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CHAMBER OF COMMERCE AND INDUSTRY WA

Payroll Tax Reform Cost Benefit Analysis

NOVEMBER 2023

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v 3.0	Payroll Reform CBA	Ben Fahrner	Dawson Demassiet-Huning	24 November 2023
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1.0
Executive Summary

Background & Goal of the Study

Our State is experiencing unparalleled change with major economic activity occurring in burgeoning industries that are driven by international trends. Critical minerals and clean energy, along with areas like defence, life sciences and advanced manufacturing, are generationally significant opportunities that the State needs to support through sound economic policy.

The Chamber of Commerce and Industry WA (CCIWA) has engaged Pracsys Economics to measure the impact of payroll tax reform on Western Australia's ability to capitalise on these opportunities. Payroll tax effectively increases the cost of employing workers and influences business decision making, reducing investment and economic growth. This work is also important for understanding the extent to which relieving the incidence of payroll tax will assist WA's small and medium enterprises to handle the escalating cost of doing business.

Faced with a change in payroll tax burden, local businesses can react by either using the extra funds on the day-to-day running of the business, or reallocating resources to reduce debt, invest in stock or assets, or increase employment.

Research undertaken into payroll tax reform examples in Australia and overseas found evidence of increased investment, increased employment, and re-allocation of business resources across states to take advantage of beneficial policy environments. The literature suggests that employment effects were more significant for unemployed or low skill workers, and wage effects were more significant for high skill or high wage earners.

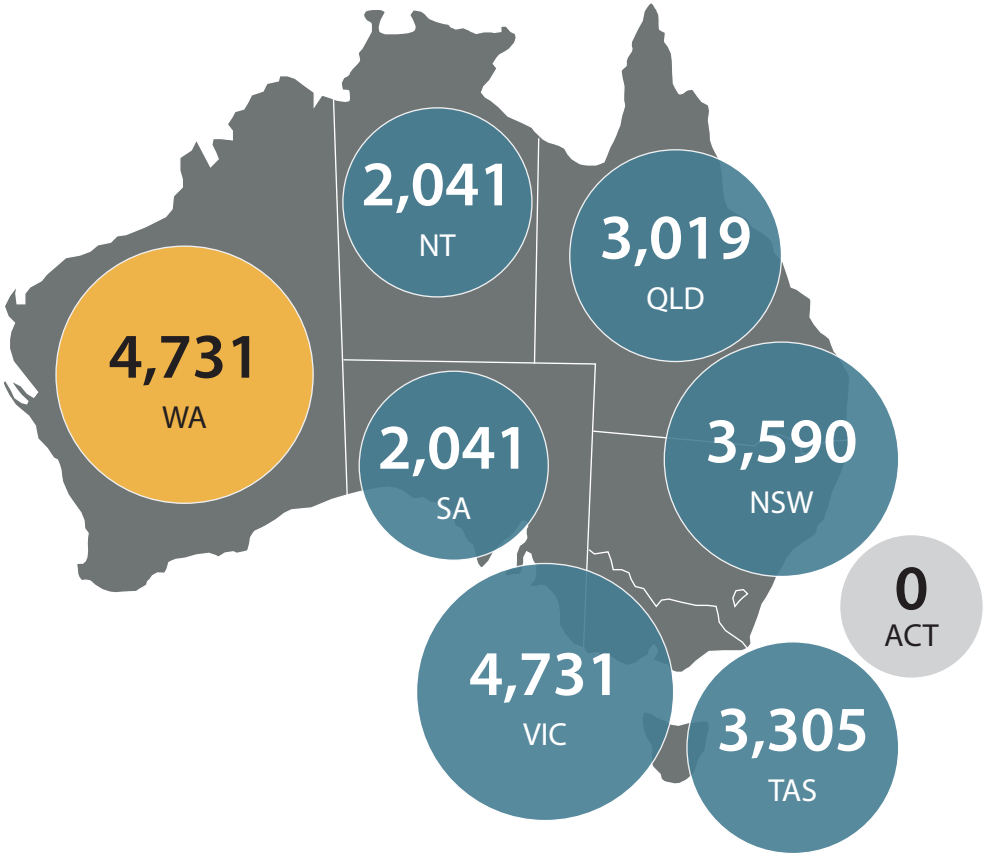
Marginal propensities for business to adopt these behaviours were used to estimate the economic impact of four payroll tax reform scenarios.

WA is at a Disadvantage

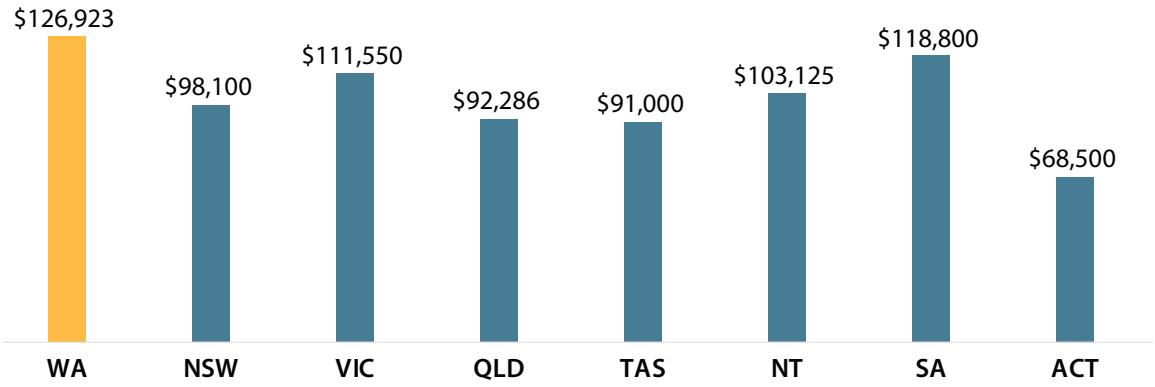
Small and medium enterprises play a pivotal role in growing our economy, and WA payroll tax policy is making it more difficult for them to do business. A comparison was undertaken of the payroll tax thresholds across states and applied to WA businesses by their wages payable bracket. WA's payroll tax policy taxes 2,400 more businesses on average than would be eligible in other states.

A business that pays $3 million in wages payable in WA will pay on average $26,000 more in payroll tax compared to the same business in another State. This extends across a wide range of taxable wages, with WA businesses paying a higher amount of payroll tax than the average of other states at almost every level.

BUSINESSES ELIGIBLE FOR PAYROLL TAX WITH UNDER $2MILLION WAGES PAYABLE

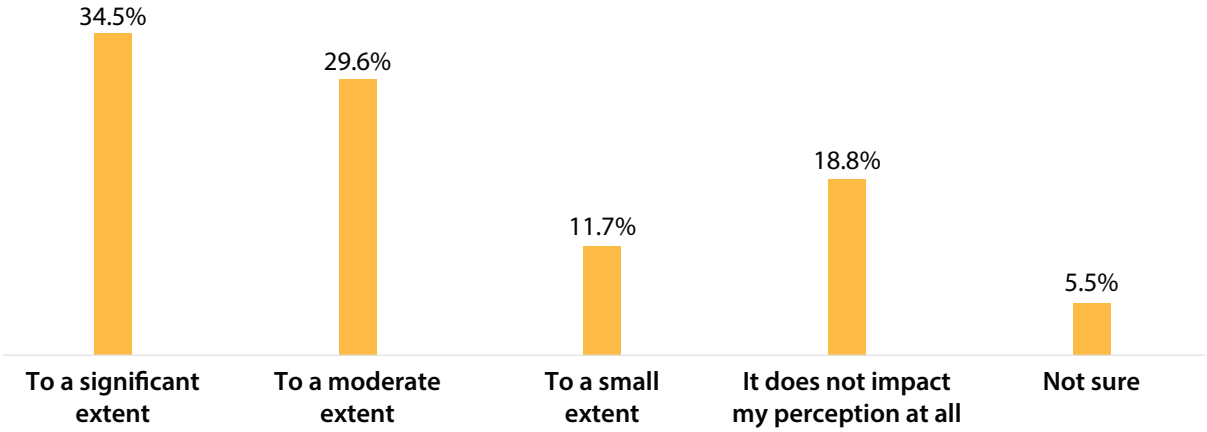


PAYROLL TAX AT $3M WAGES PAYABLE



A 2021 CoreData survey identified that WA's payroll tax burden impacted the perceived attractiveness of WA as a place to do business for 75.5% of respondents.

PAYROLL TAX IMPACT ON PERCEIVED ATTRACTIVNESS OF DOING BUSINESS IN WA



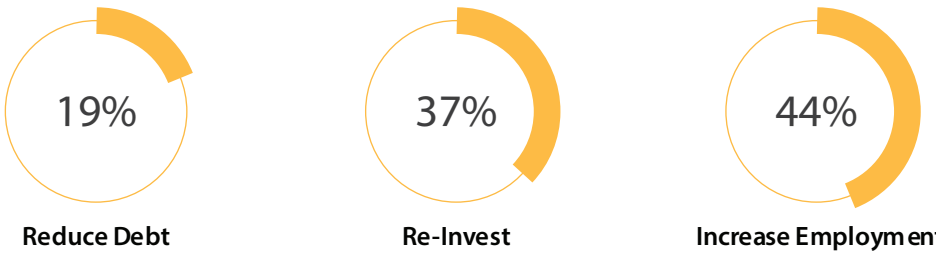
Business Behaviour

A survey was developed to capture the impact of a reduction in the payroll tax burden on business decision making. This survey was distributed to WA businesses to gain an understanding of business behaviour in Western Australia, gaining 449 responses. Given the number of employing businesses in WA, this is a highly robust sample. The survey found that payroll tax has an impact on 77% of businesses in their hiring and employment decision making. Based on a reduction in payroll tax, businesses were most likely to increase employment and re-invest into the business. Importantly, the propensity for investment has risen since a similar survey in 2016. This is an important consideration given the ongoing rate rises and the need to incentivise business investment locally. There is also a higher-than-average propensity to reinvest in the manufacturing sector; notably, the State Government has identified advanced manufacturing as a priority for diversification.

Reducing the payroll tax burden on business in Western Australia would also help to attract investment into and within the State. Tax burdens have a significant impact on firm level decision making and the allocation of investment across states and from overseas, evident from both a review of the literature and survey responses. The survey identified that a reduction in payroll tax paid of $10,000 in a state was associated with an increase in likelihood of an interstate business investing in that state of approximately 25%. Research identified that for every percentage reduction in total tax burden there was an estimated 0.5% increase in foreign direct investment.

These observed business behaviours have been used to quantify the impact of a change in payroll tax policy.

OVERALL MARGINAL PROPENSITIES



Results

The study examined four scenarios for reform:

- Raising the minimum threshold for payroll tax eligibility
- Reducing the tax rate for small and medium businesses
- Raising the minimum threshold and introducing a rebate for small and medium businesses assessed against total wages payable.
- Raising the minimum threshold and introducing a rebate for small and medium businesses assessed against wages payable in Western Australia.

In all cases the reform was found to have a net benefit on the Western Australian economy, with a direct economic benefit of between $276 million and $1.37 billion, supporting an increase of 721 to 3,556 full time equivalent employment opportunities. This benefit is derived from businesses increasing production through employment, reducing debts and re-investing.

