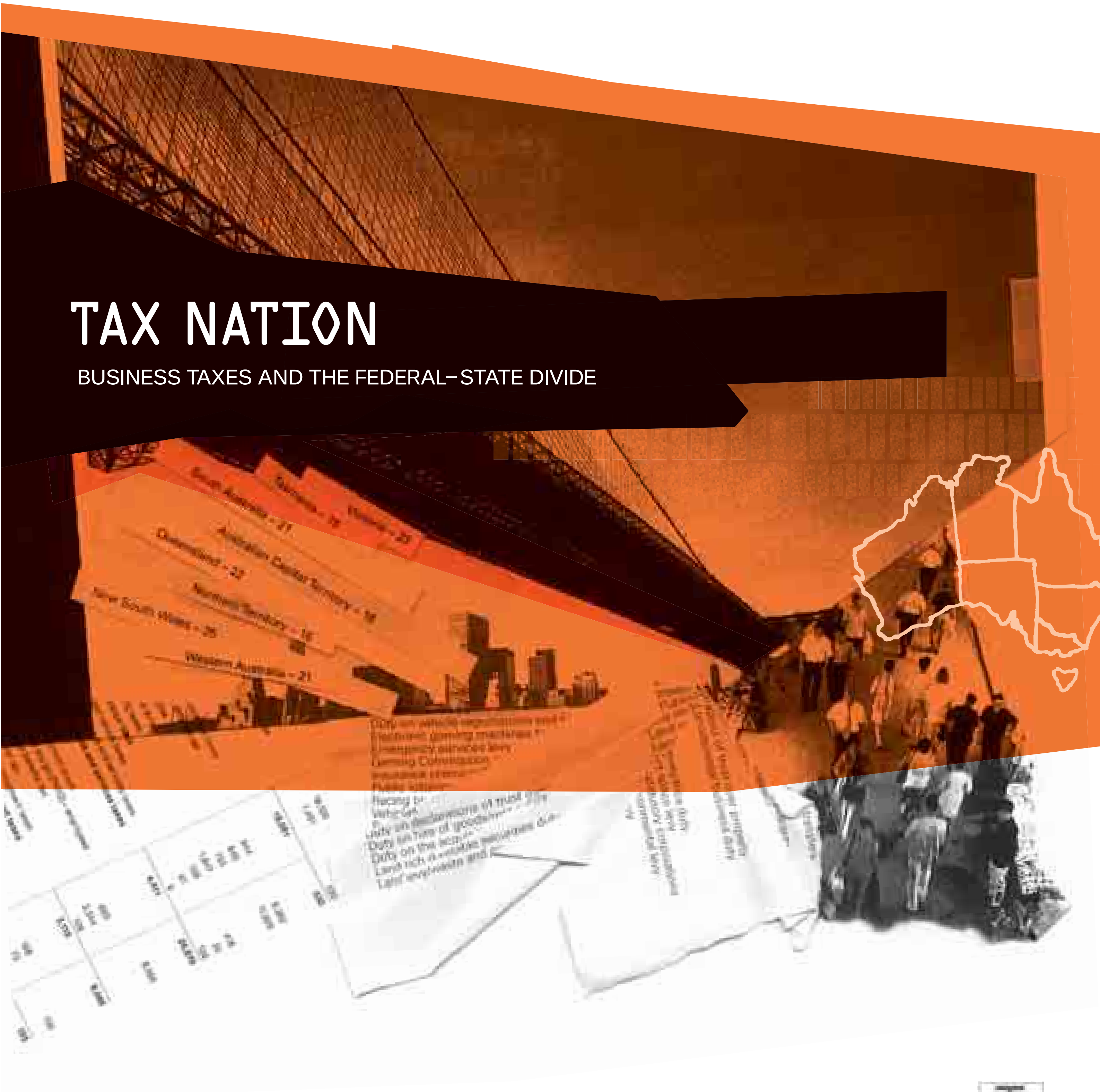
Business Council of Australia

TAX NATION

BUSINESS TAXES AND THE FEDERAL–STATE DIVIDE



PRICEWATERHOUSECOOPERS

About the Business Council of Australia (BCA)

The Business Council of Australia is an association of the chief executives of more than 100 of Australia's leading corporations, which together have a combined national workforce of almost one million people.

The BCA was established in 1983 to provide a forum for Australian business leadership to contribute directly to public policy debates in order to build a strong economy, a more prosperous society and help make Australia the best place in the world in which to live, learn, work and do business.

About the Corporate Tax Association (CTA)

The Corporate Tax Association represents 125 major Australian companies. It was established to provide an Australia-wide forum for identification and review of taxation issues having relevance to public companies in Australia, and to assist members through the interchange of advice and experience in relation to taxation matters affecting public companies.

The CTA seeks to promote education and professional development for members in both technical and administrative areas, communicate with governments, taxation administrations, industry groups and associations and the public on taxation matters.

About the survey participants

The BCA and CTA have a combined membership of 170 of Australia's largest business entities. Many of these entities are members of both organisations. The majority are companies, but some operate as partnerships or stapled company trusts.

A total of 92 entities participated in the survey. Of these:

- 52 were listed on the Australian Stock Exchange (ASX), including 17 (85 per cent) of the S&P/ASX20. The listed participants have a combined market capitalisation of over $700 billion;
- 12 were large Australian-owned private companies or partnerships; and
- 28 were foreign-owned companies.

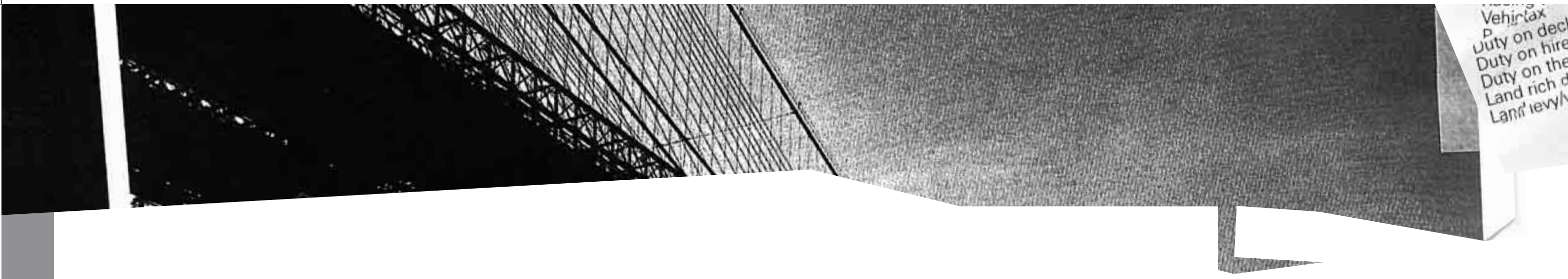
By turnover, participants range in size from $76 million to $35 billion. On average, they operate in six of Australia's eight states and territories, and are drawn from 14 broad industry sectors. Further information on the participants and industries, along with the methodology of the survey, is outlined at Appendix 1.

CONTENTS

About ***Tax Nation: Business Taxes and the Federal–State Divide***

This report comprises the results of a survey commissioned by the Business Council of Australia (BCA) and the Corporate Tax Association (CTA) and undertaken by PricewaterhouseCoopers (PwC) titled 'What Is Your Company's Total Tax Contribution? 2006 Survey Results' (incorporated as Appendix 1). It is preceded by a summary analysis and recommendations authored by the BCA and the CTA.

APRIL 2007



EXECUTIVE SUMMARY AND KEY SURVEY RESULTS

THE STRUCTURE AND EFFECTIVENESS OF ANY NATION'S BUSINESS TAX SYSTEM IS FUNDAMENTAL TO COMPETITIVENESS.

In a federation like Australia, where taxes are imposed and administered by several layers of government, the overall competitiveness of a business tax environment hinges on an effective interrelationship between the different tax systems.

Unfortunately, Australia's intergovernmental fiscal arrangements, having developed in an incremental and often ad hoc manner over time, now give rise to significant complexity and inefficiency. This creates an additional weight Australian businesses must carry as they seek to compete with the world's best.

Many of Australia's largest companies, represented by the BCA and CTA, have repeatedly voiced concerns about the growing burden, complexity and costs they experience when operating in Australia's business tax environment, at both state and federal levels. These aspects of the tax system detract from Australia's ability to provide a world-class environment for its business sector.

With a view to exploring these issues further, and informing the tax policy debate, the BCA and CTA commissioned PricewaterhouseCoopers to undertake a comprehensive survey of the total tax contribution of Australia's largest businesses, at all levels of government.

At first glance, the survey results highlight the role of Australia's largest companies as major contributors to the nation's overall revenue collections, at both federal and state levels. For example, the corporate income tax payments of the 92 surveyed businesses are large enough to fund the entire Australian Defence Force budget for this financial year. Their total taxation payments are equivalent to all federal and state government spending on primary and secondary education in 2004–05. Such reliance on so few businesses emphasises the importance of developing a world-class business environment.

While the survey highlights the significant contribution of business to Australia's economy and prosperity, it also highlights the way the current business tax system operates in practice. The detailed results confirm business concerns about weaknesses and limitations in current tax arrangements.

In particular, the results demonstrate that the business tax system is incredibly complex. Businesses in Australia must either bear or collect a total of 56 separate taxes – more than double the number of taxes identified in the United Kingdom, an economy almost three times the size of the Australian economy.

Further, the survey reveals the highly inefficient manner in which some revenues are raised. For example, of the 51 taxes directly borne by business, just one – corporate income tax – accounted for two-thirds of the total tax raised. The remaining one-third was raised through a complex array of 50 additional taxes.

The system results in significant waste. It creates additional costs for business in terms of compliance arising from multiple levels of taxation, and to government in terms of increased administration expenses. These are inefficiencies that the business sector, and the economy more generally, can ill afford to bear in a competitive, global economic environment.

The competitiveness of Australia's business tax system not only affects big business. Small- and medium-sized businesses also bear a significant burden when it comes to unnecessary complexity and compliance costs.

As the survey shows, there are important reasons to improve business taxation in its own right. However, it is also clear that broader efforts to clarify roles and responsibilities across jurisdictions as part of a bolder reform of federal–state relations will also inevitably raise issues of revenue raising and sharing arrangements.

The pressures and strains evident in current federal–state relations are only set to worsen as the fiscal impacts of an ageing population are increasingly felt. Business is concerned that as spending pressures intensify, the most likely result will be a reliance on higher tax revenues. The lack of transparency and the complexity of current business taxes across levels of government lend themselves to a creeping increase in business taxation over time to meet those demands.

An in-depth understanding of the strengths and weaknesses of the current business tax system, how it impacts on business costs, and how it might be reformed to maintain a competitive business sector and revenue security in the long run, will be integral to broader reform of federal–state relations.

Australia has already engaged in a number of important business tax reforms over the course of the last decade. Nevertheless, progress in some respects – notably the abolition of some inefficient state taxes under the GST Agreement – has been disappointing, particularly as some states have already begun to implement additional taxes in the intervening period. The next wave of genuine business tax reform will only occur when both state and federal taxes are considered together.

The Business Council and the Corporate Tax Association call on the federal Treasurer to request the Productivity Commission to conduct a comprehensive review of the effectiveness of Australia's business tax system, and to lead the development of an integrated response by all Australian governments to the issues raised by the review.

As an organisation with a deserved reputation as an impartial assessor of policy with a strong focus on improving the international competitiveness of Australian industry, the Productivity Commission is the appropriate body to undertake such a review. Having examined a range of state and federal taxation issues in the past, the Productivity Commission has the expertise to perform such a detailed and complex task.

The terms of reference of such a review must enable the Productivity Commission to recommend possible reforms to the entire Australian business taxation system. The review should examine both state and federal taxes, with a particular focus on:

+ The effectiveness of current revenue streams and revenue-sharing arrangements, including issues such as:

- the amount of revenue raised;
- the operating costs of individual taxes relative to the revenue raised; and
- the administrative burden on both government and business of individual taxes,

with a particular focus on taxes other than the top four revenue-earning taxes.

+ The sustainability of current arrangements, including issues such as:

- future government spending demands relative to current revenue-sharing arrangements;
- the drivers and sustainability of the current growth in corporate income tax receipts; and
- the impact of population ageing and other structural changes on revenue trends and sources of revenue.

KEY SURVEY RESULTS

THE AIM OF THE SURVEY (INCORPORATED AS APPENDIX 1) IS TO EXAMINE HOW AUSTRALIA'S MULTIPLE BUSINESS TAX SYSTEMS OPERATE IN PRACTICE, BY IDENTIFYING THE TOTAL NUMBER OF TAXES LEVIED ON BCA AND CTA MEMBER BUSINESSES, AND THE AMOUNTS THAT THOSE BUSINESSES PAY.

The survey, which was conducted for the BCA and CTA by PricewaterhouseCoopers, examines taxes at the federal, state and local levels of government. It divides taxes into two types:

- Taxes that are directly borne (or paid) by the business (i.e. those that impact the profit and loss account); and
- Taxes that businesses are required to collect from others on behalf of one or more governments, such as GST from customers or PAYE from employees.

Some taxes can be both borne and collected (as explained on page 16).

Total taxes

The total number of business taxes identified in Australia is 56.

- This includes 21 federal taxes, 33 state and territory taxes, and 2 local taxes.
- Taxes that are applied in multiple states and territories (such as payroll tax and conveyance duties) are counted only once, even where they operate under different rules in every state.
- For the most part, this analysis focuses on the taxes levied at state and federal government levels, although data was provided on local taxes.

By contrast, similar work in the United Kingdom – an economy almost three times larger than the Australian economy – identified only 22 business taxes.

For further details of the survey methodology, refer to Chapter 4 of the PwC survey at Appendix 1. A full list of identified Australian taxes can be seen in Appendixes A and C of the PwC survey.

The business contribution

In 2006, the 92 survey participants contributed:

- $18.1 billion in corporate income tax; and
- a further $9.4 billion in other business taxes,

resulting in total taxes of $27.5 billion paid to state and federal governments.

- In other words, for every dollar of corporate income tax, survey participants paid an additional 50 cents in other business taxes.

As discussed below, the 92 survey participants also collected an additional $37.1 billion from other taxpayers on behalf of federal and state governments.

- This means the total value of taxes borne and collected by the 92 survey participants was $64.6 billion, equivalent to 22 per cent of all federal and state government taxation receipts.

Complexity, efficiency, and the administrative burden

Of the 56 business taxes identified in Australia, the total number of taxes potentially borne by business is 51.

Of the 51 taxes borne:

- 16 are levied by the federal government;
- 33 by state and territory governments; and
- 2 by local governments.

Further analysis of these taxes, as paid by the survey participants, raises questions about the efficiency and associated complexity of business taxation in Australia.

For example, of the 51 taxes borne:

- Corporate income tax accounted for almost 66 per cent ($18.1 billion); while
- It took 50 other taxes to raise the remaining 34 per cent ($9.4 billion).

In addition, of the 51 taxes borne:

- The 16 federal taxes accounted for 83 per cent ($22.8 billion) of revenue raised; while
- The remaining 35 state, territory and local taxes accounted for just 17 per cent ($4.7 billion).

Finally, of the 51 taxes borne:

- Income tax, petroleum resource rent tax, gaming taxes and payroll tax raised just over 85 per cent ($23.5 billion); while
- The 42 remaining taxes (14 federal and 28 state, territory and local), accounted for just over 14 per cent ($3.9 billion).

The role of the 92 survey participants in the effective running of federal and state tax systems is also considerable.

Of the 56 business taxes identified in Australia, the total number of taxes collected by business from other taxpayers on behalf of governments is 14 (some taxes can be both borne and collected).

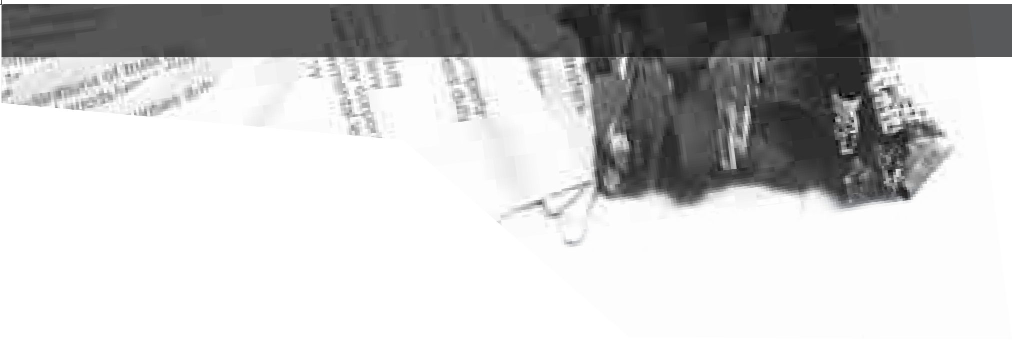
Of these taxes collected:

- 9 are federal taxes; and
- 5 are state and territory taxes.

On behalf of governments, the 92 survey participants collected an additional $37.1 billion from other taxpayers.

In other words, for every dollar of total tax borne, participants collected an additional $1.35 in taxes from others.

Participants paid up to $10 million in tax compliance costs, with an average cost of $1.5 million. Participants employed an average of 9 tax compliance employees, with some employing as many as 40 to 50 employees.



1 • INTRODUCTION

TAXATION PLAYS A FUNDAMENTAL ROLE IN PROVIDING THE OPTIMUM ENVIRONMENT FOR AUSTRALIAN BUSINESS TO RUN EFFECTIVELY, IMPROVE PRODUCTIVITY, AND TAKE ADVANTAGE OF THE INCREASINGLY GLOBAL AND COMPETITIVE WORLD ECONOMY. THIS MEANS THE TAXATION SYSTEM HAS THE POTENTIAL TO HAVE A SIGNIFICANT IMPACT – BE IT POSITIVE OR NEGATIVE – ON THE IMMEDIATE AND LONG-TERM PROSPERITY OF AUSTRALIA.

In a federation like Australia, where taxes are imposed by several layers of government, the overall competitiveness of a business tax environment hinges on an effective interrelationship between the tax systems of often competing jurisdictions.

Unfortunately, the complexity caused by the fiscal arrangements that have developed over the course of the last century create an additional weight Australian businesses must carry as they seek to compete with the world's best.

As a result, BCA and CTA members have repeatedly voiced concerns about the growing burden, complexity and costs they experience when operating in Australia's business tax environment, at both state and federal levels.

The business community recognises the significance of past tax reforms, including the introduction of capital gains tax, fringe benefits tax, dividend imputation, the goods and services tax and reductions in personal and corporate tax rates. More recently, reforms to Australia's international tax arrangements provided an additional boost to international competitiveness.

These reforms have played an important role in underpinning Australia's strong economic growth. Unfortunately, as significant as those reforms were, their net benefits have not been as great as they could have been.

As business is all too aware, achieving reform often involves compromise, and while such compromise can be necessary in order to secure support for significant change, it usually dilutes the net benefits. For example, compromises necessary to secure passage of the GST – such as the number of exemptions that had to be negotiated – have served to greatly increase the complexity and compliance costs for both large and small business while also limiting potential revenues.

The GST deal made the first serious attempt in many years to reform some of the unnecessary complexities and inefficiencies in state taxation. But the repeated delays in the removal of taxes under the Intergovernmental Agreement have left business frustrated and disillusioned at the lack of commitment by state and territory governments to genuinely address complexity and compliance costs – despite the fact that these costs have been repeatedly shown to reduce business investment levels and discourage employment.

In the meantime, the growing policy focus on the importance of improving Australia's dysfunctional federal system, given the many inefficiencies associated with its current operation, provides a further reason for reviewing the effectiveness, cost and complexity of Australia's total system of business taxation.

Unfortunately, in a country governed by nine separate governments, operating nine separate revenue authorities, it is not easy to get a high-level view of the full impact of taxation on business.

Difficulty in obtaining detailed data, combined with the sheer complexity of the various tax systems, means thorough analysis is rarely attempted, though even a cursory glance at the current range of business taxes shows the importance of taking a holistic approach to the interaction of federal and state tax systems.

With a view to exploring these issues further, and informing the tax policy debate, the BCA and CTA commissioned PricewaterhouseCoopers to undertake a comprehensive survey of the total tax contribution of Australia's largest businesses.

The survey, which looks in detail at the tax obligations of 92 large businesses, sheds light on how the current business tax system operates in practice.

The survey, which takes into account state and federal taxes, confirms business concerns about weaknesses and limitations in current tax arrangements. The results serve to illustrate two key themes.

Firstly, at their highest level, the results demonstrate how:

- Australian businesses, and particularly large businesses, are contributing a significant portion of the nation's total tax revenues; and
- The business tax burden is far wider, and consequently heavier, than generally assumed.

Australia's largest businesses are major contributors to the nation's overall revenue collections at both federal and state levels. Most operate across multiple state and territory jurisdictions, meaning they must pay and comply with dozens of different taxes. As a result they are able to provide significant insights into the operation of Australian tax regimes and have a legitimate role to play in highlighting the ongoing burden and inefficiencies caused by Australia's business tax environment.

Secondly, the survey results also demonstrate a more fundamental issue for business arising from the federal–state divide, namely that:

- The business tax system is far more complex than examining one level of government suggests;
- There are many taxes that raise very little revenue, considerably increasing complexity for little additional return, raising questions of efficiency; and
- As a result, business spends a significant amount of time and money complying with tax obligations.

The complexity and reduction in efficiency that arise out of this federal–state divide have a key result for Australia and Australian business: waste.

Complexity and inefficiency waste resources, time and money.

The survey also highlights that there is scope and need for simplifying and consolidating the business tax environment across all levels of government. The challenges associated with such a substantial reform program are significant, and business acknowledges the work involved to bring such a program to a successful conclusion.

While there are important reasons to tackle tax in its own right, it is also clear that any broader efforts to clarify roles and responsibilities across jurisdictions as part of a bolder reform of federal–state relations will inevitably also raise issues of revenue raising and sharing arrangements. These pressures are set to be further exacerbated by the impacts of population ageing on fiscal policy in Australia.

An in-depth understanding of the strengths and weaknesses of the current business tax system, how it impacts on business costs, and how it might be reformed to maintain a competitive business sector and revenue security in the long run, will be integral to broader reform of federal–state relations.

Tax and competitiveness

The combination of the burden and the structure of business taxation determines the overall efficiency and competitiveness of the system. This, in turn, directly impacts on the health of the Australian business sector.

At present, Australia's business sector is performing exceptionally well. This has been underpinned by an unprecedented boom in world commodity prices and the strongest sustained global growth in two decades.

The strength of economic performance is by no means universal, however, and a number of cracks are emerging.

There are increasing differences between the economic performance of certain sectors and states relative to others. Moreover, strong growth can mask underlying weaknesses and limitations in policy and economic performance. If we wait until there is clear and irrefutable evidence of these weaknesses – whether absolute or relative – we will be hostage to weaker activity levels and fewer options than if we act strategically now.

In addition, Australia needs to be well positioned to support ongoing competitiveness when global conditions become more challenging.

If Australia is to sustain strong growth and prosperity, its economy must be underpinned by a tax system that does not excessively weigh on competitiveness, investment, participation and growth, while providing adequate, secure and effective funding to meet the needs of society over time.

A significant amount of time has now passed since the last major business tax reform program (as discussed in Section 3). In that time the pace of economic change has accelerated in Australia and overseas.

Over the last decade the international economy has become increasingly global and competitive. The volume of global exports has grown by close to 7 per cent per annum since 1997, particularly due to the integration of emerging low-cost countries such as China and India into the world economy. As a result the trade intensity of the global economy has dramatically increased, with the ratio of world exports to GDP rising from 23 per cent in 1997 to over 30 per cent in 2006.

The survey confirms business concerns about weaknesses and limitations in current tax arrangements

Investment flows are also increasingly crossing national borders to chase larger returns in foreign countries. In the last five years alone the stock of global foreign direct investment has nearly doubled to over $US10 trillion.

In this environment of hyper-competition, national governments around the world are actively reforming their business taxation systems to attract and maintain investment in their economies, and improve the international competitiveness of their businesses.

This active reform process on the part of many competitors is a constant and continuing practice. For example, the recent BCA report, *Corporate Taxation: An International Comparison* found that, during the course of 2006, there were significant efforts to reform business taxation systems in countries such as Singapore, Germany, New Zealand, Malaysia, the Netherlands, Denmark, Belgium, Greece and Turkey.

While taxing business can be a relatively easy political option in the short term, maintaining a competitive business taxation system is vital to the economic health of Australia. In an age of internationally mobile capital, the business taxation system of a country is an important determinant in attracting and retaining investment.

The business taxation system also influences the business structure, production costs and investment decisions of companies and thus their direct competitiveness. For example, customs duties placed on imported inputs increase the cost of production for many companies. These costs cannot necessarily be passed on if the final goods or services are for re-export or if domestic producers compete with imported products. The need to remain cost-competitive is important in an increasingly global economy, and particularly for Australia, which will always face strategic disadvantages including relative remoteness from major global markets and relatively small and geographically dispersed domestic markets.[1]

Four out of every five workers rely on private sector businesses for their jobs and incomes, and more than 50 per cent of adult Australians own shares directly or indirectly in Australian companies – that is, they have a clear vested interest in the profitability and performance of those businesses. Likewise, business tax revenues are becoming an increasingly important source of government tax revenues, and therefore government spending abilities.

