# Review of Western Australia's tax system

A report for the Economic Regulation Authority

March 2014

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# Executive Summary

The Treasurer of the State of Western Australia has asked the Economic Regulation Authority ('the Authority') to conduct an Inquiry into Microeconomic reform in Western Australia with the aim to improve efficiency and performance of the Western Australian economy. The reform of State taxes is one of the key areas being explored by the Authority as part of the Inquiry.

The objective of this report is to develop a framework to help identify potential, sensible options for a more modern tax system. The three major taxes in question are Transfer Duty on residential conveyances, Land Tax and Payroll Tax. The Metropolitan Region Improvement Tax (MRIT), which is a Land Tax applicable to metropolitan areas of Western Australia, is also being considered.

## Assessment of the each tax

### Payroll Tax

Payroll Tax is levied on wages paid or payable by an employer, when its total Australia-wide wages exceed $750,000 per annum. A rate of 5.5% is levied on each dollar above the tax-free threshold. It is potentially an efficient tax base. Its efficiency is undermined by concessions and exemptions that together equal 70% of the revenue collected. Western Australia (WA) has one of the broadest bases amongst Australian states and territories and also one of the highest rates.

Payroll Tax, in its current form, distorts the following economic decisions:

- threshold exemptions may provide incentive for businesses to remain small;
- the distortion caused by the threshold can be amplified due to the possible necessity to use a higher marginal rate to achieve revenue targets;[1]
- a narrow-based tax may distort the composition of employment, as some employees are likely to leave businesses that pass on the additional cost to employees. These employees may move to tax exempt businesses that can potentially pay higher wages. Exemptions therefore introduce biases into the allocation of labour;
- Payroll Tax effectively increases the cost of labour to businesses which affects the optimal mix of factors of production, thus producing an efficiency loss to the economy; and

[1] Victorian Department of Treasury and Finance (2001) Review of State Business Taxes, p. 66.

- the effective decrease in real wage encourages workers to substitute labour for leisure (although this would be true even for a comprehensive Payroll Tax).

For the purpose of informing the Henry Review, the Treasury commissioned KPMG Econtech to undertake a Computable General Equilibrium (CGE) analysis of the Australian tax system.[2] The analysis computes the marginal efficiency cost (MEC) and average efficiency cost (AEC) of Payroll Tax in its current form.[3] MEC can be interpreted as the extra loss in welfare for an extra dollar of tax revenue raised,[4] while AEC can be interpreted as the welfare loss per dollar of tax revenue currently raised.[5] KPMG Econtech modelled state taxes at the national level using a weighted average of the regimes across the states.

The MEC and AEC of Payroll Tax in its current form were estimated to be 41 cents and 22 cents per dollar of revenue raised respectively. Assuming the AEC estimate is representative of WA,[6] the total cost imposed on households would be around one-fifth of the revenue collected, or around $760 million per year.[7]

Submissions to the Henry Review call for the abolition of Payroll Tax or increasing concessions. These suggestions would move the WA tax system further from an efficient system.

There are some concerns that Payroll Tax imposes high compliance costs. Lignier and Evans (2012) found that the average time that small businesses spent on Payroll Tax annually had increased by almost twofold during the period 1995-2010.[8] This suggests that compliance costs for the Payroll Tax system have increased in recent times, and is in line with the consensus that compliance costs are not decreasing. This finding merits further investigation given the integration of Payroll Tax into accounting software, national harmonisation of Payroll Tax and electronic remittance.

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[2] KPMG Econtech (2010) CGE Analysis of the Current Australian Tax System, Final Report, 26 march 2010.

[3] Instead of "efficiency cost", KPMG Econtech uses the term "excess burden". Both terms refer to the cost of distortions resulting from tax.

[4] For example, a MEC of 20c means that if tax revenues are increased by $1, welfare will fall by 20c. KMPG Econtech calculated the MEC by modelling a 5% increase in tax revenues.

[5] For example, if the AEC is 15c and tax revenues are $100,000, the total welfare loss to society will be $15,000. KMPG Econtech calculated the AEC by modelling the abolition of the tax, then comparing the increase in welfare to the lost tax revenues.

[6] Given that the structure of payroll Tax in WA is very similar to the structure in other jurisdictions, this is considered to be a reasonable assumption.

[7] For every dollar raised, there is an AEC imposed of 22 cents. Based on current revenue collections of $3,475.7 million, the efficiency cost equates to around $760 million.

[8] Lignier, P., Evans, C. (2012) The rise and rise of tax compliance costs for the small business sector in Australia, p. 629.

Payroll Tax is a stable growth tax. Over the past 10 years the growth rate of Payroll Tax has been consistently positive with growth rates reaching 20%.

### Land Tax

Land Tax is levied on the aggregated unimproved value of land using a progressive rate scale. Western Australia's Land Tax rates are lower than in other jurisdictions for aggregated unimproved values of taxable land of up to $5.5 million. However, for values over $11 million the rate is the second highest of the maximum rates in the nation.

A Land Tax can potentially be a highly efficient and more stable tax due to the immobility of the tax base.[9] Immobility, and the fixed supply of land, limit the possibility of the tax being passed on to other groups within the economy and instead force the incidence of the tax to fall on existing landowners.

Land Tax can be efficient because – despite reducing the value of the land – it does not affect how much, or how land is used. For example, since the Land Tax does not apply to the value of the buildings on the property, the tax does not affect the owner's decision to invest in the productivity of their land.[10]

While Land Tax is relatively efficient, the thresholds and exemptions that characterise the current Land Tax system are introducing inefficiencies. In the CGE analysis undertaken by KPMG Econtech, the MEC and AEC were estimated to be 8 cents and 6 cents per dollar of tax revenue.[11] The analysis also found that a uniform Land Tax has an average efficiency cost of zero. Compared to other taxes the efficiency costs are small, which is why a broad based Land Tax is essential part of any efficient tax system.

The growth in revenue over the past 10 years shows a high degree of volatility with annual growth rates varying from -5% to 35% over the period. The steep fall in revenue in 2009-10 was the result of a policy introduced by the State Government in July 2009 of limiting the annual growth in unimproved land values to 50%. The policy was intended to moderate the impact of future increases in Land Tax.

### Metropolitan Region Improvement Tax

MRIT is a Land Tax levied on the aggregated unimproved value of land within the boundaries of the metropolitan region. A rate of 0.14% is levied on each dollar of land values above $300,000.

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9 Commonwealth Treasury. (2009) Australia's future tax system – the Henry Review. p. 48.

10 Commonwealth Treasury. (2009), p. 247.

11 KPMG Econtech (2010).

The MRIT is an efficient Land Tax hypothecated for a specific purpose. Its base could be expanded by removing exemptions.

### Transfer Duty

Transfer Duty is a tax on property, levied on the purchaser of a dutiable property. Transfer Duties have a progressive rate scale. This report is concerned with Transfer Duty on residential properties. WA's Transfer Duty rates are slightly lower than the average rate across all jurisdictions.

Transfer Duty is considered inefficient because it distorts behaviour by:[12]

- creating the possibility for people to avoid stamp duties by choosing not to sell or buy properties;
- discouraging transactions of commercial and residential property;
- discouraging investments into property improvement as it is levied on the sale price; and
- discouraging the elderly to downsize their principal place of residence (and thus possible implications for freeing up properties in inner metropolitan areas for redevelopment to meet State Government's policy of higher density).

The MEC and AEC of Transfer Duties were estimated by KPMG Econtech to be 34 cents and 31 cents per dollar of tax revenue raised. It should be noted that these estimates were for total Transfer Duty, including both residential and commercial transfers. KPMG Econtech noted that the complex distortions caused by Transfer Duties placed a downward bias on the modelled efficiency costs. The efficiency costs are large and the MEC and AEC of Transfer Duty are similar, which suggests a comparatively higher efficiency cost from the first dollar of revenue raised compared to Payroll Tax.

Transfer Duties are an unstable source of revenue because the tax base is determined by both the price and number of properties that are being transferred. These are variables that can fluctuate significantly over time.

## Recommended Framework for Analysing Options

The analytical framework for the review of tax systems comprises a number of elements:

- the principles that determine the composition and role of taxes in a tax system;

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[12] Commonwealth Treasury. (2009). p. 49.

- the design of individual taxes within the system; and
- the approach to assessing the impacts of changes.

An efficient tax system should be able to raise sufficient revenue while minimising behavioural and administrative distortions and be sufficiently transparent so that government is accountable to its citizens.

Also, the functions a tax is expected to perform should be considered in the design of a tax system. In most cases, the fundamental objective of taxation is to raise revenue to fund Government expenditure. The objective of the three taxes analysed in this report is to raise Government revenue. There is a large number of exemptions and concessions available for each of the three taxes. These serve subsidiary economic and social policy objectives.

The emphasis of this review is to investigate potential areas for redesign and reform of the existing tax system to increase economic efficiency and reduce compliance and administrative costs.

The taxes considered in this review account for 59% of WA State tax revenue (excluding royalties). For this reason, it is appropriate to evaluate changes to these taxes from a whole of tax system perspective and an individual tax perspective. If these taxes did not account for such a significant proportion of tax revenue it would only be appropriate to evaluate the changes for each individual tax.

For this analysis we adopt the principles for a modern tax system recommended by the Henry Review to a state tax context:

- the tax system must be capable of raising sufficient revenue to fund the expenditure required for future governments;
- revenue should be raised from taxes that are least detrimental to economic growth and that support a diverse economic structure;
- tax bases should target less mobile factors of production and be broad based;
- redistribution of income should be limited within a State tax system;
- taxes should have clear and non-contradictory objectives and design should focus on simplicity and transparency;
- policy design should be integrated with technology to raise revenue efficiently and improve the experience of people and business in interacting with the system;

Individual taxes will be assessed according to the following principles of tax design:

- Efficiency - all taxes can affect the choices people and businesses make by altering their incentives to work, save, invest or consume things of value to them. Therefore all taxes can affect economic efficiency. The goal is to minimise the impact on economic decisions.
- Simplicity - a tax ought to be easy and relatively inexpensive to comply with and administer. A simple tax makes it easier for people to understand their obligations and entitlements, and thus reduces the compliance costs imposed on taxpayers and the administrative costs on governments.
- Sustainability - the tax system should have the capacity to meet the changing revenue needs of government on an on-going basis.

There are two general approaches to assessing the impacts of changes to a tax system; General Equilibrium approach and Partial Equilibrium approach. A General Equilibrium approach utilises Computable General Equilibrium (CGE) models, which is a class of macroeconomic models used to analyse changes in the economy as a result of policy change (or other factors). CGE models acknowledge that a change to one area of the economy will flow through to other areas of the economy due to the inter-connectedness of markets.

A Partial Equilibrium approach only analyses the direct impacts of a change to a tax. While it is important to capture all impacts on the economy from a change in the structure of the tax system (both direct and indirect), CGE modelling is expensive and time consuming. The framework for analysing the tax changes used in this report is a Partial Equilibrium approach, which is sufficient for an initial strategic analysis. However, if options developed in this report are to be taken further, CGE modelling of the impacts will be necessary.

Our recommended options will be constrained by revenue neutrality, autonomy of WA to implement the changes, and the prevailing political economy.

## Assessment of Options

There are broadly three strategies available for the reform of these taxes:

- broaden the base and lower the rate of all three taxes to increase their efficiency;
- greater reliance on efficient taxes and reduce or abolish the inefficient taxes; and
- introduce a new broad based tax to replace or reduce the rate of less efficient taxes.

### Option 1 - Broaden the Tax Base

This reform option broadens each tax base by removing all concessions and exemptions identified by the WA Treasury in its Statement of Tax Expenditures published annually in the Western Australian Budget Papers. The broader tax base will involve a large increase in taxpayers but because of the size of existing concessions relative to current tax collected it will facilitate a significant fall in the tax rate. A major fall in the tax rate will result in a significant fall in the efficiency cost to the WA economy. Against this improvement in efficiency there will be an increase in efficiency costs for activities previously untaxed. It should be noted that it is very likely that firms and households exempt from paying taxes are in all likelihood affected by the efficiency costs. The key changes to be assessed are:

- remove all concessions and exemptions for Payroll Tax and reduce the rate;
- remove all concessions on Land Tax and reduce the rate; and
- remove all concessions on Transfer Duty on residential conveyances and reduce the rate.

This option meets most of the criteria of an optimal tax system at least as far as the three taxes being considered. It will significantly move the WA tax system to a broad based low rate structure that has not been achieved in any other jurisdiction to date. Indicatively, these reforms could yield efficiency improvements to the WA economy of $1.1 billion per annum. The additional cost of tax collection due to a broader tax base would need to be subtracted from this gain. Modelling the reforms within a CGE framework would be required to provide more precise estimates.

The taxes are applied to immobile or relatively immobile tax bases. Labour is a somewhat mobile factor of production but the remoteness of WA relative to the eastern states provides it with a natural barrier to the mobility of labour.

The removal of all concessions clarifies that the sole purpose of each tax is to raise revenue.

The challenge of this option is the large increase in the number of taxpayers and the challenge this might initially present for tax collection costs and compliance costs.

*Benefits*

- The tax structure is more efficient relative to existing tax arrangements because lower rates reduce the economic costs of the tax.
- Broadening the Payroll Tax base reduces the rate from 5.5% to 1.9%. This will significantly reduce the efficiency cost of Payroll Tax.
- There will be a large number of employers now paying tax on labour, which will have some impact on their demand for labour. Offsetting this will be an increase in demand for labour by existing taxpayers. In 2012-13, Payroll Tax revenue was $3,500 million and the value of concession was close to $2,000 million. This shows that the 12,000 employers paying Payroll Tax employ more people than the 210,000 employers not currently paying Payroll Tax. The size of the tax reduction is larger for existing taxpayers than the increase for new taxpayers. Taken together, the above two facts suggest that there may be an increase in overall labour demand. The overall impact of these two offsetting impacts would need to be modelled to provide a more definitive result.
- The removal of thresholds allows firms and households to hire labour and buy and sell property without facing very high marginal tax rates that discourage labour force expansion and turnover in property markets.
- Removing concessions also means that factor cost and transaction costs are not distorted by differences in tax rates. The argument for exempting public sector agencies and benevolent organisations supported by government is that it avoids the costs of collecting revenue and then distributing the revenue to the same agencies it was collected from. From a wider economic perspective, exempting public sector agencies (and benevolent agencies) makes the cost of labour relatively lower for the exempted firms compared to taxpaying firms. It creates a bias in input decisions in favour of labour compared to other factors of production.
- The purpose of each tax is unambiguously to raise revenue. This allows other industry and social policy objectives to be provided and assessed transparently.

*Costs*

- The major cost of this option is that there will be a large increase in the number of taxpayers that enter the tax base. To minimise collection and compliance costs this is likely to require investment in collection systems to minimise collection and, equally important, compliance costs. These costs would have once been prohibitive but the widespread deployment of electronic payments and lodgement systems makes this potentially manageable. A detailed assessment of the benefits and costs of maintaining a threshold due to the collection and compliance costs would need to be prepared before this option was implemented.

### Option 2 – Greater reliance on efficient taxes

This reform option changes the tax mix in favour of more efficient taxes. The literature review identified Payroll Tax and Land Tax as the taxes with the most potential for efficiency gains and sustainability improvements. The rate reductions will necessarily be smaller than the base broadening option because greater revenue is required from these two taxes to abolish residential Transfer Duty. For this tax, smaller efficiency gains for Payroll Tax and Land Tax are traded off against the increased efficiency from abolishing Transfer Duty. The key changes to be assessed are:

- remove all concessions on Land Tax and raise the rate retaining a progressive scale;
- remove all concessions on Payroll Tax and lower the rate; and
- abolish Transfer Duty.

The additional benefit of this option is the abolition of Transfer Duty on residential property transactions. This reform removes one of the major distortions in the property market. It cannot entirely improve the efficiency of residential property markets because Commonwealth tax concessions currently create inefficiencies in residential property markets. The efficiency gains from the Payroll Tax are the same as under the previous option. Land Tax rates are slightly increased to raise sufficient revenue to offset the loss of revenue from abolishing Transfer Duty. The increase in rate has no impact on efficiency. There will be lower compliance costs and administration costs from the abolition of Transfer Duty.

The revenue base is also more sustainable as the influence of the volatility of the property market is removed from the tax system. As show in Section 2, Payroll Tax is more correlated to economic growth than Transfer Duty.

Indicatively, these reforms could yield efficiency improvements to the WA economy of $1.3 billion per annum. This estimated does not take into account additional costs associated with collecting Payroll Tax and Land Tax from a broader tax base. Modelling of the reforms within a CGE framework would be required to provide more precise estimates.

*Benefits*

- The tax structure is more efficient than existing tax arrangements because lower rates reduce the economic costs of the tax.
- The removal of thresholds allows firms and households to hire labour and buy and sell property without facing very high marginal tax rates that discourage labour force expansion and turnover in property markets.
- The Payroll Tax impacts are identical to the previous option.
- The efficiency of property markets will be improved. The number of residential housing transactions will increase and be closer to the level that would prevail without tax distortions in the property market. As noted above, there is residual inefficiency because of the tax-preferred status of owner occupied housing relative to investor owned housing.
- Removing concessions also means that factor cost and transaction costs are not distorted by differences in tax rates.
- The purpose of each tax is unambiguously to raise revenue. This allows other industry and social policy objectives to be provided and assessed transparently.
- Major savings in collection and compliance costs from the abolition of Transfer Duty.

*Costs*

- There will be a large increase in the number of taxpayers. To minimise collection and compliance costs this is likely to require investment in collection systems to minimise collection and, equally important, compliance costs.

### Option 3 – Introduce a State Personal Income Tax

There are many possible variations of a State Personal Income Tax. For the purposes of this report, we examine the potential impact of introducing a tax that applies to the taxable income of all individuals in WA. This tax is applied as a flat rate to taxable income as assessed under the Commonwealth income tax laws. The tax does not apply to corporations as the Commonwealth has the constitutional power with respect to the activities of corporations.

This option offers similar efficiency improvements to option 2 as it removes Transfer Duty and Payroll Tax from the tax base. The gains from replacing Payroll Tax (as it is currently structured) are similar to removing concessions from the tax base. However, the application of the tax would exacerbate the efficiency effects of the Commonwealth income tax.