The analysis considered the impact of payroll tax on local businesses and businesses based inter-state and overseas. Payroll tax reform could directly support between 338 and 1,666 jobs in WA businesses and between 383 and 1,890 jobs in WA through interstate investment. In dollar terms, a payroll tax reform is estimated to generate between $174 million and $859 million in direct benefit from WA businesses; interstate and foreign investment into the WA economy would grow by up to $500 million.

WA Business Impact

Direct Benefit up to **$859 million**

Total Benefit up to **$1781 million**

Interstate Investment Impact

Direct Benefit up to **$221 million**

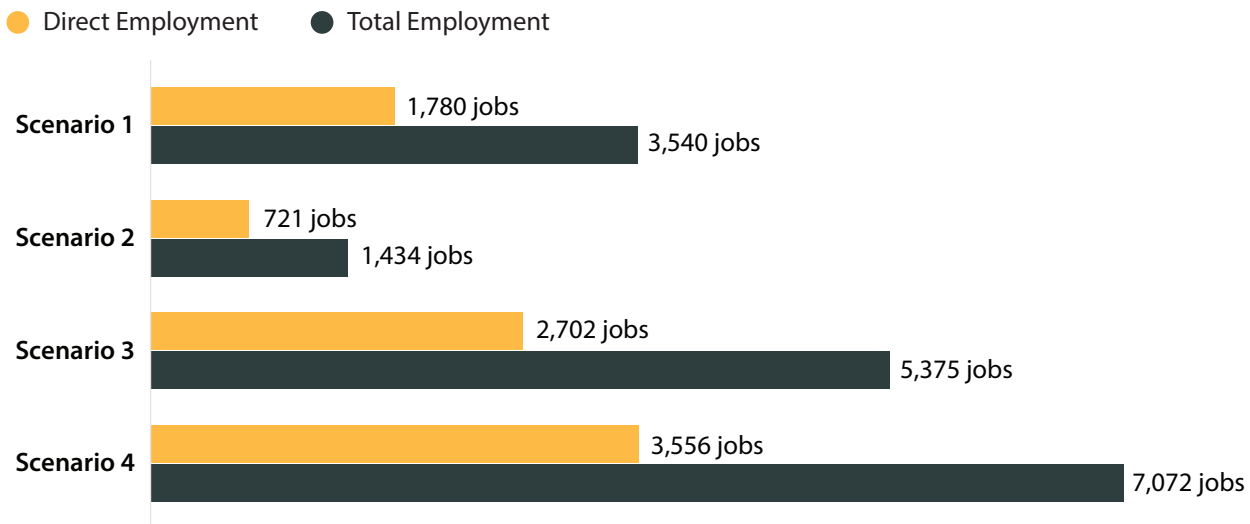
Foreign Invesment Impact

Direct Benefit up to **$286 million**

Total Employment Supported

The employment supported directly by payroll tax reform ranges from between 721 FTEs and 3,556 FTEs and the total employment supported ranges from between 1,434 FTES and 7,072 FTEs.

TOTAL EMPLOYMENT

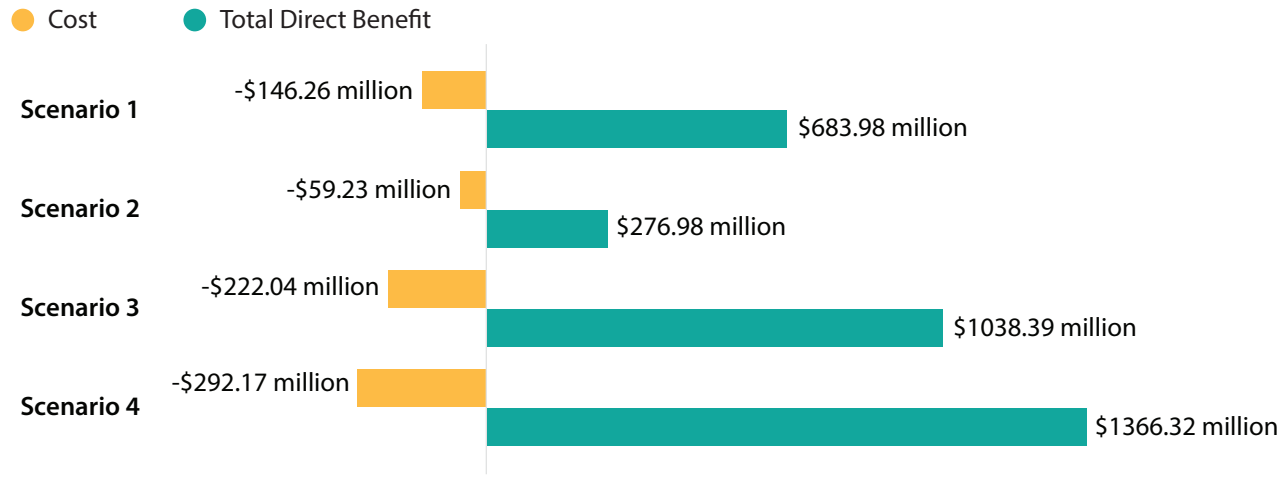


Net Benefit

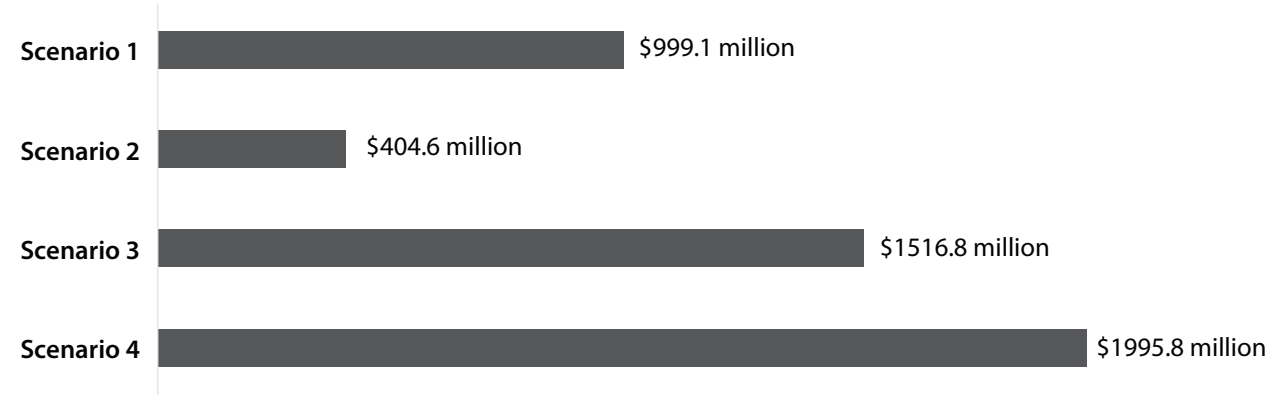
The direct net benefit of payroll tax reform is positive in all cases, with the benefits in all scenarios exceeding the reduction in revenue for the West Australian State government.

Accounting for increased investment from interstate and overseas, the net benefits are significantly larger when assessing both direct and total impacts. As such, payroll tax reform would generate significant net benefits for the WA economy.

DIRECT BENEFITS AND COSTS



TOTAL NET BENEFIT



Conclusion

The significant economic benefit of a reduction in payroll tax is a vitally important finding, particularly in the context of the enormous amounts of investment needed for WA to take its opportunities in key areas such as clean energy and critical minerals. In the race to capitalise on the big global shifts underway, every dollar of investment attracted into the state is crucial. Ensuring WA is competitive both globally and domestically is key to ensuring a strong and resilient WA economy.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2.0 Introduction

2.1 Intent

This report has been prepared for the Chamber of Commerce and Industry WA (CCIWA) to model the benefits of reforming WA's payroll tax policy, focusing on quantifying the additional inbound investment and employment generation in Western Australia that could be induced through a reduction of the payroll tax burden.

Payroll tax is a state tax levied on income paid by an employer to their employees when this total exceeds a tax-free threshold. Payroll tax is factored into firm's decision making around employment and investment in labour, meaning a change in payroll tax policy would affect firm behaviour and potential investment in Western Australia by interstate and international businesses.

The analysis will provide an evidence base to assess the impact of a potential change in policy across a set of different scenarios for reform.

2.2 Need for Reform

The state's economic development framework, Diversify WA, outlines attracting investment into WA businesses and emerging industries as key to capitalising on WA's strengths, maintaining a competitive edge and driving future growth as the global economy changes direction.

To harness international trends the State government is supporting investment in a range of sectors including advanced manufacturing, renewable energy, and primary industries. The Latitude 32 industrial area and Westport project will integrate the future port in Kwinana with businesses through integrated transport networks[1]. The Kathleen Valley Lithium Project is one of the world's largest and highest-grade lithium deposits and will deliver significant battery grade metals once in production[2]. Renewable energy facilities are being progressed in a number of regions throughout the state[3][4]. AUKUS will also require significant expansion of industry, particularly SMEs in the supply chain[5]. These projects represent large scale investment into emerging sectors in WA, which will create thousands of jobs and generate significant economic activity.

This investment will bring significant economic opportunity to WA. To best capitalise on this momentum, policy that motivates growth and investment at all levels of industry is required. Payroll tax reform will lower costs for small and medium enterprises, allowing for investment across the supply chain. This expansion will help WA businesses to take advantage of the State government's strategic direction and accelerate economic and employment growth in key industries.

1 https://developmentwa.com.au/projects/industrial-and-commercial/latitude-32-industry-zone/overview

2 https://www.minister.industry.gov.au/ministers/king/media-releases/government-welcomes-investment-critical-minerals-support-energy-transition

3 https://www.dcceew.gov.au/energy/publications/worlds-largest-renewable-energy-project-set-for-the-australian-outback

4 https://www.wa.gov.au/government/media-statements/Cook-Labor-Government/One-of-Australia%27s-largest-green-Hydrogen-projects-progresses--20230711

5 https://www.minister.defence.gov.au/media-releases/2023-03-14/western-australia-home-australias-first-nuclear-powered-submarines

2.3 Scope and Methodology

Research has been undertaken to understand the impact of payroll tax changes in real-world examples and to explore the effects of taxation on investment into Western Australia.

A survey was developed to measure potential business responses to a change in payroll tax implementation and support an assessment of the potential economic effect of payroll tax policy changes. Research was undertaken to understand the potential for payroll tax reform to attract investment from outside Western Australia. A review of the literature on payroll tax changes in Australia and abroad was used to determine a method for estimating the level of investment that would be motivated by a policy change.

The survey results and literature review were used to understand firm behaviour change and the potential impact of different payroll tax scenarios has been modelled to determine the costs and benefits associated with policy changes and produce a Cost Benefit Analysis.

Using the Cost Benefit Analysis and research, conclusions on the economic effect of payroll tax reform on businesses and investment can be drawn.

3.0 Payroll Tax

3.1 Current Situation

Payroll tax is collected on a state or territory basis and is assessed on eligible payments by employers to employees. In Western Australia the tax applies to wages, salaries, and employee benefits, including bonuses and fringe benefits. Payroll tax accounted for 40.4% of Western Australia's State Government taxation revenue in 2022-2023, the largest share of taxation revenue for the state[6].

3.2 Assessment

Payroll tax in Western Australia is payable by all employers with wages payable above a tax-free threshold, minus a diminishing deductable component for firms with total wages payable below an upper threshold. The rate of payroll tax is 5.5% in Western Australia.

This rate is applied to all firms with wages payable over $1,000,000 (the tax-free threshold), with a deductable amount applicable for firms with wages payable less than $7,500,000 (the upper threshold). The deductable amount diminishes between the tax-free and upper threshold at approximately $2 for every $13 of wages above $1,000,000, reaching zero at the upper threshold.

