

PwC Institute

What is your company's Total Tax Contribution?

2007 survey results

The PwC Institute anticipates and advances thinking on complex issues so that the business community can actively participate in shaping tomorrow's Australia. We do this by collaborating as broadly as we can, to develop a distinctive and independent point of view so there is a clear impartial voice for change in the market. For more information on the PwC Institute please contact Richard Oldfield on +61 2 8266 1303 or richard.a.oldfield@au.pwc.com.

Foreword

PricewaterhouseCoopers believes it is important that the impact of all taxes on business is properly understood. Transparency is important for two reasons.

Firstly, at a macro level, transparency highlights to stakeholders, and in particular Government, that our current business taxation system is far from optimal. It is complex and costly and in need of reform if we are to improve the competitiveness of Australian business.

Secondly, it indicates the impact that all Australia's business taxes have on individual organisations. Hopefully it will enable better management, communication and potentially more appropriate disclosure of all business taxes, not just income tax.

We believe there is a very real window of opportunity for meaningful tax reform of business taxes in Australia. The new Federal government has identified business deregulation and Federal/State relations as priorities. Business tax reform is an opportunity to partially address both these reform priorities and it is reasonable to be optimistic about the appetite to address the structural reform of our tax system.

Equally encouraging is that taxation is now very much a business issue, which is reinforced by this year's PricewaterhouseCoopers Global CEO Survey. In that survey, 44% of Australian CEOs responded that taxation was the most significant regulatory issue impacting their business.

This is the second PricewaterhouseCoopers' Australian 'What is your Total Tax Contribution?' survey and the findings reinforce the messages from the previous year and in particular, show how Australia's business tax system operates and impacts business.

We trust this report will provide valuable insights regarding our tax system and its impacts on business. We would particularly like to thank this year's participants for contributing and encourage the Australian business community to engage with the business tax reform process initiated by government.



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“The survey highlights the way Australia’s business tax system operates in practice. The detailed results confirm business’ concern about the complexity and inefficiency in the existing system.”

Executive summary

1

The performance of Australian business is inextricably linked to the efficiency and effectiveness of the business and regulatory systems which support it. Our taxation 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, by global standards, an unusually high tax burden on business in Australia. However, it is important to recognise that corporate income tax is only one of 21 different Federal and 34 separate State and Territory taxes. Collectively this translates to 169 potential taxation obligations, or “taxing points”, for businesses operating Australia-wide (excluding Local Government obligations). The overall impact of Australia’s complex system of taxation across all levels of government is still not properly understood.

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 still not yet occurred.

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.

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.

The reform opportunity

When the Rudd government came to power at the end of last year, it identified business deregulation as one of its highest priorities. The new government also recognises the need to address the imbalance between Federal and State rights and responsibilities.

The 2007 PricewaterhouseCoopers Total Tax Contribution survey confirms the structural problems with business taxation and highlights that meaningful reform could produce significant gains in efficiency for Australian business (and government). Meaningful progress on taxation reform would go a long way to achieving the government’s agenda in relation to both business deregulation and Federal / State relations.

The survey makes it very clear that reform is sorely needed in at least two areas:

- the number of business taxes imposed across the country, in particular the number of smaller and less efficient taxes; and
- the harmonisation of the base of similar State taxes – although the States should be encouraged to compete on rates and thresholds.

In the first Total Tax Contribution survey, published last year, we called for a comprehensive review of the effectiveness of Australia's business tax system, and for the Federal government to lead the development of an integrated response by all Australian governments to the issues raised by the review. We urge the new Federal government to consider this initiative as it formulates its reform agenda for its first term in office.

By providing an in-depth understanding of how taxation impacts business in Australia, the survey provides the basis for analysis and discussion on the shape and competitiveness of Australia's taxation system. Reform initiatives should address:

- the amount of revenue raised;
- the number and nature of all business taxes;
- the consistency of taxation across States; and
- the administration burden on both government and business of individual taxes.

Total Tax Contribution survey

This year we surveyed 63 Australian corporates on the number of taxes they face, the amount of tax they pay and collect on behalf of the government, and the cost of tax compliance. This survey follows and reinforces the 2006 Total Tax Contribution survey, undertaken with the Business Council of Australia (BCA) and the Corporate Tax Association (CTA) – *Tax Nation: Business Taxes and the Federal-State Divide*.

The participating companies represent 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.

The survey highlights that Australia's largest companies are major contributors to Australia's revenue collectors at all levels of government. The survey also makes it clear that the proportion of this contribution is increasing. The 63 companies we surveyed this year paid over \$28 billion in business taxes – 9% of Australia's total tax take and enough to fund the entire Australian defence force for 12 months. It is difficult to overstate the importance of big business to the fiscal health of the country.

The survey highlights the way Australia's business tax system operates in practice. The detailed results confirm business' concern about the complexity and inefficiency in the existing system.

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 Income Statement;
- 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 tax information in a consistent manner, to meet the needs of stakeholders and improve transparency.

Survey Results



Taxes Borne

The 2007 survey results highlight the role of Australia's largest companies as major contributors to Australia's revenue, both at Federal and State level, and show that:

- The 63 participants bore \$28,012 million in business taxes, representing 9% 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, 68%, or \$18,982 million, was corporate income tax. The reliance on corporate income tax is significantly higher in Australia than most other countries. The global average is closer to 35%.
- A small number of business Taxes Borne by survey participants (corporate income tax, petroleum resource rent tax, excise duties, payroll tax and gaming taxes¹) raised \$25,248 million and the remaining 41 business Taxes Borne raised \$2,764 million.
- Of all Taxes Borne by survey participants, Federal taxes comprised 85% and State, Territory and municipal taxes accounted for the balance of 15%.
- Over the last three years, for survey participants, corporate income tax borne increased by 52%, and other Taxes Borne increased by 44%. This compares to an increase in overall government tax receipts of 14%.

Taxes Collected

The role that business plays in supporting the administration of Federal and State tax system is very significant – and not properly recognised. The companies who consistently bear the largest taxes are also, generally, the largest collectors of tax.

In addition to Taxes Borne, in respect of the 63 participants, 2007 survey results show that:

- Taxes Collected from customers and/or employees totaled \$33,380 million, or 11% of total estimated Australian Government taxation receipts.
- For every \$1 of Tax Borne, a further \$1.19 was collected on behalf of Australian Governments.

The picture for individual participants

The 2007 survey results further indicated that:

- Taxes Borne by survey participants represented 33%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 \$25,485⁴ for survey participants.
- The average number of taxing points for Taxes Borne and Taxes Collected identified per survey participant was 24, with the maximum number identified as 67.
- The number and amount of Taxes Borne and Taxes Collected varied substantially between individual survey participants.

Industry segment analysis

An important 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.

This indicates that structural reform of business taxation is likely to result in winners and losers among different industries.

Tax compliance costs

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.

Forty one companies provided responses to the questions in relation to tax compliances costs, indicating that:

- Tax functions spend 58% of their time and some 73% of external costs on income taxes.
- On average, survey participants estimated incurring total compliance costs of approximately \$2.0 million, including both internal and external costs.
- Five participants recorded more than \$7 million in compliance costs.

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

- On average, internal tax functions employ eight specialist tax people for in-house tax functions.
- In most cases, companies supplement in-house resources with external service providers to meet their tax compliance obligations.

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.



“The Total Tax Contribution framework enables companies to collect and report business tax information in a consistent manner, to meet the needs of stakeholders and improve transparency.”

Total Tax Contribution
in 2008

2

Key points

- Taxation is ripe with reform opportunities. This survey is designed to provide a basis for discussion about the shape of that reform.
- The Australian business tax system is characterised by a prolific number of taxes – there are 55 business taxes imposed upon Australian companies, 21 Federal taxes and 34 State and Territory taxes.
- Businesses operating in all States and Territories potentially have to comply with up to 169 taxation obligations.
- The landscape is made more complex and inefficient by a lack of uniformity between jurisdictions of tax definitions and administration.

Taxation, always a vexed policy issue, is at the top of the national agenda. With a new Government in Canberra professing commitment to reforming the business environment, there has never been a more appropriate time to investigate the complexity of the Australian business taxation system and how it could be improved.

In 2006 PricewaterhouseCoopers partnered with the Business Council of Australia (BCA) and the Corporate Tax Association (CTA) to investigate the burden of the Australian taxation system on corporate Australia. The resulting Total Tax Contribution survey, and subsequent report *Tax Nation: Business Taxes and The Federal-State Divide*, highlighted the structural problems with Australia's tax system and the burden it lays on individual companies. Since the report was published, the structural issues imposed upon Australia's tax system by the Federal-State divide has become much better recognised. In addition, many of the respondents to the first Total Tax Contribution survey have used their individual results to refine their approach to management and disclosure of all business taxes.

In 2007 we repeated the Total Tax Contribution survey for a number of reasons. Importantly, it is a crucial time in the regulatory reform process and repeating the survey continues to inform the debate and maintain the momentum by refreshing and expanding the data reported in "Tax Nation". Critically this year we incorporated more detailed questions about the impact of compliance on business. Finally, there were also a significant number of companies that were keen to participate in the survey again, or for the first time, to better understand the impact of business taxes and benchmark themselves against their peers.

The complex Australian business tax system

The Australian tax system is unnecessarily complex and costly. Corporate income tax is just one of 21 Federal and 34 separate State and Territory taxes and levies imposed upon Australian business. What's more, the number of taxes that apply at each level of government means that businesses operating in all States and Territories potentially have to comply with up to 169 taxation obligations. The sheer number of these "taxing points" represents a huge compliance obligation for companies and imposes an enormous cost on Australian business.

Appendix B lists Australian Federal, State and Territory business taxes. In addition to the 55 Federal, State and Territory taxes, there are also municipal taxes on property imposed by the many Local Governments throughout Australia.

That complexity has not improved since the publication of our last survey. However, today the problems are much better understood by both business and government, and taxation is now clearly on the agenda for reform.

Business' agenda in relation to tax is confirmed, for example, in the recent PricewaterhouseCoopers annual global CEO survey where 44% of Australian CEOs responded that taxation was the most significant regulatory issue for their business.

One challenge to taxation reform is the imbalance between revenue and expenditure by Federal and State governments. When the GST was introduced in 2000, many State business taxes were to be abolished to rebalance the system. But that

abolition has not happened as quickly as anticipated. Indeed the Australian Capital Territory has seen fit to introduce a new tax, the Network and Utilities Tax, just as the number of business taxes should be reducing. Appendix C contains a list of the abolition schedule and its progress.

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, using different tax bases, thresholds and rates, in each State and Territory. Moreover, these rules are regularly amended. This adds significantly to the number of potential taxing points for a company doing business across the country – and the complexity and compliance risk in meeting these obligations. 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, GST and stamp duties).

The last year has seen some positive developments on this front. New South Wales (NSW) and Victoria have already harmonised their Payroll Tax base and other States and Territories are looking to do the same. The NSW Government appointed the Independent Pricing and Regulatory Tribunal to review its State tax system and the final report is due in May 2008.