Although this report does not consider equity implications, income tax as modelled in this report is collected from all taxpayers, even those not currently subject to Commonwealth taxes. It is applied at a low rate and therefore should not have a significant effect on the incentive to work. Economy-wide modelling is recommended to test the relative impacts on wages and employment of abolishing Payroll Tax and introducing a State Personal Income Tax.

The tax should 'piggyback' on the Commonwealth tax administration system to avoid having duplicate collection and administration systems. The major gains in collection and compliance costs will be realised if the Australian Tax Office (ATO) collects the income tax through its existing tax collection and remittance system.

*Benefits*

- Relative to existing tax arrangements, this tax structure is more efficient because this option comprises two broad based taxes and the removal of two narrowly applied taxes.
- The State Personal Income Tax will apply to around 1.35 million taxpayers. The rate of tax is 4.5%, which is payable in addition to the Commonwealth income tax rate. The increase in tax on income will have some effect on the incentive to work and have some impact on labour supply. The impact on labour supply should be highest where the marginal tax rates are highest. Empirical studies tend to show the impact on labour supply is small for higher income earners. However, these studies are based on US tax scales. Australian tax scales apply higher marginal rates at much lower levels of income.
- The economy gains from the removal of the distortions caused by the existing Payroll Tax structure.
- There are both efficiency gains and savings from collection and compliance cost reductions from abolishing Transfer Duty.
- There are unlikely to be significant compliance savings for taxpayers because removing the need to submit Payroll Tax returns would most likely be replaced with a withholding tax arrangement for the State Personal Income Tax.
- The purpose of each tax is unambiguously to raise revenue. This allows other industry and social policy objectives to be provided and assessed transparently.

- The tax system is more stable because Transfer Duty revenue is replaced with income tax revenue, which like Payroll Tax fluctuates less across an economic cycle.
- Income tax is a broad based growth tax and provides a stable source of revenue.
- Major savings in collection and compliance costs from the abolition of Transfer Duty.

*Costs*

- There is a large increase in the number of taxpayers. The cost would be similar to the cost of broadening the Payroll Tax base.
- Potential efficiency costs from reduced labour supply although this may be offset from increased labour demand.
- The administrative costs of introducing this tax and the compliance costs of duplicating a withholding tax system (where tax payments are withheld from wages by an employer and remitted to the taxing body) would be very costly to set up and maintain. Collecting the tax through the existing Commonwealth withholding tax system and adopting the same definitions of taxable income for the tax base would considerably reduce the cost.

## Key Findings and Recommendations

- The tax bases have been eroded over time to the point that the number of potential taxpayers far exceeds the actual number of tax payers.
- Those potential taxpayers outside the tax base lobby hard to remain excluded by drawing conclusions not supported by economic realities.
- Payroll Tax is not an inefficient tax if administered with a broad base and a low rate.
- The potential economic efficiency gains from broadening the Payroll Tax base and reducing the rate are significant.
- Employment is not expected to be adversely affected. A more likely outcome is that there is a net gain in employment as the existing distortions in the incentive to employ are removed by reform.
- Land Tax is an underutilised efficient tax base. Increasing the rate would allow for even lower rates of other taxes.
- Local government concerns might limit the extent of rate increases.

- Greater use of the Land Tax base will need complementary mechanisms to ensure wealth held in land without other income does not present hardship or forced sale of assets.
- The MRIT is a successful hypothecated Land Tax and there do not appear to be any compelling reasons to change its structure, except that its base should also be broadened and the rate decreased.
- Transfer Duty on residential properties imposes significant economic costs and there is very little that can be done to improve this tax.
- Implementing any of the three options would greatly improve the efficiency of the WA tax system.
- Option 1 is dominated by option 2 and 3 in the sense that it still contains Transfer Duty, which is the least potentially efficient tax.

### Recommendation

Either option 2 or 3 is recommended as the preferred option. Both contain a broad based tax on labour, with Payroll Tax initially impacting labour demand and a State Personal Income Tax initially impacting labour supply. Ultimately both taxes are likely to have a similar impact on wages and labour demand and both transmit subsequent economic impacts to other markets through the same economic variables; wages and employment.

The compliance and administration costs are also likely to be very similar if a withholding mechanism is used to collect the State Personal Income Tax from employees. Ultimately the decision will come to which option is considered palatable to the electorate.

# Contents



# Figures and Tables

# 1 Introduction

The Treasurer of the State of Western Australia has asked the Economic Regulation Authority ('the Authority') to conduct an Inquiry into Microeconomic reform in Western Australia with the aim to improve efficiency and performance of the Western Australian economy. The reform of State taxes is one of the key areas being explored by the Authority as part of the Inquiry.

Synergies Economic Consulting (Synergies) has been engaged by the Authority to prepare a robust analysis to inform the tax section of the Authority's Draft Report. The analysis will provide a framework to help identify potential, sensible options for a more modern tax system. The three taxes in question are Transfer Duty on residential conveyances, Land Tax and Payroll Tax. The Metropolitan Region Improvement Tax (MRIT), which is a Land Tax applicable to metropolitan areas of Western Australia, is also being considered.

This report is set out as follows:

- Chapter 2 provides an overview of the structure of Payroll Tax, Transfer Duty on residential conveyances and Land Tax (including MRIT);
- Chapter 3 reviews the frameworks and principles that have been used for development of tax reform options. A framework is recommended within which reform to achieve a better tax system for the State can be assessed;
- Chapter 4 presents the options and results of the analysis of benefits and costs associated with each option;
- Chapter 5 provides a summary of findings and recommendations.

# 2 Western Australia's tax system

This section provides an overview of the taxes relevant for the analysis. These include Payroll Tax, Land Tax and Transfer Duty on residential properties, in addition to the Metropolitan Region Improvement Tax (MRIT), which is a Land Tax applicable to metropolitan areas of Western Australia.

## 2.1 Payroll Tax

Payroll Tax is a self-assessed, general-purpose state and territory tax assessed on wages paid or payable by an employer to its employees, when the total wage bill of an employer (or group of employers) exceeds a threshold amount. The Payroll Tax threshold and tax rate vary between States and Territories.[13] Payroll Tax is narrow-based; fewer than 100,000 of Australia's two million businesses are liable for Payroll Tax.[14] In Western Australia (WA) there are around 12,000 taxpayers whereas the total number of potential taxpayers is around 220,000.[15]

Payroll Tax is generally paid monthly[16] by employers on the value of their total wage payments (including employer funded superannuation benefits, fringe benefits, and eligible termination payments) paid to employees in the preceding month. It is collected under the *Pay-roll Tax Assessment Act 2002* and *Pay-roll Tax Act 2002*, which are administered by the Commissioner of State Revenue.[17]

### 2.1.1 Rate of tax

An employer (or a group of employers) is liable for Payroll Tax on wages paid or payable in WA when its total Australia-wide wages exceed $750,000 per year ($62,500 per

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13 Australian Revenue Offices (2014). Payroll Tax Australia. Available from: http://www.payrolltax.gov.au/ [Accessed 7 February 2014].

14 Commonwealth Treasury (2009). Australia's future tax system – the Henry Review. Part 2 detailed analysis, volume 1, December, p. 298.

15 The current number of taxpayers (around 12,000) is based on data as at November 2013 provided by Treasury and represents the number of taxable entities in WA. The number of potential taxpayers (around 220,000) is the number of operating businesses as at June 2012 based on ABS data, catalogue no. 8165.0 Counts of Australian Businesses, including Entries and Exits, Jun 2008 to Jun 2012.

16 Employers with an annual tax liability below $20,000 can elect to pay their Payroll Tax on an annual basis. Additionally, from 1 July 2006, employers with an annual tax liability between $20,000 and $100,000 could elect to pay their Payroll Tax on a quarterly basis. Eligible employers must make an application to the Commissioner of State Revenue to change the lodgement frequency of their returns from a monthly to an annual or quarterly basis.

17 Western Australia Government - Department of Treasury (2013). Overview of state taxes and royalties 2012-13, March, p. 4.

month). A Payroll Tax rate of 5.5% is levied on each dollar an employer pays above the $750,000 tax-free threshold.

### 2.1.2 Exemptions and concessions

Charities, religious organisations, government departments, hospitals, schools and public benevolent institutions are all exempt from Payroll Tax in Western Australia.[18]

The wages of apprentices and trainees employed under an approved training contract are exempt. Parental leave, volunteer emergency services work and certain prescribed fringe benefits paid by employers to employees in remote areas are also exempt. Additionally, Payroll Tax does not apply to travel and accommodation allowances up to a certain level or to wages for particular services rendered overseas.[19]

As part of its 2012-13 budget the WA Government announced two additional exemptions to the Payroll Tax.[20] Firstly, a one-off rebate which was provided in the first half of 2013-14 to employers with Australia-wide group payrolls of up to $3 million in 2012-13.

The aim of the one-off rebate was to reduce the tax burden for small businesses and help ensure Western Australia remains an attractive place to do business. The rebate fully offset tax liabilities for employers with payrolls up to $1.5 million and phased down for employers with payrolls between $1.5 million and $3 million. The maximum value of the rebate was $41,250.

Secondly, tax relief measures were introduced to encourage workforce-participation of Indigenous and disabled Western Australians:

- from 1 July 2012, exemptions were introduced for wages paid to new employees with a disability in their first two years of employment, where these employees are eligible for a Commonwealth Employment Services wage subsidy or are eligible for any form of support from the Western Australian Disability Services Commission;
- from 1 July 2012, employers with an Australia-wide group annual payroll of $15 million or less are eligible for a 100% Payroll Tax rebate on wages paid to new

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18 Government of Western Australia - Department of Finance (n.d.). Payroll Tax Exemptions. Available from: http://www.finance.wa.gov.au/cms/content.aspx?id=258 [Accessed 12 February 2014].

19 Western Australia Government - Department of Treasury (2013). Overview of state taxes and royalties 2012-13, March, pp. 5-9.

20 See fact sheet on the 2012-13 budget published by the Government of Western Australia, available from: http://www.cosba.com.au/index_files/2013_State_Budget_fact_sheet_$135_million_tax_relief_package.pdf [Accessed 24 February 2014].

Indigenous employees in their first two years of employment if they are also in receipt of a Commonwealth Indigenous Wage Subsidy.[21]

### 2.1.3 Payroll Tax collection

The past 10 years of Payroll Tax revenue collected by the Western Australian Government is shown in Figure 1. In 2012-13, $3,476 million in Payroll Tax was collected. Payroll Tax accounts for 42% of total tax revenue in WA.[22] The foregone revenue from Payroll Tax in the same year from thresholds and exemptions was $1,969 million.[23]

Figure 1 shows the growth in revenue collected from Payroll Tax since 2003-03. The payroll thresholds and rates have for the most part been stable over this period, with only two changes made since 2002-03:[24]

- an increase in threshold from 675,000 to 750,000 on 1 July 2003; and
- a reduction in tax rate from 6% to 5.5% on 1 July 2005.

The growth rate of Payroll Tax has been consistently positive with growth rates reaching 20%.

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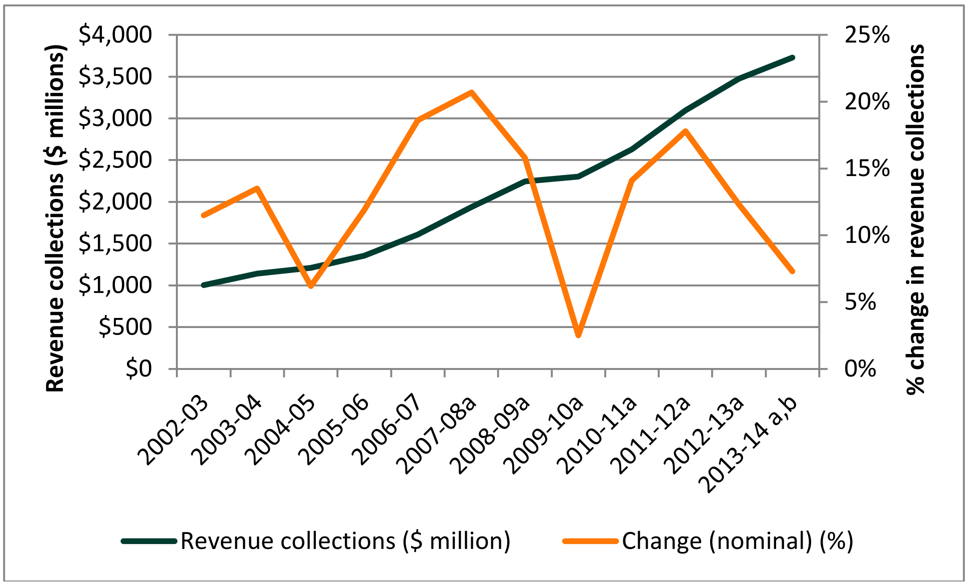
21 Western Australia Government - Department of Treasury (2014). Overview of state taxes and royalties 2013-14, February, p. 8.

22 Western Australia Government - Department of Treasury. (2014). Overview of state taxes and royalties 2013-14, February p 2.

23 Government of Western Australia (2013). Budget Paper 2013-14, economic and fiscal outlook, budget paper no. 3, p. 116. Available from: http://www.treasury.wa.gov.au/cms/uploadedFiles/State_Budget/Budget_2013_14/bp3.pdf [Accessed 13 February 2014].

24 Western Australia Government - Department of Treasury (2014). Overview of state taxes and royalties 2013-14, February, p. 7.

**Figure 1 Payroll Tax collections in Western Australia**



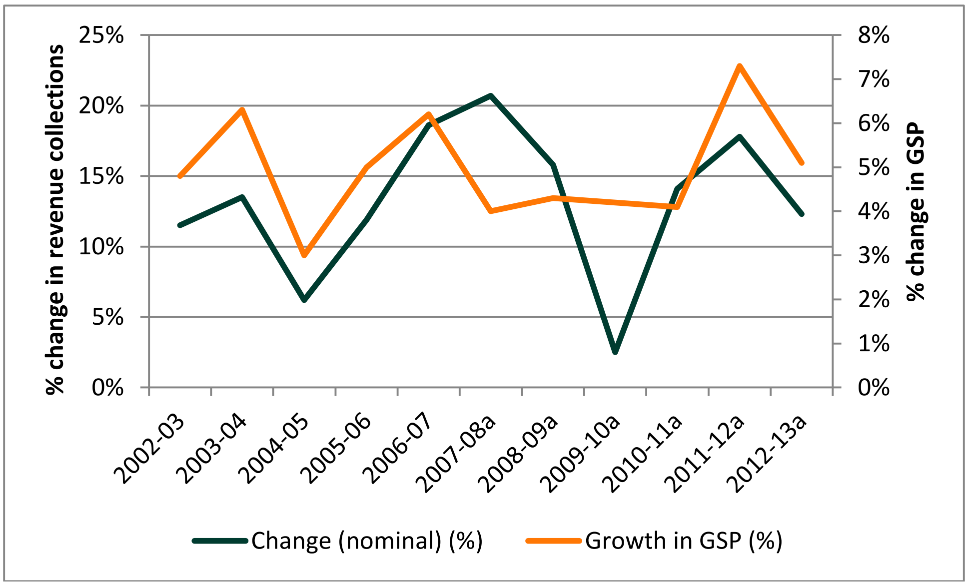

**a** Figures from 2007-08 onwards are consistent with AASB 1049 accounting standards, which differ slightly from the previously reported GFS standards for most taxation items (mainly due to no longer netting-off refunds and rebates from tax revenue).

**b** Estimates based on the 2013-14 Government Mid-year Financial Projections Statement.

**Source: Western Australia Government - Department of Treasury. (2014). Overview of state taxes and royalties 2013-14, February, p. 9.**

Figure 2 compares the percentage change in revenue collections with the percentage change in GSP over the period. The two time series tend to move in the same directions. This is not unexpected as both Payroll Tax revenue and GSP depend on the level of employment in the economy.

**Figure 2 Percentage change in payroll revenue collections and GSP**



**a** Figures from 2007-08 onwards are consistent with AASB 1049 accounting standards, which differ slightly from the previously reported GFS standards for most taxation items (mainly due to no longer netting-off refunds and rebates from tax revenue).

**b** Estimates based on the 2013-14 Government Mid-year Financial Projections Statement.

**Note:** GSP data are chain volume measures.

**Source (revenue collection): Western Australia Government - Department of Treasury. (2014). Overview of state taxes and royalties 2013-14, February, p. 9.**

**Source (GSP): Australian Bureau of Statistics (2013). 5220.0 Australian National Accounts: State Accounts, Table 1. Gross State Product, Chain volume measures and current prices.**

### 2.1.4 Interstate comparison

On 29 March 2007, State and Territory Treasurers announced a decision to overhaul Payroll Tax arrangements to achieve greater legislative and administration harmonisation across jurisdictions.[25] As a result, the 2010 Protocol for Payroll Tax Harmonisation between Jurisdictions was signed on 28 July 2010.

Subsequently, Australian State and Territory Governments enacted legislation aligning Payroll Tax provisions in the following key areas:

- Timing of lodgement of returns;
- Motor vehicle allowances;
- Accommodation allowances;
- A range of fringe benefits;
- Work performed outside a jurisdiction;
- Employee share acquisition schemes;
- Superannuation contributions for non-working directors; and
- Grouping of businesses.

A comparison of the current Payroll Tax rates and thresholds across jurisdictions is presented in Table 1. Compared to other States and Territories the threshold is relatively low. It is at the same level as NSW and only higher than in SA and VIC. The rate is mid-range and around the same level as in NSW and NT. Based on these observations, WA is taxing payrolls above average compared to the other jurisdictions.

[25] Government of Western Australia - Department of Finance (n.d.). Payroll Tax Exemptions. Available online: http://www.finance.wa.gov.au/cms/content.aspx?id=258. {Accessed 12 February 2014}.

