives than are males working full-time hours, as they tend to have more flexible patterns of participation and are more affected by interactions with the personal tax-transfer system.

Another reason incentives are becoming more important is population ageing, which will drive down the participation rate in the future.

Financial incentives, however, are only part of the story. An individual's responsiveness to them will depend on the role played by other factors that influence participation. There are also non-financial incentives such as activity tests for certain income support payments which can play a significant role for some. Individuals take into account many other considerations, such as: meeting basic financial needs; their work ethic; caring responsibilities; their health and disability status; level of wealth; social expectations; the availability of child care; working conditions; and the benefits of remaining attached to the labour market as it affects career prospects and expected future earnings.

One way of assessing financial incentives to work is to measure the amount by which an individual's gross pay is reduced by the personal tax-transfer system. The proportion of an individual's gross pay that is taken as tax or is offset by a reduction in payments is called their effective tax rate (ETR). There are various types of ETRs. An individual who moves into the workforce will keep only part of their gross pay after tax is taken out and transfers are reduced. These are often called participation tax rates. If an individual takes on some extra work, they will only keep a proportion of their extra gross pay. These are called effective marginal tax rates for an additional dollar earned and effective average tax rates for a larger increase in earnings (for example, another day's work). If ETRs are too high, some people may decide it is not worth their while to take a job, or work extra hours. Other people in certain circumstances might decide to increase hours of work to ensure their ongoing commitments are met. See Section 3.5 for a discussion of participation tax rates and ETRs.

Chart 7.11 provides an example of the ETRs faced by a secondary earner with two school-aged children. The chart considers ETRs when moving into work, and also when earning an additional dollar. It is important to consider ETRs on a range of different increases in income, as people generally can only increase (or decrease) their hours in blocks.

Chart 7.11: Effective tax rates faced by a secondary earner

With a partner earning average weekly earnings with children aged 6 and 7

ETRs for 2008-09. Children are aged 6 and 7, partner is earning $57,900.
Source: Australian Treasury estimates.

A secondary earner who enters the workforce in a job paying $280 a week (about three days at the Federal Minimum Wage) loses 30 per cent of their pay (the light blue line). Once they are in the workforce the impact of the tax-transfer system on an additional dollar of earnings can be significant. For example, if they move from gross earnings of $900 a week to $901 a week, the tax-transfer system takes 65.5 cents of this increase.

Some households face high ETRs on earning an additional dollar of private income. Research for AMP (AMP.NATSEM 2006) found that over the decade to 2006-07 there had been a reduction in the number of working age Australians facing very high ETRs of over 80 per cent. However, it found there had been a pronounced increase in the overall number of people facing ETRs of greater than 50 per cent (from 4.8 to 7.1 per cent). Almost two-thirds of these people were members of couples with dependent children. This was due to the extension of eligibility for family assistance to a greater proportion of people.

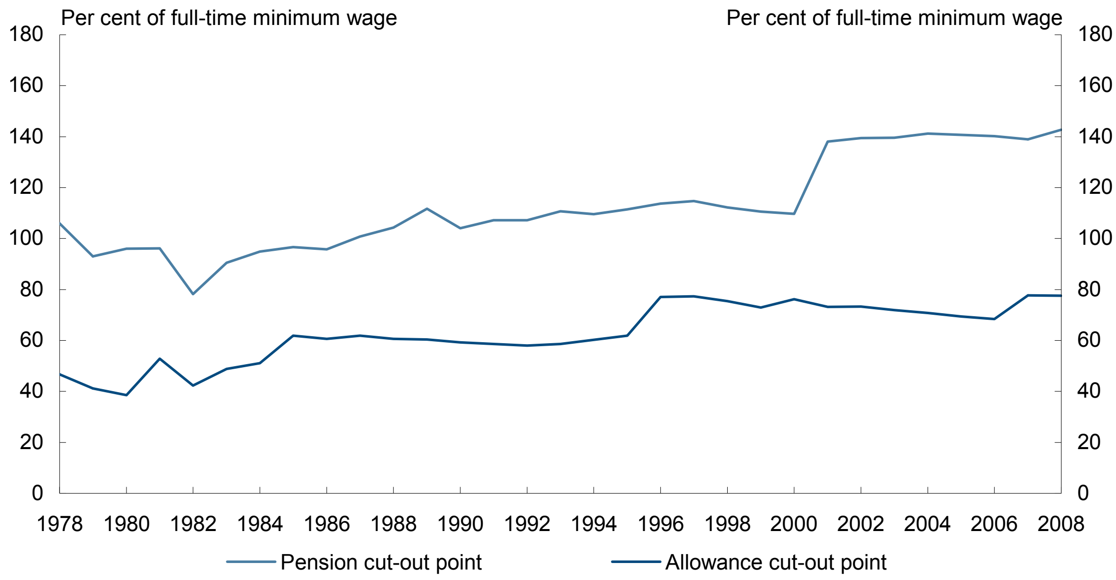
Calculating rewards for working can be complex. They can be influenced by the cost of getting to work, purchasing appropriate clothing and equipment and the costs of child care. While elements of the personal tax-transfer system assist with the cost of child care, child care tends to be relatively 'lumpy' — it is generally purchased in blocks of days per week, rather than in amounts corresponding to additional hours worked. Similarly, people can lose various concessions as their earnings increase. These have different values to different people depending upon their circumstances and consumption patterns.

There are also questions about the importance of financial incentives that do not have an immediate effect on an individual's disposable income. For example, the net return from working is reduced by the withdrawal of LITO. However, half of this withdrawal is not calculated until the end of the year when the individual submits their tax return. As the full effect of the withdrawal is not seen in an individual's regular pay packets it may play less of a role in affecting their decision to do additional work.

A targeted social security system, which reduces payments as incomes increase, necessarily reduces financial incentives. Lower taper rates can be used to improve incentives by reducing the amount of a payment that is lost for a given increase in income. However, this means that access to some of the payment is provided to people on higher incomes as the taper range will be longer. This can then affect the new recipients' incentives, as additional work will reduce the payments they would receive under the lower tax rate. Attempts to increase participation at certain incomes can therefore adversely affect the incentives of other income earners.

Chart 7.12 shows how lower taper rates have affected payment cut-outs over time. For example, in 1978 an unemployment benefit recipient would lose all their payment working only 18 hours a week at the minimum wage. In 2008 they can work 29 hours a week before losing their payment. The cut-out point for pensions has increased even more dramatically.

Chart 7.12: Pension and allowance cut-out points as a percentage of the minimum wage[(a)]



(a) Excludes supplementary payments such as Rent Assistance.
Source: DEEWR estimates.

The position of ETRs along the income scale is also important. High ETRs lower down the income scale can act as a disincentive to move into paid work. High ETRs further up the income scale can make it less attractive to take on full-time or better paid work or invest in education. Disincentives at certain income levels, such as around the Federal Minimum Wage, are of particular interest since they may impact on people whose decision to participate in the workforce is sensitive to the financial return.

While participation is important, some parts of the personal tax-transfer system are designed to enable people to stay out of the paid workforce. The provision of Age, Carer and Disability Support pensions and Carer Payment reflects a community decision that certain people should not or cannot be expected to rely on paid work for income. There are also measures to support people taking time out of paid work for shorter periods, such as students or carers of young children. In recognition of the longer term value of these activities, the community bears some of the short term costs.

7.5 Savings and investment incentives

Australia's total savings (or national savings) is made up of the private savings of households and businesses (retained earnings) plus public savings (government budget surpluses or deficits).

The savings of individuals and households fulfil three important functions:

- to provide a means for them to smooth their income over time — in particular, between the individual's working life and their retirement;
- to meet transitory adverse shocks such as sickness and unemployment; and
- to finance investment in capital that can be used to improve productivity, leading to higher incomes.

The decisions made by individuals and households in apportioning income between consumption and saving affect their wellbeing now and in the future. The tax–transfer system impacts on these consumption/saving decisions in three ways:

- through marginal tax rates and access to transfers (including the means testing of savings);
- by providing tax concessions to some savings vehicles; and
- through compulsory savings for retirement (the SG).

These mechanisms can have a complex set of behavioural outcomes:

- the existence of income support as a guarantee of income may reduce the incentive to save for periods when earned income is expected to be lower (for example, unemployment and old age);
- incentives associated with different savings vehicles may lead to a change in saving preferences rather than a change in the level of aggregate saving; and
- incentive effects may differ at different income levels.

The empirical literature on the effectiveness of tax-preferred retirement savings plans in encouraging savings is mixed, with researchers finding effects ranging from significant impacts on savings to little or no effect (OECD 2004). If the concession results mainly in a switching of savings from one vehicle to another there may be no increase in overall household savings. Indeed, national savings may decrease if the value of additional savings is less than the cost of the concession to governments.

The OECD (OECD 2007d) considers that the distribution of concessions is an important indicator of the success of such savings vehicles. In this regard, the success of a policy in encouraging new savings depends on the level of take-up by moderate-income households. Higher income households are more likely to respond by switching their existing savings.

Means testing of income support payments can also affect the incentives to save or dissave by reducing existing savings. These effects are likely to be stronger where the level of savings results in a reduction in income support entitlements. As a result, they tend to be more significant for low to middle income earners.

Means testing is also likely to affect the savings decisions of individuals who have more frequent contact with the income support system — for example, an individual with an intermittent attachment to the workforce. For these individuals, the decision to save may be influenced by a tighter assets test and a liquid assets waiting period which forces some allowees to run down their savings before accessing income support. Overall, the effects on saving need to be considered in the context of Australia's targeted income support system.

Australia's tax-preferred savings vehicles

Australia's principal tax–preferred savings vehicles are owner-occupied housing and superannuation. Owner–occupied housing is generally exempt from capital gains tax and taxation on the value of rent saved from owning a home. Consistent with this treatment, expenses such as interest costs and maintenance costs are not deductible. In the transfer system, the owner-occupied home is exempt from asset testing.

Unlike the returns on most other taxable savings, savings invested in superannuation are generally not taxed according to the individual investors' personal tax rates. Benefits from a taxed superannuation fund are paid tax free from age 60. Superannuation contributions and earnings are generally concessionally taxed. The value of superannuation tax concessions provided to contributions and earnings is estimated to be over $27 billion in 2008-09, increasing to over $31 billion in 2010-11 (Australian Government 2007a).

The changes to personal income tax rates since 2000 have had a significant impact on the concessions received by low-income and middle-income earners. Based on the 2008-09 tax rates, it is estimated that around 1.2 million individuals do not receive a personal income tax benefit[4] from the tax rate applied to their concessional superannuation contributions. In addition to the number without any concession on contributions, an estimated 1.2 million individuals only have a concession equivalent to 1.5 percentage points (the Medicare levy) in 2008-09.

Chart 7.13 shows the effective marginal concession on superannuation contributions for a single income earner with no children at different levels of income. The higher the effective rate, the higher is the value of the concession. Concessions for higher income earners have been relatively stable since contributions were first taxed in 1988. However, the effective concession for people earning lower incomes has fluctuated over this time.

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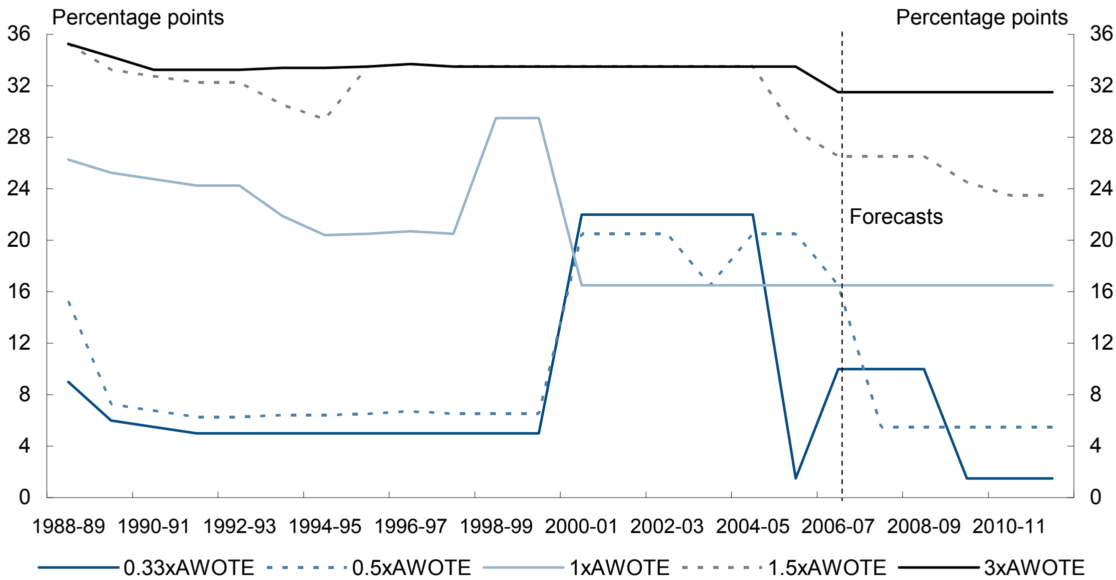
4 The number of individuals where the net tax paid on their contribution and other taxable income is greater than or equal to the amount that would have been due had the contribution been taxed at their personal marginal income tax rate.

Chart 7.13: Effective marginal concession on superannuation contributions



Assumptions: Single income earner with no children. The value of the concession at lower incomes would be higher for an individual with children, who would be affected by the phase-out of transfers. Rates may change depending on family type.
Source: Australian Treasury estimates.

These fluctuations reflect changes in the arrangements for the phase-out of the LITO and the phase-in of the Medicare levy. From 2010-11 a person earning a third of AWOTE will receive a concession of 1.5 percentage points on their concessional superannuation contributions. This compares to a concession of 16.5 percentage points for a person earning AWOTE and 31.5 percentage points for someone earning three times AWOTE.

The government superannuation co-contribution is intended to provide access to more concessions for low and middle income earners. Under this scheme, post-tax contributions are matched at $1.50 for every dollar up to a maximum contribution of $1,500. The maximum contribution is available for individuals with total income below $30,342 and phases out at the upper threshold of $60,342 (2008-09).

It is estimated that around $1.1 billion of co-contributions will be paid in 2008-09 in respect of post-tax contributions made in 2007-08. Approximately 1.4 million individuals will receive a co-contribution, which represents around 20 per cent of those individuals who would be eligible if they contributed.

7.6 Incentives to improve skills

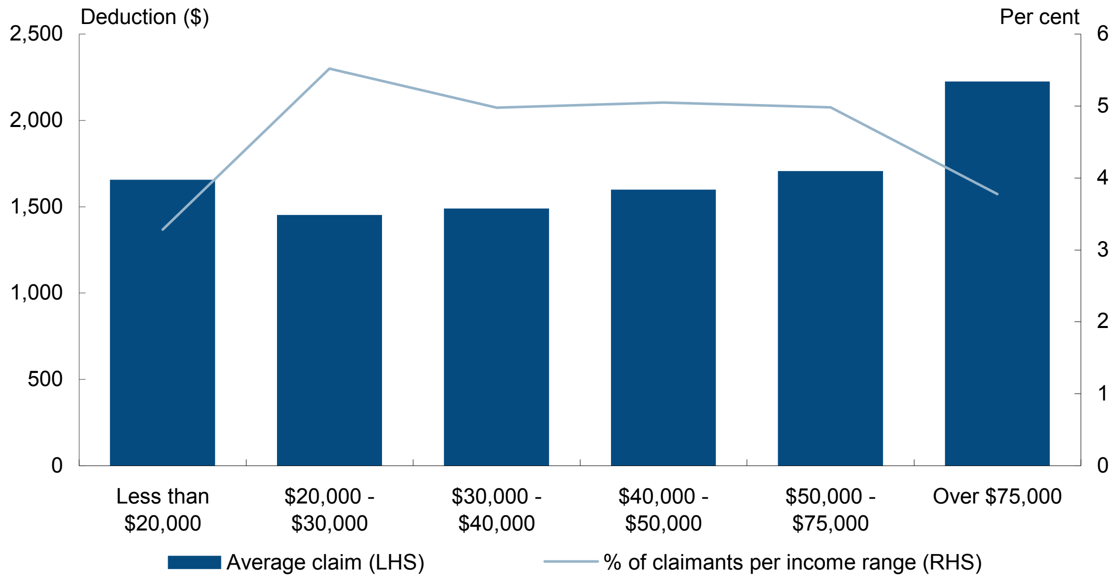
In the same way the personal tax-transfer system can influence an individual's decision to work, it can also influence the decision as to the type of work an individual undertakes. Skills and education are a major determinant of the hourly rate of earnings. Acquiring these skills and education is costly, both in terms of forgone income while learning and in direct costs of tuition. Improving skills is therefore an investment decision, and the tax transfer system acts both to subsidise the cost of this investment (directly and indirectly) and to reduce the after-tax return from it.

Youth Allowance, Austudy and ABSTUDY are the main means of supporting an individual's participation in education and training. Youth Allowance, Austudy and ABSTUDY are means tested payments that provide some $2 billion annually and support 320,000 students (as at June 2008). There are many other ways in which both the States and the Australian Government subsidise the more direct costs of education and skill acquisition. In the 2006-07 financial year, the Australian Government provided the university sector alone $5.86 billion while the States provided $508 million (ABS 2008b). The Higher Education Loan Program is also important for many people choosing to undertake further study.

As noted in Section 2, self-education expenses that are directly linked to the individual's existing career are deductible. In 2005–06 over $834 million was claimed as self–education expenses (Chart 7.14). These costs are not deductible if the new skills are for a new career direction.

Loss of income can be seen as a form of personal investment, the cost of which is in effect deductible (equivalent to a post-paid expenditure tax — see Box 6.1) and so treated concessionally relative to other forms of capital investment, especially when subsidies are included.

Chart 7.14: Total self-education expenses
(average claim and percentage of claimants per income range in 2005-06)[(a)]



(a) Average deduction does not include taxpayers who do not claim self-education expenses.
Source: Australian Government administrative data.

The net effect of the personal tax-transfer system on the return to the individual from improving their skills and hence the incentive to invest in skill formation is very difficult to determine.

8 Taxation of saving and investment

Outline

This section provides a framework for analysing the often complex ways in which the tax system interacts with saving and investment choices in an open economy. It analyses a range of efficiency issues.

Key points

- The tax system has diverse impacts on savings and investment incentives. These occur because of the interaction of our tax treatment of different assets, different forms of financing, and different types of entities. The different tax treatments would be expected to affect savings and investment decisions across the economy.
- Rapid growth in cross-border investment has increased the importance of international factors in considering how we tax savings and investment. Other countries' company income tax rates continue to fall. There are ongoing challenges to our ability to tax residents on their foreign source income, and non-residents on their income from investing in Australia.

8.1 Savings and investment choices facing individuals

The importance of investment and savings to our society reflects their role in enhancing the level of retirement incomes and future consumption of individuals, the productive capacity of the economy, and the returns to other factors of production, particularly labour.

Individuals and businesses tend to make savings and investment choices based on a number of factors including the tax treatment of the investment. Therefore, tax settings can have an impact on the choices people make, which ultimately determine investment in productive assets and individual sectors in the economy.

Australia has a rich asset base compared to the vast majority of countries in the world. These assets include:

- our human wealth reflected in a highly skilled workforce (sometimes called human capital);
- our political, institutional and legal settings that contribute to the development and maintenance of social capital;
- our natural resource wealth including our extensive mineral resources as well as our native forests, our limited water supplies, our marine resources (including fisheries), the quality of our air, and our national parks; and
- financial and non-financial assets such as bank accounts, shares, factories and patents.

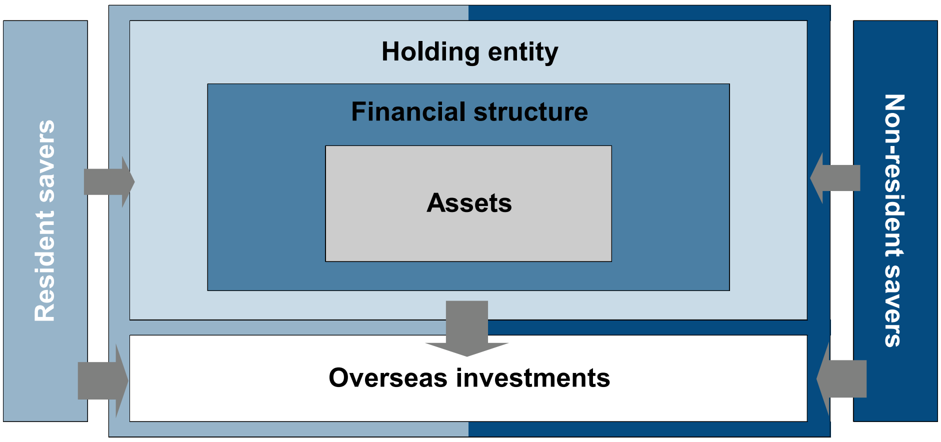
The focus of this section is on the latter two elements of our asset base, in part reflecting better information and tools of analysis.

How taxes affect saving and investment decisions

The level and form of tax affects incentives to save (and hence the level of saving), whether investments are made in Australia or overseas, the type of entity used to invest the savings, the financial structure for funding investments, and the allocation between different types of assets.

As noted in earlier sections, Australia collects more of its total tax take through taxes on capital, relative to other OECD countries (see Chart 6.5). The tax paid on the returns from saving and investment accounts for around a third of total government tax revenue. It is collected through a variety of taxes on income, land and resources, and capital transactions levied by the different levels of government. The impact of taxes on savings and investment in an open economy such as Australia's can usefully be described through the model in Chart 8.1.

Chart 8.1: Savings and investments in an open economy



Starting from the left-hand side of Chart 8.1, individuals make an initial choice about how much to save. This is affected by several factors, ranging from holding some funds to pay for everyday needs or some 'lumpy' purchases such as a vehicle, through to decisions to save for a future family home or for retirement. Much of the analysis of savings and investment is based on an analysis of incentives between spending earnings now (consumption) and deferring that spending to some future point in time (saving). The impact of the tax-transfer system on the incentives of individual Australians to save is discussed in Section 7.5.

Once decisions have been made on the level of savings, resident savers then choose whether to invest that saving in Australia or overseas (the two right-facing arrows in the chart). Within Australia, the saver can choose to invest their savings directly in assets such as homes or rental properties, or through financial intermediaries such as banks, companies, superannuation funds or trusts (described as the 'holding entity' in Chart 8.1). In Australia, apart from housing, holding entities own most of the physical assets (such as machinery) and non-physical assets (such as patents) that add to the country's productive capacity. Resident savers and holding entities also make decisions about how to finance the purchase of these assets, such as through borrowing funds or raising capital on the stock market (determining the financial structure of the asset acquisition).

Non-residents, such as foreign corporations or pension funds, also make decisions about whether to invest in Australia or other countries. Australia's tax system can influence these decisions.

8.2 Differences in the tax treatment of different assets and financing arrangements

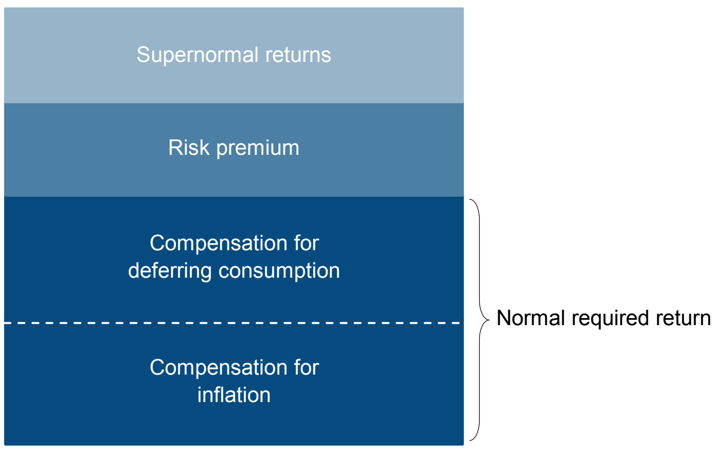
When examining the tax treatment of savings and investment, including through different assets and financing arrangements, it is important to understand the different components of income that can be earned from an asset (Chart 8.2).

The return to capital can be split into four components:

- the inflationary component — which compensates for rising prices;
- the compensation for deferring consumption — sometimes described as the 'return to waiting'. Combined with the inflationary component, this represents the 'normal', or risk-free, return to capital;
- the risk premium — for projects with uncertain returns; and
- the 'supernormal' return — an additional return arising from access to a unique asset or idea, a patent, or other factors.

In addition, for a particular investment, there can be a difference between the expected return at the start of an investment and the actual return. This uncertainty about the return can be called good or bad luck. Across the economy and over a sufficient period of time, this would be expected to net to zero.

Chart 8.2: Components of the return to capital



The inflationary component compensates the investor for the reduction in purchasing power arising from inflation, so that the investor is able to purchase the same quantity of goods and services in the future as they could when they decided to save. In other words, this part of the return does not add to the purchasing power of the investor, unlike the remaining components of the return, often referred to as the real return to capital.

A nominal income tax base includes the inflationary component. Even at low rates of inflation there can be large differences in the effective rate of tax on the change in the purchasing power of the investor depending upon whether the inflation component is taxed.

For example, consider a taxpayer with $1,000 in a bank account earning 6 per cent interest, and inflation at 2.5 per cent. Under a nominal income tax the full $60 would be subject to tax, whereas if the inflation component were excluded, only $35 would be subject to tax. Taxing the entire return to capital results in a higher effective tax rate on the $35 increase in purchasing power, than if only the $35 were taxed. Importantly, the relativities between the real and nominal return to capital vary through time and across different types of assets. For example, the inflation component represents a larger proportion of the return to lower yielding assets such as bank deposits.

Australia notionally has a comprehensive nominal income tax base, but in practice it represents a hybrid income/expenditure base. This is similar to all other OECD countries which have concessions for particular types of savings and returns to investments. For Australia, deviations from a comprehensive nominal income tax base include:

- the exclusion of the returns from owner-occupied housing (including imputed rent) and other personal use assets (such as vehicles), and their related expenses from taxation;
- concessional treatment of investments in superannuation;
- the taxation of gains in asset values only when an asset is sold, with capital gains tax (CGT) discounts of 33⅓ per cent for superannuation funds and 50 per cent for individuals on assets held for at least 12 months;
- faster rates of write-off for some depreciating assets than the actual fall in their nominal value; and
- rules that limit the use of losses (negative income returns), especially for new businesses.

In addition to income tax, other transaction and wealth type taxes are applied to savings and investment. In particular, conveyancing stamp duties are applied to transactions on houses, and local rates and land taxes are based on the wealth holdings of some land (see Section 2.5). The tax treatment of housing is discussed further in Box 8.1.

For individuals who receive income support, the effective returns on savings and investments are also affected by income and assets tests used to target that support. The degree to which returns are affected depends on an individual's personal circumstances.