Total Tax Contribution; the second year

Again, this year's survey used the PricewaterhouseCoopers Total Tax Contribution framework to collect the data and analyse the results. The Total Tax Contribution framework enables companies to collect and report business tax information in a consistent manner, to meet the needs of stakeholders and improve transparency. 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. It also 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' tax contribution. The 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 the Income Statement;
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.

Further details on the Total Tax Contribution framework and key measures can be found in Appendix A.

Global use of framework

PricewaterhouseCoopers' uses the Total Tax Contribution framework across its practices around the world. The United Kingdom completed its third survey in 2007 of The Hundred Group members and studies are underway in numerous other countries including the United States, Canada, South Africa, France and Germany.

The framework was applied by the World Bank in its 2007 report *Paying Taxes 2008: The Global Picture*.¹ The purpose of the report was a comparison of the taxes imposed on a specified hypothetical business under each of 178 countries' tax systems and looked at their business tax costs and measures of tax efficiency.² Australia was ranked 41 on ease of paying taxes in the World Bank survey.

Disclosure

Generally in Australia the only information publicly available in relation to tax is the disclosure of income tax on corporate profiles in a listed company's annual report.

However, 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.

¹ World Bank, *Paying Taxes 2008: The Global Picture*

² The World Bank Report calculated the Australian TTR at 50.6%. In applying the TTR methodology to Australia for global comparison purposes, the World Bank included superannuation obligations and workers' compensation insurance as Taxes Borne by the business. As noted in Appendix A, these contributions are not included in the Taxes Borne, Taxes Collected or any of the key measures in the 2007 Australian survey.



“The survey results provide a fair representation of the impact of tax on large business in Australia.”

Survey participation

3

Key points

- The 2007 Total Tax Contribution survey, using the PricewaterhouseCoopers framework, updates last year's *Tax Nation: Business Taxes and the Federal-State Divide*.
- The BCA and the CTA members were surveyed to provide data on their Australian tax contribution.
- The survey results provide a fair 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 2007 Australian Total Tax Contribution survey builds on the findings of the 2006 survey. It is intended to inform dialogue with 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 by members of the BCA, CTA and other large companies.

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

Respondents were asked to report data for the respective companies' 2007 financial year. Accounting year ends between 1 October 2006 and 30 September 2007 were included. 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.

Sixty three organisations submitted data when the survey closed in December 2007. In total, including new participants in the 2007 survey, the two Total Tax Contribution surveys provide a comprehensive view of the taxation burden on 113 companies.

Of the 63 participants in the 2007 survey:

- 45 were listed on the Australian Stock Exchange (ASX);
- 7 were Australian-owned private companies or partnerships; and
- 11 were foreign owned companies.

The survey population comprises 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 which have been grouped and analysed in the results section. The participants listed on the ASX have a market capitalisation of over \$750 billion. The survey participants include 75% of the S&P/ASX 20. Survey participants reported total aggregate turnover of \$413 billion with an average of \$7 billion and had operations in an average of six States and Territories.

The data provided by participants has been collated, aggregated 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. 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. As a result, we believe the stamp duty information provided in this survey is materially understated.

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





“For every dollar of Tax Borne by survey participants, they collected from employees and customers an additional \$1.19 of taxes on behalf of various governments.”

Survey results:
tax burden

4

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 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 \$1.19 of taxes for government.
- A large number of taxes account for a relatively insignificant amount of tax revenue.

Total Taxes Borne and Taxes Collected

The survey results reinforce the importance of large Australian companies to government finances³. The total Taxes Borne and Taxes Collected in Australia by survey participants in 2007 of \$61,392 million⁴ represented 19% of total Australian government (Federal, State and Territory) estimated taxation receipts.⁵

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

Total Taxes Borne

In 2007, survey participants bore \$28,012 million in Australian taxes, or 8.8% of the \$317 billion total Australian Government taxation receipts.

Corporate income tax represented the most significant proportion of Taxes Borne by survey participants; \$18,982 million. This corresponds to 32% of total corporate income tax revenue of the Federal Government.

The other business Taxes Borne by participants, \$9,030 million in 2007, represented approximately one third of their total Taxes Borne. In other words, for every dollar of corporate income tax paid, companies paid a further 50 cents of other business taxes.

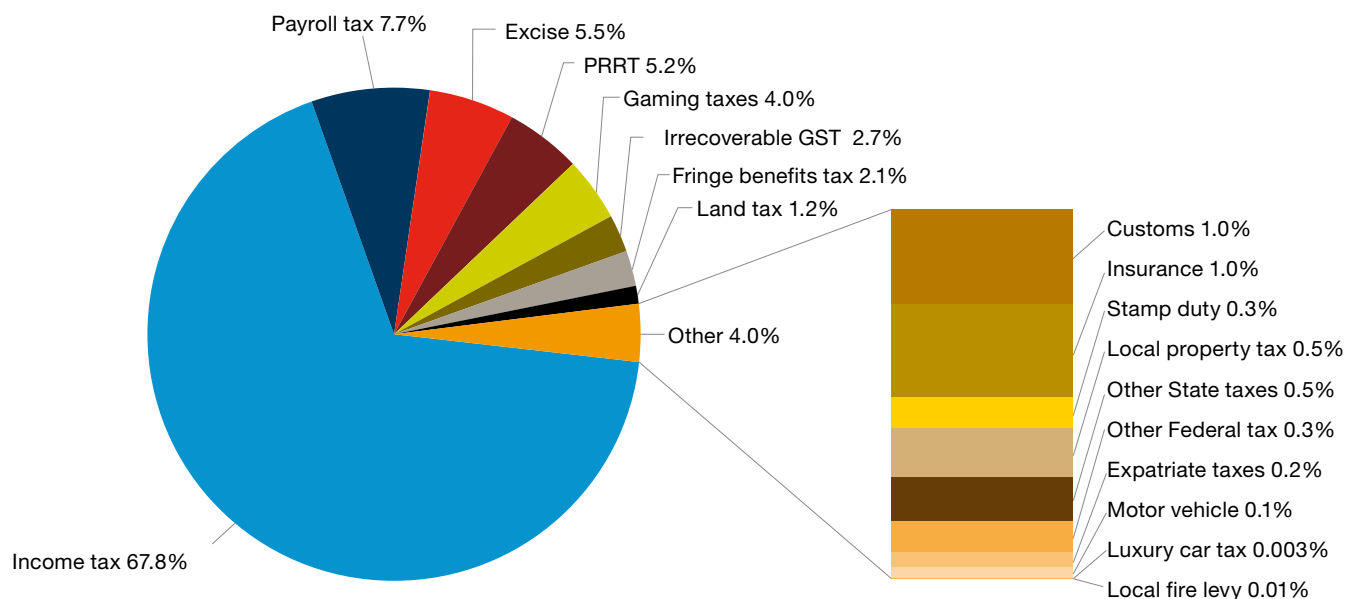
The other major business Taxes Borne by survey participants were payroll tax, excise duties, petroleum resource rent tax and gaming taxes, as shown in Figure 4.1.⁶ With corporate income tax, these taxes represented over 90% of total Taxes Borne by survey participants.

The survey results highlight Australia's reliance on corporate income tax by government to generate significant taxation revenue. Corporate income tax represented 68% 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 World Bank report *Paying Taxes 2008: The Global Picture*⁷ corporate income taxes, using the Total Tax Contribution framework, represented an average of 37% 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 Section 7, the key industry groups showed significant differences in their tax contribution.

Figure 4.1: Taxes Borne by survey participants



3 2006-07 Commonwealth Budget, Budget Paper No. 2.
 4 By adding Taxes Borne and Taxes Collected by survey participants, it is recognised that there is minimal overlap in relation to excise duties.
 5 2007 Federal Government taxation revenue was sourced from the Australian Government Final Budget Outcome 2006-07. State Governments' taxation revenue estimates were sourced from each State and Territory 2006-07 Budget or Annual Report. We were unable to source Local Government taxation revenue for 2006-07 and therefore have relied on estimates.
 6 Gaming taxes include public lotteries tax, electronic machines gaming tax, racing tax, casino tax, and the Gaming Commission supervision charge.
 7 World Bank, *Paying Taxes 2008: The Global Picture*, Pg 7.

The survey results highlight the importance of Australian business to government revenue. Figure 4.3 shows the cumulative percentage⁸ of total Taxes Borne by survey participants. As can be seen, a relatively small number of companies contribute a large proportion of the total tax borne by the survey population. The results show that the 10 and 20 largest taxpayers participating in the survey accounted for approximately 67% and 87% respectively of the total Taxes Borne.

Non-tax contributions

Survey participants were asked to provide data on a number of compulsory contributions that have not been treated as a tax for the purposes of the survey. For 2007, survey participants reported:

- extraction royalties of \$1,947 million; and
- superannuation guarantee obligations of \$2,583 million.