**Table 1 Current Payroll Tax rates and thresholds across jurisdictions**

| | | Western Australia | New South Wales | Victoria | Queensland | South Australia | Northern Territory | Tasmania[a] | Australian Capital Territory |
|---|---|---|---|---|---|---|---|---|---|
| Starting date | | 1 July 2012 | 1 July 2013 | 1 July 2012 | 1 July 2012 | 1 July 2012 | 1 July 2012 | 1 July 2013 | 1 July 2012 |
| Rate | | 5.5% | 5.45% | 4.90% | 4.75% | 4.95% | 5.50% | 6.10% | 6.85% |
| Thresholds | | | | | | | | | |
| - | Annually | $750,000 | $750,000 | $550,000 | $1,100,000 | $600,000 | $1,500,000 | $1,250,000 | $1,750,000 |
| - | Monthly | $62,500 | n.a. | $45,833 | $91,666 | $50,000 | $125,000 | n.a. | $145,833 |
| - | 28 day month | n.a. | $57,534 | n.a. | n.a. | n.a. | n.a. | $95,890 | n.a. |
| - | 30 day month | n.a. | $61,644 | n.a. | n.a. | n.a. | n.a. | $102,740 | n.a. |
| - | 31 day month | n.a. | $63,699 | n.a. | n.a. | n.a. | n.a. | $106,164 | n.a. |

**a** Employers will receive a Payroll Tax rebate (paid between 1 July 2013 and 30 June 2015) for new positions created between 10 December 2012 and 30 June 2014, and maintained until 30 June 2015.

**Source:** Australian Revenue Offices. (2014), Payroll Tax Australia. Available from: http://www.payrolltax.gov.au/ [Accessed 7 February 2014]

## 2.2 Land Tax

Land Tax was introduced in Western Australia in 1907-08 and is levied on the aggregated unimproved value of taxable land owned at midnight on the 30 June immediately preceding the (financial) year of assessment.

While a number of exemptions are in place, Land Tax is generally payable on land that is used for commercial purposes, vacant but owned, or a place of residence that is not utilised by the owner. Land Tax is calculated at the entity level, not on the land parcel level,[26] and payable on the taxable value of the land and a progressive rate.[27]

Land Tax is payable annually by the land owner and is collected under the *Land Tax Assessment Act 2002* and *Land Tax Act 2002*, which are administered by the Commissioner of State Revenue. The unimproved value of land is declared annually by the Valuer-

[26] If one business owns two separate titled parcels of land that are worth $250,000 each, the total value that the business is liable for is $500,000. If Land Tax was levied at the parcel level, the business would not be liable for Land Tax as the taxable value of each parcel does not exceed the lower threshold.

[27] Chamber of Commerce and Industry of Western Australia (2013). CCI's submission to the ERA Inquiry into Microeconomic Reform – CCI Advocacy, September.

General.[28] According to data provided by Landgate the total unimproved value of land in Western Australia in 2012-13 was $308 billion.

### 2.2.1 Rate of tax

The Land Tax scale has changed considerably in Western Australia over the past two decades. In June 1995 the minimum and maximum thresholds were $10,000 and $1,000,000 respectively. The minimum threshold remained at $10,000 until 2002, where it was steadily increased over the period 2002-08 to today's threshold of $300,000. The maximum threshold is $11 million.

In 2003-2004, the number of rate thresholds was reduced from nine to five.[29] In 2005-06, there was a change in how Land Tax is levied; instead of being levied on the total value of land once the exemption threshold is reached. Before this change, Land Tax was levied on the portion of the aggregate taxable value of land above the exemption threshold. The rates of taxation in each of the land value bracket were increased by 12.5% each in 2013-14.

The Land Tax rates are relatively low compared to other jurisdictions (see section 2.2.4), especially for low values of unimproved land. For example, a property with an unimproved value of $1,000,000 will pay $700 in Land Tax.

The same tax rate scale is applied to all types of owners (e.g. individuals, companies etc.). However, the tax base is narrow. Tax expenditures ($393 million[30]) are equal to 70% of revenue collected ($568 million).

The Land Tax rates applied are listed in the Table 2.

**Table 2 Land Tax scale for the financial year 2013-14**

| Taxable value of land | Land Tax payable |
|---|---|
| 0 – 300,000 | Nil |
| 300,001 – 1,000,000 | 0.10 cents per $1 above $300,000 |
| 1,000,001 – 2,200,000 | $700 and 0.53 cents per $1 above $1,000,000 |
| 2,200,001 – 5,500,000 | $7,060 and 1.37 cents per $1 above $2,200,000 |
| 5,500,001 – 11,000,000 | $52,270 and 1.64 cents per $1 above $5,500,000 |
| Over 11,000,000 | $142,470 and 2.43 cents per $1 above $11,000,000 |

**Note:** The applicable Land Tax rate is reviewed annually (based on financial year) as part of the State Budget review process.

[28] Western Australia Government - Department of Treasury (2013). Overview of state taxes and royalties 2012-13, March, p. 27.

[29] Western Australia Department of Finance. Land Tax Rates - Archived

[30] Tax expenditure for Land Tax and MRIT.

**Source:** Government of Western Australia Department of Finance (n.d.). Land Tax rates. Available online: http://www.finance.wa.gov.au/cms/content.aspx?id=239. [Accessed 12 February 2014].

### 2.2.2 Exemptions and concessions

Land Tax exemptions apply to principal places of residence (with a provision for a second home exemption under transitional circumstances), and land used in primary production, such as mining and agriculture.

Exemptions are also available for caravan parks and for land owned by religious bodies, charitable or not-for-profit organisations, retirement villages, public hospitals, universities and other educational institutions, provided that the land is used for their own purposes and not leased to business tenants.

Concessions are available for property developers and for primary production businesses that do not meet the income test for a full exemption – thus a partial exemption is available. Specifically;[31]

- In 1995-96, the primary production exemption was extended to land used by the owner for the purpose of breeding horses. Also, a 50% concession was provided to certain primary producers who do not meet a 'one third of net income from primary production' test; and
- In 1996-97, a concession was introduced for land developers by applying the Land Tax scale to the 'en globo' (un-subdivided) value of property. The land developers' concession was removed from the 2003-04 Land Tax year and reintroduced in 2009-10.

### 2.2.3 Land Tax collection

Land Tax accounts for 8% of total WA tax revenue. Western Australia.[32]

The past 10 years of tax revenue collected by the Western Australian Government from Land Tax is shown in Figure 3. The growth in revenue shows a high degree of volatility with annual growth rates varying from -5% to 35% over the period. The fall in revenue in 2009-10 was in part the result of a policy introduced by the State Government in July 2009 of limiting the annual growth in unimproved land values to 50%. The policy was intended to moderate the impact of future increases in Land Tax.

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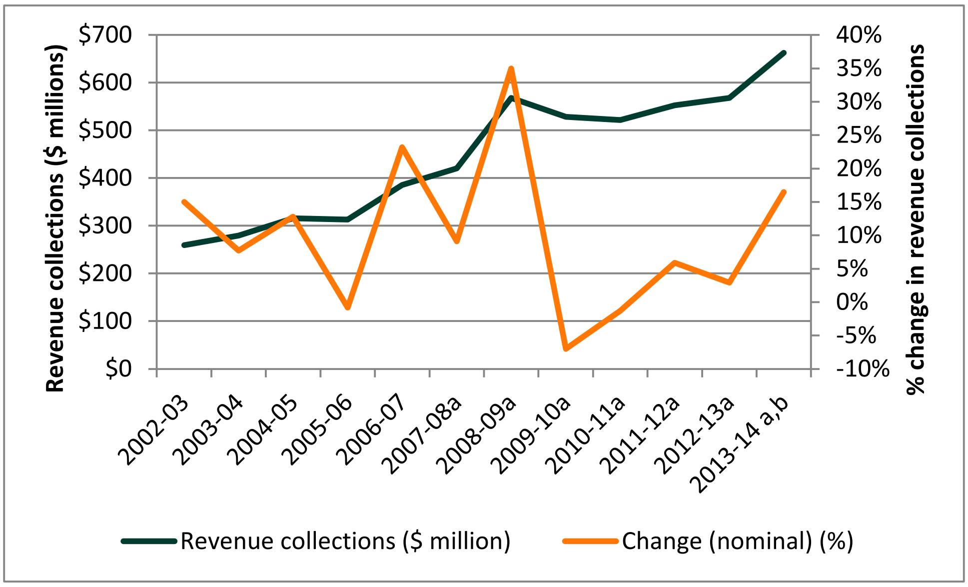
31 Western Australia Government Department of Treasury (2014). Overview of state taxes and royalties 2013-14, February, p. 32.

32 This includes revenues from the MRIT.

Figure 4 illustrates the percentage change in revenue collections and the percentage change in GSP between 2002-03 and 2013-14. The correlation between GSP and Land Tax is less clear than the correlation between GSP and Payroll Tax. While GSP remained flat over the period of difficult economic conditions between 2008-09 and 2010-11, the revenues from Land Tax collections increased significantly in 2007-08 and 2008-09 before the drop in revenue collected in 2009-10.

**Figure 3 Land Tax collections in Western Australia**

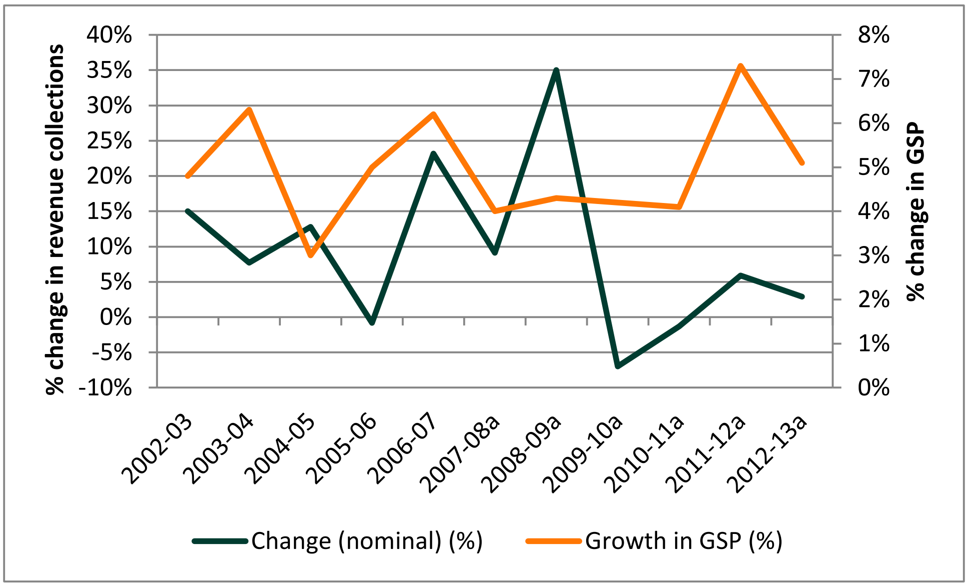



**a** Figures from 2007-08 onwards are consistent with AASB 1049 accounting standards, which differ slightly from the previously reported GFS standards for most taxation items (mainly due to no longer netting-off refunds and rebates from tax revenue).

**b** Estimates based on the 2013-14 Government Mid-year Financial Projections Statement.

**Source: Western Australia Government - Department of Treasury. (2014). Overview of state taxes and royalties, February, p. 33.**

**Figure 4 Percentage change in Land Tax revenue collections and GSP**




**a** Figures from 2007-08 onwards are consistent with AASB 1049 accounting standards, which differ slightly from the previously reported GFS standards for most taxation items (mainly due to no longer netting-off refunds and rebates from tax revenue).

**b** Estimates based on the 2013-14 Government Mid-year Financial Projections Statement.

**Note:** GSP data are chain volume measures.

**Source (revenue collection): Western Australia Government Department of Treasury. (2014). Overview of state taxes and royalties, February, p. 33.**

**Source (GSP): Australian Bureau of Statistics (2013). 5220.0 Australian National Accounts: State Accounts, Table 1. Gross State Product, Chain volume measures and current prices.**

### 2.2.4 Interstate comparison

The rates in the Table 4 are based on the general Land Tax scales that apply to properties in each jurisdiction. WA's Land Tax rates are lower than in other jurisdictions for aggregated unimproved values of taxable land of up to $5.5 million. However, for values over $11 million the rate is the second highest of the maximum rates. The differences in Land Tax payable between jurisdictions are illustrated in Table 3.

Table 3 Inter-jurisdictional comparison of Land Tax payable

| Land Value ($) | Western Australia ($) | Australian average ($) | Western Australia as % of Australian average |
|---|---|---|---|
| 100,000 | 0 | 155 | 0% |
| 200,000 | 0 | 348 | 0% |
| 300,000 | 0 | 639 | 0% |
| 400,000 | 100 | 1,146 | 9% |
| 500,000 | 200 | 1,961 | 10% |
| 1,000,000 | 700 | 7,707 | 9% |
| 3,000,000 | 18,020 | 42,810 | 42% |
| 5,000,000 | 45,420 | 82,438 | 55% |
| 10,000,000 | 126,070 | 186,817 | 67% |
| 15,000,000 | 239,670 | 295,903 | 81% |

**Note:** Western Australia refers to the 2013-2014 Land Tax Scale.

**Source:** Western Australia - Department of Treasury (2013). Overview of Taxation Revenue Measures Fact Sheet. p. 28

Table 4 Land Tax scales across jurisdictions (general comparison)

| | WA[a] | NSW[b] | Vic | Qld | SA | TAS | ACT[c] | NT |
|---|---|---|---|---|---|---|---|---|
| Min threshold | $300,001 | $412,000 | $250,000 | $600,000 | $316,001 | $25,000 | $0 | Not Levied |
| Max threshold | $11.0 m | $2.519 m | $3.0 m | $5.0 m | $1.052 m | $0.35 m | $0.275 m | |
| Min tax rate | 0.10% | 1.60% | 0.20% | 1.00% | 0.50% | 0.55% | 0.60% | |
| Max tax rate | 2.43% | 2.00% | 2.25% | 1.75% | 3.70% | 1.50% | 1.80% | |

**a** From 1 July 2013 Land Tax rates in Western Australia increased by around 12.5%.

**b** For the 2014 Land Tax (calendar) year the minimum threshold increased from $406,000 to $412,000 and the maximum threshold increased from $2.482 million to $2.519 million. The thresholds are determined suing the past three-year average of 'indexed' land values in New South Wales.

**c** Land Tax liability is assessed quarterly for all properties.

**Source:** Western Australia Government Department of Treasury. (2014). Overview of state taxes and royalties, February, p. 28.

New South Wales, Victoria and Queensland also apply different tax scales to commercial properties or properties owned by non-concessional companies and special trusts. Western Australia, South Australia and Tasmania apply the general scales to all types of property and ownership.

## 2.3 Metropolitan Region Improvement Tax

The Metropolitan Region Improvement Tax (MRIT) was introduced in 1959-60 and is levied upon the aggregated unimproved value of all land, which is both liable for Land Tax and located within the boundaries of the metropolitan region.[33]

The metropolitan region includes the local governments of: Armadale, Bassendean, Bayswater, Belmont, Cambridge, Canning, Claremont, Cockburn, Cottesloe, East Fremantle, Gosnells, Joondalup, Kalamunda, Kwinana, Melville, Mosman Park, Mundaring, Nedlands, Peppermint Grove, Perth, Rockingham, Serpentine-Jarrahdale, South Perth, Stirling, Subiaco, Swan, Victoria Park, Vincent and Wanneroo.[34]

MRIT collections are hypothecated to a trust fund for expenditure by the Western Australian Planning Commission on road reserves, parks and recreation areas. MRIT is collected under the *Metropolitan Region Improvement Tax Act 1959*, which is administered by the Commissioner of State Revenue.

### 2.3.1 Rate of tax

The MRIT is applied at 0.14 cents for every $1 (equivalent to 0.14%) for unimproved land values above the exemption threshold of $300,000.[35]

### 2.3.2 Exemptions and concessions

The conditions to exemptions and concessions for the MRIT are similar to that for Land Tax in Western Australia.

### 2.3.3 MRIT collections

The past 10 years of tax revenue collected by the Western Australian Government from MRIT is shown in Figure 5. As with the Land Tax, revenue collections from MRIT dropped in 2009-10. This may be a result of the policy introduced by the State Government in July 2009 of limiting the annual growth in unimproved land values to 50%.

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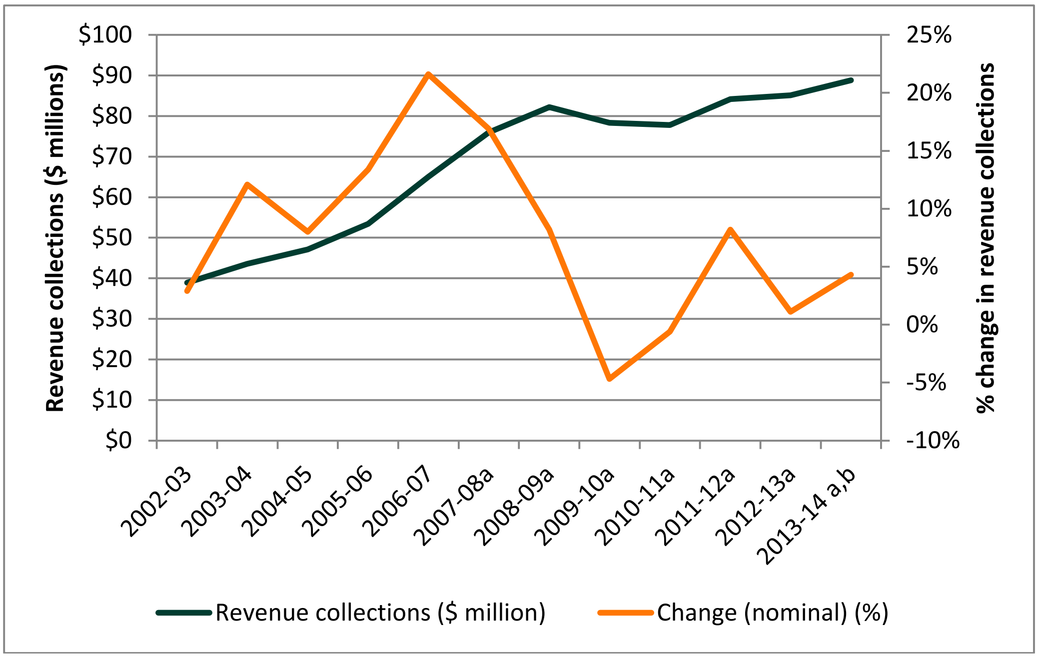
[33] Western Australia Government - Department of Treasury (2013). Overview of state taxes and royalties 2013-13, March, p. 34.

[34] Government of Western Australia - Department of Finance (n.d.). What is MRIT?. Available online: http://www.finance.wa.gov.au/cms/content.aspx?id=241. [Accessed 12 February 2014].

[35] Government of Western Australia - Department of Finance (n.d.). Land Tax rates. Available online: http://www.finance.wa.gov.au/cms/content.aspx?id=239. [Accessed 12 February 2014].

