

2003 - 2004
TASMANIAN
BUDGET



Sharing
— THE —
Rewards

W I T H B U S I N E S S



Sharing the Rewards with Business

Promotion of infrastructure and major project development is a key feature of the State Government's strategic approach to the Tasmanian economy.

Major infrastructure like natural gas, wind energy, fibre optic and Basslink are not only important in terms of jobs in the construction phase, but because of the contribution they make to a more competitive business environment and the many indirect opportunities that arise because of the very nature of the infrastructure.

Complemented by the introduction of the \$290 million high-speed ferries now plying Bass Strait, this approach has in turn addressed a key constraint affecting Tasmanian business during most of the 1990s: insufficient demand and local economic activity.

Funds for Business

A \$107 million Economic and Social Infrastructure Fund (ESIF) is established in this Budget to ensure that the important economic progress made in Tasmania is maintained and opportunities, both direct and indirect, are captured using a partnership approach.

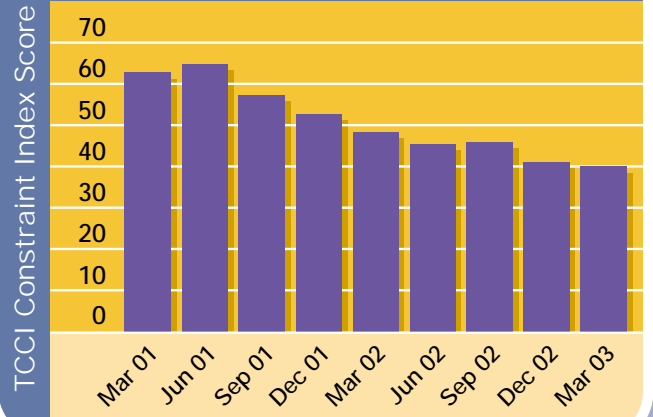
A \$71.2 million roads program is provided for, which will complement other Tasmanian infrastructure.

\$44 million a year for three years has been allocated towards the cost of the Bass Strait ferries, delivering ongoing record demand for local business.

\$10 million over two years has been provided for infrastructure in our national parks and for heritage assets. An extra \$1 million will be spent to promote Tasmania as a tourism destination.

\$2.5 million is provided for infrastructure at York Park plus \$800,000 to secure AFL games.

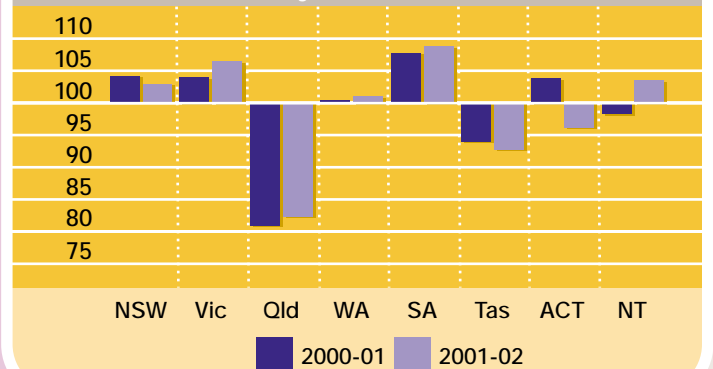
Insufficient Demand/Economic Activity as a Constraint on Business Growth



Tax Severity Index

The latest Commonwealth Grants Commission data shows the \$35 million tax cuts for business over the previous two budgets are making a significant impact on Tasmania's relative competitiveness. Once the second most severe jurisdiction in terms of taxation, Tasmania now has the lowest taxation severity outside Queensland. As the chart below shows, taxation severity in Tasmania continues to improve, whilst our closest interstate competitor, Victoria, deteriorates.

Taxation Severity, 2000-01 and 2001-02



Reducing Payroll Tax

The cost of payroll tax to Tasmanian businesses is highly competitive. Tasmania's high exemption rate means that over 90 per cent of Tasmanian businesses do not pay payroll tax. For Tasmanian businesses paying payroll tax, the marginal rate is reduced from 6.24 per cent to 6.1 per cent.

The effective rate of payroll tax is what businesses actually pay, which takes into account the level of exemption and the marginal rate which applies after that level.