The deductable amount is calculated based on total Australian taxable wages for firms that operate in multiple states, however payroll tax is levied on Western Australian wages only.

3.3 State Comparison

Payroll tax policy is administered at a State government level and differs across states, with differing rates, thresholds, and eligibility. The minimum threshold for paying payroll tax in WA is lower than all states apart from Victoria, however the Victorian threshold will rise to $1 million in 2025[7] which will leave WA with the lowest threshold in Australia[8]. This results in a significant additional tax to WA's small businesses who are critical to growing employment. WA charges payroll tax to an average of 2,398 more small businesses compared to all states other than Victoria, Figure 1 shows the number of WA businesses with wages payable under $2 million who would be eligible for payroll tax in other states, compared to WA[9].

Western Australian business pay more payroll tax on average than businesses do in other States: the threshold is the second lowest in the country and businesses from $2 million in wages payable and upwards pay more payroll tax on average than in all other states[10]. Figure 2 shows a comparison of the payroll tax burden across states based on a business with $3 million in wages payable.

6 Western Australian Government, Dept of Treasury (2023). Annual Report on State Finances 22-23. Available from: https://www.wa.gov.au/government/document-collections/annual-report-state-finances

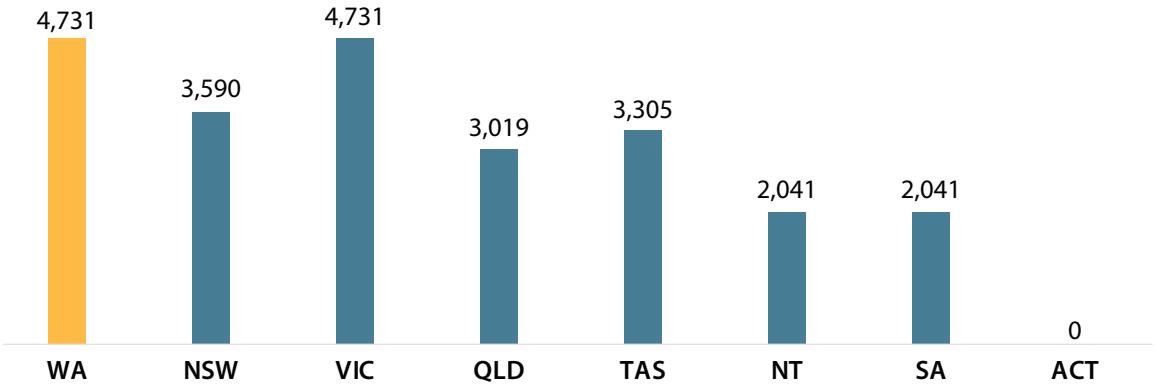
7 Victorian Government, Dept. Treasury and Finance (2023). 2023-24 State Budget. Available from: https://www.dtf.vic.gov.au/state-budget/2023-24-state-budget

8 Victoria also has a lower rate than WA (4.85%) and offers a much lower rate for regional businesses (1.2125%)

9 This does not account for businesses with wages payable below $1 million who would be eligible for payroll tax in Victoria.

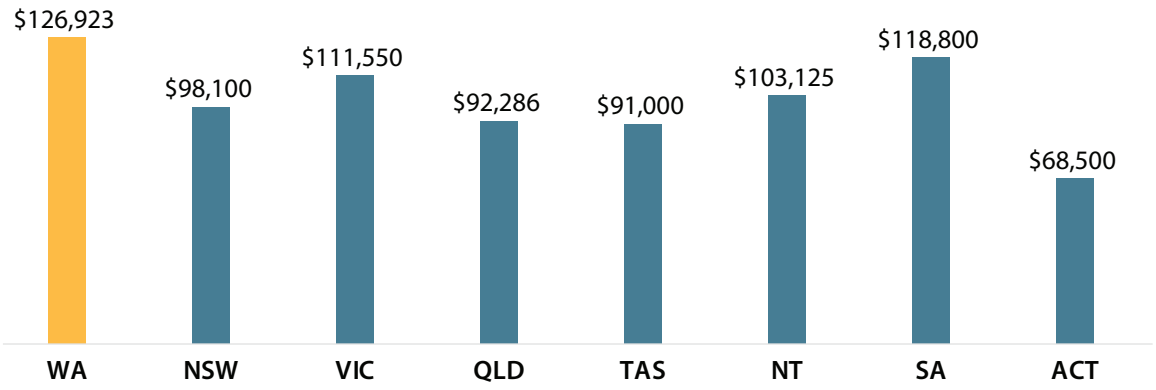
10 Businesses in New South Wales pay more payroll tax around the $2m payroll size, ACT businesses pay more tax on wages payable above $10m and Northern Territory Businesses pay an equal amount of tax on wages payable above $8m.

Figure 1: Number of businesses eligible for payroll tax by state paying under $2 million wages payable



Source: Department of Finance 2023, Pracsys 2023

Figure 2: Payroll Tax in selected states at $3 million in wages payable

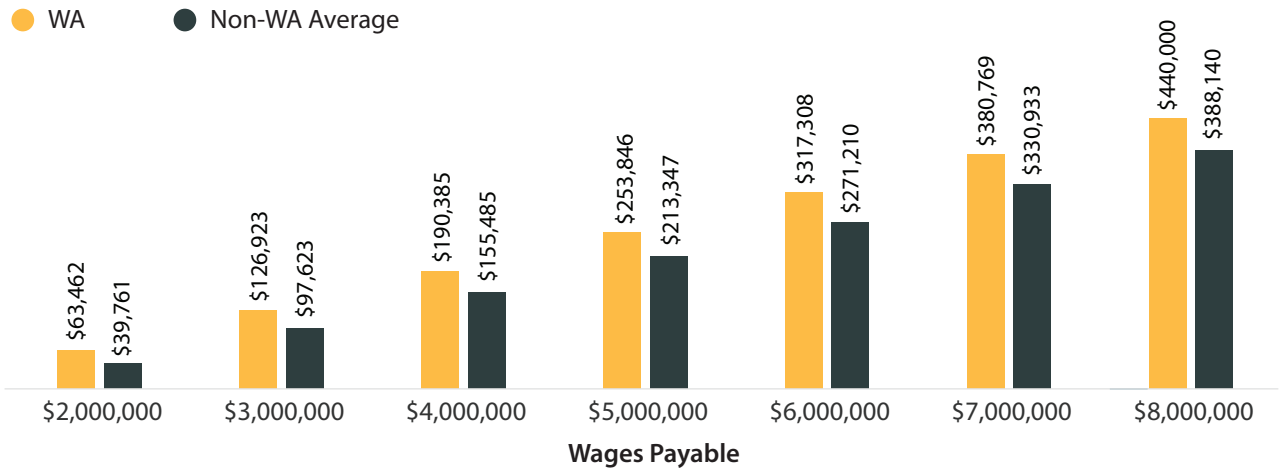


Source: Pracsys 2023

A business that pays $3 million in wages payable in WA will pay on average $26,000 more in payroll tax compared to the same business in another State. This is consistent at all levels for wages payable above $2 million, ranging from approximately $24 thousand at $2 million to $52 thousand at $8 million.

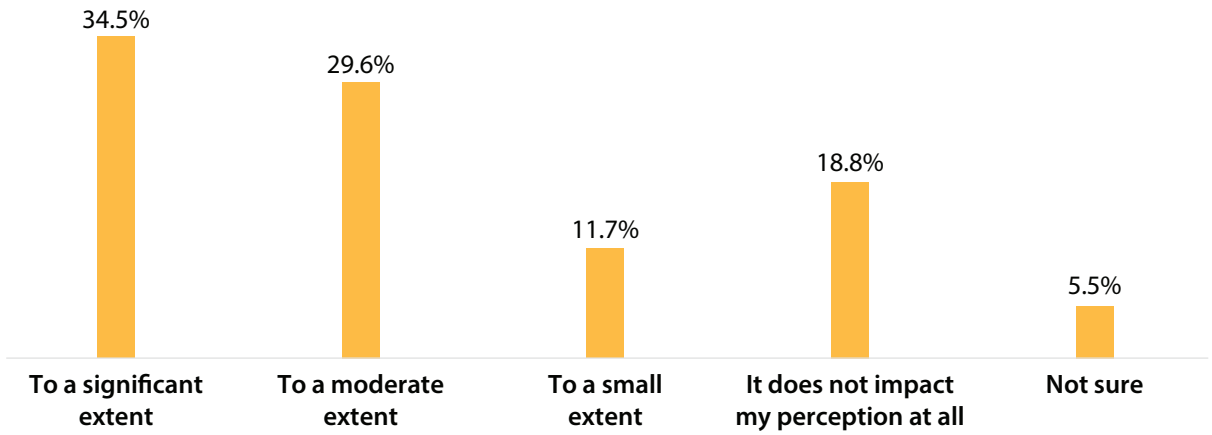
This results in a comparatively higher cost of labour in WA than in other states, reducing the amount of labour firms employ and reducing investment into the State. A 2021 CoreData survey of Australian businesses identified that 34.1% of businesses consider payroll tax when looking to invest interstate. The survey identified that WA's payroll tax burden impacted the perceived attractiveness of WA as a place to do business for 75.5% of respondents. The current payroll tax policy in WA is likely hurting WA's ability to attract and retain investment.

Figure 3: WA Payroll Tax vs. Average in other states



Source: Pracsys 2023

Figure 4: Payroll Tax Impact on perceived attractiveness of doing business in WA



Source: CoreData 2021

3.4 Literature Review

Research was undertaken to understand the effects of payroll tax reform within Australia and around the world, and the effects of similar policy changes on investment and business decisions. The literature review informs an assessment of the potential investment attraction implications of a change in tax payable in a region.

Nine studies were identified covering the impact of payroll tax reform. Varying increases in employment, wages or both were observed in the target workforce. The literature suggests that employment effects were more significant for unemployed or low skill workers, and wage effects were more significant for high skill or high wage earners. Most studies examine the effect of payroll tax reform for specific worker demographics, policy specific to regional areas, or industry-specific policy implementation.

In Sweden an 11% reduction in payroll tax for young workers observed a 2.1% increase in employment for affected workers[11], and an overall wage increase for all workers[12]. In Hungary a reduced social security contribution for older workers resulted in an observed 1.6% increase in employment for affected workers[13]. A regionally varied payroll tax reduction in Argentina observed that for every percentage point reduction in payroll tax, wages increased by between 0.4 and 0.9%.[14], while in Brazil an industry-specific 9-10% decrease in overall wage costs observed a long run increase in earnings of 4%[15]. A Spanish study found an age specific payroll tax reduction increased employment for previously unemployed workers[16].

Eight studies were identified that explored business and investment decision making in different tax environments. Studies from the United States observed that policy changes that accelerated depreciation for businesses increased investment in capital and wage levels[17]. There was also evidence that firms re-allocated business activity across state lines to take advantage of the lower effective cost of capital[18]. Studies from the United Kingdom[19] and China[20] observed similar increases in investment following changes to depreciation policy. Studies on the factors affecting investment in Australia[21] and OECD countries found that taxes on corporations had a significant effect on levels of foreign investment.

