

# REFORM OF STATE TAXATION

## BENEFITS FROM THE REFORM OF STATE TAXES

The GST was introduced to replace several inefficient indirect taxes – one Commonwealth tax and ten state taxes. The state taxes included in the Intergovernmental Agreement were nominated by the States themselves as being undesirable on efficiency and equity grounds.

Implementation of the Intergovernmental Agreement has already delivered significant economic benefits as a result of abolishing a first tranche of inefficient state taxes from as early as 1 July 2000. The value of the revenue foregone from the abolition of these inefficient taxes is estimated to be \$4.1 billion in 2007-08 (Table 16).

**Table 16: State taxation revenues foregone as a result of reform<sup>(a)</sup>**

\$million	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11
<i>Tranche 1</i>											
Financial institutions duty		1,196	1,359	1,413	1,470	1,529	1,591	1,655	1,722	1,792	1,864
Debits tax		140	340	344	349	1,160	1,269	1,306	1,346	1,387	1,431
Quoted marketable securities duty		675	747	791	837	886	939	994	1,054	1,116	1,183
Accommodation tax	79	80	86	91	97	106	115	125	136	148	161
<b>Total - Tranche 1</b>	<b>79</b>	<b>2,091</b>	<b>2,531</b>	<b>2,639</b>	<b>2,753</b>	<b>3,681</b>	<b>3,913</b>	<b>4,081</b>	<b>4,257</b>	<b>4,443</b>	<b>4,639</b>
<i>Tranche 2</i>											
Mortgage duty				17	223	277	384	477	776	1,051	1,356
Rental duty			4	4	21	34	103	271	293	325	346
Lease duty	3	39	42	50	64	80	103	140	196	212	225
Non-quoted marketable securities duty			12	20	27	32	46	59	90	136	151
Cheque duty				3	9	12	12	13	13	14	14
Non-real non-residential conveyances duty							1	1	10	69	294
<b>Total - Tranche 2</b>	<b>3</b>	<b>39</b>	<b>58</b>	<b>94</b>	<b>345</b>	<b>434</b>	<b>650</b>	<b>962</b>	<b>1,379</b>	<b>1,806</b>	<b>2,385</b>
<b>Total state taxes abolished</b>	<b>82</b>	<b>2,130</b>	<b>2,589</b>	<b>2,733</b>	<b>3,098</b>	<b>4,115</b>	<b>4,564</b>	<b>5,043</b>	<b>5,636</b>	<b>6,249</b>	<b>7,025</b>

(a) Includes all revenue foregone from the abolition of Intergovernmental Agreement taxes. The revenue foregone is only included in the GMA once all States have abolished the tax.

In 2006, the Australian Government agreed with the States on a schedule for the second tranche of state taxation reform. The schedule provides for the abolition of all but one of the remaining taxes listed in the Intergovernmental Agreement. The timetable for the abolition of state taxes is provided in Appendix E. The value of the revenue foregone from this second tranche of state taxation reform is estimated to be a further \$1.0 billion in 2007-08 (Table 16). This benefit to consumers and business from the second tranche of tax reforms is expected to grow to \$2.4 billion by 2010-11.

Notwithstanding the substantial state taxation revenues foregone from these reforms, the States are still receiving significant revenue windfalls, compared with the revenue

they would have received had the previous Commonwealth-State financial arrangements continued (Table 17).

## STAMP DUTY ON CONVEYANCES OF REAL NON-RESIDENTIAL PROPERTY

The States have so far refused to fulfil their commitments by agreeing on a timetable to abolish the final tax listed in the Intergovernmental Agreement – stamp duty on conveyances of real non-residential property. The abolition of this tax would save taxpayers \$2.8 billion in 2007-08.

The cost of abolishing this tax from 1 July 2007 is shown in Table 17, together with the remaining revenue windfall to the States from tax reform and any BBA that may be required to ensure that no State is worse off relative to its position if the previous financial arrangements had continued. The Australian Government has indicated to the States that it would be willing to be flexible as to the timing and phasing of the abolition of this tax.

**Table 17: Abolishing stamp duty on conveyances of real non-residential property**

\$million	NSW(a)	VIC(a)	QLD	WA	SA	TAS(a)	ACT	NT	Total
<b>2007-08</b>									
Current revenue gain	631	725	830	429	269	117	82	124	3,208
Cost of abolition	884	579	505	600	143	33	40	25	2,809
BBA required	253	0	0	171	0	0	0	0	424
Revised revenue gain	0	146	326	0	126	84	42	98	822
<b>2008-09</b>									
Current revenue gain	970	1,017	966	530	342	131	97	127	4,181
Cost of abolition	958	589	540	600	161	33	41	26	2,948
BBA required	0	0	0	70	0	0	0	0	70
Revised revenue gain	12	428	426	0	181	98	56	102	1,302
<b>2009-10</b>									
Current revenue gain	1,103	1,122	967	560	382	140	102	142	4,519
Cost of abolition	1,039	593	578	600	166	35	42	26	3,079
BBA required	0	0	0	40	0	0	0	0	40
Revised revenue gain	64	528	389	0	216	106	60	116	1,479

(a) Australian Treasury estimates of the cost of abolition.

Stamp duty on conveyances of real non-residential property is an inefficient tax that impedes the transfer of commercial property to its highest value use, and particularly impacts on small businesses, superannuation funds and smaller property investors. The Australian Government will continue to pursue the abolition of this tax.