Figure 6 illustrates the percentage change in revenue collections and the percentage change in GSP between 2002-03 and 2013-14. The MRIT revenue collections and GSP appear to follow similar patterns.

**Figure 5 MRIT collections in Western Australia**

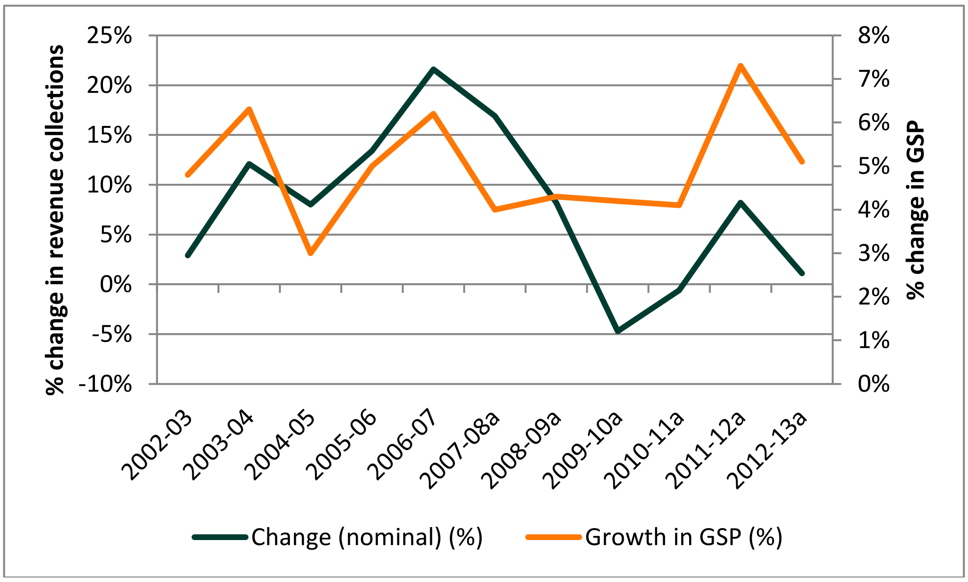



**a** Figures from 2007-08 onwards are consistent with AASB 1049 accounting standards, which differ slightly from the previously reported GFS standards for most taxation items (mainly due to no longer netting-off refunds and rebates from tax revenue).

**b** Estimates based on the 2013-14 Government Mid-year Financial Projections Statement.

**Source: Western Australia Government Department of Treasury. (2014). Overview of state taxes and royalties, February, p. 35.**

**Figure 6 Percentage change in MRIT revenue collections and GSP**



**a** Figures from 2007-08 onwards are consistent with AASB 1049 accounting standards, which differ slightly from the previously reported GFS standards for most taxation items (mainly due to no longer netting-off refunds and rebates from tax revenue).

**b** Estimates based on the 2013-14 Government Mid-year Financial Projections Statement.

**Note:** GSP data are chain volume measures.

**Source (revenue collection): Western Australia Government Department of Treasury. (2014). Overview of state taxes and royalties, February, p. 35.**

**Source (GSP): Australian Bureau of Statistics (2013). 5220.0 Australian National Accounts: State Accounts, Table 1. Gross State Product, Chain volume measures and current prices.**

### 2.3.4 Interstate comparison

Victoria levies an annual Metropolitan Improvement Levy (Parks Charge) on all metropolitan properties. Collections are hypothecated to a trust fund for expenditure on parks, gardens, waterways and zoos.

For residential properties, the levy is based on the Net Annual Value, which is currently legislated to be 5% of the full value (both house and land) of the property. For commercial properties, the Net Annual Value is 5% of the full value of the property or the council-determined equivalent rent, whichever is greater.

The rate of tax charged is 0.412% of the Net Annual Value, with a minimum charge of $66.80 (indexed periodically).

No metropolitan improvement tax is levied in the other States and Territories.[36]

## 2.4 Transfer Duty on residential conveyances

Transfer Duty is a form of property tax. This tax is levied on the purchaser of a dutiable property[37]for the transfer of property as prescribed in *Duties Act 2008*. Transfer Duty applies to four types of property acquisition:

(a) Business – normally charged at general rate[38];

(b) residential property – charged at the residential rate[39];

(c) interest in a partnership – charged at the general rate; and

(d) leases – apply at the general rate when a consideration has been paid for.

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[36] Western Australia Government - Department of Treasury. (2014). Overview of state taxes and royalties, February p 34.

[37] The Western Australian Government defines a dutiable property as: land in Western Australia; a right; chattels in Western Australia; and Western Australian business assets. Source: Western Australia Department of Finance. (2014). Available online: http://www.finance.wa.gov.au/cms/content.aspx?id=2059. [Accessed 12 February 2014].

[38] For more information on the general rate, see http://www.finance.wa.gov.au/cms/content.aspx?id=2063. [Accessed 12 February 2014].

[39] In accordance with Chapter 2 Part 6 Division 4A of the *Duties Act 2008*.

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However, for the purpose of this report, the focus is on Transfer Duty levied on residential conveyances. Chapter 2 of the *Duties Act 2008* defines residential property as[40]:

- principal places of residence (i.e. owner occupied homes);
- rental homes;
- holiday homes;
- land on which a residence is constructed within five years of the date on which liability to duty on the transaction arose; and
- properties that are only partly used as a residence (i.e. a restaurant with a residence above it).

### 2.4.1 Rate of tax

The Transfer Duty rates are listed in Table 5. Properties subject to the general rate pay a higher rate of Transfer Duty.

**Table 5 Transfer Duty tax scale – residential rate**

| Value of dutiable property | Rate of Duty |
|---|---|
| $0 to $120,000 | $1.90 per $100 or part thereof |
| $120,001 to $150,000 | $2,280 and $2.85 per $100 above $120,000 |
| $150,001 to $360,000 | $3,135 and $3.80 per $100 above $150,000 |
| $360,001 to $725,000 | $11,115 and $4.75 per $100 above $360,000 |
| Above $725,000 | $28,453 and $5.15 per $100 above $725,000 |

**Source:** Government of Western Australia – Department of Finance. Rate of duty under the *Duties Act 2008*. Available online: http://www.finance.wa.gov.au/cms/content.aspx?id=2079. [Accessed 12 February 2014].

The rate depends on the value of the dutiable property and is applied according to a progressive scale.

### 2.4.2 Exemptions and Concessions

In WA, a concessional rate of Transfer Duty known as the 'First Home Owner Rate of Duty' is available for a person who is eligible for the First Home Owner Grant[41].

[40] Government of Western Australia – Office of State Revenue. (2012). Transfer of residential property. Available online: http://www.finance.wa.gov.au/cms/uploadedFiles/_State_Revenue/Duties/Transfer-of-residential-property-11-October-2012.pdf?. [Accessed 12 February 2014].

[41] For eligibility criteria to the First Home Owner Grant, see http://www.finance.wa.gov.au/cms/content.aspx?id=379#Who is eligible for the grant. [Accessed 12 February 2014].

The First Home Owner Rate of Duty applies where value for a house and land does not exceed $600,000, or does not exceed $400,000 for vacant land. The specific rates applicable are shown in Table 6.

**Table 6 Applicable First Home Owner Rate of Duty**

| Dutiable value | Rate of Duty |
|---|---|
| *If the property includes a home* | |
| $0 - $500,000 | Nil |
| $500,000 - $600,000 | $22.51 per $100 and any fractional part of $100 by which the dutiable value exceeds $500,000. |
| *For vacant land* | |
| $0 - $300,000 | Nil |
| $300,000 - $400,000 | $13.01 per $100 and any fractional part of $100 by which the dutiable value exceeds $300,000. |

**Source:** (1) Government of Western Australia – Department of Finance. Available online: http://www.finance.wa.gov.au/cms/content.aspx?id=2011. [Accessed 12 February 2014]. (2) Government of Western Australia – Office of State Revenue. (2008). First Home Owner Rate of Duty Fact Sheet. Available online: http://www.finance.wa.gov.au/cms/uploadedFiles/_State_Revenue/Duties/First_Home_Owner_Rate_Of_Duty.pdf [Accessed 12 February 2014].

### 2.4.3 Transfer Duty collection – for residential properties

Revenue data for residential Transfer Duty is not publicly available. As such, assumptions have been made on the relative proportions of residential and non-residential conveyances. According to the State Tax Review undertaken in 2006, owner-occupier purchasers amount to around 37% of the conveyance duty base.[42] REIWA data also suggests that around 20% of purchases are for investment purposes.[43]

Based on these statements, residential conveyances are assumed to make up 46.25% of the total Transfer Duty base.[44] Under this assumption, Transfer Duties on residential properties account for 9% of the total WA tax revenue.[45]

Figure 7 presents the Transfer Duty on residential conveyance collected for all types of dutiable properties. The large drop in revenue collected from transfer duties in 2008-09

42 Government of Western Australia Department of Treasury and Finance (2006). State tax review – interim report, May 2006, p. 174. Available from: http://www.treasury.wa.gov.au/cms/uploadedFiles/StateTaxReview_InterimReport.pdf [Accessed 26 February 2014].

43 Based on advice from WA Treasury.

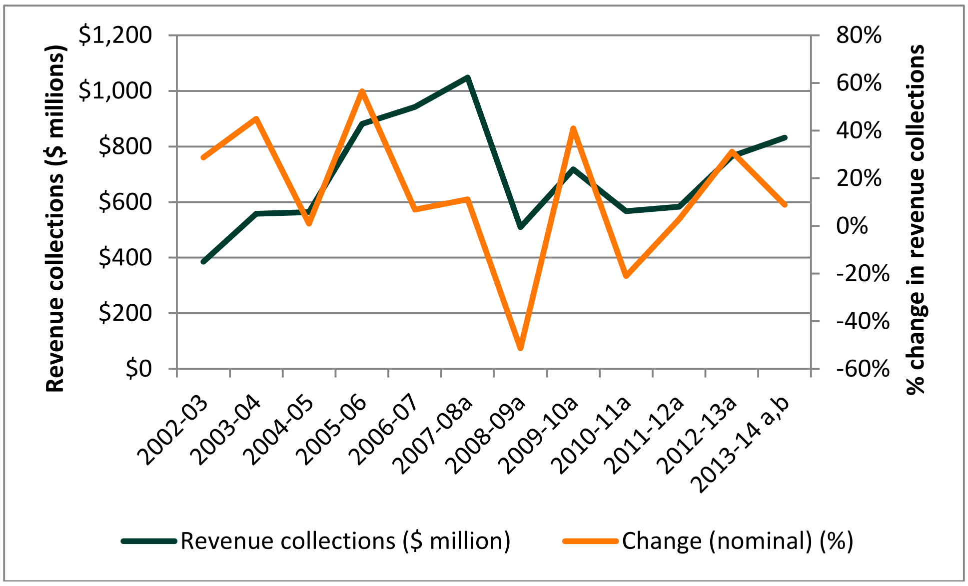
44 Owner-occupier purchases: 37%, Investor purchases: 9.25%.

45 Numbers for total State tax revenue and Transfer Duty revenue have been retrieved from the 'Overview of state taxes and royalties 2013-14' published by the Western Australia Government - Department of Treasury, p 2.

may be partly due to the decision to exclude land-rich duty after 2008-09.[46] Also, the concessional scale for residential properties was introduced in that same year.

Generally, the graph shows that Transfer Duties are an unstable source of revenue. The tax base is determined by both the price and number of properties that are being transferred, which are variables that can fluctuate significantly over time.

**Figure 7 Transfer Duty collections in Western Australia**




**a** Figures from 2007-08 onwards are consistent with AASB 1049 accounting standards, which differ slightly from the previously reported GFS standards for most taxation items (mainly due to no longer netting-off refunds and rebates from tax revenue).

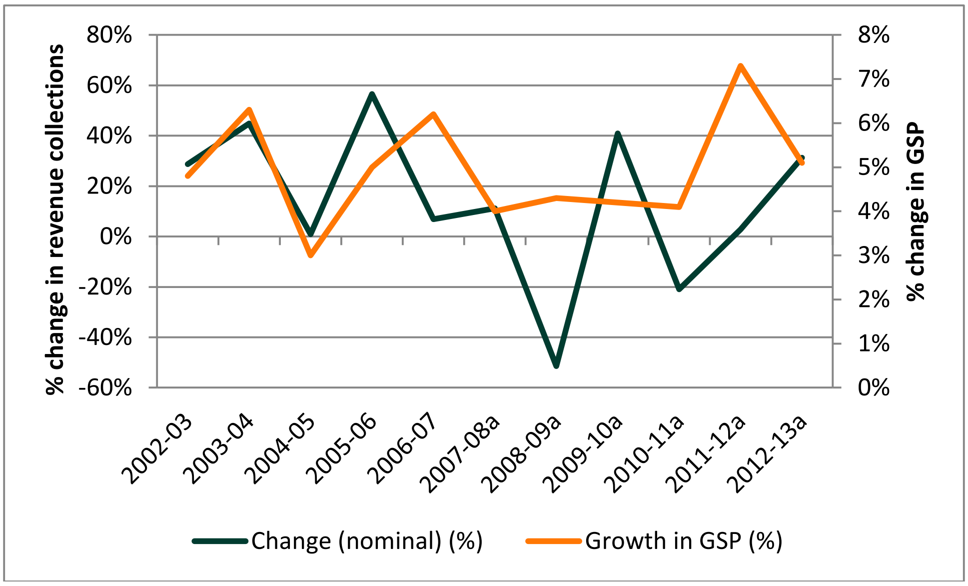
**b** Estimates based on the 2013-14 Government Mid-year Financial Projections Statement.

**Source: Western Australia Government Department of Treasury. (2014). Overview of state taxes and royalties, February, p. 20.**

Figure 8 shows that GSP and revenue collections from Transfer Duty followed similar patterns from 2002-03 to 2006-07. However, from 2007-08 there has been no apparent similarity in the movements of the two series.

[46] The land-rich duty was replaced by a landholder-duty model in 2008-09.

**Figure 8 Percentage change in Transfer Duty revenue collections and GSP**




**a** Figures from 2007-08 onwards are consistent with AASB 1049 accounting standards, which differ slightly from the previously reported GFS standards for most taxation items (mainly due to no longer netting-off refunds and rebates from tax revenue).

**b** Estimates based on the 2013-14 Government Mid-year Financial Projections Statement.

**Note:** GSP data are chain volume measures.

**Source (revenue collection): Western Australia Government Department of Treasury. (2014). Overview of state taxes and royalties, February, p. 20.**

**Source (GSP): Australian Bureau of Statistics (2013). 5220.0 Australian National Accounts: State Accounts, Table 1. Gross State Product, Chain volume measures and current prices.**

### 2.4.4 Interstate comparison

Differences exist between jurisdictions in the definition of residential property, and Transfer Duty exemptions and concessions to the different sub-types of residential property. Therefore, for simplicity, Table 7 provides interstate comparisons of Transfer Duty based on duty scales applicable to transfers of principal place of residence.

**Table 7 Current Transfer Duty scales across jurisdictions – based on residential conveyance for principal place of residence**

| | Western Australia[a] | New South Wales | Victoria | Queensland | South Australia | Tasmania | Australian Capital Territory[f] | Northern Territory[i] |
|---|---|---|---|---|---|---|---|---|
| Min threshold ($) | - | - | - | - | - | - | - | - |
| Max threshold ($) | 725,001 | 3,000,001 | 960,001[c] | 1,000,001 | 500,001 | 725,001 | 1,000,001 | 3,000,000 |
| Min rate (%) | 1.50[b] | 1.25 | 1.40 | 1.00 | 1.00 | 1.75[e] | 2.20[g] | 1.50[j] |
| Max rate (%) | 5.15 | 7.00 | 5.50[d] | 5.75 | 5.50 | 4.50 | 5.50[h] | 5.45 |

**a** Western Australia's concessions extend to residential rental properties and vacant residential land where building commences within 5 years.

**b** A concessional rate applies to principal places of residence valued at less than $200,000.

**c** A concessional rate applies to principal places of residence valued between $130,000 and $550,000.

**d** For properties valued between $440,000 and $960,000, the marginal Transfer Duty rate is 6%.

**e** Duty of $50 applies for values below $3,000.

**f** From 5 June 2013 the ACT revised all rates and introduced a new maximum threshold of $1,650,001.

**g** Applicants who comply with certain eligibility criteria pay nominal duty of $20 for newly constructed principal places of residence, and vacant land on which a principal place of residence will be built valued below $435,000. Eligible applicants purchasing a new or substantially renovated property valued between $435,000 and $535,000 pay concessional duty of 18.85% of the amount above $435,000. This concession applies to transactions entered into between 1 January 2014 and 30 June 2014.

**h** For properties valued between $1,000,000 and $1,650,000 the marginal Transfer Duty rate is 7% and for properties valued between $750,001 and $1,000,000 the marginal Transfer Duty rate is 6.5%. From 5 June 2013 a flat rate of 5.5% was introduced for properties valued at $1,650,001 and over.

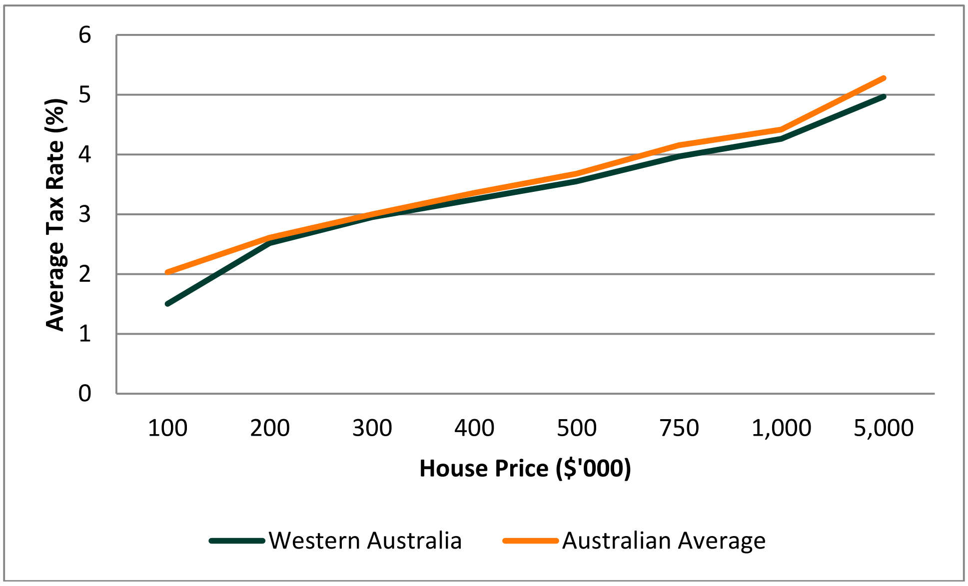
**i** A concession of up to $7,000 is available to eligible buyers purchasing a newly built principal place of residence or vacant land on which a principal place of residence will be built. This concession is not available to first homebuyers or buyers eligible for the Senior, Pensioner, and Carer Concession.