Figure 4.3: Cumulative percentage curve of total Taxes Borne

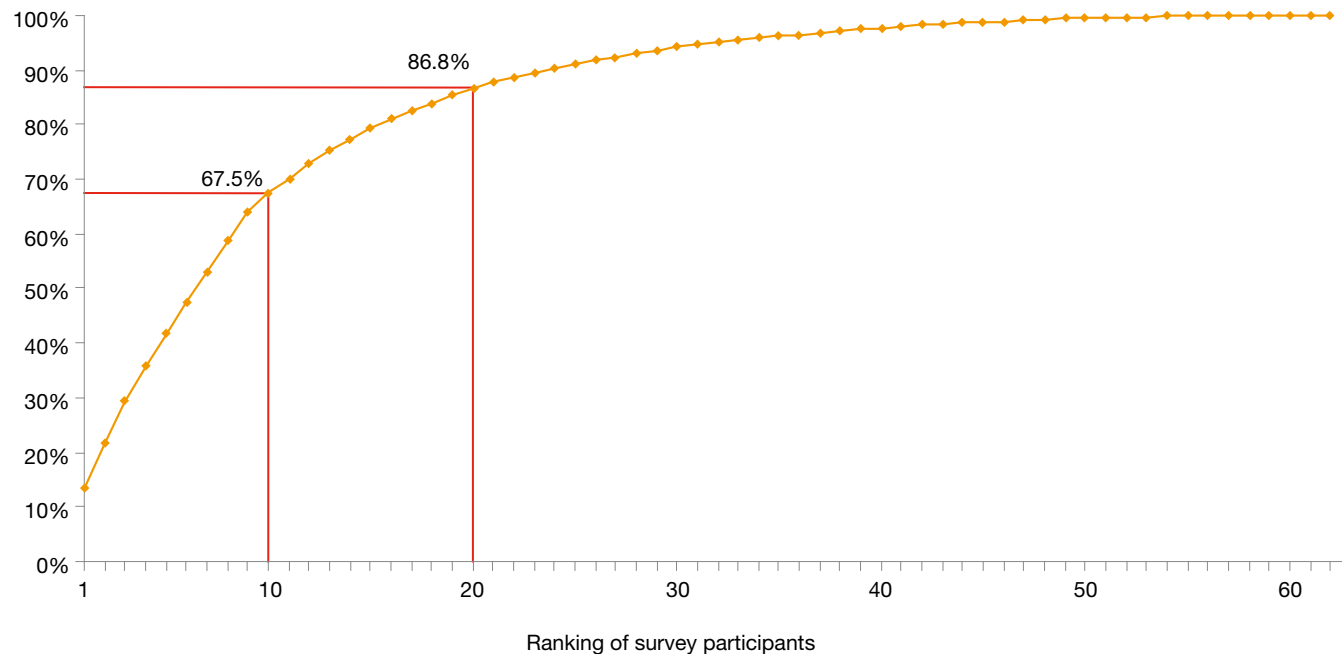
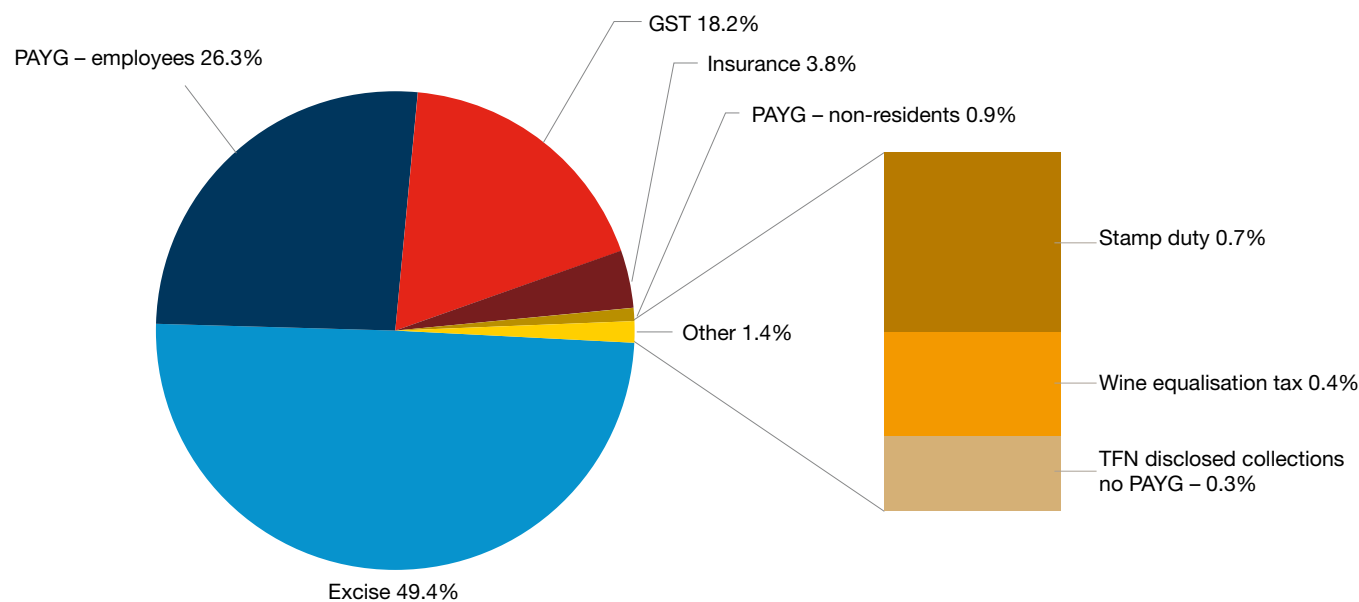


Figure 4.2: Taxes Collected by survey participants



Total Taxes Collected

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

Survey participants collected taxes of \$33,380 million in 2007 on behalf of all Australian governments. This represents 10.5% of the total government taxation receipts.

For every \$1 of Taxes Borne by the survey participants, Taxes Collected were \$1.19.

The major Taxes Collected in Australia, as identified by survey participants, were excise duties, PAYG on employees' remuneration and GST, as shown in Figure 4.2. Excise duties collected by survey participants represented almost 50% of Taxes Collected. Particularly striking was that just eight survey participants – from excise heavy industries such as petroleum, tobacco and liquor – collected 80% of the total estimated excise of Australian government receipts.

The 2007 survey discloses GST collected of \$6,080 million which is the amount of GST that was remitted to government by survey participants. This represents gross GST collected net of GST input tax credits. Arguably, gross collections of \$20,557 million⁹ are a better representation of a business' obligation under the tax system and the risk that they assume.

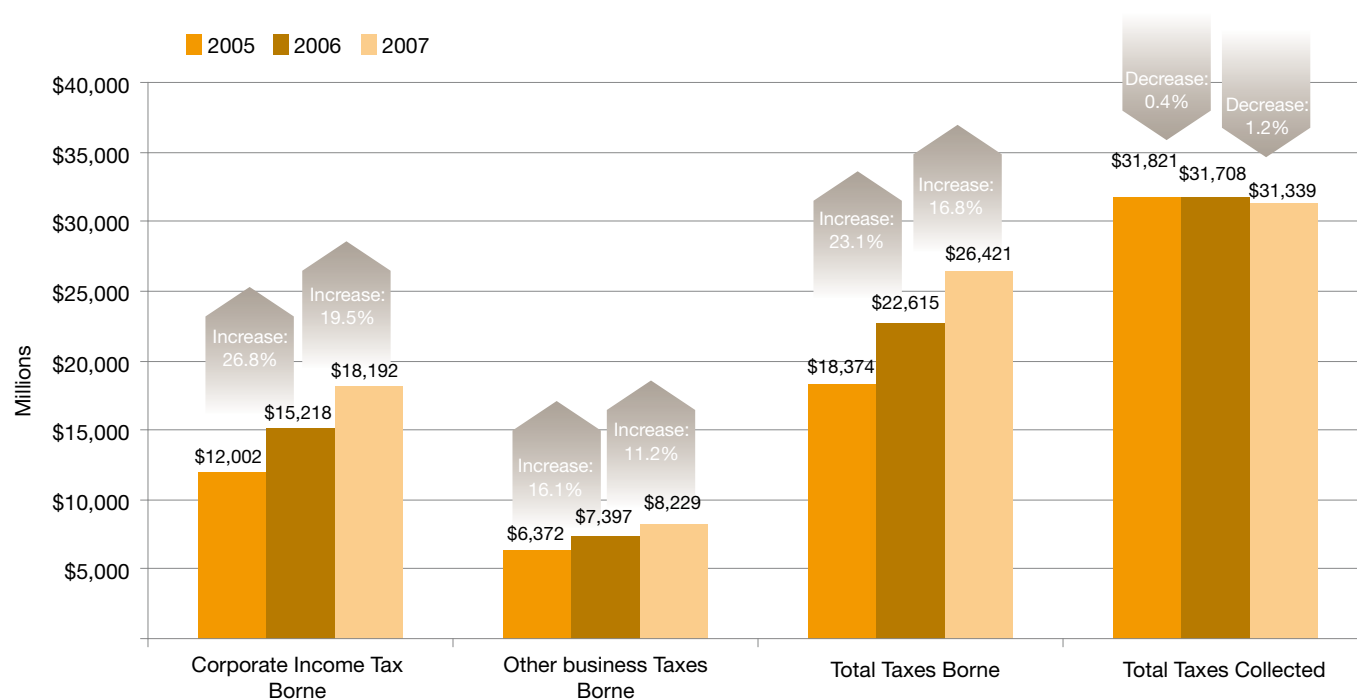
Not surprisingly, the survey participants who bore the most tax, generally, were also the largest collectors of tax.

⁸ In order to calculate the cumulative percentage, survey participants are first ranked in descending order by the value of Taxes Borne. The cumulative percentage then shows the percentage of total Taxes Borne by all survey participants for any specific number of survey participants. For example, the cumulative percentage of Taxes Borne for the first 10 survey participants shows the percentage of total Taxes Borne accounted for by the top ten taxpayers.

⁹ 41 of the 63 survey participants reported their gross GST collections



Figure 4.4: 2005, 2006 and 2007 comparison of tax burden



The trend data relates to 42 participants who participated in 2005, 2006 and 2007

Trend analysis: 2005 – 2007

We have used the results of the 42 companies which participated in both the 2006 and 2007 surveys for the purposes of trend analysis. Companies that participated in 2006 provided data for the 2005 tax year giving us data for the analysis of the three years between 2005 and 2007.

The macro changes year on year are set out in Figure 4.4.

The increase in Taxes Borne of 16.8% between 2006 and 2007 has been driven again by strong growth in corporate income tax of 19.5%. This compares to an increase in profit before tax of 19.5%¹⁰.

It is very interesting to note that over the three years, Taxes Borne by participants have increased by 43.8%. During that period total government taxation receipts have increased by 14.0%. Clearly businesses is making a disproportionate contribution to increases in government revenue.

Taxes Collected have decreased by 1.2% between 2006 and 2007. This is primarily a result of a reduction in net GST collections of 9.7%.

¹⁰ Both profit growth and tax borne show increases of 19.5%, but this is coincidental – corporate income tax is levied on a number of factors, notably the previous year's profits.



“Of the total Taxes Borne and Collected, five taxes raised almost 90%, with the remaining 50 raising only 10%.”

Survey results:
tax mix

5

Key points

- In 2007, 55 Federal and State taxes were imposed on Australian business, compared to 54 in 2006. During the year the Australian Capital Territory introduced a new tax, the “Network and Utilities Tax”.
- Survey results indicated an imbalance in the Australian tax system, with 21 Federal taxes raising 91% of business tax revenue and 34 State and Territory taxes raising nearly all the remaining 9%.
- Of the total Taxes Borne and Collected by participants, five taxes raised almost 90%, with the remaining 50 raising only 10%.
- Taxes imposed on Australian business can be grouped into five categories: income taxes (6); goods and services taxes (26); employment taxes (4); property taxes (11); and environmental taxes (8). The vast majority of revenue is raised by income taxes and various goods and services taxes.

Tax mix by category of tax

For the purposes of the survey the 55 Taxes Borne and/or Taxes Collected, have been grouped into the following five categories:

- **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 (11 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 11 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 are already a significant number of different environmental taxes imposed by State and Territory Governments, and the number of such taxes continues to grow. Accordingly, we have included environmental taxes as a category even though the total tax burden is low.

The detailed allocation of taxes to these categories is provided in Appendix B. These categories and the tax classifications closely align with the classification of taxes under the *Australian System of Government Finance Statistics*.¹¹

Federal/State/Local tax mix

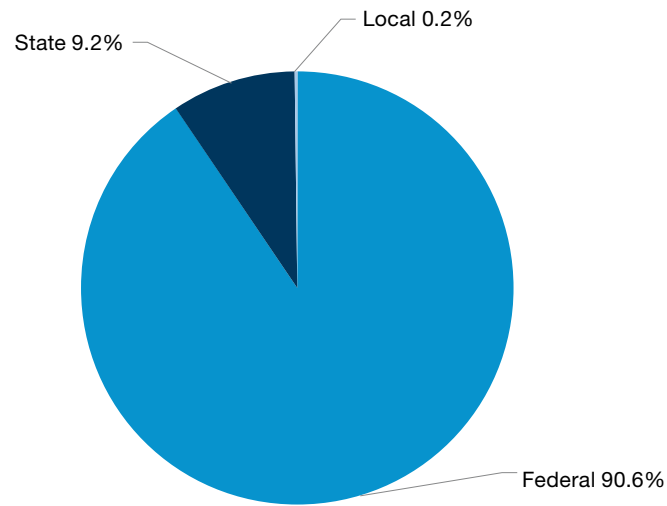
In 2007, 21 Federal Government taxes comprised 90.6% of total Taxes Borne and Taxes Collected for all levels of government as reported by survey participants.