In effect, this means all Australians have a clear stake in the competitiveness and health of the Australian business sector. Business tax reform is everybody's business, and developing and maintaining an efficient, competitive business taxation system – one that raises an appropriate share of revenue as effectively as possible – is an essential element of economic management.

The economic credibility of Australia's governments now rests firmly on their ability to deliver a world-class business environment, and an internationally competitive business taxation system is a key part of that. Without it, our ability to achieve broader economic outcomes, low unemployment and low inflation are undermined.

Against this background, the time is right for a thorough consideration of the structure and frameworks for tax arrangements in Australia, with business tax being a priority element. Such reforms would enhance the efficiency of tax arrangements and support competitiveness, investment, higher rates of participation and economic growth.

Australia is once again at a taxation policy crossroads, particularly in terms of business taxation. The world has moved on. Our economy has changed. We need to embark on a new round of comprehensive reform that involves all levels of government. The PricewaterhouseCoopers survey, highlighting as it does the surprisingly broad array of tax obligations on business, supports calls for a closer examination of business taxation.

2 • KEY SURVEY RESULTS AND IMPLICATIONS

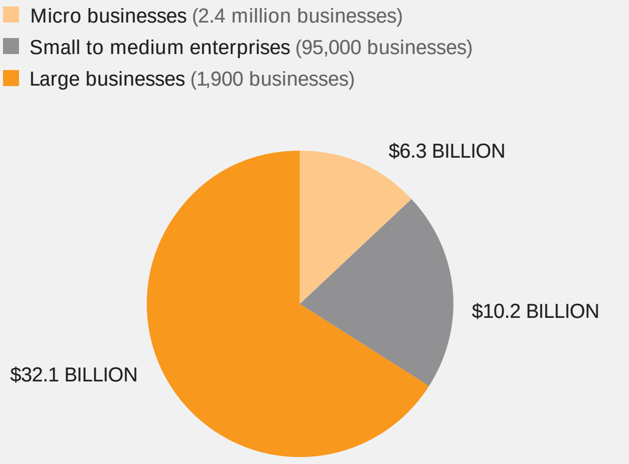
THE AIM OF THE SURVEY IS TO EXAMINE HOW AUSTRALIA'S MULTIPLE BUSINESS TAX SYSTEMS OPERATE IN PRACTICE BY IDENTIFYING THE TOTAL NUMBER OF TAXES LEVIED ON BCA AND CTA MEMBER BUSINESSES AND THE AMOUNTS THAT THOSE BUSINESSES PAY.

The survey, which examines taxes at the federal, state and local levels of government, divides taxes into two types:

+ Taxes that are directly borne (or paid) by the business (i.e. those that impact the profit and loss account); and
+ Taxes that businesses are required to collect from others on a government's behalf, such as GST from customers or PAYE from employees.

Further details of the structure of the survey, the methodology and the participants can be found at Appendix 1.

EXHIBIT 1: CORPORATE TAX COLLECTIONS BY TAXPAYER SIZE



Sources: *Commissioner of Taxation Annual Report 2005–06, ATO Compliance Program 2006–07.*

2.1 THE BUSINESS CONTRIBUTION

Corporate income tax

The survey results clearly demonstrate the significant contribution made by large business to government tax collections.

In 2006, the 92 survey participants contributed $18.1 billion in corporate income tax.

This means just 92 companies contributed more than 37 per cent of total corporate income tax revenue. With more than 1.5 million companies registered in Australia, the survey illustrates how dependent this critical revenue stream is on an extremely small number of taxpayers, and in particular on large companies.[2] According to the Australian Taxation Office, two-thirds of corporate tax receipts come from businesses with turnovers of more than $100 million, as illustrated in Exhibit 1.[3] Survey participants contributed more than half this amount.

The survey results also illustrate the extent to which company income tax from large businesses provides a substantial source of funds for public services.

For example, the corporate income tax contribution of the 92 surveyed businesses alone is greater than the total Australian Defence Force budget this financial year.[4]

Along with the benefits gained from corporate income tax receipts in Australia there comes a responsibility to ensure that the source of corporate income taxation – namely, a profitable business sector – remains a sustainable tax base in the future. In other words, the ability to fund services from corporate income tax receipts is linked to the ongoing health of the business sector in Australia and, in turn, to the competitiveness of Australia's corporate tax system.

Given the importance of this sector to tax collections, the concerns of large business about the potential long-term effects of tax system inefficiencies are legitimate.

The broader tax burden

Discussions of business taxation often centre on federal income tax. Corporate income tax is an important issue for business. As the single largest business tax, and the easiest to identify, it has immediate and obvious effects on business operations, and is therefore often the chief focus of attention.

While the BCA and CTA continue to have concerns about the sustainability of the growing company tax take in Australia, it is clear that an examination of corporate income tax alone falls well short of illustrating the full tax burden placed on companies in Australia. Businesses also pay a wide range of other taxes at the federal, state and local government levels. These taxes also have a significant bearing on the activities and competitiveness of businesses in Australia.

In 2006, survey participants contributed a further $9.4 billion in additional state and federal taxes, resulting in total taxes of $27.5 billion paid to state and federal governments.

Because of the complexity of Australia's federal system, these additional taxes are rarely taken into account when discussing the tax burden on companies. However, as the survey demonstrates, other business taxes are a significant impost on business.

For every dollar of income tax, survey participants paid another 50 cents in other business taxes.

This total tax burden of survey participants is equivalent to almost 9.5 per cent of the combined taxation receipts of state and federal governments. Put in perspective, this is the equivalent of all government spending on primary and secondary education in Australia – federal and state – in 2004–05.[5]

Australia's largest businesses are contributing a substantial share of state taxes. For example, the 92 survey participants contributed more than $2.3 billion in state payroll tax, that is, almost 20 per cent of payroll tax collections, which in turn is the largest stream of tax revenue for the states and territories.[6]

In an economy of more than 1.5 million companies and around 11 million individual taxpayers, this highlights Australia's dependence on a very small number of businesses to provide a significant portion of taxation receipts.

The prevalence of additional business taxes in Australia should raise important questions about the international competitiveness of Australia's business taxation system as a whole. Recent international research suggests that additional business taxes can have just as significant an effect on the ability of a country to attract foreign capital as company income tax.[7] Any evaluation of the competitiveness of Australia's business taxation system must take into account the full burden felt by businesses from all taxes imposed by all levels of government.

2.2 THE FEDERAL–STATE DIVIDE: COMPLEXITY

While the survey results provide an important insight into the actual tax burden placed upon businesses in Australia, they also suggest significant complexity in the structure of business taxation.

The total number of taxes potentially borne and collected by Australian businesses is 56. This comprises 21 federal taxes, 33 state and territory taxes, and 2 local taxes.

Importantly, rules and regulations governing the same types of taxes differ across states, which means that the effective number of taxes potentially faced by business is even greater. It means, for example, that companies potentially face eight different payroll taxes and eight different sets of conveyance duty. As a result, as is illustrated in Exhibit 2 (see next page), an Australian business that operates across several states and territories can be subject to a large number of potential taxes. The total number of potential taxing points identified in the survey is 182.

Australia's federal system produces a highly complex tax environment for business

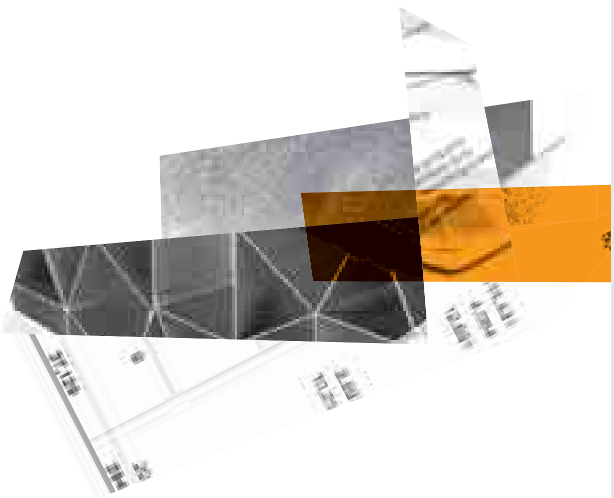


EXHIBIT 2: AUSTRALIA'S BUSINESS TAX LANDSCAPE

With multiple tax types applicable in multiple jurisdictions, a business operating in every Australian state and territory could potentially be subject to 182 taxing points.

FEDERAL

6	INCOME TAXES
9	GOODS AND SERVICES TAXES
3	PEOPLE TAXES
0	PROPERTY TAXES
3	ENVIRONMENTAL TAXES
21	**TOTAL**

WESTERN AUSTRALIA

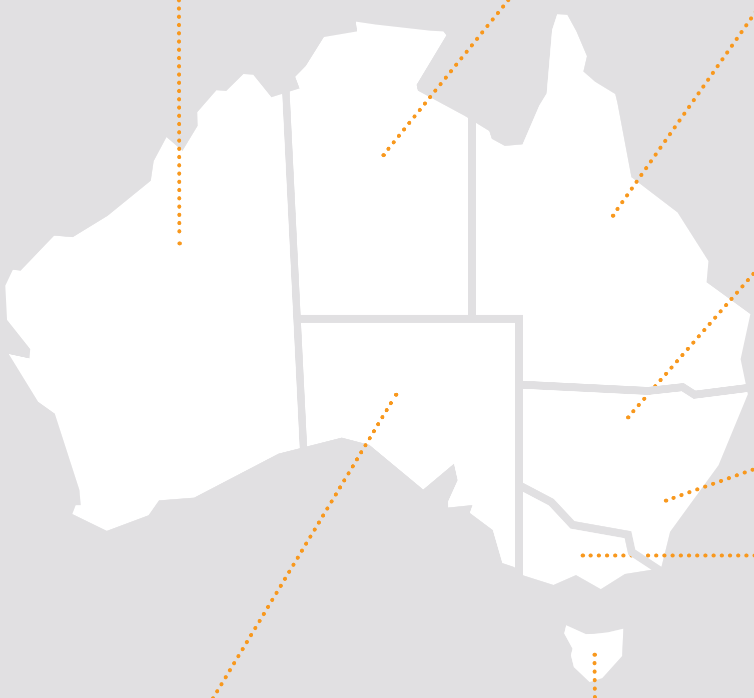
10	GOODS AND SERVICES TAXES
1	PEOPLE TAXES
8	PROPERTY TAXES
2	ENVIRONMENTAL TAXES
21	**TOTAL**

NORTHERN TERRITORY

8	GOODS AND SERVICES TAXES
1	PEOPLE TAXES
7	PROPERTY TAXES
0	ENVIRONMENTAL TAXES
16	**TOTAL**

QUEENSLAND

12	GOODS AND SERVICES TAXES
1	PEOPLE TAXES
8	PROPERTY TAXES
1	ENVIRONMENTAL TAXES
22	**TOTAL**



NEW SOUTH WALES

12	GOODS AND SERVICES TAXES
1	PEOPLE TAXES
10	PROPERTY TAXES
2	ENVIRONMENTAL TAXES
25	**TOTAL**

AUSTRALIAN CAPITAL TERRITORY

7	GOODS AND SERVICES TAXES
1	PEOPLE TAXES
8	PROPERTY TAXES
0	ENVIRONMENTAL TAXES
16	**TOTAL**

VICTORIA

11	GOODS AND SERVICES TAXES
1	PEOPLE TAXES
6	PROPERTY TAXES
5	ENVIRONMENTAL TAXES
23	**TOTAL**

SOUTH AUSTRALIA

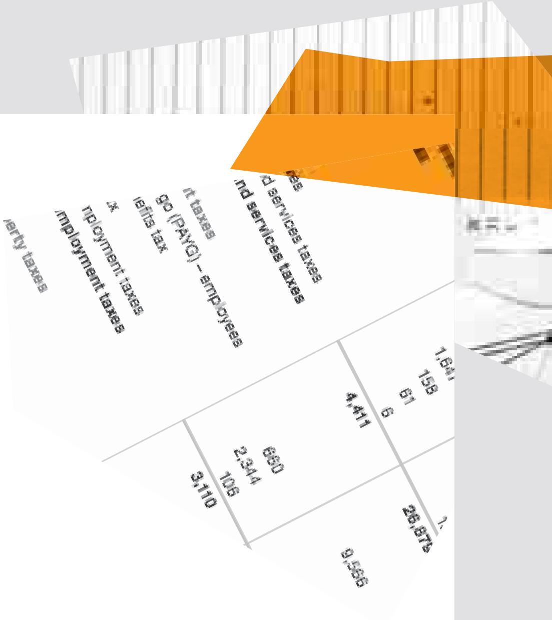
10	GOODS AND SERVICES TAXES
1	PEOPLE TAXES
9	PROPERTY TAXES
1	ENVIRONMENTAL TAXES
21	**TOTAL**

TASMANIA

7	GOODS AND SERVICES TAXES
1	PEOPLE TAXES
7	PROPERTY TAXES
0	ENVIRONMENTAL TAXES
15	**TOTAL**

MUNICIPAL TAXES

0	GOODS AND SERVICES TAXES
0	PEOPLE TAXES
2	PROPERTY TAXES
0	ENVIRONMENTAL TAXES
2	**TOTAL**



LIST OF IDENTIFIED TAXES

INCOME TAXES

Income tax
Petroleum resources rent tax (PRRT)
Pay as you go (PAYG) – collections from non-disclosure of TFN
PAYG – non residents (interest, royalty, dividend)
PAYG – Eligible termination payments and pensions
Superannuation contributions tax

GOODS AND SERVICES TAXES

Agricultural levies
Customs duties
Excise duties
Goods and services tax (GST)
HIH levy
Luxury car tax
Stevedoring and marine navigation levies
Wine equalisation tax
Wool tax
Bush fire services levy/fire levy
Casino tax
Community ambulance cover
Credit duty
Duty on sale of certain livestock
Duty on vehicle registrations and transfers
Electronic gaming machines tax
Emergency services levy
Financial accommodation levy/guarantee levy
Gaming Commission supervision charge
Insurance contributions to fire brigades
Insurance premium tax
Insurance protection tax
Public lotteries tax
Racing tax
Vehicle registration fees
Weight tax, oversize vehicles and loads

PEOPLE TAXES

Expatriate tax equalisation payments
Fringe benefits tax (FBT)
PAYG – employees
Payroll tax

PROPERTY TAXES

Debits tax
Duty on declarations of trust over property
Duty on hire of goods/rental business duty
Duty on the acquisition of businesses/goodwill
Land rich duty
Land tax
Land transfer duty/conveyance duty
Mortgage duty
Unquoted marketable securities duty
Vendor transfer duty (now abolished)
Council rates
Council collections of fire brigades levy

ENVIRONMENTAL TAXES

Aircraft noise levy
Pollution levy
Product stewardship levy (excise)
Congestion levy/parking space levy
Environmental levies on statutory corporations
Landfill levy/waste and environmental levy
Metropolitan improvement levy
Parks charge

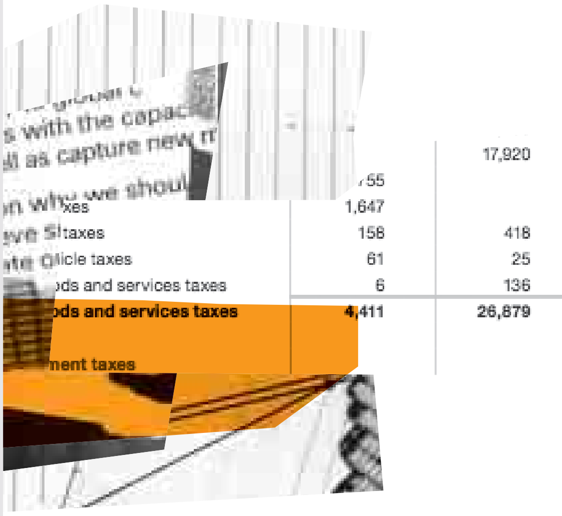
Full details of the identified taxes are contained in Appendixes A and C of the PwC survey.

Not all businesses are subject to all potential taxing points. However, the businesses involved in this survey had operations in an average of six states and territories (and are also subject to federal taxes). The potential for inefficiencies caused by such complexity, duplication and overlap is clear.

By contrast, similar work in the United Kingdom identified only 22 business taxes (see page 21 for a summary of the results of the UK research).

The operation and interaction of state and federal business tax arrangements is important in its own right, but also has implications for fundamental concerns about the state of Australia's federal system.

Throughout 2006 there was a revival in the debate over Australia's federal system. Research by the BCA (released in October 2006) highlighted the degree of dysfunction in federal–state relations and the costs that potentially result.[8] Research conducted by Access Economics for the BCA suggests that overlap and duplication due to inefficiencies in Australia's federal system is costing taxpayers about $9 billion per year.



In the main these costs arise from:

- Overlap and duplication in regulation and administration between the Commonwealth and the states;
- Cost-shifting between governments;
- Unnecessary taxes imposed by states; and
- Overspending on programs because of lack of oversight or accountability.[9]

The Access Economics estimates consider only the costs to government, and ultimately the Australian taxpayer through increased revenue requirements. They demonstrate that reduced inefficiencies and duplication in these areas could reduce the tax burden for all Australians.

However, these estimates do not take into account the costs that these inefficiencies cause for individuals and Australian businesses trying to operate in such a convoluted system. If we could also improve the efficiency of business tax arrangements, this would result in fewer distortions to decision making, reduced compliance and administrative costs and wastage, and, ultimately, stronger economic activity.

For business, the impact of poor federal–state relations manifests itself clearly through the absence of a common market. As competitive pressures have intensified, business has become increasingly aware of the costs this brings. For example, businesses operating across jurisdictions face differing rules and regulations, individuals with recognised qualifications in one state are unable to practise in others, and so on. As this survey illustrates, business taxation provides us with another example of the complexity inherent in Australia's current federal system.

The complexities of just one tax, payroll tax, are described in Exhibit 3.

EXHIBIT 3: THE PROBLEM WITH PAYROLL TAX

Payroll tax is frequently cited by business and business groups as one of the most complex state taxes. In large part, this complexity stems from the lack of harmonisation between states and territories.

Broadly, payroll tax is a tax levied on wages. Unfortunately, the application of the tax is far from simple. Not only does each state and territory have a different wages threshold at which the tax starts to apply, but they also have a different tax rate, ranging from 4.75 per cent (Queensland) to 6.85 per cent (Australian Capital Territory [ACT]).

Of greater concern is the tax base itself. There are almost 50 different kinds of payments to employees that may or may not constitute 'wages', depending on the particular state concerned. For example, tax is payable on the wages of an employee on maternity leave in most states, but in the ACT they are exempt, and in Victoria they are exempt for a maximum of 14 weeks, under certain conditions. Similarly, wages to apprentices are exempt in most states (they are taxable in South Australia and Tasmania), but each has specific and differing criteria as to who can be classed as an 'apprentice' for payroll tax purposes.

Each state also has slightly different rules for dealing with payments to contractors, and for dealing with jurisdictional issues for employees that may work in more than one state during a tax period. Different states also have different grouping requirements under which the liability of related businesses can be aggregated.

The definition of wages, the treatment of contractors, and inconsistencies in grouping provisions are regularly raised by business groups as key areas of concern. Harmonisation of state taxes more generally has been repeatedly raised by both individual businesses and business organisations and, in many cases, is ranked as a more immediate priority than tax cuts.

Business welcomes recent moves by states to embark on payroll tax harmonisation, and in particular the recent lead taken by New South Wales and Victoria. While this is an important step forward, to be truly effective such projects should engage all states, and many more taxes. If successful, this project could serve as a model for further harmonisation and simplification.

It is important to note, however, that harmonisation of individual taxes alone will not provide the complete solution to business tax complexity. A more holistic approach to reform is required.

Sources: *Australian Master Tax Guide 2007* (40th Edition), CCH Australia Limited, 2007; *State Tax Review Interim Report,* May 2006, Department of Treasury and Finance, Government of Western Australia (various submissions to the review); and M. Drummond & S. Scott, 'Firms Win Payroll Tax Relief', *The Australian Financial Review,* 26 February 2007, p.1.

As competitive pressures intensify around the world, and given the relatively limited scale of economic and business activity in Australia, these unnecessary administrative burdens will have a greater bearing on competitiveness, particularly as other countries and competitors recognise the benefits of harmonisation and reduced compliance costs for business.

Unfortunately, the trend in Australia seems to be in the opposite direction. Notwithstanding recent announcements on payroll tax, rather than exploring additional ways to reduce complexity, the approach seems to be to find ways to impose additional taxes. Recent examples include the new infrastructure ownership tax levied by the ACT Government from 1 January 2007, and the retrospective duty on airline insurance cover recently introduced by the Victorian and Western Australian governments.[10]

2.3 THE FEDERAL–STATE DIVIDE: INEFFICIENCY

The survey highlights that revenue from business taxation in Australia is raised in a relatively inefficient and burdensome way. In short, there is a multitude of taxes that raise very little revenue while imposing administrative costs to, and distortions on, business decision making.

Just one tax – corporate income tax – raised almost 66 per cent of the $27.5 billion in business taxes borne by the survey participants.

The remaining 50 taxes borne by business raised just $9.4 billion, or 34 per cent of total tax revenues accounted for by survey participants.[11]

This raises obvious questions about the relative efficiency of many of these taxes.

A closer examination of the survey results reveals that income tax, petroleum resource rent tax, payroll tax and combined gaming taxes account for over 85 per cent of the taxes contributed by survey participants, or $23.5 billion.

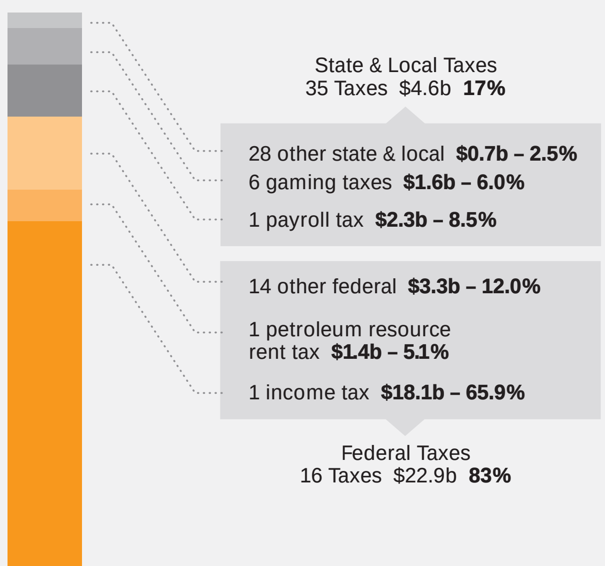
The remaining 42 business taxes raised $3.9 billion. This included 28 state and local taxes, which raised a mere $0.7 billion, or 2.5 per cent of total revenues contributed by the 92 survey participants.

Even allowing for the fact that some taxes reported by survey participants, in particular stamp duties, are believed to be understated (as discussed on page 15 of the PwC survey), and that some of the state taxes, such as vehicle registration fees, may fall more commonly on other taxpayer types, these numbers represent considerable cause for concern about the extent of business tax efficiency in Australia.

The inefficient nature of business tax collection highlighted by the survey is depicted in Exhibit 4.

As with the number of potential taxing points, the survey does not suggest all businesses are subject to every tax. The exact tax profile of any business depends on its industry and investment profile. However, most businesses are required to consider the implications of most taxes, at least in the first instance, to determine whether or not they apply.

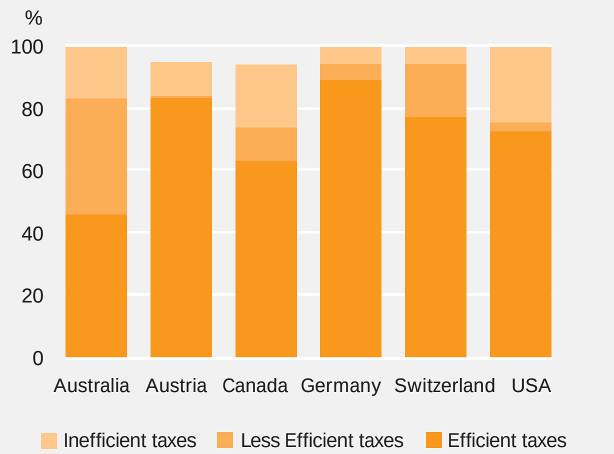
EXHIBIT 4: THE COMPOSITION OF TOTAL TAXES BORNE – $27.5 BILLION



Source: 'What Is Your Company's Total Tax Contribution? 2006 Survey Results' (Appendix 1 of this report).