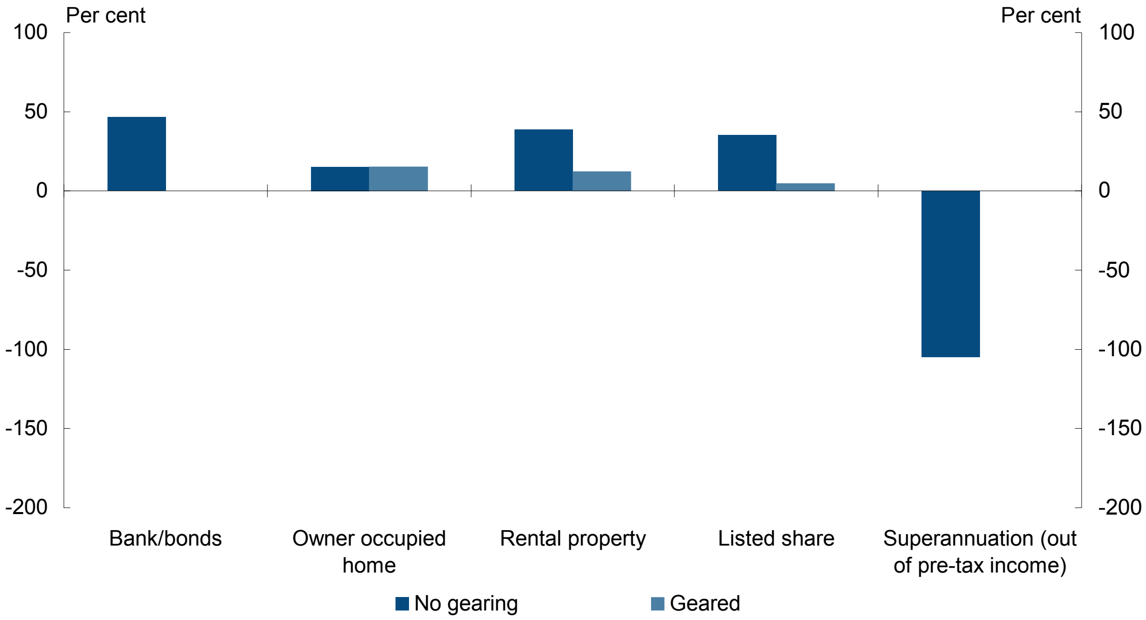
Effective marginal tax rates by type of asset and financing

The variation in tax treatment for different assets and financing arrangements can be illustrated by calculating effective marginal tax rates (EMTRs) — see Section 3.5 for more information on options for measuring the impact of taxes. Given the complexities in modelling the interactions with the transfer system, the EMTRs presented in this section do not take account of the implicit taxes arising from income and asset testing.

EMTRs can be calculated for the nominal return to an investment or for the real return. The following analysis incorporates both the impacts of the different tax treatment of different assets (the 'no gearing' cases) and the impacts of different financing decisions (reflected in the differences arising from the 'gearing', where 70 per cent of the investment is assumed to be funded from borrowings).

Chart 8.3 shows nominal EMTRs for investments commonly made by individuals. As the entire nominal return from interest bearing deposits and from bonds is included in a taxpayer's income, the nominal EMTR is equivalent to the taxpayer's marginal tax rate. This outcome is consistent with a comprehensive nominal income tax. Relative to interest bearing deposits, owner-occupied housing, rental properties, listed shares, and concessional (pre-tax) contributions to superannuation are favourably taxed.

Chart 8.3: Nominal EMTRs by asset type and financing arrangement



Assumptions: Calculated for an individual taxpayer on a 46.5 per cent marginal tax rate. Assets held for seven years. Inflation 2.5 per cent, 6 per cent nominal return. Gearing 70 per cent — not applicable to bank/bonds and superannuation. Tax on debt providers is disregarded. For property, 70 per cent of the return is attributable to capital gains and 30 per cent to rent. A 3 per cent conveyancing duty is assumed on the acquisition value, and annual rates are applied at 0.6 per cent of the value. Land tax applies to rental property at the same rate as annual rates. The 'listed share' is a company holding an asset taxed on an accruals basis. The company retains 50 per cent of its profits each year. There is no duty on the purchase or sale of the listed share and accrued franking credits are assumed to be fully valued by the market. For superannuation, the taxpayer makes a one-off contribution at the beginning of the period out of pre-tax income and is eligible for a tax-free payout at the end of seven years.
Source: Australian Treasury estimates.

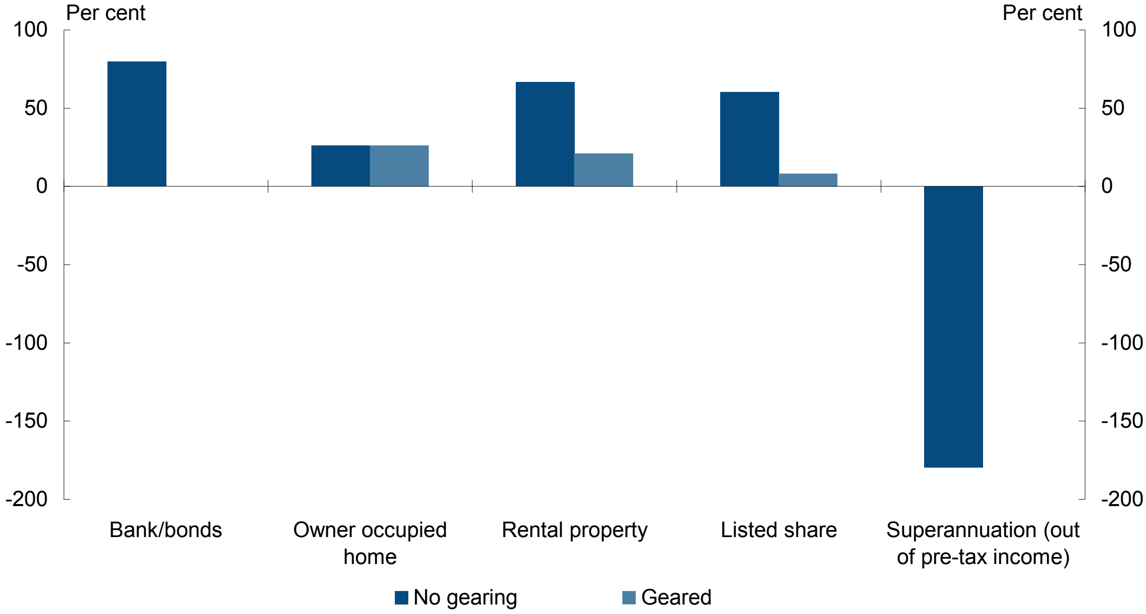
The positive EMTRs for owner-occupied housing and for geared rental property arise from the general operation of the income tax law as well as various housing and land specific taxes. The chart also shows the impact on the EMTR from borrowing to finance rental properties and listed shares and deducting the interest expense (at the taxpayer's marginal tax rate).

For concessional superannuation, the ability to invest out of pre-tax income produces a negative EMTR. For non-concessional (post-tax) contributions the EMTR is 15 per cent. Around a third of the flow into superannuation is made up of such contributions. The effective rate would be lower where the taxpayer receives superannuation co-contributions from the government of up to $1.50 for every dollar invested, to a co-contribution limit of

$1,000 a year. The results are also sensitive to the assumptions used, particularly for concessional (pre-tax) contributions to superannuation. For example, for these contributions the EMTR changes from -105 per cent for a seven year investment period to -26 per cent for 20 years.

Where EMTRs are calculated for the real (inflation-adjusted) return, their absolute values increase (Chart 8.4). On this basis, the extent of the non-neutralities between different assets and financing arrangements is greater.

Chart 8.4: Real EMTRs by asset type and financing arrangement



Assumptions: as for Chart 8.3.
Source: Australian Treasury estimates.

The above calculations do not take into account interactions with the transfer system. As noted in Section 7, these are complex and generate very different patterns of effective tax rates based on factors such as family circumstances. Tax-transfer effective tax rates will also apply to any capital income derived by individuals. For example, for a single income couple on average weekly earnings with two children aged three and eight with a personal income marginal tax rate of 31.5 per cent, the combined nominal EMTR on a bank account could be around 56 per cent and the real EMTR could be around 96 per cent.

As a general observation, the high EMTRs arising from the interaction of the tax and transfer systems will tend to be reflected in disincentives to save, just as they are in disincentives to participate in the workforce. On the other hand, these higher tax-transfer EMTRs also tend to mean that the value of tax concessions for capital income (including superannuation) may also be greater for some low and middle income families than for higher income families.

Box 8.1: The taxation treatment of housing

The imputed rent and capital gains of owner-occupied housing are exempt from income tax. The cost of financing the purchase and other expenses are not deductible. Rental properties are subject to income tax, including CGT and are eligible for a 2.5 per cent annual depreciation allowance on the construction cost of the building. Further, the cost of financing is deductible and can be offset against income from other sources. It is not included as part of the cost of the asset when determining the net capital gain for CGT purposes.

Investment in residential property is taxed in the same way as some other assets, but the returns vary, as noted above.

Residential property is also subject to a range of state taxes, with a range of rates and thresholds. Sales of residential properties are taxed through stamp duty on conveyances, and rental properties are subject to ongoing land taxes. Local governments (and the Australian Capital Territory) also tax residential property through municipal rates.

Stamp duty is levied on housing transactions. While paid by the buyer, the incidence of stamp duty is likely to be shared and partly fall on sellers by lowering the after-tax price received though sale. As a tax on transactions, stamp duties can discourage turnover and influence housing decisions. They may also encourage some home-buyers to buy larger houses in order to avoid further stamp duty from subsequent moves into family-sized homes. Similarly, stamp duties may affect decisions of existing home owners. Some people wishing to upsize may choose to renovate their existing home rather than move. For those who would prefer downsizing to a smaller house, stamp duties can pose an additional difficulty in the relocation process, by increasing the required return on the property sale before they are able to move. These impacts are partly ameliorated by concessions that the States offer to first home buyers and to pensioners who move to homes that better suit their needs.

Other aspects of the tax-transfer system can also generate 'lock-in' effects that may discourage sales of housing. The principal place of residence is generally given a concessional treatment under income support assets tests. This means that moving from owner-occupied housing to rental accommodation can lead to lower pension payments for older people, as their assets are reallocated into non-concessionally treated categories.

Land tax is levied on the unimproved value of land, with investment properties subject to the tax and owner-occupied property exempt. In addition to favouring owner-occupied housing over investment housing, land taxation affects housing investment decisions in two ways. Most land tax regimes have progressive scales, which can discourage large scale investment in land. This impact can be significant. Averaging across jurisdictions, a single company holding ten land parcels worth $300,000 would pay five times more land tax than if the same parcels were held in separate hands. This encourages property investment by small-scale investors, who pay less tax per property than larger entities. Land tax is also likely to encourage greater investor participation in properties where land is a low proportion of total property value (such as apartments) than in detached houses.

Further issues arise in respect of the treatment of net losses on investments and aspects of the treatment of capital gains and of depreciating assets. These issues are not fully reflected in the EMTR calculations above and are discussed below.

The tax treatment of losses

The tax treatment applying to losses can impact on incentives to invest in risky assets. Australia and comparable OECD countries typically have an asymmetric treatment of gains and losses overall.

There is some variation in the treatment of losses across the OECD. While no country provides full refundability, a number of arrangements are used to improve loss utilisation. Some countries, including the United States, United Kingdom, Canada, Ireland and the Netherlands, allow revenue losses to be 'carried back' and used against profits of previous years. The length of the carry-back is typically around one to three years. These arrangements, however, are of limited use to new companies.

A number of countries also provide flow-through arrangements for some companies. These arrangements allow losses or expenditure to flow through to investors. Examples include:

- S-corporations in the United States, which provides both partnership taxation treatment and limited liability protection for certain companies with no more than 100 individual resident or citizen shareholders;
- loss attributing qualifying companies in New Zealand, which can allocate company losses to specific shareholders, if the company has five or fewer shareholders who elect to become personally liable for any income tax not paid by the company; and
- flow-through shares in Canada, which can transfer expenses in relation to mining, petroleum and certain types of renewable energy to investors.

Taxing gains on a realisation basis

Capital gains are typically taxed upon disposal (a realisation basis). Taxing gains on a realisation basis is considered more practical than accruals taxation due to potential difficulties in measuring gains as they accrue and the cash-flow problems that an annual accruals tax could cause for some taxpayers. However, there are elements of accruals taxation in the income tax system. For example, tax depreciation provides deductions for the decline in value of assets that are used up in production. An accruals method is also part of the proposed regime for the taxation of financial arrangements.

Taxing gains on realisation creates a tax 'deferral' advantage, as the asset holder is not required to pay tax on any gains until the asset is disposed. It may also induce a 'lock-in' effect, whereby investors are discouraged from switching assets due to the requirement to pay tax on the accrued gain at the time of disposal.

Depreciation

Capital income may be generated by assets that decline in value as they age and are used up in production. The decline in value is known as economic depreciation. Consistent with an income tax benchmark, where the assets are used in the production of income, the decline in value can be offset against income over time.

Such depreciation deductions can apply to both physical assets (for example, plant and equipment) and intangible assets (for example, industrial property). The 'uniform capital allowance' regime provides different deductions for certain types of capital expenditure, including immediate deductions for small value items.

The introduction of effective life depreciation as part of the *Review of Business Taxation* reforms, coupled with the introduction in 2006 of the 200 per cent rate for the diminishing value method, has resulted in a greater alignment of tax depreciation with economic depreciation.

The income tax system also provides for caps or upper limits on the lives of a number of assets for depreciation purposes. The caps represent a departure from economic depreciation and give rise to a significant tax expenditure (estimated to be $385 million in 2008-09). To the extent that different assets have different depreciation treatments, investments can be biased towards concessionally taxed assets, rather than those that generate the greatest pre-tax returns.

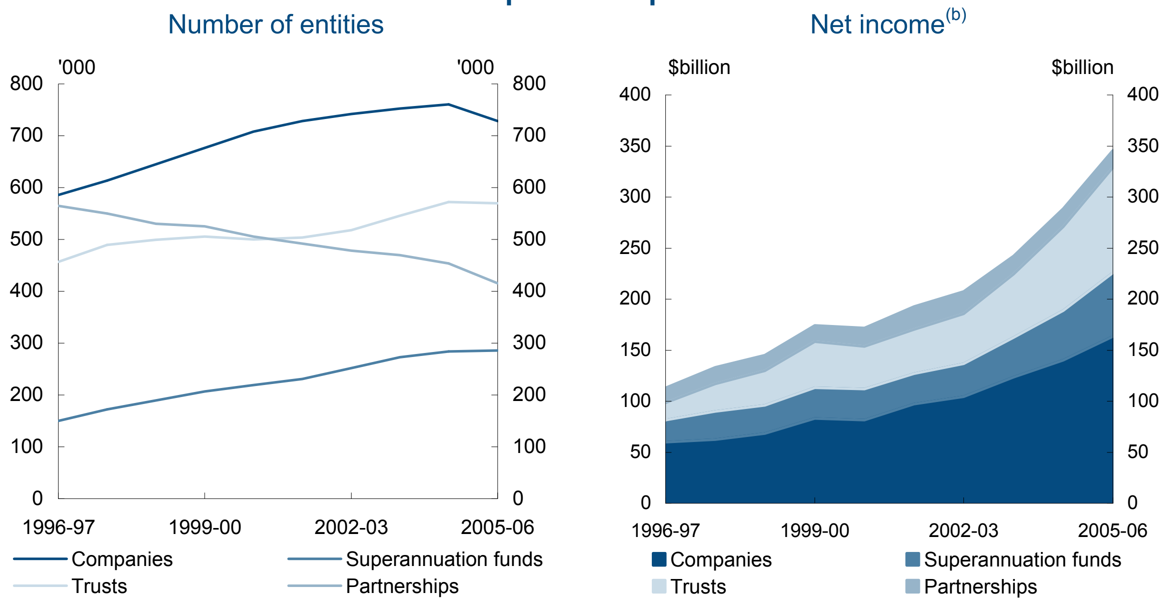
Changes to depreciation arrangements have also been a feature in other OECD countries. Corporate tax rate reductions in many OECD countries, (including Australia in 2000 and 2001) have been partly financed by corporate tax base broadening measures, including the implementation of less generous tax depreciation allowances (OECD 2007f).

8.3 The treatment of different holding entities

This section covers another element of Chart 8.1 — how holding assets through different entities can affect incentives. Apart from investments in housing, personal use assets and bank accounts, individuals predominantly invest in businesses and assets through entities such as superannuation funds (including through compulsory superannuation guarantee payments), ordinary life insurance companies and other companies (through share purchases), trusts and partnerships. In turn, superannuation funds and life insurance companies predominantly invest through other companies and trusts.

Of the various types of business entities, companies are the most common and most significant in terms of net income (Chart 8.5). They differ from partnerships and trusts in that significant tax is collected at the entity level ($57.1 billion in 2006-07, measured on a cash basis).

Chart 8.5: Numbers and net income of companies, trusts, superannuation funds and partnerships[a]

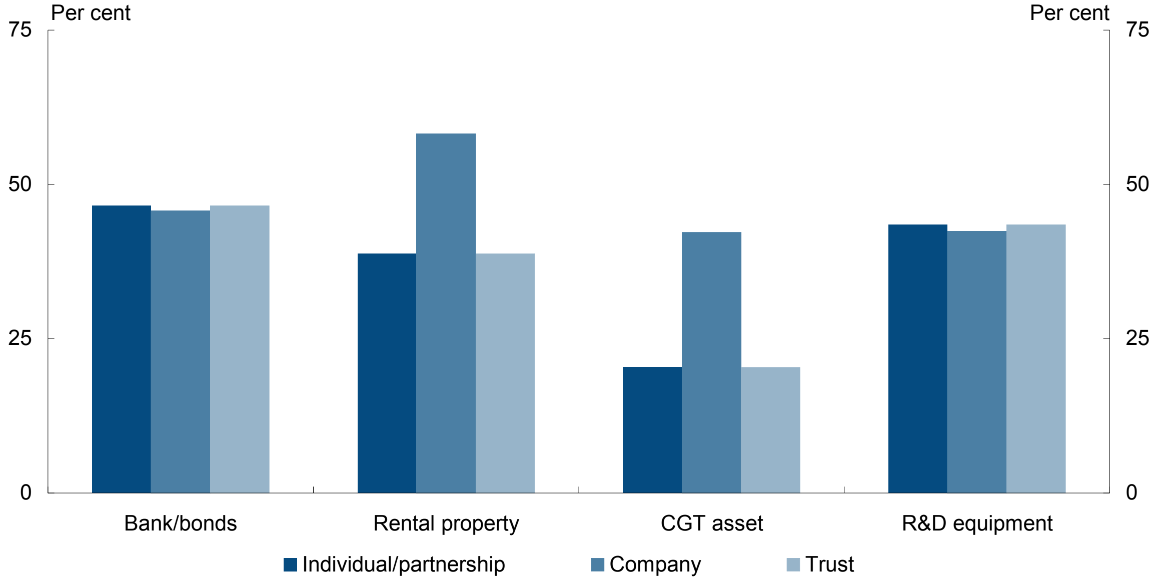


(a) The final year of figures does not include all returns.
(b) Net income excludes distributions received from an entity of the same type (for example, net income of companies does not include dividends received).
Source: Australian Taxation Office (2008).

The treatment of partnerships represents a fully integrated 'flow-though' approach to taxing an entity, with partners taxed directly on partnership income and also able to use the losses of the entity against other income they might have. In contrast, superannuation funds are taxed separately from their members. The treatment of companies and trusts falls between these two points. Company income tax is partially integrated with shareholders' personal income tax through dividend imputation. Beneficiaries of trusts are generally taxed on the taxable income of trusts. As with superannuation funds, losses of these entities are retained at the entity level and may only be offset against income of the entity. (See Table 2.15 and Table 2.16 in Section 2 for a more detailed comparison.)

The different treatments of companies, trusts and partnerships can result in different effective tax rates for a given investment of an individual taxpayer (Chart 8.6).

Chart 8.6: Nominal EMTRs for an individual taxpayer investing in assets, directly or through a business entity



Assumptions: As for Chart 8.3, except that: at the end of the seven years the company sells the underlying asset and distributes all current and retained earnings. The trust distributes income annually. 'R&D equipment' has an effective life of eight years and the company is eligible for a 125 per cent R&D tax concession.
Source: Australian Treasury estimates.

For higher income individuals, investing in bank accounts and bonds through companies is marginally preferred over other entities or investing directly. This reflects the tax deferral benefit that arises because the company tax rate is lower than the assumed marginal personal tax rate. For investment in equipment for research and development (R&D), companies benefit from a tax concession not available to non-corporate businesses. However, when dividends are paid to shareholders and taxed in their hands, the benefit of the company level concession is partially clawed back.

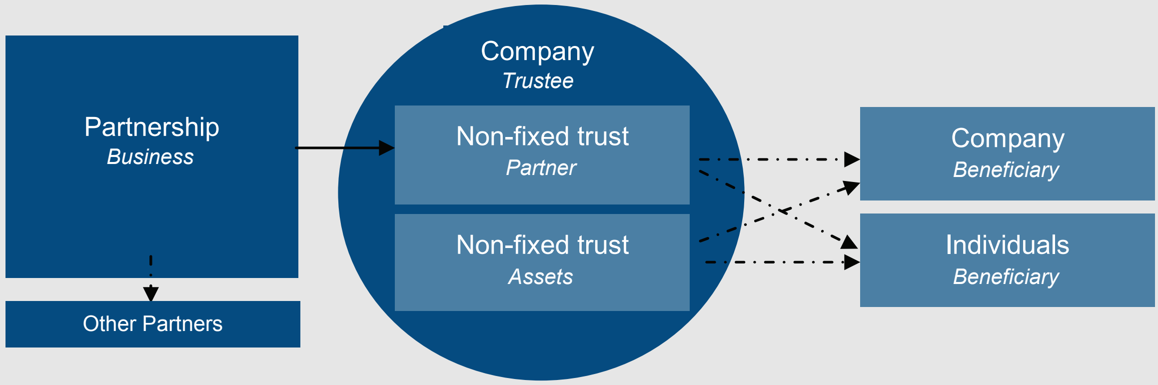
For rental property held by a company, stamp duty, land tax and rates result in estimated EMTRs above an investor's personal tax rate. For investors in rental properties and CGT assets, a company is not the preferred entity as no CGT discount is available when the company sells the asset. In contrast, individuals can obtain a 50 per cent CGT discount on assets held for at least 12 months, either directly or through a trust. If, however, the shareholder sold his or her shares (so receiving the 50 per cent CGT discount) instead of the company selling the rental property or asset and distributing the proceeds to the shareholder as a dividend, the EMTR for a rental property would fall to 40 per cent, and for a CGT asset, to 20 per cent, depending on the market valuation of the shares.

In practice, both small and large businesses will often own assets and operate businesses using a combination of entities for both tax and non-tax reasons, and will choose distribution and asset disposal strategies that best suit the particular entity or entities used. Box 8.2 discusses some of these issues from a small business perspective.

Box 8.2: Multiple business entity structures for a small business

In deciding on a business structure, small businesses will consider a range of issues, both non-tax (protecting valuable assets from business risk, succession planning, and allowing outside equity investments) and tax (income splitting and access to various tax concessions, including CGT concessions). Different businesses will attach varying importance to different factors based on the nature of the business and the circumstances of the owners. Where no single entity alone meets all requirements, small businesses generally use a combination of entities to achieve a desired outcome (Chart 8.7).

Chart 8.7: Illustrative small business structure



For example, a business may operate through a partnership to allow for outside investment, business succession, and losses to flow through to partner level. Partnership interests may be held by non-fixed trusts (such as discretionary trusts) to allow for income splitting, with a company among the trust beneficiaries to allow income to be retained in a company when advantageous. Another non-fixed trust may own the partnership business assets to protect them from business risks and maximise access to the CGT concessions. In addition, trustees may themselves be companies to limit the trustee's liability.

The above EMTR calculations also do not incorporate a range of special treatments for small businesses, summarised in Box 8.3.

Box 8.3: Small business tax concessions

Targeted concessions for small business are a relatively common feature in tax systems, and those in Australia are described briefly below. The principal reasons given for special concessions are that small businesses are important to the economy in creating wealth, stimulating competition and creating jobs. Other reasons commonly given are:

- the need to counteract market failures;
- the desirability of countering inherent disadvantages of being small, such as the regressivity of compliance costs (compliance costs as a proportion of total turnover are greatest for small business) and the asymmetry of taxable profits and losses; and
- the need to ensure that small businesses can survive family and other events which might threaten to break them up.

Payroll tax

All the States provide an exemption from payroll tax for annual gross wages below a given threshold. The threshold varies significantly between States, ranging from $550,000 to $1,500,000. For example, in NSW where the payroll tax rate is 6 per cent and the exemption threshold $623,000, a small business with an annual wages bill of $500,000 would receive an annual payroll tax concession of $30,000.

Income tax

Small businesses with an annual turnover less than $2 million may qualify for a range of tax concessions. A small business unable to satisfy the turnover test in an income year may still be able to access available CGT concessions if the business meets a $6 million maximum net asset value test.

Small business CGT concessions

15 year exemption: a capital gain on a business asset is exempt if the taxpayer has owned the asset continuously for at least 15 years and is at least 55 years old and retiring, or is permanently incapacitated.

50 per cent active asset reduction: the taxable value of capital gains on active assets is reduced by 50 per cent. This concession applies in addition to the generally available 50 per cent CGT discount for assets owned for at least 12 months by individuals or trusts.

Retirement exemption: a capital gain on a business asset is exempt, up to a lifetime limit of $500,000, if the individual is 55 or over, or, if under 55, the money from the sale of the asset is paid into a complying superannuation fund, an approved deposit fund or a retirement savings account.

Box 8.3: Small business tax concessions (continued)

Roll-over relief: if a small business sells an asset and buys a replacement, the CGT liability is rolled over until disposal of the replacement asset.

Depreciation rules

Asset pooling is available with generally concessional depreciation rates and an immediate deduction is available for most depreciating assets costing less than $1,000.

Trading stock valuation

If the difference between the value of opening stock and a reasonable estimate of closing stock is $5,000 or less, a small business does not have to account for changes in the value of trading stock, or do stocktakes for tax purposes.

Immediate deduction for certain prepaid business expenses

A small business can claim an immediate deduction for prepaid business expenses where the payment covers a period of 12 months or less that ends in the next income year.

Entrepreneurs' tax offset

The entrepreneurs' tax offset can reduce tax payable by up to 25 per cent where the business has a turnover of less than $75,000. The 2008-09 Budget announced that a family income test will be applied to the entrepreneurs' tax offset from 1 July 2008.

Goods and services tax

Registering and collecting goods and services tax is optional for businesses with an annual turnover of up to $75,000. A number of compliance cost saving arrangements are also available.

As well as affecting the effective tax rate on the underlying investments, the various tax treatments of different entities affect other choices made by individuals and business — most obviously, the choice of holding entity or entities, but also entity financing decisions, individuals' investment portfolio choices and whether to invest in Australia or overseas.

Given the importance of companies relative to other business entities, and their importance as the principal means by which non-residents make equity investments in Australia, they merit further consideration in their own right.

Companies — the role and purpose of company income tax

Company income tax has two basic roles:

- as a withholding tax on income earned by Australian residents, through shares in a resident (Australian) company; and
- as a final tax on (generally Australian source) income earned by non-residents, through shares in an Australian company or a non-resident company's branch in Australia.

The design of Australia's company income tax system has historically taken account of both these roles. This has influenced decisions about the company income tax rate, base and other rules, and the interaction of company income tax with the taxation of resident and non-resident shareholders.

A withholding tax on residents

Company income tax reduces or removes potential tax advantages for residents from earning income through a company and deferring personal income tax until such time as company profits are paid out as a dividend, or the shares are sold. The income potentially sheltered from personal income tax can be either income from investments or labour income from the labour of owner-managers, subject to personal services income rules.

Where a shareholder's personal tax rate (including consideration of income support payments) exceeds the company income tax rate, there can be tax deferral advantages from earning income through a company and retaining it there.