**j** For conveyances valued at $525,000 or less, duty is derived from the formula D = (0.06571441*(V^2))+15V, where D = duty payable in $ and V = value of property transferred divided by $1,000. For conveyances valued between $525,000 and $3 million, duty is 4.95% of the property value. For values of $3 million or more, duty is 5.45% of the property value.

**Source:** Western Australia Government Department of Treasury. (2014). Overview of state taxes and royalties, February, p. 13.

Figure 9 demonstrates how average rates of residential Transfer Duty in Western Australia compare to other jurisdictions. As is clear from the graph, the rates in Western Australia lie at a slightly lower level than the average rate across all jurisdictions.

**Figure 9 Average Tax Rate of Residential Transfer Duty on Principle Place of Residence, 2013-14**




**Data source: Department of Treasury Western Australia (2014). Overview of State Taxes and Royalties 2013-14. p. 14.**

## 2.5 Summary

The characteristics of the taxes described in the previous section can be summarised as follows:

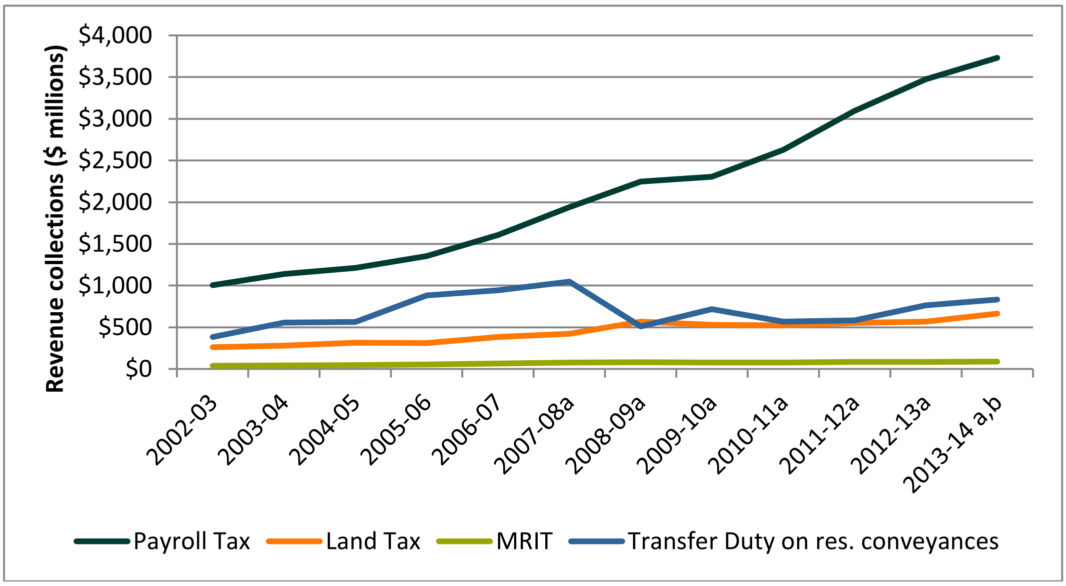
- Payroll Tax is levied on wages paid or payable by an employer when its total Australia-wide wages exceed $750,000 per annum. A rate of 5.5% is levied on each dollar above the tax-free threshold;

- Land Tax is levied on the aggregated unimproved value of land using a progressive rate scale;
- MRIT is a Land Tax levied on the aggregated unimproved value of land within the boundaries of the metropolitan region. A rate of 0.14% is levied on each dollar of land values above $300,000; and
- Transfer Duty is a tax on property, levied on the purchaser of a dutiable property. Transfer Duties have a progressive rate scale.

The revenue collected from Payroll Tax, Land Tax, MRIT and Transfer Duty on residential conveyances is shown in Figure 10. There has been a strong, relatively stable growth in Payroll Tax revenue since 2002-03. Fluctuations in revenue collections over this period are likely to be a result of changes in economic conditions, as there have been only minor changes to the tax settings over this period.

Transfer Duty on residential conveyances has shown a higher degree of volatility compared to the other three taxes over the period. In general, Transfer Duty is less stable source of revenue as it depends on the price and number of properties that are being transferred, which can fluctuate significantly over time. Land Tax and MRIT revenue collections have increased over time, but at a lower rate than Payroll Tax. As these are narrow-based taxes, the revenue collected is a relatively small proportion of total State tax revenue.

**Figure 10 Revenue collections, 2002-03 to 2011-12**



**a** Figures from 2007-08 onwards are consistent with AASB 1049 accounting standards, which differ slightly from the previously reported GFS standards for most taxation items (mainly due to no longer netting-off refunds and rebates from tax revenue).

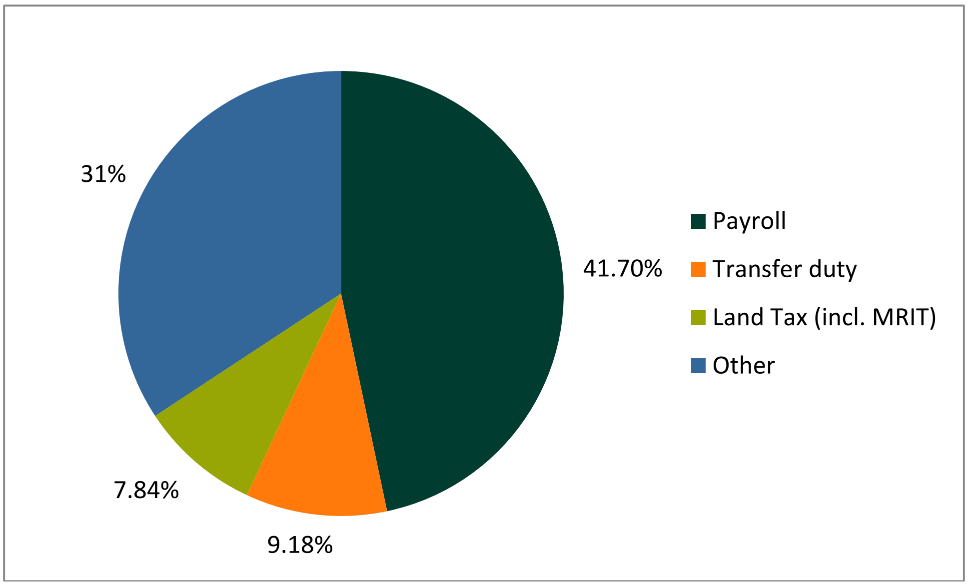
**b** Estimates based on the 2013-14 Government Mid-year Financial Projections Statement.

**Note** Transfer Duty on residential conveyances is assumed to amount to 46.25% of the total conveyance base.

**Source: Western Australia Government Department of Treasury. (2014). Overview of state taxes and royalties, February.**

Figure 11 illustrates the relative proportions of total State tax revenue attributable to Payroll Tax, Land Tax, MRIT and Transfer Duty on residential conveyances. Payroll Tax is the most significant contribution to State revenue (42%), while Land Tax (including MRIT) and Transfer Duty on residential conveyances contribute smaller amounts (8% and 9% respectively).

**Figure 11Payroll Tax, Transfer Duty and Land Tax as proportion of total tax revenues**




**Notes:** Transfer Duty on residential conveyances is assumed to amount to 46.25% of the total conveyance base.

**Data source**: Western Australia Government - Department of Treasury. (2014). Overview of state taxes and royalties 2013-14, February p 2.

# 3 Frameworks for Tax reform

The analytical framework for the review of tax systems comprises a number of elements:

- the principles that determine the composition and role of taxes in a tax system;
- the design of individual taxes within the system; and
- the approach to assessing the impacts of changes.

## 3.1 Principles for tax frameworks

In setting out the framework for an improved Australian taxation system, the Henry Review articulated key principles for the design of a 21st century tax framework.[47]

- the tax system must be capable of raising sufficient revenue to fund the expenditure required for future governments;
- revenue should be raised from taxes that are least detrimental to economic growth and that support a diverse economic structure;
- the transfer system, together with progressive personal taxation, should be the predominant means through which the government influences the distribution of income in the economy;
- policy settings should be coherent and reflect a greater emphasis on simplicity and transparency than is presently evident;
- policy design should be integrated with technology to raise revenue efficiently, enhance social outcomes through tax design and improve the experience of people and business in interacting with the system;
- the design of the system and the assignment of revenue within the federation should support effective government and clear accountability of governments to citizens; and
- the design and governance of the system should ensure that the benefits of reform are enduring.[48]

[47] Commonwealth Treasury. (2009). Australia's future tax system – the Henry Review. Part 2 detailed analysis, volume 1, December, p. 217.

[48] Commonwealth Treasury. (2009). Australia's future tax system – the Henry Review. Part 2 detailed analysis, volume 1, December, p. 217.

To summarise, the overall framework of a tax system should be able to raise sufficient revenue while minimising behavioural and administrative distortions and be sufficiently transparent so that government is accountable to its citizens.[49] A number of the above principles are appropriate for the assessment framework for State taxes.

Also, the functions a tax is expected to perform should be considered in the design of a tax system. In most cases, the fundamental objective of taxation is to raise revenue to fund Government expenditure. However, certain taxes are introduced with the objective to correct market failure, whereby costs external to the market mechanism – such as pollution and congestion - are not included in the market price. In these instances taxes are applied to allocate resources more efficiently.

The objective of the three taxes analysed in this report; stamp duty on residential conveyances, Land Tax and Payroll Tax, is to raise Government revenue. There are a large number of concessions available for each of the three taxes. These concessions serve subsidiary economic and social policy objectives.

## 3.2 Principles of tax design

In addition to assessing a tax system as a whole, it is necessary to evaluate the performance of each tax.

There is a wide consensus in the literature on three main principles that should underlie the design of a tax, namely:

- equity
- simplicity
- efficiency.

Equity relates to the fairness of a tax in its relative treatment of individuals. The ability of States to affect redistributive goals is limited; the principal policy instrument for affecting income distribution is the social welfare system that is administered by the Commonwealth Government. Equity considerations are excluded from the Terms of Reference for this study and will not be factored into the analysis.

According to the principle of simplicity, the tax ought to be easy and relatively inexpensive to comply with and administer. A simple tax makes it easier for people to understand their obligations and entitlements, and thus reduces the compliance costs

49 Commonwealth Treasury. (2009). Australia's future tax system – the Henry Review. Part 1 overview, December, p. 23.

imposed on taxpayers and the administrative costs on governments.[50] Until recent times, the operating costs (administration and compliance) of taxation have received far less scholarly attention compared to efficiency costs. This is especially true for Australia, with no significant studies on operating costs published prior to 1990. However throughout the recent literature, a set of findings have become broadly accepted. Namely, compliance costs are high and significant, compliance costs are regressive[51] and compliance costs are not reducing over time.[52]

Compliance costs tend to be more significant for the main central government taxes such as personal income tax, GST and corporate income tax, while compliance costs for property taxes and excise taxes are comparatively low. Overall, the studies suggest that compliance costs are much more significant than administrative costs, with compliance costs typically being larger by a factor of two to six.[53]

The regressive nature of compliance costs is due to the significant economies of scale enjoyed by larger firms in managing tax compliance, and the somewhat fixed nature of compliance costs. Small businesses face substantial learning and set up (of compliance systems) costs in identifying tax liability, and may not be able to amortise this cost across multiple transactions as a large firm could.[54] In addition, large firms are better able to maintain a high level of tax compliance expertise in-house, while small businesses may need to engage external consultants.[55] As an example of the higher compliance costs faced by small businesses, in 1994-95 the compliance cost per dollar of turnover for small businesses were 25 times greater than their medium sized counterparts.[56] The regressivity of compliance costs was further demonstrated by a report by the European Commission in 2004, which found that compliance costs for large companies (250 employees or more) were 0.02% of sales and 2% of total tax paid, while for small and medium sized businesses (less than 250 employees), compliance costs were 2.6% of sales and 31% of total tax paid.[57]

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50 Commonwealth Treasury. (2009). Australia's future tax system – the Henry Review. Part 1 overview, December, p. 17.

51 That is, compliance costs are relatively smaller for large firms compared to small firms.

52 Evans, C. (2006). Counting the costs of taxation: an exploration of recent developments. pp. 1,9,

53 Evans, C. (2006). p. 9.

54 Evans, C. (2006). p. 9

55 Board of Taxation. (2007). Scoping study of small business tax compliance costs

56 Evans, C. (2006). p. 9.

57 European Commission. (2004). Taxation Papers; European Tax Survey.

The final point of consensus in the literature is that compliance costs are persistent and not declining over time, despite attempts by governments to reduce the burden faced by taxpayers.[58]

It should be noted that these studies are now somewhat dated and the impact of simplified electronic payments on compliance costs may have reduced compliance costs.

There are two factors that drive the level of compliance costs in a taxation system. The first of those factors is change. Frequent changes in existing legislation or introduction of new legislation place significant transitionary learning costs on those liable to pay the tax. The second factor is complexity, which involves the comprehensibility, interpretation and application, and required record keeping and form filling of a taxation system. [59]

The 1998 Productivity Commission's report, Directions for State Tax Reform, also offered a number of factors which affect compliance costs, most of which fall under the category of complexity. The report stated that compliance costs are higher:[60]

- where taxpayers are required to fill out a return as opposed to paying an assessment;
- when payment is more frequent (monthly versus quarterly);
- where modification of record keeping procedures is required to comply with the tax; and
- where the definitions for tax purposes differ between States  or those used by the Commonwealth.

While compliance and administration costs are often seen as a cost to business or government, as with the tax itself, these costs are ultimately borne by individuals. Compliance costs may be passed on to consumers or employees. Administration costs add to the amount of revenue that must be raised to meet expenditure requirements.[61]

The economic efficiency of a tax system has been, and continues to be, the primary concern of the literature of optimal taxation. The standard theory of optimal taxation suggests that a tax system should be designed to minimise the efficiency losses

58 Evans, C. (2006) p. 9.

59 Evans, C. (2006) p. 10.

60 Producivity Commission (1998) Directions for State Tax Reform

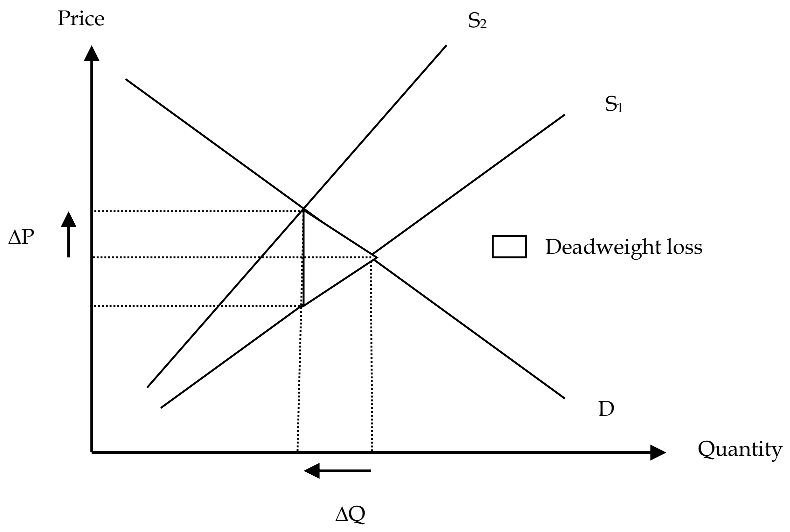
61 NSW Treasury (1999) The Case for Payroll Tax. p. 14.

(associated with almost all taxes) for any given tax revenue or level of public expenditure.[62]

Taxes alter or 'distort' market prices to the extent that they affect behaviour. To give an example of the distortion, which can occur from the introduction of a tax, Figure 12 shows the potential impact of an ad valorem[63] income tax on the supply of labour.

As shown in the graph, the tax prompts an upwards-pivotal shift in supply of labour from $S_1$ to $S_2$, leading to higher prices (wages) and a lower quantity of labour supplied. The efficiency cost [64] caused by the tax is shown by the hatched area.

**Figure 12**




**Note:** This is a hypothetical example. The size of the deadweight loss will depend on several factors, such as the size of the tax, the elasticity of supply of labour, and the elasticity of demand for labour.

All taxes affect the choices people and businesses make by altering their incentives to work, save, invest or consume things of value to them. Therefore all taxes can affect economic efficiency. The goal is to minimise the impact on economic decisions.

Joseph E. Stiglitz, a Nobel laureate in economics, describes flexibility and political responsibility as properties of a "good" tax system in addition to the three properties described above.[65] Flexibility refers to the ease with which the tax system can respond to

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62 Sandmo, A (1976) Optimal taxation: An introduction to the literature, Journal of Public Economics 6, pp. 37-54.

63 An ad valorem tax is specified as a percentage of value, such that the tax paid increases with the value of what is being taxed.

64 The welfare loss is a combination of lower aggregate utility for the workers and lower aggregate profits for the firms.

65 Stiglitz, J.E. (1988) Economics of the public sector, 2nd edition, W. W. Norton and Company Ltd.

changes in economic circumstances. Political responsibility is tightly linked with transparency and refers to the ability of individuals to ascertain what they are paying.

The Henry Review of Australia's taxation system (the Henry Review) also considered sustainability as a core principle of tax design.

In terms of sustainability, the Henry Review emphasised that the tax system should have the capacity to meet the changing revenue needs of government on an on-going basis. Sustainability can only be achieved if the structural features of the system are durable in changing economic conditions, yet flexible enough to allow governments to respond as required. Legal and administrative institutions and frameworks should also be robust to maintain the effectiveness of the system and underpin the legitimacy of the system.[66]

As a background to the analysis of reform options for Land Tax, Payroll Tax and stamp duty on residential conveyances, it is important to have an understanding of the characteristics of each tax, including its economic incidence and the extent to which it causes deadweight losses and compliance and administration costs.