This breakdown of tax collections raises broader issues in regard to federal–state fiscal relations. A number of recent studies have investigated these issues further, and raised questions about the economic efficiency costs of state taxes, even after the GST-related reform schedule is fully implemented.[12] In general, these studies find that many state taxes are very inefficient, with narrow bases, high rates, and progressive structures that have been 'excessively engineered to serve policy objectives unrelated to efficient revenue raising to fund service delivery.'[13]

EXHIBIT 5: DEGREE OF STATE REVENUE RAISED THROUGH EFFICIENT TAXES



Source: N. Warren, *Benchmarking Australia's Intergovernmental Fiscal Arrangements*, Final Report to the New South Wales Government, May 2006, Figure 11, p. 67 (OECD Revenue Statistics 1965–2004, Table 136).

Note 1: Taxes include taxes on incomes and profits, payroll taxes, property taxes, general taxes (e.g. VAT), taxes on specific goods & services, taxes on use of goods and 'other taxes'. 'Other taxes' have not been included so Austrian and Canadian taxes do not sum to 100 per cent.

Note 2: Efficient taxes include taxes on income, and broad-based general taxes such as VAT or GST. Less efficient taxes include taxes on payroll, and property taxes. Inefficient taxes include narrowly based taxes on specific goods and services or on the use of goods.

Even those state taxes that are considered to be relatively efficient in principle have been rendered inefficient through the unnecessarily confusing differences in the tax bases of different state regimes, and attempts by state governments to 'pick winners' through the use of special concessions and exemptions.[14] Again, payroll tax provides an illustrative example.

The survey results support contentions that state taxation plays a large part in Australia's taxation inefficiencies. In fact, recent international comparisons suggest that Australia's state and territory governments have a greater reliance on inefficient taxes than do many of their international counterparts.[15]

As was highlighted in the BCA's recent paper on reshaping the Australian Federation, reforms are needed to better define the roles and responsibilities of the Commonwealth and states in key areas such as education, health, infrastructure and transport. Already we are seeing significant signs of strains across all of these areas.

Given the small amount of revenue raised by many taxes, questions should be raised as to whether some taxes can and should be rationalised.

The need for reforms and greater efficiency in service delivery will only intensify in the face of population ageing (refer Exhibit 6).

In order to achieve a sustained improvement in federal–state relations and greater clarity in roles and responsibilities, there will need to be discussion of the spending and revenue raising and sharing implications. Consideration of the interaction of state and federal taxation systems, with a view to sustaining revenue security at all levels of government, will also be a necessary part of any effective review and change.[16] This will ultimately need to include discussion of the issues associated with vertical fiscal imbalance (the gap between revenue-raising capability and expenditure requirements) and horizontal fiscal equalisation (financial support for less well-off states).

EXHIBIT 6: THE TAXATION IMPLICATIONS OF AN AGEING AUSTRALIA

The fiscal implications of population ageing have been well articulated in the federal government's Intergenerational Report and more recently by the Productivity Commission ('the Commission').

In short, this work confirms that population ageing will result in a significant fiscal burden or gap emerging in coming decades. This reflects the adverse impact of slower economic growth on revenues and increasing expenditures associated with health, aged care and pensions.

In particular, the Commission has noted the following:

- While taxation revenue will largely track GDP growth, government expenditure is likely to rise more rapidly, placing budgets under considerable pressure.
  - Although education and some welfare payments are projected to increase more slowly than GDP, government spending on health, aged care and pensions will grow at a faster rate.
  - The major source of budgetary pressure is health care costs, which are projected to rise by about 4.5 percentage points of GDP by 2044–45, with ageing accounting for nearly one-half of this.
- In the absence of policy responses, the aggregate fiscal gap will be around 6.4 percentage points of GDP by 2044–45, with an accumulated value over the forty years of around $2200 billion in 2002–03 prices.
  - On past trends, much of this could be expected to be borne by the federal government, but there are also significant potential burdens faced by state and territory governments.

These conclusions point to growing tensions between state and federal governments in regard to revenue and spending responsibilities, and draw into question the ability to effectively sustain current revenue-sharing arrangements. These tensions could be exacerbated by a reduction in GST revenues as a result of increased spending on GST-exempt items (namely health).

The Commission concludes that 'the shift towards consumption of tax-exempt items that accompanies ageing is most likely to reduce long-run GST revenues slightly as a share of GDP.'

While the Commission's current estimates are for a modest reduction of GST revenues, against the backdrop of increased spending demands, even modest shifts are likely to cause friction in current revenue-sharing arrangements.

There are a number of responses that could be adopted in response to the likely fiscal burdens or gaps, such as limiting expenditures; boosting potential growth; raising taxes and/or a combination of the above.

Boosting potential growth requires a long-term investment in comprehensive policy reforms including a sustained improvement in federal–state relations. The longer such a reform agenda is delayed, the smaller the accumulated benefits in terms of growth. And the ability to achieve stronger growth is also likely to be compromised by the current business tax arrangements, which are eroding business competitiveness.

Based on past experience, there is concern that the most likely 'default' outcome will be a reliance on higher taxes. This will weigh on growth and make it harder to meet spending obligations.

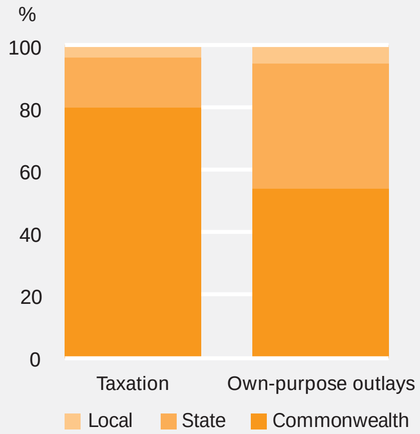
Source: Productivity Commission, *Economic Implications of an Ageing Australia*, Research Report, Canberra, 2005.

Any review of business taxes must examine revenue raising and spending arrangements

Broadly consistent with the split in revenue collections suggested by these survey results, recent reports show the federal government accounts for 80 per cent of total taxation revenue raised by all governments, while the states raise around 16 per cent.[17] The rest is raised by local governments, largely in the form of property rates.[18]

While the federal government is at present responsible for around 54 per cent of all government expenditure, and the states spend around 40 per cent (refer Exhibit 7), population ageing is likely to see a significantly greater share of spending borne by the federal government in the absence of any significant reallocation responsibilities.[19]

EXHIBIT 7: GOVERNMENT REVENUE-RAISING CAPABILITIES RELATIVE TO EXPENDITURE REQUIREMENTS



Source: N. Warren, *Benchmarking Australia's Intergovernmental Fiscal Arrangements,* Final Report to the New South Wales Government, May 2006, Figure 4, p. 51 (2004–05 data). Note: Own-purpose outlays include compensation of employees, use of goods and services, social benefits and other expenses, but do not include consumption of fixed capital, interest, subsidies and grants.

As recent research on federal–state financial relations highlights, changes are needed to the relative fiscal responsibilities of the Commonwealth and states to reduce the size or impact of this revenue–expenditure gap. This does not necessarily mean that all responsibility for revenue raising and spending should be transferred to the federal government, or that having only one kind of tax would be the most effective way to raise revenue. However, it does mean that a review of business taxes should examine these issues carefully.

Against this background, the BCA and CTA believe the time is right for a more fundamental consideration of the structure and frameworks for tax arrangements in Australia, with business tax being a priority element. Such issues will not be resolved quickly, but it is clear that they need to be resolved. Such reforms would enhance the efficiency of tax arrangements and support competitiveness, investment, higher rates of participation and economic growth.

2.4 THE FEDERAL–STATE DIVIDE: THE ADMINISTRATIVE BURDEN

Survey participants were not only subject to tax in their own right. They were also responsible for collecting large amounts of taxation revenue from other taxpayers on behalf of federal and state governments.

On behalf of governments, survey participants collected an additional $37.1 billion from other taxpayers.

This means that, for every dollar the survey participants bore in 2006, they collected an additional $1.35 in taxes from others.

Under Australia's various tax laws, businesses are required to collect up to 14 discrete taxes on behalf of others, usually either employees (such as PAYG instalments) or customers (such as the GST). As with the taxes borne by business, this number does not include the fact that many of the state taxes collected operate under different systems and at different rates in each state and territory, adding considerably to the administrative burden. In addition, further complexity can arise because some taxes are both borne and collected by business (refer Exhibit 8).

Apart from the additional administrative burden, collecting these taxes adds considerably to the tax compliance risks borne by businesses. Any mistakes in collecting GST, PAYG, excise and the superannuation contributions taxes, for example, can result in businesses being subject to significant penalties. In some instances this can occur even where no net revenue was lost.[20]

The combined value of taxes borne and collected was $64.6 billion, 22 per cent of all government taxation receipts.

This means that almost one-quarter of the taxation receipts of all Australian governments was provided by the 92 survey participants – either paid by the participants directly or collected and administered on behalf of others.

This equates to more than all federal and state government spending on health, or just over two-thirds of all federal and state government spending on social security and welfare.[21]

EXHIBIT 8: ADDITIONAL COMPLEXITIES IN THE SYSTEM

It is important to remember that some taxes can be both borne and collected by business, even where they are notionally not business taxes.

For example, because no country with a value-added tax such as the GST has been able to develop a non-distortionary way of taxing financial services, businesses are not required to pay GST on amounts received in respect of financial transactions.

At the same time, they are ineligible to claim full input tax credits for the GST included in the price of anything acquired in making those supplies. This imposes a cost on banks and other financial businesses in the form of unrecoverable GST. Survey participants bore $944 million in unrecoverable GST in the 2006 financial year, even though it is not technically a business tax.

Looking more broadly than this survey sample, ATO data indicates that more than half the total taxes collected by the Commonwealth are raised via the business sector, either directly paid by business or collected and remitted by business on behalf of other taxpayers.[22] This means that the business sector is increasingly essential not only to tax collections, but to the efficient administration of the taxation system as a whole.

The corollary of this is a substantial administrative cost on businesses in order comply with their taxation and collection obligations.

Survey participants spent an average of $1.5 million on tax compliance. Thirty per cent of participants spent more than $2 million.[23]

A number of respondents noted the difficulties of accurately estimating the full cost of tax compliance, because of the dispersion of many costs across the organisation. For example, in many businesses compliance for some taxes is conducted outside the tax unit (such as payroll taxes being calculated by payroll staff or stamp duty being paid by staff in the property division). Most businesses also incur costs in relation to the implementation and maintenance of tax accounting systems, staff training etc., while still others draw heavily on non-tax staff, such as finance or company secretarial staff, to supplement their tax-specific employees.

Corporate income tax is frequently cited as a highly complex tax compliance-wise, despite recently introduced reforms. According to survey participants, approximately 66 per cent of total compliance costs relate to income tax.

At first glance, the alignment between company income tax borne as a percentage of total business tax and the estimated percentage of total compliance costs attributable to managing income tax may not seem surprising. Given the very large amount of company income tax borne, however, some evidence of economies of scale in relation to income tax compliance costs would be expected.

EXHIBIT 9: A WORD ABOUT SMEs

The participants in this survey were drawn from the combined BCA/CTA membership, and represent some of the largest businesses in Australia. However, most of the problems highlighted by the survey apply equally to small and medium-sized enterprises.

Many businesses in Australia operate across state borders, and according to the Australian Taxation Office, increasing numbers of SMEs and even so-called ‘micro’ businesses now have some level of international dealings. This means that many of the issues raised in this report, particularly those dealing with complexity, efficiency and competitiveness, are just as important to Australia’s small business sector.

Although these sectors represent a smaller part of government revenues in dollar terms, the proportional costs can be significant. There are now numerous studies, both in Australia and internationally, that suggest the compliance cost of regulation and red tape, including taxation, fall disproportionately on smaller businesses, because they have fewer resources available to them. These disproportionate costs have been likened to a government-imposed competitive disadvantage on small business.

It is clear that comprehensive reform of the business tax system will benefit all businesses, not just Australia’s largest.

Sources: ATO *Compliance Program 2006–07*; C. Sandford, M. Godwin and P. Hardwick, *Administrative and Compliance Costs of Taxation*, Fiscal Publications, Bath, 1989.

Even allowing for error in estimating the split between income tax compliance and other compliance costs, this is suggestive of an ongoing high level of complexity and uncertainty in the corporate income tax system, and the importance of continuing attempts to simplify tax arrangements and reduce this administrative burden.

Among other compliance costs, it is noteworthy that survey participants specifically commented on the disproportionate compliance burden of certain other taxes relative to the revenue they collect, in particular fringe benefits tax (FBT).

Furthermore, a number of survey participants reported that their tax compliance costs have increased over the last three years as a result of increasing demands for information from Australian revenue authorities.

3 • HAVEN'T WE ALREADY HAD BUSINESS TAX REFORM?

THE BUSINESS COUNCIL OF AUSTRALIA AND THE CORPORATE TAX ASSOCIATION RECOGNISE THE BENEFITS AND SIGNIFICANCE OF PAST REFORMS.

As key representatives of business, neither organisation underestimates the time, cost and commitment required to develop and pass major reforms of any nature, and in particular those in regard to taxation.

While it may seem that business tax reforms have only just been completed, it is almost a decade since Australia's last significant business tax reform process was initiated.

In August 1998 the Howard Government commissioned the Review of Business Taxation (RBT), headed by Mr John Ralph AO, because it recognised, as part of its broader A New Tax System (ANTS) reforms, that Australia's business tax system was out of date, and becoming increasingly uncompetitive.

The final report of the RBT, *A Tax System Redesigned: More Certain, Equitable and Durable* was released in July 1999, with implementation of the key recommendations beginning from 1 July 2000.

The review proposed three key national objectives for the design of the business tax system:

- Optimising economic growth through ensuring that the tax system improved the international competitiveness of business;
- Promoting equity by ensuring like treatment for like transactions; and
- Promoting the simplicity and certainty of the tax system.[24]

These objectives are as relevant today as they were in 1998. Unfortunately, Australia still has some way to go before achieving them.

While the implemented reforms gave the competitiveness of Australia's tax system a much-needed boost, there are some concerns that its competitiveness is slipping once again.

In addition, businesses are still treated differently depending on their operations; for example, businesses with offshore earnings are treated differently to those with only domestic earnings under Australia's imputation regime.

Finally, the system remains overly complex, notwithstanding moves to consolidate reporting for corporate groups, the efforts of inquiries into red tape, tax law rewrites and largely cosmetic changes such as removing redundant sections of legislation from the tax law.

The delays in achieving the RBT objectives are due in part to the political circumstances surrounding the implementation of a number of its recommendations, but also restrictions placed on the RBT itself.

Fundamentally, the RBT was restricted by the requirement that recommendations be revenue neutral. This limitation was important for political reasons in terms of the implementation of the package and its place in the federal government's broader ANTS reforms. But the requirement for revenue neutrality meant a number of potentially significant reform options were not pursued, such as the amortisation of acquired goodwill.[25]

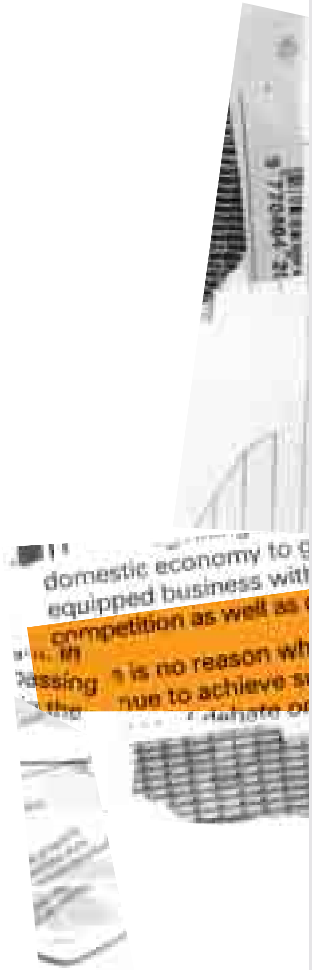
It is almost a decade since Australia's last significant business reform process was initiated

These missed opportunities have served to undermine the competitiveness of the system over time, particularly given that competitor countries have improved their taxation arrangements in the meantime. The recent Warburton–Hendy report on Australia's taxation system noted that Australia is one of only three countries in the OECD-10 that does not provide for the amortisation of acquired goodwill, undermining the attractiveness of Australia as an investment destination.

With the benefit of hindsight, it is also clear that the longer-term effectiveness of the RBT was undermined by the fact that it could only examine the implications of federal business taxes. As discussed in this report and elsewhere, reform of business taxation at both state and federal levels has become increasingly important. All taxes affect business and business competitiveness, and developing the most effective and competitive tax system should involve consideration of the whole.

Unfortunately, business tax reforms at state levels have been piecemeal at best. Worse, from the perspective of large businesses operating in multiple states, the limited reforms in many cases have only served to exacerbate the differences between state regimes.

Finally, it should be noted that while the RBT achieved a number of significant improvements to business taxation at the federal level, in the intervening years both the international business environment and taxation competition have changed dramatically. The evolution of the global economic and policy environment means Australia cannot rely indefinitely on past reforms to provide the economy with the competitive edge that it needs to prosper.



4 • WHERE TO FROM HERE?

THIS REPORT, AND THE SURVEY ON WHICH IT IS BASED (APPENDIX 1), ILLUSTRATES THE WAY CURRENT TAX SYSTEMS IMPACT ON AUSTRALIAN BUSINESSES IN PRACTICE.

In light of the questions of complexity and efficiency raised by the survey results, and the looming fiscal pressures associated with population ageing, a major rethink of tax arrangements, including major sources of revenue as well as revenue-sharing agreements between state and federal governments, cannot be avoided. A range of other recent research supports this view.[26] Likewise, the impact of current tax arrangements on the ongoing competitiveness and vibrancy of Australia's business sector, and therefore the long-term security of revenue sources, needs to be considered.

The Business Council and the Corporate Tax Association call on the federal Treasurer to request the Productivity Commission to conduct a comprehensive review of the effectiveness of Australia's business tax system, and to lead the development of an integrated response by all Australian governments to the issues raised by the review.

As an organisation with a deserved reputation as an impartial assessor of policy with a strong focus on improving the international competitiveness of Australian industry, the Productivity Commission is the appropriate body to undertake such a review. Having examined a range of state and federal taxation issues in the past, the Productivity Commission has the expertise to perform such a detailed and complex task.

Importantly, the Productivity Commission needs to be given the time and resources to undertake a considered and comprehensive review of all aspects of business taxation in Australia.

Furthermore, the terms of reference of such a review must enable the Productivity Commission to recommend reforms in a comprehensive fashion to the entire Australian taxation system which involve actions at all levels of government in Australia.

The review should examine both state and federal taxes, with a particular focus on:

+ The effectiveness of current revenue streams and revenue-sharing arrangements, including issues such as:

- the amount of revenue raised;
- the operating costs of individual taxes relative to the revenue raised; and
- the administrative burden on both government and business of individual taxes,

with a particular focus on taxes other than the top four revenue-earning taxes.

+ The sustainability of current arrangements, including issues such as:

- future government spending demands relative to current revenue-sharing arrangements;
- the drivers and sustainability of the current growth in corporate income tax receipts; and
- the impact of population ageing and other structural changes on revenue trends and sources of revenue.

This review would build on and extend previous Productivity Commission work on population ageing and long-term structural trends in the Australian economy.

The review should be seen in the context of the broader debate on Australia's federal–state relations. The BCA has already proposed the establishment of a federal convention (or similar national summit) to examine improvements to Australia's federal–state relations. The proposed tax review should be conducted by the Productivity Commission and a report compiled by mid-2008, which should then be used to canvass tax reform options, ideally as part of any future convention on reform of federal–state relations in Australia.

ATTACHMENT A

Comparison of results from PricewaterhouseCoopers surveys in Australia and the United Kingdom

In January 2007 PricewaterhouseCoopers undertook a survey of members of the Hundred Group in the United Kingdom using the same Total Tax Contribution framework methodology that has been used for the current survey of Business Council of Australia and Corporate Tax Association members.[27]

The most striking result is that the UK, with an economy almost three times the size of the Australian economy, has less than half the number of business taxes.

It is difficult to compare the taxation dollar results of the two surveys because of the differences in sample size.

The United Kingdom survey had 78 participant companies compared to Australia's 92 survey participants. In addition to the information gained from these 78 companies, the survey also extrapolated the results to make them representative for the Hundred Group as a whole – approximately 120 companies. Exhibit 10 provides a comparison of the results produced from both surveys.

EXHIBIT 10: RESULTS FROM SURVEYS IN AUSTRALIA AND THE UNITED KINGDOM

	Australia (92 PARTICIPANTS)	United Kingdom (78 PARTICIPANTS)	United Kingdom (EXTRAPOLATED TO 120 PARTICIPANTS)
Number of Taxes Borne and Collected	56	22	
Corporate Income Tax (as % of Total Government Income Tax Receipts)	37	26	30
Total Business Taxes (as % of Total Government Tax Receipts)	9.4	4.5	5.0
Ratio of Corporate Income Tax to Other Business Taxes	1:0.5	1:1	
Total Taxes Borne and Collected (as % of Total Government Tax Receipts)	22	13	16
Ratio of Taxes Borne to Taxes Collected	1:1.4	1:1.9	

NOTES

1 See B. Battersby, *Does Distance Matter? The Effect of Geographic Isolation on Productivity Levels*, Treasury Working Paper Series 2006–03, Canberra, April 2006.

2 Australian Securities and Investments Commission company registrations data, November 2006 (1,513,888 companies registered across Australia).

3 Australian Taxation Office, *Compliance Program 2006–07*, Canberra, August 2006, p. 32.

4 The 2006–07 Defence budget is estimated at $17.87 billion (2006–07 Budget, Budget Paper No. 1, General Government Expenses, Table 3, Department of the Treasury, Canberra, May 2006).

5 Total annual spend for 2004–05 on primary and secondary education is $26.2 billion (sourced from ABS Catalogue No. 5512.0, *Government Finance Statistics 2004–05*, p. 40).

6 The figure of payroll tax collections of $12 billion is based on ABS *Taxation Revenue 2004–05*, Table 15, p. 23.

7 A. Desai, C. F. Foley, and J. R. Hines Jr., 'Foreign Direct Investment in a World of Multiple Taxes', Journal of Public Economics, 88, 2004, 2727–2744.

8 See, for example, discussion in *Reshaping Australia's Federation: A New Contract for Federal–State Relations*, Business Council of Australia, Melbourne, October 2006.

9 ibid., pp. 8–9.

10 For further information on the airline tax, see D. Hughes, 'Airlines Fly into a Rage Over New Tax', *The Australian Financial Review*, 14 February 2007, p. 7; and S. Creedy, 'Foreign Flyers Ponder Stamp Duty Legal Action', *The Australian*, 16 February 2007, p. 29. For further information on the ACT infrastructure ownership tax, refer page 7 of the survey by PricewaterhouseCoopers.

11 Note that while the survey sample is limited, the proportion of state and federal taxes paid by survey participants is broadly consistent with national data across all taxpayer types. ABS Catalogue No. 5506.0 shows 2004–05 tax collections by the Commonwealth Government were 82.3% of total collections by all levels of government. Of course, there are some differences between the taxes applied to and collected from some taxpayers, like business, relative to other taxpayer types. The GST is one such example – considerably less GST is paid by business as it is technically a tax on consumption.

12 See for example R. Carling, *State Taxation and Fiscal Federalism: A Blueprint for Further Reform*, CIS Policy Monograph 73, The Centre for Independent Studies, Sydney, 2006. Additional and more general calls for reform include P. Burn, *How Highly Taxed Are We? The Level and Composition of Taxation in Australia and the OECD*, CIS Policy Monograph 67, The Centre for Independent Studies, Sydney, 2005; Ernst & Young, *Taxation of Investment in Australia: The Need for Ongoing Reform*, February 2006; and N. Gruen, *Tax Cuts to Compete: The Influence of Corporate Taxation on Australia's Economic Growth*, Lateral Economics/CEDA Information Paper 85, Committee for Economic Development of Australia, Melbourne, October 2006.

13 Carling, p. 11.

14 Carling, p. 13.

15 N. Warren, *Benchmarking Australia's Intergovernmental Fiscal Arrangements*, Final Report to the New South Wales Government, May 2006.

16 This is discussed further in *Reshaping Australia's Federation* and in references by N. Warren and R. Carling as cited above.

17 The goods and services tax (GST) is included in this figure as revenue raised by the Commonwealth because it is raised under Commonwealth legislation and, although politically committed, the Commonwealth is not constitutionally bound to pass the GST revenue to the states.

18 Business Council of Australia, *Taxation Action Plan for Future Prosperity*, Melbourne, April 2005, p. 83.

19 Based on own-purpose expenditure and excluding subsidies and grants, including to the states. See N. Warren, op. cit., p. 51.

20 See, for example, comments in E. Kazi, 'Vos Urges Business to Dob in ATO', *The Australian Financial Review*, 16 January 2007, p.1.

21 ABS figures indicate combined government spending on health in 2004–05 was $57 billion, and combined government spending on social security and welfare was $90.1 billion (sourced from ABS Catalogue No. 5512.0, *Government Finance Statistics 2004–05*, p. 40).

