

Discussion Paper
July 2023



Making Victoria's Tax System Work

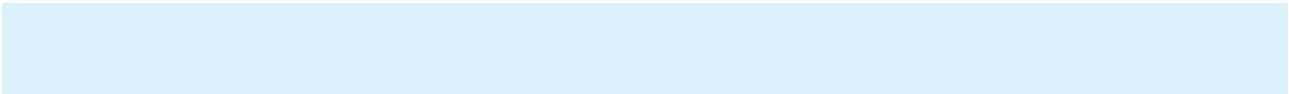


Reducing cost pressures
for families, community
groups and business

Victorian
Liberals & Nationals



THE NATIONALS
for Regional Victoria



1. Introduction



John Pesutto MP
Victorian Liberal Leader



Brad Rowsell MP
Shadow Treasurer



Jess Wilson MP
Shadow Finance Minister

This discussion paper intends to further our engagement with the community on ways to reform and improve our tax system.

We encourage all Victorians, whether they are young people, families, sole traders, retirees, small businesses or large employers to provide their feedback and views on our State's tax system - either on one issue or every issue.

Victoria's tax system needs to encourage opportunity and promote a growth agenda for jobs, investment, competitive markets, and digital transformation.

Instead, Victoria's tax system is punitive.

It discourages rather than incentivises investment and job creation in our State. It adds costs to businesses and families actively trying to get ahead. It undermines choice and creativity.

Fundamentally, our State's tax system is uncompetitive. Why, for example, would a business relocate to or create more jobs in Victoria when payroll tax and land tax are lower in other States?

As the South Australian Treasurer said in June 2023:

“If you are a large corporate employer, especially in these days when even people in senior positions perform remotely, the choice should be obvious. Why would you choose a high-tax, high-cost location like Victoria?”

Victoria needs a better tax system.

We need a tax system that reduces cost pressures for families, community groups and business.

Our aim is to make the tax system work better for this State and for all Victorians.

We hope you will take part in the discussion.

2. Making a submission

Anyone can make a submission to this discussion paper.

Submissions should provide informed views on any aspect of Victoria's tax system, particularly the issues identified in this discussion paper.

Examples, case studies, data, economic modelling, and other empirical work is strongly encouraged to help substantiate views and reform proposals.

Submissions should be made via **BetterTaxSystem.com.au**

While the Liberal and National parties will continue to engage with Victorians on tax reform on an ongoing basis, submissions to this discussion paper close at 5.00pm on Tuesday, 31 October 2023.

Submissions may be made public, unless clearly indicated as confidential.



BetterTaxSystem.com.au

3. Victoria's tax policy settings

Both the Australian Bureau of Statistics and the Victorian Parliamentary Budget Office have found that Victorians pay the highest taxes of any State or Territory in Australia.

State tax revenue is forecast to grow well above Victoria's Gross State Product for the foreseeable future.

Over the next four years, tax revenue is forecast to increase by 16 per cent.

By contrast, Victoria's Gross State Product is forecast to grow by only 1.5 per cent in 2023-24 and then an average of 2.7 per cent annually over the next three years.

Tax revenue is forecast to exceed Victoria's Gross State Product growth across all revenue measures:

- Payroll tax revenue is forecast to be \$8 billion in 2023-24 and then increase by an average of 4.6 per cent annually over the next few years.
- Land tax revenue is forecast to be \$6.1 billion in 2023-24 and then increase by an average of 3.7 per cent annually over the next few years.
- Stamp duty revenue is forecast to be \$7.4 billion in 2023-24 and then increase by an average of 8.4 per cent annually over the next few years.
- Revenue from the Mental Health and Wellbeing Levy is forecast to be \$912 million in 2023-24 and then increase by an average of 5.5 per cent annually over the next few years.
- Revenue from the new 'COVID Debt Levy' is forecast to be \$2 billion in 2023-24 and then increase by an average of 4.9 per cent annually over the next few years.

In all, Victoria's tax revenue will increase by \$7 billion from 2022-23 to 2025-26, and by a further \$2 billion from 2025-26 to 2026-27. This is the largest increase of any State or Territory. Our State's tax revenue to Gross State Product ratio is also forecast to be larger than any State or Territory from 2022-23 to 2025-26. At the same time as tax revenue increases, Victoria's net debt will rise 47 per cent to 2026-27 to a record \$171.4 billion.