The 34 State and Territory Government taxes comprised 9.2%, while Local Government taxes represented only 0.2% of total Taxes Borne and Taxes Collected for all levels of government. Figure 5.1 shows the proportion of Taxes Borne and Taxes Collected for each level of government.

PricewaterhouseCoopers believes Federal taxes are accurately reported, whereas, due to reasons noted in Section 3, State, Territory and Local taxes are more difficult to precisely identify and quantify. As a result, we believe 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 5.1: Taxes Borne and Taxes Collected by level of government



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

Figure 5.2 shows the proportion of Taxes Borne and Taxes Collected by different categories of taxation. While there is a significant reliance on corporate income taxes in Australia (as shown in Section 4) business makes a substantial contribution to government revenue through its role as collector of taxes.

In fact, five taxes (income tax, excise duties, PAYG on employees, GST and payroll tax) raise almost 90% of total Taxes Borne and Taxes Collected.

The mix of these taxation categories between the different levels of Australian government is set out in Figure 5.3.

Figure 5.2: Taxes Borne and Taxes Collected by tax mix category

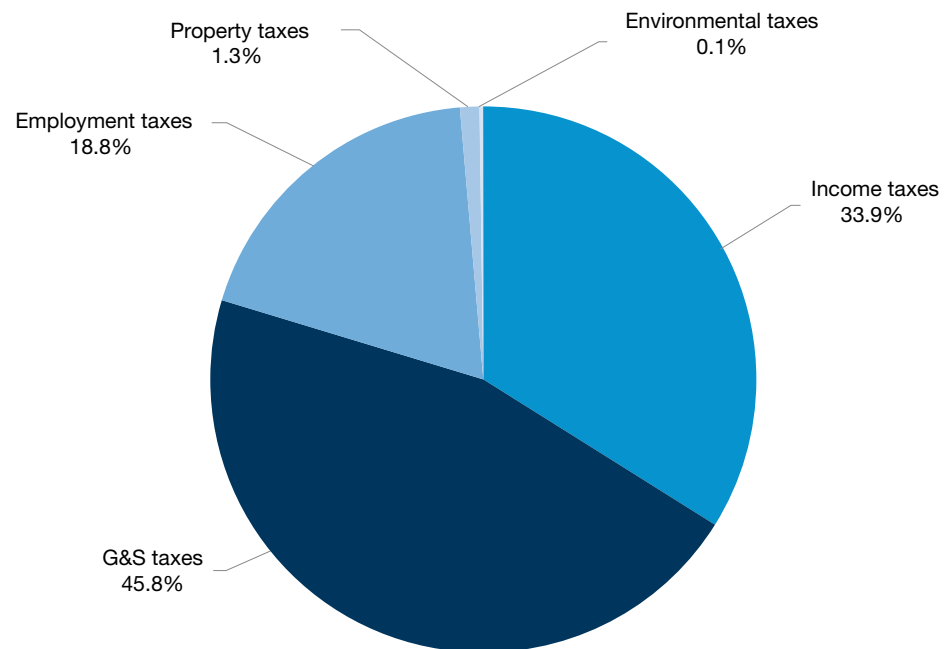
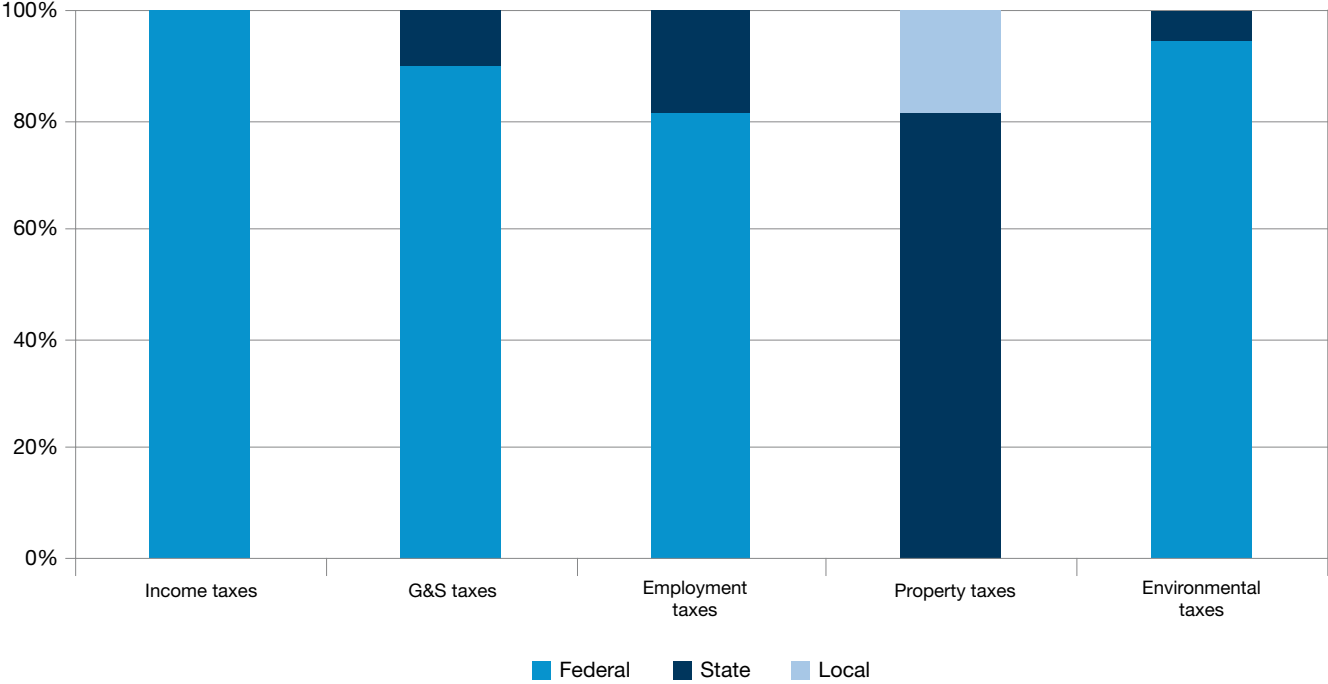


Figure: 5.3: Federal, State and Local Taxes Borne and Taxes Collected by category of tax





“Australian business’ “tax freedom day” is at the end of April each year – the first 4 months of each year finances government and only in May does business start to provide a return to shareholders.”

Survey results:
the picture for
individual participants

6

Key points

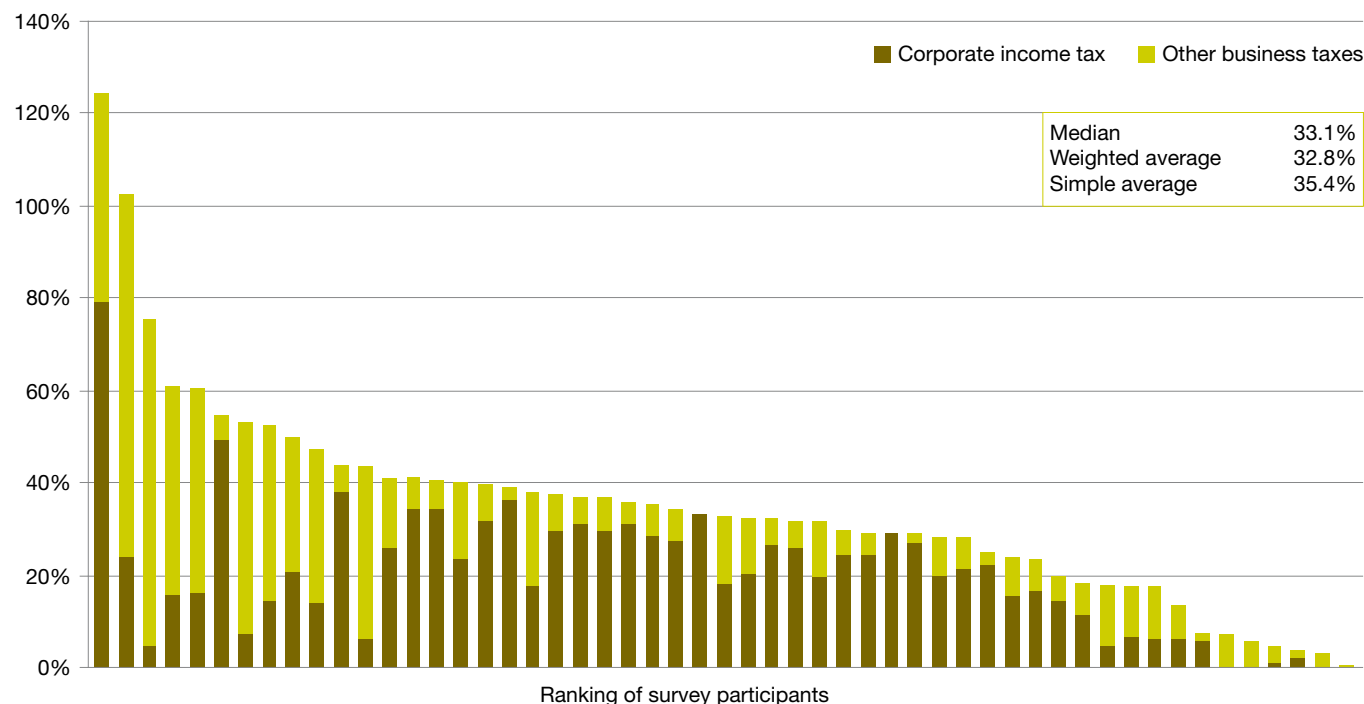
- Taxes Borne by survey participants represented 33% of profit before all business taxes.
- Taxes Borne and Taxes Collected represented 12% of participant companies' turnover.
- Employment taxes (Borne and Collected) per employee averaged \$25,485 for survey respondents.
- The number of taxing points identified by survey participants ranged between 3 and 67, with the average being 24.

The Total Tax Contribution methodology is designed to examine 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.



Figure 6.1: Total Tax Rate for survey participants¹³



Total Tax Rate (TTR)

The TTR is all business Taxes Borne as a percentage of profits before all tax. The median¹² TTR for survey participants was 33.1% in 2007; an increase from 2006, when it was 31.9%. We do not consider this to be a significant result or indicative of any change in the underlying business tax impost. Rather the increase is a likely reflection on the different population of respondents.

It is worth noting for benchmarking purposes that, if the stapled company trust structures and partnerships are excluded from the population, the median TTR increases to 35.1%.

The TTR measure shows that, on average, for every \$3 of profit made by the survey participants, \$1 was paid in tax. Figure 6.1 shows the individual TTR for each of the survey participants.

In effect, what this means is that Australian business' "tax freedom day" is at the end of April each year – the first 4 months of each year it finances government and only in May does business start to provide a return to shareholders.

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 irrespective of profitability.

¹² The median is the middle value of data ordered from lowest to highest (i.e. the middle observation).

¹³ The weighted average excludes survey participants who did not provide profit before tax.

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, with respect to their size as measured by turnover.

The median of total taxes to turnover of the survey participants was 11.9%. Figure 6.2 shows the range of total Taxes Borne and Taxes Collected across survey participants.

