

**Business
Coalition for
Tax
Reform**

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18 March 2008

The Secretary
Senate Standing Finance and Public Administration
PO Box 6100
Parliament House
CANBERRA ACT 2600

Via email: statefinance.sen@aph.gov.au

Dear Sir/Madam

Submission – Senate Select Committee on State Government Financial Management

Please find attached a submission from the Business Coalition for Tax Reform (“BCTR”) in respect of the Senate Select Committee on State Government Financial Management. The attached submission forms the basis of our 2009 pre-budget submission in respect of State Taxes.

The BCTR is a forum for bringing together the views of the business community on tax reform issues. BCTR members share the common objectives of creating and implementing a better tax system that enhances both international and domestic business competitiveness and fairness, and which assists in creating a business climate conducive to investment, growth, job creation and private saving. A list of BCTR members is provided in Attachment A.

In general, the BCTR is keen to modernise the tax system in order to improve the competitiveness of the Australian economy. Most states are exceeding their business tax budget targets and the BCTR believes that there is room for further reform.

For your information, the BCTR is currently commissioning an independent broad-scale review of business tax reform options which we will provide to Government this year. The review will provide the states/territories and the Government with clear, costed models for reform (including revenue neutral options and those that use reform dividends to help offset the cost of modernising the business tax framework).

In the event you have any questions regarding the above matters please contact me on 03 9634 9901.

Yours faithfully

A handwritten signature in black ink, appearing to read 'John Stanhope', with a large, stylized flourish at the end.

John Stanhope
Chairman

SUBMISSION
SENATE SELECT COMMITTEE ON STATE GOVERNMENT FINANCIAL
MANAGEMENT

The BCTR supports the Labor Government's point of view that Australia urgently needs a new way for federal and state governments to work together. Australia's current federal structure does not provide economic and social reform that Australia needs to raise productivity over the coming decades and the BCTR believes that the pattern of Federal/State financial relations should be transparent, efficient and sustainable.

The BCTR considers reform of inefficient state-based taxes to be a key element in developing an effective and competitive taxation system for Australia.

With the introduction of the Commonwealth Goods and Services Tax (GST) in 2000, the Treasurers of each state and territory agreed to abolish nine state-based taxes in exchange for additional GST revenue under the IGA.

The BCTR acknowledges the important reform role the Federal Government has played in this regard, particularly in respect of its offer in March this year to extend the period under which it guarantees no state or territory will be disadvantaged under the IGA to 30 June 2009.

Although all states and territories have now agreed to the revised timetable to reduce many of the taxes cited in the IGA, the BCTR notes that:

- the state and territory timetables for complete abolition of some of these taxes stretch into 2011; and
- no state or territory has timetabled the abolition of non-residential conveyancing duty proposed in the IGA.

The BCTR is encouraged by the Federal Government's previous confirmation that stamp duty on commercial conveyances should remain a part of the reform program.

However, there is concern that without continued pressure from the Federal Government, the state and territory governments will balk at meeting their full IGA commitments and therefore the agreed objectives of the IGA.

Similarly, without pressure from the Federal Government, the state and territory governments will be reluctant to bring forward the timetabled abolition of the IGA taxes, even as GST windfalls increase.