22 ATO data cited comes from the Australian Taxation Office *Compliance Program 2006–07*.

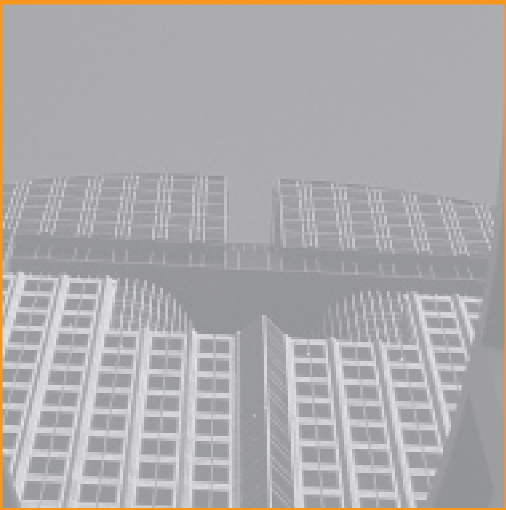
23 Responses to survey questions on compliance costs were optional. Sixty-four of the 92 respondents provided answers to these questions, to varying degrees. Responses indicated that companies found it very difficult to accurately quantify compliance costs, and consequently these costs are likely to be understated. This is because of the often decentralised nature of tax compliance in large business organisations, where many tax-related tasks are performed by business units other than allocated tax employees. For example, in many businesses, payroll taxes are calculated, processed and remitted by payroll staff, not the tax unit. Similarly, work performed by tax units can often involve input from company secretarial or legal staff. In addition, many businesses find it difficult to separately quantify the costs associated with upgrading systems and technology to cope with tax changes, given their interaction with separate financial reporting requirements. Further information on tax compliance costs can be found in Chapter 8 of the PwC survey.

24 Review of Business Taxation, *A Tax System Redesigned: More Certain, Equitable and Durable*, Department of the Treasury, Canberra, July 1999, pp. 13–17.

25 ibid., p. 23.

26 See for example R. Carling, *State Taxation and Fiscal Federalism: A Blueprint for Further Reform*, CIS Policy Monograph 73, The Centre for Independent Studies, Sydney, 2006. Additional and more general calls for reform include P. Burn, *How Highly Taxed Are We? The Level and Composition of Taxation in Australia and the OECD*, CIS Policy Monograph 67, The Centre for Independent Studies, Sydney, 2005; Ernst & Young, *Taxation of Investment in Australia: The Need for Ongoing Reform*, February 2006; and N. Gruen, *Tax Cuts to Compete: The Influence of Corporate Taxation on Australia's Economic Growth*, Lateral Economics/CEDA Information Paper 85, Committee for Economic Development of Australia, Melbourne, October 2006.

27 The Hundred Group represents finance directors from the largest listed companies in the United Kingdom.



What is your company's Total Tax Contribution?*

2006 survey results

*connectedthinking

PRICEWATERHOUSECOOPERS

Contents

1

Executive summary

The performance of Australian business is inextricably linked to the efficiency and effectiveness of the business and regulatory systems which support it. The taxation system, as a significant component of the regulatory system, has come under much scrutiny in the past decade with tax increasingly on the agenda of management and other stakeholders. There is a growing need for companies to better understand their tax obligations for management and reporting purposes.

A complex Federal, State and Territory tax mix

Federal corporate income tax imposes a significant tax burden on business in Australia. However, it is important to recognise that corporate income tax is only one of currently 21 different Federal and 33 separate State and Territory taxes. Collectively this translates to 182 potential taxation obligations, or “taxing points”, for businesses operating Australia-wide (excluding Local Government obligations). Until now the overall impact of these “taxing points” has not been focused on nor their costs quantified in Australia.

A large number of State and Territory taxes raise relatively little revenue. Not only is this inefficient, it imposes a significant compliance obligation on business. A number of these taxes were to be abolished with the introduction of a goods and services tax (GST) but this has not yet occurred.

What is Total Tax Contribution?

The PricewaterhouseCoopers Total Tax Contribution framework focuses on three areas that represent a company’s overall taxation contribution. These are:

- Business Taxes Borne by the business – taxes that impact the Profit and Loss Account;
- Business Taxes Collected – from customers and employees that are then remitted to government; and
- Tax Compliance Costs – incurred in assessing and remitting Taxes Borne and Taxes Collected.

PricewaterhouseCoopers designed the Total Tax Contribution framework to enable companies to collect and report total tax information in a consistent manner, to meet the needs of stakeholders and improve transparency.

Total Tax Contribution survey

Members of the Business Council of Australia (BCA) and the Corporate Tax Association (CTA) were invited to participate in the 2006 Total Tax Contribution survey. The survey used PricewaterhouseCoopers’ Total Tax Contribution framework to provide information on total business Taxes Borne and Taxes Collected in Australia for the last two financial years. There was significant interest in the survey among the member organisations, with 92 participating.

The participating companies represented a wide range of industries and a mix of the largest Australian listed, large foreign owned and some privately owned Australian entities – a very significant representation of large business in Australia.

Taxes Borne

The 2006 survey results show that:

- The 92 participants bore $27,540m in business taxes, representing 9.4% of total estimated Australian Government taxation receipts. Thus, a small number of companies make a significant contribution to government revenue.
- Of the total business Taxes Borne by survey participants, 66%, or $18,160m, was corporate income tax. The reliance on corporate income tax is significantly higher in Australia than most other countries.
- A small number of business Taxes Borne by survey participants (corporate income tax, petroleum resource rent tax, payroll tax and gaming taxes[1]) raised $23,552m and the remaining 42 business Taxes Borne raised $3,988m.
- Of all Taxes Borne by survey participants, Federal taxes comprised 83% and State, Territory and municipal taxes accounted for the balance of 17%.

Taxes Collected

In addition to Taxes Borne, in respect of the 92 participants, 2006 survey results show that:

- Taxes Collected from customers and/or employees totalled $37,129m, or 12.6% of total estimated Australian Government taxation receipts.
- For every $1 of Tax Borne, a further $1.35 was collected on behalf of Australian Governments.
- The companies who consistently bear the largest taxes are also, generally, the largest collectors of tax.

The picture for individual participants

The 2006 survey results further indicated that:

- Taxes Borne by survey participants represented 32%[2] of profit before all business taxes.
- Taxes Borne and Taxes Collected represented 12%[3] of participant companies' turnover.
- Employment taxes (Borne and Collected) per employee amounted to $27,192[4] for survey participants.
- The average number of taxing points for Taxes Borne and Taxes Collected identified per survey participant was 25, with the maximum number identified as 76.
- The number and amount of Taxes Borne and Taxes Collected varied substantially between individual survey participants.

Industry segment analysis

An interesting outcome from the survey was the significant difference between key industry groups in the Taxes Borne, Taxes Collected and other measures examined. These differences are due to a range of factors including operating models and the relative profitability of particular industries.

Tax compliance costs

Sixty-four companies provided responses to the optional questions in relation to tax compliance costs, indicating that:

- The total cost of income tax compliance represented, on average, two thirds (66%) of total tax compliance costs.
- On average, survey participants estimated incurring total compliance costs of approximately $1.6m.
- A significant number of participants incurred tax compliance costs in excess of $2m per annum, with some of the larger organisations reporting more than two or three times this amount.

Fifty-four organisations responded to questions in relation to their in-house tax function resources. Results showed that:

- On average, internal tax functions employ nine specialist tax people for in-house tax functions.

Participants commented on the cost of dealing with the ongoing complexity of corporate income tax and the disproportionate cost of complying with certain other business taxes, such as fringe benefits tax.

The "real" cost of compliance is very difficult to determine. It was significant that survey participants, in providing their responses to the questions posed, acknowledged difficulty in estimating costs accurately. Part of this challenge was estimating the hidden costs of systems and other processes that support the delivery of accurate financial information for the purpose of reporting current tax positions.

1 Gaming taxes include public lotteries tax, electronic machines gaming tax, racing tax, casino tax, and the Gaming Commission supervision charge.

2 Based on the median result.

3 Based on the median result.

4 Based on the median result.

2 The changing tax environment

Key points:

- Tax has become a more significant part of the overall business agenda, thus intensifying scrutiny on the taxation system's ability to deliver competitive economic outcomes for Australian business.
- The complexity of Australia's corporate income tax system is widely acknowledged, with the complexity having substantial implications on companies doing business in Australia.
- The tax burden on business is wider than corporate income tax – corporate income tax is just one of 21 Federal and 33 separate State and Territory taxes and levies.
- Lack of uniformity of rules and jurisdictional overlap of the many State taxes contribute to the complexity – businesses operating across all States and Territories potentially have to comply with 182 taxation obligations or "taxing points".
- While the Australian Taxation Office (ATO) is a key stakeholder, there is a significant number of other external, as well as internal, stakeholders. Management of their, often conflicting, needs represents an ongoing challenge for business.

The tax landscape continues to evolve and place different challenges on corporate Australia.

Companies are coming under increasing scrutiny in relation to their taxation affairs, with wider groups of stakeholders now interested in business tax.

Business tax burden is far wider than corporate income tax

The burden and complexity imposed by Australia's corporate income tax system on businesses is well documented. However, considerations that focus exclusively on the corporate income tax system provide only a partial picture of the business tax environment in Australia.

Publications such as the Business Council of Australia's (BCA) *Corporate Taxation: An International Comparison* series have emphasised that Australia's corporate income tax system places an internationally high burden on corporate profits. Although, as this report highlights, in addition to every dollar companies pay in corporate income tax they pay approximately 50 cents in other business taxes. This suggests the tax burden is considerably higher than an analysis of corporate income tax alone would indicate, and reinforces concerns about the international competitiveness of business taxation in Australia.

Similarly, much of the commentary on business tax complexity in Australia focuses on the technical complexity and volume of Federal income tax rules. However, corporate income tax is just one of 21 Federal and 33 separate State and Territory taxes and levies impacting Australian businesses. The number of taxes that apply at each level of Australian Government means that businesses operating in all States and Territories potentially have to comply with 182 taxation obligations. The sheer number of these "taxing points" represents a significant compliance obligation for companies and contributes to the complexity of Australia's taxation system. Refer to Appendix A for a list of Australian Federal, State and Territory business taxes. In addition to the numerous Federal, State and Territory taxes, there are also municipal taxes on property imposed by the many Local Governments throughout Australia.

The business tax landscape is made more complex by the lack of uniformity of rules and jurisdictional overlap of many State taxes. Some similar State taxes continue to apply according to different rules in the different States and Territories; moreover, these rules are regularly amended. This adds significantly to the number of potential taxing points for a company doing business across the county – and the complexity and compliance risk in meeting these obligations. Payroll tax, for example, is levied under a different set of rules in each State and Territory using different tax bases, thresholds and rates. The impact of this has recently been recognised by the States with the establishment of a national payroll tax consistency project that will report in early 2007 on ways to reform Australia's disparate payroll tax rules.

The number of taxing points also impacts on the ability of companies to manage compliance risk as the company with collection responsibility generally bears the risk of error in relation to taxes that are collected and remitted to revenue authorities (for example, goods and services tax (GST) and stamp duties).

The complexity of Australia's business tax landscape, especially taxes and levies other than corporate income tax and GST, is seen as being particularly problematic for Australian businesses. Taxation expert Neil Warren states in his publication *Tax: Facts Fiction and Reform*[5] that "The design of State taxes in Australia leaves much to be desired – not only are these taxes inefficient and inequitable, they are also often complex and poorly understood".

There is a real need for the tax reform debate to broaden from the complexity of Australia's income tax system to also include the efficiency of the overall system of taxes imposed on business.

State taxes – increasing or decreasing?

Australian States and Territories rely on payroll tax, land tax, stamp duty and gaming taxes, in particular, to provide infrastructure and services such as education and health. Accordingly, many State taxes are perceived by business to be imposed at high rates that unduly influence business decisions. For example, stamp duties are at levels that can impede property and other business transactions, with exemptions for corporate reorganisations not always available. Similarly, payroll taxes, typically 5% or 6%, are generally considered to be high.

The Federal Government has wide taxation powers and minimal restrictions under the Constitution. State and Territory governments have narrow taxation powers, including being prohibited from levying excises (an exclusive power of the Federal Government), which excludes them from a wide range of indirect taxes.

The introduction of the GST has substantially boosted the tax revenues of the State and Territory Governments because, while the GST is collected by the Federal Government, all GST revenue (less collection costs) is paid to the State and Territory Governments under the *Intergovernmental Agreement on the Reform of Commonwealth State Financial Relations*.

Despite significant revenue from GST since its introduction, to date there has only been a marginal reduction in the number of State and Territory taxes. The timetable for the abolition of certain State business taxes is set out in Appendix B. This variable timetable further adds to the complexity for business in complying with these business taxes. For example, business asset transfers are currently exempt from stamp duty in three States and Territories. In the other five States and Territories these stamp duties will be reduced or abolished on five different dates from 2006 to 2012.

Equally importantly, the number of business taxes continues to increase. For example, the ACT introduced an infrastructure ownership tax on gas, electricity, water and telecommunications on 1 January 2007.[6]

Governance and regulation

Tax has been elevated up the risk agenda of corporate Australia over the last few years. This has often been part of a broader push by corporates to improve governance. The Federal Commissioner of Taxation has sought to capitalise on this risk management focus and has overtly called for tax to be put on Board agendas as a corporate governance issue. The recent release of the *2006 Large Business and Tax Compliance* booklet by the ATO clearly sets out their high expectations in relation to tax compliance systems and processes and the management of risk.

5 Australian Tax Research Foundation 2004

6 2006 *Utilities (Network Facilities Tax) Bill* The Legislative Assembly for the Australian Capital Territory, www.legislation.act.gov.au

The Sarbanes Oxley legislation introduced in the United States in 2003 has increased the focus on compliance in relation to taxation by requiring external audit certification of the controls around tax compliance and reporting for Securities and Exchange Commission (SEC) registered companies. Sarbanes Oxley directly impacts on a number of major Australian corporate groups with SEC listings, including some of those participating in this survey. It has also had an effect on non-SEC regulated companies.

Recently two large Australian companies have concluded Forward Compliance Arrangements (FCAs) with the ATO as part of a pilot program promoted by the ATO. These administrative arrangements are designed to provide greater certainty and other benefits to taxpayers in exchange for greater transparency to the ATO about the company's taxation affairs. They are clearly consistent with some businesses' approach to managing tax risk, and can be seen by the ATO as a success in reinforcing conservative taxpayer behaviour. Whether the use of FCAs becomes more widespread remains to be seen.

In summary, there has been a pronounced swing in the tax management pendulum to focus on risk management and compliance processes.

Stakeholder key drivers

As the tax environment changes, a range of stakeholders (including the ATO) have become more interested in the tax paid by business. There is increasing pressure on companies to be more transparent about their tax policies and technical positions. Stakeholders' needs regarding tax can be in conflict and when setting their individual tax strategies, each company has to balance the differing needs of a wider group of stakeholders. In developing the Total Tax Contribution framework, PricewaterhouseCoopers talked to different stakeholders with an interest in tax (including Government, international organisations, business, investors, analysts and non-Governmental organisations).

The different stakeholders, both internal and external, and a summary of their key drivers are set out in Table 2.1. However, PricewaterhouseCoopers suggests that transparency is central to all stakeholder needs and Total Tax Contribution provides information that is helpful to stakeholders and informs decision making.

INTERNAL STAKEHOLDERS	EXTERNAL STAKEHOLDERS
Board ▪ Management of tax risk including reputational risk ▪ Ethical business practices	**Investors** ▪ Clarity on tax strategy and risk profile ▪ Year on year stability of tax expense ▪ Understanding future tax liabilities
Finance department ▪ Reduced tax costs	**Consumers** ▪ Lower taxes on goods and services
Tax department ▪ Ensuring compliance with tax obligations ▪ Building trusted relationship with ATO	**Governments** ▪ Maximising taxation revenue ▪ Attracting and retaining investment ▪ Financing public services
Employees ▪ Maximising after tax personal income ▪ Good corporate citizen	**Non-Government organisations** ▪ Campaigning against tax avoidance ▪ Advocating greater transparency in corporate tax reporting ▪ Campaigning for companies to pay a fair contribution in taxes
External affairs ▪ Avoiding negative press – particularly on anti-avoidance	

Table 2.1: Stakeholders and a summary of their key drivers

Corporate social responsibility and reporting of taxation

The social responsibility of business has never been more pronounced. Since the early 1960's, interest groups and executives have shared a desire to better measure the contribution of business to society. Key issues such as climate change, poverty elimination and ethical relativism continue to present significant challenges for government, business and society and, in particular, the meaningful sharing of information on these and similar matters.

Overseas, particularly in the United Kingdom (UK), interest groups are calling for companies to make ethical choices in relation to tax planning. Tax is now on the agenda of the corporate responsibility movement. To quote Jeffrey Owens, a senior official at the Organisation for Economic Co-operation and Development (OECD), "Tax is where the environment was (as a corporate responsibility issue) ten years ago."[7]

Trends in the UK show companies being far more overt about the extent of their contribution to the economic health of the community, including disclosure of Taxes Borne and Taxes Collected.

While the amount of tax paid is under increasing scrutiny, generally in Australia the only information publicly available in relation to tax is the disclosure of income tax on corporate profits in a listed company's annual report. Typically there is no disclosure of the many other business taxes paid by companies.

Nevertheless, limited disclosure of other business taxes is being made by a few larger companies. Of the S&P/ASX 20 group, nearly half of the companies provide some additional disclosure in relation to tax in their corporate social responsibility (CSR) reports; only 25% of this group provide "significant" disclosure. Generally additional taxation disclosure is minimal and most importantly has little comparability between companies.

7 Financial Times, 22 November 2004

3

The PricewaterhouseCoopers Total Tax Contribution framework

Key points:

- An understanding of Total Tax Contribution will provide a company with greater clarity of their overall taxation contribution and the costs it incurs in meeting these obligations.
- The Total Tax Contribution framework sets a consistent basis for any reporting of a company's taxation contribution and provides business with a mechanism to benchmark their tax profile.
- The Total Tax Contribution framework brings together comparable data that can be used to measure the extent of businesses' contribution in respect of taxes.
- The framework considers three areas of the companies' taxation profile to fully evaluate their overall taxation contribution – Taxes Borne, Taxes Collected and tax compliance costs.

PricewaterhouseCoopers designed the Total Tax Contribution framework to enable companies to collect and report total tax information in a consistent manner, to meet the needs of stakeholders and improve transparency. In particular it was recognised that financial accounts rarely include information on business taxes other than corporate income tax.

Few companies have accurate and comprehensive information on their tax payments. In our view, every company should know the total amount of tax it pays. A proper focus on Total Tax Contribution provides visibility to a company's internal stakeholders of the impact of all taxes on the business and enables management to make more informed investment decisions. It also improves tax risk management, controls and the allocation of tax resources.

Total Tax Contribution also provides a way for companies to communicate their tax contribution to external stakeholders. Total Tax Contribution is an economic measure of what companies pay into the public finances and, as such, may meet the needs of some stakeholders better than the tax disclosures in their financial statements. Companies may wish to report their tax contribution as part of their external communications or in their CSR report. Total Tax Contribution aligns with the guidelines on tax as part of corporate responsibility reporting.[8]

8 *Sustainability Reporting Guidelines* Global Reporting Initiative, 2006 www.globalreporting.org

What is the PricewaterhouseCoopers Total Tax Contribution framework?

The PricewaterhouseCoopers Total Tax Contribution framework defines the components of a company's overall economic contribution in taxes, examining three specific areas of taxation:

1. Business Taxes Borne by the business – taxes that impact Profit and Loss Account;
2. Business Taxes Collected – from customers and employees that are then remitted to government; and
3. Tax Compliance Costs – incurred in assessing and remitting Taxes Borne and Taxes Collected.

It is also possible to broaden the framework to include other payments to and from government, which do not meet the definition of a tax and to more indirect impacts in respect of tax, for example, taxes embedded in purchased products and services.

The Total Tax Contribution framework is designed to enable the tax contribution of companies to be measured on a consistent basis.

The Total Tax Contribution framework provides information on what taxes companies bear and collect. By focusing on payments it provides an economic measure of what companies contribute to government revenue, as an alternative to the financial measure (i.e. corporate income tax expense) in a company's financial statements. It is intended to be a relatively easy concept for all stakeholders to understand.

The framework is built around two criteria; firstly, the definition of a tax and secondly, the distinction between taxes which are a cost to the business (Taxes Borne) and the taxes business collects on behalf of the government (Taxes Collected).

▪ Definition of a tax

For the purpose of the Total Tax Contribution framework, PricewaterhouseCoopers has defined a tax as "something that is paid to government (by businesses or individuals) to fund government expenditure, excluding payments where there is a specific return of value (for example, rents and licence fees)."

Accordingly, not all payments made by businesses to government will meet this definition of a tax. A payment which provides some return of value to the business is not treated as a tax for the purposes of Total Tax Contribution. A licence fee paid to government which conveys certain rights to a business is an example of a payment not considered to be a tax.

▪ Distinction between Taxes Borne and Taxes Collected

Taxes Borne are the company's immediate cost and will impact their results. For example, payroll taxes form part of employment costs. Taxes Borne are charged to the company's Profit and Loss account and will ultimately be passed on to customers, employees or shareholders.

The Total Tax Contribution framework includes any payment that is made to government in respect of the employment of people even in cases where the tax may result in lower salary and wages. For example, fringe benefits tax (FBT) is imposed on employers in relation to benefits provided to employees and is treated as a tax borne under the framework.

Taxes Collected are not the company's own costs, but taxes collected on behalf of government from others, for example income tax under pay as you go (PAYG) from employees. Taxes Collected are administered by the company, involve costs of compliance, and indirectly impact on the company's results since, for example, indirect Taxes Collected will impact prices to customers and employee taxes the cost of labour.

The collection obligations imposed by government on business are significant and it is important to understand the amount collected by a company as part of any recognition of their wider tax contribution. Taxes Collected by a company are essentially generated by its business activities; either in relation to the employment of people or the sale of products and services.

In addition, there is a real cost of administering collection of these taxes that needs to be recognised. Business bears the costs of interpreting the often complex legislative provisions, maintaining the necessary compliance systems and penalties incurred if errors are made in complying with the applicable legislation.

Certain taxes can be considered both borne and collected – borne by a company on their own consumption and collected by companies in the appropriate industry sector. Examples of taxes that can be both borne and collected include insurance taxes, which are collected by insurance companies and borne by the insured.

Australian GST is collected by companies on behalf of the government. However, not all GST on inputs can be claimed as a tax credit. In these circumstances the "irrecoverable" GST is treated as a tax borne by the company. The most common example of this is in the financial services sector where companies cannot claim a significant proportion of GST on inputs.

Further details of the classification of taxes as borne or collected is included in Appendix C.

Key measures

The analysis in “Survey results: the picture for individual participants” aggregates the data collected from survey participants and examines their relativity in relation to three key measures:

1. Taxes Borne as a percentage of profit before all business taxes (Total Tax Rate);
2. Taxes Borne and Taxes Collected as a percentage of turnover; and
3. Employment Taxes Borne and Taxes Collected per employee.

Total Tax Rate (TTR)

The TTR measures the percentage of company profits paid in taxes and provides a useful measure of a particular businesses’ total taxation burden. The TTR is calculated as all business Taxes Borne as a percentage of profits before all business Taxes Borne (including corporate income tax and indirect Taxes Borne).

In the calculation, the numerator is the total of all business Taxes Borne and the denominator is the profit before all business Taxes Borne. It is important to note that the profit figure used in the calculation is not the traditional figure found in the financial statements of the company (i.e. accounting profit before income tax). As many of the Taxes Borne are deducted in calculating profit before tax, they must be added back to generate a profit before all business taxes to be the denominator in the calculation.

For example, if a company had net profits before all business taxes of $115 and incurred business taxes of $15, their profit before corporate income tax is $100. When corporate income tax is applied to the $100, assume the corporate income tax liability is $25. Accordingly, the TTR for this company is calculated as follows:

	$
Profit before business taxes	115
Other business taxes	(15)
Profit before income tax	100
Corporate income tax[9]	(25)
Profit after tax	75
Total Tax Rate [(15 + 25)/115 x 100]	35%

It is possible that the TTR can exceed 100% in cases where all business taxes are greater than profits before any business taxes. This might be the case, for example, where a company with low profits and hence low income taxes, still bears relatively high other business taxes which are imposed irrespective of profitability. The following calculation provides an example of this.

	$
Profit before business taxes	20
Other business taxes	(15)
Profit before income tax	5
Corporate income tax	(10)
Profit after tax	(5)
Total Tax Rate [(15 +10)/20 x 100]	125%

Taxes Borne and Taxes Collected as a percentage of turnover

Taxes Borne and Taxes Collected as a percentage of turnover is another useful measure of what a company contributes to government taxation receipts having regard to their size as measured by turnover. The numerator is total Taxes Borne and total Taxes Collected, as a proportion of Australian turnover, which is the denominator.

Employment Taxes Borne and Taxes Collected per employee

The final measure we have considered is employment Taxes Borne and Taxes Collected per employee. This measure may be useful in considering the multiplier effect in taxes of jobs created by Australian business. In this calculation employment Taxes Borne and Taxes Collected are the numerator and the number of employees the denominator. Employment Taxes Borne are FBT and payroll tax. Employment Taxes Collected are principally income tax deducted at source under PAYG.