There was a consistent finding that a change in the total tax payable by a company affects the investment decision making process. Payroll tax research focussed on human resource and wage impacts; other tax policies focussed on investment growth and attraction. A reduction in payroll tax in WA will reduce the total tax payable by most companies that invest in WA by applying a reduction to business with wages payable under $7.5 million across Australia. Scenario 4 expands the number of businesses to include those that pay more than $7.5 million in wages payable

11 Saez, E., Schoefer, B., Seim, D. (2017) Payroll Taxes, Firm Behaviour, and Rent Sharing: Evidence from a Young Workers' Tax Cut in Sweden. Available from: https://www.nber.org/system/files/working_papers/w23976/w23976.pdf

12 Daunfeldt, S., Gidehag, A., Seerar Westerberg, H. (2021). How do firms respond to reduced labor costs? Evidence from the 2007 Swedish payroll tax reform. Available from: https://www.oru.se/contentassets/a9aaaf7b94e7438e9a42cc475ee3d7e2/mw_jobs_20220308hsw.pdf

13 Bíró, A. et al (2022). Firm heterogeneity and the impact of payroll taxes. Available from: https://conference.iza.org/conference_files/LaborMarkets_2022/mark_I29451.pdf

14 Cruces G, Galiani S, Kidyba S. (2010), Payroll Taxes, Wages and Employment: Identification through Policy Changes. Available from: https://www.econstor.eu/bitstream/10419/127614/1/cedlas-wp-093.pdf

15 Lobel, F. (2021), The Unequal Incidence of Payroll Taxes with Imperfect Competition: Theory and Evidence. Available from: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3855881

16 Cervini-Plá, M., Ramos, X., & Silva, J. I. (2014). Wage effects of non-wage labour costs. Available from: https://www.iza.org/publications/dp/4882/wage-effects-of-non-wage-labour-costs

17 Ohrn, E. (2018) The Effect of Corporate Taxation on Investment and Financial Policy: Evidence from the DPAD. Available from: https://ericohrn.sites.grinnell.edu/files/DPAD/DPAD_AEJ_Pol.pdf

18 Ohrn, E. (2018). The Effect of Tax Incentives on U.S. Manufacturing: Evidence from State Accelerated Depreciation Policies. Available from: https://ericohrn.sites.grinnell.edu/files/State_Bonus/State_Bonus_1_2018.pdf

19 Maffini, G., Xing, J., Devereux, M. (2019). The impact of investment incentives: evidence from UK corporation tax returns. Available from: https://conference.nber.org/confer/2016/SI2016/PETSI/Maffini_Xing_Devereux.pdf

20 Cai, J., Chen, Y., Wang, X. (2018). The Impact of Corporate Taxes on Firm Innovation: Evidence from the Corporate Tax Collection Reform in China. Available from: https://www.nber.org/system/files/working_papers/w25146/w25146.pdf

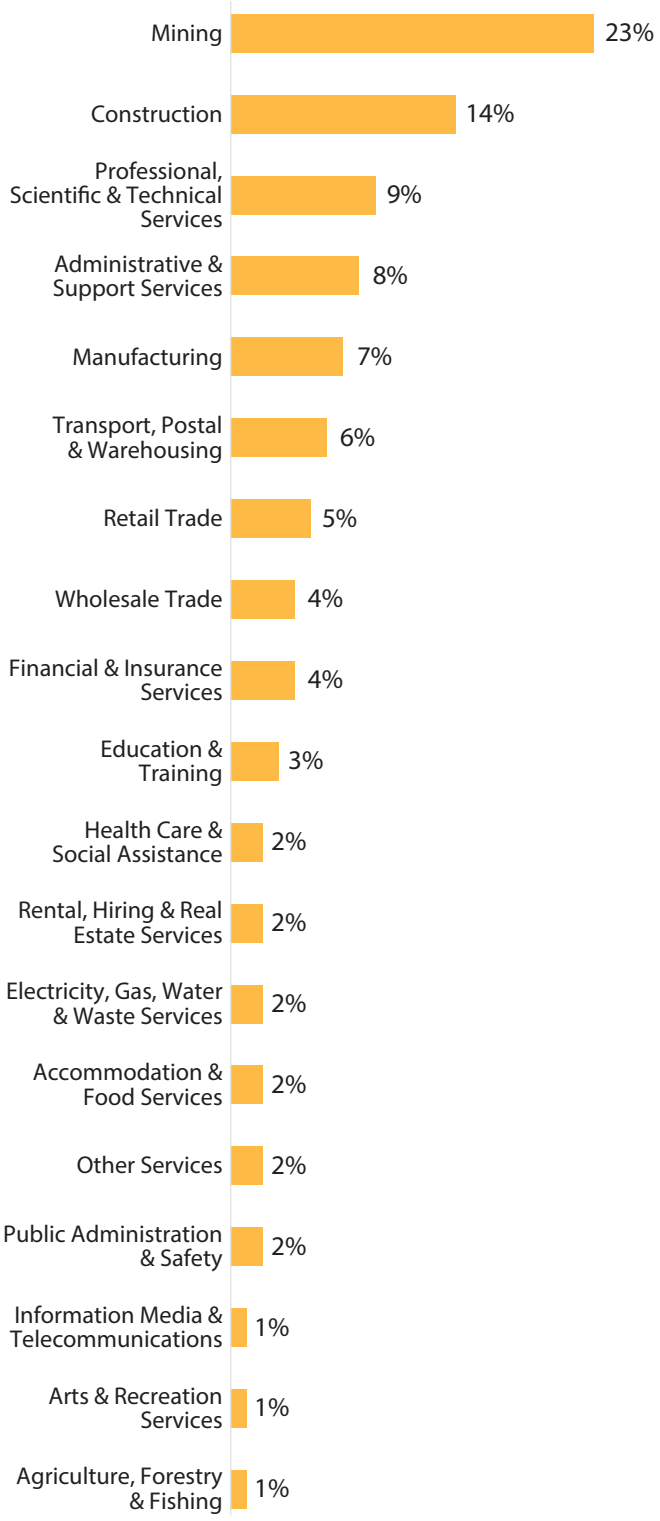
21 Rafidi, Z., Verikios, G. (2021). The determinants of foreign direct investment: A review and re-analysis of evidence from Australia. Available from: https://www.griffith.edu.au/__data/assets/pdf_file/0026/1423196/FDI_Australia.pdf

across Australia, who would now be eligible for a reduction based on the amount of wages that they pay in WA. This CBA assumes that an increase in investment attraction associated with a reduction in total tax payable can be used as a proxy for the potential investment impact of a change in payroll tax. A panel study of OECD countries found a ratio of 0.5 between corporate tax as a proportion of GDP and foreign direct investment (FDI) as a proportion of the same[22]. Using this example, a figure for FDI into WA has been calculated by using the calculated change in payroll tax to find the equivalent reduction in corporate tax. There was also evidence that firms re-allocated business activity across state lines to take advantage of the lower effective cost of capital[23], providing evidence that an increase intrastate and interstate investment is possible through providing businesses with tax savings.

3.5 Industry breakdown

Figure 5 draws on historical data to show the breakdown of payroll tax paid by each industry in Western Australia. The highest contributions are paid by the Mining, Construction and Professional Services sectors. The smallest contributions are paid by the Agriculture, Arts and Recreation and Telecommunications sectors. In the absence of current data, it is assumed that the composition of payroll tax paid by industry is consistent with 2015-2016 figures for the purpose of the analysis.[24]

Figure 5: Payroll tax by industry breakdown



Source: Pracsys 2016

22 Abdioğlu, N., Biniş, M., & Arslan, M. (2016). The effect of corporate tax rate on foreign direct investment: A panel study for OECD countries. Available from: https://dergipark.org.tr/en/download/article-file/561136

23 Ohrn, E. (2018). The Effect of Tax Incentives on U.S. Manufacturing: Evidence from State Accelerated Depreciation Policies. Available from: https://ericohrn.sites.grinnell.edu/files/State_Bonus/State_Bonus_1_2018.pdf

24 This assumption was checked by investigating employment by industry in the 2016 and 2021 ABS Census and appears valid.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4.0 Survey

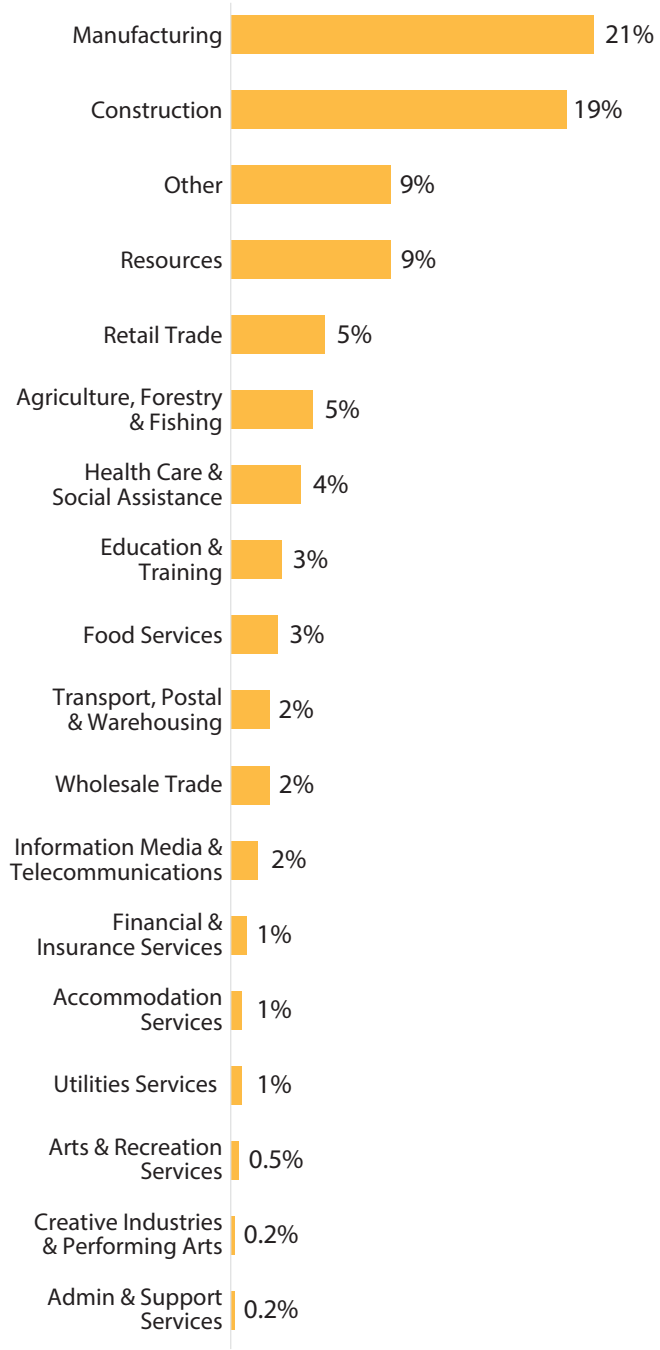
4.1 Questions

An online survey comprising 13 questions was developed to identify potential business behaviour associated with a change in the application of payroll tax in WA. Businesses provided information about their employee headcount, main industry of operation, amount of payroll tax paid and decision making. The questions were structured in a way that captures how businesses would re-allocate potential savings from a change in payroll tax application and their likelihood of investing in another State based on a reduction in payroll in that State. Using these responses, marginal propensities have been measured for each industry. Respondents were also given an opportunity to express their opinion on the payroll tax and how it influences their business, and to give input on their actual propensity for investment in other states and territories.