The chart below shows, for small to medium-sized business up to 50 employees, Tasmania has the lowest cost of payroll tax outside the ACT. For larger businesses employing up to 200, which represents 99 per cent of all Tasmanian businesses, the cost of payroll tax is either the lowest in the nation or at a rate below the average of all the states.

Comparison of Effective Payroll Tax Rates, 2003-04¹

No of Employees	TAS %	QLD %	WA %	VIC %	SA %	NSW %	NT %	ACT %	Average %
50	2.68	3.35	3.50	3.65	4.09	4.00	4.20	2.10	3.45
75	3.82	4.34	4.34	4.18	4.61	4.67	4.90	3.68	4.32
100	4.39	4.75	4.75	4.45	4.88	5.00	5.25	4.48	4.74
200	5.25	4.75	5.38	4.85	5.27	5.50	5.78	5.66	5.30
300	5.53	4.75	5.58	4.98	5.41	5.67	5.95	6.06	5.49
500	5.76	4.75	5.75	5.09	5.51	5.80	6.09	6.38	5.64

¹ Payroll tax effective rates are calculated using the national average weekly earnings average for the four quarters to December 2002 as published by the Australian Bureau of Statistics (ABS). Rates and thresholds used in the calculations are those that will apply in each jurisdiction from 1 July 2003 (as announced 1 May 2003).

To put the cost of payroll tax into perspective, it is important to see it as a cost compared to overall business costs. Treasury has conducted an initial study into this relationship, which shows payroll tax is between 1 per cent and 2.7 per cent of overall business costs.

Payroll Tax as a % of Total Expenses for various Tasmanian Businesses, 2001-02

Industry Sector	Agricultural	Retail	Financial	Forestry	Construction	Average
PRT % Expense	2.68	1.08	1.92	0.42	2.07	1.63

Note: The above figures have been derived by analysing the costs of a Tasmanian business in each of the sectors which currently pays payroll tax. Data is not available to expand the sample to include a number of businesses in each sector and then average the results for the sector.

A More Competitive Business Environment

The first important step in creating a more competitive business environment is measuring, monitoring, and addressing cost aspects impacting on competition. This activity is undertaken comprehensively each year in Tasmania through the Competition Index, a document unique in Australia.

The Competition Index not only shows Tasmania already has a highly competitive business environment, but it also guides industry policy to address those aspects where the State's competitiveness can be improved. Infrastructure projects have been a primary key to addressing those areas where Tasmania has performed poorly, such as energy and freight costs. The next Competition Index will be released in the second half of 2003.

Summary of Ranking of States, 2002

	NSW	Vic	Qld	SA	WA	Tas	Tas 2001 Index
Cost-Based Indices							
Direct Labour Costs	6	5	3	2	4	1	1
Labour Skills	5	2	3	4	1	6	5
Training	6	5	3	4	2	1	2
Qualifications	1	1	4	4	3	6	6
Labour Turnover	6	3	4	2	4	1	1
Industrial Disputes	5	6	3	1	4	2	1
Land and Accommodation	6	3	5	2	4	1	1
Taxation Severity	3	4	1	6	5	2	<i>n.a.</i>
Energy Cost Index	1	3	2	4	5	6	6
Electricity	1	5	3	4	6	2	3
Reliability	1	2	5	3	4	6	5
Fuel	3	2	1	4	4	6	6
Gas	2	1	4	3	5	6	6
Surface Freight Cost Index	3	5	1	2	4	6	6
Air Freight Cost Index	2	1	4	3	6	5	5
Air Travel Cost Index	1	1	4	3	6	5	4
Access to Ports Index	5	4	6	3	2	1	1
Port Charges Index	6	5	2	3	4	1	1
Planning Index	3	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	2	1	<i>n.a.</i>
Forestry Endowment Index	3	4	2	5	6	1	1
Mineral Resource Endowment	3	6	2	5	4	1	1
Proximity to Markets Index	1	2	3	4	5	6	6
Industry-Based Cost Indices							
Mining	6	2	5	2	4	1	2
Manufacturing	6	5	2	1	2	4	5
Accommodation, Cafés and Restaurants	6	4	5	2	3	1	2
Finance and Insurance	6	4	5	1	3	2	2
Property and Business Services	6	4	5	2	3	1	1