A number of companies show negative Taxes Collected because, as major exporters, they receive a GST refund that may more than offset other Taxes Collected.

Figure 6.2: Total Taxes Borne and Taxes Collected to turnover by participant¹⁴

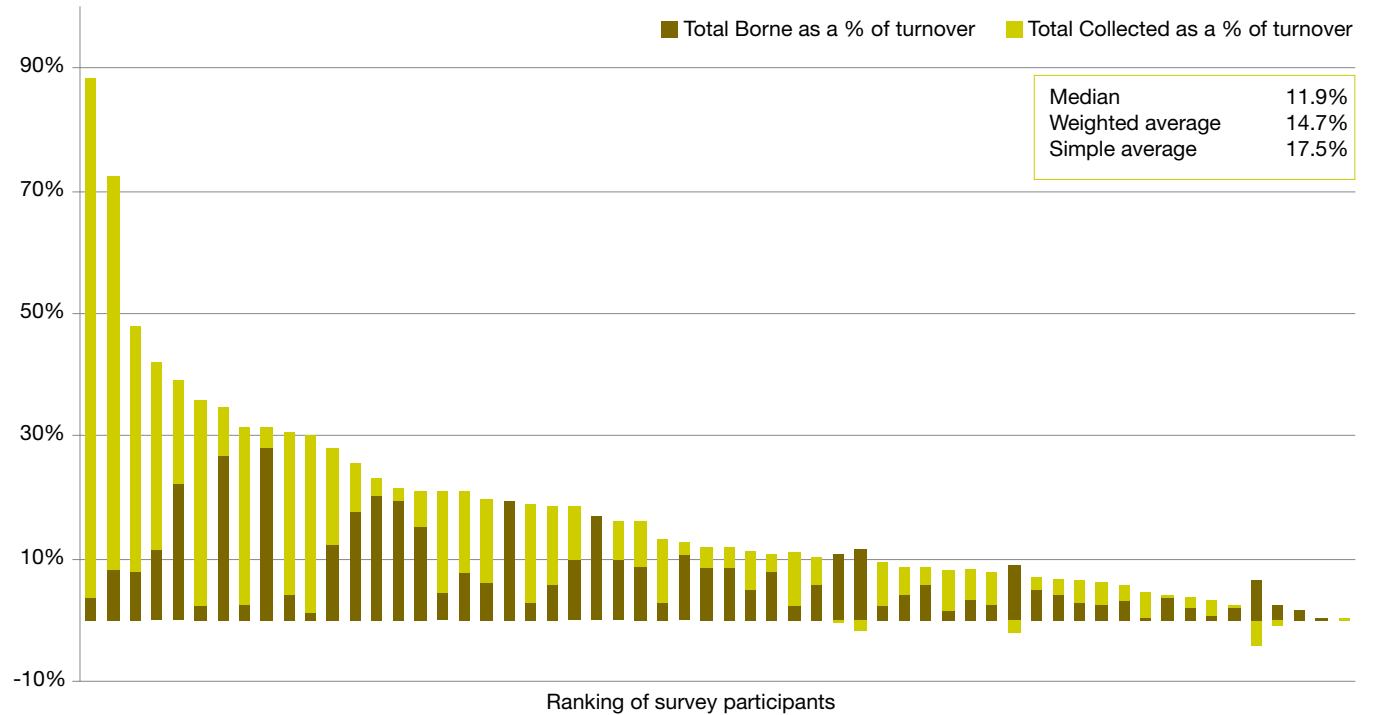
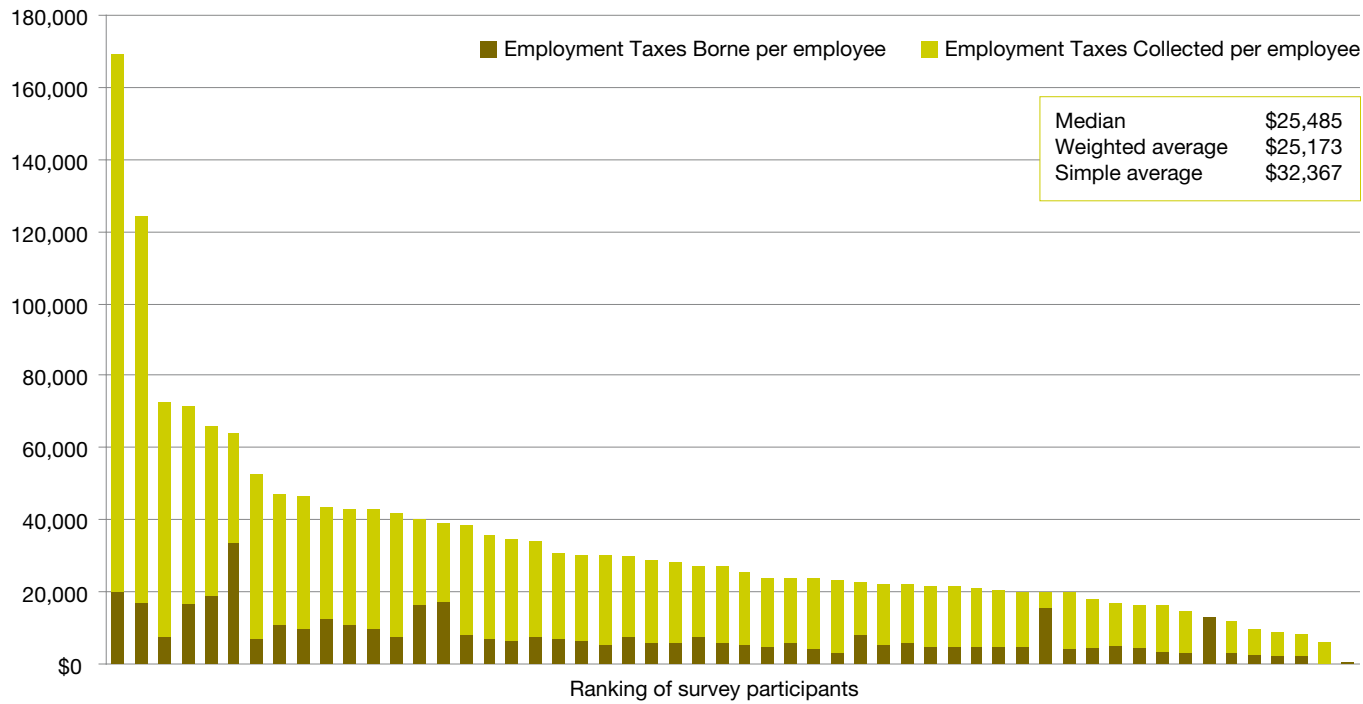


Figure 6.3: Employment Taxes Borne and Taxes Collected per employee¹⁵



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 \$25,485, shown in Figure 6.3.

14 Figure 6.2 excludes survey participants who did not report turnover.
 15 Figure 6.3 excludes survey participants who did not report people Taxes Collected and/or the number of employees.



Tax obligations

The survey 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. Stamp duties, payroll tax and land tax are the main examples.

An Australian business that operates across several States and Territories must comply with a large number of taxes, with the total potential taxing points approximately 169. This is down from 182 from the 2006 survey, the decrease is primarily a result of the phasing out of some State and Territory stamp duties.

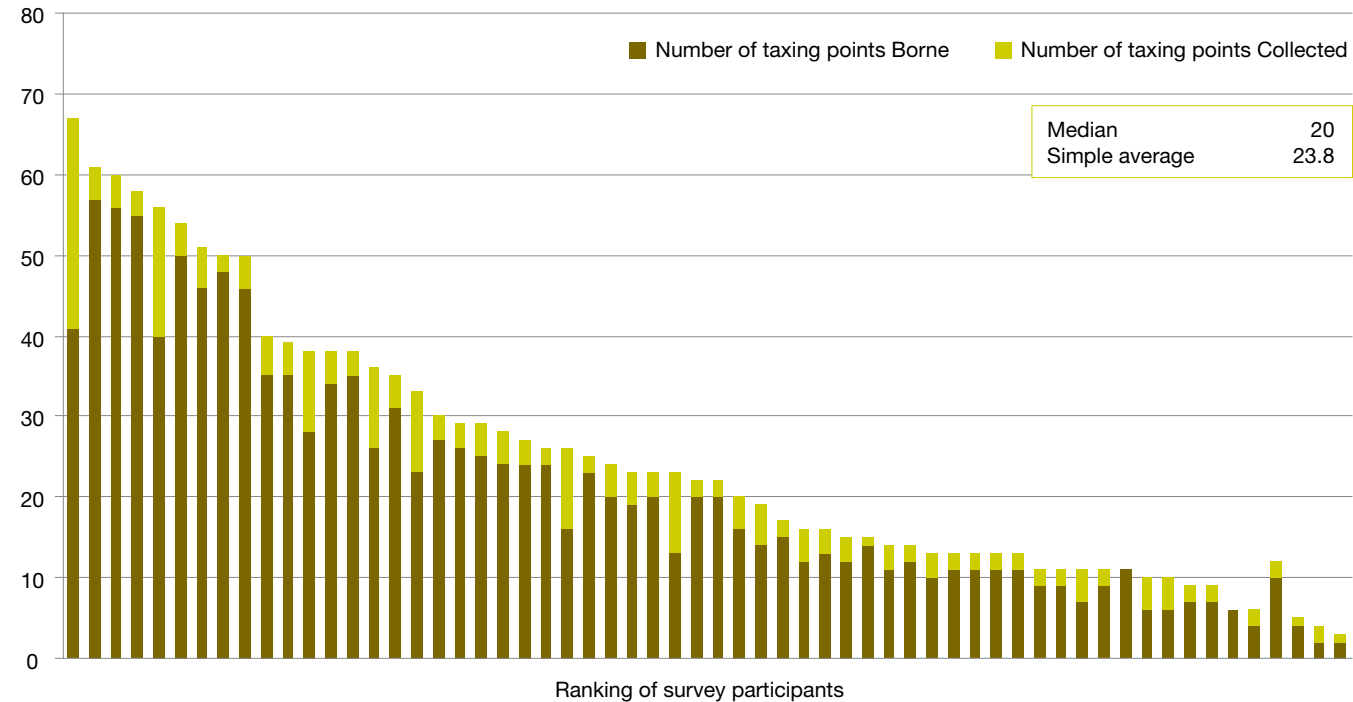
The number of taxing points identified by survey participants ranged between 3 and 67, with the average number of taxing points per participant across all States and Territories being 24. Due to the difficulty survey participants experienced in identifying a range of State taxes, we believe the number of taxing points is significantly understated.

Figure 6.4 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. Nonetheless, these taxes impose a significant compliance burden on businesses.

The average number of Federal taxing points for Taxes Borne and Taxes Collected in 2007 was 6 and the average number of State and Territory taxing points was 18. State and Territory Government Taxes Borne and Taxes Collected comprised 9% of total taxes for survey participants, compared to 91% for Federal Government Taxes Borne and Taxes Collected.

Figure 6.4: Number of taxing points for Taxes Borne and Taxes Collected





“Not only do the amount of certain Taxes Borne differ between industries, but collection obligations often apply selectively to certain sectors.”