In terms of economic incidence (i.e. who really pays the tax), it has long been understood that the person or entity legally obliged to remit a tax may not be the person, or the only person, whose income or consumption opportunities are altered. The distribution of the burden of a tax can also vary over time as markets adjust.[67] It is generally accepted that the burden of a tax will fall to a greater extent on:

- a person consuming a product or owning a factor of production for which the demand or supply is unresponsive to a change in its price;
- a person consuming a product with no ready substitutes; or
- a person owning a factor of production that is relatively immobile.

However, there has been less agreement about the extent to which tax shifting occurs between producers and consumers, and where the burden of most taxes ultimately rests. However, the Henry Review is of the view that in a small open economy like Australia's, where capital and products can move relatively freely between Australian and overseas markets, the burden of most taxes ultimately is likely to fall largely on Australian residents.[68]

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66 Commonwealth Treasury. (2009). p. 17.

67 Commonwealth Treasury. (2009). p. 19.

68 Commonwealth Treasury. (2009). p. 20.

In order to minimise deadweight losses to improve economic efficiency, a tax should support productivity through the efficient allocation of investment and productive resources to their most highly valued uses. To achieve this, the Henry Review recommended the widespread implementation of a broad based tax.[69] The reasoning behind this recommendation was that taxes with a broader base allow for a lower rate of taxation while still raising sufficient revenue and minimising distortionary impacts. When products are taxed at the same rate, relative prices are unaffected and there will be a lower impact on the decisions of individuals and businesses. On the contrary, narrowly based taxes are more useful where there is an identified problem (such as market failure) such that the tax can specifically improve a particular resource allocation activity.

Empirical studies on OECD countries[70] have shown that changes to certain tax bases afford greater efficiency than others (see Table 8). It can be seen that efficiency gains are achieved by moving income tax to recurrent taxes on immovable properties. Given this, there should be a lighter tax burden on more mobile tax bases (such as investment) and higher tax burden on immovable properties (such as land and commercial buildings).

**Table 8 Long-run percentage change in GDP per capita from a revenue-neutral shift of 1 per cent in tax revenues – selected OECD countries**

| Shift in tax mix | Estimated change in GDP (%) |
|---|---|
| From income tax to consumption taxes | + 0.74 |
| From income tax to recurrent taxes on immovable property | + 2.47 |
| From consumption and property taxes to personal income taxes | - 1.13 |
| From consumption and property taxes to corporate income taxes | -2.01 |

**Note:** Johansson et al. (2008) note that while the size of the estimated effects are large compared to what would be reasonably expected, the tax base rankings are robust to a large number of robustness and alternative specifications. Further, other studies have found similarly high point estimates.

**Source:** Johansson, A, Heady, C, Arnold, J, Brys, B & Vartia, L. (2008). Tax and economic growth, OECD Economic Department Working Paper no. 620, OECD, Paris.

### 3.2.1 Payroll Tax

Payroll Tax is designed to tax the value-added from labour. It is similar to the labour component of the Australian Government's personal income tax and the goods and services tax in the sense that these taxes all generate revenue by reducing the real return from working.

69 Commonwealth Treasury. (2009). p. 18.

70 Johansson, A, Heady, C, Arnold, J, Brys, B & Vartia, L. (2008). Tax and economic growth, OECD Economic Department Working Paper no. 620, OECD, Paris.

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Whether the burden of Payroll Tax falls on the employer or the employee depends on the relative elasticity of capital and labour. In the long-run, supply of capital is more mobile than supply of labour. As a consequence, labour tends to bear the burden of Payroll Tax rather than capital owners.

While a comprehensive Payroll Tax can be efficient in principle (due to the immobility of labour), tax-free thresholds and other exemptions for Payroll Taxes result in inefficiencies.

Payroll Tax, in its current form distorts the following economic decisions:

- threshold exemptions may provide incentive for businesses to remain small;
- the distortion caused by the threshold can be amplified due to the possible necessity to use a higher marginal rate to achieve revenue targets;[71]
- a narrow-based tax may distort the composition of employment, as some workers are likely to leave businesses that pass on the additional cost to the workers and seek higher wages in exempt businesses. Exemptions therefore introduce biases into the allocation of labour;
- Payroll Tax effectively increases the cost of labour to businesses which affect the optimal mix of factors of production, thus producing an efficiency loss to the economy, as shown in Figure 12; and
- the effective decrease in real wage encourages workers to substitute labour for leisure (although this would be true even for a comprehensive Payroll Tax).

For the purpose of informing the Henry Review, the Treasury commissioned KPMG Econtech to undertake a Computable General Equilibrium (CGE) analysis of the Australian tax system.[72] The analysis computes excess burdens (hereafter 'efficiency costs')[73] of Australian taxes, modelling State taxes at the national level using a weighted average of the regimes across the States.

The marginal efficiency cost (MEC) and average efficiency cost (AEC) of Payroll Tax in its current form were estimated to be 41 cents and 22 cents per dollar of revenue raised respectively. MEC can be interpreted as the extra loss in welfare for an extra dollar of tax

71 VIC Department of Treasury and Finance. (2001). Review of State Business Taxes. p. 66

72 KPMG Econtech (2010) CGE Analysis of the Current Australian Tax System.

73 Excess burden is a term used to describe the cost of distortions resulting from tax (alternatively the 'deadweight loss'). For consistency throughout the report, the term 'efficiency cost' is used in place of excess burden.

revenue raised,[74] while AEC can be interpreted as the welfare loss per dollar of tax revenue currently raised.[75]

A revenue neutral uniform Payroll Tax was also modelled. It was found to be more efficient than the current Payroll Tax system, with an AEC of 13 cents.[76] These findings are much higher than previous estimates by the Productivity Commission 1998[77] (MEC of 3-12) and Han 1998[78] (MEC of 11). The reason for this discrepancy is that the MM900 model used by KPMG takes into account the costs arising from the non-uniform application of the tax, while the other studies only use the lower average Payroll Tax rate.

It should be noted that although threshold exemptions distort business decisions in regard to growth, they are thought to offer some type of protection to small business. Small business groups argue that thresholds play an important role in encouraging market entry and combating the economies of scale enjoyed by larger competitors. However, the size of the tax liability is likely to be dominated by other economic variables and in practice not offer an effective practice from competition.

It is also argued that the revenues that would be raised by levying Payroll Tax on small business would be too low relative to the resulting administration and compliance costs.[79] The Chamber of Commerce and Industry of Western Australia (CCI) is one such group that argues for the threshold to be raised in order to protect small business.

Additionally, complexity of the Payroll Tax (e.g. in regard to exemptions and calculation of payroll amounts) results in unnecessary compliance costs for businesses, especially those with employees in several States. For example, compliance and administration costs for the NSW Payroll Tax system in 1999 were estimated to be 3.6% and 0.2% of Payroll Tax revenues respectively. A 1993 national study also found that compliance costs for Payroll Tax were 3.6% of revenues.[80] At the time, these costs compared favourably with other state and Commonwealth taxes, such as personal income tax

74 For example, a MEC of 20c means that if tax revenues are increased by $1, welfare will fall by 20c. KMPG Econtech calculated the MEC by modelling a 5% increase in tax revenues.

75 For example, if the AEC is 15c and tax revenues are $100,000, the total welfare loss to society will be $15,000. KMPG Econtech calculated the AEC by modelling the abolition of the tax, then comparing the increase in welfare to the lost tax revenues.

76 KPMG Econtech. (2010). CGE Analysis of the Current Australian Tax System

77 Productivity Commssion. (1998). Directions for State Tax Reform

78 Han, S-H. (1998). Efficiency Costs of State Taxes

79 WA Department of Treasury and Finance. (2002). Review of State Business Taxes. p.20.

80 Pope, J., Fayle, R. and Chen, D.L. (1993) The Compliance Costs of Employment- Related Taxation in Australia.

(10.8% of revenues) and company tax (22.9% of revenues).[81] The Queensland Chamber of Commerce and Industry found a similar result in their 1996 survey, which found that Payroll Tax had the second highest compliance cost per year ($4,640), second only to company tax ($20,217).[82]

However, Lignier and Evans (2012) found that the average time that small businesses spent on Payroll Tax annually had increased by almost twofold during the period 1995-2010.[83] This finding suggests that compliance costs for the Payroll Tax system have increased in recent times, and is in line with the consensus that compliance costs are not decreasing.

The Henry Review recommends that State Payroll Taxes should be replaced with more broad-based taxes that more efficiently capture the value-add of labour. Examples of such taxes are a broad-based wages tax or a cash flow tax.[84] The Productivity Commission made a similar recommendation in suggesting that Payroll Tax be replaced by a state-based surcharge on income tax or a share of Commonwealth value-added taxes.[85]

### 3.2.2 Land Tax

A Land Tax can potentially be a highly efficient and more stable tax due to the immobility of the tax base.[86] Immobility, and the fixed supply of land, limit the possibility of the tax being passed on to other groups within the economy and instead force the incidence of the tax to fall on existing landowners.

Land value tax can be efficient because – despite reducing the value of the land – it does not affect how much, or how land is used. For example, since the land value tax does not apply to the value of the buildings on the property the tax does not affect the owner's decision to invest in the productivity of their land.[87]

Unlike taxes on mobile resources such as capital and labour, which will affect decisions on the level of utilisation of these production factors, a Land Tax only affects the price of

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81 NSW Treasury (1999), p. 14.

82 Queensland Chamber of Commerce and Industry. (1996). Regulatory Compliance Costs and Other Burdens, A Survey Report.

83 Lignier, P., Evans, C. (2012) The rise and rise of tax compliance costs for the small business sector in Australia, p. 629.

84 The cash flow tax would be a broad-based single rate tax on the difference between businesses' cash inflows and outflows.

85 Productivity Commission (1998).

86 Commonwealth Treasury (2009), p. 48.

87 Commonwealth Treasury. (2009). p. 247.

the underlying land. The more (less) people are willing to pay to use land, the higher (lower) the value of the land.

The Henry Review concluded that the taxes on land (including the Land Tax, Transfer Duty, and MRIT) could be improved by broadening the land value tax base to the extent that it eventually includes all land, as a narrow land value tax base creates both equity and efficiency distortions.[88] When broadly applied across all uses of land, the introduction of a land value tax should not affect whether the land is used for agriculture, housing, or manufacturing – and thus ensure resources are allocated to their best use.[89] Effectively, broadening the tax base makes the land value tax fall on the land owner's 'economic rent'[90].

A number of policy implications from broadening the land value tax were identified in the Henry Review.[91] Firstly, it is the owners of existing land that bear the burden of land value tax in the form of a one-off fall in land values when the tax is introduced. Subsequent landowners may remit land value tax, but they do not bear the expected value of the tax liability since the land was lower by the estimated value of these payments when they bought it. This is relevant for how Land Tax reform interacts with other tax reforms and the design of transitional schemes.

Secondly, Land value tax does not apply to the value of a property attributable to buildings and other forms of capital improvements. By not taxing improvements on land, Land Tax does not affect the owner's decision to invest in the productivity of their land. Instead, only the economic rent from the land is taxed. By levying a land value tax, the community effectively shares in the benefit that would otherwise flow to the landowner.

Thirdly, to be efficient land value tax must have few (if any) exemptions. The efficiency benefits of land value tax depend on the base being broad. Land value tax is efficient because land is fixed in supply. The only substitute for land is other land. However, exemptions from land value tax provide some choice to owners of land on what to do with their land (and whether to be liable for Land Tax or not).

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88 Commonwealth Treasury. (2009). p. 48.

89 Commonwealth Treasury. (2009). p. 248.

90 Economic rent is the return to the owner above that needed to keep the land in its current use. That is, it is the return once the owner has been compensated for the capital and labour they employ on the land. Economic rent therefore flows from the efforts of others, or simple luck (i.e. economic rent earned as surrounding land increases in economic activity).

91 Commonwealth Treasury. (2009). p. 250.

If landowners can choose to use their land in an exempt activity and not pay Land Tax, the supply of taxable land is no longer fixed. This means that users of land subject to land value tax will need to share some of the tax liability if they want to use the land. When this occurs, the incidence of Land Tax does not fall only on the holders of land – it also falls on the users of the land. A narrow land value tax may therefore be relatively inefficient.

The results of KPMG Econtech's modelling confirm that while Land Tax is relatively efficient, the thresholds and exemptions that characterise the current Land Tax system are introducing inefficiencies. The MEC and AEC were estimated to be 8 cents and 6 cents per dollar of tax revenue raised. It is noted in the modelling report that these results are likely to be underestimates, given that the model does not completely model the progressivity of Land Tax. A uniform Land Tax was also modelled, which in line with optimal taxation theory had an AEC of 0.[92]

The Henry Review also emphasised that tax rates for taxes on land should be based on the value of a given property, so that the tax does not discriminate between owners or uses of land. A tax-free threshold based on the per-square-metre value of the land could be set such that there would be no tax liability on most agricultural and other low-value land. Higher-value land could be taxed at differentiated rates based on the per-square-metre value of the land.[93]

*Metropolitan Region Improvement Tax (MRIT)*

As MRIT is a variation to the Land Tax, it is subject to the same arguments in terms of efficiency and simplicity.

Although Victoria also has a form of MRIT in the Parks Charge, it is charged on top of water, sewerage and drainage bills. Western Australia collects MRIT as a surcharge on Land Tax. This results in businesses that are subject to both receiving a bill with separate lines for what amounts to a single tax. The MRIT is also a narrowly based tax, in so far as it applies to businesses in particular local government areas and the notional revenue raised by this funds infrastructure and other developments that benefit both MRIT-payers and non-MRIT-payers.[94]

While the process of determining the taxable value of land (utilising the Valuer-General's "Unimproved Value" assessment, including the ability for taxpayers to

92 KPMG Econtech. (2010).

93 Commonwealth Treasury. (2009). p. 49.

94 Chamber of Commerce and Industry of Western Australia. (2013). CCI's submission to the ERA Inquiry into Microeconomic Reform – CCI Advocacy, September.

dispute the assessment) is sound, particularly when compared to other states and territories, reforms that seek to make Land Tax liabilities more predictable for tax payers are desirable. The State Government's current policy of limiting the increase in land values between years to 50%, introduced on 1 July 2009, was a step in the right direction, but can still result in significant year-to-year increases in tax liabilities.[95]

An arguably more effective method of smoothing out the fluctuations in the size of the tax impost would be to calculate the tax liability based on the moving average value of land. This would have two benefits; tax liability and revenue would be more predictable for taxpayers and government, and higher revenues would not be sacrificed when land values spike - the timing of receipts would simply change. The CCI supports the use of a three-year moving average land valuation method.[96]

In addition to supporting a moving average method of land valuation, the CCI recommends that MRIT be incorporated into Land Tax, arguing there is no case to have two types of Land Tax. They are also in support of a simpler single rate and threshold system, with the threshold low enough to ensure that the vast majority of land in Western Australia is liable for the tax.[97]

The Master Builders Association of Western Australia (MBA) "sees substantial commercial and economic merit in moving from the current stamp duty-based to a broad Land Tax based system of property taxation".[98] The MBA argues the current narrow base of Land Tax, due to the exemption of all residential property, means that the rate of tax is higher than it would be under a broad based system. The higher rate is then passed forward through higher rental charges to tenants and higher prices for goods and services produced on tax liable sites. According to the MBA, the progressive nature of Land Tax discourages investors from engaging in large-scale residential housing developments, resulting in an inefficient use of the existing land stock. Further, the MBA highlights the high cost to large investors of Land Tax as a proportion of rental income from a residential property (from 10% in Perth to 31% in Adelaide).[99]

### 3.2.3 Transfer Duty on residential conveyance

Transfer Duties are a significant source of revenue for the States and was introduced largely due to its simplicity in terms of collection (as it is levied on the sale price which

[95] Chamber of Commerce and Industry of Western Australia. (2013).

[96] Chamber of Commerce and Industry of Western Australia. (2013).

[97] Chamber of Commerce and Industry of Western Australia. (2013).

[98] Master Builders Association of Western Australia. (2013). Draft Position Statement on Land Tax vs Stamp Duty. p. 4.

[99] Master Builders Association of Western Australia. (2013).

is easily observable) and administration. However, the Henry Review identifies Transfer Duty as an inefficient tax and an unstable source of revenue.

According to the Henry Review:

> Transaction taxes [...] are generally inefficient because the tax rate rises according to how often an asset changes hands, rather than any underlying economic value. There is no 'economic base' for transaction taxes. [100]

Although a simple tax to collect (because it is levied on the sale price), Transfer Duty is considered inefficient because it distorts behaviour by:[101]

- creating the possibility for people to avoid stamp duties by choosing not to sell or buy properties;
- discouraging transactions of commercial and residential property;
- discouraging investments into property improvement as it is levied on the sale price; and
- discouraging the elderly to downsize their principal place of residence (and thus possible implications for freeing up properties in inner metropolitan areas for redevelopment to meet State Government's policy of higher density).

Transfer Duties are an unstable source of revenue because the tax base is determined by both the price and number of properties that are being transferred. These are variables that can fluctuate significantly over time.

For example, revenue from transfer duties on conveyances in WA (residential and non-residential) fell from $2.3b in 2007-08 to $1.1b in 2008-09, representing a fall of more than 50%.[102] These fluctuations create significant difficulties in forecasting revenues and budgeting state expenditures.

The disincentive that transfer duties place on moving can have a substantial impact on the utilisation of the existing housing stock. Residents may choose to remain in a property too large or too small for their needs, leading to inefficiencies in the distribution of housing. They may also decide to renovate or extend an existing residence, which can have adverse environmental impacts and contribute to over-capacity of the housing stock.[103]

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100 Commonwealth Treasury. (2009). p. 49, p. 305.