The net benefit from deferring tax is, however, smaller than the gross amount of tax deferred. An indicative estimate of the net benefit would be a return of around 3 per cent per annum on the amount of deferred tax. The potential value of the tax deferral benefit is also only one part of a more complex story. For example, the cash-flow needs of an individual or family may preclude significant deferral, and the costs of creating and maintaining a company also need to be considered.

By providing a credit to shareholders for company tax paid on the profits from which dividends are paid, dividend imputation is the mechanism that converts company income tax into (in effect) a withholding tax rather than a separate (final) tax. Australia is one of only a few countries that still has a dividend imputation system but many other countries provide some form of relief to resident shareholders (for example, by exempting all or part of the dividend, or taxing dividends at reduced rates).

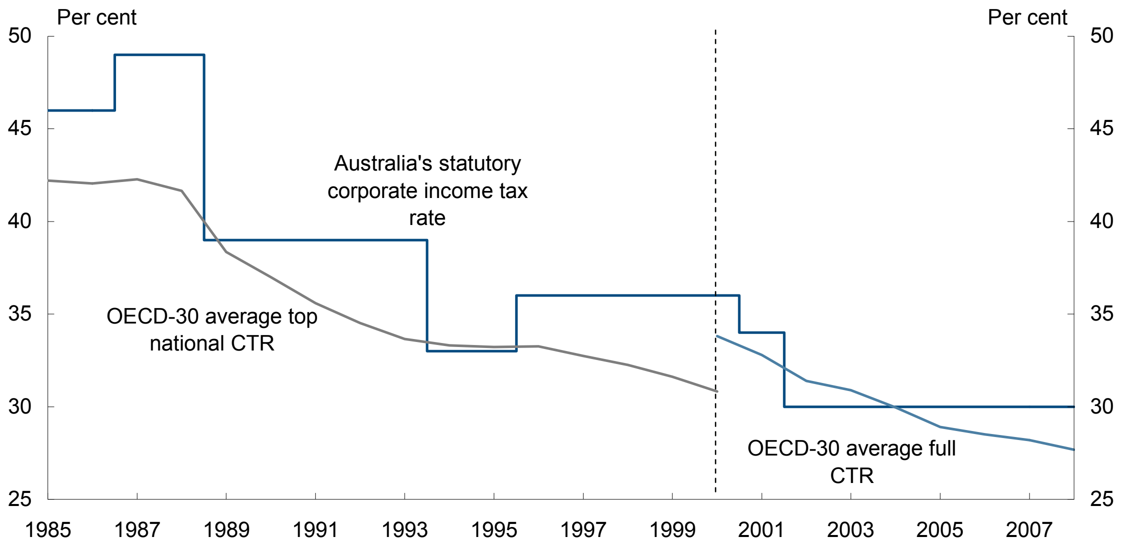
As discussed below, dividend imputation may also impact on company financing and overseas investment decisions. The relevance of resident shareholder tax arrangements for the decisions of many companies may be declining as non-residents become a more important source of capital.

A final tax on non-residents

Non-residents own around 32 per cent of the shares in Australian companies. Company income tax is the primary means by which the returns to non-residents from their equity investments in Australia are taxed. Collecting tax from non-residents is of direct benefit to Australia but has the potential to reduce total investment and so reduce the productivity of Australian workers and, in turn, their real wages.

A simple, commonly used measure of Australia's international tax competitiveness is the statutory company income tax rate. While Australia's company income tax rate has fallen in recent decades, this has largely mirrored a world-wide trend and, in recent years, Australia's relative position in the OECD has slipped (Chart 8.8 and see also Chart 5.10).

Chart 8.8: Statutory corporate income tax rates of OECD countries



Note: Rates are top national statutory corporate tax rates until 2000 (that is, they exclude local and state company taxes imposed in some countries) and full corporate tax rates thereafter (that is, they include company taxes from all levels of government). Averages are unweighted.
Source: Australian Treasury estimates, OECD Tax Database; KPMG (various years); OECD (2006b); Deloitte (2006); national governments.

The company income tax rate is, however, only part of a more complex set of tax arrangements that together determine the effective rates of tax on investments into and out of Australia. Issues regarding cross-border investments are discussed further below.

Company financing decisions and the debt/equity distinction

Companies can finance an investment by using retained earnings (taxed or untaxed profits that have not been distributed to shareholders), raising new equity capital (for example, by issuing new shares) or by borrowing (debt). As at March 2008, the debt to equity ratio for Australian non-financial corporations was 0.78. This reflects liabilities, other than accounts payable, of $935.3 billion and equity, including retained earnings, of $1,199 billion (ABS 2008c). The method of financing investment will be influenced by a company's profit distribution policy. That is, whether it retains profits and invests them, or distributes them as dividends or by other means to shareholders.

From the perspective of residents investing in an Australian company (particularly start-ups and fast-growing companies that rely on raising new equity), dividend imputation provides a tax treatment of returns on equity investment that is generally comparable to returns on debt. This neutrality between debt and equity is recognised as a significant advantage of Australia's shift to an imputation system in 1987. Some biases in the choice of financing new investment still remain, driven by differences between the company income tax rate and the tax rates applying to individual and superannuation fund investors, and the operation of CGT, which in effect acts as a tax on retained earnings. Other countries have explored different systems that improve the neutrality between debt and equity treatments, or at least reduce their differential impacts. These are discussed in Box 8.4.

Box 8.4: Other countries' approaches to taxing capital income

Under a dual income tax, or schedular, approach, as adopted to varying degrees by countries such as Sweden, Norway and the Netherlands, capital income is taxed at a (low) flat rate, while returns to labour are subject to progressive rates of tax. Given the lower rate of tax applying to capital income, efforts are also made to tax company or business income that is attributable to the labour of owner-managers at the progressive rates of tax applying to labour income.

A few other countries have moved to not tax the normal required return on equity, particularly at the company level. Doing so has moved their systems closer to a post-paid expenditure tax treatment of capital (see Box 6.1) and provides for a more consistent treatment of equity and debt financing. A range of methods to achieve these outcomes have been developed, including the following.

- *Allowance for corporate equity* (ACE): under an ACE, a deduction is provided for the deemed normal return on equity, equivalent to that provided for interest on debt. As measured equity is reduced by the depreciation allowed for tax purposes, changes to depreciation rates produce offsetting changes to the deduction allowed for equity. Hence, debt and equity are treated equally, and the tax depreciation schedules rendered irrelevant. Belgium and Brazil have adopted such arrangements.
- *Cash-flow type taxes*: in its simplest form, a cash-flow tax applies to the sales of goods and services net of purchases, including an immediate deduction for all capital expenditure. No deduction for interest expense is provided. Rather, the immediate deduction of capital expenditures provides a tax benefit equivalent to interest deductibility and also provides an equivalent deduction for equity. More complicated cash-flow tax variants adjust for, or rely on, certain cash-flows associated with financial assets and liabilities. Australia's petroleum resource rent tax (PRRT) is a variant on a cash-flow tax, and Estonia's corporate tax can also be seen as an example.

An opposite approach to equalising the treatment of debt and equity, not yet adopted by any country, is a 'comprehensive business income tax' (or CBIT). The CBIT was developed by the United States Treasury in the early 1990s, and is otherwise like a normal company income tax base but with no deduction provided for interest paid. By not providing a deduction for debt, a CBIT ensures that the full return for debt, as well as equity, is taxed. Unlike the ACE, the CBIT represents a significant broadening of the tax base. This broader base means a lower tax rate can be applied to generate the same level of revenue.

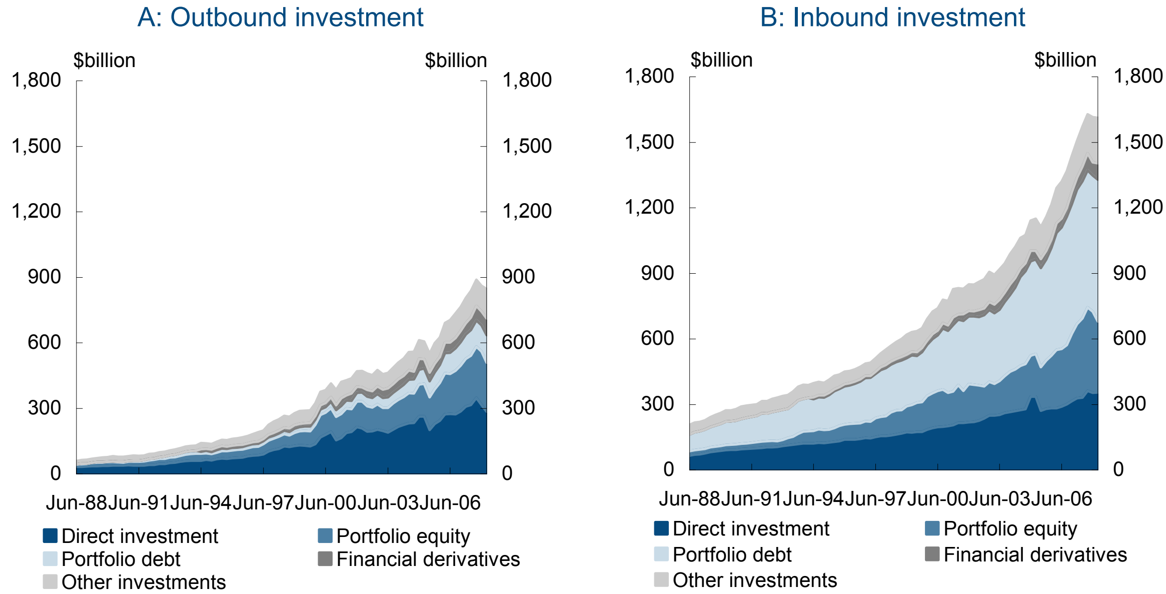
Unlike resident investors, non-resident investors in Australian companies receive only a limited benefit from imputation credits — an exemption from any dividend withholding tax. Dividend imputation is therefore less relevant to the financing and investment decisions of Australian companies for which non-residents are a major source of finance — in particular, the Australian subsidiaries of foreign companies or internationally traded Australian multinationals.

The different treatment of non-resident shareholders also creates incentives to pay franked dividends to resident shareholders and dividends that are not franked to non-resident shareholders (dividend streaming), or otherwise transfer imputation credits to residents (franking credit trading). Guarding against these practices involves significant complexity in the tax law and compliance costs.

8.4 The treatment of cross-border investments

The past two decades have seen substantial increases in the levels of both inbound investment into Australia and outbound investment from Australia, which today represent 146 per cent and 80 per cent of GDP respectively. The compositions of inbound and outbound investment, however, are very different (Chart 8.9). The levels of inbound and outbound equity investment are roughly comparable, but Australians borrow significantly more from overseas than they lend. The tax treatment of the different components of inbound and outbound investment, as categorised in the national accounts, is summarised in Tables 2.13 and 2.14 in Section 2.

Chart 8.9: Stock of inbound and outbound investment Australia



Source: ABS (2008d).

Australian *residents* are, as a general rule, taxable on their world-wide income. Non-residents are only taxable on their Australian *source* income. Behind these basic principles of 'residence' and 'source' is a set of complex exceptions, multiple rates of tax and rules designed to enforce these taxing rights. Developments that have accompanied the growth in cross-border investments have, however, placed increased pressure on both residence-based and source-based taxation that may reduce the amount subject to tax (Boxes 8.5 and 8.7).

Box 8.5: Residence taxation and its challenges

Residence is concerned with the allegiance a taxpayer has with a jurisdiction. In establishing residence for individuals, countries generally have regard to either a person's physical presence in the country or other facts and circumstances linking them to that country (covering family and other relationships, economic activity and assets). The residence of other entities (companies and trusts) is determined generally with regard to the place of incorporation or management or, in limited cases, the location of shareholders.

Taxing residents on their world-wide (capital) income has become a more significant issue with the increased mobility of capital. Doing so may have global efficiency benefits (see Box 8.6) and better align with community benchmarks regarding equity in assessing ability to pay (see Section 3). However, it can result in complexity (given the need to deal with flows and transactions overseas, foreign legal entities, and interactions with other countries' tax systems), practical enforcement difficulties (both from tax evasion and from avoidance through complex international arrangements) or taxpayers changing their country of residence. Residence taxation can also be problematic for resident companies to the extent they are owned by non-residents.

In practice, countries (including Australia) exclude much foreign source income from taxation or only tax it as it is received, rather than as it accrues. Most tax administrations, (including Australia's), have responded to the enforcement challenges by seeking enhanced international tax cooperation and information exchange — for example, through tax treaties and tax information exchange agreements. Other countries have also sought to meet the challenges by reducing domestic tax rates on capital income, either across the board (in 'dual income tax' systems), for particularly mobile capital income (such as interest), or for more mobile individuals (for example, expatriates).

Taxing the outbound investments of resident companies and residents

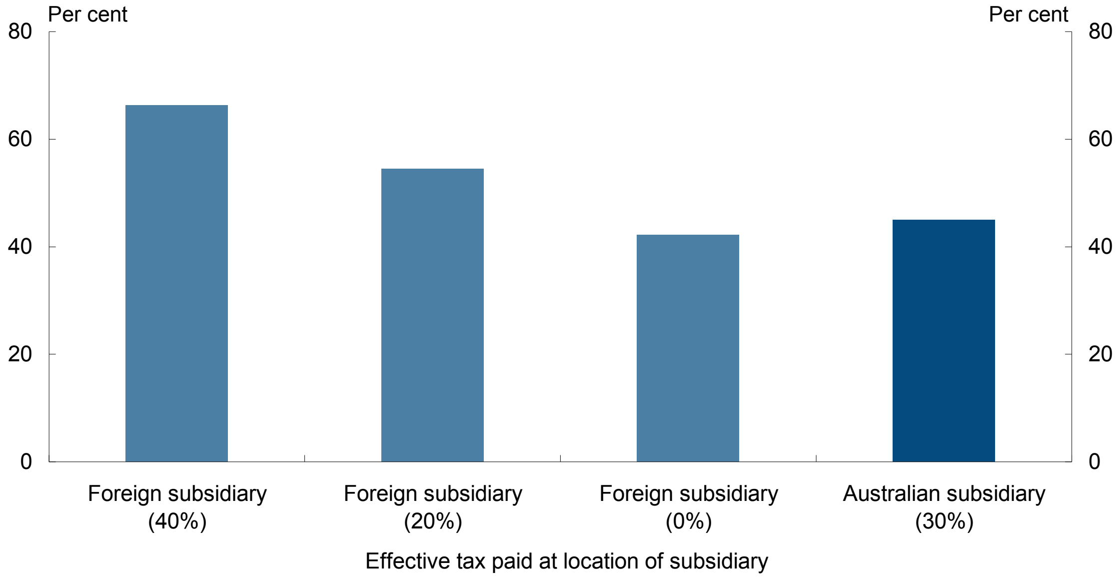
The tax treatment of outbound investments by Australian residents, including resident companies, varies depending on the nature of the outbound investment, the resident entity and the underlying investors (for example, shareholders). The different taxation treatments can be mapped against various efficiency benchmarks that guide policy on the taxation of cross-border (primarily offshore) investments (Box 8.6).

Most foreign income earned by Australian companies is not taxed at the Australian company level. This treatment is preserved on distribution by specific conduit foreign income rules. As a result, non-resident owners of Australian companies are generally not liable to tax on foreign income. This outcome is consistent with 'capital ownership neutrality' (Box 8.6) and enhances the ability of Australian multinational companies to obtain foreign equity.

For resident owners, it is at the shareholder level that Australian tax is typically collected. The exemption for most foreign income derived by resident companies means the company income tax does not generally operate as a withholding tax on offshore income. Rather, resident shareholders are effectively taxed on foreign income (net of foreign taxes) when they receive the income as a dividend or realise a capital gain by selling their shares. This is because dividend imputation only credits Australian company income tax.

The lack of a credit for foreign tax paid can offset incentives that could otherwise exist to invest offshore in low-tax jurisdictions and defer taxation at the resident shareholder level (Chart 8.10). This approach is consistent with achieving 'national neutrality'. Dividend imputation also provides an incentive to pay Australian company income tax in preference to foreign tax and, hence, to allocate profits where possible to an Australian company especially where franking credits are valued. As discussed above, neither of these biases may be operative where non-resident investors are the marginal source of funds for an Australian company.

Chart 8.10: Nominal EMTRs for an Australian parent company investing in a foreign or domestic subsidiary[(a)]



(a) For outbound investments, EMTRs are calculated for an individual resident shareholder on a 46.5 per cent personal tax rate, investing in an Australian company which invests in a subsidiary located either in Australia or a foreign destination. The subsidiary invests in an asset that provides a 6 per cent nominal rate of return (with inflation 2.5 per cent) and retains all profits. Profits are distributed after seven years.

Source: Australian Treasury estimates.

The decision to exempt foreign income requires rules around the deductibility of related interest expenses. Australia's approach is to allow deductions for interest expenses in respect of most foreign income (thereby avoiding practical difficulties of applying a 'tracing approach'). The outbound 'thin capitalisation' rules, which are broadly based on the level of debt an entity can use to fund assets used in its Australian operations, are then the primary means by which Australia seeks to limit excessive allocation of debt to Australian operations.

Another significant aspect of cross-border investment is the growing importance of collective investment vehicles. World-wide, these entities hold assets worth more than $29.7 trillion as at December 2007 (Investment Company Institute 2008). In Australia, the most significant form of collective investment vehicle is managed funds (largely trusts, including superannuation funds), which have assets under management in excess of $1.3 trillion at December 2007 (ABS 2008e) of which around 20 per cent is invested overseas.

Income from such offshore portfolio investment (and non-portfolio investment when not undertaken by a company) is generally subject to tax either when earned (including under the anti-tax-deferral rules) or on repatriation, with a credit provided for certain foreign taxes paid (such as dividend withholding taxes). This is broadly consistent with a 'capital export neutrality' benchmark (Box 8.6) as it limits the impact of source country taxation. However, as is the case with direct offshore investment undertaken by Australian companies, generally no credit is given for foreign taxes paid by foreign entities.

Box 8.6: Efficiency benchmarks for the taxation of cross-border investments

A number of efficiency benchmarks have been identified for the taxation of cross-border investments. The benchmarks focus on achieving a non-distorting (neutral) outcome for particular aspects of cross-border investments and savings, with a view to improving the efficiency of the national or global economy.

Capital export neutrality aims for neutrality in international investment decisions so that the allocation of investments between countries is unaffected by tax considerations. It could be achieved by countries taxing their residents on all their income from offshore investments as it accrues, with a full credit for foreign tax paid. Capital export neutrality has previously been an objective for some countries moving to more comprehensively tax outbound investment income.

Capital ownership neutrality aims for neutrality in the allocation of capital to companies so that the most efficient and productive companies attract capital. It can be achieved by countries not taxing the offshore investments of resident companies, with company income tax focussed on taxing domestic source income. Achieving capital ownership neutrality would be consistent with *capital import neutrality*, which aims for neutrality in international savings decisions.

National neutrality aims for neutrality in residents' investment decisions on the gross return to their country of residence, with pre-tax returns on domestic investments matching post-foreign tax returns on offshore investments. National neutrality maximises national, but not global, welfare. In effect, it is a variant of a capital export neutrality benchmark but with a bias to domestic investment achieved by treating foreign tax as an expense of doing business.

The relative merits of the benchmarks are a matter of debate among economists. From a world-wide efficiency viewpoint, ideally the capital export neutrality, capital ownership neutrality and capital import neutrality benchmarks would all be met. In practice, given the complexity of commerce, the interrelationships between countries' tax systems and sophisticated tax planning arrangements, achieving even one benchmark is challenging.

Taxing the inbound investment of non-residents

Equity investments in Australia by non-residents are primarily subject to Australian tax through company income tax. For debt, nil or low withholding tax rates apply to interest income. Other forms of inbound investment may be taxed either on assessment or by means of a withholding tax. Withholding tax rates are set out in domestic law, but are usually reduced on a reciprocal basis under tax treaties.

Tax treaties play an important role in allocating taxing rights between countries, thus giving investors greater certainty as to how their investment will be taxed. The generally adopted approach in Australia's tax treaties is to apply the OECD model tax treaty, which generally restricts source country taxation in favour of residence taxation. Recent treaties have seen Australia's position move closer to the OECD model in some respects. However, Australia's taxing rights over 'real property' are typically broader than under the OECD model, particularly in relation to our natural resources.

Box 8.7: Source taxation and its challenges

Source is the primary basis upon which countries tax the residents of other countries on income that has a nexus with their jurisdiction. The source of income can be unclear or indeterminate, and countries determine what income is sourced in their jurisdiction differently: some legislate comprehensive source rules while others (including Australia) generally rely on judicial interpretation. Tax treaties may also set out source rules that modify the operation of domestic law. Typically, capital gains are not assessed to non-residents on the basis of source of the gain, but on a narrower connection of the asset with the country. In Australia's case, that connection is satisfied where the asset is land, or a non-portfolio interest in a land-rich entity.

As with residence-based taxation, enforcement of source-based taxation has faced a number of challenges that have become more acute as: cross-border capital flows have increased; cross-border trade between members of the same corporate group has become more important; intangibles have increased as a share of total assets; e-commerce has developed; financial instruments (and exploitation of debt/equity dividing lines) have become sophisticated; and as tax planning techniques have evolved. More recently, there has been an increased use of hybrid entities and securities that can duplicate tax benefits across jurisdictions, which can give rise to characterisation difficulties and avoid taxation in both residence and source countries.

Countries counter practices that seek to minimise source taxation primarily through 'thin capitalisation' rules to limit the excessive allocation of debt to source country operations, and 'transfer pricing' rules to prevent profit-shifting to low tax countries through sales between related parties.

Australian tax is, however, only part of the story. Effective rates of tax on an investment in Australia (or alternative investment location) also depend on the tax system of the foreign country from which the investment originates. This includes whether it provides a credit for Australian tax paid or, alternatively, exempts the income from tax. Additionally, effective tax rates are also affected by the country or countries through which the investment is channelled, and the operation of any relevant tax treaties.

The relationship between capital investment flows and taxation is complex. A number of studies have established a link between taxation, foreign direct investment (Box 8.8) and related decisions. However, the extent to which these findings can be applied to Australia may also depend on Australia's geographic position and the presence of location-specific rents in respect of its mineral resources.

Box 8.8: Taxation and foreign direct investment (FDI)

Optimal tax literature suggests that, in the absence of location-specific rents, a small open economy should not impose source-based capital taxes when capital is perfectly mobile between countries. Doing so would reduce investment and, with lower levels of investment, labour productivity, wages and returns to other immobile factors (such as land) would fall.

In practice, capital is not perfectly mobile, location-specific rents are present (for example, in respect of natural resources and the existing capital stock) and foreign countries may credit domestic tax paid. However, as capital has become more mobile, countries have begun to compete more to attract capital investment. This is particularly so for FDI given its potential spillover benefits — for example, increased productivity in the domestic economy from replicating the efficient processes of multinationals.

While the motivation for competing to attract investment should be increasing real net national disposable income (see Box 3.2), empirical studies have focused on the responsiveness of various measures of foreign investment to taxes. The OECD commissioned a survey that found a direct relationship between levels of tax and FDI, although there is a wide variation in the estimates. Due to methodological and data limitations, the estimates set out in Table 8.1 should be used with caution.

Table 8.1: Summary of empirical studies on the sensitivity of FDI to tax

	Semi-elasticity		Ordinary elasticity	
	Mean	Median	Mean	Median
Time series	-2.61	-2.75	-1.23	-1.28
Cross section	-7.16	-4.24	-0.85	-0.78
Panel	-2.73	-2.41	-0.78	-0.66
Discrete choice	-3.43	-2.80	-0.30	-0.19
All	-3.72	-2.91	-0.75	-0.57

Source: OECD 2007e.

On average, the literature review found that a one percentage point increase in the rate of tax would result in a decrease in FDI of 3.72 per cent. In addition, the responsiveness of FDI to tax has increased over time, with investments in physical capital more responsive than other investments (such as acquisitions). The originating country's taxation regime (specifically, whether it has a credit or exemption regime) does not appear to affect the FDI response, possibly because tax planning by multinationals negates its effect.

As noted in Section 5, non-tax factors are also important drivers of FDI. These non-tax factors include macroeconomic stability, a supportive legal and regulatory framework, skilled labour and labour market flexibility, and well-developed infrastructure. The new economic geography literature that considers location-dependent benefits (such as from business concentration economies and economies of scale) suggests these may alter the changes in capital flows that might otherwise occur following changes in taxation.

8.5 The treatment of natural resource assets

The Australian natural resources sector is made up of two components — the mining and petroleum sector and other natural resources such as forestry and fisheries.

These natural resources are owned by all Australians, with legal ownership vested through governments' rights over these assets. Governments often assign exploration, utilisation and production rights to the private sector in return for certain payments. These payments include company income tax, royalties, excises and licenses. Such payments can enable governments to collect a return from the extraction or use of the community's natural resources but can also impact on the level of investment, both by Australian and overseas investors.

There are challenges in valuing many of Australia's natural resources. A market price may not always exist and, where it does, it may not reflect the full value that the community ascribes to the asset — for example, the value of an old growth forest. There are a range of factors that can affect the price of these resources, including government ownership and regulation. In many cases, the prices (implicit or explicit) charged by government for access to the community's natural resources are non-transparent, or at least very difficult to compute.

The Australian mining and petroleum resources sector

Australia has significant non-renewable resource endowments relative to other countries. In 2000, the OECD calculated that Australia's natural resources (excluding agriculture), as a percentage of total capital, ranked fourth in the OECD behind Norway, Canada and New Zealand (Boulhol et al 2008). Table 8.2 shows Australia's share and ranking in selected world proven mineral resources as at 2004.

Table 8.2: Australia's share and ranking in selected world mineral resources[(a)]

	Share (%)	Ranking		Share (%)	Ranking
Metalic Minerals			**Oil and gas**		
Gold	12	2	Oil	0.3	28
Iron ore	9	5	Natural gas	1.4	14
Copper	9	2	**Coal**		
Lead	26	1	Black coal	5	6
Zinc	18	1	Brown coal	24	1
Nickel	37	1	**Non metallic minerals (diamonds)**		
Silver	15	2	Industrial diamonds	10	4
Uranium	40	1	Gem/near gem quality	-	High
Bauxite	-	2	**Mineral sands**		
Tantalum	95	1	Ilmenite	20	2
Manganese	11	4	Rutile	39	1
Tin	-	10	Zircon	41	1

(a) Based on economic demonstrated resources, as at December 2004.
Source: Hogan (2007).

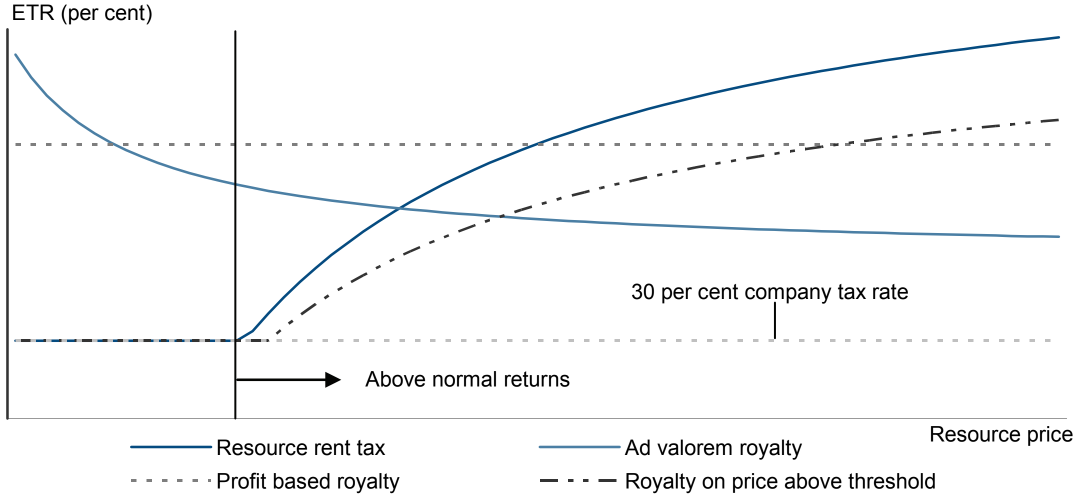
The mining and petroleum sector accounts for 7.1 per cent of GDP, and generates 14.2 per cent of economy-wide profits (gross operating surplus and gross mixed income). Exports of mineral resources from Australia were valued at $91 billion in 2005-06, accounting for 46 per cent of total exports of goods and services. Reflecting the rapid increase in commodity prices, mining exports are forecast to grow to $176 billion in 2008-09.