Survey results:
an industry perspective

7

Key points

- The impact of Australia's tax system varies significantly between different industries. Not only do the amount of certain Taxes Borne differ between industries, but collection obligations often apply selectively to certain sectors.
- There is very heavy reliance on the banking and mining sectors for government revenue.

The 63 participants represented a cross section of Australian industries. To provide an industry perspective on the survey results, participants have been grouped into the 11 industries shown in Table 7.1. Industry groups have only been included when there are more than four participants in a sector.

Some participants operate in more than one industry, and in these cases companies have been allocated to their most dominant industry.¹⁶

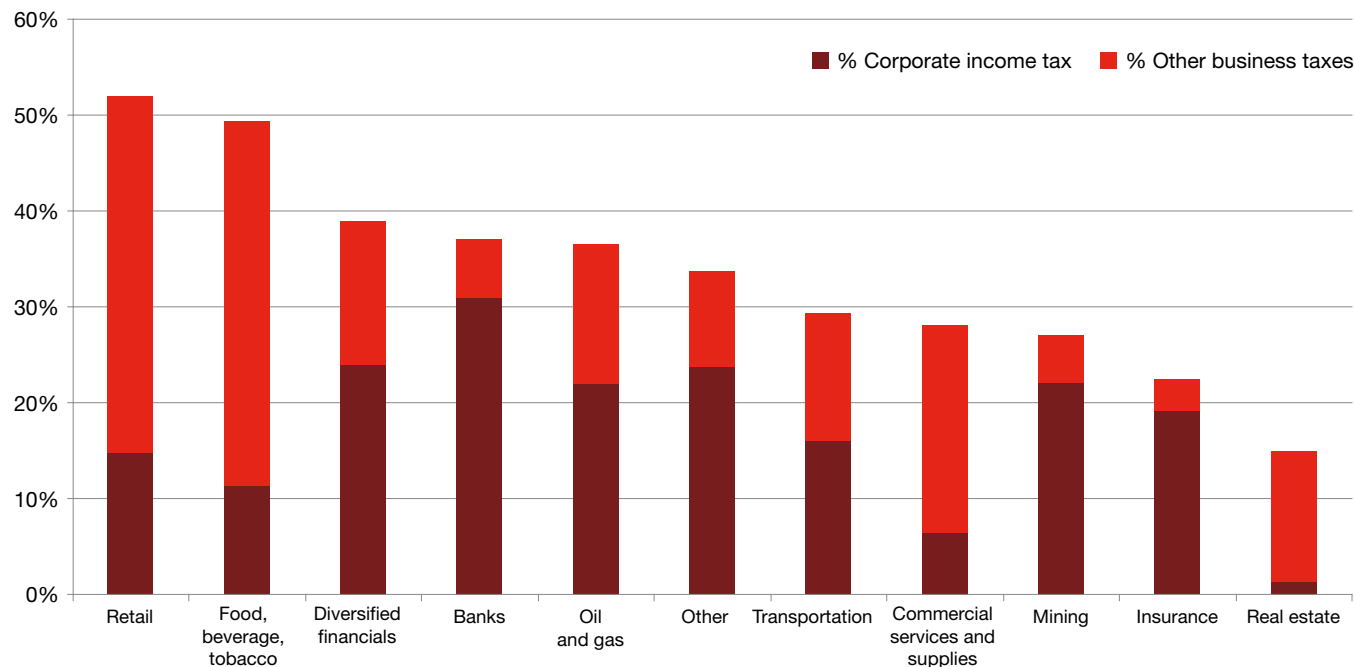
The importance of the banking and mining industries to the Australian economy is very apparent. These two industries contribute nearly 50% of all Taxes Borne by survey participants. In fact, they represent almost 20% of total government corporate income tax receipts.

More than half of total Taxes Collected by participants were by the oil and gas industry.

Table 7.1: Industry profile of survey participants

Industry Group
Banks (6)
Commercial services ¹⁷ (6)
Diversified financials ¹⁸ (9)
Food, beverage and tobacco (4)
Insurance (5)
Mining (4)
Oil and gas ¹⁹ (7)
Real estate (5)
Retail (4)
Transportation (4)
Other (9)

Figure 7.1: Total Tax Rate by industry of mix of income and other business taxes



Total Tax Rate (TTR)

The TTR is all business Taxes Borne as a percentage of profits before all tax. The wide range of TTRs reported by survey participants is reflected in the differing TTRs of the survey industry groups. Figure 7.1 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 oil and gas and mining industry groups is partly explained by the different treatment of petroleum resource rent tax (\$1,449 million total amount Borne by survey respondents) and extraction royalties (\$1,947 million). 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 Appendix A).

The real estate industry group shows a relatively low TTR. This can be attributed to a number of the survey participants in this industry not being subject to corporate income tax, with income tax liabilities flowing through to investors.

- 16 Based on ASX classifications (if listed) or Global Industry Classification Standard (GICS) guidelines.
- 17 Commercial services includes commercial, industrial and professional services.
- 18 Diversified financial services includes participants either specialising in consumer finance or investment banking.
- 19 Oil and gas includes participants engaged in drilling, refining, marketing, distributing etc, of oil, gas, coal and/or consumable fuels.

Taxes Borne and Taxes Collected as a percentage of turnover

As discussed, Taxes Borne and Taxes Collected as a percentage of turnover measures contributions to government tax receipts. The median of total taxes to turnover of the survey participants was 11.9%. Figure 7.2 shows the range of total Taxes Borne and Taxes Collected consolidated by industry.

The food, beverage and tobacco industry is noticeably high principally because of significant excise collections.

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 7.2: Taxes Borne and Taxes Collected to turnover by industry

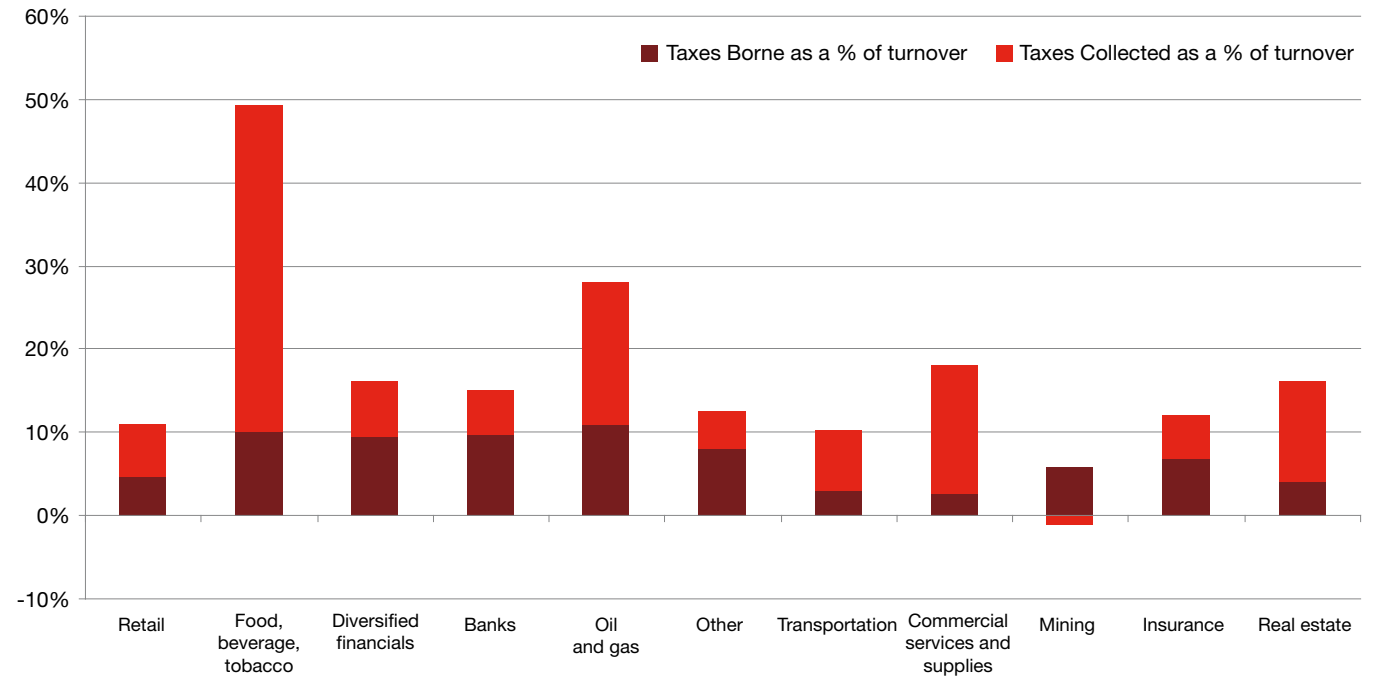
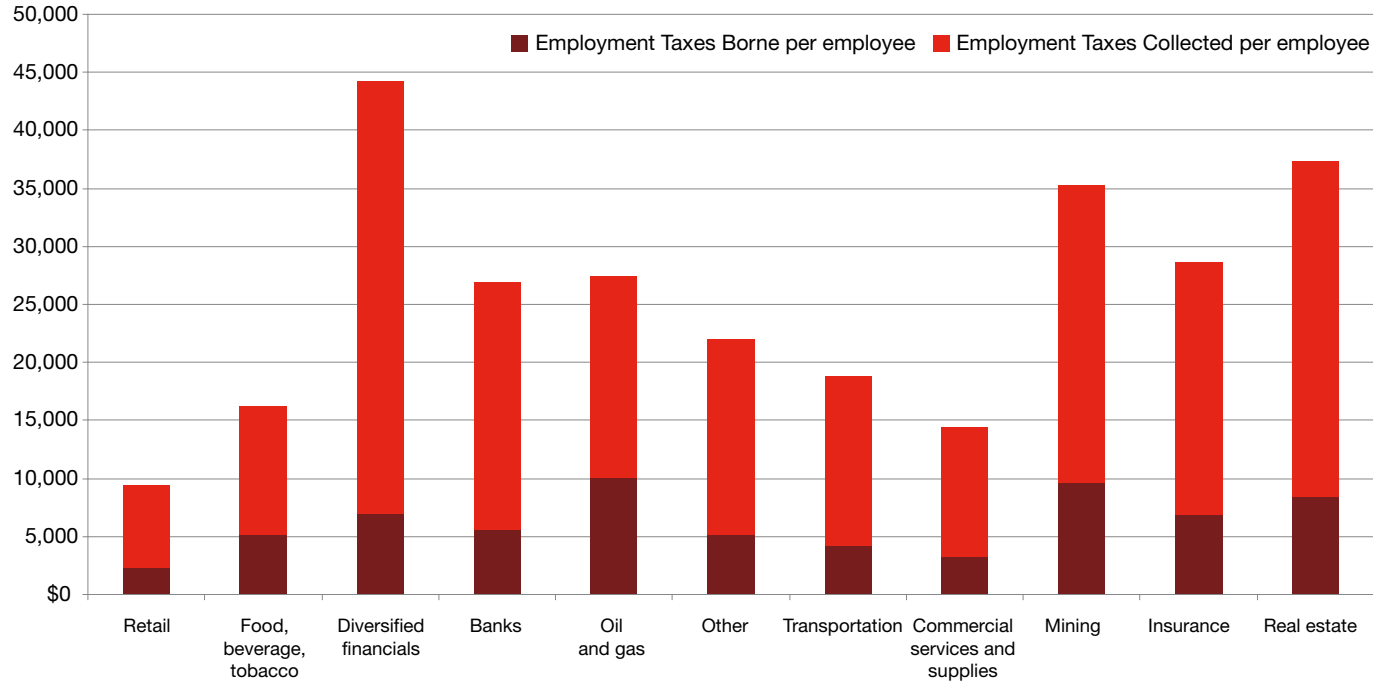


Figure 7.3: Employment Taxes Borne and Taxes Collected per employee by industry



Employment taxes per employee

For employment Taxes Borne and Taxes Collected per employee, the consolidated industry results are shown in Figure 7.3.