101 Commonwealth Treasury. (2009). p. 49.

102 Commonwealth Treasury. (2009). p. 254.

103 Commonwealth Treasury. (2009). p. 255

The negative relationship between transfer duties and housing turnover has significant economic and social consequences outside of property-related issues. Labour mobility may be impeded by workers deciding not to relocate to areas with skill shortages because of the increased costs of moving. This can have follow-through effects on both employment and productivity. Related to this, they may choose to commute longer distances to work – leading to added pressure on transport and infrastructure networks.[104] Further, first home buyers may find it more difficult to gain access to the housing market due to the increased upfront cost caused by Transfer Duty. However, it can be argued that this cost can be capitalised and paid off over time (with an interest payment).[105]

The MEC and AEC of conveyancing duties were estimated by KPMG Econtech to be 34 cents and 31 cents per dollar of tax revenue raised. It should be noted that these estimates were for total conveyancing duty, including both residential and commercial. KPMG Econtech noted that due to the complex distortions caused by conveyancing duties, such as the distortion between renting and buying housing, placed a downward bias on the modelled efficiency costs.[106]

Due to the above arguments, the Henry Review concludes that:

> Ideally, there would be no role for any stamp duties, including conveyancing stamp duties, in a modern Australian tax system.[107]

The conclusions made in the Henry Review regarding the inefficiency of transfer duties are supported by earlier reviews, such as the Independent Pricing and Regulatory Tribunal's (IPART) 2008 report on NSW state taxation. Although purchaser Transfer Duty is a major source of NSW state taxation revenue, IPART concluded that its poor efficiency and robustness warranted the reduction of reliance on transfer duties into the future. Of particular note was the failure to index the nominal rate scale to keep pace with property prices – which had resulted in strong Transfer Duty revenue growth (from 1.9% of property value in 1987 to 3.6% in 2007).[108] As with the Henry Review, IPART found transfer duties to be relatively simple to comply with and administer.[109]

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[104] Van Ommerman, Van Leuvensteijn. (2005). Effect of Transaction Costs . p. 699.

[105] Independent Pricing and Regulatory Tribunal. 2008. p. 62.

[106] KPMG Econtech. (2010).

[107] Commonwealth Treasury. (2009). p. 49, p. 263.

[108] Real Estate Institute, NSW Treasury. (2008).

[109] Independent Pricing and Regulatory Tribunal. 2008. pp. 61-63.

The CCI also emphasises the disadvantages of Transfer Duties, arguing that these are inefficient and distortionary as they are based on transactions. They suggest the key areas for reform in the short term should be to update Transfer Duty scales to reflect current property values, and the simplification of the scale through the reduction of the number of rates and thresholds. In the long term, the CCI supports the introduction of a broad based Land Tax to fund the phasing out Transfer Duties.

The MBA accepts the Henry Review's assessment of the inefficiency of transfer duties. In their submission to the ERA Inquiry into Microeconomic Reform, particular concern was given to the lack of indexation of Transfer Duties to keep pace with house prices. Over the years 1998-2003, growth in Transfer Duty on a median house outpaced growth in house prices by a factor of 1.6 nationally and 2.3 in Perth.[110] In addition, the MBA highlights inconsistencies between state Transfer Duty scales and concessions, and the susceptibility of Transfer Duty revenues to swings in the housing cycle as sources of inefficiency.[111]

## 3.3 Assessment Approach

There are two general approaches to assessing the impacts of changes to a tax system; Computable General Equilibrium (CGE) approach and Partial Equilibrium approach. A general equilibrium approach utilises CGE models, which a class of macroeconomic models used to analyse changes in the economy as a result of policy change (or other factors). These models capture indirect impacts on the economy as a result of a direct impact, such as an amendment to the tax system. CGE models acknowledge that a change to one area of the economy will flow through to other area of the economy due to the inter-connectedness of markets.

A Partial Equilibrium approach only analyse the direct impacts of a change to a tax. While it is important to capture all impacts on the economy from a change in the structure of the tax system (both direct and indirect) CGE modelling is expensive and time consuming. Partial Equilibrium analysis is considered sufficient for an initial analysis. However, if options are to be taken further, CGE modelling of the impacts will be necessary.

## 3.4 Recommended Framework

With regard to the principles of tax design (as discussed in section 3.2) the emphasis of this review is to investigate potential areas for redesign and reform of the existing tax

110 Productivity Commission. (2004). Inquiry Report on First Home Ownership

111 Master Builders Association of Western Australia. (2013).

system in WA is to increase economic efficiency and reduce compliance and administrative costs.

Because these three taxes comprise such a large proportion of the tax base (60%)[112], it is necessary to evaluate any changes in the context of the performance of the overall tax system. For this we adopt the principles for a modern tax system recommended by the Henry Review to a state tax context:

- the tax system must be capable of raising sufficient revenue to fund the expenditure required for future governments;
- revenue should be raised from taxes that are least detrimental to economic growth and that support a diverse economic structure;
- tax bases should target less mobile factors of production and be broad based;
- redistribution of income should be limited within a State tax system;
- taxes should have clear and non-contradictory objectives and design should focus on simplicity and transparency;
- policy design should be integrated with technology to raise revenue efficiently and improve the experience of people and business in interacting with the system;

Individual taxes will be assessed according to the following principles of tax design:

- Efficiency
- Simplicity
- Sustainability.

The framework for analysing the tax changes will be a Partial Equilibrium approach. Recommended options will be constrained by revenue neutrality, autonomy of Western Australia to implement the changes and the prevailing political economy.

112 Payroll Tax: 43.8%; Land Taxes: 7.8%; Transfer Duty on residential conveyances: 8.8% (assuming residential transfer Duties make up 46.25% of the total conveyance base).

# 4 Options

The objective of this study is to examine options that achieve significant gains in efficiency and simplicity while maintaining the existing levels of tax revenue. There are many smaller changes that could be made to the existing structure of each tax to make it more efficient and simple. Such 'housekeeping' changes were not considered because the object of this report is to assess significant reform of the WA tax system. This report only considers the significant reforms that can be undertaken unilaterally by Western Australia.

Recall from earlier in the report that a major tax reform should:

- be revenue neutral;
- conform with the principles of good tax design because there is no point in changing to a less efficient tax; and
- be able to be implemented by the WA Government without the need for agreement by other jurisdictions.

Western Australia also had a larger number of taxes prior to the implementation of *The Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the Goods and Services Tax (GST) Agreement), signed by Commonwealth and State and Territory First Ministers on 9 April 1999. The options will not consider reintroducing taxes abolished under the GST agreement because they would not result in a more efficient tax system.

The options are therefore limited in terms of new more efficient taxes to replace the existing taxes.

There are broadly three strategies available for the reform of these taxes:

- broaden the base and lower the rate of all three taxes to increase their efficiency;
- greater reliance on efficient taxes and reduce or abolish the inefficient taxes; and
- introduce a new broad based tax to replace or reduce the rate of less efficient taxes.

## 4.1 Broaden the base and lower the rate

This reform option broadens each tax base by removing all concessions and exemptions identified by WA Treasury in its Statement of Tax Expenditures published annually in the Western Australian Budget Papers. The broader tax base will involve a large increase in taxpayers but because of the size of existing concessions relative to current tax collected it will facilitate a significant fall in the tax rate. A major fall in the tax rate will result in a significant fall in the efficiency cost to the WA economy. Against this improvement in efficiency there will be an increase in efficiency costs for activities previously untaxed. It should be noted that it is very likely that firms and households exempt from paying taxing are in all likelihood affected by the efficiency costs. The key changes to be assessed are:

- remove all concessions and exemptions for Payroll Tax and reduce the rate;
- remove all concessions on Land Tax and reduce the rate;[113] and
- remove all concessions on Transfer Duty on residential conveyances and reduce the rate.

## 4.2 Greater reliance on efficient taxes

This reform option changes the tax mix in favour of more efficient taxes. The literature review identified Payroll Tax and Land Tax as the taxes with the most potential for efficiency gains and sustainability improvements. The rate reductions will necessarily be smaller than the base broadening option because greater revenue is required from these two taxes to abolish residential Transfer Duty. For this tax smaller efficiency gains for Payroll Tax and Land Tax are traded off against the increased efficiency from abolishing Transfer Duty. The key changes to be assessed are:

- remove all concessions on Land Tax and raise the rate retaining a progressive scale;[114]
- remove all concessions on Payroll Tax and lower the rate; and
- abolish Transfer Duty.

## 4.3 Introduce a new broad based tax

This reform introduces a new broad based tax into the tax mix and uses the revenue to abolish Payroll Tax and Transfer Duty on residential property. Concurrently the Land Tax base is broadened and the rate increased slightly. This option removes two unpopular taxes and replaces it with a broad based tax. A state based Personal Income Tax could be implemented unilaterally by Western Australia but it will be costly to establish and administer and add additional compliance burden on business. These costs

[113] Under this reform option it is also assumed that concessions will be removed from MRIT. However, the MRIT rate will remain the same.

[114] Under this reform option it is also assumed that concessions will be removed from MRIT. However, the MRIT rate will remain the same.

can be significantly reduced if WA can enter into an agreement with the ATO to integrate the tax into its existing tax administration arrangements for income tax. The key changes to be assessed are:

- introduce a State Based Income Tax;
- abolish Transfer Duty;
- abolish Payroll Tax; and
- remove all concessions on Land Tax and increase the rate retaining a progressive scale.[115]

## 4.4 Analysis of options

The analysis of the options considers how the changes would improve the tax system in general and then analyses the impact for each tax. The analysis begins with the changes introduced by each tax.

### 4.4.1 Broadening the tax bases

The key changes are summarised in Table 9.

**Table 9 Broadening the tax bases - summary of change**

| | Pre-change | | | Post-change | | |
|---|---|---|---|---|---|---|
| | **Payroll Tax** | **Transfer Duty** | **Land Tax** | **Payroll Tax** | **Transfer Duty** | **Land Tax** |
| Gross Revenue ($m) | $3,475.70 | $764.84 | $568.20 | $3,854.40 | $764.84 | $580.20 |
| Net Revenue ($m) | $3,475.70 | $764.84 | $568.20 | $3,475.70 | $764.84 | $568.20 |
| Proportion of tax revenue | 41.70% | 9.18% | 6.82% | 41.70% | 9.18% | 6.82% |
| Size of tax Base ($m) | $63,194.55 | Info not available | Info not available | $98,985.45 | $33,940.71 | $380,302.45 |
| Tax rate | 5.50% | See Table 10 | See Table 11 | 1.91% | See Table 10 | See Table 11 |
| Number of tax payers | 12,178.00 | Info not available | Info not available | 221,956.00 | 71,611.00 | 988,549.00 |

**Note:** Assumptions underpinning the numbers are given in Appendix A

**Table 10 Residential Transfer Duty rate scale**

| Value of dutiable property | Rate (Pre-change) | Rate (Post-change) |
|---|---|---|
| $0 to $120,000 | 1.90% | 0.90% |

115 Under this reform option it is also assumed that concessions will be removed from MRIT. However, the MRIT rate will remain the same.

| Value of dutiable property | Rate (Pre-change) | Rate (Post-change) |
|---|---|---|
| $120,001 to $150,000 | 2.85% | 1.34% |
| $150,001 to $360,000 | 3.80% | 1.79% |
| $360,001 to $725,000 | 4.75% | 2.24% |
| Above $725,000 | 5.15% | 2.43% |

**Note 1:** The reform option results in a uniform reduction in the rates across the scale of 52.9%

**Note 2:** Assumptions underpinning the numbers are given in Appendix A

**Table 11 Land Tax rate scale**

| Value of land | Rate (Pre-change) | Rate (Post-change) |
|---|---|---|
| 0 – 300,000 | 0.00% | 0.00% |
| 300,001 – 1,000,000 | 0.10% | 0.02% |
| 1,000,001 – 2,200,000 | 0.53% | 0.12% |
| 2,200,001 – 5,500,000 | 1.37% | 0.32% |
| 5,500,001 – 11,000,000 | 1.64% | 0.38% |
| Over 11,000,000 | 2.43% | 0.57% |

**Note 1:** The reform option results in a uniform reduction in the rates across the scale of 76.6%.

**Note 2:** Assumptions underpinning the numbers are given in Appendix A

This option meets most of the criteria of an optimal tax system at least as far as the three taxes being considered. It will significantly move the WA tax system to a broad based low rate structure that has not been achieved in any other jurisdiction to date.

The taxes are applied to immobile or relatively immobile tax bases. Labour is a somewhat mobile factor of production but the remoteness of WA relative to the eastern states provides it with a natural barrier to the mobility of labour.

The removal of all concessions clarifies that the sole purpose of each tax is to raise revenue.

The challenge of this option is the large increase in the number of taxpayers and the challenge this might initially present for tax collection costs and compliance costs.

The major benefits of this option are:

- The tax structure is more efficient because lower rates reduce the economic costs of the tax.
- The removal of thresholds allows firms and households to hire labour and buy and sell property without facing very high marginal tax rates that discourage labour force expansion and turnover in property markets.
- Removing concessions also means that factor cost and transaction costs are not distorted by differences in tax rates. The argument for exempting public sector agencies and benevolent organisations supported by government is that it avoids

the costs of collecting revenue and then distributing the revenue to the same agencies it was collected from. From a wider economic perspective, exempting public sector agencies (and benevolent agencies) makes the cost of labour relatively lower for the exempted firms compared to taxpaying firms. It creates a bias in input decisions in favour of labour compared to other factors of production.

- The purpose of each tax is unambiguously to raise revenue. This allows other industry and social policy objectives to be provided and assessed transparently.

The major costs of this option are:

- There will be a large increase in the number of taxpayers that enter the tax base. To minimise collection and compliance costs this is likely to require investment in collection systems to minimise collection and, equally important, compliance costs. These costs would have once been prohibitive but the widespread deployment of electronic payments and lodgement systems makes this potentially manageable. A detailed assessment of the benefit and costs of maintaining a threshold due to the collection and compliance costs would need to be prepared before this option was implemented.

### *Assessment of change to individual taxes*

#### *Payroll Tax*

This option aims to change Payroll Tax from a narrowly based inefficient tax to a broadly based low rate tax. By broadening the base, the rate could be reduced from 5.5% to 1.9%. This will significantly reduce the efficiency cost of Payroll Tax. A rule of thumb for assessing the impact on the efficiency costs of tax rate changes is that the efficiency costs of a tax increase by the square of the change in a tax rate.[116] That is a 5% change in the rate results in a 25% increase in the efficiency costs of the tax. This is why broader based taxes with low tax rates are essential for an optimal tax system.

This report provides an indication of the potential reduction in efficiency costs. Detailed economic modelling is required to form more robust estimates. In general, the indicative potential savings were formed by using the estimates of the average efficiency cost (AEC) of taxes reported in the previous section. For payroll tax, removing exemptions and concessions could yield efficiency benefits of $900 million per annum.

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[116] This result derives from simplifying assumptions about the characteristics of demand and is appropriate for marginal tax changes. It is a rule of thumb only and not a substitute for detailed modelling of the impacts of major tax reforms. See, Creedy, J. 2003. The Excess Burden of Taxation and Why it (Approximately) Quadruples When the Tax Rate Doubles, New Zealand Treasury Working Paper, 03/29.

The tax is now applied to all labour in the economy. Because exemptions existed for public sector entities the additional revenue will be offset against the increased cost to government. The argument for the concession is that the concession is efficient because it avoids the costs of collecting revenue and then distributing the revenue to the same agencies it was collected from. This argument is correct if there were no other distortions created by not taxing public sector agencies. From a wider economic perspective, exempting public sector agencies (and benevolent agencies) makes the cost of labour relatively lower for the exempted firms compared to taxpaying firms. It creates a bias in input decisions in favour of labour compared to other factors of production.

There will be a large number of employers now paying tax on labour, which will have some impact on their demand for labour. Offsetting this will be an increase in demand for labour by existing taxpayers. In 2012-13, Payroll Tax revenue was $3,500 million and the value of concessions was close to $2,000 million. This shows that the 12,000 employers paying Payroll Tax employ more people than the 210,000 employers not currently paying Payroll Tax. The size of the tax reduction is larger for existing taxpayers than the increase for new taxpayers. Taken together, the above two facts suggest that there may be an increase in overall labour demand. The overall impact of these two offsetting impacts would need to be modelled to provide a more definitive result.

This option results in a very large increase in the number of taxpayers, see Table 9. This will add to the impost on small business previously exempt from the tax and add to their compliance cost and the administration costs. Due to the regressive nature of compliance cost, whereby smaller firms typically face higher average compliance costs than large firms, the compliance costs are also likely to increase more than proportionally to the increase in taxpayers.

It is expected that to deal with this increase in tax payers will require a significant initial investment in new systems or additional system capacity and costs of informing and transitioning new taxpayers into the system. These costs would have once been prohibitive but the widespread deployment of electronic payments and lodgement systems makes this potentially manageable. A detailed assessment of the benefits and costs of maintaining a threshold due to the collection and compliance costs would need to be prepared before this option was implemented. An alternative might be to use the Commonwealth's remittance mechanism for income tax withholding system, which could significantly reduce the cost of expanding the Payroll Tax base.

*Transfer Duty*

By broadening the base of residential Transfer Duty, the rates across the scale could be uniformly reduced to approximately half of the pre-tax rates (see Table 10). As for

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Payroll Tax, this will significantly reduce the efficiency cost of the tax by reducing distortions on choice to buy or sell property.

In removing concessions, first home buyers will no longer be exempt from Transfer Duty.[117] This will increase the revenue collected, and make entry for first home buyers to enter the market more difficult than with the exemption. It should be recognised that assistance to first home buyers increases demand which in turn can increase the price of houses. However, the proposed rate of 0.02% for houses values up to $1 million (and a zero rate for the value of the property up to $300,000) is unlikely to present a significant barrier. For example, at the new revenue neutral rates the transfer duty payable on a home of $500,000 would be $40.

The indicative efficiency benefit of the reform could exceed $130 million per annum. The size of the benefit is smaller than for Payroll Tax because transfer duty raises less revenue than Payroll Tax.

*Land Tax*

The broadening of the Land Tax base could reduce Land Tax rates by approximately three-quarters (see Table 11). As opposed to a narrow Land Tax, which may distort decisions by giving land owners incentives to choose to use land in an exempt activity, a broad-based tax does not affect how land is used, ensuring that resources are allocated to their best use.

The efficiency benefits are small because a land tax is inherently efficient compared to other taxes. The indicative benefit could be around $440 million per annum.

It should be noted that existing land owners exempt from Land Tax under the current tax system will experience a one-off fall in land value when the tax base is broadened.

### 4.4.2 Greater reliance on efficient taxes

The key changes are summarised in Table 12. For the purpose of this report, it is assumed that the revenue foregone by abolishing residential Transfer Duty will be recovered entirely by the Land Tax, which is the most efficient tax. This is because this specification results in the largest reduction in the efficiency cost compared to the base case.

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[117] The exemption applies for houses up to the value of $600,000. A rate of zero applies to homes of dutiable value of less than $500,000. A concessional rate applies to homes of dutiable value between $500,000 and $600,000.

