

state budget 2009-10

Cutting the cost of doing business

Since 1999 the Victorian Government has announced more than \$5 billion in tax cuts to benefit Victorian businesses. These reforms include the abolition of eight state taxes under the GST agreement and numerous cuts to payroll tax and land tax.

However, governments are not immune from the impact of the current global crisis and the Victorian Government recognises that the economic downturn has had an affect on most Victorians. In this context it is even more important that this Government's commitment to a fair and equitable tax system is upheld. Taxes are necessary in order for the Government to provide the core services that Victorians need, especially important when times are tough.

Land Tax

The Victorian Government has made significant reforms to the land tax regime saving Victorians a total of \$3.0 billion in land tax cuts. This has been achieved through:

- cutting the top rate of tax in five state budgets from the 5 per cent rate left by the previous government to the current rate of 2.25 per cent;
- cutting rates for land tax payers in the middle brackets on four occasions;
- increasing the tax free threshold to the current level of \$250,000 compared to \$85 000 in 1999;

These reforms have moderated the impact of property price rises on land tax bills and further improved Victoria's land tax interstate competitiveness.

Other states and territories have recently announced revenue raising measures to address deteriorating budget positions as a result of the Global Financial Crisis. For example, NSW and Queensland increased their land tax rates and have deferred the abolition of taxes. As a result, Victorian businesses and investors with landholdings valued over \$400 000 will now pay less land tax than those in NSW. Meanwhile, compared with Queensland, Victorian businesses now pay lower land tax than their counterparts for all properties valued between \$350 000 and \$5.7 million, increasing to \$7 million in 2010.

Interstate Land Tax Comparison 2009

Land Value (\$)	NSW	QLD (Companies)	Victoria
225,000	\$0	\$0	\$0
500,000	\$2 212	\$4 000	\$775
1.0 million	\$10 212	\$12 500	\$2 975
2.0 million	\$26 212	\$29 500	\$11 975

3.0 million	\$45 212	\$45 000	\$24 975
5.0 million	\$85 212	\$75 000	\$69 975

Payroll Tax

Since 1999 the Victorian Government has reduced the payroll tax rate from 5.75 per cent to its current rate of 4.95 per cent, as announced in the 2008-09 Budget. This is the first time in 35 years the rate has been lower than 5 per cent.

At 4.95 per cent, Victoria's payroll tax rate is the equal second-lowest in Australia, behind only Queensland, and brings the total payroll tax cuts announced by the Victorian Government since 1999 to around \$1.1 billion.

More than 28 000 businesses in Victoria benefit from the cuts to the payroll tax rate. Victorian businesses operating with payrolls valued between \$4.9 million to \$13.6 million pay the lowest payroll tax in Australia.*

Comparison of Payroll Tax Payable

Payroll	Queensland	NSW	Victoria
\$2.5 million	89 063	107 928	96 525
\$4 million	178 125	194 178	170 775
\$5 million	237 500	251 677	220 275
\$10 million	475 000	539 177	467 775
\$12 million	570 000	654 178	566 775
\$13.6 million	646 000	746 178	645 975

(*This occurs because Victoria does not phase out the tax free threshold, and payroll up to the threshold remains tax free for all payroll levels. Queensland has the lowest tax rate, but phase out their tax free threshold by \$1 for every \$4 of additional payroll.)

In addition, Victoria has lead the way with New South Wales in harmonising their payroll tax legislation to reduce the red tape and compliance costs for businesses operating across both states, with Tasmania also recently harmonising its legislation. As part of the harmonisation process, a number of key changes have been implemented for the Victorian payroll tax system. Harmonisation of the legislation is consistent with the Victorian Government's reduction of red tape initiative to reduce the regulatory burden on business (*Reducing the Regulatory Burden* initiative released in 2006).

WorkCover

While tax competitiveness is an important part of business decision-making, low WorkCover insurance premiums are another factor that improves the competitiveness of

Victoria as a business location. Successive reductions in the WorkCover insurance average premium rates in recent years ensure that Victoria's WorkCover scheme continues to have one of the lowest average premium rates in Australia.

For further information about the WorkCover premiums, visit the Victorian WorkCover Authority website at www.worksafe.vic.gov.au.