Source: 2023-24 Victorian Budget Papers.

Issues for Consideration

1. Are Victoria's tax policy settings competitive?
2. Are Victoria's tax policy settings having a positive or negative impact on employment growth, wage growth, investment, and economic growth?
3. Are Victoria's tax policy settings appropriate for the not-for-profit and/or community organisation sectors?
4. Are Victoria's tax policy settings appropriate for sole traders and small business?
5. In what ways can Victoria's tax policy settings be reformed to reduce cost-of-living pressures?
6. In what ways can Victoria's tax policy settings be reformed to improve competition, market efficiencies, and business performance?

4. New and increased taxation

The Andrews Labor Government has introduced or increased nearly 50 taxes since being elected in 2014 – outlined at List 1.

Issues for Consideration

- 7.** What impact have these new and increased taxes had on Victoria's competitiveness?
- 8.** What impact have these new and increased taxes had on families, not-for-profit and/or community groups, and home buyers?
- 9.** What impact have these new and increased taxes had on commercial competitiveness?
- 10.** What impact have these new and increased taxes had on business operating margins, investment decisions, jobs growth, wage growth, and long-term strategic commercial decisions?
- 11.** Which of these new and increased taxes should be retained and why?
- 12.** Which taxes should be revised or abolished to help reduce cost pressures for families, community groups and business?
- 13.** Which of these new and increased taxes should be abolished or otherwise modified and why?

List 1. New and increased taxation

1. A new stamp duty on property transfers between spouses (2017-18)
2. An increased stamp duty on new cars (2017-18)
3. A new stamp duty on off-the-plan purchasers (2017-18)
4. A new so-called 'vacant home' tax (2017-18)
5. Widening of vacant residential land tax to uninhabitable properties (2019-20)
6. Retrospective increase in insurance duty for overseas-based insurers (2019-20)
7. A new annual property valuation to increase land tax
8. Cladding rectification tax (2019/20)
9. Environment Mitigation Levy
10. Increased luxury car tax (2019-20)
11. Increased land tax for homes with contiguous blocks on a separate title (2019-20)
12. Increased Fire Services Property Levy (2015-16)
13. Increased Fire Services Property Levy (2019-20)
14. A new point of consumption gambling tax
15. A tripling of brown coal royalties (2016-17)
16. Gold mining royalties (2019-20)
17. A new tax on Uber and taxi fares. (2016-17 Update)
18. A new corporate restructure duty (2019-20)
19. Increased foreign stamp duty (2019-20)
20. Increased foreign stamp duty (2016-17)
21. Introduced foreign stamp duty 2015-16)
22. Increased absentee landowner surcharge for foreigner property (2019-20)
23. Increased absentee landowner surcharge for foreigner property (2016-17)
24. Increased absentee landowner surcharge for foreigner property (2015-16)
25. A new city access tax for West Gate Tunnel
26. A new 'on-dock rail' charge on imported shipping containers
27. Increase to the Municipal and Industrial Landfill Levy ('bin tax')
28. Road Occupation Charge on construction companies
29. Number plate tax
30. Electric Vehicle tax
31. A new affordable housing tax (windfall gain tax on rezoned land)
32. Increased land tax on taxable landholdings above \$1.8 million
33. Increased stamp duty on property transactions
34. Expanded point of consumption tax on gambling to keno
35. 10 per cent increase to Victorian Government penalty units
36. Expanded land tax on gender-exclusive clubs
37. Mental health payroll tax surcharge
38. Increased wagering and betting tax (2021-22)
39. Increased Fire Services Property Levy (2021-22)
40. 50 per cent increase to Births, Deaths and Marriages fees
41. Proposed levy on employers to fund 5 days sick leave for casual employees – initially a government-funded trial to be followed up with a new tax after 2 years
42. Narrowing the Land Tax exemption for charitable institutions by harshly insisting that charitable institutions "exclusively" use their land for charitable purposes, otherwise triggering a full Land Tax charge on the entire landholding
43. Increase to the WorkCover average premium rate
44. Increased payroll tax on businesses (Jobs Tax)
45. Increased land tax on landholdings above \$300,000
46. Land tax on landholdings between \$50,000 to \$300,000 (Rent Tax)
47. Increased absentee landowner surcharge
48. Increased wagering and betting tax (2023-24)
49. Payroll tax on independent schools (Schools Tax)

5. Payroll Tax

Payroll tax applies if a business pays wages in Victoria and their Australian wages exceed the monthly threshold of \$58,333.