9 The effective tax rate may differ from the statutory tax rate because the 30% corporate tax rate is applied to taxable income not profit before tax. Taxable income will normally differ from profit before tax, because of differences in the accounting and tax treatment of certain items of income and expenditure.

Non-tax contributions

In addition to Taxes Borne and Taxes Collected, companies make other compulsory payments that are akin to taxes. The Total Tax Contribution framework does not include these as either Taxes Borne or Taxes Collected but they are measured because of their significance.

Superannuation guarantee (SG) obligations in Australia have not been treated as a tax for the purposes of the Total Tax Contribution framework. Even though they are compulsory, the contributions are not paid to the Federal Government (except in rare instances when the employer fails to meet the required level of support and is obliged to pay a superannuation guarantee charge).

Nevertheless, as SG is a compulsory contribution made by companies, the survey identifies contributions on behalf of employees. The minimum contribution, equal to 9% of an employee's salary and wages, performs a similar role to that of social security levies in many other OECD countries. Where such levies are payable, either to the particular government's consolidated revenue or into a government administered fund, they are regarded as a tax in those countries.

A similar conclusion on the treatment of SG was reached in the recent Federal Government report *International Comparison of Australian Taxes.*[10]

Similarly, natural resource extraction royalties[11] paid to State Governments are not treated as a Tax Borne under the Total Tax Contribution framework because they entitle the payee to mine and are negotiated and payable on the basis of gross income. In contrast, petroleum resource rent tax is included as a tax because it is paid to the Federal Government and is based on profit. Given both extraction royalties and petroleum resource rent tax represent a return to the community for the depletion of a natural resource, the survey identifies data in relation to extraction royalties.

Global use of framework

The PricewaterhouseCoopers' Total Tax Contribution framework is being used globally. PricewaterhouseCoopers in the UK has completed its second survey in 2006 of The Hundred Group members and further studies are anticipated in other countries.

The framework was also applied by the World Bank in their 2006 report *Paying Taxes: The Global Picture.*[12] The purpose of the report was a comparison of the taxes imposed on a specified hypothetical business under each of 175 countries' tax systems and looked at their TTR and other measures of tax efficiency.

The World Bank Report calculated the Australian TTR at 52.2%. In applying the TTR methodology to Australia for global comparison purposes, the World Bank included SG obligations and workers' compensation insurance as Taxes Borne by the business. In most countries contributions similar to these are structured as taxes, and for the purposes of the World Bank comparison, the approach adopted was to include the Australian payments as taxes also. As noted above, these SG and workers' compensation contributions are not included in the Taxes Borne, Taxes Collected or any of the key measures in the BCA/CTA survey.

10 Warburton. R.F.E, Hendy, P.W. (2006) International Comparison of Australia's Taxes, Commonwealth of Australia, 3 April, Pg 19

11 Extraction royalties are payments for leases to extract minerals or other natural resources, and to explore for minerals.

12 World Bank, 2006 report, *Paying Taxes: The Global Picture,* Pg 8

4

Survey for the Business Council of Australia and the Corporate Tax Association

Key points:

- The 2006 Total Tax Contribution survey, using the PricewaterhouseCoopers framework, is the first of its kind in Australia.
- The BCA and the CTA encouraged their members to participate in the survey to provide data on their Australian tax contribution.
- The survey results provide a good representation of the impact of tax on large business in Australia.
- Accurate collection of data to respond to the survey proved difficult for many companies – highlighting the complexity of their current tax obligations.

The 2006 Australian Total Tax Contribution survey was conducted to create factual data for use by the BCA and the CTA to facilitate dialogue with Federal, State and Territory Governments on the shape and competitiveness of the Australian tax system.

PricewaterhouseCoopers' Total Tax Contribution framework was used as the basis for collecting information on the total business Taxes Borne and Taxes Collected in Australia for the last two financial years by members of the BCA and CTA.

The information collected from survey participants only relates to their Australian financial and taxation data. Any foreign taxes have been excluded from information received and analysis of the survey results.

Participation

Invitation letters were sent from the BCA and the CTA to their respective members, examples of which are included as Appendix D. The 2006 survey was conducted using a secure, web-enabled questionnaire designed by PricewaterhouseCoopers and provided via PricewaterhouseCoopers' proprietary software.

Respondents were asked to report data for the respective companies' 2005 and 2006 financial years. Accounting year ends between 1 October 2004 and 30 September 2005 were included in 2005 data, and year ends between 1 October 2005 and 30 September 2006 were included in 2006 data. These cut-off dates have facilitated a reasonable comparison of data generated with standard government information issued by the Australian Bureau of Statistics (ABS) as well as State and Territory Treasuries and the Federal Treasury.

Participants were not required to report those taxes where the estimated amount was "de minimis", defined as less than AUD$100,000.

Of the 170 questionnaires sent to members of the BCA and CTA in mid September 2006, 92 organisations had submitted data when the survey closed in November 2006.

The number of potential Australian taxes means the completion of the survey required a significant investment of time and effort from participants. Some organisations indicated they were not able to participate in the 2006 survey because of a lack of resources rather than challenging the merits of the survey.

Of the 92 participants:

- 52 were listed on the Australian Stock Exchange (ASX);
- 12 were Australian owned private companies or partnerships; and
- 28 were foreign owned companies.

The BCA/CTA membership and survey participants represent a significant proportion of large business in Australia. The participants listed on the ASX have a market capitalisation of over $700b. The survey participants include 17 (85%) of the S&P/ASX 20. Survey participants reported turnover of up to $35b with an average of $5.1b and had operations in an average of six States and Territories.

The survey population also included a representative cross section of Australian businesses which included stapled company trust structures and partnerships. Survey participants also represented a broad range of industry groups within the Australian economy.

Table 4.1 shows the wide range of industries covered by participants in the survey.

Industry Group[13]
Automobiles and components
Banks
Commercial services[14]
Consumer services[15]
Diversified financials[16]
Energy[17]
Food, beverage and tobacco
Insurance
Materials[18]
Mining
Real estate
Telecommunications, information technology, media
Transportation
Other – diversified, retail, healthcare, personal products, pharmaceuticals

Table 4.1: Industry profile of survey participants

The survey results are considered representative of the combined BCA/CTA membership, comprising approximately 54% of their members by number and covering the full range of size and industry sectors. A full BCA/CTA membership list is contained in Appendix E.

The data provided by participants has been collated, aggregated with other participants' data, and analysed to produce this report. Individual reports will also be provided to each participating organisation. All references to company names were removed for the purposes of processing the data and no list of participants will be published.

Data sensitivity

Survey responses were "sense checked" by PricewaterhouseCoopers and a number of participants queried on significant items of discrepant data submitted. In preparing this report, PricewaterhouseCoopers has relied on the accuracy of the information provided and has not independently verified or audited this data and therefore makes no representations or warranties with respect to the accuracy of the source information supplied by participants and any consequential inaccuracies, omissions or errors.

Given the significant number of taxes impacting most companies, many survey participants reported that they found it difficult to identify the precise amount and, in some cases, number of Taxes Borne and Taxes Collected. In many cases taxes embedded in the cost of products (e.g. excise), transaction based taxes (e.g. stamp duty) and a range of smaller State and Territory taxes were difficult for survey participants to separately identify and quantify. Where no amount has been provided by survey participants in relation to a tax, the tax has been treated as not borne or collected by that participant.

This is particularly the case for stamp duty (whether borne or collected) which proved difficult for most participants to accurately quantify. Therefore, PricewaterhouseCoopers believes the stamp duty information provided in this survey is materially understated. If stamp duty was accurately reflected, the survey results for Taxes Borne and Taxes Collected, as identified by participants, would significantly increase.

Accordingly, it is likely the data presented in the survey understates the actual amounts of Tax Borne and Taxes Collected by survey participants.

13 Based on ASX classifications (if listed) or Global Industry Classification Standard (GICS) guidelines.

14 Commercial services includes commercial, industrial and professional services.

15 Consumer services includes hotels, travel, restaurants, gaming and other leisure services and facilities.

16 Diversified financial services includes participants either specialising in consumer finance or investment banking.

17 Energy includes participants engaged in drilling, refining, marketing, distributing etc, of oil, gas, coal and/or consumable fuels.

18 Mining companies have been separated from the materials group given their significant representation in the survey population.

PRICEWATERHOUSECOOPERS

5

Survey results: tax burden

Key points:

- A company's tax burden includes not only their Taxes Borne but also the Taxes Collected from their customers and employees on behalf of the various governments.
- A relatively small number of companies incur a large proportion of all Taxes Borne and Taxes Collected.
- The survey results confirm Australia's strong reliance on corporate income tax to generate revenue – two thirds of all Taxes Borne by participants was corporate income tax.
- For every dollar of Tax Borne by survey participants they collected from employees and customers an additional $1.35 of taxes on behalf of the various governments.
- A large number of taxes account for a relatively insignificant amount of tax revenue.
- Substantial non-tax compulsory contributions by survey participants included superannuation guarantee obligations and extraction royalties paid by resource companies.

The importance of large Australian companies to government finances[18] was reinforced by the survey results. In 2006, the 92 survey participants bore $27,540m in Australian taxes and, in addition, collected $37,129m on behalf of all Australian governments (Federal, State and Territory). Therefore, for every $1 of tax borne, survey participants collected a further $1.35 on behalf of government.

A summary of Taxes Borne and Taxes Collected by survey participants compared to all Australian Government's taxation receipts is in Appendix F.

19 2006-07 Commonwealth Budget, Budget Paper No. 2

Total Taxes Borne

In 2006, survey participants bore $27,540m in Australian taxes, or 9.4% of total estimated Australian Government taxation receipts. In 2005, the figures were $23,148m and 8.3% respectively.

Corporate income tax represented the most significant proportion of Taxes Borne by survey participants; $18,160m in 2006 and $14,851m in 2005. These amounts correspond to a contribution of 37% in 2006 and 35% in 2005 of total corporate income tax revenue of the Federal Government.

The other business Taxes Borne by participants, $9,380m in 2006 and $8,297m in 2005, represented approximately one third of their total Taxes Borne. Therefore, for every dollar of corporate income tax paid, companies paid a further 50 cents of other business taxes.

The other major business Taxes Borne by survey participants were payroll tax, petroleum resource rent tax and gaming taxes.[20] These Taxes Borne, together with corporate income tax, represented 86% of total Taxes Borne by survey participants.

The survey results highlight Australia's reliance on corporate income tax by government to generate significant taxation revenue. Corporate income tax represented 66% of total Taxes Borne by the survey population. This is significantly higher than the proportion of income tax to other business taxes in other countries. In the PricewaterhouseCoopers UK Total Tax Contribution 2006 survey for The Hundred Group, corporation tax represented 52% of total Taxes Borne by survey participants. In the World Bank 2006 report *Paying Taxes: The Global Picture*[21] corporate income taxes, using the Total Tax Contribution framework, represented an average of 36% of the Taxes Borne by business.

It should be noted that several survey participants, due to their legal structure, do not bear corporate income tax at the entity level. For example, for organisations that operate through partnerships and trusts, the income tax liability is generally borne by shareholders or partners directly. In these cases, no corporate income tax is included in the results.

The survey population included a diverse range of industries from banking, insurance and property to energy and mining. As discussed in "Survey results: the picture for individual participants", the key industry groups showed significant differences in their tax contribution.

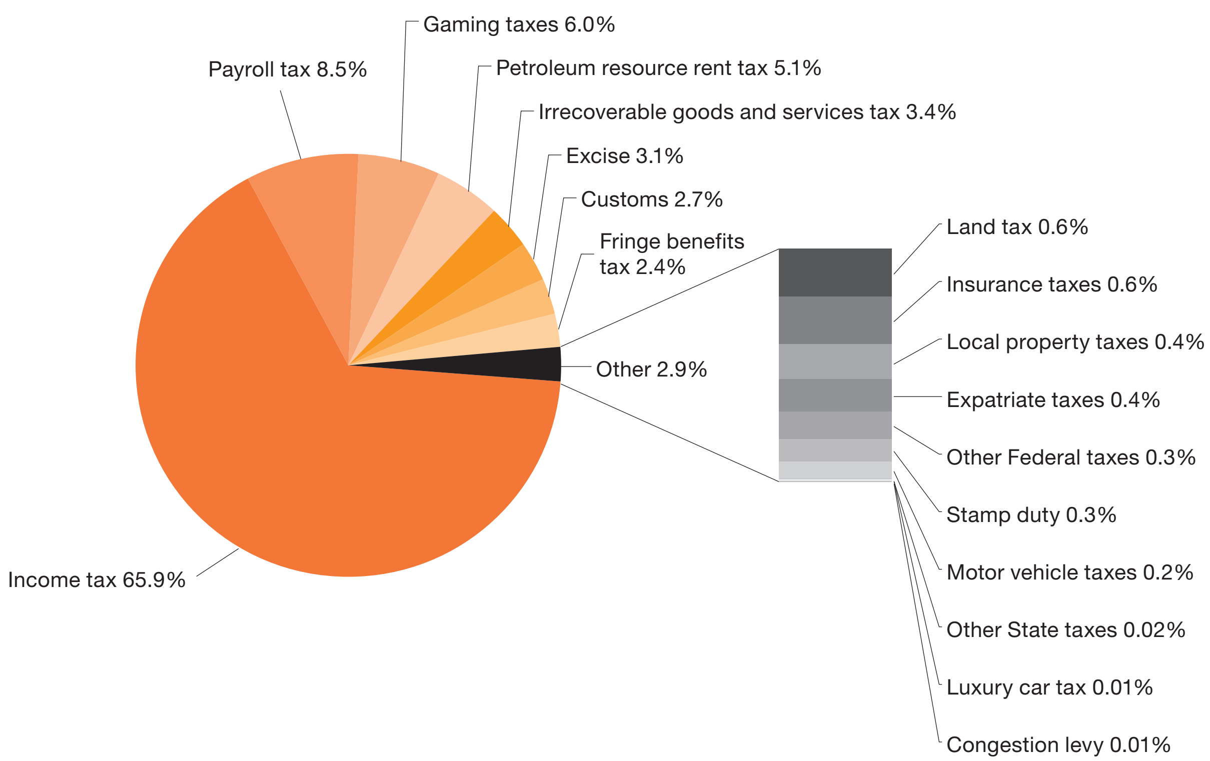


Figure 5.1: Taxes Borne by survey participants

20 Gaming taxes include public lotteries tax, electronic machines gaming tax, racing tax, casino tax, and the Gaming Commission supervision charge.

21 World Bank, 2006 report, *Paying Taxes: The Global Picture,* Pg 8

Total Taxes Collected

In addition to Taxes Borne directly, business makes a further significant contribution to government revenue through their obligation to collect a range of taxes from their customers and employees on behalf of the various governments.

Survey participants collected taxes of $37,129m in 2006, and $36,515m in 2005, on behalf of all Australian governments. This represents 13% of the total government taxation receipts in both 2006 and 2005.

For every $1 of Taxes Borne by the survey participants, Taxes Collected were $1.35.

The major Taxes Collected in Australia, as identified by survey participants, were excise, PAYG on employees remuneration and GST, as shown in Figure 5.2. Excise duties collected by survey participants represented 48% of Taxes Collected. Particularly striking was that ten survey participants collected 82% of the total estimated excise of Australian government receipts.

Not surprisingly, the survey participants who bore the most tax, generally, were also the largest collectors of tax.

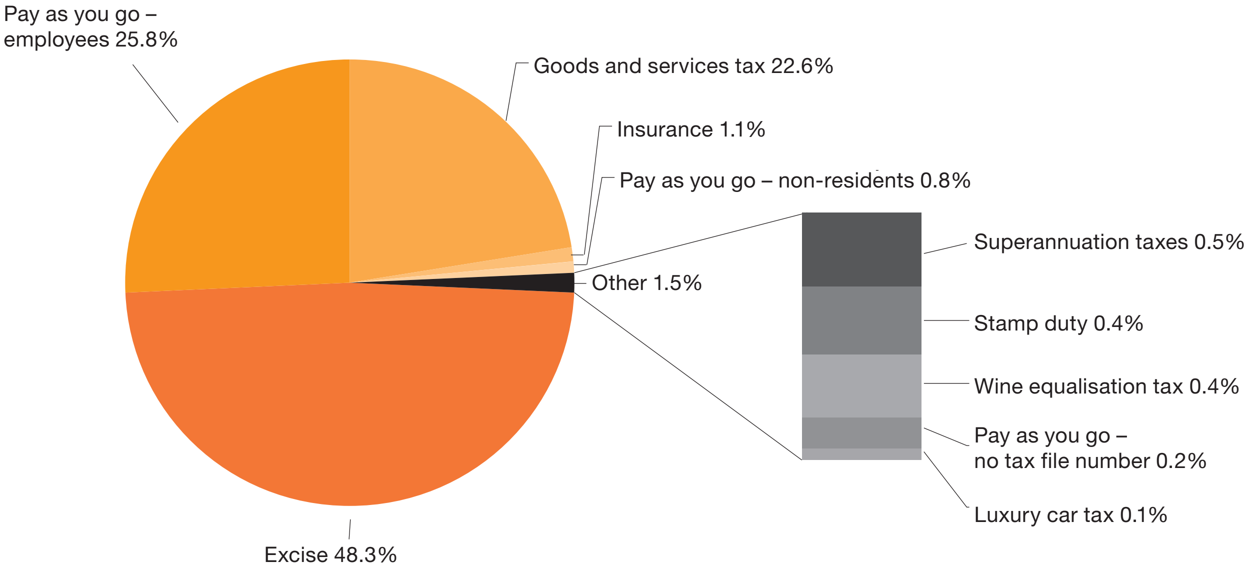


Figure 5.2: Taxes Collected by survey participants

Total Taxes Borne and Taxes Collected

The total Taxes Borne and Taxes Collected in Australia by survey participants in 2006 ($64,669m[22]) represented 22% of total Australian Government estimated taxation receipts.[23]

Year on year comparison: 2005 and 2006

Survey participants generally provided data for 2005 and 2006. It is not appropriate to draw conclusions on any trends, however the changes year on year are set out in Figure 5.3.

These year on year results compare to a consumer price index (CPI) increase, between the 2005 and 2006 June quarter, of 4.0% and Australian gross domestic product (GDP) growth,[24] between the 2005 and 2006 June quarter, of 2.3%.

The increase in Taxes Borne of 19.0%, and particularly corporate income tax borne of 22.3%, between years is well in excess of both these measures.

Non-tax contributions

Survey participants were asked to provide data in respect of some compulsory contributions that have not been treated as a tax for the purposes of the survey. For 2006, survey participants reported:

- Extraction royalties of $2,194m; and
- Superannuation guarantee obligations of $2,730m.

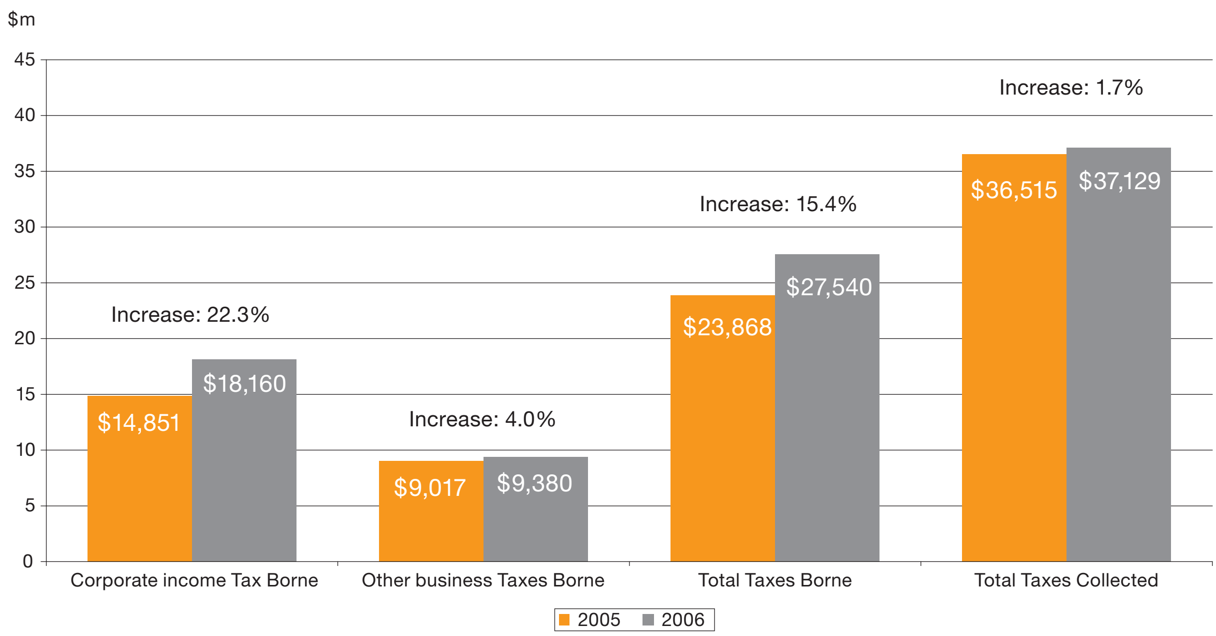


Figure 5.3: 2005 and 2006 comparison of tax burden

22 By adding Taxes Borne and Taxes Collected by survey participants, it is recognised that there is minimal overlap in relation to excise duties.

23 2006 Federal Government taxation revenue was sourced from the Australian Government Final Budget Outcome 2005-06. State Governments' taxation revenue estimates were sourced from each State and Territory 2005-06 Budget. We were unable to source estimated Local Government taxation revenue for 2005-06 and therefore have relied on estimates for 2004-05. 2005 total Australian Government receipts based on ABS publication *Taxation Revenue*. (cat. no. 5506.0).

24 In trend volume terms.

6

PRICEWATERHOUSECOOPERS

Survey results: tax mix

Key points:

- The total number of business taxes in Australia is 54 (excluding Local Government taxes).
- Survey results indicated an imbalance in the Australian tax system, with 21 Federal taxes raising 92% of business tax revenue and 33 State and Territory taxes raising nearly all of the remaining 8%.
- Taxes imposed on Australian business can be grouped into five categories: Income taxes (6); Goods and services taxes (26); Employment taxes (4); Property taxes (10); and Environmental taxes (8) – the vast majority of revenue is raised by Income taxes and various Goods and services taxes.

Federal/State/Local tax mix

In 2006, 21 Federal Government taxes comprised 92.0% of total Taxes Borne and Taxes Collected for all levels of government as reported by survey participants. The 33 State and Territory Government taxes comprised 7.8%, while Local Government taxes represented only 0.2% of total Taxes Borne and Taxes Collected for all levels of government. Figure 6.1 shows the proportion of Taxes Borne and Taxes Collected for each level of government.

PricewaterhouseCoopers considers Federal taxes are accurately reported on whereas, due to reasons noted in "Survey for the Business Council of Australia and the Corporate Tax Association", State and Local taxes are more difficult to precisely identify and quantify. Therefore, PricewaterhouseCoopers believes the State and Territory tax contribution to the mix is understated.

Although GST is passed on from the Federal Government to State and Territory Governments, GST is imposed by the Federal Government and has therefore been treated as a Federal tax.

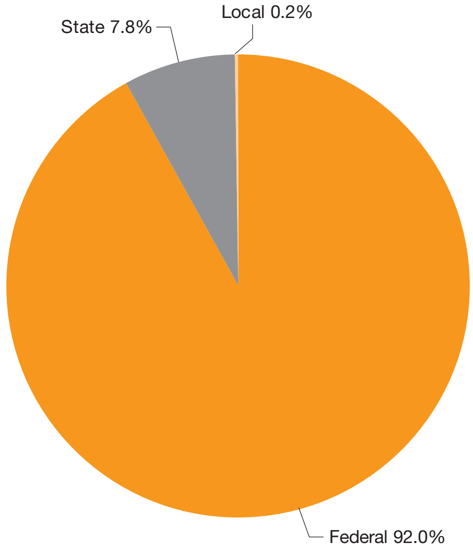


Figure 6.1: Taxes Borne and Taxes Collected by level of government

Tax mix by category of tax

For the purposes of the survey the 54 Taxes Borne and/or Taxes Collected, have been grouped into the following five categories (The allocation of taxes to these categories is provided in Appendices A and C):

- ### Income taxes (6 taxes)
  Income taxes are based on profits. For example, Federal corporate income tax and petroleum resource rent tax.
- ### Goods and services taxes (26 taxes)
  Goods and services taxes are imposed on goods and services at different stages within the value chain. They are typically collected and passed on to consumers as part of the cost of a good or service. For example, GST, customs duties and excise duties.
- ### Employment taxes (4 taxes)
  Employment taxes are imposed on or collected by the employer in relation to the employment of people. For example, PAYG, payroll tax and FBT.
- ### Property taxes (10 taxes)
  Property taxes relate to the acquisition, disposal, use and ownership of land and other assets (tangible and intangible). For example, stamp duty and land tax.