Mining and petroleum revenue collection methods

Australia has a complex array of tax and non-tax revenue raising instruments that it applies to the mining industry. Different resource taxes, royalties and payment arrangements are imposed across different resources, and on the same type of resource depending on its location. In relation to petroleum, these include PRRT, crude oil excise, a series of different royalties applied by the Australian government (the offshore petroleum royalty, the internal waters royalty and the resource rent royalty) and different oil and gas royalties applied by the States. Further, mineral resources are subject to different royalty arrangements across the States including ad valorem royalties, specific royalties, profit royalties or a combination of these types of royalties. The details of these arrangements are provided in Section 2.

Each of the revenue collection methods (and those used in other countries), can result in different effective tax or revenue outcomes, depending on the resource's price and the rate of return to the private sector. Chart 8.11 shows how the combined rate of tax on the profits of a resource project changes as resource prices, and consequently profits, change.

Chart 8.11: Illustrative combined rates of tax on profits of different resource revenue arrangements



Note: The combined tax rate for each type of tax includes company income tax and the respective royalty as a proportion of pre-tax profits.
Source: Australian Treasury estimates.

Company income tax is a significant part of the effective tax rates shown in Chart 8.11. It applies to both the normal return and any additional profit. Nearly 50 per cent of all revenues from the mining sector come from company tax. As a tax on non-residents, company income tax is particularly important in the mining sector, with around 50 per cent of mining assets owned by non-residents.

The combined tax rate on profits arising from an ad valorem royalty decreases with a higher resource price, while the combined tax rate of a profit based royalty remains constant. These royalties can discourage high risk investments (for example, in the case of an ad valorem royalty, revenue can be collected even when net losses are being made).

A resource rent tax does not apply until a firm has earned above normal profits. Once this occurs, the combined tax rate on the total return increases as the resource price increases. The Australian Government's PRRT is Australia's only form of resource rent tax. A royalty on a price above a certain threshold has some similarity with a resource rent tax but the similarity depends on the price threshold.

International comparisons

Countries in the OECD that have comparable natural resources to Australia include Norway and Canada and, while not in the OECD, Russia has similar natural resources to Australia. Table 8.3 provides a brief generalised description of natural resources taxes in Norway, Canada and Russia.

Table 8.3: International natural resource revenue methods

	Norway	Canada	Russia
Natural resource taxation	50 per cent 'special tax' in addition to company tax. An additional deduction equivalent to 7.5 per cent of investment costs available in the first four years from when investments made.	Taxes and/or royalties applied by individual provinces. Levied on profits from mining and processing operations with a deduction allowable for processing to reflect the normal return on processing assets. 8.55 to 16 per cent.	Mineral resources extraction tax and export duties based on physical volumes and subject to adjustment according to the world energy prices. Regarding oil, Mineral resources extraction tax applies but only where the price for the oil reaches a certain threshold. The same applies for export duties on oil.

Source: OECD (2007f), Natural Resources Canada (2008), OECD (2008b).

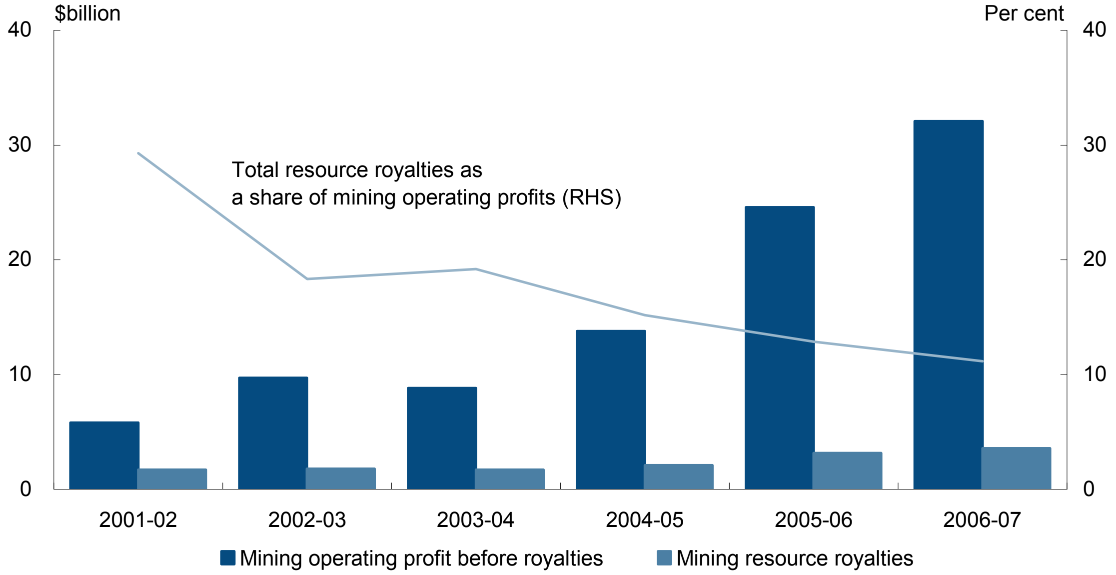
Recent developments in the non-renewable resource sector

The recent increases in resource prices have led to an increase in operating profits of the mining sector.

Over the period since 2001-02, there has been a significant increase in operating profits in the mining sector in response to increased resource prices (the impact of price movements on resource profits is illustrated in Box 8.9). Operating profits (before tax) in the total mining sector (excluding petroleum) have increased from $5.8 billion in 2001-02 to $32.1 billion in 2006-07 (Chart 8.12).

The revenue from resource charges has also increased significantly over this period, though not as fast as operating profits.

Chart 8.12: Mining royalty revenues and operating profits

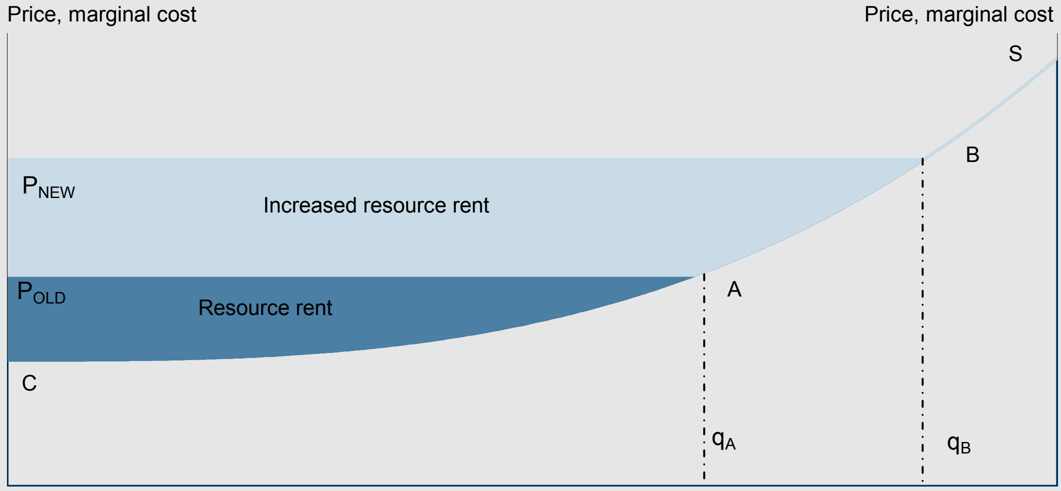


Source: ABS (2007e); ABS (2008f).

Box 8.9: Higher commodity prices increase resource profits

Assume initially the world price for the representative commodity is at p_{OLD}, but then increases to p_{NEW}. The long run industry supply curve, S, represents the long run marginal cost of exploration, development and production (including abandonment), and includes provision for the normal required rates of return to capital and an appropriate risk premium. Given this industry supply curve, and the starting world price, firms initially maximised their returns by producing at point A, with output given by q_A. Even at this point there is resource rent, being the profit in excess of firms' costs and normal returns, as given by the area $Cp_{OLD}A$.

Chart 8.13: Increased resource rents



With an increase in world price to p_{NEW}, previously marginal or uneconomic projects become viable, and production increases to q_B. In addition, rents increase in respect of the initial output level q_A. The extent to which these increased rents are shared by the community depends on the particular tax or royalty arrangements that apply (see Chart 8.11).

Source: Adapted from Hogan (2007).

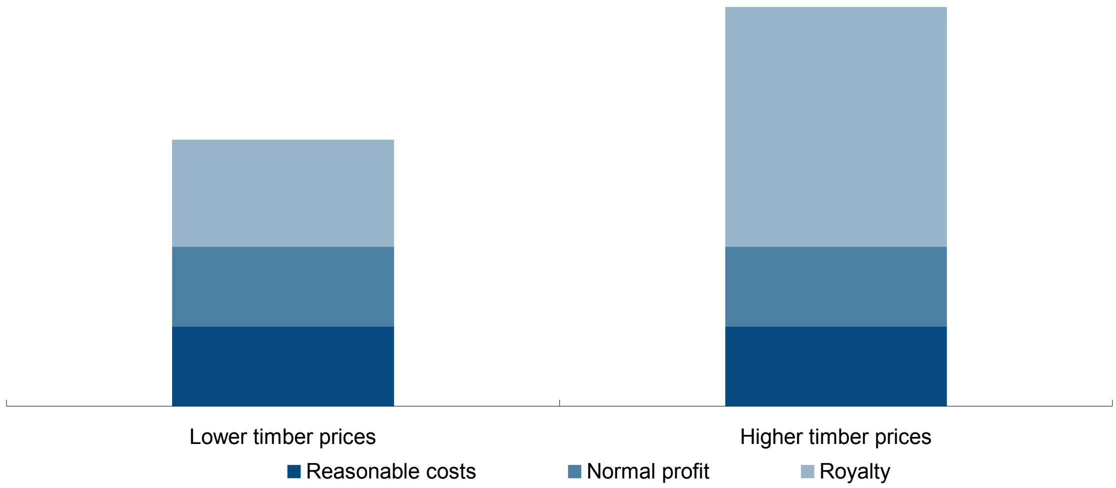
Forestry

Of the approximately 10 million hectares of native forest that is available for wood production, about 7 million hectares is owned by state forest agencies (Productivity Commission, 2007). There are several possible methods for ensuring an appropriate recognition of the value of these native forests. Methods include options for charging for reductions in environmental amenity, regulatory controls on the extent or nature of forestry operations, and collecting royalties from the sale of trees on public land (state forests). This section focuses on royalties.

The conventional technique used to calculate a royalty on the stumpage, or log price from trees, is through a residual value pricing method. This method estimates a derived demand curve for native timber for a timber mill by subtracting 'reasonable' costs incurred by the sawmill from the prevailing market price, including an allowance for 'normal' profit.

As illustrated in Chart 8.14, this means that royalty collections increase as timber prices increase. However, the size of the royalty is also highly dependent on appropriate estimates of 'reasonable' costs and 'normal' profit. Estimating these latter two components is particularly problematic, in part because the market for timber may not be fully competitive. For example, the high cost of transporting timber may mean that in some regions there is only one log supplier, the state forest agency, and one (or very few) buyers, such as a large sawmill. State ownership of forestry resources, may also mean that usual market incentives to minimise costs and seek an appropriate market return for the timber are diminished.

Chart 8.14: Components of the market value of forestry under the residual value pricing method



One basis for assessing the possibility of an underpricing of native forests is to examine the rates of return on assets for the various quasi-government bodies (Forests NSW, VicForests, the Forest Products Commission of Western Australia, ForestrySA, Forestry Tasmania and Forestry Plantations Queensland). These entities reported a positive return on assets in recent years with a return on assets across the forestry sector of 2.3 per cent in 2005-06 (Productivity Commission, 2007).

From the results in Table 8.4 it appears that most of these bodies are not achieving a risk-free benchmark return on assets (the return on 10 year Australian Government bonds averaged around 5.5 per cent in the period 2005-06 to 2006-07). Making an allowance for items such as community service obligations has little impact on these results. This may reflect under-pricing of the assets they are selling or the existence of high cost structures.

Table 8.4: Return on assets, per cent

Entity	2005-06	2006-07
Forestry Tasmania	2.27	2.42
Forests NSW	1.20	1.07
Forestry Products Commission (WA)	4.72	4.70
ForestrySA	4.30	3.90

The figures for Forestry Plantations Queensland are not available and VicForests did not publish the return on assets.
Source: Forestry Tasmania, ForestrySA, Forestry Products Commission (WA) and Forests NSW Annual Report 2006-07.

The possibility of under pricing is consistent with a series of empirical studies in the last 20 years that have indicated that royalties for sawlogs in state forests have been anywhere between 20 and 70 per cent below market value (Commonwealth Competitive Neutrality Complaints Office 2001). An alternative to residual value pricing is the use of auction or tender arrangements. When VicForests trialled an auction system in 2006, it resulted in significant increases in prices (150 to 160 per cent over the existing price).

9 Taxing goods and services

Outline

This section examines the current Australian system of taxing goods and services.

Key points

- Historically, taxes on goods and services raised revenue relatively simply from narrow bases that are easy to tax, with a shift over time toward more efficient broad-based taxation.
- Some taxes on specific goods and services may reflect a range of non-tax policy objectives, such as reinforcing social policy objectives, or providing assistance to domestic industry.
- Specific taxes can also be levied to help correct market failures. For example, an effectively targeted tax creates incentives in the market for individuals to respond to environmental concerns.
- Improving technology is making it administratively feasible to replace some taxes with more direct user charges.

9.1 Raising revenue for general public expenditure

At federation, the Commonwealth levied excises (taxes) on domestic production and tariffs on imported goods. These were typically commodities with clearly identifiable and easily controlled sources, such as alcohol and tobacco. Many of these commodities were also everyday consumption goods including starch and sugar. Although the administrative costs of collecting excise were quite low, their efficiency costs were likely to be high in many cases. This is because taxing some goods and services and not others changes relative prices. This provides incentives for people to alter consumption from taxed goods to untaxed goods.

Over time, the taxation of goods and services in Australia shifted from selective excise and customs tariffs, to broader-based taxation of goods. The Scullin Government introduced a sales tax at the wholesale level in 1930 at a single rate. The Asprey Committee (1975) noted that exemptions and reclassifications of goods to lower rates since the Second World War had significantly eroded the sales tax base. By 2000, goods were classified at seven different rates, ranging from 0 to 45 per cent. The provision of services was not directly taxed.

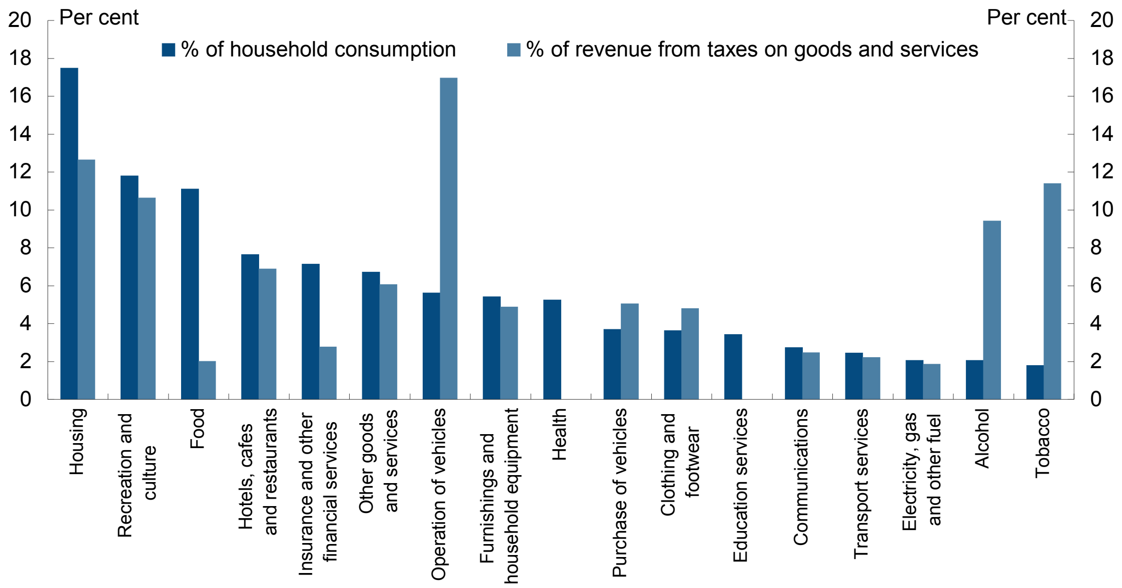
The wholesale sales tax was replaced by the goods and services tax (GST) in 2000. The GST applies at a single rate of 10 per cent to a broad base. By adopting a uniform rate, much of the complexity associated with classifying goods against the multiple-rates of the sales tax was removed. Moreover, the influence of tax considerations on consumer decisions was reduced through fewer tax induced changes to the relative prices of goods and services.

The GST taxes services, which today make up around 70 per cent of Australia's industry output. Some goods and services are GST free, including basic food, health and medical care, education and charitable goods. GST contributes a little more than half of Australian government revenue from indirect taxes.

The Australian government and the States all levy a range of other taxes on specific goods and services that are mostly consumed by households, and for which there are few substitutes. The demand for these goods and services is generally 'inelastic' (unresponsive to the change in price resulting from the tax). Often, goods subject to specific taxes have only a few, easily monitored, producers. For example, there are fewer than 10 payers of tobacco excise and around 100 payers of fuel excise in Australia. Administration and compliance costs therefore tend to be quite low as a percentage of the revenue collected.

Due to these specific taxes and the exemptions from GST, the share of revenue raised from some goods and services is higher than their share of household consumption expenditure, while for others it is less (Chart 9.1).

Chart 9.1: Household consumption and estimated revenue from Australian government taxes on goods and services in 2006-07



Sources: Consumption shares based on ABS (2007c). GST revenue allocations to consumption categories is estimated from national accounts (not including GST embedded in the price of goods and services that are input taxed), other Australian government tax revenue based on actual 2006-07 Budget outcomes based on estimates for household use.

Chart 9.1 shows the impact of directly imposed taxes on consumer goods and services. It ignores taxes on business inputs that are passed onto consumers through the prices on the goods and services they produce. These taxes are generally less efficient as they also distort production decisions. However, it is possible to limit these distortions by providing relief from the incidence of these taxes to business, such as is intended with fuel tax credits.

9.2 Achieving non-tax policy objectives with indirect taxes

Most taxes result in an efficiency cost to the economy because the production of goods and services subject to tax is less than the level that society would demand if the tax were not imposed (see Box 3.4). However, in some cases taxes and charges can increase market efficiency. A tax on a specific good may be beneficial if it reflects the external costs the use of the good imposes on others. Such a tax ensures that users or producers of the good take into account the negative effects they have on others when making production or consumption decisions (see Box 9.1).

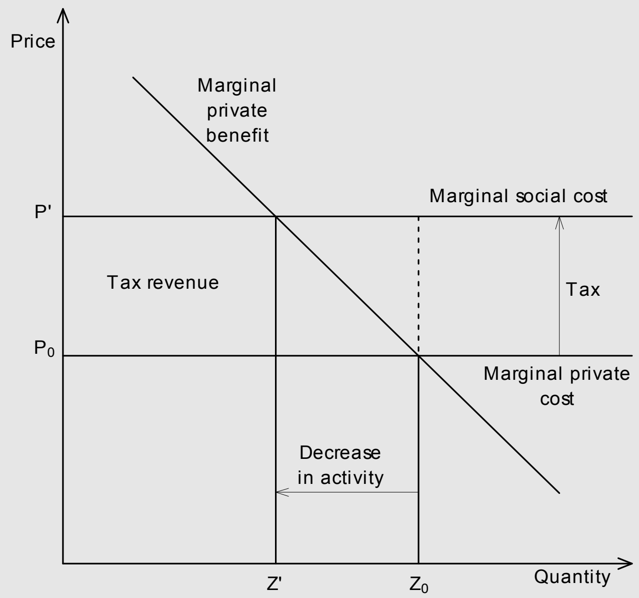
The tax system can also be used to reinforce non-tax policies, including industry assistance, income redistribution, or promoting public health.

Box 9.1: Corrective taxation — paying for the cost imposed on others

For some activities the cost to a private individual or firm is less than the cost to society as a whole. For example, the production of some goods results in environmental pollution. The firm undertaking this production might bear little of the cost of this pollution, with the cost being borne by society as a whole. This can also apply to private consumption decisions. For example, the decision of an individual to smoke tobacco may not only cause harm to their own health, but also affect the health of others and impose a financial cost on society through increased demands on a publicly-funded health system.

One solution is to impose a corrective tax which is shown in Chart 9.2. This tax should equate the private marginal cost (of the polluter) with the social marginal cost (of the public at large). This tax increases the cost of undertaking the damaging activity from P^o to P′. The polluter then reduces the level of activity from Z^o to Z′ where their marginal benefit from the activity just equals the marginal social cost.

Chart 9.2: Corrective taxation



Corrective taxation is most efficient when the activity that generates the external cost is taxed directly — for example, actual pollution emissions. However, this may not always be administratively feasible. For example, cheap and accurate monitoring may not be possible with existing technology. In such cases a key input (for example, a particular fuel) or output (for example, a particular manufactured product) associated with the activity can be a less efficient, but administratively feasible, means to impose a corrective tax.

Corrective taxes alter relative prices of goods and services to reflect social costs. Provided that a general consumption tax, such as a GST, is also levied on the price that includes the corrective tax, overall consumption should settle at the socially optimal level. These taxes are not designed to eliminate all negative consequences to society. All that is required is that the costs to society of undertaking the activity are reflected in the economic decisions of consumers or producers. Taxation is not the only way to achieve corrective action. For example, licensing restrictions on alcohol and product controls on tobacco aim to affect consumer behaviour, as do public health campaigns. To the extent that the externality is addressed through non-tax means, there is reduced need to apply a corrective tax.

Health and social policy

In some cases, specific taxes apply to consumption of products which may have negative health effects on the consumer and others. For example, alcohol taxation is applied to intoxicating beverages, but alcohol that is not consumed in intoxicating beverages is not subject to excise (such as alcohol used for industrial purposes). This means alcohol taxation is more closely targeting potential public health costs and reinforcing other social policy objectives around alcohol consumption.

Different types of alcoholic beverages are taxed differently. For beer and spirits, the volume of alcohol is taxed through the excise system. A separate wine equalisation tax (WET) taxes wine products based on value, not alcohol content. An additional producer rebate means that the net tax payable on wine products varies according to both the value of the wine produced (with cheaper wines attracting less tax) and the value of the producer's production (a small producer will have no net WET liability).

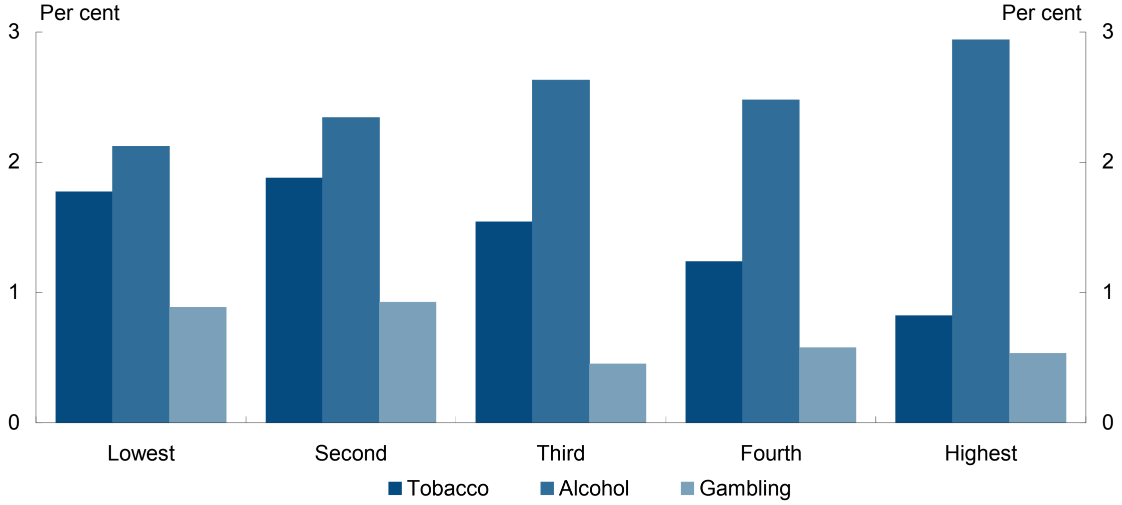
Addressing non-tax policy objectives with taxes on specific goods and services has complex effects. To the degree that there is some substitutability between different forms of consumption, non-uniform tax rates encourage the production and consumption of less taxed goods. Moreover, there may be different impacts on different market segments. For example, academic studies have suggested that increasing the tobacco price lowers the uptake of cigarette smoking, and therefore the prevalence of smoking in the community. However, existing smokers are typically less responsive to price than non-smokers, and are therefore likely to face an increased tax burden.

The States regulate gambling industries to achieve a range of social objectives, including to minimise the costs and risks of problem gambling. Licensed gambling affords the opportunity for licensees to derive supernormal profits, which would be otherwise unavailable in a fully competitive market. State governments apply gambling taxes to ensure that the community derives an appropriate share of these supernormal profits, and so reinforce social policy objectives.

Between States, there are different regulatory and tax arrangements for different forms of gambling — for example, racing, lotteries, poker machines and casinos are taxed differently. Overall revenue from state taxes on gambling provides around 10 per cent of state tax revenue (see Section 2.5). This is only 3 per cent in Western Australia due to a prohibition on gambling machines outside of Burswood Casino.

In general, especially since the abolition of the wholesale sales tax, the redistribution of wealth in Australia is managed through the broader tax-transfer system, not through differential taxes on specific categories of goods preferred by low-income or high-income households. However, the taxation of specific products does have distributional consequences. For example, low-income households spend a greater share of their income on tobacco (see Chart 9.3). On the other hand, the luxury car tax is aimed at goods that are generally more accessible to high-income consumers.

Chart 9.3: Spending on particular goods and services
By gross household income quintile



Source: ABS (2006b).

Industry policy

A tariff is a tax on products produced overseas and imported into Australia. Although tariffs were a major revenue source for early Australian governments, their importance has diminished following successive tariff reductions and the growth of other taxes. Tariffs have moved from being a primary means of raising revenue to a form of industry assistance.

Tariffs assist some local firms by providing some protection from import competition. In effect, they enable local producers to increase the prices at which they can sell their goods on the Australian market and/or to increase the volume of their sales. As such, tariffs have a redistributive impact, away from consumers and toward the owners and employees of tariff assisted industries. Tariffs also impose costs on firms which use imported products that are subject to tariffs or use domestic products that are produced at a higher cost because of the tariff.