The payroll tax rate is generally 4.85 per cent, but is 1.2125 per cent for businesses in regional areas. A special payroll tax is applied for businesses in bushfire affected local government areas.

The Victorian payroll tax threshold is considerably lower than every other state and territory in Australia.

Issues for Consideration

14. Have Victoria's payroll tax settings been competitive?
15. What impact has Victoria's payroll tax settings had on commercial margins, employment growth and wage growth?
16. In what ways should Victoria's payroll tax settings be reformed? Why?
17. How can payroll tax best be reformed to reduce cost pressures for community groups and business?

The 2023-24 State Budget made a number of changes to Victoria's payroll tax system.

From 1 July 2023, a payroll tax surcharge of 0.5 per cent applies to businesses located in Victoria with national payrolls over \$10 million a year.

Businesses with national payrolls above \$100 million a year will pay an additional 0.5 per cent. These changes will apply until 30 June 2033.

Issues for Consideration

18. Are the changes to payroll tax made in the 2023-24 State Budget likely to enhance commercial competitiveness?
19. What impact will the changes to payroll tax made in the 2023-24 State Budget have on business investment, employment growth, real wage growth, and digital transformation?
20. What are the likely impacts of the changes to payroll tax made in the 2023-24 State Budget on market competition and productivity?

In addition, in an Australian-first, some Victorian independent schools will lose their long-held payroll tax exemption.

Issues for Consideration

21. What impact will the loss of the payroll tax exemption have on independent school fees?
22. What impact will the loss of the payroll tax exemption have on teachers or other school employees, including wage growth, training and continuity of employment?
23. What impact will the loss of the payroll tax exemption have on school programs, especially programs that support access, diversity and inclusion, including the ability for schools to offer scholarships and bursaries.
24. What impact will the loss of the payroll tax exemption have on students and families?

6. WorkCover

WorkCover was introduced in 1985 and is intended to support the prevention of workplace injury and support injured employees to recover and return to work.

Since 2014-15, the average workplace premium for WorkCover has been 1.27 per cent.

The 2023-24 State Budget increases the rate by 42 per cent to 1.8 per cent.

Issues for Consideration

25. Is WorkCover achieving its stated aim?
26. Has the historic rate of WorkCover premiums been appropriate?
27. What impact will the increase in WorkCover premiums have on small and medium businesses, particularly employment, training and investment decisions?
28. What impact will the increase in WorkCover premiums have on large businesses, particularly employment, training and investment decisions?
29. What, if any, changes should be made to WorkCover premiums to best achieve prevention of workplace injury and support injured employees to recover and return to work?
30. How can WorkCover be reformed so as to best achieve its intent while also reducing cost pressures on business?

7. Land Tax

Land tax is paid on the total taxable value of Victorian land owned by someone, either individually or jointly, that is equal to or exceeds \$300,000 or \$25,000 for trusts.

Exemptions are provided for family homes, farms, rooming houses, and charitable institutions.

A two percent absentee owner surcharge applies to Victorian land owned by an absentee owner.

In addition, special land tax is a one-off tax charge of 5 per cent of the taxable value of the land in certain circumstances where land is no longer exempt. The charge increases to 7 per cent if there is an absentee owner.

Issues for Consideration

31. Have Victoria's land tax settings been competitive?
32. What impact have Victoria's land tax settings had on investment and development decisions?
33. In what ways should Victoria's land tax settings be reformed? Why?
34. How can land tax be reformed to reduce cost pressures for community groups and business?

The 2023-24 State Budget made a number of changes to Victoria's land tax system – detailed at Box 1.

These changes essentially increase land taxes.

Issues for Consideration

35. Are the changes to land tax made in the 2023-24 State Budget likely to result in higher or lower rents? Higher or lower housing prices?
36. Are the changes to land tax made in the 2023-24 State Budget likely to result in increased or decreased rental stock? Are property owners considering selling their property as a result of land tax increases?
37. What impact will the changes to land tax made in the 2023-24 State Budget have on business investment, employment growth, real wage growth, and digital transformation?
38. What are the likely impacts of the changes to land tax made in the 2023-24 State Budget on market competition and productivity, particularly in the property market?