  In addition to the 10 State property taxes there are two Local Government property taxes.
- ### Environmental taxes (8 taxes)
  Environmental taxes relate to the use of natural resources or the environmental impact of doing business. For example, aircraft noise levy and waste and environment levy.

  There is already a significant number of different environmental taxes imposed by State and Territory Governments. These taxes are currently increasing in number. Accordingly, we have included environmental taxes as a category even though the total tax burden is low.

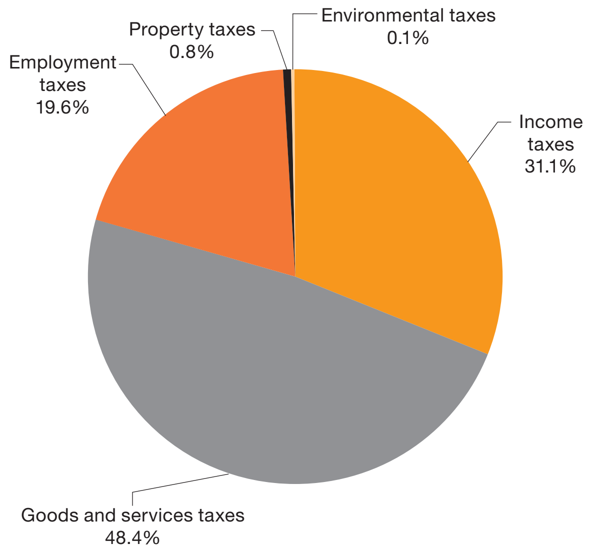


Figure 6.2: Taxes Borne and Taxes Collected by tax mix category

These categories and the tax classifications closely align with the classification of taxes under the *Australian System of Government Finance Statistics.*[25]

Figure 6.2 shows the proportion of Taxes Borne and Taxes Collected by different categories of taxation. While there is a significant reliance on corporate income type taxes in Australia (as shown in "Survey results: tax burden") business makes a substantial contribution to government revenue through its role as collector of goods and services taxes, principally GST and excise duties.

The mix of these taxation categories between the different levels of Australian Government is set out in Figure 6.3.

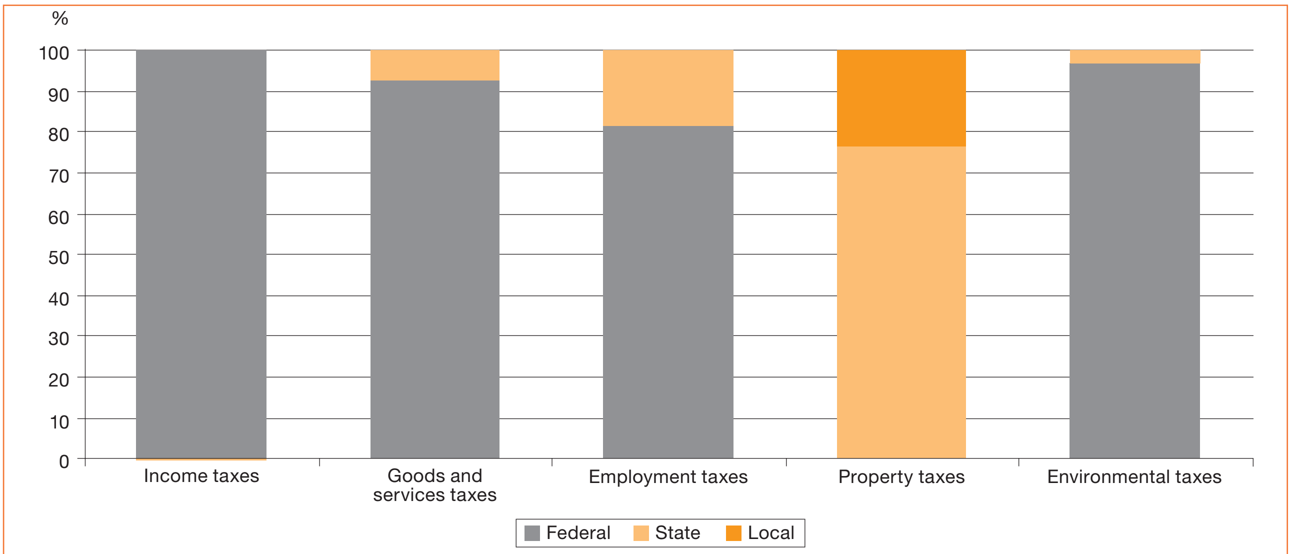


Figure 6.3: Federal, State and Local Taxes Borne and Taxes Collected by category of tax

25 *Australian System of Government Finance Statistics: Concepts, Sources and Methods* (Cat. No. 554.0), Australian Bureau of Statistics, September 2005.

PricewaterhouseCoopers

7 Survey results: the picture for individual participants

Key points:

- Taxes Borne by survey participants represented 32% of profit before all business taxes.
- Taxes Borne and Taxes Collected represented 12% of participant companies' turnover.
- Employment taxes (Borne and Collected) per employee amounted to $27,192 for survey participants.
- The number of taxing points identified by survey participants ranged between 3 and 76 with the average being 25.
- Companies "feel" the impact of various taxes differently according to their industry segments.

The Total Tax Contribution has examined the impact of tax on business. In addition to data on Taxes Borne and Taxes Collected, survey participants were asked to provide information to indicate the size of their Australian business in order to put their tax payments into context and assist benchmarking. We used this information to calculate the following:

- Total Tax Rate (TTR);
- Taxes Borne and Taxes Collected as a percentage of turnover; and
- Employment taxes per employee.

Total tax rate (TTR)

The TTR is all business Taxes Borne as a percentage of profits before all business Taxes Borne. The median[26] TTR for survey participants was 31.9% in 2006 and 32.5% in 2005. The small decline in the TTR between 2005 and 2006 was partly due to a reported increase in corporate profits of 27% with a slightly lower increase in corporate income tax of 23%.[27]

The TTR measure shows that, on average, for every $3 of profit made by the survey participants, $1 was paid in tax. Figure 7.1 shows the individual TTR for each of the survey participants.

26 The median is the middle value of data ordered from lowest to highest (i.e. the middle observation).

27 Corporate income taxes do not necessarily mirror growth in profits in a given year due to a range of reasons. Importantly, corporate income taxes paid in a particular year are based on the prior year's profits.

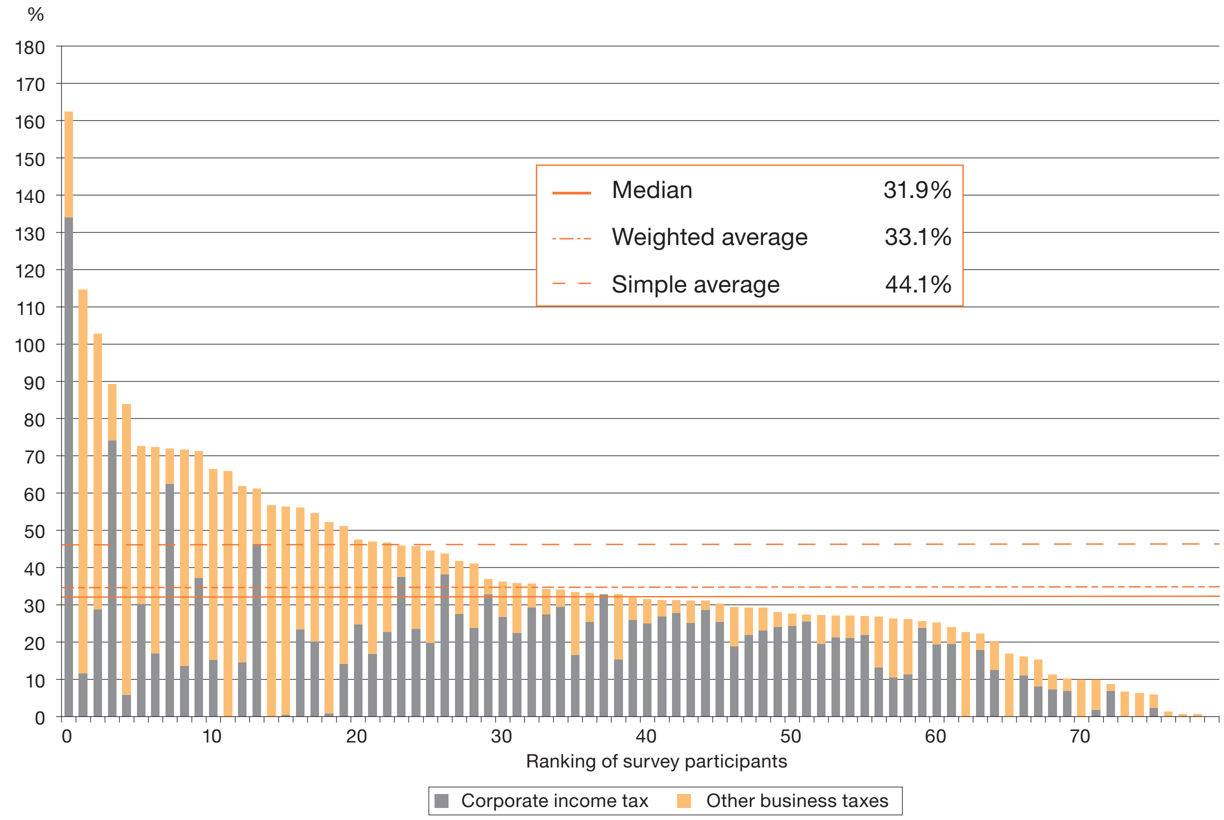


Figure 7.1: Total Tax Rate for survey participants[28]

There is no apparent pattern across survey participants and the TTR varies substantially from company to company. The TTR is impacted by two key factors:

- The profitability of the business; and
- The extent to which the business is subject to taxes that are assessed, irrespective of profitability.

The wide range of TTRs reported by survey participants (as shown in Figure 7.1), is reflected in the differing TTRs of the survey industry groups. Figure 7.2 shows TTR and the mix of corporate income tax and other business taxes (Taxes Borne) by industry.

The significant difference in other business Taxes Borne by the energy and mining industry groups is partly explained by the different treatment of petroleum resource rent tax ($1,401m) and extraction royalties ($2,194m). Under the Total Tax Contribution framework, petroleum resource rent tax is included as a tax whereas extraction royalties are not treated as a tax. (Refer "Survey for the Business Council of Australia and the Corporate Tax Association")

It is interesting to note that the TTR for the automobiles and components industry group is more than 100%. This is possibly due to the low profitability of this industry and the high amount of customs duty paid on imported vehicles. The real estate and commercial services and supplies industry groups show a relatively low TTR. This can be attributed to a number of the survey participants in these industries not being subject to corporate income tax due to their legal structure. Interestingly as shown in Figure 7.4 the total Taxes Borne and Taxes Collected as a percentage of turnover for these two industry groups are amongst the highest of all industry groups.

28 Figure 7.1 excludes one outlier (489%). This outlier has been included in the calculations for weighted average and median. The weighted average excludes survey participants who did not provide profit before tax.

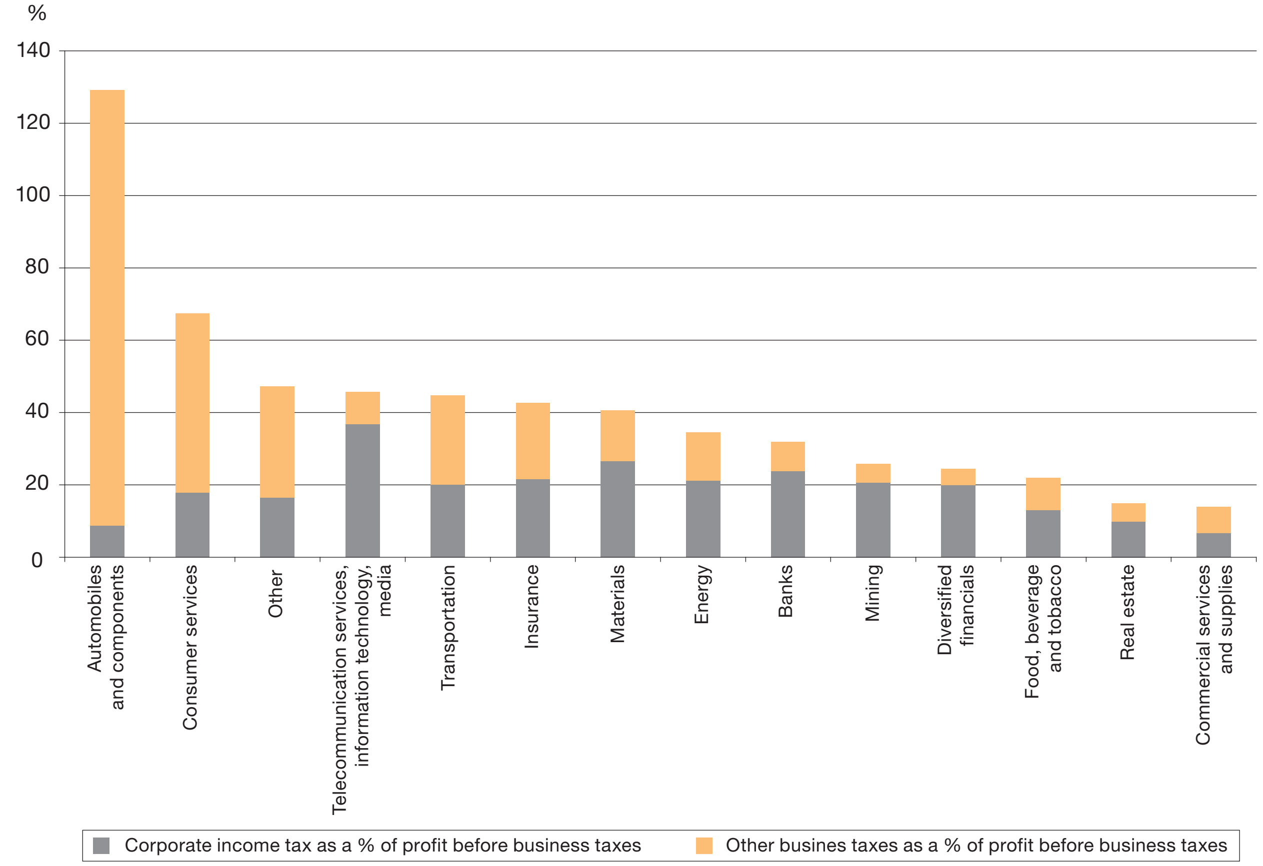


Figure 7.2: Total Tax Rate by industry of mix of income and other business taxes

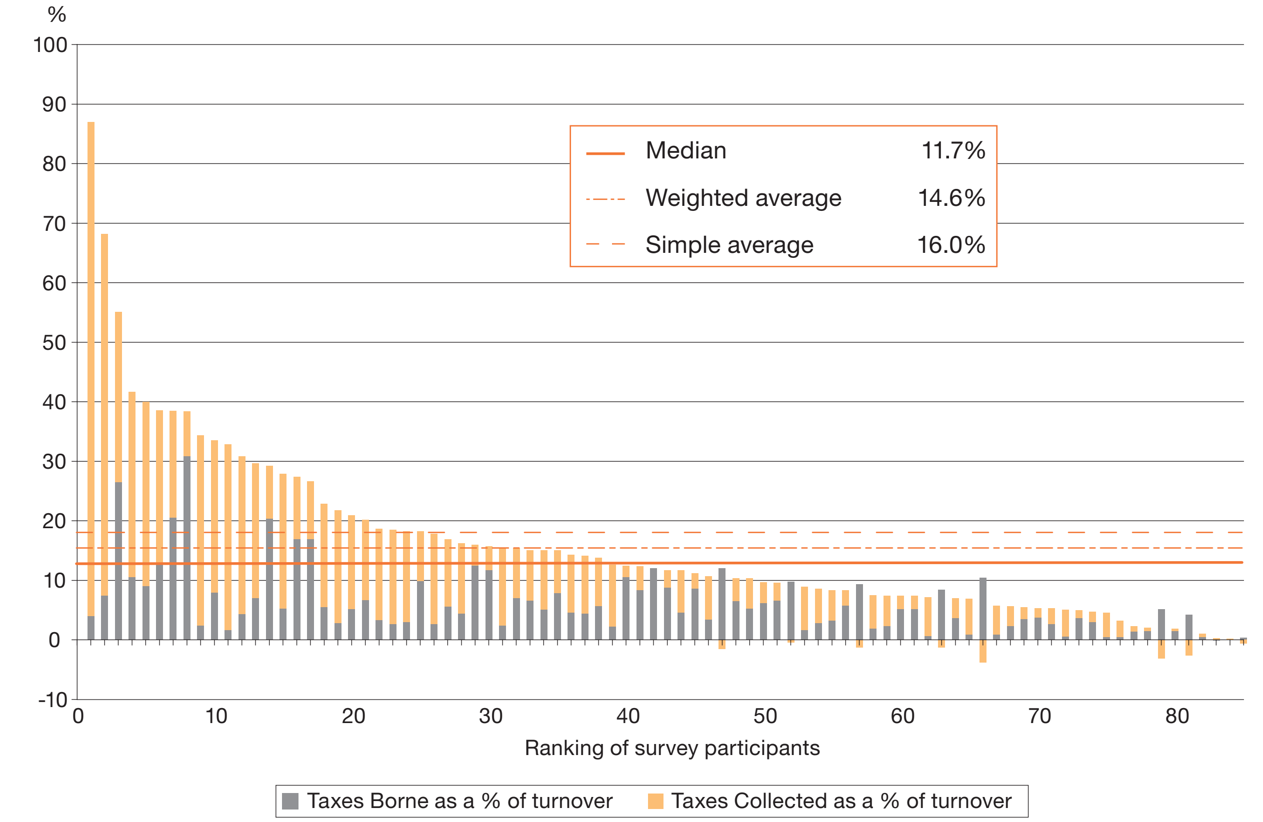


Figure 7.3: Total Taxes Borne and Taxes Collected to turnover by participant[29]

29 Figure 7.3 excludes survey participants who did not report turnover.

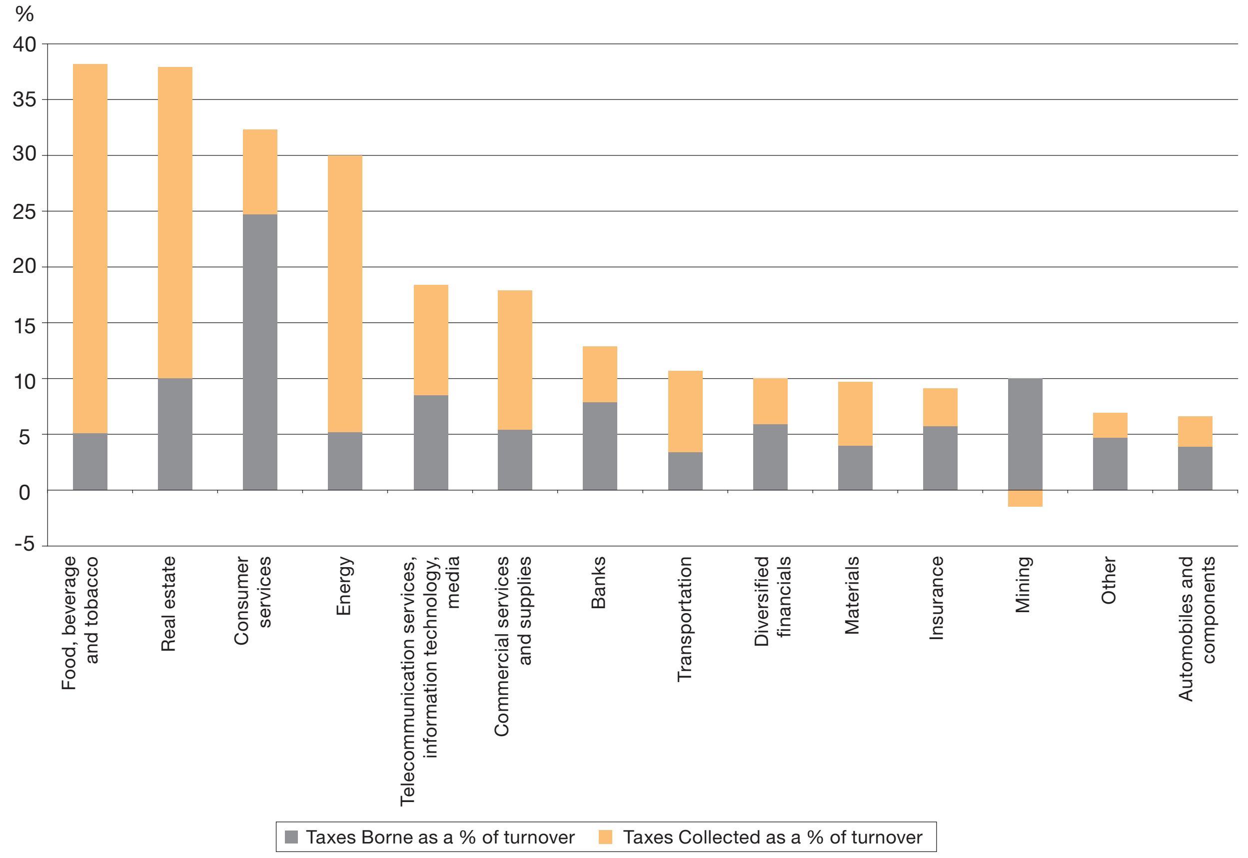


Figure 7.4: Taxes Borne and Taxes Collected to turnover by industry

Taxes Borne and Taxes Collected as a percentage of turnover

Taxes Borne and Taxes Collected as a percentage of turnover is a useful measure of what a company contributes to government tax receipts, having regard to their size as measured by turnover.

The median of total taxes to turnover of the survey participants was 11.7% in 2006 and 13.3% in 2005. Figure 7.3 shows the range of total Taxes Borne and Taxes Collected across survey participants.

This same data is consolidated by industry in Figure 7.4.

Taxes Collected are negative for the mining industry group because as major exporters survey participants reported a significant GST refund which more than offset other Taxes Collected.