The Productivity Commission (2008b) estimated that tariffs on imports provided $9.1 billion of assistance to Australian industry in 2006-07 but also cost Australian industry around $7.7 billion in higher input prices, leaving net assistance of $1.4 billion. This net assistance comes at a cost to consumers who pay higher prices than in the absence of tariffs. The manufacturing sector enjoys the largest amount of net assistance ($5.8 billion), with primary production receiving a smaller benefit ($5.4 million). The services and mining sectors are made worse off by $4.1 billion and $253.1 million respectively.

Environmental policy

Australians undertake many activities that cause environmental damage. To the extent that the environment is a public good, then it is likely that these activities make other Australians worse off. There are few examples of environmental taxes in Australia. To be an environmental tax — rather than just a tax — there must be a direct link between the tax and the marginal social cost of the activity damaging the environment. The tax effectively 'corrects' for the market under-pricing the loss of social value from a damaged environment (see Box 9.2).

Box 9.2: Aircraft Noise Levy

The Aircraft Noise Levy is targeted at the noise emitted by jet aircraft landing at declared airports. Airlines are charged for the noise pollution caused to those who live near the airports. The levy is calculated so that a relatively noisy aircraft such as a B747 pays some three to four times more than a quieter aircraft such as a B737. Depending on market conditions, airlines may try to pass on the cost of the levy to passengers in the ticket price. Revenue from this levy is used to recover the costs of Australian Government-funded noise amelioration programs. After the full cost of the noise amelioration program is recovered, the noise levy for that airport ceases to apply.

In general, there is no efficiency reason to spend the revenue raised by environmental taxes on additional environmental programs as is the case with the Aircraft Noise Levy. This is because an effectively targeted tax creates incentives in the market for individuals to respond to environmental concerns.

Taxes may also be linked to the environment because they are used to fund environmental programs, but these taxes are not strictly corrective or 'environmental 'taxes. The tax and public spending should be assessed independently. An example is the Product Stewardship Oil Levy (see Box 9.3).

Box 9.3: Product Stewardship Oil Levy

Lubricant oils produced or sold in Australia are subject to a levy of 5.449 cents per litre. This is paid by producers and importers of these products. Both imported and domestically-produced oils are subject to the levy, which is collected as an excise by the Australian Taxation Office (ATO) and as customs duty by the Australian Customs Service. Exported oil is not subject to the levy. The levy is intended to off-set the costs of benefits paid under the Product Stewardship for Oil program which provides benefits to oil recyclers to recycle waste oil. In 2006-07 net revenue collected from the levy was $23.3 million, with $31.9 million paid as product stewardship benefits.

In some cases, environmental taxes may not be the most appropriate way to deal with activities damaging the environment. If property rights are clear and the cost of enforcement is not prohibitive, then people damaging the environment might be required to compensate affected parties for the damage caused, or they could be paid to encourage them to stop their damaging activities by others who care about the environment. Improved environmental regulation, such as clarifying property rights and imposing statutory duties of care can be effective solutions for addressing environmental concerns. See Box 9.4 for a discussion of the Carbon Pollution Reduction Scheme.

Box 9.4: Carbon Pollution Reduction Scheme

The Australian Government has asked the tax review to consider the inter-relationship of the emissions trading scheme for carbon and the tax-transfer system.

To impose a cost on greenhouse gas emissions (to address the externality of climate change) the Australian Government has announced that it will introduce a Carbon Pollution Reduction Scheme by 2010. The scheme will set a total limit on the amount of carbon that can be emitted by those sectors covered by the scheme.[1] The Government will limit the amount of emissions in the economy by issuing 'carbon pollution permits' in line with the scheme cap. These carbon pollution permits can then be traded and purchased. This is why such schemes are called 'cap and trade'.

Cap and trade schemes have two distinct features. The first is the cap (or limit) on greenhouse gas emissions, which delivers the desired environmental outcome. The second is the ability to trade the 'permits'. A cap and trade scheme effectively puts a price on greenhouse gas emissions, and lets emitters make the choice between reducing emissions where it is cost effective to do so, and buying a permit. This ensures that emissions reductions are achieved by firms who can do this in the most cost effective way.

Permit allocations would, over the longer term, progressively move towards 100 per cent auctioning as the scheme matures, subject to the provision of transitional support for emissions-intensive trade-exposed industries and strongly affected industries.

The Australian Government's *Carbon Pollution Reduction Scheme Green Paper* (Australian Government 2008c), released on 16 July 2008, proposes to provide up to around 30 per cent of carbon pollution permits to firms that are deemed emissions-intensive trade-exposed. At the outset of the scheme, if agricultural emissions are excluded from scheme coverage, this would be up to around 20 per cent of permits. The Government indicated that its preference would be the proposed allocation of a limited amount of direct assistance to existing coal-fired electricity generators on a 'once and for all' basis — that is, further allocations of assistance would not be provided after the scheme begins.

The auctioning of permits will provide the Australian Government with a source of revenue and the capacity to help industry and households adjust to the impacts of the scheme.

1 The design of the Carbon Pollution Reduction Scheme, including coverage, will not be finalised until the end of 2008, after the Australian Government undertakes consultation with interested stakeholders.

Box 9.4: Carbon Pollution Reduction Scheme (continued)

Once the scheme is introduced, the prices of emissions-intensive goods and services will rise relative to those that are less emissions-intensive. The extent of the increase will depend on the emissions embodied in the production of a good or service, the extent to which the threat of imports limits the ability of producers to pass through their cost increases, and the availability of firms and households to substitute away to less emissions-intensive goods. The higher prices associated with the costs of the scheme will require households to spend a greater proportion of their income to obtain the same goods and services purchased before the introduction of a carbon price. Without compensation, this would reduce households' real incomes and purchasing power. The Government has committed to using all revenue raised from the Carbon Pollution Reduction Scheme to help households and businesses adjust to the scheme and to invest in clean energy options. In particular, the Government will provide low-income households with increases in assistance through the tax-transfer system and all households with other assistance to address the impact on their living standards. Importantly, lowering taxes or boosting transfers will not make the Carbon Pollution Reduction Scheme less effective for addressing climate change. This is because the relative price of emissions-intensive goods and services will still increase. While some consumers may use their compensated income to purchase more expensive emissions-intensive goods, others will prefer to purchase products with lower relative prices. Even if some consumers do not change their behaviour (say, by not reducing their electricity use), the change in relative prices will still encourage producers to meet this demand with less emissions-intensive processes (for example, by using more renewable energy).

The Carbon Pollution Reduction Scheme has at least three major implications for the current tax-transfer system. First, a cap and trade scheme is the least cost means of dealing with climate change, reducing the need for other existing or potential measures designed to reduce emissions. Given there is a cap, other measures which aim to reduce carbon in one area of the economy will effectively allow more emissions in another. Second, where the compensation scheme uses the tax system it is likely to involve a reduction in existing inefficiencies to the extent that there is a reduction in (effective) marginal tax rates. Finally, to the extent that the scheme results in a more even economic burden across different types of fuel, this would improve efficiency.

Raising revenue to fund specific programs

In some cases, the costs of particular government programs are offset by imposing a tax on a related good or service. This is different from a user charge — where the government charges directly for the cost of providing a particular good or service. This sort of tax is often perceived to be equitable due to the alignment between those who pay the tax and those who benefit from it.

In practice, the revenue raised from a tax may not be perfectly correlated with the program's funding requirements. For example, excise on aviation fuels used for domestic trips is charged for the purpose of cost recovery for the Civil Aviation Safety Authority. However, a downturn in the aviation industry and the increased use of larger, more fuel efficient aircraft meant that the rate of excise had to be increased in 2003-04 to meet the required funding levels. In these cases, the shortfall is often met out of consolidated revenue.

To the extent that these revenues do not match the benefits received, they involve cross-subsidies to different consumers. In other cases, the revenue raised may exceed the funding needs of the program — which can result in over-spending on that program.

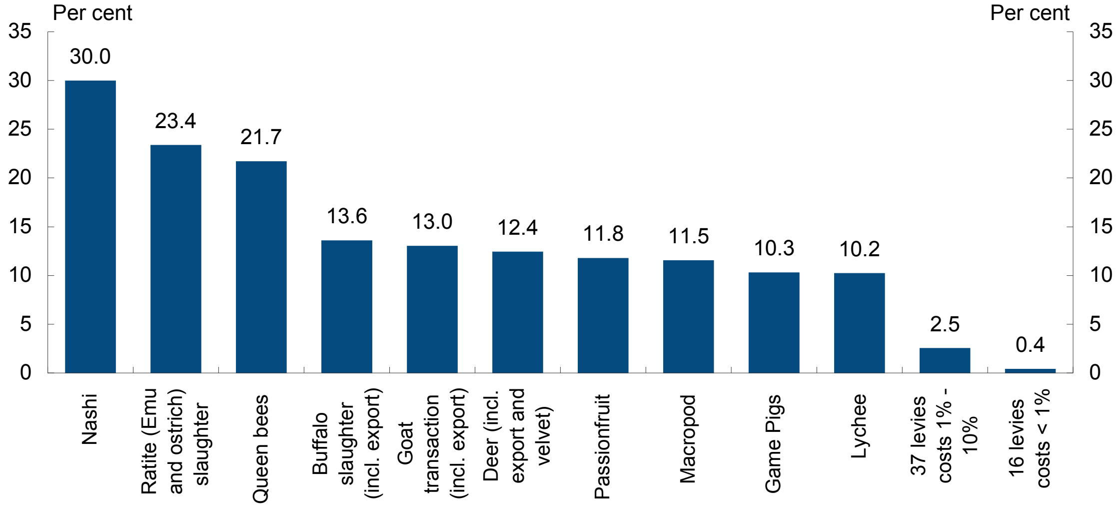
Compared to funding goods out of general revenue, there may be efficiency costs associated with raising revenue in this way. For example, the administration and efficiency costs of collecting an additional $1 of revenue from a tax on a specific product could be higher than the cost of raising that revenue from a broad-based tax.

The Australian Government's agricultural levies provide another example of narrow-based taxes used to fund specific programs. They are typically implemented at the request of industry to correct market failures that arise from the characteristics of many primary industries — a large number of producers, each accounting for a small share of broadly undifferentiated industry output. This makes it difficult for producers to capture sufficient benefit from research and development for which they might individually pay. By collecting a levy from all producers, they share both the cost of the research and development and the benefit. For example, a single cotton grower is unlikely to realise the benefits from their private research into better sowing methods. The government therefore collects a levy from all cotton growers to fund the Cotton Research and Development Corporation to undertake such research for the benefit of all growers.

These levies are typically charged at very low rates, resulting in very low revenue collection — 28 of these taxes collect, in total, less than $1 million per year. The smallest, the Queen Bees Levy and Export Charge, collected $8,000 in 2006-07. The administration costs of collecting the smaller levies can be very high. At the highest end, the collection costs of the Nashi Levy and Export Charge amount to 30 per cent of the revenue collected by it, while the collection cost of the Rice Levy is only 0.09 per cent of the revenue (see Chart 9.4).

This cost does not include the compliance costs for agricultural producers. Such costs, in addition to the levy, would either be borne by producers or passed on to consumers in higher prices. As producers and consumers of the agricultural products are the most likely beneficiaries of the programs that the levies fund, it is consistent with the beneficiary principle of taxation that programs be financed in this way rather than through general public revenue.

Chart 9.4: Collection costs as a percentage of revenue collected on agricultural levies



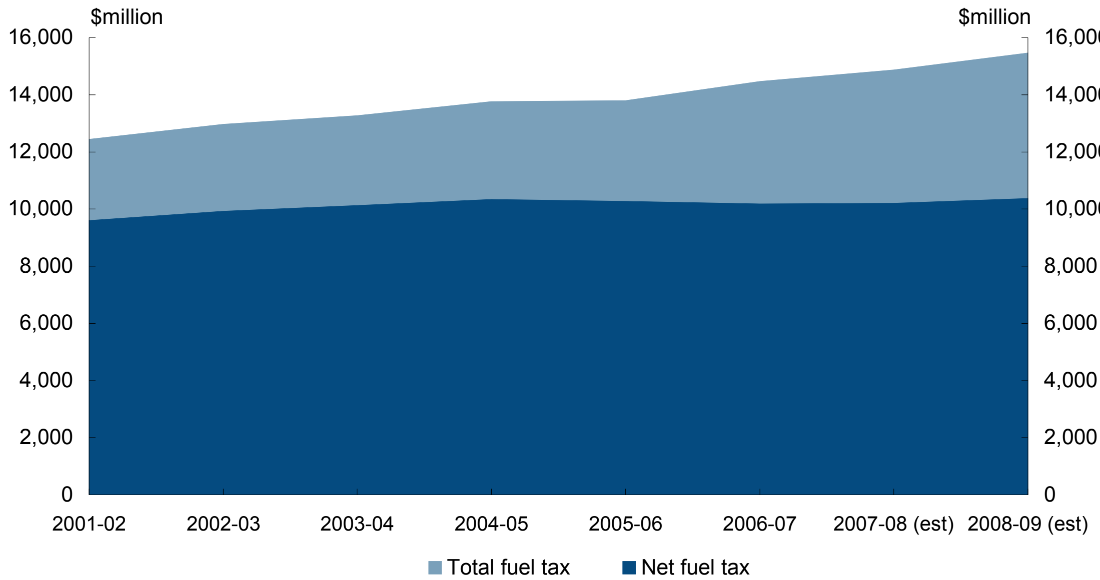
Source: Levies Revenue Service (2007).

9.3 Taxation of fuel

The excise and customs duty on fuel raises the largest amount of revenue of all taxes on specific goods. Fuel is both an input to business as well as making up a significant share of household consumption expenditure. Many of the environmental and social policy arguments already discussed are often raised in relation to fuel taxation.

Fuel excise was reduced by 6.7 cents per litre when the GST was introduced in July 2000. It was reduced further, to its current level of 38.143 cents per litre, in March 2001. These reductions were designed to offset the impact of the GST on fuel prices. Since then, fuel excise has not been indexed. Moreover, when the outlays of programs designed to reduce the incidence of fuel tax are taken into account (for example, fuel tax credits), net revenue from fuel tax has been relatively stable (Chart 9.5).

Chart 9.5: Fuel excise revenue over time



Source: Australian Government (2008a), Australian Treasury estimates.

The Australian Government has made a number of commitments regarding transport fuel in the *Carbon Pollution Reduction Scheme Green Paper*, including cutting fuel taxes on a cent-for-cent basis to offset the initial price impact on fuel associated with the introduction of the scheme. The Australian Government will periodically assess the adequacy of this measure for three years and adjust this offset accordingly. At the end of the three year period the Australian Government will review this adjustment mechanism. For heavy vehicle road users, fuel taxes will be cut on a cent-for-cent basis to offset the initial price impact on fuel associated with the impact of the Carbon Pollution Reduction Scheme. The Government will review this measure after one year.

In respect of liquefied petroleum gas (LPG), the original rationale behind the exemption from excise was security of supply in the context of the oil shocks of the late 1970s. Over time, the number of vehicles using LPG has grown significantly because of the cost differential between LPG and petrol, which is amplified by the excise free status of LPG. LPG is scheduled to begin incurring fuel tax from 1 July 2011 under a policy announced under the previous government. At the time of the 2007 Federal Election, the changes to the law required to tax LPG had not been legislated. As indicated on Budget night, a final decision in relation to this has not been reached.

Arguments for concessional taxation for currently untaxed fuels include environmental and emissions benefits, increased fuel security, together with regional development and infant industry arguments.

Fuel excise is an effective and administratively simple tax for raising revenue. However, it is less effective as a means of meeting additional social or environmental objectives. For example, fuel excise rates do not substantially change the decision to drive in particular vehicles (to reduce road damage), in particular areas (to reduce noise pollution) or at particular times (to reduce congestion). Fuel excise levied for social or environmental objectives also leads to higher burdens on activities where there may be no costs on others. New technologies (such as 'etag' and the global positioning system) are increasing the viability of more efficient direct charging mechanisms.

Relief from the incidence of fuel excise — fuel tax credits

The main avenue for providing relief from fuel tax is through the fuel tax credits system, which provides credits for certain off-road uses to consumers, business users and importers of fuels and for on-road use in heavy vehicles (gross vehicle mass greater than 4.5 tonnes) (Table 9.1).

Fuel tax credits are not a subsidy for the use of fuel. The system is intended to remove or reduce the incidence of fuel tax from business inputs, so that its incidence falls primarily on certain private consumption of fuel. This limits the impact on production decisions. For example, fuel tax credits mean that all electricity generation using liquid fuels is effectively free of fuel tax, in the same way that coal or natural gas inputs to electricity generation are untaxed.

It is difficult to credit business use of all fuels correctly. To the extent that some businesses receive credits while others do not, production decisions are likely to be affected. Similarly, to the extent that credits provided for business use are actually used in consumption, consumption choices will be altered.

Table 9.1: Eligibility for fuel tax credits

	Business use		Private use	
Use on road	Gross vehicle mass <4.5 tonnes	Full fuel tax payable	Full fuel tax payable	
	Gross vehicle mass >4.5 tonnes	Fuel tax payable up to the amount of the road user charge, the rest is offset by a fuel tax credit		
Other use	Fuel use fully offset by fuel tax credit		Electricity generation	Fuel use fully offset by fuel tax credit
			Burner applications and non-fuel uses	Effectively fuel-tax free via a fuel tax credit to business suppliers
			Full fuel tax payable	

Source: Adapted from Fuel Tax Bill 2006, Explanatory Memorandum, page 11.

Use of all fuels on-road in heavy vehicles is eligible for a partial fuel tax credit equal to the effective fuel tax paid, less the amount of a non-hypothecated road user charge. The user charge is intended to reflect the damage to roads caused by heavy vehicles. It forms part of the national heavy vehicle charging arrangements.

The road user charge is currently 19.633 cents per litre and the Australian Government has announced its intention to increase it to 21 cents per litre from 1 January 2009 and index the charge according to the National Transport Commission's road funding formula thereafter.

Relief from the incidence of fuel excise — state fuel subsidies

In 1996-97, the States raised $5.2 billion from business franchise fees on fuel, alcohol and tobacco retailers. However, the 1997 High Court decision in *Ha v New South Wales* (1997) 189 CLR 465 ruled that state franchise fees on tobacco were unconstitutional and, in doing so, cast doubt on the constitutionality of other state franchise fees. At the request of the States, the Australian government implemented safety net arrangements to effectively collect franchise fee revenue on behalf of the States. This revenue was collected though higher rates of excise and wholesale sales tax on the relevant products, and paid to the States. These payments were subsumed into *The New Tax System* package from 1 July 2000.

With respect to fuel, many States had previously levied business franchise fees at different rates. However, for constitutional reasons, the Australian government's increase in fuel excise was uniform throughout the country. The Australian government therefore required some States to introduce subsidy schemes to ensure that motorists in lower-taxing States would not be disadvantaged by the higher rate of Australian government tax.

Over time, some States have withdrawn their subsidy schemes. The largest remaining scheme is the Queensland Fuel Subsidy Scheme, which provides a subsidy of 8.354 cents per litre for eligible fuel purchases, costing the Queensland Government around $525 million in 2006-07.

10 State taxes

Outline

This section considers the taxes and other own-source revenue of the States and the taxes of local government. It also outlines the issue of state taxation in the broader context of federal fiscal relations and the revenue and expenditure responsibilities of the Australian government and the States.

Key points

- Taxes levied by states and local governments account for a significant proportion of total tax revenue in Australia.
- The taxes levied by the States have changed over time. The current array of state taxes includes some transaction taxes which are relatively inefficient.
- Fiscal relations between the Australian government and the States are characterised by vertical fiscal imbalance, whereby the States' own revenue sources are insufficient to fund their expenditure responsibilities, while the Australian government's revenue sources are greater than is necessary to meet its expenditure responsibilities. There are both costs and benefits to this imbalance.

10.1 Introduction

In 2006-07, the States collected $48.9 billion in tax (including $159 million in rates collected by the ACT), with local government taxes in other States raising a further $9.4 billion. Together this accounted for 18 per cent of total tax revenue raised by governments in Australia. A description of the major state taxes (including local government rates) is presented in Section 2.5. An additional dimension to state taxation is its role within broader state financing, which includes non-tax revenue and grants from the Australian government.

10.2 State taxes have changed over time

Since federation, there have been a number of changes in the taxes that have been available to the States. This largely reflects policy developments and the High Court's interpretation of the Constitution, particularly in relation to the definition of excise taxes. These changes include: the agreed handover of customs and excise duties to the Australian government at the time of federation; the takeover of income tax by the Australian government during the Second World War; the handover of payroll tax to the States in 1971; and a series of High Court cases through to the late 1990s where a progressively broader interpretation of excise duties effectively narrowed the range of taxes that the States can impose. Interstate competition has also affected how the States have applied taxes. For example, the abolition of estate taxes in Queensland in 1977 led to all States abolishing their estate taxes by the early

1980s. This has also occurred, albeit less dramatically, with payroll tax, where the States began with uniform legislation when they took over the tax in 1971, but have since eroded their tax bases through changes in their thresholds and other exemptions. The form of several other taxes has also changed over time. Several States used to include land used for primary production and principal places of residence in their base for land tax. Section 4 provides further detail on the history of the Australian tax system.

The current array of state taxes includes taxes which are transaction based or are levied on narrow tax bases. The opportunities for the States to introduce new forms of taxation are limited. Where States have sought to increase their taxation revenue, they have often resorted to taxes which are narrowly based or designed to realise some gain from rapidly growing areas of the economy. Other taxes such as conveyance duties have delivered increasing amounts of revenue to the States in recent years, but the tax base can be subject to fluctuations in line with the property market.

Changes to state tax arrangements can have significant implications for financial relations between the Australian government and the States (discussed further in Section 10.6). This implies that any significant reform of state taxation has broader implications for federal fiscal relations and would require cooperation between the Australian government and the States. The provision of GST revenue to the States and the abolition of a number of inefficient state taxes through the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (Intergovernmental Agreement) is a good example of this.

10.3 Issues with the taxes levied by the States

The High Court's interpretation of the Constitution has restricted the States from imposing taxes on the production, manufacture, sale or distribution of goods. Without the ability to impose broad consumption taxes, the States have resorted to specific transaction taxes. Stamp duties on transactions, such as on motor vehicle purchases, insurance contracts and property conveyancing are significant sources of revenue. Such transaction taxes can reduce economic efficiency either through discouraging turnover (as tax is levied on the full value of the product each time a transaction occurs) or being embedded in the cost of production. Further, in some States insurance companies can also be required to contribute directly to the funding of fire services, a tax which is additional to the stamp duty. See Box 10.1 for a discussion of transaction taxes.

State tax revenues are also affected by a number of significant tax expenditures. This is particularly the case for payroll tax, where the States generally apply exemptions for certain institutions and allow tax-free thresholds (though the States differ in terms of whether they consider the tax-free threshold to be a tax expenditure). Land tax is another example, the main exemptions being for principal places of residence, land used in primary production and a tax-free threshold (again depending on the State's definition of a tax expenditure). Such tax expenditures can considerably narrow otherwise broad bases. Section 2.6 provides a list of the main state tax expenditures.

Box 10.1: Transaction taxes

A tax that is levied on a good every time it changes hands is referred to as a transaction tax. The tax base for such taxes is determined not only by the value of the good but also the frequency of its transfer. In Australia, transaction taxes have generally been levied on a narrow set of goods and services and have a long history of use, probably reflecting their relative administrative simplicity.

Taxing on the basis of the frequency of transfer may discourage turnover of the good, such as housing, to minimise or avoid tax. Individuals and businesses may continue to use an existing good instead of a preferred alternative simply to avoid the tax. By reducing turnover, a high transaction tax can also make price discovery in a market more difficult. Reducing the certainty and quality of a price signal imposes additional risk on all those who engage in the market. The extent of these efficiency costs varies, and will be lower if the transaction tax is low relative to the benefit of undertaking the activity.

The narrow base of many transaction taxes and their interaction with other taxes can have an impact on resource allocation in the economy. For example, insurance products are subject to GST, insurance transaction taxes and, in some States, insurance companies can also be required to contribute directly to the funding of fire services. The interaction of these taxes increases the cost of premiums relative to other products, which may encourage people to take up less insurance than otherwise.

An additional efficiency cost arises where a taxable product is used as a business input, since the tax can encourage businesses to use a less efficient mix of inputs. In addition, such input taxes cascade through the production chain to affect the market price of the final product, reducing international competitiveness.

Transaction taxes also have equity implications as they tax only specific goods or activities. People may choose to engage in activities subject to higher rates of tax even though they have low incomes. Also, people with similar incomes may pay different amounts of tax because they turn over a taxed good more frequently. To address these equity issues, governments may narrow transaction tax bases to exempt certain types of people, such as some first home buyers for stamp duty on residential conveyancing. While of benefit to recipients, such exemptions add to the complexity of the tax system and increase the burden on the broader population.

Differences in tax policies between the States

While the mix of taxes levied by the States is similar, there are many differences in their application. As highlighted in Table 2.18, there are different thresholds, rates and ranges of exemptions between States.

There are, however, many similarities in the way these taxes operate. For example, all States that levy land tax exempt land used for primary production and individuals' principal place of residence. Further, the States have been working to harmonise payroll tax arrangements (other than rates or exemption thresholds). NSW and Victoria harmonised their payroll tax legislative and administrative arrangements from 1 July 2007. From 1 July 2008, Tasmania also harmonised its payroll tax arrangements with NSW and Victoria. The other States have agreed to harmonise initially over eight areas (including grouping provisions and vehicle and accommodation allowance exemptions) with work continuing on harmonising arrangements in other areas.

Access to their own taxes allows the States to modify the bases and rates to account for differences such as house prices, geography, climate, industry structure and revenue needs. This diversity can result in healthy tax competition between the States, in which the States face competitive pressure to adopt best practice in the design of their tax systems and the setting of tax levels, to minimise the adverse effects of taxation on economic activity. However, this can also lead to increased complexity for businesses operating in more than one state, particularly when there are definitional differences in the tax bases. In addition, if tax policies are driven by a desire to match other States, rather than the need to raise revenue, this may compromise the sustainability of the States' own source tax revenues. Such behaviour has largely been addressed through the Interstate Investment Cooperation Agreement (see Box 10.2).

Box 10.2: Interstate tax competition

Although there can be benefits from the States having the freedom to alter their taxes to meet their own constituents' needs, certain forms of tax competition between the States can be unproductive. As identified by Gabbitas and Eldridge (1998) there are potential problems if a State changes the rates and bases of their taxes in a 'bidding war' to deliberately attract business to their State.

The first problem is that a firm may have located in that State in any case as its decision may be more based on other commercial factors such as the proximity to associated markets and the skill set of the local labour market. Tax incentives offered by a State may have little influence on the decision. Secondly, while an individual State might gain some benefit from offering tax exemptions to certain businesses, this may be offset when the other States also offer similar exemptions to attract other businesses. To the extent that these exemptions simply move businesses between the States, there is no benefit for the nation as a whole.

Such tax competition can lead to significant erosions in tax bases. This is of particular concern if it occurs with relatively more efficient taxes, as the loss in revenue may be made up from increasing the rates of less efficient taxes.

In 2003, the treasurers of NSW, Victoria, Western Australia, South Australia, Tasmania and the ACT signed an Interstate Investment Co-operation Agreement, whereby these States agreed to work together to eliminate unnecessary bidding wars and to restrict the use of financial incentives in seeking investments and major events. In 2006, these States, along with the Northern Territory, decided to extend the agreement for a further five years.