Table 12 Greater reliance on efficient taxes - summary of change

| | Pre-change | | | Post-change | | |
|---|---|---|---|---|---|---|
| | Payroll Tax | Transfer Duty | Land Tax | Payroll Tax | Transfer Duty | Land Tax |
| Gross Revenue ($m) | $3,475.70 | $764.84 | $568.20 | $3,854.40 | $0.00 | $1,343.54 |
| Net Revenue ($m) | $3,475.70 | $764.84 | $568.20 | $3,475.70 | $0.00 | $1,333.04 |
| Proportion of tax revenue | 41.70% | 9.18% | 6.82% | 41.70% | 0.00% | 15.99% |
| Size of tax Base ($m) | $63,194.55 | Info not available | Info not available | $98,985.45 | $0.00 | $380,302.45 |
| Tax rate | 5.50% | See Table 10 | See Table 13 | 1.91% | 0.00% | See Table 13 |
| Number of tax payers | 12,178.00 | Info not available | Info not available | 221,956.00 | 0.00 | 988,549.00 |

**Note:** Assumptions underpinning the numbers are given in Appendix A

Table 13 Land Tax rate scale

| Value of land | Rate (Pre-change) | Rate (Post-change) |
|---|---|---|
| 0 – 300,000 | 0.00% | 0.00% |
| 300,001 – 1,000,000 | 0.10% | 0.12% |
| 1,000,001 – 2,200,000 | 0.53% | 0.63% |
| 2,200,001 – 5,500,000 | 1.37% | 1.64% |
| 5,500,001 – 11,000,000 | 1.64% | 1.96% |
| Over 11,000,000 | 2.43% | 2.91% |

**Note 1:** The reform option results in a uniform increase in the rates across the scale of 19.6%.

**Note 2:** Assumptions underpinning the numbers are given in Appendix A

### *Assessment of change to tax system*

The assessment of the change to the tax system for this and the following option will focus on the differences to the base broadening option.

The additional benefit of this option is the abolition of Transfer Duty on residential property transactions. This reform removes one of the major distortions in the property market. It cannot entirely improve the efficiency of residential property markets because Commonwealth taxes concessions currently create inefficiencies in residential property markets. The indicative efficiency benefits from the Payroll Tax are the same as for the previous option. The additional revenue necessary to replace Transfer Duty is the raised from Land Tax, as this will minimise the efficiency costs. The efficiency benefits from abolishing Transfer Duty could be up to $260 million per annum.

The abolition of Transfer Duty will reduce administration and compliance costs. However, it is expected that these savings will be outweighed by the higher administration and compliance costs resulting from broadening the bases of Land Tax and Payroll Tax.

The revenue base is also more sustainable as the influence of the volatility of the property market is removed from the tax system. As shown in Section 2, Payroll Tax is more correlated to economic growth than Transfer Duty.

The major benefits of this option are:

- The tax structure is more efficient because lower rates reduce the economic costs of the tax.
- The removal of thresholds allows firms and households to hire labour and buy and sell property without facing very high marginal tax rates that discourage labour force expansion and turnover in property markets.
- The Payroll Tax impacts are identical to the previous option.
- The efficiency of property markets will be improved. The number of residential housing transactions will increase and be closer to the level that would prevail without tax distortions in the property market. As noted above, there is residual inefficiency because of the tax-preferred status of owner occupied housing relative to investor owned housing.
- Removing concessions also means that factor cost and transaction costs are not distorted by differences in tax rates.
- The purpose of each tax is unambiguously to raise revenue. This allows other industry and social policy objectives to be provided and assessed transparently.
- Major savings in collection and compliance costs from the abolition of Transfer Duty.

The major costs of this option are:

- There will be a large increase in the number of taxpayers. To minimise collection and compliance costs this is likely to require investment in collection systems to minimise collection and, equally important, compliance costs.

*Assessment of change to individual taxes*

*Payroll Tax*

The Payroll Tax impacts identical to the previous option.

*Transfer Duty*

The efficiency of property markets will be improved. The number of residential housing transactions will increase and be closer to the level that would prevail without tax distortions in the property market. As noted above, there is residual inefficiency because of the tax-preferred status of owner occupied housing relative to investor owned housing.

*Land Tax*

The Land Tax rates will increase slightly. There are 580,000 valuation entities (an individual or group of land parcels to which a value is attached) in the $0 - $300,000 range in which a zero rate applies. Owners of these lands would not be taxed before and after the change.

As the Land Tax applies to all land the efficiency of the tax increases.  The annual efficiency benefits will be the same as the previous option.

### 4.4.3 Introduce a new broad based tax

The key changes are summarised in Table 14. It is assumed that the revenue foregone by abolishing residential Transfer Duty will be recovered entirely by the Land Tax. Likewise, the revenue foregone by abolishing Payroll Tax will be recovered entirely by the state based Personal Income Tax.

**Table 14 A new broad based tax - summary of change**

| | Pre-change | | | | Post-change | | | |
|---|---|---|---|---|---|---|---|---|
| | Payroll Tax | Personal Income Tax | Transfer Duty | Land Tax | Payroll Tax | Personal Income Tax | Transfer Duty | Land Tax |
| Gross Revenue ($m) | $3,475.70 | $0.00 | $764.84 | $568.20 | $0.00 | $3,475.70 | $0.00 | $1,343.54 |
| Net Revenue ($m) | $3,475.70 | $0.00 | $764.84 | $568.20 | $0.00 | $3,475.70 | $0.00 | $1,333.04 |
| Proportion of tax revenue | 41.70% | 0.00% | 9.18% | 6.82% | 0.00% | 41.70% | 0.00% | 15.99% |
| Size of tax Base ($m) | $63,194.55 | $0.00 | Info not available | Info not available | $0.00 | $77,033.35 | $0.00 | $380,302.5 |
| Tax rate | 5.50% | 0.00% | See Table 10 | See Table 11 | 0.00% | 4.51% | 0.00% | See Table 15 |
| Number of tax payers | 12,178 | 0.00 | Info not available | Info not available | 0.00 | 1,344,935 | 0.00 | 988,549 |

**Note:** Assumptions underpinning the numbers are given in Appendix A

**Table 15 Land Tax rate scale**

| Value of land | Rate (Pre-change) | Rate (Post-change) |
|---|---|---|
| 0 – 300,000 | 0.00% | 0.00% |
| 300,001 – 1,000,000 | 0.10% | 0.12% |
| 1,000,001 – 2,200,000 | 0.53% | 0.63% |
| 2,200,001 – 5,500,000 | 1.37% | 1.64% |
| 5,500,001 – 11,000,000 | 1.64% | 1.96% |
| Over 11,000,000 | 2.43% | 2.91% |

**Note:** Assumptions underpinning the numbers are given in Appendix A

There are many possible variations of a State Personal Income Tax. For the purposes of this report, the tax applies to the taxable income of all individuals in Western Australia. The tax is applied as a flat rate to taxable income as assessed under the Commonwealth income tax laws.

The tax does not apply to corporations as the Commonwealth has the constitutional power with respect to the activities of corporations.

This option offers the most potential for efficiency improvements as it removes Transfer Duty and Payroll Tax from the tax base. The gains from replacing Payroll Tax (as it is currently structured) are similar to removing concessions from the tax base. The application of the tax would exacerbate the efficiency effects of the Commonwealth income tax.

Although this report does not consider equity implications, income tax as modelled in this report is collected from all taxpayers, even those not currently subject to Commonwealth taxes. It is applied at a low rate and therefore should not have a significant effect on the incentive to work. Economy-wide modelling is recommended to test the relative impacts on wages and employment of abolishing Payroll Tax and introducing a State Personal Income Tax.

The tax would 'piggyback' on the Commonwealth tax administration system to avoid having duplicate collection and administration systems. The major gains in collection and compliance costs will come if the Australian Tax Office (ATO) collects the income tax through its existing tax collection and remittance system.

The major benefits of this option are:

- The tax structure is more efficient with two broad based taxes and the removal of two narrowly applied taxes.
- The economy gains from the removal of the distortions caused by the existing Payroll Tax structure.
- There are both efficiency gains and savings from collection and compliance cost reductions from abolishing Transfer Duty.
- The purpose of each tax is unambiguously to raise revenue. This allows other industry and social policy objectives to be provided and assessed transparently.
- The tax system is more stable because Transfer Duty revenue is replaced with income tax revenue, which like Payroll Tax fluctuates less across an economic cycle.
- Major savings in collection and compliance costs from the abolition of Transfer Duty.

The major costs are:

- There is a large increase in the number of taxpayers. The cost would be similar to the cost of broadening the Payroll Tax base.
- Potential efficiency costs from reduced labour supply although this may be offset from increased labour demand.
- The administrative costs of introducing this tax and the compliance costs of duplicating a withholding tax system (where tax payments are withheld from

wages by an employer and remitted to the taxing body) would be very costly to set up and maintain. Collecting the tax through the existing Commonwealth withholding tax system and adopting the same definitions of taxable income for the tax base would considerably reduce the cost.

### *Assessment of change to individual taxes*

#### *State Personal Income Tax*

This tax will apply to around 1.35 million taxpayers based on 2011-12 taxation statistics released by the ATO.[118] The rate of tax is 4.5%, which is payable in addition to the Commonwealth income tax rate. The increase in tax on income will have some effect on the incentive to work and have some impact on labour supply. The impact on labour supply should be highest where the marginal tax rates are highest. Empirical studies tend to show the impact on labour supply is small for higher income earners. However, these studies are based on US tax scales.[119] Australia tax scales apply higher marginal rates at much lower levels of income.

The administrative costs of introducing this tax and the compliance costs of duplicating a withholding tax system (where tax payments are withheld from wages by an employer and remitted to the taxing body) would be very costly to set up and maintain. Collecting the tax through the existing Commonwealth withholding tax system and adopting the same definitions of taxable income for the tax base would considerable reduce the cost.

Income tax is a broad based growth tax and provides a stable source of revenue.

#### *Payroll Tax*

The economy gains from the removal of the distortions caused by the existing Payroll Tax structure.

There are unlikely to be significant compliance saving for taxpayers because removing the need to submit Payroll Tax returns would most likely be replaced with a withholding tax arrangement for the State Personal Income Tax.

#### *Transfer Duty*

As discussed above, there are both efficiency gains and savings from collection and compliance cost reductions.

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118 ATO. (2013). Taxation Statistics 2010-11.

119 (dn: include reference)

*Land Tax*

The Land Tax impacts are the same as for the previous option.

# 5 Key Findings and Recommendations

A number of options exist to significantly reform the WA tax system. The current weaknesses in the tax system are well known; the tax bases have been eroded over time by the granting of exemptions and concessions to the point that in the tax bases considered in this report the number of potential taxpayers far exceeds the actual number of tax payers.

Those potential taxpayers outside the tax base lobby hard to remain excluded by drawing conclusions not supported by economic realities. The following key conclusions are drawn from this report:

Payroll Tax is not an inefficient tax if administered with a broad base and a low rate. The potential economic efficiency gains from broadening the Payroll Tax base and reducing the rate are significant. The employment impacts are not expected to be negative. Employers who benefit from Payroll Tax reductions employ a larger proportion of WA's workforce than employers who currently are not liable to Payroll Tax. A more likely outcome is that there is a net gain in employment as the existing distortions in the incentive to employ are removed by reform.

Land Tax is an underutilised efficient tax base. Increasing the rate and rate would allow for even lower rates of other taxes. It is a shared tax base with local government and local government concerns might limit the extent of rate increases. Greater use of the Land Tax base will need complementary mechanisms to ensure wealth held in land without other income does not present hardship or forced sale of assets.

The MRIT is a successful hypothecated Land Tax and there do not appear to be any compelling reasons to change its structure, except that its base should also be broadened and the rate decreased.

Transfer Duty on residential properties imposes significant economic costs and there is very little that can be done to improve this tax.

By applying a framework for analysing tax systems to the three options considered in this report. Implementing any of the three options would greatly improve the efficiency of the WA tax system. However, option 1 is dominated by option 2 and 3 in the sense that it still contains Transfer Duty, which is the least potentially efficient tax. The choice between option 2 and 3 is less clear. Both contain a broad based tax on labour, with Payroll Tax initially impacting labour demand and a State Personal Income Tax initially impacting labour supply. Ultimately both taxes are likely to have a similar impact on wages and labour demand and both transmit subsequent economic impacts to other markets through the same economic variables; wages and employment.

The compliance and administration costs are also likely to be very similar if a withholding mechanism is used to collect the State Personal Income Tax from employees. Ultimately the decision will come to which option is considered palatable to the electorate.

# A Assumptions

## A.1 Revenue collected

The revenue collected under the Base Case is based on information on revenue collected in 2012-13 for Payroll Tax, Transfer Duty, Land Tax and MRIT provided in the Overview of State Taxes and Royalties published by the Treasury of Western Australia.[120]

Revenue data for residential Transfer Duty is not publicly available. As such, assumptions have been made on the relative proportions of residential and non-residential conveyances. According to the State Tax Review undertaken in 2006, owner-occupier purchasers amount to around 37% of the conveyance duty base.[121] REIWA data also suggest that around 20% of purchases are for investment purposes.[122]

Based on these statements, residential conveyances are assumed to make up 46.25% of the total Transfer Duty base.[123]

## A.2 Foregone tax revenue

The tax revenue foregone from exemptions and other concessions that depart from the general Payroll Tax, Transfer Duty, Land Tax and MRIT has been obtained from the Tax Expenditure Statement in the 2013-14 Budget (budget paper no. 3) published by The Government of Western Australia.[124]

The foregone revenue from Land Tax and MRIT is reported jointly in the Tax Expenditure Statement. Synergies has not attempted to separate the Land Tax expenditure from the MRIT tax expenditure.

The tax expenditure statement does not separate residential Transfer Duty and commercial Transfer Duty. The tax expenditure categories under Transfer Duty are:

- connected entities restructure exemption;

120 Government of Western Australia – Department of Treasury (2013) Overview of State taxes and royalties 2013-14, February 2014, p. 2. Available from: http://www.treasury.wa.gov.au/cms/uploadedFiles/_Treasury/Publications/2013-14_overview_of_state_taxes_and_royalties.pdf [Accessed 13 march 2014].

121 Government of Western Australia Department of Treasury and Finance (2006). State tax review – interim report, May 2006, p. 174. Available from: http://www.treasury.wa.gov.au/cms/uploadedFiles/StateTaxReview_InterimReport.pdf [Accessed 26 February 2014].

122 Based on advice from WA Treasury.

123 Owner-occupier transactions: 37%, Investor transactions: 9.25%.

124 The Government of Western Australia (2013) 2013-14 Budget, economic and fiscal outlook, budget paper no. 3, 8 August 2013, p. 116.

- first home owners' exemption/concession;
- concessional scale for residential property; and
- family farm exemption.

Of these categories, the categories 'connected entities restructure exemption' and 'concessional scale for residential property' are not considered applicable to the residential Transfer Duty. However, the first home owners' exemption and the family farm exemption [125] have been included in the model as foregone revenue from concessions to residential Transfer Duty.

## A.3 Gross and Net revenue

In removing exemptions and concessions, tax will be collected from entities that were previously not liable for tax. In the instance of Payroll Tax and Land Tax, certain entities that will be subject to tax under the reform options are financed by the State Government. For Payroll Tax these include public hospitals and State Government departments. For Land Tax these include public charitable or benevolent institutions.

Gross revenue from the reform options include tax revenue collected from the above entities, while net revenue excludes this revenue.

Certain exemptions may include both public and private entities (for example, the schools and colleges exemption from Payroll Tax). Revenue collected from these categories has been included in the net revenue.

## 5.2 MRIT

It is assumed under options 1, 2 and 3 that the same rate is retained for MRIT as under the Base Case, but that concessions and exemptions are removed from this tax.

## A.1 Payroll Tax

The number of entities subject to Payroll Tax in Western Australia has been provided by the Department of Treasury Western Australia.[126] "Entities" refers to the number of payroll tax payers; groups of related employers are recorded as one "entity". The data is as at November 2013 and is subject to revision.

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[125] The family farm exemption is included because where an eligible dutiable transaction includes residential property and other dutiable property (e.g. business assets), the entire transaction is assessed at the residential rate.

[126] Data received via email from the Department of Treasury Western Australia on 25 February 2014.

The number of entities subject to Payroll Tax without the tax-free threshold is based on data published by the Australian Bureau of Statistics on the total number of businesses in Western Australia as at June 2012.[127]

## A.2 Transfer Duty

Data on residential property sales in 2012-13 have been obtained from the Real Estate Institute of Western Australia (REIWA). The data lists the number of transactions undertaken and the total value of the transactions within each bracket of the rate scale for residential Transfer Duty.

The data includes vacant land transactions. The residential rate scale applies to vacant land if building of a residence commences within 5 years of the date of original liability. The transaction will initially be assessed at the general rate of duty, but an application for reassessment can be made once building has commenced. The inclusion of vacant land transactions may therefore overestimate the tax base and number of tax payers in the estimation of broadening the Transfer Duty base (Option 1).

## A.3 Land Tax

Landgate has provided data on the number of valuation entities in Western Australia, along with the total value of land within the relevant brackets of the Land Tax rate scale.[128]

The number of valuation entities are counted using Valuation Entity Numbers (VENs).

VEN and Land ID are defined as follows by Landgate:

- VEN pertains to an individual or group of land parcels to which a value is attached on Landgate's Valuation System;
- the Land Identifier (Land ID) is based on the legal land description or lease description;
- where land parcels are grouped for valuation purposes the Unimproved Value will reflect the value of the group as though it was one parcel; and
- the land parcel(s) that constitute a VEN is determined by Landgate valuers and the corresponding Unimproved Value is used for Land Tax purposes.

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[127] Australian Bureau of Statistics (2013) Catalogue no. 8165.0 – Counts of Australian Businesses, including entries and exists, June 2008 to June 2012.

[128] Data received via email from Landgate on 7 March 2014.

## A.4 State-Based Income Tax

The number of tax payers under the Income Tax is the number of persons in Western Australia paying income tax in 2010-11, based on information made available by the Australian Taxation Office.[129]

Based on the same information from the Australian Tax Office, the Income Tax base is assumed to be the total income earned by individuals in Western Australia in 2010-11.

129 Australian Taxation Office (n.d.) Taxation statistics 2010-11, Table 2: Individuals Tax.