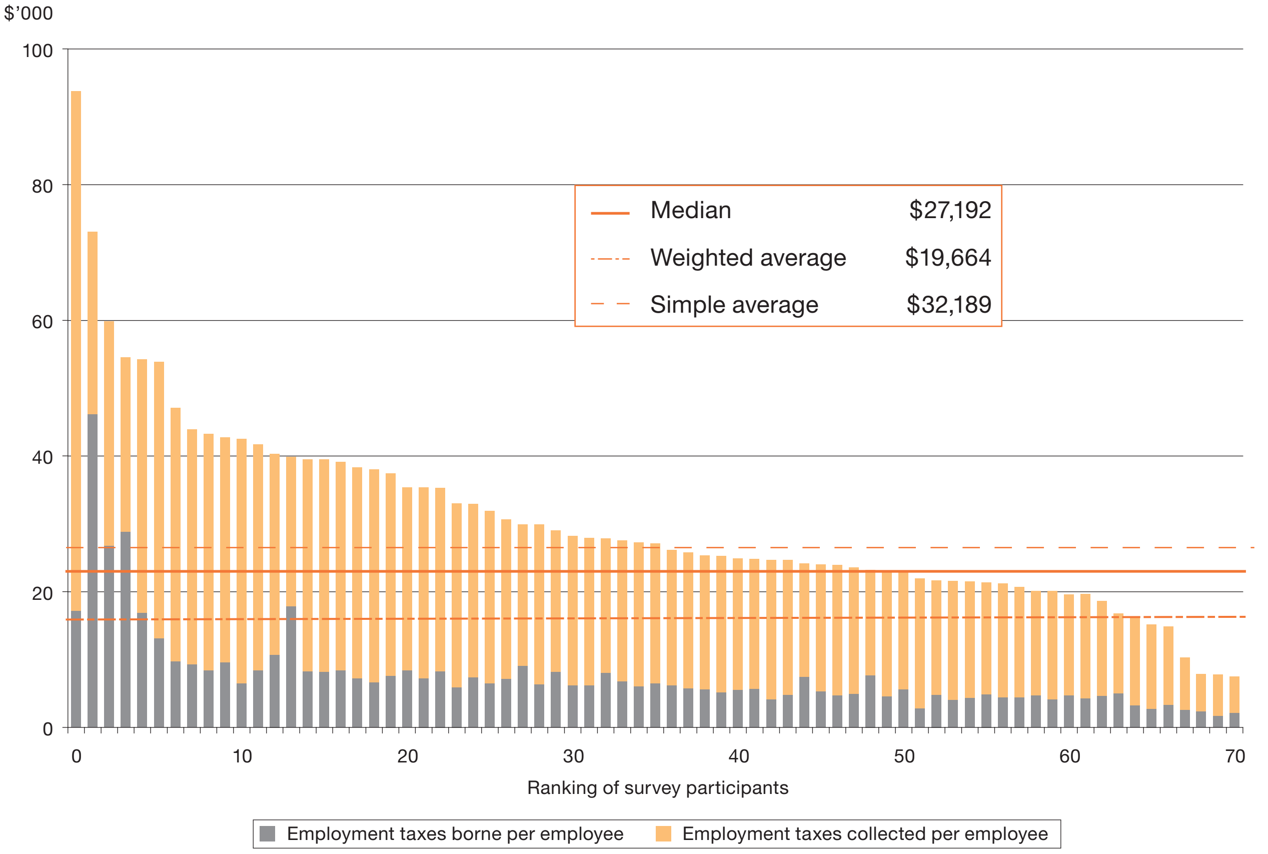


Figure 7.5: Employment Taxes Borne and Taxes Collected per employee[30]

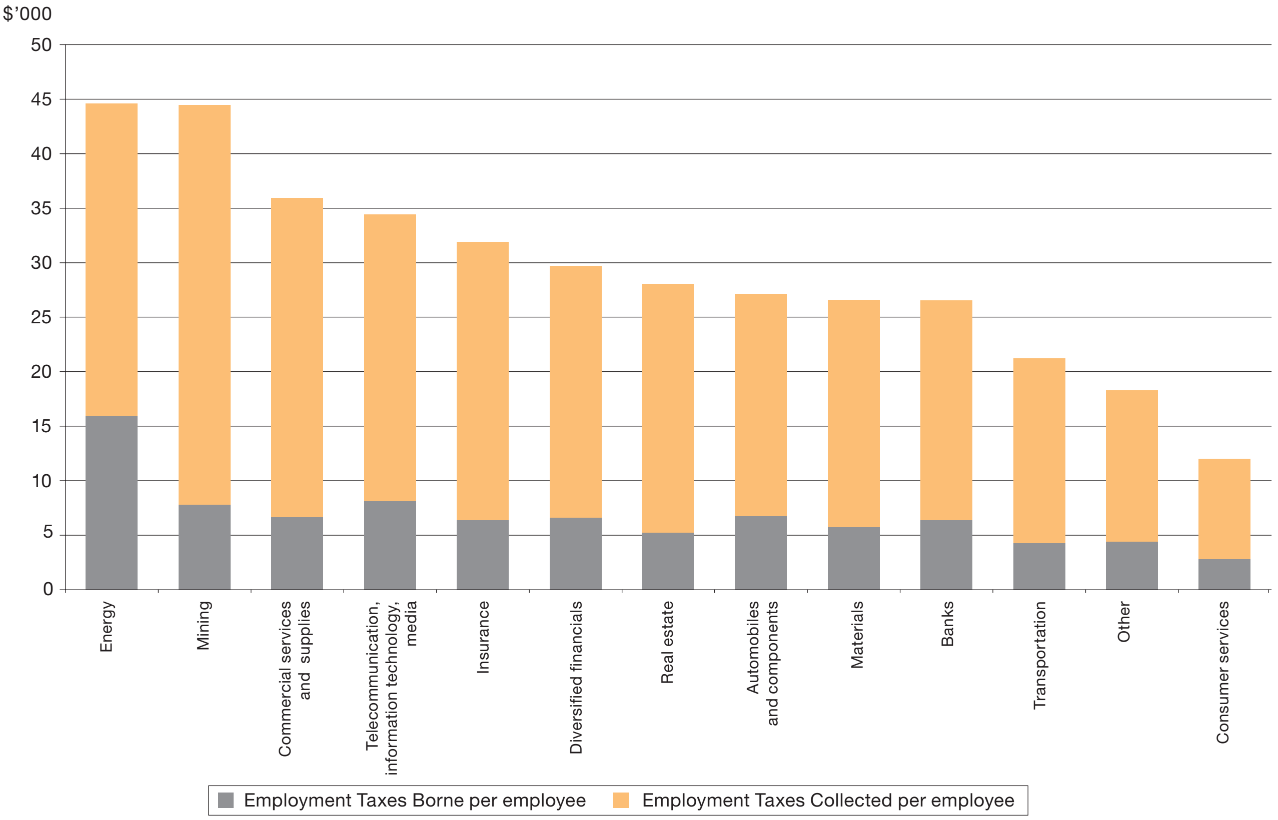


Figure 7.6: Employment Taxes Borne and Taxes Collected per employee by industry[31]

30 Figure 7.5 excludes one outlier ($154,242). This outlier has been included in the calculation for weighted average and median. Figure 7.5 also excludes survey participants who did not report people Taxes Collected and/or the number of employees.

31 Due to insufficient data supplied by survey participants in relation to employee Taxes Collected for the food, beverage and tobacco industry group, employee Taxes Collected per employee could not be reported.

Employment taxes per employee

The final measure is employment Taxes Borne and Taxes Collected per employee. Survey participants reported a median of employment taxes per employee of $27,192 in 2006 and $25,971 in 2005 as shown in Figure 7.5. The same data is consolidated by industry in Figure 7.6.

Tax obligations

The survey has identified a wide range of taxes across Federal, State and Territory Governments which translate to a significant number of separate "taxing points" for Australian businesses. A number of State taxes are imposed by many, if not all, States and Territories and each of these is treated as an individual taxing point. For example, stamp duty, payroll tax, land tax etc.

An Australian business that operates across several States and Territories has a large number of potential taxes to contemplate, with the total potential taxing points approximately 182.

The number of taxing points identified by survey participants ranged between 3 and 76, with the average number of taxing points per participant across all States and Territories being 25. Due to the difficulty of identifying a range of State taxes, we believe the number of taxing points is significantly understated.

Figure 7.7 shows how the number of taxing points varies between survey participants.

The survey results indicate that a large number of taxes collect a relatively insignificant amount of tax revenue and nevertheless impose a significant compliance burden on businesses. The average number of Federal taxing points for Taxes Borne and Taxes Collected in 2006 was 6.1 and the average number of State and Territory taxing points was 18.4. State and Territory Government Taxes Borne and Taxes Collected comprised 8% of total taxes for survey participants, compared to 92% for Federal Government Taxes Borne and Taxes Collected.

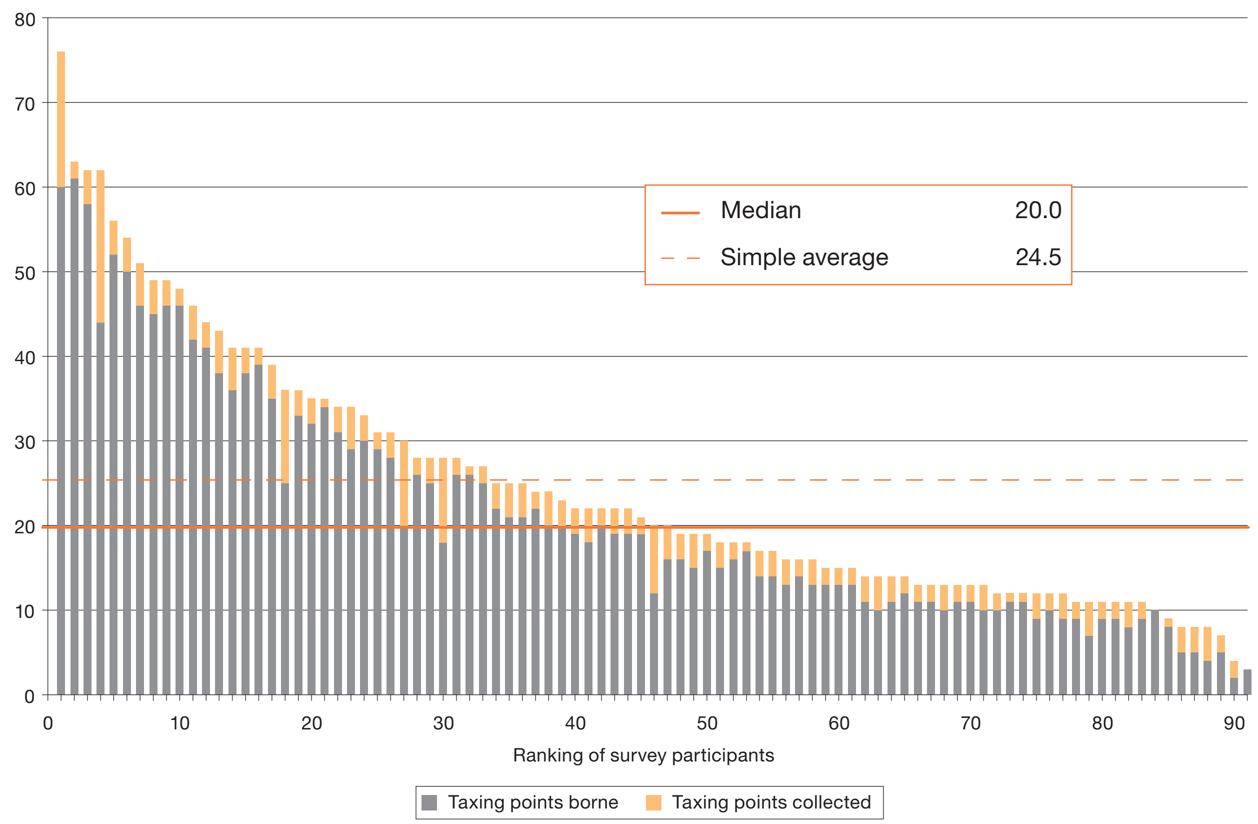


Figure 7.7: Number of taxing points for Taxes Borne and Taxes Collected

8 Survey results: tax compliance costs

Key points:

- 70% of survey participants provided data on costs of compliance.
- Compliance costs in relation to business taxes other than income tax represent a major cost to companies – one-third of participants' total compliance costs.
- Compliance costs include the costs of human resources as well as the development and maintenance of systems to produce accurate financial information.
- The survey responses suggest there is no consistent relationship between the size of the in-house tax teams and the size of the company.
- Generally survey participants found it difficult to accurately estimate the full cost of tax compliance.

Survey participants were asked to provide, as an option, an estimate of tax compliance costs relating to income tax and other business taxes. Tax compliance includes any activity relating to obligations to lodge tax returns or make tax payments of any kind to the ATO or other revenue authorities in Australia.

The survey also provided participants with the opportunity of providing an estimate or breakdown of the costs of using specialist tax resources, other finance resources for tax compliance tasks (referred to as the "shadow tax function"), and any other external resources.

Of the survey's 92 participants, 64 provided responses to the questions surrounding total tax compliance costs.

As shown in Figure 8.1, for survey participants, the estimated total cost of corporate income tax compliance represents 66%, and compliance with other business taxes 34%, of participants' total tax compliance costs. This estimated split of compliance costs for the population is broadly consistent with the proportion of income tax borne to other business taxes, as outlined in "Survey results: tax mix". However, the split of compliance costs between participants varied significantly.

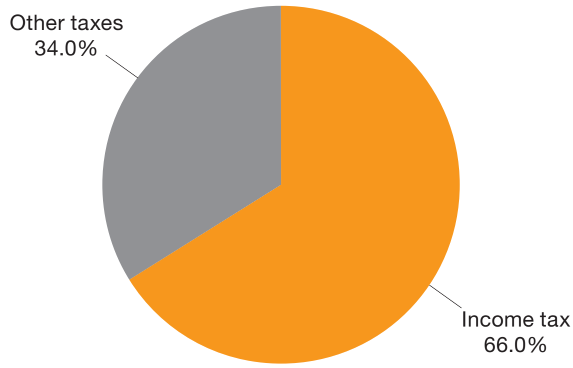


Figure 8.1: Split of compliance costs - income tax and other taxes

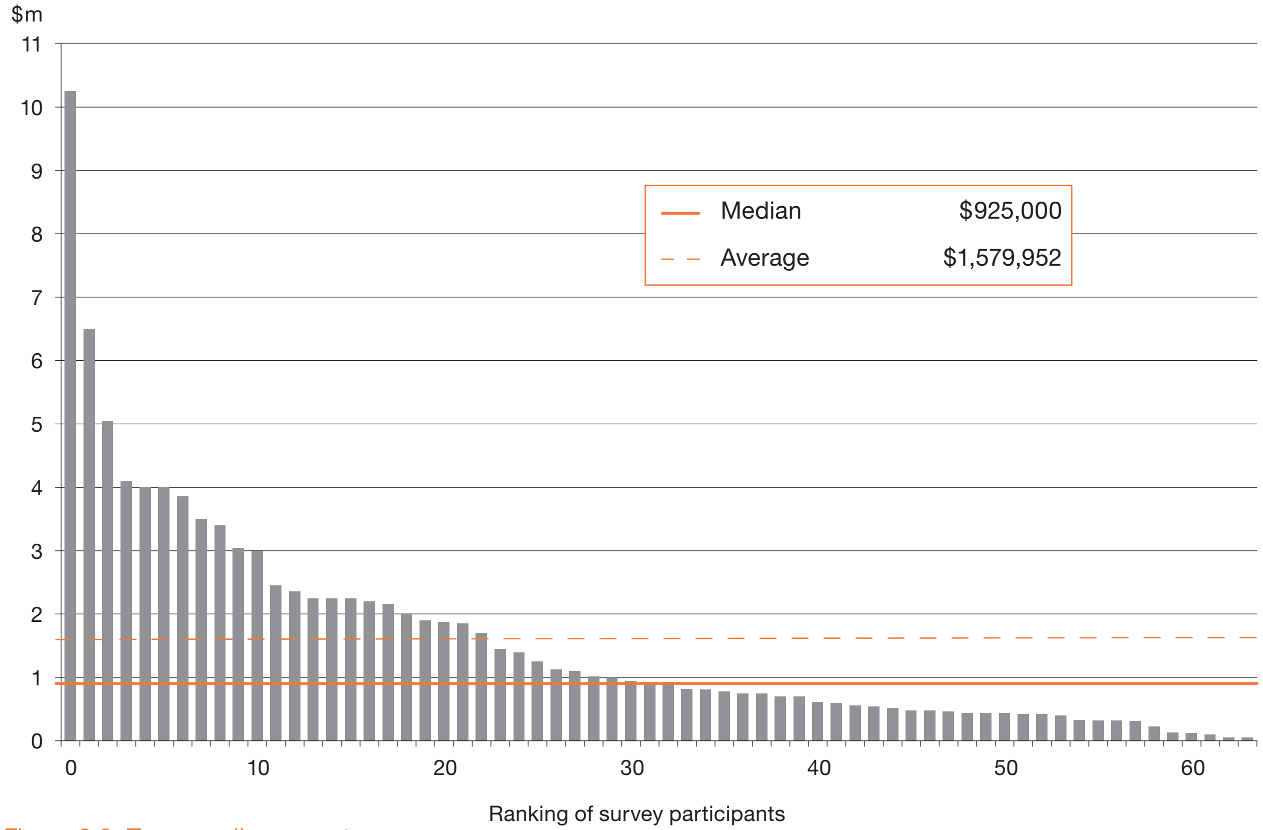


Figure 8.2: Tax compliance costs

The total estimated tax compliance costs reported by the 64 respondents was $101.1m, with an average cost of $1.6m. The range of compliance costs reported by survey participants is shown in Figure 8.2.

A significant number of participants (30%) reported incurring total tax compliance costs in excess of $2m per annum. Some of the larger companies reported costs of two or three times this amount.

Other tax compliance costs are incurred by companies in relation to:

- The implementation and maintenance of tax accounting systems to record and report on various taxes;
- Training staff;
- Internal and external reporting of taxes for accounting purposes; and
- Collecting and remitting taxes levied on employees and service providers.

Responses also indicated that companies generally found it difficult to accurately estimate the full cost of tax compliance including the tax function, the shadow tax function and external resources.

Corporate income tax is frequently cited as a highly complex tax to comply with, despite the recently introduced tax consolidation rules. However, survey participants also commented on the disproportionate cost of certain other taxes, in particular FBT, where, in addition to obtaining annual declarations, a significant amount of information is required on an employee by employee basis. This necessitates a large investment in systems and processes for tracking information.

A number of survey participants reported that tax compliance costs have increased over the last three years as a result of increasing demands for information to be reported to Australian revenue authorities. Survey participants also indicated that their in-house tax resources have increased or are in the process of increasing resources for the same reason.

In-house tax compliance resources

Survey respondents were asked to report the full-time equivalent number of employees required to satisfy their tax compliance obligations. Often other non-tax specialist resources (the shadow tax function) are used by organisations to assist in meeting tax compliance obligations. Shadow tax functions includes other accounting and finance resources and may also include company secretarial and in-house legal functions. Companies also employ the assistance of external service providers to supplement in-house tax functions and the shadow tax function in meeting their tax compliance obligations.

Of the 54 respondents to this section of the survey, results showed the average number of tax function employees was 9.1. The range of responses from survey participants to the number of tax function employees dedicated to tax compliance is shown in Figure 8.3.

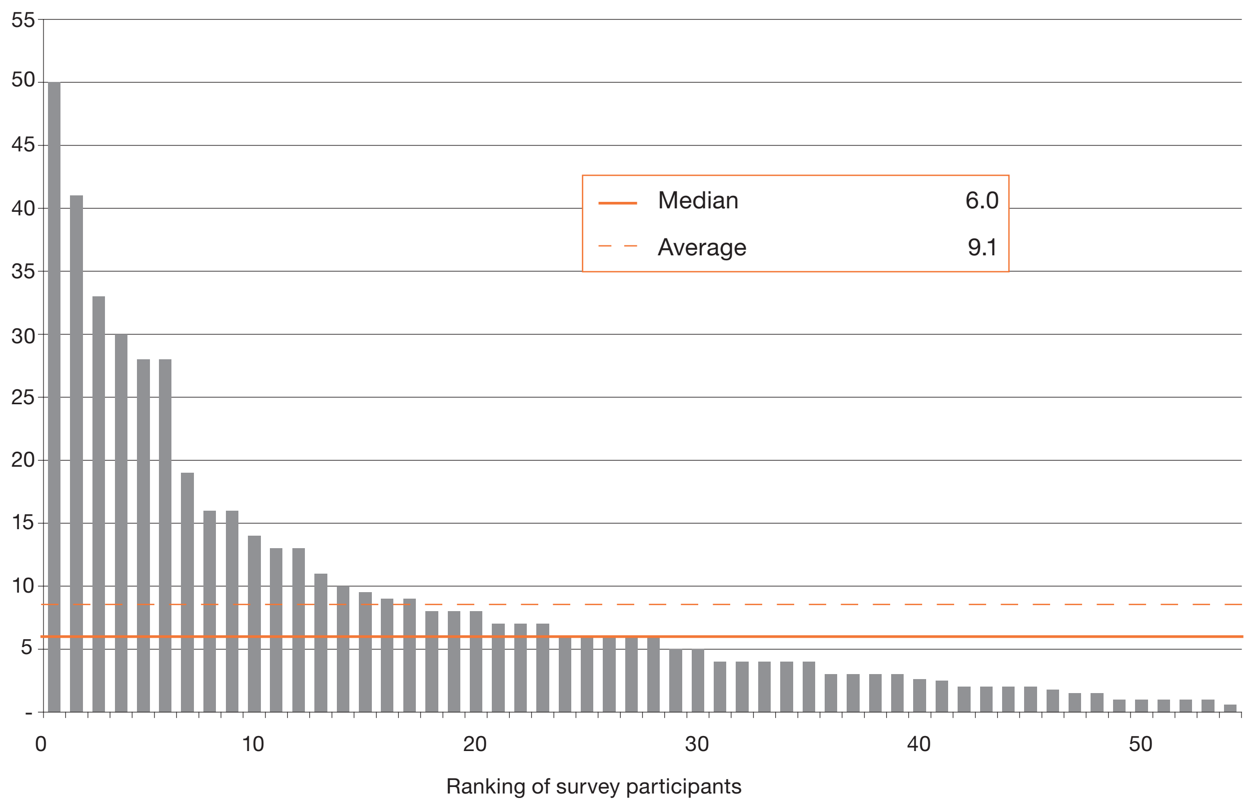


Figure 8.3: Total tax compliance employees

Understandably, the number of full-time equivalent tax compliance employees, and the size of the shadow tax function, varies significantly according to factors such as:

- The size of the company, turnover and number of legal entities;
- The nature of the business and industry (certain industries have more complex tax compliance requirements);
- The actual number of Taxes Borne and Taxes Collected; and
- The extent of the use of external service providers.

The survey responses indicated there was no consistent relationship between the size of companies (for example, based on turnover) and the number of full-time equivalent tax compliance employees.

The proportion of internal full-time equivalent employees dedicated to tax compliance activities highlights the significant focus by tax functions on compliance and risk management related activities compared to strategic and business planning activities.

9

PRICEWATERHOUSECOOPERS

Implications and the future of Total Tax Contribution

Key points:

- Strong participation in the 2006 Total Tax Contribution survey indicates the importance to business of understanding their overall tax contributions.
- Quantification, management and transparency are key benefits to companies who participate in the Total Tax Contribution survey.
- The ability to more consistently report business taxes will enable businesses to better manage their tax obligations.

An overall aim of the Total Tax Contribution framework is to improve the transparency in relation to the reporting of all business taxes and to provide better, more consistent information for the management of tax through analysis and benchmarking.

An important use of the framework is also to inform the debate on business tax reform and the efficiency and effectiveness of the Australian taxation system, leading to potential improvements.

The survey was designed to enable companies to collect the required information on Taxes Borne, Taxes Collected and tax compliance costs under the framework in a structured way. With extensive participation by a wide range of companies, the survey provided empirical data on actual Taxes Borne and Taxes Collected by companies as well as compliance on an aggregate basis that was not previously available. There is strong interest in the results of the survey and in the Total Tax Contribution concept generally. Discussions will continue with a range of interested Government departments, business and trade associations.

The rate of participation in the survey demonstrates businesses' interest in determining their Total Tax Contribution as well as their acknowledgement of the benefits for individual companies in managing their taxes.

By completing the survey, participants now have potentially robust data on an individual company basis which also gives them the opportunity to improve their reporting of tax information for internal management purposes, or externally in published financial or CSR reports. There is a gap between accounting standards requirements and the needs of various stakeholders. The Total Tax Contribution framework provides a convenient approach for the generation of data that can be reported on a regular basis and can be used to meet the needs of interested stakeholders.

PricewaterhouseCoopers strongly encourages the use of the framework for best practice financial reporting and as the basis for the design of any future reporting changes. While PricewaterhouseCoopers believes the Total Tax Contribution framework can form the basis for any reporting of business tax information we are not advocating any mandatory use of this or any other framework for external reporting purposes.

The data analysed and presented in this report focused on the measures that are most relevant from a macro perspective. In the longer term we believe the benefits of a Total Tax Contribution approach lie in the specific outcomes for individual companies. There is also a range of other data that is more useful to individual participants, including for benchmarking purposes. These benefits are summarised in Table 9.1.

Global use of the Total Tax Contribution framework

The use of the Total Tax Contribution framework is gaining momentum globally. The World Bank will again use the framework for its 2008 report. In addition to the ongoing use of the framework in the UK, a number of other countries are progressing towards surveying large business in their respective countries.

In addition, a number of large multi-national organisations are applying the Total Tax Contribution concept to analyse and manage business taxes globally.

Quantification	▪ Identification of all Taxes Borne and Taxes Collected on behalf of government. ▪ Analysis of individual company data using a standardised methodology. ▪ Monitor the cost of compliance.
Management	▪ Benchmark company performance against competitors, industry and other groups. ▪ Facilitate an open dialogue with senior management and Boards to ensure alignment with corporate strategy. ▪ Manage tax costs and focus on the allocation of tax resources.
Transparency	▪ Provide transparent reporting of Taxes Borne and Taxes Collected and communicate economic contribution in taxes with key stakeholders. ▪ Broaden corporate social responsibility reporting to include tax contribution. ▪ Facilitate discussions with government and other stakeholders.

Table 9.1: Key benefits of the Total Tax Contribution survey

Appendix A: Summary of Australian taxes on business[1]

In defining the number of Federal, State and Territory taxes in Australia for this survey, like taxes are grouped even though they may apply under separate pieces of legislation. For example, electronic gaming machines tax is grouped as one tax, despite the tax applying in six different jurisdictions, each under its own legislation. Also, all excise duties and customs duties are grouped as one tax, despite there being in force a number of separate excise and customs duties across different products (i.e. alcohol or fuel).