4.2 Respondent Characteristics

The survey was distributed through CCIWA to both members and non-members and received 449 responses. Manufacturing, Construction and Resources were the industries with the largest proportion of respondents.

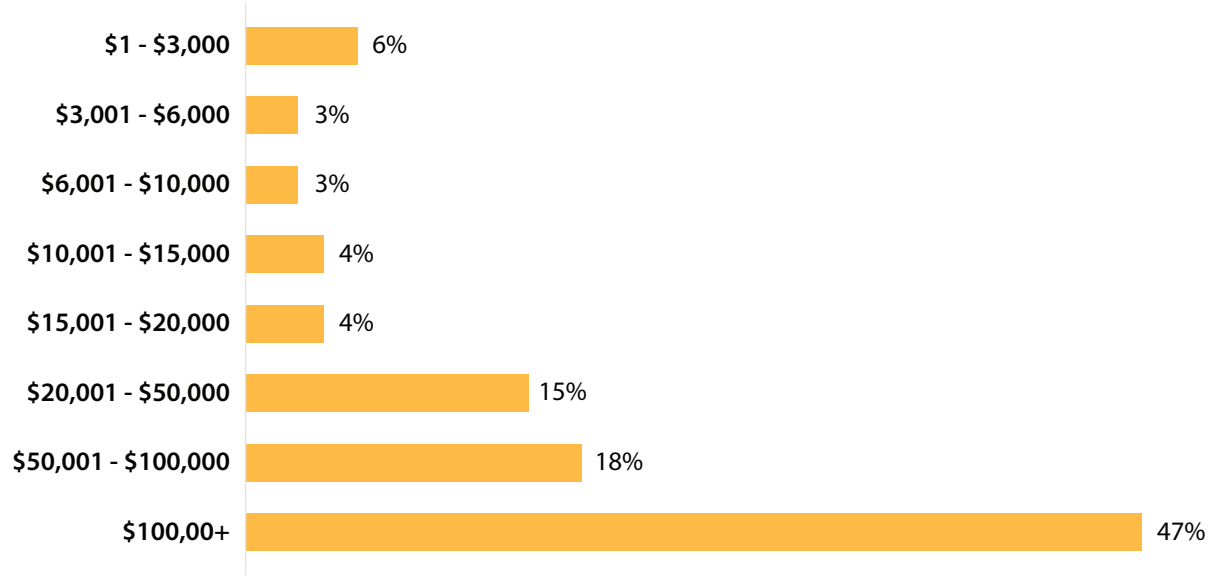
Figure 6: Survey respondents by industry



Source: CCIWA Survey 2023

47% of respondents pay over $100,000 in payroll tax annually; 41% pay between $10,000 and $100,000; and, only 12% pay less than $10,000.

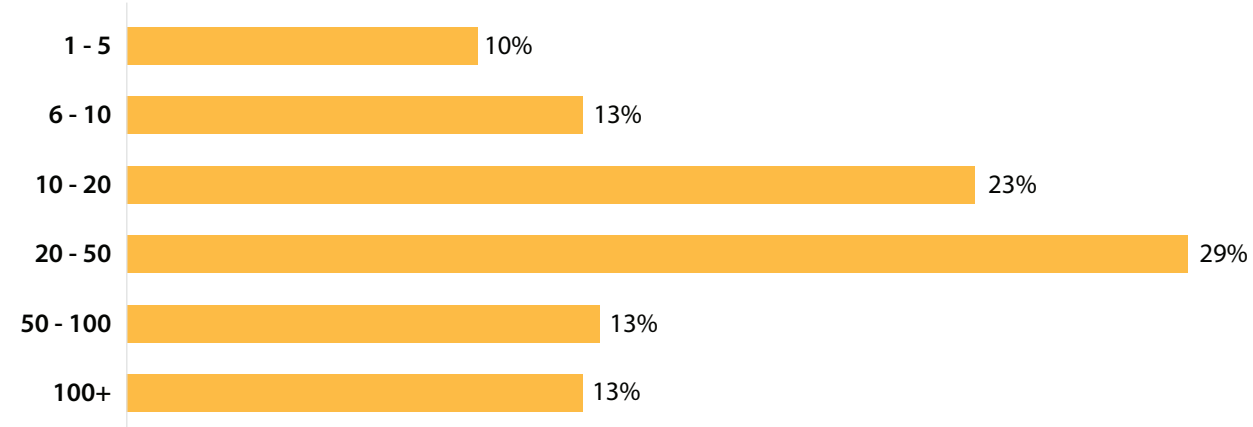
Figure 7: Payroll tax paid by respondents



Source: CCIWA Survey 2023

The largest number of responses were from businesses employing 10 to 20 or 20 to 50 employees, with the fewest coming from employers with less than 5 employees.

Figure 8: Number of workers employed by respondents



Source: CCIWA Survey 2023

5.0 Survey Payroll Tax Impact Results

5.1 Marginal Propensities

Survey respondents were asked about their reallocation of funds were they to experience a reduction in payroll tax burden. Using firm responses about their allocation of savings across increasing staffing, reducing debt and/or investing into capital or R&D[25], marginal propensities for each category were calculated, broken down by industry.

The marginal propensities represent the proportion of each dollar saved in payroll tax that businesses would use to increase employment, reduce debt, or invest in capital and R&D.

Survey results indicate that businesses were most likely to increase employment (44%) and re-invest into the business (37%) and least likely to save or reduce debt (19%).

Figure 9: Marginal Propensities for Payroll Tax not Paid

Source: CCIWA Survey 2023

It is notable that the results of CCIWA's survey when compared to a similar 2016 survey of WA businesses indicated that businesses today have an 8% higher marginal propensity to re-invest potential payroll tax savings (37% vs. 29%). This could be an important finding with a payroll tax reduction having the potential to mitigate recessionary pressure from rate rises in WA.

5.2 Marginal Propensities by Industry

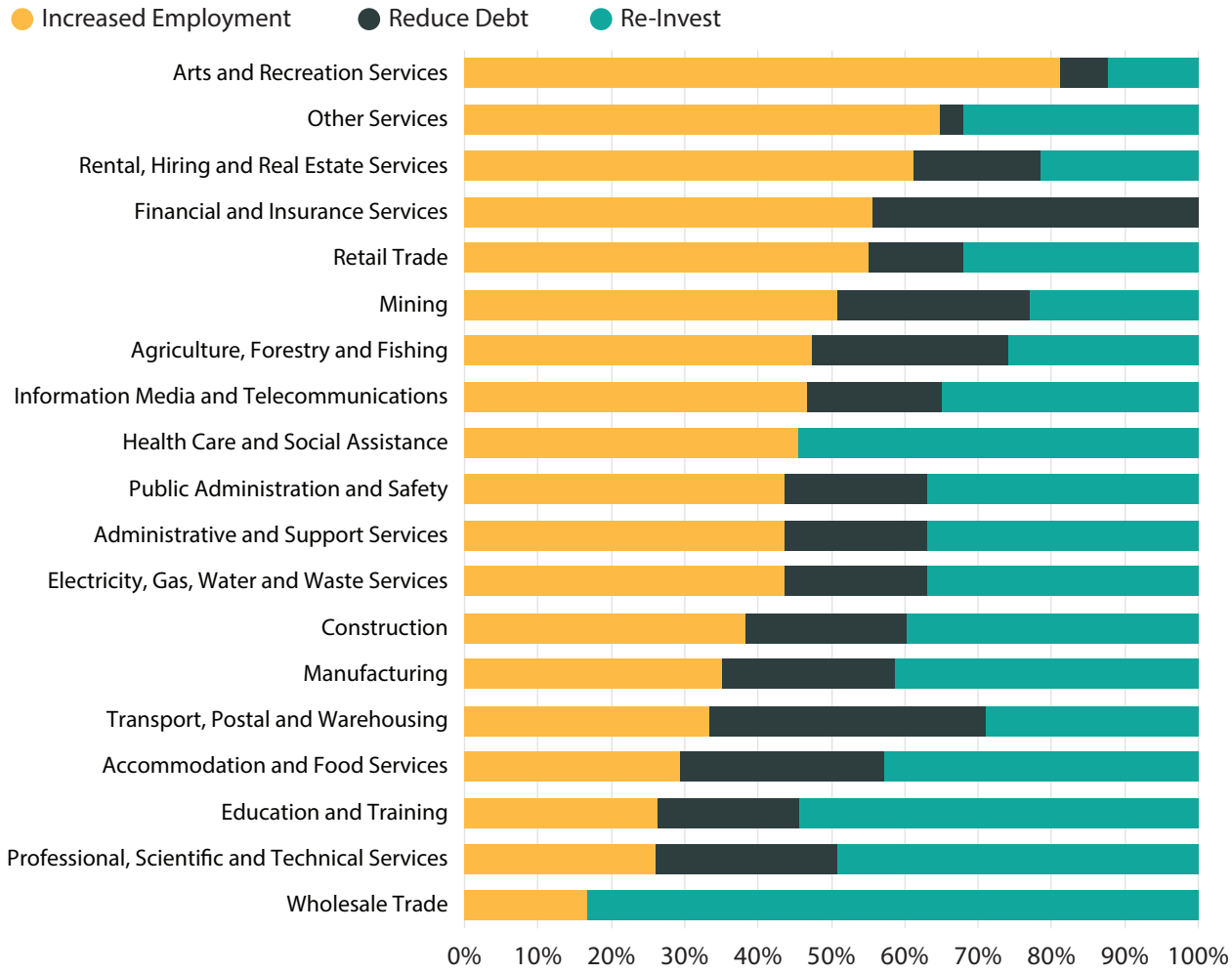
Marginal propensities for each industry differ. Figure 10 shows the breakdown of industry-specific marginal propensities. The Arts and Recreation Services, Other Services and Rental, Hiring and Real Estate services industries are most likely to increase their employment levels, either through extending the hours of current employees or new hires. Wholesale trade and health care and social assistance firms were most likely to re-invest savings into business or research and development.

Notably, there is a higher than average propensity to reinvest in the manufacturing sector. The State Government has identified advanced manufacturing as a diversification priority[26].

25 Businesses were asked to divide a specific savings amount across these options or could mark the question as not applicable.

26 Western Australian State Government (2023), Diversify WA economic development framework. Available from: https://www.wa.gov.au/organisation/department-of-jobs-tourism-science-and-innovation/diversify-wa-economic-development-framework

Figure 10: Marginal Propensities by Industry*



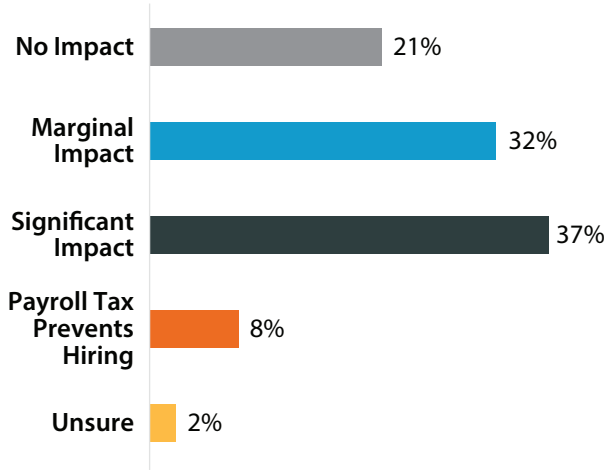
Source: CCIWA Survey 2023

* Note: some industries had no responses and were given the weighted average distribution of responses. These include: Public Admin and Safety; Administrative and Support Services; and, Electricity, Gas, Water, and Waste Services.