10.4 Other own-source revenue

In addition to revenue from taxes, the States raised a further $36 billion in 2006-07 from other own-source revenue. Use of other own-source revenue reduces the need for the States to raise tax revenue. Other own-source revenue includes user charges for services provided by governments, dividends and tax equivalent payments from state owned enterprises, resource royalties and charges, fines, and interest income. The proportion of other own-source revenue to total state revenue ranges from over 30 per cent in Queensland to around 14 per cent in the Northern Territory, which largely reflects the differing economic structures and relative shares of grants received by jurisdictions.

States levy user charges on a wide range of activities, such as transport, education and environmental services. COAG recognises that well-targeted user charges can have a significant impact on the use of these services. User charging may encourage the efficient use of publicly provided goods and services (see Box 10.3). Under-charging may result in overuse of public services compared to the socially optimal level. It also encourages a greater reliance on tax to fund the additional services which can reduce economic activity. However, in some cases under-charging for the provision of a public good may be used to achieve socially desirable outcomes.

10.5 Local government taxes

In 2006-07, local government rates and other minor taxes on immovable property raised $9.4 billion (see Section 2.5 for a description of rates). Local governments are created by statutes of state parliaments[1], although state governments do not have access to local government revenue.

While revenue from rates levied by local governments is available for local governments to spend as they wish, the States exercise legislative controls over the manner in which local governments levy rates (see Table 2.20). This includes restrictions on: the valuation methods which can be used; the ability to charge different rates on different categories of rate payer; the provision of exemptions and concessions; and restrictions on the annual percentage increase in rates revenue (in NSW and, for three years from 1 July 2008, in the Northern Territory).

In 2005-06, rates accounted for 37 per cent of the $23.9 billion of total local government revenue in Australia.[2] The remaining local government revenue was comprised of: sales of goods and services (29 per cent); grants and subsidies (17 per cent); interest and dividend income (3 per cent); and other revenue (14 per cent), which includes fines and developer charges.

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1 The exception is the ACT, where the Federal Parliament legislated self-government. The ACT Government has responsibility for both state and local government functions.

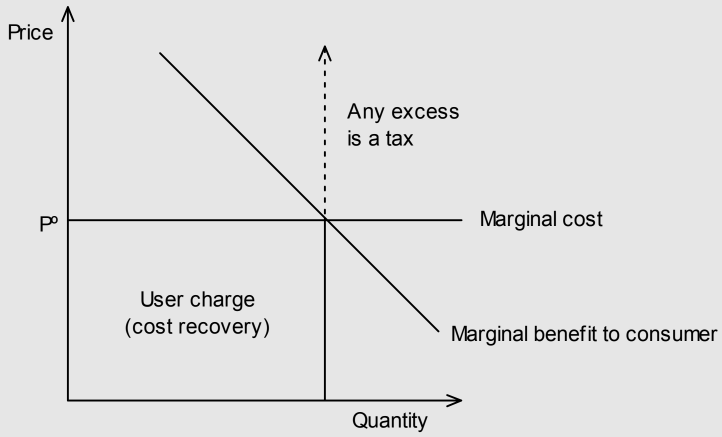
2 For a detailed description and analysis of local government revenues, see Productivity Commission (2008a).

Box 10.3: User charging — paying the cost of a benefit received

In some cases, rather than impose a tax, governments charge users directly for a publicly provided good or service. An efficient user charge recovers the cost of providing that good to the next user (its marginal cost). For example, in the case of a public road, this is the cost directly attributable to the driver making another trip, including road damage costs.

By definition a user charge is not a tax, because those who pay the charge receive a direct benefit that is proportionate to it. However, if the charge is in excess of the cost of providing the service, or unrelated to it, then some portion of it is a tax (see Chart 10.1 and Box 2.2).

Chart 10.1: User charging



If a good or service is provided at no charge to a user, then some users will consume it even if the benefit that they receive from it is less than the cost of providing it. This outcome will reduce the overall wellbeing of society as resources are being used to undertake activities where the benefit to society is less than the cost society incurs for providing that activity. When demand outstrips supply in this way, the service is typically rationed (for example, users must queue or suffer congestion), or service quality declines.

If usage of a publicly provided good or service can be clearly identified and one person's consumption reduces another's use, then it is efficient for government to impose a user charge. This equates the price of accessing the good or service with the cost of providing it. Only those who value the good or service at this price will be willing to pay to use it. Supply can then be matched with demand, and the service can be provided without additional funding from general tax revenue.

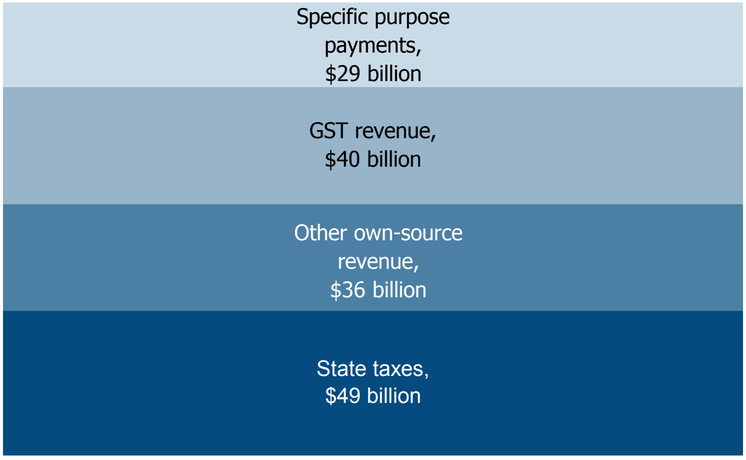
Efficient user charging depends on being able to measure accurately the use of a particular service. This may change through time due to technology.

Although user charging gives rise to more economically efficient outcomes, it also gives rise to equity concerns. This is because those with limited capacity to pay may not be able to access essential services, even if they value them very highly. For these reasons, some products are not thought to be suitable for user charging and some user charges are provided at concessional rates to particular groups. However, to the extent that compensation can be provided through the tax-transfer system, user charging can enable the public provision of goods and services at a lesser cost to society as a whole.

10.6 Federal fiscal relations

The States raised around $49 billion in state taxes and $36 billion in other own-source revenue in 2006-07. These combined sources represented around 55 per cent of the States' total revenue in that year. The remainder consists of transfers from the Australian government (Chart 10.2).

Chart 10.2: Composition of state government revenue in 2006-07



Source: ABS (2008a); Australian Government (2007c).

In addition to their own revenue sources, the States received around $40 billion in GST revenue from the Australian government. The GST is an Australian government tax, with all revenue provided to the States to compensate them for — among other things — the removal of a range of inefficient state taxes, the loss of revenue replacement payments (originally levied in place of franchise fees) and the loss of financial assistance grants. The Australian government distributes the GST to the States as an untied grant based on the principle of horizontal fiscal equalisation (HFE), which takes into account the relative revenue raising capacity and expenditure needs of each of the States (see Box 10.4).

The States also received $29 billion in specific purpose payments (SPPs) from the Australian government. These are payments provided to the States to deliver specific policy outcomes in areas that are administered by the States. These payments are currently the subject of a reform process being undertaken through COAG.

The proportion of total revenue that comes from Australian government grants (GST and SPPs) differs considerably between the States (Chart 10.3). For example, NSW, Victoria, Queensland, Western Australia and the ACT each received a little over 40 per cent of their total revenue in 2006-07 from the Australian government. The Northern Territory received around 75 per cent of its revenue from the Australian government, reflecting its higher per capita share of GST revenue delivered through the HFE process.

Chart 10.3: Sources of revenue for state governments in 2006-07

Source: ABS (2008a); Australian Government (2007c).

Expenditure responsibilities

The allocation of expenditure responsibilities between levels of government in Australia has been largely shaped by the Constitution and reflects, to some extent, the principle of subsidiarity — that is, that decisions should be taken as close as possible to the citizens by the lowest level of government possible. The States have, and will continue to have, significant expenditure responsibilities and this means that the States need sustainable sources of revenue to fund expenditure.

In the context of an ageing population, the Productivity Commission (2005) noted that, given current taxing powers and expenditure responsibilities, the States' taxation sources would be relatively stable but, due to increasing expenditure pressures, their fiscal positions would be heavily influenced by transfers from the Australian government.

Box 10.4: Horizontal fiscal equalisation

Under the principle of HFE used by the Commonwealth Grants Commission (CGC) to allocate GST revenue, state governments receive funding from GST revenue and unquarantined health care grants, such that if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each would have the capacity to provide services at the same standard.

The aim is to distribute the GST pool so that all States have the same fiscal capacity to deliver services to their populations. This does not mean that the same level of services is actually provided (as that is a matter of policy for each State). The CGC only takes into account differences that are beyond the control of individual States in working out the needs of each state. Each State's share is calculated on the assumption that it and all the other States apply average policies and practices in delivering services and that they all make the same effort to raise revenue.

A State's allocation from the GST pool is calculated as an equal per capita share, adjusted for:

- expense needs — the effect of its above or below average disabilities relating to the use and costs of government services;
- revenue needs — the effect of its above or below average revenue raising capacities; and
- SPP needs — its above or below average per capita revenue from SPPs that are available to fund its expenditure requirements.

Each of these adjustments can have a negative or positive effect. For example, the extra cost associated with providing health and education services to people in remote areas is a positive expense need, while relatively high property values (which can lead to relatively higher amounts of conveyance duty revenue) are a negative revenue need.

The per capita allocation (equalising requirement) for each State is expressed as a ratio of the national average per capita amount distributed in the relevant year. This produces the State's 'relativity'. The relativities are calculated for five assessment years and then averaged. For example, the per capita relativities recommended for use in 2008-09 are the average of the annual relativities for the five assessment years from 2002-03 to 2006-07.

A relativity of less than one, indicates a State will have less than an equal per capita share of the GST pool; a relativity above one indicates it will have more than an equal per capita share. No State can have its relativity increased without at least one of the other States having its reduced.

The GST relativities are applied to estimated state populations in order to determine weighted shares of the GST pool. The final distribution of GST revenue is calculated by deducting the unquarantined health care grants, which are separately provided to the States, from each State's share of the GST pool. The calculations for the estimated distribution of the GST pool for 2008-09 are shown in Table 10.1.

Box 10.4: Horizontal fiscal equalisation (continued)

Table 10.1: Distribution of the GST pool 2008-09

	Estimated 31 December population	State revenue sharing relativities	Adjusted population (1) x (2)	Share of adjusted population (%)	Share of GST pool $million	Unquarantined health care grants $million	GST payments (5) — (6) $million
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
NSW	7,006,018	0.91060	6,379,680	29.7	16,171.3	3,083.6	13,087.7
VIC	5,328,012	0.92540	4,930,542	22.9	12,498.0	2,248.1	10,249.9
QLD	4,314,913	0.96508	4,164,236	19.4	10,555.6	1,811.0	8,744.6
WA	2,180,356	0.88288	1,924,993	8.9	4,879.5	934.6	3,944.9
SA	1,609,330	1.20856	1,944,972	9.0	4,930.2	760.5	4,169.7
TAS	499,914	1.52994	764,838	3.6	1,938.7	197.4	1,741.3
ACT	347,686	1.17205	407,505	1.9	1,033.0	118.6	914.4
NT	221,170	4.51835	999,323	4.6	2,533.1	105.6	2,427.5
Total	21,507,399		21,516,090	100.0	54,539.4	9,259.4	45,280.0

Source: Australian Government (2008b).

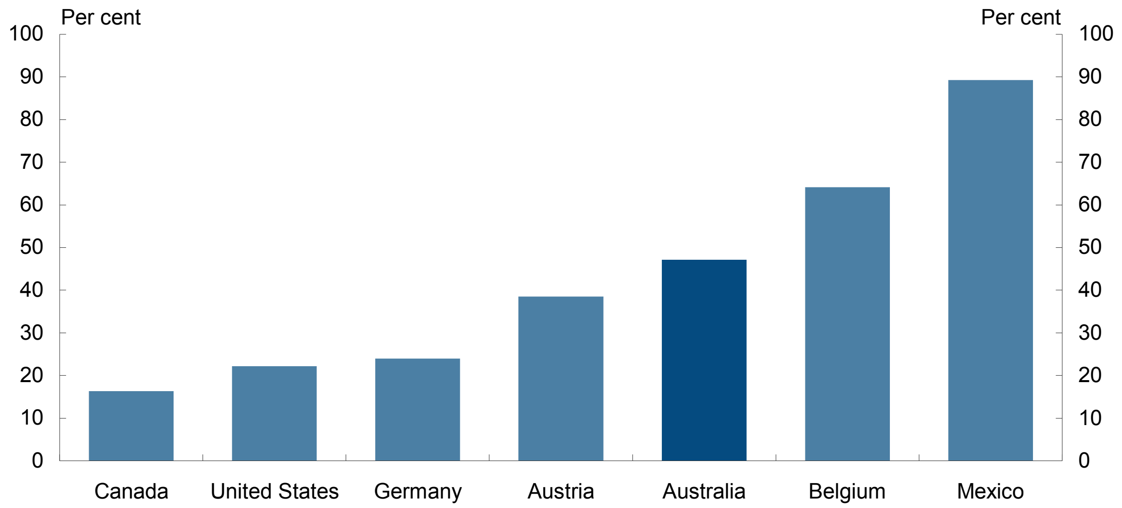
A change in tax mix adopted by all States will change the relative revenue raising capacities of the States, therefore affecting the assessment of revenue needs and ultimately the distribution of GST revenue. A change in tax mix might be revenue neutral to the States in an aggregate sense, but an individual State might have one of their relatively stronger tax bases replaced with a relatively weaker base, such that revenue from their own taxes is lower. However, this loss in revenue would be made up through the HFE process, as the loss of their relatively stronger tax base means that their revenue needs are higher. In theory, in the presence of well functioning HFE, no state would have a financial incentive to resist or favour a revenue neutral reform of State tax base composition on account of the local strength or weakness of particular tax bases.

Perspectives on vertical fiscal imbalance

That the States' own revenue sources are insufficient to fund their expenditure responsibilities, while the Australian government's revenue sources are greater than is necessary to meet its expenditure responsibilities, results in what is called 'vertical fiscal imbalance' (VFI). The level of VFI can be measured as the revenue transferred from the Australian government to the States as a proportion of the States' total revenue. In 2006-07, the Australian government transferred approximately $68 billion to the States in the form of GST revenue and SPPs, accounting for around 45 per cent of total state revenue.

VFI in Australia has developed primarily as a result of the States retaining many of their pre-federation expenditure responsibilities and the Australian government assuming control of the main sources of taxation revenue. This reflects, in part, the comparative advantage in revenue raising and expenditure between levels of government in a federal system. Indeed, VFI is not unique to Australia — other countries with federal structures also exhibit VFI, although to varying degrees (Chart 10.4).

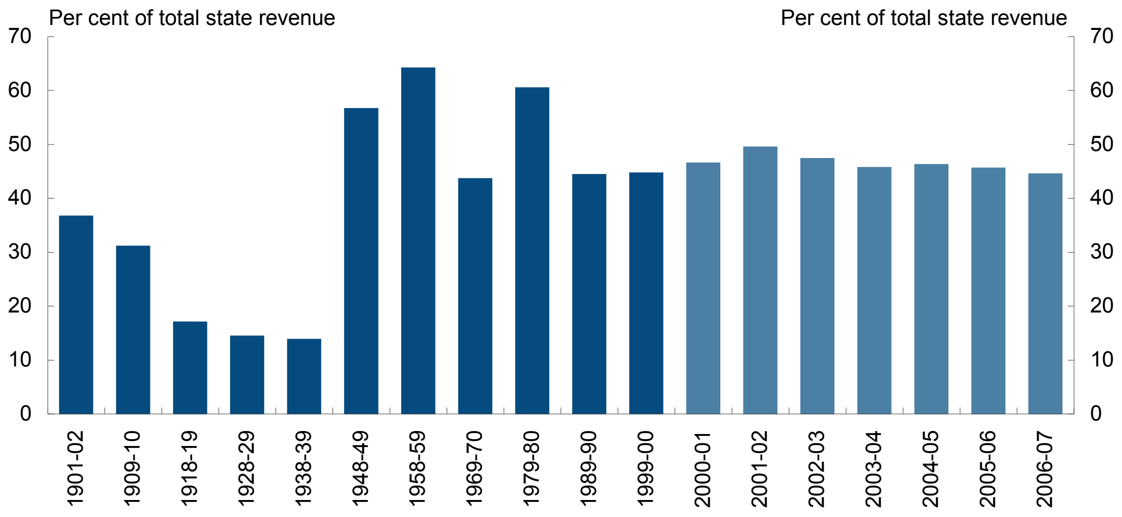
Chart 10.4: Vertical fiscal imbalance in selected OECD countries(a)



(a) VFI is defined as the ratio of federal payments to total sub-national revenue. Data are for 2003, except Australia which uses data for 2005-06.
Source: OECD (2006).

The level of VFI in Australia is not fixed and has fluctuated significantly since federation (Chart 10.5). The changing level of VFI has been driven mainly by changes in taxation responsibilities (as outlined briefly in Section 10.2 and in Section 4.3), rather than changes in expenditure responsibilities.

Chart 10.5: Vertical fiscal imbalance since federation
(Grants as a percentage of total state revenue)



Source: Mathews and Jay 1997; Australian Treasury estimates.

The introduction of the GST in 2000-01 and the abolition of a number of state taxes resulted in an increase in measured VFI. However, focusing on measured VFI would conceal the impact that this reform had in the broader context of federal fiscal relations. That is, as all GST revenue is transferred to the States, this provides the States with an efficient and growing source of revenue to fund their expenditure responsibilities. The States reimburse the Australian government for the ATO's GST administration costs. Box 10.5 outlines the administration arrangements in relation to the GST base.

Box 10.5: Administration of the GST base

Clauses 32-36 of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* set out the administration arrangements applying to the GST. Any change to the rate or the base of the GST must be unanimously agreed by the Australian government and all the States. Purely administrative changes only require the majority support of the Australian government and the States.

These arrangements mean that the base and rate of the GST have been more stable than otherwise may have been the case. The rate of the GST has remained unchanged since introduction eight years ago. This compares to countries such as New Zealand and South Africa, which increased their rates of similar value added taxes within three years of introduction. Further, there have been no major changes to the GST base since its introduction, which again is unusual when compared to other countries such as South Africa (where products such as basic foods and paraffin have been made GST free) and France (where the entire value added tax system was revised).

The terms of reference for this review exclude examination of the rate and base of the GST.

As the Intergovernmental Agreement reforms illustrate, the measurement of VFI, and using it as a comparison across time, may not reflect what is occurring. Measurements of VFI may not accurately reflect the fiscal autonomy of the States because of the definition of the level of government that controls a particular tax base.

The same level of measured VFI can mask significant differences in the fiscal autonomy of the States because of the institutional arrangements governing grants from the Australian government. For example, an arrangement in which a State received 50 per cent of its revenue through Australian government grants that were 'untied' is markedly different to an arrangement in which a State received 50 per cent of its revenue through Australian government grants, but those grants had conditions attached to their receipt.

Although there are limitations to using measurements of VFI as a comparative tool, this does not diminish the importance of the costs and benefits stemming from the existence of VFI where it reflects a genuine mismatch between revenue raising powers and expenditure responsibilities, and is not just a measurement issue.

Costs of vertical fiscal imbalance

VFI may lead to accountability problems in regard to expenditure and taxation decisions made by governments. A closer matching of revenue and expenditure responsibilities at each level of government may increase the accountability of governments by making government financing more transparent. When a government does not have to raise the revenue it spends, this can create 'fiscal illusion'[3], potentially leading to an over provision of services.

3 Fiscal illusion refers to the possibility that citizens may not appreciate the actual cost of the services they receive, due to the tax raised to fund the services not being fully visible to them. In relation to transfers, this illusion may occur if citizens do not link their payment of tax to one level of government with the provision of services by another level of government.

This is because governments that receive grants might obtain a political benefit from providing services without the political cost of raising revenue.

These accountability problems with VFI may be alleviated if governments can, at the margin, raise their own revenue to fund their own discretionary expenditure. However, raising revenue at the margin may not address the risk of 'blame shifting'. Blame shifting can occur when citizens can hold either level of government accountable. The government that receives grants can blame any inadequacy in service provision on inadequate funding. This is particularly the case where the recipient government can convince its voters that its tax bases are not capable of raising enough revenue to deliver the service at the required level. Equally, the donor government can blame poor outcomes on either the administration or funding inadequacies of the recipient government.

Accountability can also be blurred where the recipient government's service provision is influenced by the government that provides the transfer. The conditions on service delivery may be different to the preferred option of the recipient government. Such an outcome may result in weakened accountability, as citizens hold the recipient government responsible for the services provided, even though it is unable to provide the service in its preferred way. Recognising the need to make roles and responsibilities clearer, COAG's reform agenda (as noted in Section 1.2) includes work on this front.

VFI may also distort the types of services provided. If the donor government chooses to spend the excess revenue it raises rather than transfer it to the recipient government, VFI may lead to an over-provision of services in areas of responsibility of the donor government and under-provision of recipient government services, relative to citizens' preferences.

Finally, the provision of grants may result in administration costs which might otherwise be avoided if each government were able to match its revenue and expenditure responsibilities. For example, resources are necessary to negotiate and monitor conditions on grant payments.

Benefits of vertical fiscal imbalance

By collecting relatively more revenue, a national government is likely to reduce the cost of taxation through economies of scale generally and, for those businesses that operate across sub-national jurisdictions, lower compliance costs from having to deal with only one set of rules and one collection agency for any particular tax.

VFI also provides the national government with greater scope to create the opportunity for each citizen in the nation to receive the same overall standard of sub-national government services. It has been argued that Australia's HFE process may provide a disincentive for States to undertake reforms, as some of the benefits of those reforms may be equalised away to other States, although it is questionable as to how relevant this argument is in practice (Garnaut and FitzGerald 2002).

The additional revenue available to a national government also provides it with scope to act in areas which may be the responsibility of sub-national governments, but in which the existence of externalities or spillovers across borders can lead to sub-national governments acting individually, rather than acting in the national interest. In Australia, the responsibilities in relation to water are an excellent example of this.

11 Complexity and operating costs of the tax-transfer system

Outline

This section outlines the problem of complexity in the tax-transfer system. It explores the sources of this complexity and the costs it imposes on the community.

Key points

- There are no reliable estimates of the complexity or operating costs of the tax-transfer system but there is a strong sense in the community that they are too high.
- An excessive level of complexity impedes the ability of taxpayers and transfer recipients to make optimal decisions, diverts resources from more valuable uses, and gives rise to planning opportunities that undermine the fairness of the system. Its impact tends to be greatest on those with the least capacity to deal with it.
- A certain level of complexity and operating costs is required to implement the tax-transfer system in a manner that is efficient and equitable. However, at some point, equity or efficiency is likely to be compromised by increasing complexity.
- Current levels of complexity and operating costs are most likely above that which is optimal for society as a whole. Two important reasons for this are: incremental development of tax-transfer policy based on partial assessments of the associated benefits and costs; and income maximising behaviour through the tax-transfer system. Broader reform provides an opportunity to take a systemic view of the trade-offs between simplicity and other policy objectives.

11.1 Introduction

In 1975, the report of the Taxation Review Committee (Asprey et al, 1975) noted with some alarm that the income tax law extended to 526 pages, six times its original length in 1936. The income tax law is now 5,743 pages.

The complexity of the tax-transfer system and the level of compliance costs[1] borne by taxpayers and transfer recipients remain issues of considerable concern. Excessive levels of complexity impede the ability of taxpayers and recipients to make optimal decisions. The time and resources individuals devote to complying with the requirements of the law could

1 Compliance costs include, but are not limited to, the costs of: acquiring the necessary knowledge of relevant aspects of the tax-transfer system; compiling records; completing forms and reporting changes in circumstances; acquiring and maintaining record keeping systems; complying with audits or attending interviews; evaluating the effectiveness of alternative transactions or alternative methods of complying with the requirements of the law; and collecting and remitting taxes levied on employees and turnover.

be allocated to more productive or satisfying activities and therefore represent a significant efficiency cost to the economy. Complexity in the tax-transfer system can also give rise to tax planning opportunities that add to the efficiency costs of the system and reduce its fairness by shifting the tax burden from one individual to another. See Box 11.1 for further discussion about the problem of complexity.

To a significant extent, the complexity of the tax-transfer system and its operating costs (administration and compliance costs) arise from the underlying policy and legislation that defines the system. However, the administrative architecture and the way agencies implement the underlying policy and legislation can greatly influence the complexity that taxpayers and transfer recipients experience and the extent of their compliance costs.

Notwithstanding the concerns expressed about the complexity of the tax-transfer system and the associated compliance costs, taxpayers and transfer recipients behave in ways that contribute to the problem by seeking special treatment or seeking to maximise their incomes (after taking into account taxes and transfers).

Box 11.1: Why complexity is a problem

Complexity in the tax-transfer system makes it harder for people to understand their obligations and entitlements. Unless they get professional advice, people may rely on simplistic rules of thumb for making judgments, such as following 'tried and tested' practices without considering whether these arrangements give the best outcomes.

Importantly, complexity tends to have the greatest impact on those with the least capacity to deal with it, or the least means to get professional help. For example, it is generally accepted that the impact of complexity falls disproportionately upon smaller businesses. For these businesses and many individuals, an overly complex system can increase the risk of non-compliance and may impede good decision making.

Individuals may incur additional costs (time and money) dealing with the uncertainty complexity creates. Some individuals may conduct their affairs to minimise the complexity they have to deal with — for example, by avoiding activities involving greater uncertainty or risk of being penalised — even if it means they pay more tax than necessary or do not claim benefits to which they are entitled. Those with greater financial capacity may deal with complexity by engaging professional help.

System complexity may also create unintended opportunities for taxpayers and transfer recipients to maximise their disposable income (income *less* taxes *plus* transfers). This behaviour effectively increases the tax burden on others, which can undermine the fairness of the tax-transfer system. It can also have a broader impact on community support for the system and levels of voluntary compliance. Economic efficiency is also compromised through the diversion of resources from more productive pursuits into these planning activities.

11.2 Community concern

There has been a lot of community concern in recent years about the complexity of the tax-transfer system and the level of compliance costs, particularly from the business community.

In its *Tax Reform Blueprint*, the Australian Chamber of Commerce and Industry (ACCI 2004) highlighted, as two of its top five tax issues: the cost of tax compliance; and complexity in state taxation. It noted that surveys of business show that tax is consistently identified as a major problem. It drew attention to the ad hoc manner in which state taxes are applied — 'with different rates, exemptions and definitions applying in different States to economically identical transactions and assets' — and the increased compliance costs that result for businesses operating across multiple jurisdictions.

In its report to the Australian Government, the Taskforce on Reducing the Regulatory Burdens on Business (Australian Government 2006) noted that tax was rated by business as being among its highest regulatory burdens. It also noted the need to tackle the cumulative tax compliance burden as a strong and recurring theme of submissions to the Taskforce.

In 2007, the Business Council of Australia and the Corporate Tax Association (BCA and CTA 2007) released a report outlining concerns with the division between the Australian Government and state tax systems. The report stated that there were up to 56 different taxes that Australian businesses had to deal with — 21 Australian Government taxes, 33 state taxes and two local government taxes — and noted that this was more than twice the number identified in the United Kingdom. The report drew attention to 'the highly inefficient manner in which some revenues are raised', noting that for the 92 businesses surveyed, the corporate income tax accounted for two-thirds of the tax borne. The remaining third was raised through 'a complex array of 50 additional taxes', some of which yielded relatively little revenue but involved considerable compliance costs. The report also highlighted the additional complexity and compliance costs due to differences in the rates and bases of similar taxes applied by individual States.

