QTON No. 3

LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS
VICKI DUNNE MLA (CHAIR), TARA CHEYNE MLA (DEPUTY CHAIR), BEC CODY MLA, NICOLE LAWDER MLA

Inquiry into referred 2017–18 Annual and Financial Reports
ANSWER TO QUESTION TAKEN ON NOTICE
Monday, 12 November 2018

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COMMITTEE SUPPORT

Asked by MRS DUNNE MLA:

In relation to:

THE CHAIR: Yes. Well, no, not just dollar senses. Has there been an impact of commercial rate rises on the operation of business in the ACT?

Mr Barr: Well, the data that is available to us, we have demonstrated that there are more businesses operating in the territory than there were previously. Those businesses pay less in other taxes to the territory, including payroll tax and insurance taxes that do not apply. Insurance taxes are abolished completely; payroll taxes, obviously the threshold is 2 million in terms of the payroll of businesses, so the overwhelming majority of businesses that operate in the territory pay no payroll tax to the territory as well.

So I can give you a comprehensive list of every available indicator that is there for us, collected by us and by the Australian Bureau of Statistics. We can give the detail of every single charge that is imposed by the territory government. That is outlined clearly.

I can give you a series of case studies for businesses with certain payrolls, certain property values and certain insurance products and give you a comparator of where particular businesses would stand. I cannot obviously release the detail of individual taxpayers—

THE CHAIR: That is all right. Yes.

Mr Barr: —but we can give case studies, if that is of use, for generic businesses.

THE CHAIR: Yes, that would be useful.

Mr Barr: Okay. Happy to take that on notice and provide that to the committee.

Treasurer: The answer to the Member's question is as follows:–

Business counts (Source: ABS Cat. No. 8165.0.)
(Next update: February 2019)

- As of June 2017, there were 27,413 businesses whose main state of operation was in the ACT. This was an increase of 4.7 per cent compared to June 2016, which was the highest rate of growth of any State and Territory.

- Table 1 shows that, as at June 2017, the most common types of businesses in the ACT were Management Advice and Related Consulting Services businesses (1,485 businesses), Computer System Design and Related Services (1,421 businesses), and Non-Residential Property Operators (1,420 businesses).

Table 1: The 10 Most Common Types of Businesses in the ACT

		Number of businesses as at June 2017	Increase since June 2016
1	Management Advice and Related Consulting Services	1,485	7%
2	Computer System Design and Related Services	1,421	2%
3	Non-Residential Property Operators	1,420	3%
4	Superannuation Funds	1,049	5%
5	House Construction	883	3%
6	Cafes and Restaurants	827	3%
7	General Practice Medical Services	658	3%
8	Carpentry Services	629	0%
9	Real Estate Services	592	3%
10	Residential Property Operators	571	0%

Source: ABS Cat. No. 8165.0.

Sensis Business Index Report – June Quarter 2018

- The latest *Sensis Business Index* report[1] (June quarter 2018), which measures small and medium business confidence, shows that the ACT recorded a net balance of +61 percentage points, an increase of 7 percentage points since the March quarter 2018.
  - This remains the highest result of the States and Territories, indicating that ACT small and medium businesses are the most confident in Australia. The national average has risen to +49, the highest result since December 2009.

- The ACT's net balance of +61 percentage points is measured as the difference between:
  - 69 per cent of the small and medium businesses surveyed being positive about their prospects over the next 12 months; and
  - 8 per cent of the businesses surveyed being negative about their prospects.

[1] Note that the sample size of the survey is limited, covering 80 small and medium businesses out of about 27,000 small and medium businesses in the ACT. Nationally, the survey covered 1,002 small and medium businesses.

Major taxes paid by businesses in the ACT in 2018-19

	Base	Thresholds	Rates
Commercial general rates	**Fixed charge:** $2,463 **Valuation-based charge:** AUV	0 to $150,000 $150,001 to $275,000 $275,001 to $600,000 $600,001 and above	3.0800% 3.6161% 5.1074% 5.1675%
Fire and Emergency Services Levy	AUV	$1 to $300,000 $300,001 to $2,000,000 $2,000,001 and above	0.7068% 0.8226% 0.8040%
Commercial conveyance duty (stamp duty)	Commercial property purchases	0 to $1,500,000 More than $1,500,000	Nil 5.0%
Payroll tax	Wages paid in relation to services performed by an employee in the ACT or by an employee based in the ACT	Up to $2,000,000 More than $2,000,000 (wages of more than $2 million per year Australia-wide)	Nil 6.85%
Land tax	Abolished on 1 July 2012.		
General insurance duty	Abolished on 1 July 2016.		