Box 1. Changes to Victoria's Land Tax

A new COVID-19 debt temporary land tax surcharge will apply in addition to existing land tax from the 2024 land tax year for ten years.

Exempt properties — including your home — remain exempt from this surcharge. This means the value of exempt property is not included in your landholdings.

General land tax rates

For taxable landholdings between \$50,000 and \$100,000 — a \$500 flat surcharge will apply

For taxable landholdings between \$100,000 and \$300,000 — a \$975 flat surcharge will apply

For taxable landholdings over \$300,000:

- \$975 flat surcharge
- an increased rate of land tax by 0.10 percentage points.

Trust surcharge land tax rates

For taxable landholdings between \$50,000 and \$100,000 — a \$500 flat surcharge will apply

For taxable landholdings between \$100,000 and \$250,000 — a \$975 flat surcharge will apply

For taxable landholdings over \$250,000:

- \$975 flat surcharge
- an increased rate of land tax by 0.10 percentage points.

SOURCE: State Revenue Office, State Budget 2023-24 announcement | State Revenue Office (sro.vic.gov.au).

8. Stamp Duty

Stamp duty is applied on property transfers, with some exemptions applied (e.g. to some first home buyers below a certain threshold).

The first home buyer stamp duty exemption or concession may be available if:

- You enter into a contract of sale to buy your first home on or after 1 July 2017.
- Your home has a dutiable value of:
 - \$600,000 or less to receive the first home buyer duty exemption,
 - \$600,001 to \$750,000 to receive the first home buyer duty concession.

The 2023-24 State Budget made a number of changes to Victoria's stamp duty system, including:

- Abolishing stamp duty on commercial and industrial properties, to be replaced with an annual property tax.
- The annual property tax to be payable from 10 years after the transaction.
- The annual property tax for commercial and industrial property will be 1 per cent of the property's unimproved land value.
- The absentee owner surcharge rate increases from 2 per cent to 4 per cent and the minimum threshold for non-trust absentee owners decreases from \$300,000 to \$50,000.

Issues for Consideration

- 39.** Have Victoria's stamp duty settings been competitive?
- 40.** What impact have Victoria's stamp duty tax settings had on home affordability, property investment and development decisions?
- 41.** In what ways should Victoria's stamp duty settings be reformed? Why?
- 42.** Does the current stamp duty relief (outlined above) provided to first home buyers reflect current market property values and trends?
- 43.** What impact will the changes to stamp duty made in the 2023-24 State Budget have on business investment and development decisions?
- 44.** Should the changes to stamp duty made in the 2023-24 State Budget be retained, abolished or in some way reformed? Why?
- 45.** How can stamp duty be reformed to reduce cost pressures for families, community groups and business?

9. Insurance Taxes

The 2023-24 State Budget made changes to Victoria's insurance taxation system, including abolishing business insurance duty over a 10-year period. The current 10 per cent rate of duty will be reduced by 1 percentage point each year.

Issues for Consideration

46. Have Victoria's insurance tax settings been competitive?
47. In what ways should Victoria's insurance tax settings be reformed? Why?
48. What impact will the changes to insurance taxes made in the 2023-24 State Budget have on business investment, employment growth, real wage growth, and digital transformation?
49. Should the changes to insurance tax made in the 2023-24 State Budget be retained, abolished or in some way reformed? Why?

10. Other Taxes and Charges

In addition to the taxes outlined previously, Victorians and Victorian businesses are potentially liable for several other taxes and charges, including:

- Congestion levy
- Fire services levy
- Financial accommodation levy
- Gambling taxes
- Growth areas infrastructure contributions
- Liquor licencing fees
- Local council charges
- Mental Health and Wellbeing Levy
- Metropolitan improvement levy
- Metropolitan planning levy
- Motor vehicle registration charges
- Windfall gains tax

Issues for Consideration

- 50.** Should any of these other charges and taxes be retained, abolished or in some other way reformed? Why?
- 51.** How could these additional charges and taxes be reformed to improve investment, jobs growth, housing affordability, and real wage growth?
- 52.** How could these additional charges and taxes be reformed to improve market dynamics, competition, and efficiency of the Victorian economy?
- 53.** What additional steps, if any, should be taken to examine and quantify the positive and negative impacts of Victoria's tax settings on the current and long-term competitiveness of Victoria?
- 54.** How can other charges and taxes be reformed so as to reduce cost pressures for families, community groups and business?

11. Our Economic and Finance Team



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