

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

2016 - 2017

Department/Agency: Treasury

Question: BET66-75

Topic: State Income taxes

Reference: Written - 5 May 2016

Senator: Penny Wong

Question:

66. When was the last time Australia had state income taxes?
67. What was the rationale behind reform that saw state income taxes replaced with a single, national income tax system?
68. Has Treasury provided advice to PM&C or the Treasurer's office on the potential savings arising from the Commonwealth withdrawing from public school funding? If yes, on what date was this advice provided?
69. When did Treasury provide advice to the Treasurer's office on what became the Government's proposal for state income tax surcharges as announced by the Prime Minister on 30 March 2016?
70. Did Treasury have any dialogue with State and Territory Governments prior to 30 March on the Prime Minister's proposal?
71. What are the legislative and 'system architecture' changes required to implement a state-based income taxes?
72. Could the Commonwealth legislate to allow a system for state income taxes by itself?
73. Can Treasury please outline the efficiencies gained from moving from one Commonwealth income tax system and creating differential state income tax rates?
74. How would this work for Australian businesses with national payrolls?
75. How would this work for a small business employing people who work in bases in Albury and Wodonga?

Answer:

66. In 1942 the federal government introduced legislation, commencing in 1942-43, that increased federal income tax rates and provided for reimbursement grants to the States provided that they ceased to levy their own income taxes. In practice, this prevented the States from levying income taxes. This limitation is no longer in place. States currently have the ability to levy their own income taxes.
67. The primary rationale was to allow the Commonwealth to obtain the economic and financial resources required for Australia's effort in the Second World War.
68. Treasury provided PMC with information on all Commonwealth grants to the states over a long period in the Federation White Paper context. Treasury did not provide the Treasurer or his office with advice on savings from replacing public school funding in particular, with an untied revenue stream.
69. Treasury included consideration of a State income tax levy in briefings to the Treasurer prior to 30 March 2016.
70. No.

71. There is a wide range of options for the introduction of state-based income taxes. The legislative and 'system architecture' changes required would depend on the particular option under consideration.
72. The States have the power to levy their own income taxes without any amendment to Commonwealth legislation. Any amendments to Commonwealth legislation would depend on the particular option under consideration.
73. See the response to question 71.
74. See the response to question 71.
75. See the response to question 71.