Individual taxpayers and transfer recipients are also concerned at the level of complexity they face in the tax-transfer system. For example, a strong theme in the Joint Committee of Public Accounts and Audit inquiry into tax administration was the complexity of our tax laws and the uncertainty and costs this imposes on the community (JCPAA 2008).

With regard to the transfer system, welfare advocacy groups such as the Australian Council of Social Service (ACOSS) have over the years expressed concern about the capacity of some vulnerable income support recipients to understand and properly deal with the requirements for gaining and maintaining eligibility for payments. There has also been ongoing concern about the impact of system complexity on outcomes for other Australians, such as working families who are required to estimate their future income in order to receive family assistance.

11.3 How big is the problem?

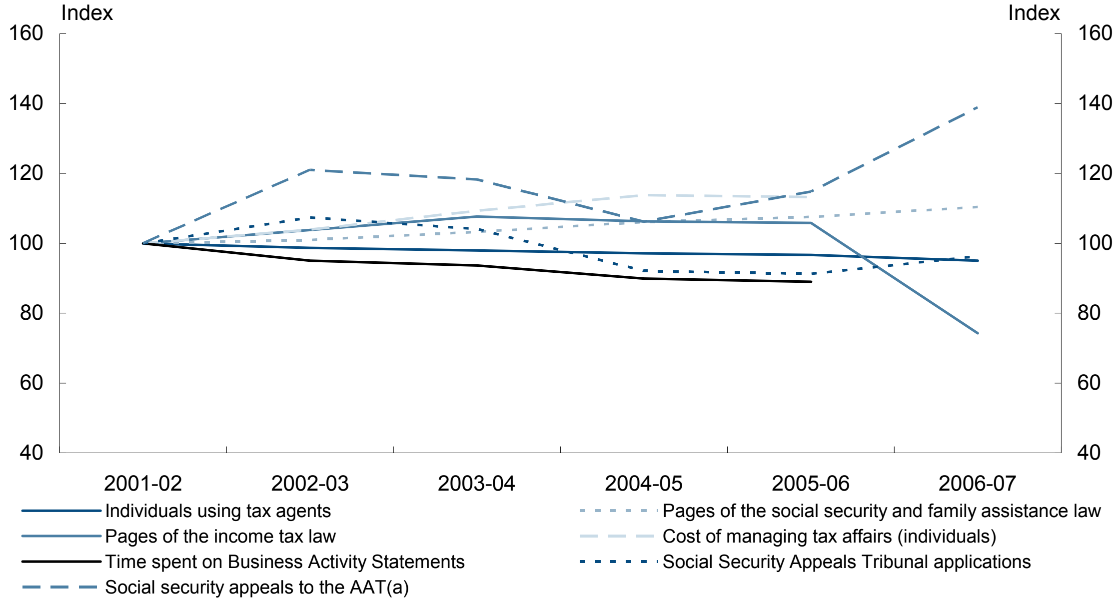
There is no direct measure of complexity in the tax-transfer system

While there is a community view that the tax-transfer system is complex, and the level of complexity has been increasing, it is very difficult to measure this complexity in an objective way. Proxies for complexity are often cited as evidence of the complexity of the tax-transfer system. These include: the number of pages of legislation; the frequency with which it is amended; the proportion of taxpayers using tax agents to complete their tax returns; the time taken to prepare tax returns; the average level of customer contact required in the administration of transfers; the number of administrative rulings that are required to clarify the law; the number of reviews of administrative decisions and the number of disputes that are litigated.

These measures are at best only indicative of possible trends in complexity and each must be viewed with some caution. For example, while there is likely to be a positive correlation between the overall size of the income tax legislation and its complexity, this relationship does not always hold. In the late 1990s the Tax Law Improvement Project was established to rewrite the income tax law to make it easier to understand. The new drafting style, while clearer, better structured and shorter, did not involve any significant policy simplification. Similarly, the removal of more than 4,100 pages of 'inoperative provisions' from Australia's income tax legislation in 2006 improved its readability. However, the reduction in complexity was not commensurate with the reduction in the size of the law, as it did not reduce the number of operative rules or their complexity. The proportion of taxpayers using tax agents is another frequently cited indicator of complexity in the tax system. However, the use of tax agents may reflect taxpayers' assessments about the value of their time or an expectation of a better tax outcome if they use an agent.

Although there are weaknesses in each of these partial measures of complexity, collectively the various indicators in Chart 11.1 suggest the level of complexity in the tax-transfer system may not have changed markedly in recent years. However, this does not provide any insights into whether the current levels of complexity and compliance costs are appropriate.

Chart 11.1: Partial indicators of complexity in the tax-transfer system



(a) AAT means Administrative Appeals Tribunal.
Source: ATO, FaHCSIA and Australian Treasury estimates.

Only limited data are available on administration and compliance costs

An alternative approach to evaluating the impact of complexity in the tax-transfer system is through the direct assessment of administration and compliance costs. The relationship between them is again not necessarily a strict one. However, administration and compliance costs are of interest in their own right, since they represent an important part of the efficiency cost of the tax-transfer system.

Administration costs

In 2006-07, the administration costs of the ATO and state revenue offices were around $2.9 billion, or 0.9 per cent of the revenue collected. On the transfer side, the administration costs of Centrelink, which administers the Australian Government income support system, was around $2.5 billion in 2006-07, or 3.5 per cent of Australian Government payments.

These figures underestimate the total administration costs associated with the tax-transfer system because they exclude the costs of policy formation, and the costs of other agencies involved in the collection of tax revenue and administration of transfers.

Compliance costs

Only two major studies of the costs of complying with the main Australian Government taxes have been conducted in Australia. These were the ATO-commissioned study by the Australian Taxation Studies Program (ATAX) (Evans et al, 1997) based on 1994-95 survey data, and an earlier study led by Jeff Pope based on 1990-91 data (Pope 1994). There has been no aggregate study of compliance costs in Australia since *The New Tax System* and the *Review of Business Taxation* reforms were implemented.

The ATAX study found total taxpayer compliance costs in Australia in 1994-95 to be around 1.4 per cent of GDP, slightly less than the Pope study, which estimated total taxpayer compliance costs to be 2.1 per cent of GDP in 1990-91 (Table 11.1). The ATAX study found significant differences in compliance costs as a percentage of revenue collected between individuals (4.0 per cent) and businesses (9.4 per cent). It is unclear how representative these estimates might be of existing compliance costs because of subsequent changes in the structure of the tax system and the likelihood that survey respondents may not differentiate the incremental cost of tax compliance from other costs, such as those necessarily associated with running their business.

Table 11.1: Survey estimates of aggregate taxpayer compliance costs in Australia

	ATAX(a)		Pope	
	% GDP	% Tax revenue	% GDP	% Tax revenue
Personal taxpayers	0.34	4.0	0.96(b)	9.2(b)
Business taxpayers	1.02	9.4	1.14(c)	6.6(c)
All taxpayers	1.36	7.0	2.10	11.9

(a) All Australian Government taxes administered by the ATO.
(b) Personal income tax.
(c) Employers' PAYE and PPS collections, fringe benefits tax, company income tax and wholesale sales tax.
Source: Evans et al (1997); Pope (1994).

Generally, small businesses face a higher compliance cost burden relative to the amount of tax they pay than large businesses. For example, the ATAX study estimated that small businesses incurred half of tax related business compliance costs, while contributing only around 13 per cent of business tax revenue.

There are no reliable estimates of the costs incurred by transfer recipients to gain and maintain eligibility for payments, or the costs incurred by business in complying with requests for information under the social security law.

There are many examples of complexity in the tax-transfer system

Previous sections of this paper have identified a range of aspects of the tax-transfer system that involve considerable complexity, including:

- the large number of taxes levied by governments, many of which raise relatively little revenue, and the lack of consistency in rates, bases and administration of similar taxes levied by different governments (Section 2);
- the many differences in the income tests used to determine eligibility for different transfers and tax concessions (Section 7);
- interactions between the tax and transfer systems that obscure signals about the rewards for working and saving (Section 7);
- the extensive array of tax expenditures, many of which are designed to achieve non-tax policy objectives through the tax system (Section 2);
- the inconsistencies in the taxation of different assets and entities (Section 8) and the multiplicity of arrangements for pricing Australia's natural resources (Section 2); and
- the difficulties in taxing cross-border flows of income (Section 8).

11.4 An optimal level of complexity and operating costs

Complexity and operating costs

A certain level of complexity and operating costs is required to implement the tax-transfer system in a manner that is both efficient and equitable. For example, it is recognised that means testing is required to ensure that transfers are targeted to those in need of assistance. However, at some point, equity or efficiency is likely to be compromised by increasing levels of complexity. There is also a limit to how much complexity individuals can bear without needing to engage professional assistance, particularly in a self-assessment system such as income tax. See Box 11.2 for a discussion of the theoretically optimal level of complexity.

Changes in technology and the information marketplace can be an important determinant of society's capacity to deal with complexity and the accepted balance between complexity and other policy objectives. The evolution of more advanced low-cost computer hardware and software, and the advent of the internet and electronic filing, have increased the capacity of taxpayers/recipients and administrators to deal with more sophisticated procedures and to deal with existing procedures at lower cost. For example, advances in information technology have increased the ATO's ability to put some information into taxpayers' tax returns for them.

Box 11.2: A socially optimal level of complexity

The socially optimal level of complexity is where the benefit of an additional unit of complexity just equals the cost of that additional unit of complexity. Beyond this point the incremental cost exceeds the incremental benefit and overall wellbeing is reduced, other things being equal. The difficulties in determining the optimal level of complexity are substantial. Careful subjective judgments are required when assessing policy choices and these judgments are typically made with limited information. However, it is clear that for a given set of policy objectives, society will be better off if those objectives are achieved with less complexity and lower operating costs.

From the perspective of an individual taxpayer or transfer recipient, the optimal level of complexity is also influenced by any benefit they might receive from engaging in tax-minimising/transfer-maximising behaviour or seeking a targeted tax concession or enhanced transfer. This behaviour results in a higher level of complexity than is socially optimal. The additional costs arise from the complexity of multiple tax concessions or transfers and revenue or expenditure protection provisions intended to circumvent that behaviour. The extent to which complexity, administration costs and compliance costs exceed the socially optimal level will be influenced by a range of factors, including: the expected size of the benefit to the individual from such behaviour; community attitudes towards such behaviour; the extent of awareness of the broader costs of such behaviour; and the policy response. See Oliver and Bartley (2005) for further discussion of this issue.

The allocation between administration costs and compliance costs

To an extent, administration costs and compliance costs may be substitutes for one another. For instance, the move to self-assessment in the income tax system in the 1980s reduced administration costs while increasing compliance costs. In deciding the appropriate balance between administration and compliance costs there are several important considerations. First, it may be more or less cost effective for particular activities to be handled by the administration than by individual taxpayers and transfer recipients. Second, the allocation of costs between the administration and taxpayers may influence behaviour by altering the direct cost to the taxpayer/recipient of exploring tax-minimising or transfer-maximising strategies. Third, the balance between administration and compliance costs has equity implications, since the ultimate burden of administering the tax-transfer system falls on taxpayers in general, rather than on specific groups of taxpayers.

11.5 Sources of complexity and operating costs

There is a range of factors influencing the complexity of the tax-transfer system and the levels of administration and compliance costs.

Increasingly complex policy objectives

Tax-transfer policy and its implementation is an obvious determinant of the level of system complexity and operating costs. More complex policy objectives tend to result in increased system complexity and higher operating costs. To a considerable extent, the complexity of tax-transfer policy is a reflection of the complexity in markets for factors of production, goods and services. For example, a growing number of Australian taxpayers now own equity investments, are involved in complicated business structures, or invest or work overseas. Increasing globalisation, e-commerce and financial innovation have also prompted more sophisticated tax rules.

The review of Australia's tax history in Section 4 outlined the progression over time in the objectives sought from tax reform, from the feasibility of administration, to revenue raising capacity, to improving the performance of the tax system. As one set of policy objectives is achieved the focus shifts to more complex policy outcomes. The Taskforce on Reducing the Regulatory Burdens on Business (Australian Government 2006) noted the changing needs and expectations of society, driven in part by increasing affluence, knowledge and an aversion to risk, as a key driver of increased regulation.

Tax policy considerations may extend beyond the trade-offs between complexity, equity and efficiency to include other considerations. For example, the tax system is sometimes used to deliver non-tax policy objectives such as delivery of social security, industry assistance or environmental initiatives. These objectives often require targeted implementation of tax provisions using information that is not otherwise relevant to revenue collection.[2]

Changes in social circumstances have also led to a more sophisticated transfer system. The increasingly complex financial and working arrangements of Australians have resulted in significant changes to transfer design, as have other changes to family structures and relationships. Policy considerations have broadened over the past two decades from a primary focus on poverty alleviation, to a system that also encourages self-provision

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2 While moving these functions outside the tax system would decrease tax system complexity and operating costs, it may not decrease the overall level of complexity and operating costs imposed by government. This will be the case where the tax system is a more efficient means than an expenditure program or regulatory mechanism to achieve the same policy outcome.

(through work and saving) and is better integrated with other social services and economic policies. The complexity within the transfer system is seen in the different eligibility criteria, payment structures (including rates of payment and available supplementary payments) and the income and assets testing arrangements that apply to different entitlements.

Incremental policy based on partial assessments

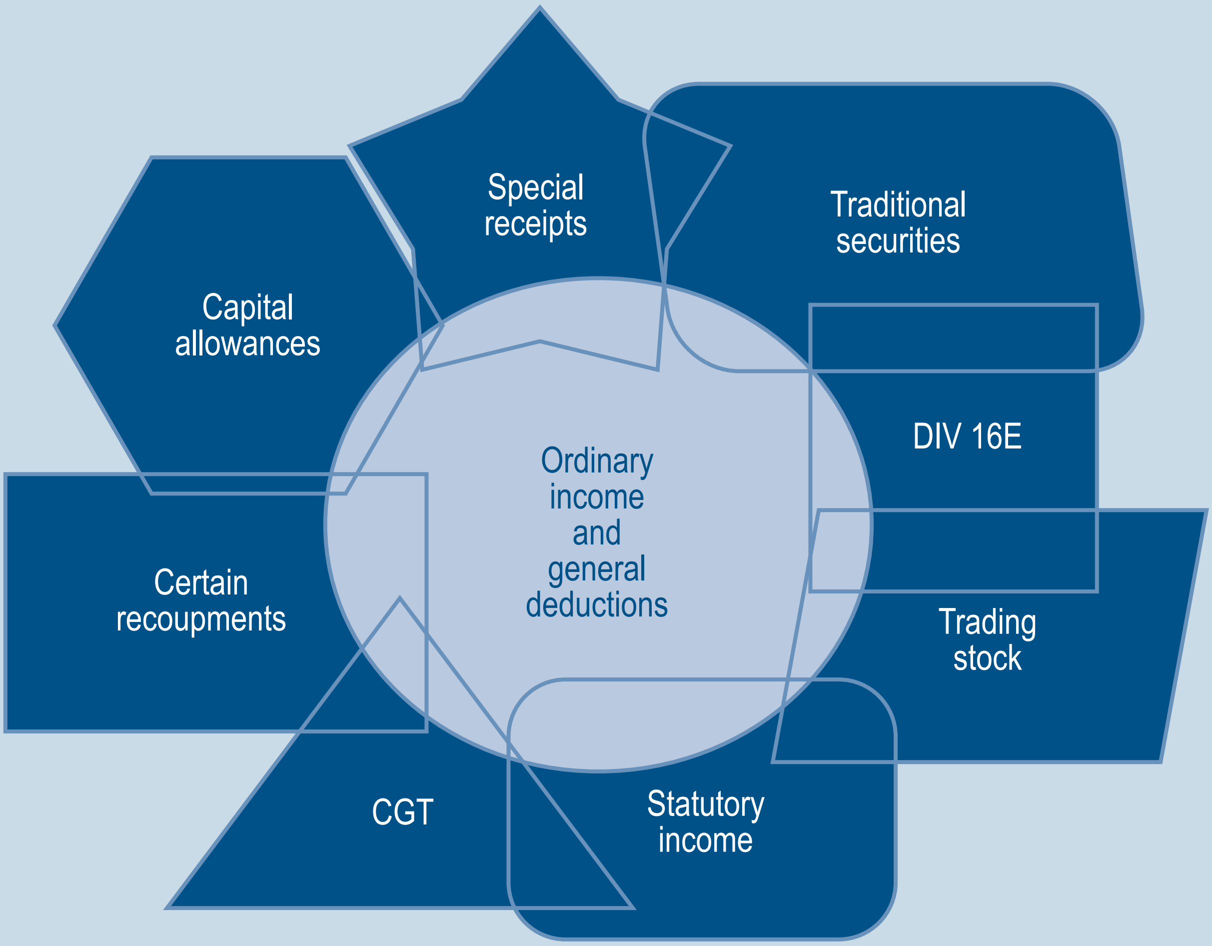
Many seemingly worthwhile small changes to policy may result in the evolution of a tax-transfer structure that is inherently complex and potentially inconsistent (see example in Box 11.3). A new tax or transfer measure does not have to be complex itself to increase the level of system complexity and associated compliance costs. Often government is asked to make a 'simple' change to the tax law, but the compounding effect of many separate relatively simple tax measures can result in a complex set of interrelated provisions.

The current system reflects the outcome of many independent choices about the trade-offs between simplicity, equity and efficiency. These choices are often made in a constrained policy environment with limited information about potential impacts, interactions with other parts of the law and real world practices. Incremental change has often been preferred because it is less disruptive than more fundamental change. A key issue is the extent to which these incremental policy choices, when viewed as a whole, reflect a preferred outcome.

Box 11.3: An example of complexity arising from incremental policy change

Since its inception in 1915, many separate regimes have been added progressively to the income tax system to achieve an appropriate treatment of assets (Chart 11.2). These regimes have been added in response to concerns about the equity and efficiency of the tax system. As the various regimes have been added, gaps and overlaps have considerably increased the complexity of the income tax system and associated operating costs. They have also created fertile ground for tax planning and the need for revenue protection provisions.

Chart 11.2: Asset regimes within the income tax law



Source: Board of Taxation, *Tax Value Method, An Overview*, March 2002.

The rate of change in policy and the law

The complexity and compliance costs that taxpayers/transfer recipients experience may be further compounded by the rate of change in the law, whether due to the addition of new provisions or changes to existing provisions. The higher the rate of change, the more difficult and time consuming it can be for taxpayers/recipients to understand their obligations or entitlements. In 2004, Australian tax practitioners were surveyed on their attitudes to compliance costs relating to capital gains tax (CGT). The outcomes of the survey ranked the rate of change in the law as the third most important determinant of CGT compliance costs (Evans 2004) (Box 11.4).

Box 11.4: Sources of CGT compliance costs

Table 11.2: Key sources of CGT compliance costs identified by tax practitioners

Rank	Factor (in descending order)
1	Complexity of legislation
2	The number of rules and exceptions
3	Frequently changing legislation
4	Record-keeping requirements
5	Poor legislative drafting
6	Small business concessions
7	Valuation issues
8	Uncertainty of application
9	Application to different entities
10	Other reliefs and concessions

Source: Evans (2004).

Instability in tax settings may also reduce economic efficiency by increasing the level of uncertainty about the expected payoffs to long term investment decisions, such as investment in education, retirement products, long-lived productive assets or choice of business structure.

Implementation of policy

The implementation of policy has a direct bearing on the level of certainty, transparency and compliance costs. The experience of the taxpayer/transfer recipient is heavily determined by their interactions with those who administer the policy and legislation. The approach taken by administrators can have a significant bearing on the complexity experienced by taxpayers and recipients

Complexity will be lower where: the law and/or the administration enable people to readily understand the implications of their actions; policy is internally consistent and is consistent with broader economic objectives; and policy is well articulated and understood, so that people have confidence that its broad direction will be maintained. In addition to reducing complexity and uncertainty, transparency in the tax-transfer system imposes a degree of discipline on the decisions of policy makers and administrators.

The desire for certainty about the obligations or entitlements of taxpayers/transfer recipients can also be an important source of complexity in the legislation. A high level of precision within the law potentially provides the certainty to make optimal decisions at lower cost and with lower risk. However, such detail can obscure what the law is trying to achieve at a broader level and the linkages between different parts of the law may be lost in the technical detail. Striking the right balance can be difficult to achieve. The drafting approach used for recent tax legislation reflects a preference for more principle-based rules.

Income-maximising behaviour through the tax-transfer system

Private incentives to maximise after tax income (in the case of businesses) or disposable income (in the case of individuals) are also a significant driver of complexity and operating costs. Individuals and other taxpayers have an incentive to voluntarily incur compliance costs if they expect the beneficial change in their income to outweigh the costs of achieving that outcome. Such behaviour might include testing alternative income calculation methods, searching for effective ways to structure transactions, or engaging in other activities. The existence of choice in the tax-transfer system, deliberate or otherwise, can lead to increased operating costs, as individuals and other taxpayers seek to navigate there way through the available (see examples in Box 11.5).

Box 11.5: Choosing between alternative transfers …

There are many situations where the complexities of the transfer system present people with significant problems. For example, when a child turns 16 the maximum rate of Family Tax Benefit (FTB) Part A falls substantially and Youth Allowance becomes available for some families. Almost all low to middle-income families experience a reduction in assistance and many are faced with a choice which payment to receive. Making this choice is complicated:

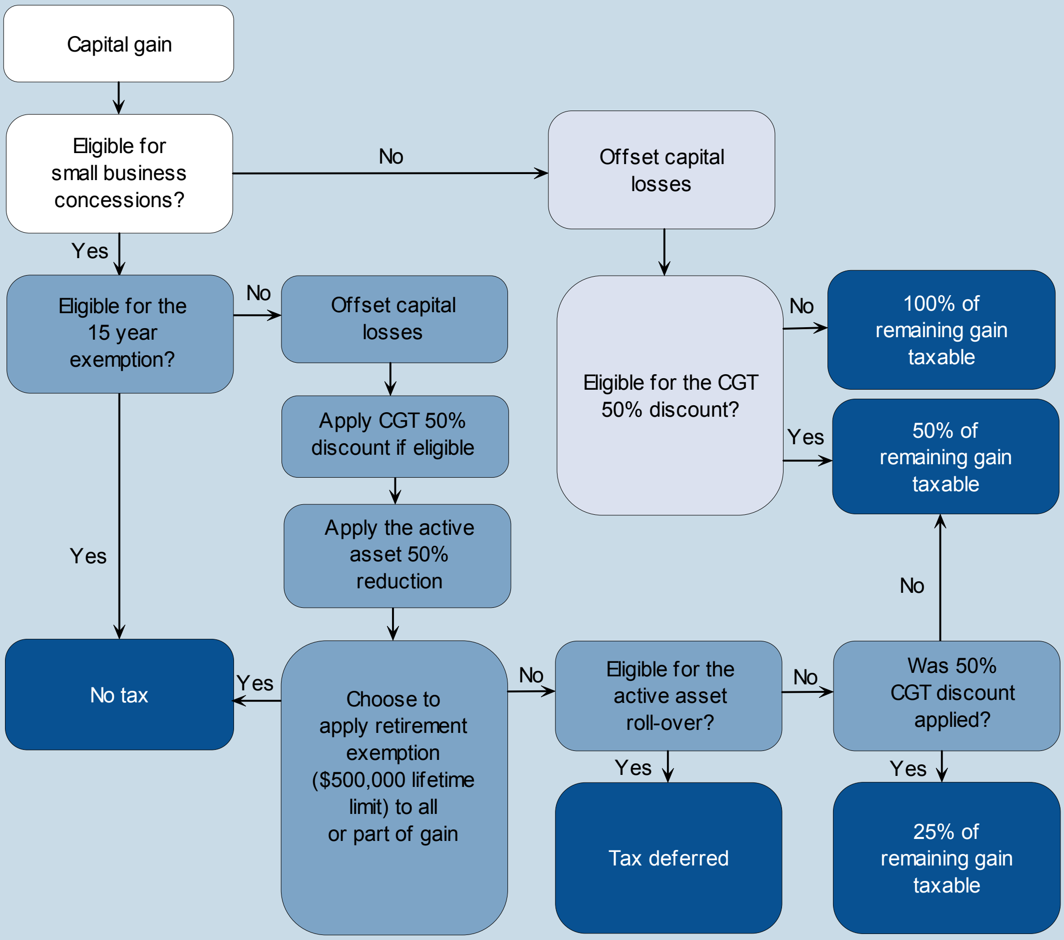
- the 'at home' rate of Youth Allowance for a 16-17 year old is lower than the maximum with supplement rate of FTB Part A for a 13-15 year old;
- the Youth Allowance parental income test has a lower income test threshold and higher taper rate than the FTB Part A family income test;
- children aged 16 years and over living 'at home' do not count for rent assistance purposes; and
- eligibility for FTB Part B ceases if a full-time student attracting FTB Part B for a parent turns 16 and commences receiving Youth Allowance or similar income support payment.

Feedback suggests many parents struggle to determine which payment choice will provide the greatest benefit. Compliance costs result from the time taken to understand their entitlements and evaluate their options.

… and tax concessions

The small business CGT concessions have been identified as a key source of complexity with the CGT provisions (Box 11.4) Chart 11.3 shows the benefits available from the small business CGT concessions. Limitations on some of the small business CGT concessions, particularly the retirement exemption, mean that different tax outcomes arise depending on how the concessions are applied.

Chart 11.3: Complexity in the small business CGT concessions



Individuals may also seek to reduce their tax liability, or increase their access to transfers, by lobbying government for preferential treatment. Lobbying may be successful because those seeking preferential treatment are more informed and better represented than the broader community. However, the community bears the direct cost, the operating costs and any loss of equity and efficiency. The benefit of a preferential treatment to the target group is also typically more easily measured, more tangible and of greater value to each taxpayer/recipient than the cost imposed on each member of the broader population.

Box 11.6: The capital allowance system

The *Review of Business Taxation* (1999) identified over 37 different regimes in the income tax law that provided annual write-off for depreciating assets. The rules were complex, inconsistent and involved significant duplication. A new system based on the effective life of assets was proposed in *A Platform for Consultation* (RBT 1999) to rationalise and simplify these provisions.

During consultation on the proposal, the review recognised that some variations to the consistent approach were necessary to preserve the current treatment for particular taxpayers, as well as to protect the revenue. In particular, the review reflected the then Government's commitment not to disturb specific primary producer concessions by retaining accelerated depreciation for them.

Since the inception of the effective life regime there have been further changes, on national interest grounds, with the introduction of statutory caps on the effective life of certain aircraft and some assets used in oil and gas production (2002), buses and trucks (2005) and tractors and harvesters (2007).

The new regime has been criticised as falling well short of simplification as it merely repackaged, as exceptions to the new general rules, the many separate systems that existed previously (Dirkis and Bondfield 2004).

'Grandfathering' (that is, preserving the treatment of pre-existing arrangements when rules are changed) often occurs in response to concerns about the equity and efficiency implications of a change in policy settings. However, it can add to the complexity of the tax-transfer system, particularly where its effects are long lived. For example, before the 2007 Better Super reforms, end benefit taxation had become very complex due to successive grandfathering of the taxation treatment of existing contributions and earnings, as illustrated in Table 11.3 and discussed in Section 4.1. This grandfathering was designed to ensure that an individual's accrued entitlements were not adversely affected by successive changes to the superannuation taxation arrangements.