5.3 Employment Decisions

Respondents were asked to indicate the influence of payroll tax on decision making. Approximately 32% of firms indicated that payroll tax had some effect on the decision, 37% indicated it had a significant impact and 8% were prevented from hiring additional employees. 77% of respondents indicated that payroll tax had an impact on employment decision making.

Figure 11: Impact of payroll tax on hiring additional employees

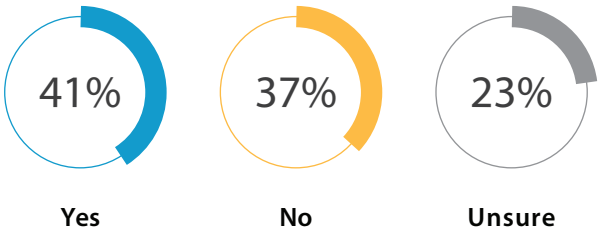


Source: CCIWA Survey 2023

5.4 Interstate Investment

Businesses were asked about their interest in interstate investment, and how likely a specific savings amount in payroll tax would change their investment decisions. Figure 12 outlines the interest of respondents in investing in another state or territory[27], 41% of firms surveyed indicated that the level of local taxation influences their decisions to invest elsewhere.

Figure 12: Level of interest in inter-state investment



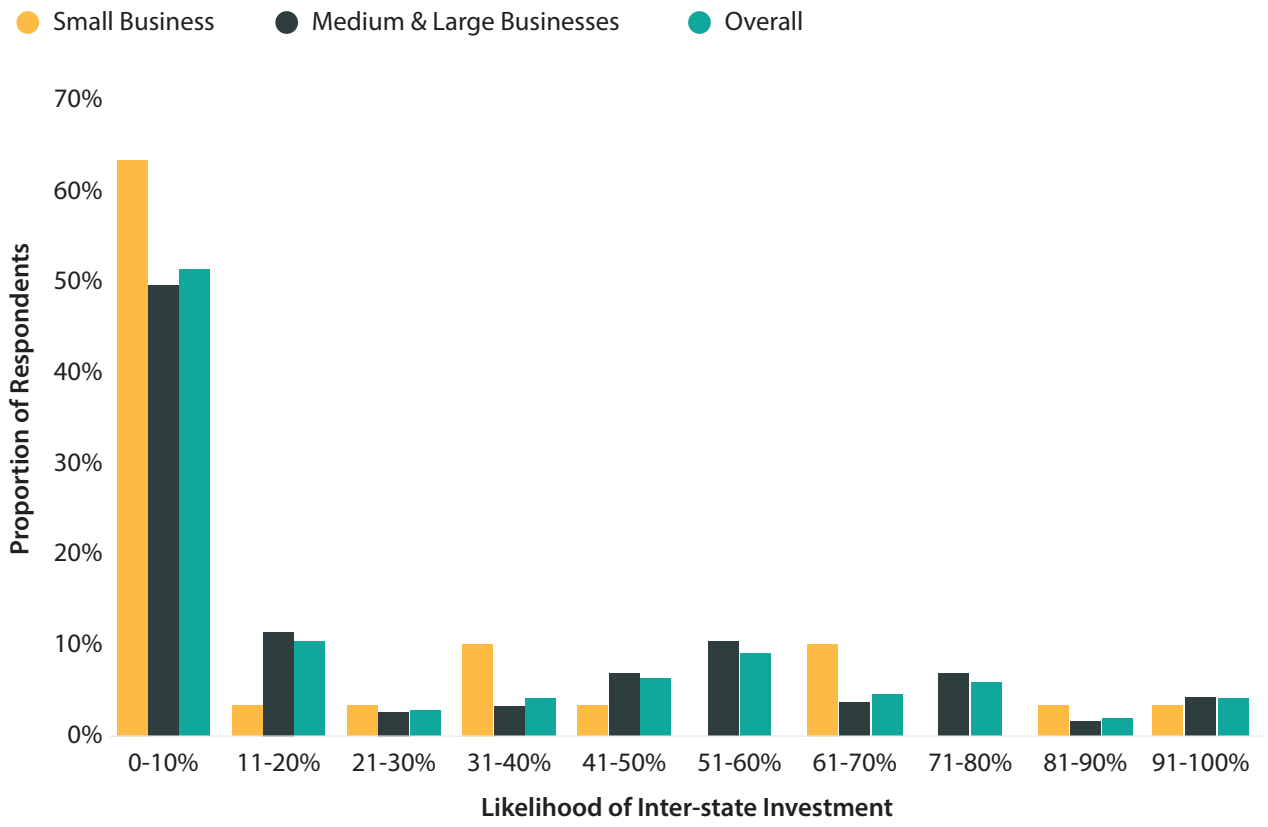
Source: CCIWA Survey 2023

27 Firms were asked 'Would your business ever consider investing in another State or Territory?'

Figure 13 outlines firm responses when asked how likely a specific reduction in payroll tax would affect their decision to invest outside WA[28].

Based on these responses, it is assumed that a reduction in payroll tax in another state would lead to a 25% [29] increased likelihood of investment in that state from domestic businesses.

Figure 13: Likelihood of Inter-State Investment



Source: CCIWA Survey 2023

28 Firms were asked 'How would a $10,000 reduction in payroll taxes affect your decision to invest in another State, assuming all other States charge the same payroll tax?', firms paying $15,000 or less in payroll tax annually were asked about the impact of a $1000 reduction.

29 Weighted average of responses, taking all 0-10% probabilities as 0%.

6.0 Scenario Analysis

6.1 Reform Scenarios

Four potential reform scenarios were analysed against the current payroll tax policy to compare the cost, benefit, and potential effects of different changes to payroll tax in Western Australia. The scenarios are outlined in Figure 14.

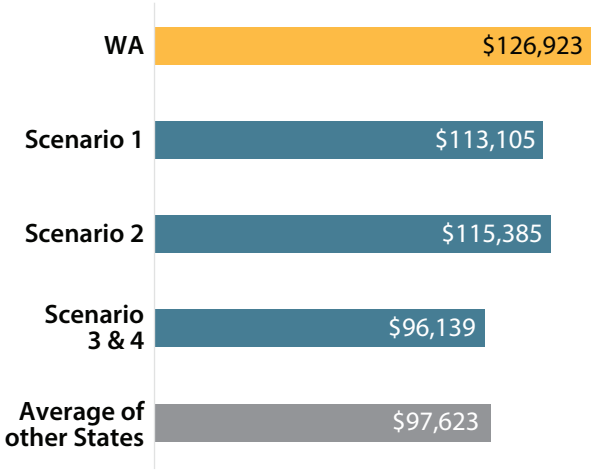
Figure 14: Scenarios Analysed

SCENARIO	DESCRIPTION	SCOPE
1.	Increase in the minimum threshold for payroll tax.	Minimum threshold increased from $1m to $1.3m.
2.	Decrease the rate of tax on payroll for wages payable below $7.5m	Rate decreased from 5.5% to 5% for businesses below $7.5m.
3.	Increase in the minimum threshold for payroll tax and increase a rebate for businesses below the upper threshold. Rebate assessed against total wages payable.	Minimum threshold increased from $1m to $1.3m. 15% rebate applied for wages payable below $7.5m total wages. Rebate tapers between $4m and $7.5m
4.	Increase in the minimum threshold for payroll tax and increase a rebate for businesses below the upper threshold. Rebate assessed against West Australian wages payable only.	Minimum threshold increased from $1m to $1.3m. 15% rebate applied for wages payable below $7.5m West Australian wages. Rebate tapers between $4m and $7.5m

Source: Provided by CCIWA

Each scenario reduces the tax burden on WA businesses, Figure 15 shows the comparative amount of payroll tax paid by a WA business in each scenario against the current WA policy and average of other states.

Figure 15: Scenario Comparison at $3m wages payable[30]



Source: Pracsys 2023

30 The estimated payroll paid for Scenarios 3 & 4 is the same here as the scenarios differ based on the assumption of wages payable in WA vs. outside WA.

6.2 Methodology

To calculate the reduction in payroll tax payable under each scenario, data has been used to determine the effect of each reform scenario on businesses of various size, based on the amount of payroll tax businesses paid in Western Australia in the 2021-22 financial year[31].

This data set provides the number of businesses at each wages payable bracket and the tax paid by the bracket overall. From this data, the average tax paid per business was used to determine the average amount of taxable wages for each bracket. The scenarios were calculated accounting for the fact that some companies do not pay all their wages in WA, see Appendix 1 for further detail on how each scenario was constructed.

This industry-specific saving was then used to calculate the increase in employment, investment, or debt reduction for firms, according to the industry-specific marginal propensities generated through the survey. Using these savings figures, Input-Output tables were used to find the potential effect on the economy of each reform in terms of output and employment. See Appendix 2 for further information on the Input-Output tables methodology.

An estimate for the potential re-allocation of resources to WA by interstate businesses has been calculated using the CCIWA survey results regarding business' likelihood to invest in other states motivated by a payroll tax reduction and a comparison of each scenario's effective tax burden compared to other states and territories. This investment has been used to determine the level of employment supported by the re-allocation of wages into WA by interstate businesses. See Appendix 3 for an explanation of the method used.

Estimates for the level of investment from outside Australia in each scenario have been calculated using observations on the effect of taxation on foreign direct investment.[32] By weighting corporate income tax and foreign direct investment levels in Australia by Western Australia's contribution to GDP, the dollar savings amount in payroll tax was translated into an equivalent change in corporate tax to measure the effect on foreign direct investment. See Appendix 4 for an understanding of the method used and discussion of short-term effect. The impact on state government revenue has been estimated at a high level using the reduction in payroll tax paid by businesses to estimate the tax revenue foregone in each scenario.

Using these outputs, a net benefit estimate has been calculated for the economic impact and employment effects against the foregone tax revenue.

6.3 Scenario Results

There are 11,479 businesses in the data set paying between $1 million and $7.5 million in wages who would benefit in the form of reduction in payroll tax payable. This does not account for businesses who are currently below the exemption threshold who may be motivated to expand past the minimum threshold were the tax burden lessened.

WA Business Impact

Approximately 44% of saved funds would go towards increasing employment, either by extending hours for existing employees or hiring of additional workers. A reduction of payroll tax would support between 338 to 1,666 FTEs directly and 1,051 to 5,183 FTEs overall on an annual basis.