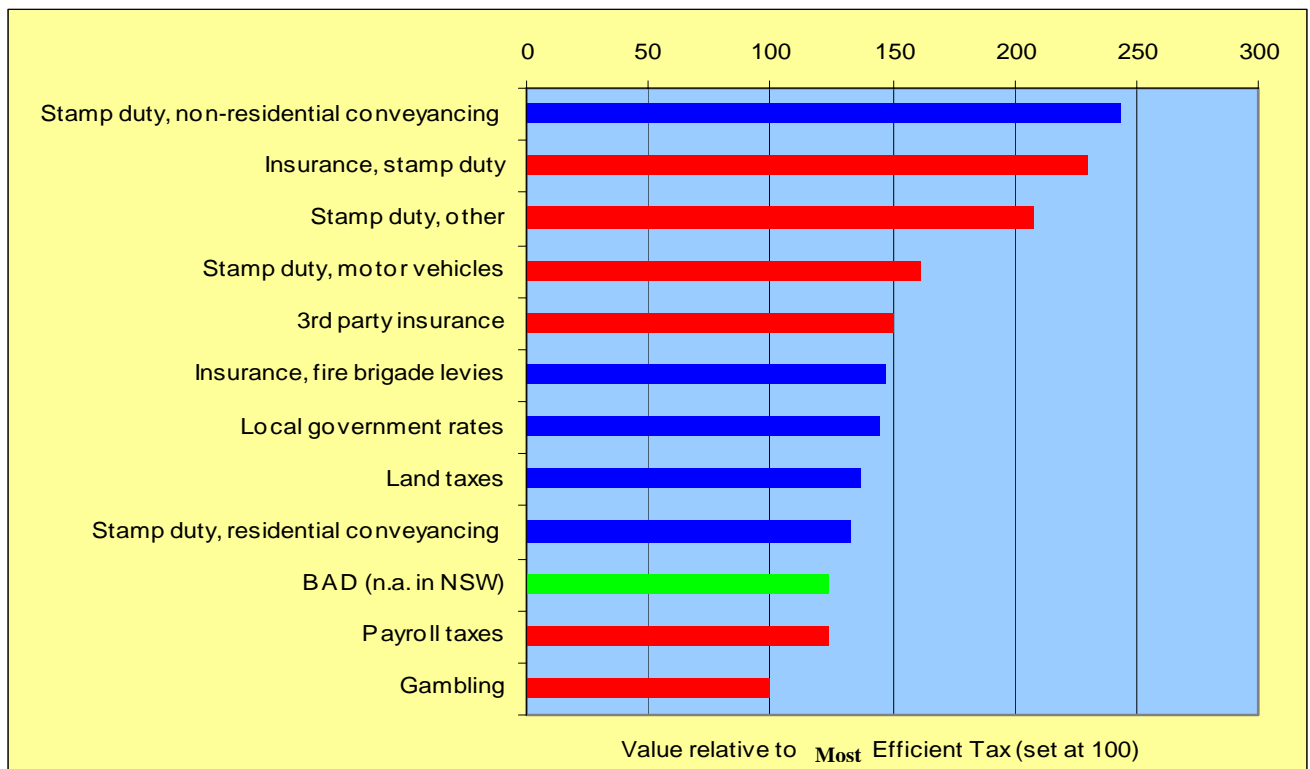
These delays are a source of considerable frustration for Australian businesses, particularly those operating in more than one state or territory.

It is clear that state and territory governments stand to gain from reducing and abolishing inefficient taxes. The BCTR's 2004 report, *Axing the Alcabala: A program for 21st Century State Tax System* prepared by Access Economics, shows that state and territory economies stand to gain major dividends from meeting the IGA commitments.

These dividends include higher real investment, increased employment and production, and higher real incomes and living standards. This in turn creates a more competitive business environment that attracts increased capital, greater business activity and more jobs.

The report also lists a number of other inefficient state taxes which will give similar advantages to state and territory governments that embrace ongoing reform beyond the scope of the IGA. These include land taxes, local government rates, stamp duty on residential conveyancing, stamp duty on insurance contracts (including life insurance and life insurance riders) and fire services levies. An updated Access Economics table of inefficient state and territory taxes is included below.

(In)Efficiency Ranking for State Taxes



The BCTR urges the Australian Government to continue to encourage the states and territories to embrace an ongoing program of reform in line with increasing GST revenue flows.

The Federal Government should continue to exert pressure on the states to:

- honour the original IGA and abolish all agreed taxes including non-residential conveyancing duty; and
- bring forward the timetabled dates for abolition of each IGA tax in line with increasing GST revenue flows.

The Federal Government should also seek a commitment from the states and territories to establish a program of continuing reform designed to eliminate all inefficient taxes within the bounds of fiscal responsibility.

BUSINESS COALITION FOR TAX REFORM MEMBERS

Australian Beverage Council Limited

Australian Financial Markets Association

Australian Institute of Company Directors

Business Council of Australia

Corporate Tax Association of Australia

CPA Australia

Council of Small Business Organisations of Australia

Institute of Chartered Accountants in Australia

Insurance Council of Australia

Investment and Financial Services Association Ltd

Minerals Council of Australia

National Institute of Accountants

Property Council of Australia

Real Estate Institute of Australia