There are quite significant differences in the amount of employment taxes between industries. These differences are much more pronounced in relation to Taxes Collected, reflecting the differing average employee remuneration between industries.



“Tax functions spend 58% of their time and some 73% of external costs on income taxes, despite it representing only 34% of Total Taxes Borne and Collected.”

Survey results:
tax compliance costs

8

Key points

- Total tax compliance costs incurred by 41 respondents was estimated to be \$99.0 million, with an average cost of \$2.0 million.
- Tax functions spend 58% of their time and some 73% of external costs on income taxes, despite it representing only 34% of Total Taxes Borne and Collected.
- Other business taxes that collect a modest amount of revenue still consume significant compliance time and costs.

Total tax compliance cost measures the cost of complying with all of Australia's tax laws and is based on the time and cost of undertaking any activities relating to the need to lodge returns, make payments to the ATO or a state revenue office, as well as seeking advice on the application of the law.

Survey participants were asked to provide an estimate of both time spent and external costs incurred in relation to complying with all tax obligations. Data was requested in respect of the time spent (measured in "person days") by internal specialist resources of an in-house tax function and time spent complying with tax obligations by other accounting and finance resources, referred to as the "shadow tax function".

Of the survey's 63 participants, 41 provided responses to the questions on total tax compliance time and costs. An estimated cost of employment (including salary and on-costs) was applied to the time spent in people days to estimate the cost of the internal tax function and shadow tax function of each participant.²⁰

The majority of time and cost incurred by respondents related to corporate income tax and goods and services taxes, however other business taxes still consume a significant amount of time and cost.

Total tax compliance costs

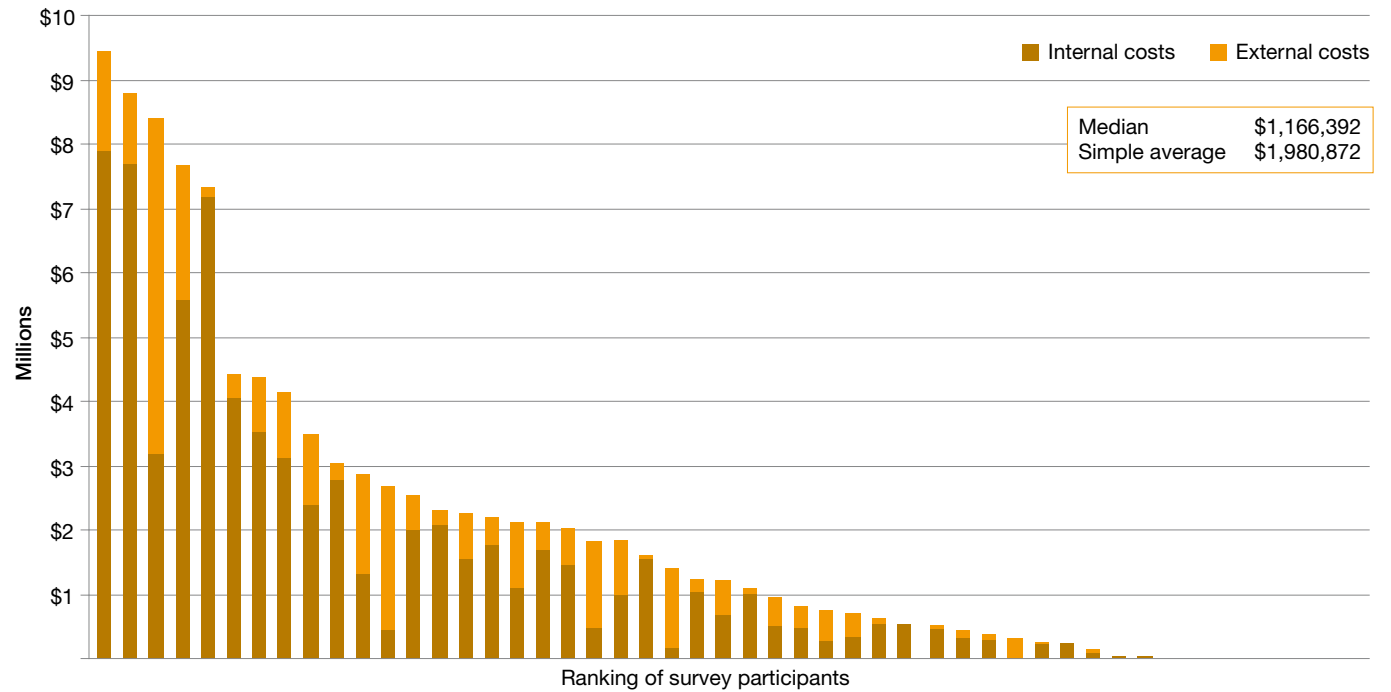
The total tax compliance costs incurred by the 41 respondents, including the cost of internal resources and external costs, was estimated to be \$99.0 million with an average cost of almost \$2.0 million. The total internal costs comprised nearly 72% of total compliance costs. The range of compliance costs reported by survey participants is shown in Figure 8.1.

Some of Australia's larger companies incur costs in excess of \$5 million annually complying with their tax obligations.

In addition to the cost of employing people, companies incur costs in relation to external service providers and other external costs in relation to:

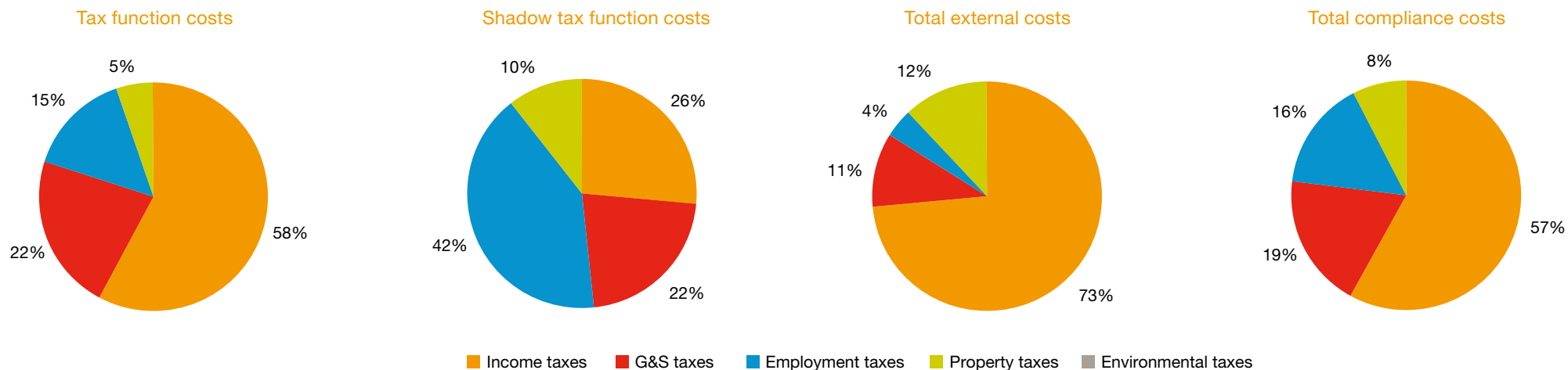
- the implementation and maintenance of tax accounting systems to record and report on various taxes;
- training staff; and
- maintaining information sources on tax law.

Figure 8.1: Total tax compliance costs

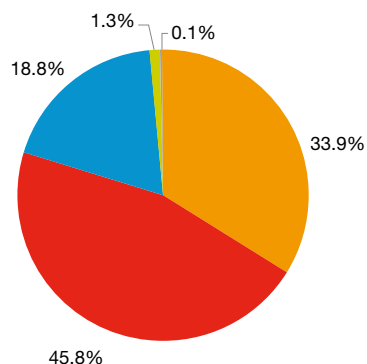


20 The cost per day of the tax function and shadow tax function were estimated using average salaries plus on-costs for a representative group of tax and finance resources, resulting in a cost of \$1,159 per working day for the tax function (typically more senior resources) and \$648 per day for other resources.

Figure 8.2: Total tax compliance costs – the tax mix



Taxes Borne and Taxes Collected by tax mix category



Compliance costs: tax mix

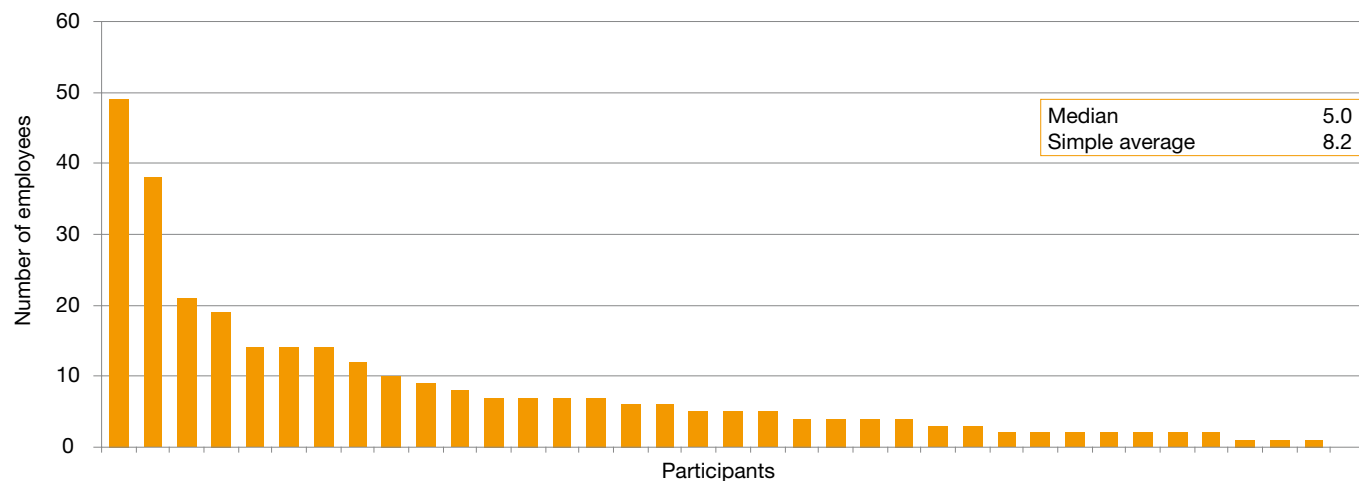
Survey participants were asked to provide an estimate of the mix of time spent and external costs incurred in relation to complying with each of the main categories of Taxes Borne and Collected. Figure 8.2 shows these results in four charts: the cost of the tax function and shadow tax function based on people days, total external costs and total estimated compliance costs. A summary of the mix of total Taxes Borne and Taxes Collected is also shown for comparison purposes.