The economic benefit generated by a reduction in payroll tax is quantified using firm's propensities to save, invest or increase employment. The direct benefit comprises the value of savings, investment in R&D and the impact of increased production through

31 Department of Finance. Question On Notice No. 1498 asked in the Legislative Council on 8 August 2023 by Hon Dr Steve Thomas. Available from: https://www.parliament.wa.gov.au/parliament/pquest.nsf/viewLAPQuestByDate/8C2E249EA4BFA2A848258A050021DDEE?opendocument

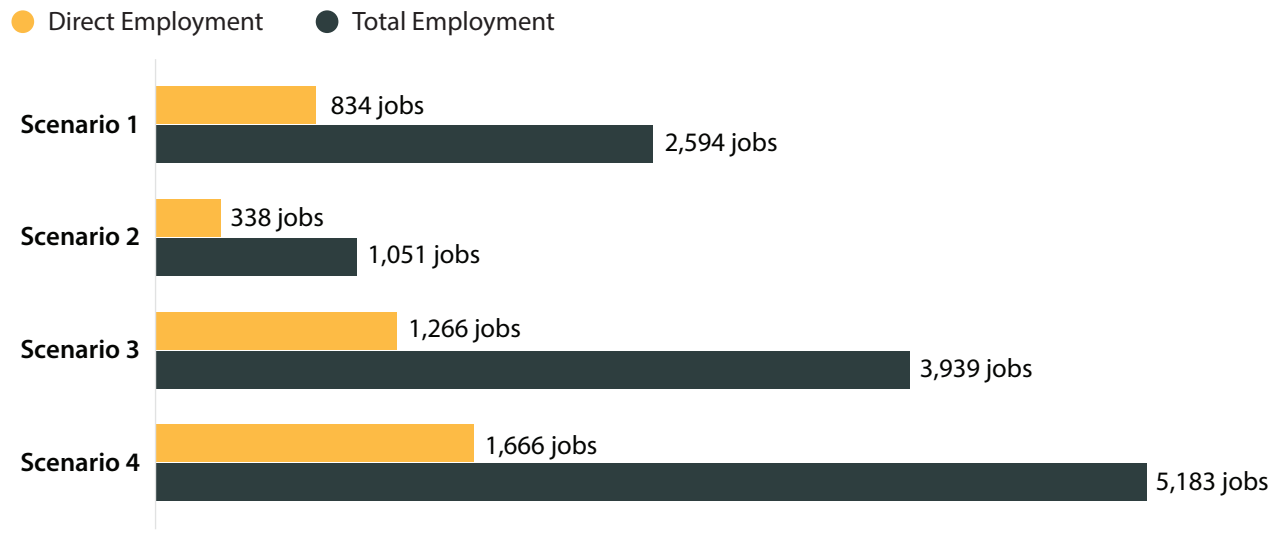
32 Abdioğlu, N., Biniş, M., & Arslan, M. (2016). The effect of corporate tax rate on foreign direct investment: A panel study for OECD countries. Available from: https://dergipark.org.tr/en/download/article-file/561136

direct employment. The total benefit includes the multiplied employment impact.

Using the input-output tables methodology, the total economic benefit for each scenario has been calculated, including direct and indirect benefits.

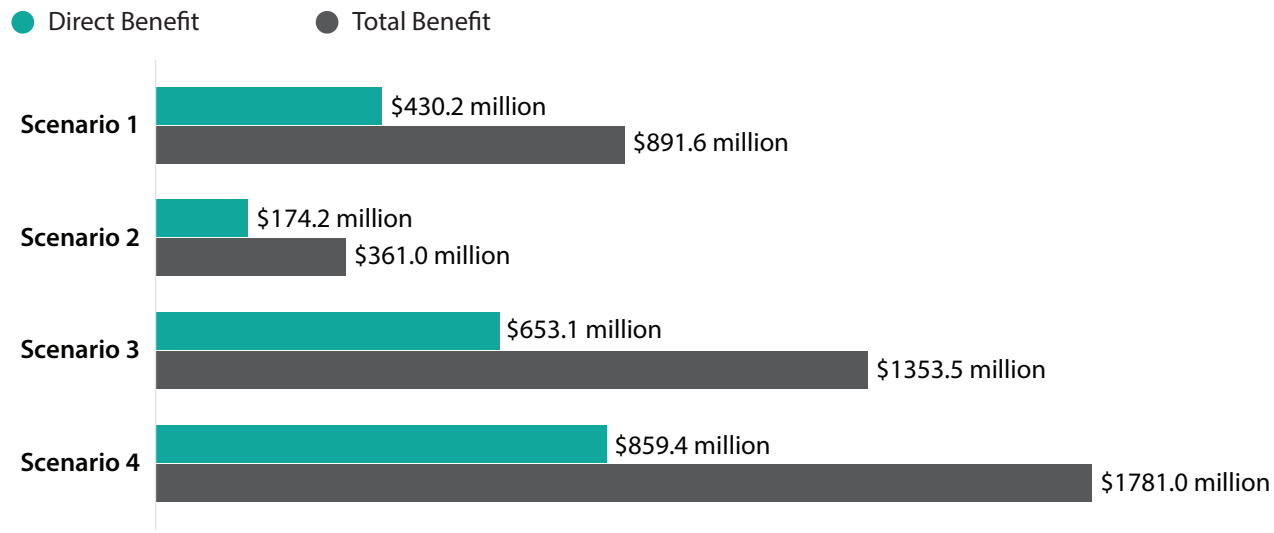
See Appendix 2 for a detailed summary of the Input-Output tables methodology. The direct economic benefit achieved by payroll tax reform ranges from between $174 million to $859 million annually.

Figure 16: Increased Employment



Source: Pracsys 2023

Figure 17: Economic Benefit



Source: Pracsys 2023

Investment Impact

The potential for inter-state investment motivated by a change in payroll tax ranges from $45 million to $221 million on an annual basis. This figure is based on 21-22 values, representing annual investment.

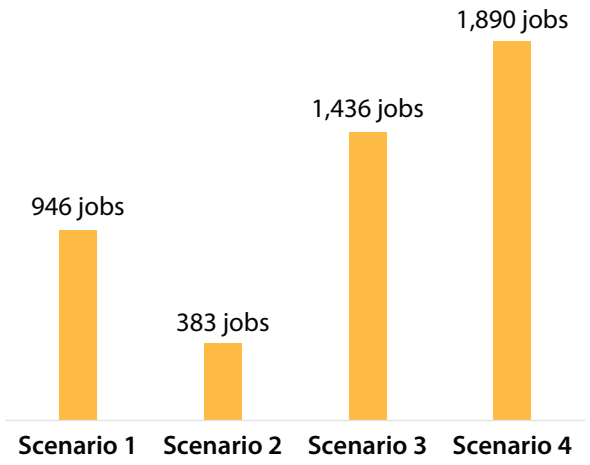
Figure 18: Potential Inter-State Investment

SCENARIO	POTENTIAL INTER-STATE INVESTMENT
1.	$110.8 million
2.	$44.8 million
3.	$168.2 million
4.	$221.4 million

Source: Pracsys 2023

This investment represents the re-allocation of wages into Western Australia, the employment supported by this investment ranges from 383 FTEs to 1,890 FTEs.

Figure 19: Employment supported by interstate investment



Source: Pracsys 2023

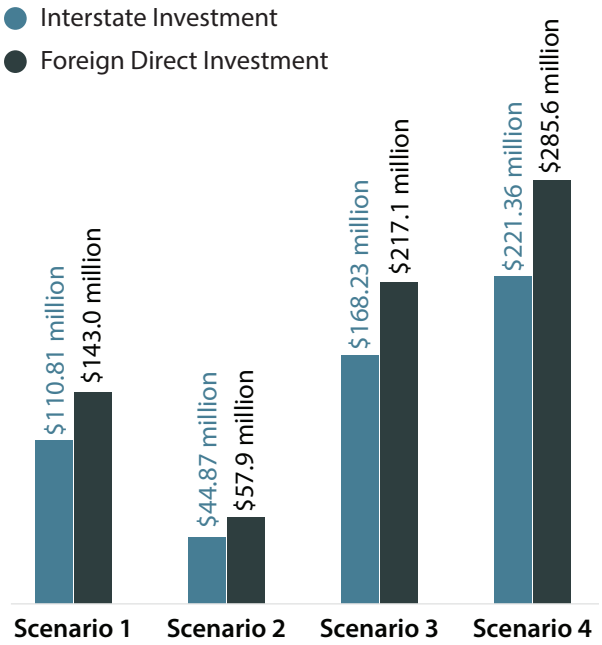
The level of foreign direct investment motivated by payroll tax reform is estimated to be between $58 million and $286 million. The potential investment calculated is based on 21-22 values and is a short-term effect motivated by the change in policy.

Figure 20: Potential Foreign Direct Investment

SCENARIO	POTENTIAL FOREIGN DIRECT INVESTMENT
1.	$143 million
2.	$57.9 million
3.	$217.1 million
4.	$285.6 million

Source: Pracsys 2023

Figure 21: Investment Impact

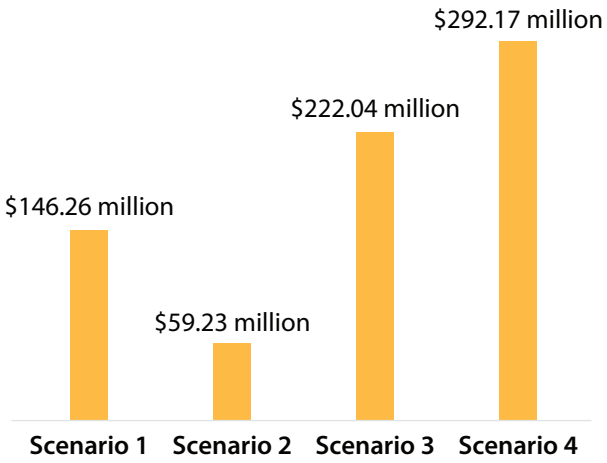


Source: Pracsys 2023

State Government Revenue

Each scenario results in a lowered tax revenue for the State government ranging from $59 million to $292 million.

Figure 22: Tax Revenue Foregone



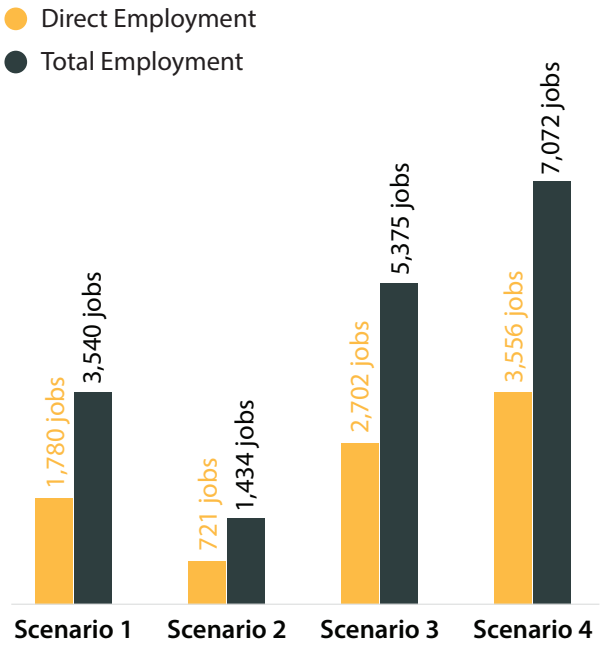
Source: Pracsys 2023

The change in revenue may be mitigated in part by the employment hiring response of businesses. Each scenario estimates an increase in employment resulting from the policy scenario, resulting in a higher level of taxable wages paid in total. Further savings would come in the form of a reduction in unemployment benefits payable.

Total Employment Supported

The direct employment supported by payroll tax reform ranges from between 721 FTEs and 3,556 FTEs and the total employment supported ranges from between 1,434 FTES and 7,072 FTEs.