Tax	Federal	State								Municipal Taxes
		VIC	NSW	QLD	WA	SA	TAS	NT	ACT	
Income taxes										
Income tax	✓									
Petroleum resources rent tax (PRRT)	✓									
Pay as you go (PAYG) – collections from non-disclosure of TFN	✓									
PAYG – non residents (interest, royalty, dividend)	✓									
PAYG – Eligible termination payments and pensions	✓									
Superannuation contributions tax	✓									
Goods and services taxes										
Agricultural levies	✓					✓				
Customs duties	✓									
Excise duties	✓									
Goods and services tax (GST)	✓									
HIH levy	✓									
Luxury car tax	✓									
Stevedoring and marine navigation levies	✓									
Wine equalisation tax	✓									
Wool tax	✓									
Bush fire services levy/fire levy			✓	✓			✓			
Casino tax		✓	✓	✓	✓	✓	✓	✓	✓	
Community ambulance cover				✓					✓	
Credit duty				✓						
Duty on sale of certain livestock		✓								
Duty on vehicle registrations and transfers		✓	✓	✓	✓	✓	✓	✓	✓	
Electronic gaming machines tax		✓	✓	✓		✓		✓	✓	
Emergency services levy					✓	✓				
Financial accommodation levy/guarantee levy		✓		✓	✓		✓			
Gaming Commission supervision charge		✓	✓	✓	✓	✓				
Insurance contributions to fire brigades		✓	✓							
Insurance premium tax		✓	✓	✓	✓	✓	✓	✓	✓	
Insurance protection tax			✓							
Public lotteries tax		✓	✓	✓	✓	✓	✓	✓	✓	
Racing tax		✓	✓	✓	✓	✓		✓		
Vehicle registration fees		✓	✓	✓	✓	✓	✓	✓	✓	
Weight tax, oversize vehicles and loads			✓		✓			✓		
People taxes										
Expatriate tax equalisation payments	✓									
Fringe benefits tax (FBT)	✓									
PAYG - employees	✓									
Payroll tax		✓	✓	✓	✓	✓	✓	✓	✓	
Property taxes										
Debits tax		✓	✓		✓	✓	✓	✓	✓	
Duty on declarations of trust over property		✓	✓	✓	✓	✓	✓	✓	✓	
Duty on hire of goods/rental business duty		✓	✓	✓	✓	✓		✓	✓	
Duty on the acquisition of businesses/goodwill			✓	✓	✓	✓	✓	✓	✓	
Land rich duty		✓	✓	✓	✓	✓	✓	✓	✓	
Land tax		✓	✓	✓	✓	✓	✓	✓	✓	
Land transfer duty/conveyance duty		✓	✓	✓	✓	✓	✓	✓	✓	
Mortgage duty			✓	✓	✓	✓	✓			
Unquoted marketable securities duty			✓	✓		✓			✓	
Vendor transfer duty (now abolished)			✓							
Council rates										✓
Council collections of fire brigades levy										✓
Environmental taxes										
Aircraft noise levy	✓									
Pollution levy	✓									
Product stewardship levy (excise)	✓									
Congestion levy/parking space levy		✓	✓							
Environmental levies on statutory corporations		✓								
Landfill levy/waste and environmental levy		✓	✓	✓	✓	✓				
Metropolitan improvement levy		✓			✓					
Parks charge		✓								
Number of taxes per jurisdiction	21	23	25	22	21	21	15	16	16	2

1 Taxes identified were borne or collected by survey participants in 2005 and/or 2006

Appendix B: Abolition of State and Territory taxes

The timetable for the abolition of certain State and Territory business taxes as part of the agreement of the introduction of GST is summarised as follows:

	VIC	NSW	QLD	WA	SA	TAS	NT	ACT
Debits tax	1 July 2005[1]	Abolished from 1 January 2002[2]	1 July 2005[3]	1 July 2005[4]	1 July 2005[5]	1 July 2005[6]	1 July 2005[7] (including electronic debits tax)	1 July 2005[8]
Duty on non-realty property transfers (e.g. business assets)	N/A	1 July 2012[9]	1 January 2010 (duty reduced by 50%) 1 January 2011[10] (duty abolished)	1 July 2010	1 July 2009 (duty reduced by 50%) 1 July 2010[11] (duty abolished)	1 July 2008[12]	1 July 2009[13]	1 July 2006[14]
Duty on non-quoted marketable securities	Abolished from 1 July 2002[15]	1 January 2009[16]	1 January 2007[17]	Abolished from 1 January 2004[18]	1 July 2009 (duty reduced by 50%) 1 July 2010[19] (duty abolished)	Abolished from 1 July 2002[20]	1 July 2006[21]	1 July 2010[22]
Mortgage duty	Abolished from 1 July 2004[23]	1 January 2010- Reduced by 50% 1 January 2011 –Abolished[24]	1 January 2008 (duty reduced by 50%) 1 January 2009[25] (duty abolished)	1 July 2006 – Reduced by 50% 1 July 2008 – Abolished[26]	1 July 2007 (duty reduced by 33%) 1 July 2008 (duty reduced by a further 33%) 1 July 2009[27] (duty abolished)	1 July 2006[28] (duty to be halved) 1 July 2007[29] (duty abolished)	N/A	N/A
Hire of goods duty	1 January 2007[30]	1 July 2007[31]	1 January 2007[32]	1 January 2007[33]	1 July 2007 (duty reduced by 33%) 1 July 2008 (duty reduced by a further 33%) 1 July 2009 (duty abolished)	Abolished from 1 July 2002[34]	1 July 2007[35]	1 July 2007[36]
Lease duty	Abolished from 26 April 2001[37]	1 January 2008[38]	1 January 2006[39]	1 January 2004[40] (rental component only)	1 July 2004[41]	Abolished from 1 July 2002[42]	1 July 2006[43] (including franchises)	1 July 2009[44]

1 State Taxation Acts (General Amendment) Act 2005 (Vic).
2 State Revenue Legislation Further Amendment Act 2001 (NSW).
3 Debits Tax Repeal Act 2005 (Qld).
4 Business Tax Review (Assessment) Act (No 2) 2003 (WA).
5 Statutes Amendment (Budget 2004) Act 2004 (SA).
6 Revenue Measures Act 2005 (Tas).
7 Debits Tax Amendment Act 2004 (NT).
8 Revenue Legislation Repeal Act 2005 (ACT).
9 Duties Amendment (Abolition of State Taxes) Act 2006 (NSW).
10 Queensland State Budget 2005-2006.
11 South Australian Budget Papers 2005-2006.
12 Revenue Measures Act 2005 (Tas).
13 Northern Territory Budget 2005-2006.
14 Duties Amendment Act 2006 (ACT).
15 Duties Act 2000 (Vic), s.7(3), State Taxation Act (Taxation Reform Implementation) Act 2001 (Vic), State Taxation Acts (Further Tax Reform) Act 2002 (Vic).
16 Duties Amendment (Abolition of State Taxes) Act 2006 (NSW).
17 Revenue and Other Legislation Amendment Act 2006 (Qld).
18 Business Tax Review (Assessment) Act (No2) 2003 (WA).
19 South Australian Budget 2005-2006.
20 Revenue Legislation (Miscellaneous Amendments) Act 2002 (Tas).
21 Treasury Legislation and Consequential Amendment Act 2006 (NT).
22 Duties Amendment Act (No. 2) 2006 (ACT).
23 Duties Act 2000 (Vic), s.148A, State Taxation Act (Taxation Reform Implementation) Act 2001 (Vic), State Taxation Acts (Further Tax Reform) Act 2002 (Vic).
24 Duties Amendment (Abolition of State Taxes) Act 2006 (NSW).
25 Queensland State Budget 2005-2006.
26 Revenue Laws Amendment Act 2006 (WA).
27 Statutes Amendment (Budget 2005) Act 2005 (SA).
28 Revenue Measures Act 2005 (Tas).
29 National Taxation Reform (Commonwealth -State Relations) Act 1999 (Tas).
30 State Taxation Acts (General Amendment) Act 2005 (Vic).
31 Duties Amendment (Abolition of State Taxes) Act 2006 (NSW).
32 Revenue and Other Legislation Amendment Act 2006 (Qld).
33 Revenue Laws Amendments Act 2006 (WA).
34 Revenue Legislation (Miscellaneous Amendments) Act 2002 (Tas).
35 Northern Territory Budget 2006-2007.
36 Duties Amendment Act (No. 2) 2006 (ACT).
37 State Taxation Acts (Taxation Reform Implementation Act 2001 (Vic).
38 Duties Amendment (Abolition of State Taxes) Act 2006 (NSW).
39 Revenue Legislation Amendment Act 2005 (Qld).
40 Business Tax Review (Assessment) Act (No 2) 2003 (WA).
41 Statutes Amendment (Budget 2005) Act 2005 (SA).
42 Revenue Measures Act 2005 (Tas).
43 Duties Amendment Act (No. 2) 2006 (ACT).
44 Treasury Legislation and Consequential Amendment Act 2006 (NT).

Appendix C: Summary of Australian business Taxes Borne and Taxes Collected

The PricewaterhouseCoopers Total Tax Contribution framework classifies Australian business taxes as either Borne and/or Collected as follows:

Tax	Borne	Collected	Comments
Income taxes			
Income tax	✓		
Petroleum resources rent tax (PRRT)	✓		
Pay as you go (PAYG) – collections from non-disclosure of TFN		✓	
PAYG – non residents (interest, royalty, dividend)		✓	
PAYG – Eligible termination payments and pensions		✓	
Superannuation contributions tax		✓	Superannuation surcharge abolished from 1 July 2006
Goods and services tax (GST)			
Agricultural levies	✓		
Bush fire services levy/fire levy	✓		
Casino tax	✓		Includes community benefit levy in NT and QLD
Community ambulance cover[1]	✓	✓	
Credit duty	✓		
Customs duties	✓		Includes all categories of customs duties
Duty on sale of certain livestock	✓		
Duty on vehicle registrations and transfers	✓		
Electronic gaming machines tax	✓		
Emergency services levy	✓		
Excise duties[1]	✓	✓	Includes all categories of excise
Financial accommodation levy/guarantee levy	✓		
Gaming Commission supervision charge	✓		
Goods and services tax[2]	✓	✓	GST borne represents irrecoverable GST (refer to “The PricewaterhouseCoopers Total Tax Contribution framework”)
HIH levy	✓		
Insurance contributions to fire brigades[1]	✓	✓	
Insurance premium tax[1]	✓	✓	
Insurance protection tax	✓		
Luxury car tax[1]	✓	✓	This tax is borne by the purchaser of a luxury car and collected by the retailer
Public lotteries tax	✓		
Racing tax	✓		
Stevedoring and marine navigation levies	✓		
Vehicle registration fees	✓		
Weight tax, oversize vehicles and loads	✓		
Wine equalisation tax[1]	✓	✓	
Wool tax	✓		

1 These taxes can be borne by any participant on their own consumption, but also collected by other participants in the appropriate industry sector.

2 GST is generally collected and remitted by participants on outputs less inputs, however may be borne by participants where input tax credits are not available on certain supplies made.

Tax	Borne	Collected	Comments
Employment taxes			
Expatriate tax equalisation payments	✓		Relates to equalisation payments made by participants on behalf of expatriate employees
Fringe benefits tax (FBT)	✓		Treated as borne even though in some cases may be passed on to employees through salary packaging
PAYG – employees		✓	
Payroll tax	✓		
Property taxes			
Debits tax	✓		Abolished 1 July 2005
Duty on declarations of trust over property	✓		
Duty on hire of goods/rental business duty[3]	✓	✓	This duty is borne by the lessee and collected by the lessor
Duty on the acquisition of businesses/goodwill	✓		
Land rich duty	✓		
Land tax	✓		
Land transfer duty/conveyance duty	✓		
Mortgage duty[3]	✓	✓	
Unquotable marketable securities duty	✓		
Vendor transfer duty	✓		Abolished 2 August 2005
Council collections of fire brigades levy	✓		
Council rates	✓		
Environmental taxes			
Aircraft noise levy	✓		Aircraft noise levy is a tax borne by a participant which is associated with the landing of a “noisy” plane (even though in some instances this levy is passed on to an end consumer).
Congestion levy/parking space levy	✓		Congestion/car park levy is borne by the owner of a car park, unless it is separately identified on a lease arrangement and collected from the lessee.
Environmental levies on statutory corporations	✓		
Landfill levy/waste and environment levy	✓		
Metropolitan improvement levy	✓		
Parks charge	✓		
Pollution levy	✓		
Product stewardship levy (excise)	✓		

3 These taxes can be borne by any participant on their own consumption, but also collected by other participants in the appropriate industry sector.

Appendix D: BCA/CTA Invitations to members to participate in 2006 survey

BCA Invitation

42/120 Collins Street
Melbourne 3000

GPO Box 1472
Melbourne 3001

Telephone +613 8664 2664
Facsimile +613 8664 2666

www.bca.com.au

MEMO

To Council Members
Cc Liaison Delegates
From Katie Lahey
Date 24 August 2006
Subject Tax Contribution Survey

Business Council of Australia

Dear Council Member

TAX CONTRIBUTION SURVEY

As part of our continued efforts to demonstrate the importance of a competitive Australian tax regime, the Business Council of Australia (BCA) is seeking to understand the total tax contribution large Australian companies make to Government tax collections.

To that end, the BCA has begun a new project to survey the membership's tax payments made during the last two accounting periods. This project is being undertaken in conjunction with the Corporate Tax Association, and will be completed with the assistance of PricewaterhouseCoopers.

The BCA anticipates that this initiative, as part of our ongoing efforts to reform Australia's business tax system, will progress our campaign to the next level of detail, and strengthen the arguments for continued improvement in the competitiveness of the business tax regime. We believe the data we seek is the necessary minimum required to further the argument for policy and administrative change.

In the next fortnight your Tax Director will be contacted by a representative of PricewaterhouseCoopers, with an electronic survey designed to assess the total tax contribution of your company at the Federal, State and Local Government levels.

The data will of course remain confidential and will only be presented in anonymised form. Any sectoral data with less than five companies in it will not be disclosed.

As greater scrutiny is applied by tax authorities, regulators and other stakeholders to corporate tax policy and contributions, there is no doubt that the data will be of great value to individual companies as well as making an important contribution to the common objective of moving Australia toward a leading rather than lagging tax regime.

Business Council of Australia
ABN 75 008 483 216

Details of the project will be outlined to Members at the Members' meeting on 30 August. In the meantime, if you have any queries in relation to this project, please contact our Director of Tax Policy, Allesandra Fabro on 03 8664 2664 or allesandra.fabro@bca.com.au.

Thank you for your co-operation and input into this important initiative.

Regards

Katie Lahey

CTA Invitation

From: Frank Drenth

Sent: 29/08/2006 11:00 AM

To:

Subject: Tax survey

TOTAL TAX CONTRIBUTION SURVEY

The CTA's Executive Committee has decided to join forces with the Business Council on a new project to survey members' total tax contribution across Federal, State and Local Governments. The survey will be conducted for the BCA and the CTA by PricewaterhouseCoopers.

While a lot of information is already available on company income tax payments, including international comparisons, we anticipate that the data collected and analysed as part of this project will present a much more complete picture of the total taxes paid by business at all levels of government. The CTA and the BCA believe the data being sought will be very helpful in pursuing further policy and administrative changes to Australia's tax system.

In the next fortnight you will be contacted by a representative of PricewaterhouseCoopers with an electronic survey designed to capture your company's tax information. We have worked with PwC to try to help make the process as painless as possible – for example, where data is not readily available from your chart of accounts there are suggestions for making estimates or using short-cuts. There are also de mininis rules where certain taxes borne or paid are not material.

While the time needed to extract the relevant data will be not be insignificant, we hope you will agree that developing an improved understanding of the total tax contribution made by companies will better equip business groups to argue the case for a more competitive Australian tax system. Naturally, the data and any accompanying arguments for reform will be more persuasive if most large companies can see their way clear to participate in the survey.

One of the other major benefits from participating in the survey is that it will provide you with an accurate picture about the range of taxes paid by your corporate group, which can be a highly effective message when engaging stakeholders.

You may be assured that individual company data will remain strictly confidential, and will only be presented in anonymised form. Any sectoral data involving less than five companies will not be disclosed.

If your company is also a BCA member, the BCA will be separately contacting your company on this matter at the CEO level. However, I thought it was important to clarify the CTA's involvement with you directly.

If you have any queries or concerns in relation to this project, please do not hesitate to give me a call on (03) 9600 4411.

Many thanks for your co-operation and input into this important initiative.

Best regards,

Frank Drenth

Appendix E: BCA/CTA membership

BCA/CTA Membership (as at 15 September 2006)
ABB Australia
ABN AMRO
Accenture Australia
Accor Asia Pacific
Adelaide Brighton
ADI
AGL
Alcan South Pacific
Alcoa Australia
Alinta
Allens Arthur Robinson
Allianz
Alumina
Amcor
AMP
Anglo Coal
Ansell
ANZ Banking Group
Apache Energy
Aristocrat Technologies
Australand
Australia Post
Australian Meat
Australian Stock Exchange
Australian Unity
AW Baulderstone
Australian Wheat Board (AWB)
AXA Asia Pacific
Babcock & Brown
BAE Systems
BankWest
Barrick Gold
Bendigo Bank
BHP Billiton
Blake Dawson Waldron
BlueScope Steel
BNP Paribas
BOC
Boeing Australia
Boral
BP
Brambles Industries
British American Tobacco

BCA/CTA Membership (as at 15 September 2006)
Burns Philp
Cadbury Schweppes
Caltex Australia
Centro Properties
Chevron
Citigroup
Coca-Cola Amatil
Cochlear
Coles Myer
Commonwealth Bank
Computershare
Conoco Phillips
Corrs Chambers Westgarth
Crane Group
Credit Suisse Holdings
Crown
CSC Australia
CSR
DaimlerChrysler
David Jones
Deloitte Touche Tohmatsu
Deutsche Bank
Du Pont Australia
EDS
Energy Australia
Ergon Energy
Ernst & Young
ETSA Utilities
ExxonMobil
Ford Australia
Foster's Group
Foxtel
Freehills
Futuris Corporation
GE Capital Finance
George Weston Foods
GM Holden
Goldman Sachs JBWere
Hagemeyer Asia Pacific
Hanson Australia
HSBC
IBM
Iluka Resources

BCA/CTA Membership (as at 15 September 2006)
ING Australia
Insurance Australia Group
J P Morgan Australia Group
James Hardie Industries
Japan Australia LNG (MIMI)
John Fairfax Holdings
Jones Lang LaSalle
Kimberly-Clark
KPMG
Leighton Holdings
Lend Lease
Linfox
Lion Nathan
Macquarie Bank
Mallesons Stephen Jaques
MBF Australia
McDonald's Australia
Merrill Lynch
Microsoft Australia
Minter Ellison
Mirvac Group
Mitsui
Morgan Stanley Dean Witter
National Australia Bank
National Foods
Nestle Australia
Newcrest Mining
Newmont Australia Holdings
News Holdings
Norske Skog Industries
Nufarm
Nylex
O-I Asia Pacific
OneSteel
Oracle
Orica
Origin Energy
Oxiana
P&O Australia
PaperlinX
Perpetual
Philip Morris
PricewaterhouseCoopers
Promina Group
Qantas

BCA/CTA Membership (as at 15 September 2006)
QBE Insurance
Ramsay Health Care
ResMed Holdings
Rinker Group
Rio Tinto
Roc Oil
Santos
Shell Australia
Sigma
Sinclair Knight Merz
SingTel Optus
Smorgon Steel Group
St George Bank
Stockland
Suncorp-Metway
Symbion Health
Tabcorp
Tattersall's
Telecom Corporation of New Zealand
Telstra
Tenix
The Boston Consulting Group
Toll Holdings
Toyota Motor Corporation Australia
Transfield
Transurban Group
TRUenergy
UBS Holdings
Unilever
Village Roadshow
Visy Industries
Vodafone Australia
Washington H Soul Pattinson
Wesfarmers
Westfield Group
Westpac
Woodside Energy
Woolworths
WorleyParsons
Xstrata
Zinifex
Zurich Financial Services

Appendix F: Taxes Borne and Taxes Collected by survey participants

Taxes Borne and Taxes Collected as reported by survey participants in 2005 and 2006 are set out below. These are compared to Australian government taxation receipts in the respective years.

2006	Taxes Borne ($m)	Taxes Collected ($m)	Estimated Government taxation receipts[1] ($m)	Taxes Borne and Taxes Collected to government (%)
Income taxes				
Corporate income tax	18,160		48,987	37.1%
Petroleum resource rent tax	1,401		1,991	70.3%
Other income taxes		530		
Total income taxes	**19,561**	**530**		
Goods and services taxes				
Goods and services tax	944	8,380	37,182	25.1%
Excise duties	840	17,920	21,927	85.6%
Customs duties	755		4,988	15.1%
Gaming taxes	1,647		4,643	35.5%
Insurance taxes	158	418	3,225	17.9%
Motor vehicle taxes	61	25	5,490	1.6%
Other goods and services taxes	6	136		
Total goods and services taxes	**4,411**	**26,879**		
Employment taxes				
Pay as you go (PAYG) – employees		9,566	114,431	8.4%
Fringe benefits tax	660		4,084	16.2%
Payroll tax	2,344		12,651	18.5%
Other employment taxes	106			
Total employment taxes	**3,110**	**9,566**		
Property taxes				
Land tax	166		3,597	4.6%
Stamp duties	73	155	10,251	2.2%
Other property taxes	124			
Total property taxes	**363**	**155**		
Environmental taxes				
Other environmental taxes	95			
Total environmental taxes	**95**	**0**		
Other government taxation receipts			20,822	
Total	**27,540**	**37,129**	**294,269**	**22.0%**

1 Federal Government taxation revenue was sourced from the Australian Government Final Budget Outcome 2005-06. State Governments taxation revenue estimates were sourced from each State and Territory 2005-06 Budget. We were unable to source estimated Local Government taxation revenue for 2005-06 and therefore have relied on estimates for 2004-05.

2005	Taxes Borne ($m)	Taxes Collected ($m)	Government taxation receipts[2] ($m)	Taxes Borne and Taxes Collected to government (%)
Income taxes				
Corporate income tax	14,851		43,106	34.5%
Petroleum resource rent tax	1,296		1,465	88.4%
Other income taxes		495		
Total income taxes	**16,147**	**495**		
Goods and services taxes				
Goods and services tax	928	8,680	35,473	27.1%
Excise duties	670	17,648	21,981	83.3%
Customs duties	773		5,548	13.9%
Gaming taxes	996		4,313	23.1%
Insurance taxes	164	295	3,502	13.1%
Motor vehicle taxes	60	16	5,415	1.4%
Other goods and services taxes	4	75		
Total goods and services taxes	**3,595**	**26,714**		
Employment taxes				
Pay as you go (PAYG) - employees		9,059	108,748	8.3%
Fringe benefits tax	590		3,476	17.0%
Payroll tax	2,158		11,615	18.6%
Other employment taxes	45			
Total employment taxes	**2,793**	**9,059**		
Property taxes				
Land tax	151		3,583	4.2%
Stamp duties	60	248	10,731	2.9%
Other property taxes	317			
Total property taxes	**527**	**248**		
Environmental taxes				
Other environmental taxes	84			
Total environmental taxes	**84**	**0**		
Other government taxation receipts			19,578	
Total	**23,148**	**36,515**	**278,534**	**21.4%**

2 2005 Australian government receipts based on ABS publication *Taxation Revenue*. (cat. no. 5506.0).

Appendix G: Glossary

Term/Measure	Definition
Compliance Costs	The monetary costs incurred by taxpayers in meeting their tax obligations.
Median	The median is the middle value of data ordered from lowest to highest i.e. the middle observation.
Simple Average or Mean	The simple average or “arithmetic mean” is calculated by summing all the individual company observations and dividing by the number of those observations.
Tax	For the purpose of the Total Tax Contribution framework, PricewaterhouseCoopers has defined tax as “something that is paid to government (by businesses or individuals) to fund government expenditure, excluding payments where there is a specific return of value (for example, rents and licence fees).”
Taxes Borne	Taxes borne are the company’s immediate cost and will impact their results. For example, payroll taxes form part of employment costs. These Taxes Borne will ultimately be passed to customers, employees or shareholders with all the company’s other costs. However, in the immediate term the taxes are paid and borne by the company and will be charged to the profit and loss account.
Taxes Collected	Taxes Collected are not the company’s own costs. A company collects taxes on behalf of government from others, for example, income tax under Pay as you go (PAYG) from employees. Taxes Collected are administered by the company and will involve costs of compliance. Taxes Collected will also have an indirect impact on the company’s results since, for example, indirect Taxes Collected will impact prices to customers and employee taxes the cost of labour.
Taxing Points	Taxing points refers to the number of separate taxation obligations across all Federal, State and Territory Governments.
Total Tax Rate (TTR)	All business Taxes Borne as a percentage of profits before all business taxes.
Weighted Average	The weighted average for a particular ratio is calculated as the sum of the numerator for all observations divided by the sum of the denominator for all observations. The weighted average scales each observation according to the value of the denominator.

PricewaterhouseCoopers Total Tax Contribution team contact details

For further information on this report please contact:

Tim Cox, Partner

Phone: +61 (3) 8603 6181
Email: tim.cox@au.pwc.com

Tim Cox is a senior Tax Partner and leads the Australian Total Tax Contribution initiative. His role includes leading the engagement with the BCA/CTA and other stakeholders. Tim is one of PricewaterhouseCoopers' most experienced partners and is responsible for the Tax practices' Institutional clients.

Tony Fulton, Partner

Phone: +61 (3) 8603 6231
Email: anthony.fulton@au.pwc.com

Tony Fulton is a Tax Partner who advises companies on the effectiveness of the tax function, including tax risk management, compliance and reporting. Tony assists companies to optimise their tax management and reporting using Total Tax Contribution.

BUSINESS COUNCIL OF AUSTRALIA | 42/120 COLLINS STREET MELBOURNE 3000 | T 03 8664 2664 | F 03 8664 2666
www.bca.com.au