The estimated time spent by the in-house tax function on corporate income tax compliance, at 58%, is significantly higher than the proportion of income taxes to total Taxes Borne and Taxes Collected of 34%. We consider this largely reflects the complexity

of the corporate income tax system relative to other taxes. The proportion of external costs incurred in relation to corporate income tax emphasises this even more strongly, with approximately 73% of external costs estimated to be incurred in connection with corporate income tax.

In contrast, the estimated time spent by the in-house tax function and the shadow tax function complying with a range of goods and services taxes of 22%, is significantly less than the proportion of total net goods and services taxes to Total Taxes Borne and Collected of 46%. This is likely to reflect the fact that GST calculations are generally system based. In addition, much of the cost of complying with these taxes, including GST, customs and excise duties tends to be embedded within the business and is difficult to quantify.

Figure 8.3: In-house tax function



The mix of time spent by the shadow tax function is substantially different to the in-house tax function, demonstrating how the management of business taxes is allocated between the business units and other corporate functions. Companies bear the cost of compliance with the different taxes in different ways depending on their structure, resources and use of external service providers.

It is also interesting to note that of all of the different categories of taxes, the shadow tax function spends a significant amount of time (42% in total) on a range of employment related taxes, including PAYG withholdings, FBT and payroll tax. A significant part of this time would be spent by human resource departments.

Overall, the majority of total time and cost is incurred in relation to corporate income tax and goods and services taxes, however other business taxes still consume a significant amount of resources. Respondents felt that the compliance regimes applying in respect of certain taxes resulted in a disproportionate amount of time and cost. Respondents cited compliance with FBT and different state regimes applying in relation to payroll tax and stamp duties as particular examples.

In-house tax resources

Survey respondents were asked to report the full-time equivalent number of employees required to comply with all tax obligations. As noted above, other non-tax specialist resources, referred to as the shadow tax function, are used by organisations to assist in meeting tax compliance obligations. Companies also employ the assistance of external service providers to supplement in-house resources in meeting their tax obligations.

Of the 37 respondents to this section of the survey, results showed the average number of in-house tax function employees was eight. The range of responses from survey participants to the number of tax function employees is shown in Figure 8.3.

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 amount 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 or taxes paid) and the number of full-time equivalent tax compliance employees.



Appendix A:

The PricewaterhouseCoopers

Total Tax Contribution framework

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.

The 2007 Total Tax Contribution survey enabled a range of companies to improve the disclosure of their taxation contributions.

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 corporate social responsibility report. Total Tax Contribution aligns with the guidelines on tax as part of corporate social responsibility reporting.¹

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 the Income Statement;
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 license 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 license 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 B.

Key measures

The analysis in Section 6 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.

¹ Sustainability Reporting Guidelines Global Reporting Initiative, 2006 www.globalreporting.org.



- **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 ²	(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 $[(15 + 10)/20 \times 100]$	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.

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.

Similarly, natural resource extraction royalties³ 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.

² 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.

³ Extraction royalties are payments for leases to extract minerals or other natural resources, and to explore for minerals.



Appendix B:

Summary of Australian taxes on business

Tax	Federal	State								Municipal Taxes	Taxes Borne	Taxes Collected
		Vic	NSW	Qld	WA	SA	Tas	NT	ACT			
Income taxes												
Income tax	✓										✓	
Petroleum resources rent tax (PRRT)	✓										✓	
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	✓										✓	✓
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 duty		✓	✓	✓	✓	✓	✓	✓	✓		✓	✓
Insurance protection tax			✓								✓	
Public lotteries tax		✓	✓	✓	✓	✓	✓	✓	✓		✓	
Racing tax		✓	✓	✓	✓	✓		✓			✓	
Vehicle registration fees		✓	✓	✓	✓	✓	✓	✓	✓		✓	
Weight tax, oversize vehicles and loads			✓		✓			✓			✓	✓

Tax	Federal	State								Municipal Taxes	Taxes Borne	Taxes Collected	
		Vic	NSW	Qld	WA	SA	Tas	NT	ACT				
People taxes													
Expatriate tax equalisation payments	✓											✓	
Fringe benefits tax	✓											✓	
PAYG – employees	✓												✓
Payroll tax		✓	✓	✓	✓	✓	✓	✓	✓			✓	
Property taxes													
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			✓	✓	✓	✓	✓					✓	✓
Network and Utilities Tax									✓			✓	
Unquoted marketable securities duty			✓				✓		✓			✓	
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	21	22	20	19	20	14	13	17	2			
Total													169



Appendix C:

Abolition of State and Territory taxes

- 1 *Duties Amendment (Abolition of State Taxes) Act 2006* (NSW).
- 2 Queensland State Budget 2005-2006.
- 3 South Australian Budget Papers 2005-2006.
- 4 *Revenue Measures Act 2005* (Tas).
- 5 *Duties Amendment Act 2006* (ACT).
- 6 Northern Territory Budget 2005-2006.
- 7 *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).
- 8 *Duties Amendment (Abolition of State Taxes) Act 2006* (NSW).
- 9 *Revenue and Other Legislation Amendment Act 2006* (Qld).
- 10 *Business Tax Review (Assessment) Act (No2) 2003* (WA).
- 11 South Australian Budget 2005-2006.
- 12 *Revenue Legislation (Miscellaneous Amendments) Act 2002* (Tas).
- 13 *Duties Amendment Act (No. 2) 2006* (ACT).
- 14 *Treasury Legislation and Consequential Amendment Act 2006* (NT).
- 15 *Duties Act 2000* (Vic), s.148A, *State Taxation Act (Taxation Reform Implementation) Act 2001* (Vic), *State Taxation Acts (Further Tax Reform) Act 2002* (Vic).
- 16 *State Revenue and other Legislation Amendment (Budget) Act 2007*
- 17 Queensland State Budget 2005-2006.
- 18 *Revenue Laws Amendment Act 2006* (WA).

- 19 *Statutes Amendment (Budget 2005) Act 2005* (SA).
 - 20 *Revenue Measures Act 2005* (Tas).
 - 21 *National Taxation Reform (Commonwealth -State Relations) Act 1999* (Tas).
 - 22 *State Taxation Acts (General Amendment) Act 2005* (Vic).
 - 23 *Duties Amendment (Abolition of State Taxes) Act 2006* (NSW).
 - 24 *Revenue and Other Legislation Amendment Act 2006* (Qld).
 - 25 *Revenue Laws Amendments Act 2006* (WA).
 - 26 *Revenue Legislation (Miscellaneous Amendments) Act 2002* (Tas).
 - 27 *Duties Amendment Act (No. 2) 2006* (ACT).
 - 28 Northern Territory Budget 2006-2007.
 - 29 *State Taxation Acts (Taxation Reform Implementation Act 2001* (Vic).
 - 30 *Duties Amendment (Abolition of State Taxes) Act 2006* (NSW).
 - 31 *Revenue Legislation Amendment Act 2005* (Qld).
 - 32 *Business Tax Review (Assessment) Act (No 2) 2003* (WA).
 - 33 *Statutes Amendment (Budget 2005) Act 2005* (SA).
 - 34 *Revenue Measures Act 2005* (Tas).
 - 35 *Duties Amendment Act (No. 2) 2006* (ACT).
 - 36 *Treasury Legislation and Consequential Amendment Act 2006* (NT).
- Dated: 1 December 2006

	Vic	NSW	Qld	WA	SA	Tas	ACT	NT
Duty on Non-Realty Property Transfers (e.g. business assets)	N/A	1 July 2012 ¹	1 January 2010 (duty reduced by 50%) 1 January 2011 ² (duty abolished)	1 July 2010	1 July 2009 (duty reduced by 50%) 1 July 2010 ³ (duty abolished)	1 July 2008 ⁴	Abolished from 1 July 2006 ⁵	1 July 2009 ⁶
Duty on Non-Quoted Marketable Securities	Abolished from 1 July 2002 ⁷	1 January 2009 ⁸	Abolished from 1 January 2007 ⁹	Abolished from 1 January 2004 ¹⁰	1 July 2009 (duty reduced by 50%) 1 July 2010 ¹¹ (duty abolished)	Abolished from 1 July 2002 ¹²	1 July 2010 ¹³	Abolished from 1 July 2006 ¹⁴
Mortgage Duty	Abolished from 1 July 2004 ¹⁵	1 July 2007 (no duty on advances for residential property) 1 July 2008 (no duty for advances for investment property) 1 July 2009 (duty abolished) ¹⁶	1 January 2008 (duty reduced by 50%) 1 January 2009 ¹⁷ (duty abolished)	1 July 2006 – (reduced by 50%) 1 July 2008 – (duty abolished ¹⁸)	1 July 2007 (duty reduced by 33%) 1 July 2008 (duty reduced by a further 33%) 1 July 2009 ¹⁹ (duty abolished)	1 July 2006 ²⁰ (duty to be halved) 1 July 2007 ²¹ (duty abolished)	N/A	N/A
Hire of Goods Duty	Abolished from 1 January 2007 ²²	Abolished from 1 July 2007 ²³	Abolished from 1 January 2007 ²⁴	Abolished from 1 January 2007 ²⁵	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 ²⁶	Abolished from 1 July 2007 ²⁷	Abolished from 1 July 2007 ²⁸
Lease Duty	Abolished from 26 April 2001 ²⁹	1 January 2008 ³⁰	Abolished from 1 January 2006 ³¹	Abolished from 1 January 2004 ³² (rental component only)	Abolished from 1 July 2004 ³³	Abolished from 1 July 2002 ³⁴	1 July 2009 ³⁵	Abolished from 1 July 2006 ³⁶ (including franchises)



Appendix D:

Taxes Borne and Taxes Collected by
survey participants compared with
Australian Government taxation receipts

	Taxes Borne 2007 (\$ million)	Taxes Collected 2007 (\$ million)	Estimated Government taxation receipts 2006-07(\$ million)	Taxes Borne and Collected to Government (%)
Income Taxes				
Corporate income tax	18,982		58,538	32%
Petroleum resource rent tax	1,449		1,594	91%
Total Income Taxes	20,431	394		
Goods and Services Taxes				
Goods and services tax	742	6,081	39,552	17%
Excise duties	1,550	16,499	22,734	79%
Customs duties	284		5,644	5%
Gaming taxes	1,117		4,470	25%
Insurance taxes	282	1,272	3,230	48%
Motor vehicle taxes	28		7,975	0%
Other goods and services taxes	142	130		
Total Goods and Services Taxes	4,145	23,982		
Employment Taxes				
PAYG – employees		8,770	117,614	7%
Fringe benefits tax	589		3,754	16%
Payroll tax	2,150		14,900	14%
Other employment taxes	45			
Total Employment Taxes	2,784	8,770		
Property Taxes				
Land tax	322		4,160	8%
Stamp duties	93	234	12,974	3%
Other property taxes	146			
Total Property Taxes	561	234		
Environmental Taxes				
Other environmental taxes	91			
Total Environmental Taxes	91	0		
Other Government taxation receipts			20,304	
Total	28,012	33,380	317,443	19%



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