Case studies

The case study examples presented below are for illustrative purposes only, to provide a comparison of taxes payable by businesses with different property values, payrolls and insurance costs. The following assumptions have been made for each of the examples:

- Calculations of Commercial General Rates without tax reform are based on 2011-12 marginal rates, indexed by the long-run WPI of 3.25 per cent per annum. Commercial General Rates were indexed annually by the increase in WPI prior to 2012-13.
- The Fire and Emergency Services Levy (FESL) is the amount payable in 2018-19, as FESL is not affected by tax reform.
- Land Tax and Stamp Duty without tax reform are based on 2011-12 marginal rates, assuming these marginal rates would not have changed in the absence of tax reform. Marginal rates for these taxes had not changed for many years prior to 2011-12.
- General Insurance Duty without tax reform is based on the 2011-12 duty rate, which was 10 per cent of the premium. It is assumed that businesses in NSW pay general insurance Type A with the rate at 9 per cent of the premium.
- Payroll Tax without tax reform is based on the 2011-12 Payroll Tax threshold. Changes to the Payroll Tax threshold were implemented from 2012-13, alongside tax reform.
- Total annual turnover for each example has been calculated by assuming that employee costs form 80 per cent of total costs, and including an additional gross profit margin of 7 per cent. This is for illustrative purposes only, noting that employee costs and profit margins for different businesses in different sectors vary significantly.
- The number of employees and average wages have been assumed in each example in order to provide comparative case studies of different firm sizes and turnover.

Example 1

Property is <u>RENTED</u> by the business owner.			
Property Value:			
- AUV	$250,000		
- Building	$250,000		
Total	**$500,000**		
Floor size (sqm)	**200**		
Business Size	Small		
No. of Employees	15		
Annual turnover	$1,605,000		
Average wages (incl. super etc.) p.a.	$80,000		

2018-19	ACT without tax reform	ACT 2018-19	Queanbeyan
Annual Taxes			
General Insurance Duty	$220	$0	$200
Payroll Tax	$0	$0	$19,075
Total Annual Taxes	**$220**	**$0**	**$19,275**
Total annual taxes as a proportion of turnover	0.0%	0.0%	1.2%

Example 2

Property is owned by the business owner (purchased).	
Property Value:	
- AUV	$500,000
- Building	$500,000
Total	**$1,000,000**
Floor size (sqm)	**500**
Business Size	Small-Medium
No. of Employees	20
Annual turnover	$2,407,500
Average wages (incl. super etc.) p.a.	$90,000

2018-19	ACT without tax reform	ACT 2018-19	Queanbeyan
Annual Taxes			
Commercial General Rates (including FESL)	$10,003	$26,860	$4,482
Land Tax	$6,475	$0	$0
General Insurance Duty	$390	$0	$350
Payroll Tax	$20,550	$0	$73,575
Total Annual Taxes	**$37,418**	**$26,860**	**$78,407**
Total annual taxes as a proportion of turnover	1.6%	1.1%	2.4%
One-off Stamp Duty cost	**$49,250**	**$0**	**$40,490**

Example 3

Property is owned by the business owner (purchased).			
Property Value:			
- AUV		$900,000	
- Building		$600,000	
Total		**$1,500,000**	
Floor size (sqm)		**1,000**	
Business Size		Medium	
No. of Employees		40	
Annual turnover		$5,885,000	
Average wages (incl. super etc.) p.a.		$110,000	
2018-19	**ACT without tax reform**	**ACT 2018-19**	**Queanbeyan**
Annual Taxes			
Commercial General Rates (including FESL)	$17,152	$50,761	$7,722
Land Tax	$12,835	$0	$4,436
General Insurance Duty	$530	$0	$475
Payroll Tax	$198,650	$164,400	$193,475
Total Annual Taxes	**$229,167**	**$215,161**	**$206,108**
Total Annual Taxes as a proportion of turnover	3.9%	3.7%	3.5%
One-off Stamp Duty cost	**$83,000**	**$0**	**$67,990**

Example 4

Property is owned by the business owner (purchased).	
Property Value:	
- AUV	$1,000,000
- Building	$1,000,000
Total	**$2,000,000**
Floor size (sqm)	**1,500**
Business Size	Small-Medium
No. of Employees	50
Annual turnover	$7,356,250
Average wages (incl. super etc.) p.a.	$110,000

2018-19	**ACT without tax reform**	**ACT 2018-19**	**Queanbeyan**
Annual Taxes			
Commercial General Rates (including FESL)	$18,939	$56,751	$8,532
Land Tax	$14,425	$0	$6,036
General Insurance Duty	$670	$0	$600
Payroll Tax	$274,000	$239,750	$253,425
Total Annual Taxes	**$308,034**	**$296,501**	**$268,593**
Total Annual Taxes as a proportion of turnover	4.2%	4.0%	3.7%
One-off Stamp Duty cost	**$116,750**	**$100,000**	**$95,490**

Approved for circulation to the Standing Committee on Public Accounts

Signature: Andrew Barr

Date: 21.11.18

By the Treasurer, Andrew Barr MLA