Stamp duty on land transfers

The Government announced a major revision of the general stamp duty on land transfer thresholds in the 2008-09 Budget, providing an adjustment of around 10 per cent to the stamp duty on land transfers thresholds

This reform, worth \$332 million over the following four years, provided a degree of relief to over 11 000 business property purchases per year and represents the first major revision of the thresholds in 10 years.

At the same time corporate reconstruction exemption was extended to provide relief to listed property trusts in circumstances that were consistent with the Commonwealth Government's arrangements concerning Capital Gains Tax rollover relief.

The Government will continue to levy stamp duty on the real component of business property transfers only (e.g. value of land, building and goodwill attached to the land). Unlike some other states, Victoria does not levy duty on the non real component (e.g. value rights, licenses, trading stock etc) of a business property transfer, leading to a lower duty liability than in some other states, as demonstrated below.

Hypothetical Comparison of Business Stamp duty on Land Transfers Payable

State of Property Purchase	Total Value of Property Transfer	Value of Real Component	Value of Non-Real Component	Dutiable Value	Duty Paid
Victoria	\$1 million	\$500 000	\$500 000	\$500 000	\$25 070
NSW	\$1 million	\$500 000	\$500 000	\$1 million	\$40 490

Examples of tax cuts for business

Large Regional Food Processing Business

Large regional Australian owned food processor and marketer. The business has 600 employees, assets worth \$215 million and annual turnover of \$298 million.

	Value (2009) \$	Old tax (1999) \$	New tax \$	Change \$	Change %
Payroll tax	47 124 000	2 680 018	2 305 413	-374 605	-14.0%
Land tax	3 672 000	103 480	40 095	-63 385	-61.3%
Stamp duty					
lease duty	471 240	2 827	0	-2 827	-100.0%
mortgage duty	3 213 000	12 816	0	-12 816	-100.0%
rental business duty	3 468 000	26 010	0	-26 010	-100.0%
bank taxes	2 754 000	110 160	0	-110 160	-100.0%
Total taxes		2 935 311	2 345 508	-589 803	-20.1%
WorkCover charges		1 825 374	1 546 741	-278 633	-15.3%
Total taxes and charges		4 760 685	3 892 249	-868 436	-18.2%

Medium Metropolitan Communications Manufacturer

Medium sized metropolitan developer and manufacturer of telecommunication management systems operating in both the domestic and international market. The business has 68 employees and assets worth \$19 million.

	Value (2009) \$	Old tax (1999) \$	New tax \$	Change \$	Change %
Payroll tax	5 916 000	310 558	265 617	-44 941	-14.5%
Land tax	1 224 000	11 590	4 767	-6 823	-58.9%
Stamp duty					
lease duty	167 280	1 004	0	-1 004	-100.0%
rental business duty	17 340	130	0	-130	-100.0%
land transfer duty*	428 604	21 376	20 786	-590	-2.8%
motor vehicle duty**	128 520	5 141	3 213	-1 928	-37.5%
bank taxes	204 000	8 160	0	-8 160	-100.0%
Total taxes		357 958	294 383	-63 575	-17.8%
WorkCover charges		72 613	56 773	-15 840	-21.8%
Total taxes and charges		430 571	351 156	-79 415	-18.4%

* Assumes one-off property purchase

** Assumes 3 new vehicles purchased at around \$42 800 per vehicle

Small Regional Tyre Business

Small regional tyre-retread business operating in the motor vehicle industry. The business has 18 employees, assets worth \$5.6 million and annual turnover of \$4.1 million.

	<i>Value (2009)</i>	<i>Old tax (1999)</i>	<i>New tax</i>	<i>Change</i>	<i>Change</i>
	\$	\$	\$	\$	%
Payroll Tax	846 600	19 067	14 682	-4 385	-23.0%
Land tax	749 700	2 302	1 724	-579	-25.1%
Stamp duty					
land transfer duty*	306 000	14 020	13 430	-590	-4.2%
lease duty	85 680	514	0	-514	-100.0%
bank taxes	26 724	1 069	0	-1 069	-100.0%
Total taxes		36 972	29 835	-7 137	-19.3%
WorkCover charges		32 183	30 100	-2 083	-6.5%
Total taxes and charges		69 155	59 935	-9 220	-13.3%

* Assumes one-off property purchase

Further Information

For further information, businesses should contact the State Revenue Office (SRO) at 121 Exhibition Street, Melbourne, 3000, telephone 132 161, or refer to the SRO website at www.sro.vic.gov.au.