Table 11.3: Grandfathering of superannuation benefit taxation

Year	Taxation arrangement	Grandfathering
1983	Post-1983 component introduced.	Tax rate applying to lump sum payments accrued pre-July 1983.
	New pension deduction arrangements.	
1984	New non-qualifying component (integrity measure) introduced.	
1988	New reasonable benefit limits (RBL) system applied — formula based.	
	15 per cent tax on contributions and earnings introduced.	
1994	New RBL system applied — flat rate.	Previous RBL system for amounts above flat rate.
	New post-June 1994 invalidity component introduced.	Concessional benefit component for payments made before 1 July 1994.
	New undeducted purchase price introduced.	Previous undeducted purchase price for existing balances.
2007	Better Super reforms implemented. For 90 per cent of people, benefits are not subject to tax after age 60.	

Twenty-three years after the introduction of CGT, the exemption for pre-1985 assets continues to add considerable complexity to the provisions. With respect to the transfer system, the regular practice of 'saving' transfer recipients from changes to income support arrangements that would otherwise reduce their entitlements adds to system complexity.

For a given budgetary position, the behaviour outlined above reflects a 'negative sum game'. Such behaviour shifts the tax burden from one individual to another. It results in a higher rate of tax applied on the remaining narrower base, typically increasing the efficiency costs imposed on the broader community. The added complexity increases total operating costs. Equity may also be compromised, though this will depend on the overall distribution of the preferential treatment. The net result is usually a reduction in the wellbeing of society as a whole.

Income-maximising behaviour also tends to result in higher compliance monitoring and enforcement as well as a wider use of integrity rules in the tax-transfer system. These responses benefit society by preserving equity and efficiency in the tax-transfer system but they increase system complexity and operating costs. For instance, the existence of the cash economy threatens the equity of the system, but there are considerable administration and compliance costs involved in more active enforcement of the law. These benefits and costs need to be appropriately balanced. The optimal point is where the benefits of additional compliance activity just equal the costs it imposes. Determining this point in practice is often a matter of judgment. Some in the community argue that there has been too much emphasis on equity and efficiency through the use of integrity provisions, given the consequential impacts on operating costs.

Coordination between governments

In Australia's federal system of government, the many taxes referred to in Section 2 are administered by several layers of government. For an individual, their interaction with the tax system is typically in terms of the Australian tax system and that of the State and local area in which they reside. In contrast, businesses which operate in several jurisdictions or nationally have to comply with a much wider range of tax systems. These businesses face a cumulative burden of complexity and compliance costs due to differences in the way essentially similar taxes are imposed in different jurisdictions. The differences between jurisdictions also extend to the administrative systems and procedures applied by governments, as well as the taxes themselves.

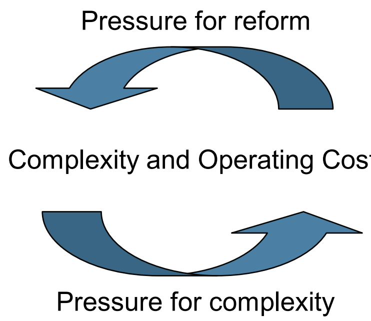
For individuals, the multiplicity of transfers provided at different levels of government can make it difficult and time consuming to understand one's entitlements and obligations.

11.6 A cycle of complexity

Many of the sources of complexity outlined above operate in a systemic manner to increase the complexity and compliance costs of the tax-transfer system over time. As complexity and compliance costs increase, their impacts become more evident to taxpayers and transfer recipients leading to calls to simplify the system.

Following reform (or even during the reform process) these sources of complexity will begin to undermine any gains to simplicity. This 'cycle' of complexity is consistent with the observed pressure to increase the complexity of the tax-transfer system, particularly through the income maximising behaviour of individuals, interspersed by periodic calls by taxpayers and transfer recipients for fundamental simplification (Chart 11.4).

Chart 11.4: A cycle of complexity



11.7 Recent attempts to address complexity in the tax-transfer system

A range of steps have been taken over the past few years, or are in the process of being implemented, by the Australian and state governments in an attempt to address the growing complexity of the tax-transfer system. These include:

- improving the process of evaluating new policy proposals, with greater emphasis being given to the assessment and reporting of compliance cost impacts;
- improving the clarity of legislation through, for example, the application of plain language and principles-based drafting techniques;
- increased consultation on policy design and its implementation;
- abolishing a number of inefficient state taxes through the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* and harmonising the structure of other state taxes, such as payroll tax;
- reducing the complexity and compliance costs associated with the existing stock of legislation through targeted measures;
- implementing, by 2010, a single standard business reporting portal, via which business can provide information to all levels of government; and
- several States setting targets to reduce the total burden of their regulation.

At an aggregate level, the effectiveness of these steps is difficult to ascertain due to parallel implementation of new policy that has added to the complexity of the tax-transfer system.

Reducing complexity through targeted measures can be hard to achieve, as it typically involves a trade-off between simplicity and other policy objectives and results in both winners and losers unless policy settings are made more generous. Broader reform provides an opportunity to take a systemic view of the trade-offs between simplicity and other policy objectives and to balance the demands of individual stakeholders through at least partially compensating policy adjustments. An awareness of the factors that drive complexity and operating costs may assist in gaining community acceptance of the trade-offs required to achieve a measurable reduction in the complexity and operating costs of the tax-transfer system.

12 Household assistance measures for the Carbon Pollution Reduction Scheme

Outline

This section outlines the impacts on households of the Carbon Pollution Reduction Scheme and the Australian Government's proposed household assistance measures.

Key points

- The Australian Government is committed to providing assistance to households for the introduction of the Carbon Pollution Reduction Scheme. The assistance is designed to help meet the overall cost of living from the scheme, especially for low-income households.
- The mechanism for the delivery of assistance and the existing tax-transfer system will be considered by the Australia's Future Tax System review.

12.1 Impacts of the scheme on households

The Australian Government's *Carbon Pollution Reduction Scheme Green Paper* (Australian Government 2008c) outlines the ways in which the scheme will affect households.

First, it will change the relative prices of goods and services faced by all households. It will also affect particular groups of households (such as workers in particular industries, or regional communities) directly through changes in production patterns in the economy, and may change the value of companies owned by some households.

Price impacts

All households will face changes in the relative prices of the goods and services that they purchase as carbon prices are incorporated into businesses' cost structures. The precise impact of the scheme on the prices of particular goods will depend on many factors and will change as production practices evolve. However, as a general principle, the prices of goods that are emissions intensive to produce will rise relative to those that are less emissions intensive to produce.

Final decisions on scheme coverage will also affect the ultimate price impacts of the scheme. If the initial coverage of the scheme includes all emissions sources other than those from agriculture and land use, and given the offsetting adjustment to fuel taxes, it is likely that price impacts will initially be concentrated in electricity and gas prices. The prices of other goods will also rise as the carbon price permeates the economy. The extent of the increase will depend on the emissions embodied in the production of the good or service; the extent to which the threat of imports limits the ability of producers to pass through cost increases; and the availability of substitutes.

Impact of structural changes

The demand for goods which are less emissions intensive to produce or which enable firms to lower their carbon footprint is likely to increase. Conversely, demand for goods that are more emissions intensive to produce is likely to decrease. This will induce structural change in the economy, both initially and into the future, opening up employment opportunities in some industries and regions while constraining them in others.

To some extent, these changes in production patterns are not unlike the changes that take place on a continual basis in any dynamic economy. The Australian economy has proven resilient to a wide range of domestic and international shocks in recent decades because its flexible structure allows resources (both capital and labour) to move between industries based on the market's assessment of where they would be most productively employed. This flexibility has enabled a protracted period of strong economic growth, even in the face of sometimes quite difficult global circumstances. Australia is, therefore, well placed to manage changes in production patterns in response to the new challenges posed by climate change — the critical issue is to recognise that a flexible, responsive economy will manage change best and will provide new opportunities for sustained employment and economic growth, and higher living standards.

However, workers and regions are generally less able to diversify their income sources than businesses, so it is appropriate for the Government to provide targeted assistance to address instances where a clear and sizeable burden might be imposed on particular segments of the community, such as a group of workers or a particular region.

While existing structural adjustment measures provide a means to assist affected workers and regions, the Government proposes providing additional support as required through the Climate Change Action Fund and the Electricity Sector Adjustment Scheme. This assistance would be designed to facilitate structural adjustment for individual firms, workers and regions.

Wealth impacts

A more diffuse impact of the scheme on households will be through its effect on wealth. The scheme will affect the value of companies, increasing the value of some and reducing the value of others. These changes in value will ultimately flow through to the owners of companies. To the extent that individual households have diversified wealth holdings, the value of some of their assets may increase while the value of others may decrease in response to the introduction of the scheme.

In taking a decision to hold wealth in a particular company, individuals must assess the likely risks and returns to that company. It would be inconsistent with past practice and inappropriate for the Government to provide compensation to households for wealth effects flowing from a policy decision. However, the Government's provision of industry assistance measures may reduce these wealth effects to some extent.

12.2 Broad distributional price impacts

The Australian Government's *Carbon Pollution Reduction Scheme Green Paper* provided an outline of the scheme's impact on distributional price impacts.

The overall price impact of the scheme on an individual household's welfare will always be difficult to quantify. It will depend on many factors including:

- the carbon price (or the price of permits);
- the extent to which the carbon costs are reflected in individual retail prices;
- individual consumption patterns;
- individual households' levels of disposable income;
- the assistance provided to households by the Government to manage the impacts of the scheme; and
- the ability of households to adjust consumption patterns in response to higher carbon prices. For example, those households with higher disposable incomes can more readily access capital markets to undertake energy efficiency home improvements. This is not necessarily the case for households on lower incomes or with greater debt.

12.3 Australian Government's commitments to assist households

The *Carbon Pollution Reduction Scheme Green Paper* outlined the Australian Government's commitments to assist households.

The revenue provided by the auctioning of the carbon pollution permits provides the Government with the capacity to assist Australians — households and businesses — adjust to the scheme.

The Government has committed that every cent raised for the Australian Government from the Carbon Pollution Reduction Scheme will be used to help Australians — households and business — adjust to the scheme and to invest in clean energy options.

In order to give households time to adjust to the scheme, the Government will make an offsetting cut in fuel taxes as part of a broader on-going response to the rise in the cost of transport fuel which continues to strongly affect Australian households and transport businesses. The Government will cut fuel taxes on a cent for cent basis to offset the initial price impact on fuel associated with the introduction of the scheme. The Government will periodically assess the adequacy of this measure for three years and adjust this offset accordingly. At the end of the three year period the Government will review this adjustment mechanism.

The Government is also committed to provide low-income households with increases in assistance through the tax and payment system and all households with other assistance to address the impact on their living standards.

The Australian Government is committed to:

- Increase payments, above automatic indexation, to people in receipt of pensioner, carer, senior and allowance benefits and provide other assistance to meet the overall increase in the cost of living flowing from the scheme.

- Increase assistance to other low-income households through the tax-transfer system to meet the overall increase in the cost of living flowing from the scheme.

- Provide assistance to middle-income households to help them meet any overall increase in the cost of living flowing from the scheme.

- Review annually in the Budget context the adequacy of payments to beneficiaries and recipients of family assistance to assist households with the overall impacts of the scheme, noting that these payments are automatically indexed to reflect changes in the cost of living.

- Provide additional support through the introduction of energy efficiency measures and consumer information to help households take practical action to reduce energy use and save on energy bills so that all can make a contribution.

As long as support to households takes the form of cash or measures that are not linked to the amounts of specific emissions-intensive products that are consumed (such as electricity or gas), this assistance should not blunt the incentives for households to change their behaviour in ways that result in lower emissions. In relation to fuel, given recent significant increases in global energy prices and the current cost of living pressures facing households, the Government recognises that households already face strong incentives to reduce their fuel use.

The Australia's Future Tax System review will consider the mechanism for delivering assistance for the Carbon Pollution Reduction Scheme. This will include consideration of how assistance will interact with existing:

- transfers;

- income tax arrangements; and

- taxes on fuel.

Appendix A: Terms of reference

Australia's Future Tax System

Objectives and scope

1. The tax system serves an important role in funding the quality public services that benefit individual members of the community as well as the economy more broadly. Through its design it can have an important impact on the growth rate and allocation of resources in the economy.

2. Raising revenue should be done so as to do least harm to economic efficiency, provide equity (horizontal, vertical and inter-generational), and minimise complexity for taxpayers and the community.

3. The comprehensive review of Australia's tax system will examine and make recommendations to create a tax structure that will position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century and enhance Australia's economic and social outcomes. The review will consider:

   3.1. the appropriate balance between taxation of the returns from work, investment and savings, consumption (excluding the GST) and the role to be played by environmental taxes;

   3.2. improvements to the tax and transfer payment system for individuals and working families, including those for retirees;

   3.3. enhancing the taxation of savings, assets and investments, including the role and structure of company taxation;

   3.4. enhancing the taxation arrangements on consumption (including excise taxes), property (including housing), and other forms of taxation collected primarily by the States;

   3.5. simplifying the tax system, including consideration of appropriate administrative arrangements across the Australian Federation; and

   3.6. the interrelationships between these systems as well as the proposed emissions trading system.

4. The review should make coherent recommendations to enhance overall economic, social and environmental wellbeing, with a particular focus on ensuring there are appropriate incentives for:

   4.1. workforce participation and skill formation;

4.2. individuals to save and provide for their future, including access to affordable housing;

4.3. investment and the promotion of efficient resource allocation to enhance productivity and international competitiveness; and

4.4. reducing tax system complexity and compliance costs.

5. The review will reflect the Government's policy not to increase the rate or broaden the base of the GST; preserve tax-free superannuation payments for the over 60s; and the announced aspirational personal income tax goals.

6. The review's recommendations should not presume a smaller general government sector and should be consistent with the Government's tax to GDP commitments.

7. The review should take into account the relationships of the tax system with the transfer payments system and other social support payments, rules and concessions, with a view to improving incentives to work, reducing complexity and maintaining cohesion.

8. The review should take into account recent international trends to lower headline rates of tax and apply them across a broader base, as well as domestic and global economic and social developments and their impact on the Australian economy.

9. The review will also incorporate consideration of all relevant tax expenditures.

Composition and consultation

10. The Review Panel will be chaired by the Secretary to the Treasury, Dr Ken Henry AC and will also comprise Mr Greg Smith (Australian Catholic University); Dr Jeff Harmer (Secretary of the Department of Families, Housing, Community Services and Indigenous Affairs), Heather Ridout (Australian Industry Group), and Professor John Piggott (University of New South Wales).

11. The Review Panel will be supported by a working group from within the Treasury, with representation from the Department of Families, Housing, Community Services and Indigenous Affairs, and drawing on other Australian government and state agencies as appropriate.

12. The Chair may task members of the Review Panel to oversee programs of work related to their field of expertise.

13. The Review Panel will consult the public to allow for community and business input.

14. The review will also, where necessary, draw on external expertise and shall have the cooperation of state governments and their Treasuries as well as relevant COAG working groups.

15. The Minister for Families, Housing, Community Services and Indigenous Affairs will provide input on issues related to transfer payments, family assistance and retirement incomes.

Structure and timing

16. The review process will be conducted in several stages. These will follow the release of an initial discussion paper by Treasury on the architecture of the tax system and an examination of the existing tax rates and bases (excluding the GST). The paper will be released by the end of July 2008.

17. The Review Panel will provide a final report to the Treasurer by the end of 2009. The Government will respond in a timely way to the tax review's recommendations as they are released.

Appendix B: What are the potential tax bases?

Summary

This appendix relates the three tax bases of labour, capital and land, to the traditional income and consumption tax bases often discussed in the literature on tax policy. It also presents an intertemporal analysis of the traditional income and consumption tax bases.

Factors of production

While there are at least a hundred taxes, they all ultimately fall on returns to owners of three possible factors of production; land or other naturally endowed resources (R), labour (L) or produced capital (K). The *earnings* of each of these factors make up the income of individuals, and when added up over the whole resident population for a given time period (t), the income of the nation (Y):

(1) $Y_t = rR_t + iK_t + wL_t$

where r is the return to resources, i is the return to capital and w is the return to labour.

This framework allows for an analysis of the relationship between the two main broad bases of income and consumption.

Income taxation base

Result

Comprehensive income taxation falls on the earnings of the providers of capital, natural resources and labour.

Moving closer to a comprehensive tax base treatment of income taxation has been the goal of many tax reform proposals (for example, the 1985 tax reforms), since the work of George van Schanz in the late 1890s which was further developed by Haig (1921) and Simons (1938).

According to the Schanz-Haig-Simons income definition, the income tax base is the total amount that an individual can devote to consumption in a given period (C) plus the increase in the economic wealth between that period and the next (ΔW). Based on this benchmark, income is:

(2) $C_t + \Delta W$

where $\Delta W = W_{t+1} - W_t = S_t$

W_t is the stock of wealth in period t and S_t is the amount saved in period t for future consumption which is equivalent to the increase in wealth by definition.

Taxing income comprehensively means taxing income from all sources — land, labour and capital. This includes cash flows to individuals, such as wages, interest and dividends, as well as accruing capital gains and imputed rent from owner occupied dwellings.

The comprehensive income base can therefore be equivalently defined by (1) or (2) and the relationship is clear between the Schanz-Haig-Simons income tax base and the three tax bases of labour, capital and land:

$$(3)\ rR_t + iK_t + wL_t = C_t + \Delta W$$
$$= Y_t$$

Thus, comprehensive income taxation in the Schanz-Haig-Simons sense falls on the earnings of the providers of capital, natural resources and labour and is equivalent to a consumption tax plus a wealth tax.

Expenditure tax base

The other potentially broad taxation base is consumption or expenditure, which can be traced back to Mill (1848) and Fisher (1937). Consumption is a component of income and can be derived by excluding changes in wealth (referred to by Fisher as 'accruals') from the comprehensive income tax base. This can be seen by rearranging (3):

$$(4)\ Y_t - S_t = C_t$$

The ideal consumption base involves domestic rents and wage labour. If there are no domestic rents, then the consumption base is effectively labour income.

Result

A tax on consumption is equivalent to a tax on labour under strict conditions.

To illustrate this result, consider a two-period model of a closed economy (see Box B.1 for a discussion of model assumptions). In period t, assuming no existing capital or accumulated savings, income is equal to:

$$(5)\ Y_t = wL_t$$

Of this income a proportion α is saved for future consumption. Assume it is saved through the acquisition of land (R) and capital (K), such that:

$$(6)\quad S_t = \alpha Y_t = \alpha w L_t$$
$$= R_t + K_t$$

Box B.1: Generalising assumptions of the two-period model

The story as told by the two-period model in this appendix assumes (i) a starting point with no capital or accumulated saving, (ii) the rate of return equals the discount rate, and (iii) a closed economy. The equivalence of a consumption tax and a labour tax for the two-period model holds only under strict assumptions of no pre-existing savings, common tax rates across periods and no windfall gains or losses on future savings (Freebairn and Valenzuela 1998).

For the reality of prior savings, the relaxation of (i) strengthens the results of this model from an efficiency perspective. A consumption tax versus the wage tax has an efficiency dividend by taxing previous period decisions to save which cannot be reversed. That is, this form of double taxation[1] of prior savings does not alter decisions and therefore there are no efficiency losses.

For the reality of rents above the discount rate, and the relaxation of (ii), note that in the long run, rents and interest on capital or naturally endowed resources will equal return on savings, but there may be timing differences so that for sustained periods of time rents are above normal returns to capital. In such circumstances, the consumption tax base is greater than simple wage income as it captures rents.

An important qualification in relaxing (iii) and moving to an open economy is that a consumption tax is a destination base whereas a labour tax has an origin base. Thus offsetting exchange rate adjustments are required for equilibrium and similarity.[2]

Consumption in period t equals:

$$(7)\quad C_t = (1-\alpha) w L_t$$

Let savings invested in land (R) generate a return r and capital (K) generate a return i. Thus income in period t+1 is given by:

$$(8)\quad Y_{t+1} = wL_{t+1} + rR_t + iK_t$$

In period t+1, all income and savings from prior years is consumed.

1 The double taxation of the existing wealth stock in the consumption tax context is different to the concept of the 'double taxation of savings' in the income tax context (which does have an efficiency cost).
2 After offsetting exchange rate adjustments, border adjustments (as under a pure consumption tax) on balance have real but small impacts on capital flows and revenues cf Auerbach (1997) and Auerbach (2005).

$$(9)\ \ C_{t+1} = wL_{t+1} + (1+r)R_t + (1+i)K_t$$

Discounted to period t dollars using rate d, this is equivalent to:

$$(10)\ \ \frac{C_{t+1}}{(1+d)} = \frac{wL_{t+1} + (1+r)R_t + (1+i)K_t}{(1+d)}$$

Where there are no domestic rents (r = i = d), consumption over the two periods (in period t dollars) is equal to:

$$(11)\ \sum C = C_t + \frac{C_{t+1}}{(1+r)}$$

$$= (1-\alpha)wL_t + \frac{wL_{t+1}}{(1+r)} + \frac{(1+r)(R_t+K_t)}{(1+r)}$$

Substituting (6) into (11):

$$(12)\ \sum C = (1-\alpha)wL_t + \frac{wL_{t+1}}{(1+r)} + \alpha wL_t$$

$$= wL_t + \frac{wL_{t+1}}{(1+r)}$$

From (12), we observe that the consumption base can be expressed as the present value of labour income. Therefore, in the absence of rents, a tax on consumption is equivalent to a labour tax.

Income or consumption taxation — intertemporal analysis

Summary

The two-period model can be extended to show that the choice of the income or the consumption tax base can affect the intertemporal pattern of revenue collections in spite of revenue neutrality.

To see this more clearly, consider the two-period model of a closed economy presented earlier. In period t, assuming no existing capital or accumulated savings, the government introduces a uniform and proportional income tax rate ($0<\tau_y<1$). The revenue collected from the income tax base (T^y) in period t is equal to:

$$(13)\ \ T_t^y = \tau_y Y_t = \tau_y wL_t$$

A proportion α is saved out of disposable income for future consumption:

$$(14)\ \ S_t = \alpha(1-\tau_y)Y_t = \alpha(1-\tau_y)wL_t$$

where S is savings.

Assuming S generates a return r (no domestic rents), income in period t+1 before income tax is imposed for that year is given by:

$$(15)\ \ Y_{t+1} = wL_{t+1} + rS_t = wL_{t+1} + r\alpha(1-\tau_y)wL_t$$

The revenue collected from the income tax base (T^y) in period t+1 is:

$$(16)\ \ T_{t+1}{}^{y} = \tau_y Y_{t+1} = \tau_y[wL_{t+1} + r\alpha(1-\tau_y)wL_t]$$

Thus the present value of government revenues collected from an income tax base (G_y) is:

$$\begin{aligned}(17)\ G_y &= T_t{}^{y} + (1+r)^{-1}T_{t+1}{}^{y} \\ &= \tau_y w[(1+r)^{-1}L_{t+1} + (1+\frac{\alpha r(1-\tau_y)}{(1+r)})L_t]\end{aligned}$$

Compare this to the case where a uniform and proportional uniform tax rate ($0<\tau_c<1$) is imposed on consumption. The revenue collected from the consumption tax base (T^c) in period one is equal to:

$$(18)\ \ T_t{}^{c} = \tau_c C_t = \tau_c(1-\alpha)wL_t$$

Savings in period t is denoted by:

$$(19)\ \ S_t = \alpha Y_t = \alpha wL_t$$

S generates a return r (no domestic rents). So income in period t+1 before tax is:

$$(20)\ \ Y_{t+1} = wL_{t+1} + rS_t$$

In period t+1, all income and savings from prior years is consumed.

$$(21)\ \ C_{t+1} = wL_{t+1} + (1+r)S_t = wL_{t+1} + (1+r)\alpha wL_t$$

The revenue collected from the consumption tax base (T^c) in period t+1 is equal to:

$$(22)\ \ T_{t+1}{}^{c} = \tau_c C_{t+1} = \tau_c[wL_{t+1} + (1+r)\alpha wL_t]$$

Thus the present value of government revenues collected from a consumption tax base (G_c) is:

$$\begin{aligned}(23)\ G_c &= T_t{}^{c} + (1+r)^{-1}T_{t+1}{}^{c} \\ &= \tau_c w[(1+r)^{-1}L_{t+1} + L_t]\end{aligned}$$

To summarise, the table below sets out the revenue collections each year under the two tax regimes in period t dollars:

Period	Income tax collected	Consumption tax collected
t	$\tau_y wL_t$	$\tau_c(1\text{-}\alpha)wL_t$
t+1	$\tau_y w[(1+r)^{-1}L_{t+1}+\frac{r(1\text{-}\tau_y)}{(1+r)}\alpha L_t]$	$\tau_c w[(1+r)^{-1}L_{t+1}+\alpha L_t]$

We observe that in period t, whether income taxes collected ($\tau_y wL_t$) is greater than the consumption tax collected ($\tau_c(1\text{-}\alpha)wL_t$) depends on the savings ratio, the consumption tax rate and the income tax rate levied. In period t+1 when savings are drawn down, the consumption tax revenue is greater than income tax revenue if:

$$(24)\quad \tau_c > \tau_y\left[\frac{r(1\text{-}\tau_y)}{(1+r)}\right]$$

where τ_y and τ_c are between zero and one and r is positive.

For better comparability, set the consumption tax rate such that the present value of revenue collected through an income tax is the same as the present value of revenue collected through a consumption tax. That is, assuming that $G_c = G_y$:

$$(25)\quad \tau_y w[(1+r)^{-1}L_{t+1}+(1+\frac{\alpha r(1\text{-}\tau_y)}{(1+r)})L_t] = \tau_c w[(1+r)^{-1}L_{t+1}+L_t]$$

Equation (25) can be rearranged to give the consumption tax rate which satisfies revenue neutrality between the income tax and the consumption tax:

$$(26)\quad \tau_c=\tau_y\left\{\frac{L_{t+1}+[(1+r)+\alpha r(1\text{-}\tau_y)]L_t}{L_{t+1}+(1+r)L_t}\right\}$$

Where α,r>0 and the income tax rate is between zero and 1, the term $\tau_y\alpha r(1\text{-}\tau_y)$ in equation (26) representing the double taxation of savings will always be positive. Thus under the revenue neutral constraint the income tax rate is less than the consumption tax rate.

This is an important result. It illustrates that under a comprehensive income tax and given revenue neutrality, a lower tax rate is possible because of the broader base driven largely by the double taxation of savings, and thus a reliance on capital income taxation, which distorts the relative price of future consumption.

The analysis above is also pertinent in illustrating the pattern of revenue collections in the context of an economy facing demographic challenges such as demographic shifts and population ageing.

To see this more clearly and for simplicity of presentation, as an extreme example, suppose that in period t+1 all labour factors in the economy are retired (that is, let $L_{t+1} = 0$). The revenue collected in period t+1 under the two regimes in period t dollars is given by:

Period	Income tax collected	Consumption tax collected
t+1	$\left[\frac{r(1-\tau_y)}{(1+r)}\right]\tau_y \alpha w L_t$	$\left[1+\frac{\alpha r(1-\tau_y)}{(1+r)}\right]\tau_y \alpha w L_t$

It is implied that the revenue raised from the income tax in period t+1 would be a fraction ($r(1-\tau_y)/(1+r)$ compared to $1+\alpha r(1-\tau_y)/(1+r)$) of the revenue collected under a consumption tax. Note that if r was 50 per cent[3], α was 50 per cent, τ was 30 per cent, this model suggests that an income tax would only collect around 20 per cent of the revenue that would be collected under a consumption tax in period t+1 where all labour is retired and the stock of savings is being fully consumed.

3 A period in the two-period model can represent many years.

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