Figure 23: Total Employment Supported by Payroll Tax Reform



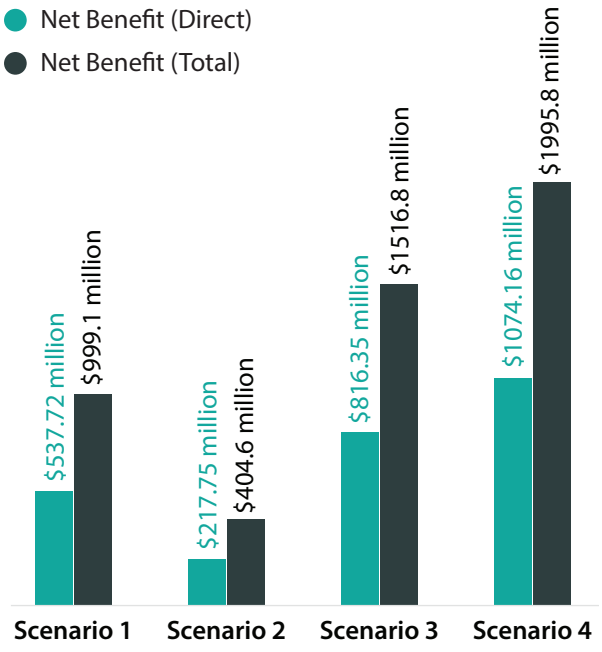
Source: Pracsys 2023

Net Benefit

The direct and total economic benefits of each scenario have been compared to the State government revenue foregone, to determine the net benefit for each scenario. The direct net benefit in each case is positive, indicating that the benefits generated outweigh the foregone revenue for the State government. The total net benefit includes the potential investment attracted from interstate and overseas that would be motivated by each policy scenario.

This analysis does not consider the benefits foregone by the reduction in spending by the state on government functions and services. It also does not calculate the additional payroll tax associated with additional employment that would reduce the total cost to government.

Figure 24: Net Benefit of scenarios



Source: Pracsys 2023

7.0 Conclusion

This study has assessed the potential economic impact of changes to Western Australia's payroll tax policy. Decreasing the payroll tax burden on firms in the state would release additional funds that would be re-invested in business, used to increase employment, and reduce debt.

The main findings of the study are as follows:

- WA businesses currently face the highest payroll tax burden in the country.
- Tax burdens have a significant impact on firm level decision making and the allocation of investment across states and from overseas, evident from both a review of the literature and a survey of businesses.
- In response to a potential reduction in payroll tax burden businesses are most likely to increase employment (marginal propensity of 44%) and re-invest back into business (marginal propensity of 37%).
- There is the potential for $44.9 million to $221.3 million in private investment from other states and territories and $57.9 to $285.6 million in foreign direct investment that could be motivated by a change in payroll tax policy.
- The net benefit of each policy reform analysed is positive, meaning that the potential economic benefit of a payroll tax reduction in each case outweighs the cost of revenue foregone by the State government. The direct net benefit ranges between $217.8 million and $1.07 billion
- The direct employment supported by a payroll tax reform ranges between 721 and 3,556 full-time equivalent employment opportunities, the total employment supported ranges between 1,434 and 7,072 full-time equivalent employment opportunities.

The significant economic benefit of a reduction in payroll tax is a vitally important finding, particularly in the context of the enormous amounts of investment needed for WA to take its opportunities in key areas such as clean energy and critical minerals. In the race to capitalise on changing global trends, every dollar of investment attracted into the state is crucial.

Findings are also critical in the context of high inflationary pressures on business inputs that are especially challenging for SMEs. The potential to stimulate increased investment through businesses that re-direct reduced payroll tax into business activities implies that a payroll tax reduction may have a counter-recessionary effect against the backdrop of rising interest rates in Australia, a potential further economic benefit from a policy change.

The estimated benefits associated with reducing the payroll tax burden on businesses outweigh the cost of the policy change in terms of State government revenue. Ensuring WA is competitive both globally and domestically is key to ensuring a strong and resilient WA economy. It is therefore recommended that a change in payroll tax should be implemented to reduce the burden on Western Australian businesses, stimulating increases in investment and employment.


OPEN

8.0 Appendix 1: Scenario Assumptions

Figure 25: Current Policy

COMPONENT	CURRENT	COMMENT
Annual Threshold	1,000,000	Wages payable exceeding this threshold are eligible for payroll tax
Upper Threshold	7,500,000	Firms above this threshold receive no deductable amount.
Tapering Value (TV)	0.15	The tapering value affects the rate at which the deductable amount diminishes to zero between $1m and $7.5m.
= Annual threshold / (Upper threshold – annual threshold)	5.50%	The rate of tax payable on eligible wages
Tax Rate	5.50%	The rate of tax payable on eligible wages
Deductable		= annual threshold – [(wages-annual threshold) x Tapering Value]

Source: Provided by CCIWA

Figure 26: Scenario 1, change in threshold

COMPONENT	ASSUMPTION	COMMENT
Lower Threshold	1,300,000	Wages payable exceeding this threshold are eligible for payroll tax. Modified in this scenario.
Upper Threshold	7,500,000	Firms above this threshold receive no deductable amount.
Tapering Value (TV)	0.21	The tapering value affects the rate at which the deductable amount diminishes to zero between $1.3m and $7.5m. Modified in this scenario.
= Annual threshold / (Upper threshold – annual threshold)	5.50%	The rate of tax payable on eligible wages
Tax Rate	5.50%	The rate of tax payable on eligible wages
Deductable		= annual threshold – [(wages-annual threshold) x Tapering Value]

Source: Provided by CCIWA

Figure 27: Scenario 2, change in rate

COMPONENT	ASSUMPTION	COMMENT
Lower Threshold	1,000,000	Wages payable exceeding this threshold are eligible for payroll tax
Upper Threshold	7,500,000	Firms above this threshold receive no deductable amount.
Tapering Value (TV)	0.15	The tapering value affects the rate at which the deductable amount diminishes to zero between $1m and $7.5m = Annual threshold / (Upper threshold – annual threshold)
Tax Rate (low)	5.00%	The rate of tax payable on wages payable below $7.5m
Tax rate (high)	5.50%	The rate of tax payable on wages payable above $7.5m
Deductable		= annual threshold – [(wages-annual threshold) x Tapering Value]
Within the model, businesses exceeding $7.5 million in wages have the 5.5% tax rate applied to their total wage bill. While this creates a theoretical discontinuity in the level of payroll tax paid for business moving across this threshold, a simple rate change is considered appropriate for this analysis.		

Source: Provided by CCIWA

Figure 28: Scenario 3, change in threshold & introduction of rebate (total wages)

COMPONENT	ASSUMPTION	COMMENT
Lower Threshold	$1,300,000	Wages payable exceeding this threshold are eligible for payroll tax. Modified in this scenario.
Upper Threshold	$7,500,000	Firms above this threshold receive no deductable amount.
Tapering Value (TV)	0.21	The tapering value affects the rate at which the deductable amount diminishes to zero between $1.3m and $7.5m. Modified in this scenario. = Annual threshold / (Upper threshold – annual threshold)
Tax Rate	5.50%	The rate of tax payable on eligible wages
Deductable		= annual threshold – [(wages-annual threshold) x Tapering Value]
Rebate rate	15.00%	Rebate on payroll tax payable. Applicable for all wages payable below $4m.
Rebate Taper Lower threshold	$4,000,000	Wages payable exceeding this threshold are eligible for a diminishing rebate.
Rebate Taper Upper Threshold	$7,500,000	Wages payable exceeding this threshold are not eligible for a rebate.
Rebate Tapering Value (RTV)	0.77	The Rebate Tapering Value affects the rate at which rebate value diminishes between $4m and $7.5m. = rebate at lower threshold /rebate at upper threshold – rebate at lower threshold
Tapered Rebate		= Rebate at lower threshold – [(Un-tapered rebate-rebate at lower threshold) x RTV]
Rebate at lower threshold	$26,946	= 15% of payroll tax payable on $4m of wages
Rebate at upper threshold	$61,875	= 15% of payroll tax payable on $7.5m of wages
Rebate eligibility		Rebate eligibility is assessed against the value of total wages and is applied only to payroll tax on WA wages payable.

Source: Provided by CCIWA

Figure 29: Scenario 4 Assumptions, change in threshold & introduction of rebate (WA wages)

COMPONENT	ASSUMPTION	COMMENT
Lower Threshold	$1,300,000	Wages payable exceeding this threshold are eligible for payroll tax. Modified in this scenario.
Upper Threshold	$7,500,000	Firms above this threshold receive no deductable amount.
Tapering Value (TV)	0.21	The tapering value affects the rate at which the deductable amount diminishes to zero between $1.3m and $7.5m. Modified in this scenario. = Annual threshold / (Upper threshold – annual threshold)
Tax Rate	5.50%	The rate of tax payable on eligible wages
Deductable		= annual threshold – [(wages-annual threshold) x Tapering Value]
Rebate rate	15.00%	Rebate on payroll tax payable. Applicable for all wages payable below $4m.
Rebate Taper Lower threshold	$4,000,000	Wages payable exceeding this threshold are eligible for a diminishing rebate.
Rebate Taper Upper Threshold	$7,500,000	Wages payable exceeding this threshold are not eligible for a rebate.
Rebate Tapering Value (RTV)	0.77	The Rebate Tapering Value affects the rate at which rebate value diminishes between $4m and $7.5m. = rebate at lower threshold /rebate at upper threshold – rebate at lower threshold
Tapered Rebate		= Rebate at lower threshold – [(Un-tapered rebate-rebate at lower threshold) x RTV]
Rebate at lower threshold	$26,946	= 15% of payroll tax payable on $4m of wages
Rebate at upper threshold	$61,875	= 15% of payroll tax payable on $7.5m of wages
Rebate eligibility		Rebate eligibility is assessed against the value of WA wages and is applied only to payroll tax on WA wages payable.

Source: Provided by CCIWA

Application of Rebate Tapering in Scenario 4

Scenario 4 uses WA wages payable to estimate the diminishing effect of the rebate between wages payable of $4m and $7.5m. Larger businesses pay only a portion of their total wages in WA, meaning some large businesses would be eligible for a rebate on their WA wages, and have the diminishing effect applied. The following solution was used to determine how the taper would apply to large businesses in this scenario.

The data used gives payroll tax paid and number of businesses in WA by brackets according to wages payable for Australia. This results in the average wages payable by businesses in WA being less than what would be expected based on the identified bracket.

E.g., the 3.5m to 4m size bracket paid an average amount of payroll tax of $75,797, backwards calculating this we would expect ~$175,500 to be tax payable on the bracket average $3.75m wages payable.

An estimate of businesses by the wages payable bracket in WA is required to estimate the reduction in payroll tax for Scenario 4.

The brackets where the diminishing effect of the rebate applies contain firms paying between $10m to $100m in total Australia wages. These brackets are broad, ranging from $10 to $50 million and $50 to $100 million, and contain a large proportion of businesses.

It was necessary to estimate how many firms within the brackets would be eligible for rebates and multiply these by an approximate rebate amount to determine a total rebate value for each bracket, splitting the diminished group into quarters to capture the tapering effect.

The process to determine the distribution of firms is as follows (see Figure 30 for a worked example):

- Set the upper and lower boundary of the bracket equal to the amount of WA wages payable at the minimum and maximum wages payable for the bracket, based on the % of wages paid by the bracket overall in WA.
    - E.g. for the 10m to 50m bracket we estimate 14% of wages are paid in WA, the upper and lower bounds become $1.35m to $6.76m
- Using the average payroll tax paid by the bracket, assume 50% of firms fall above the average and 50% below.
- Take the 4m and 7.5m diminishing rebate boundary as a % of the average to sort firms below, within and above the boundary.
    - For the 10m-50m bracket 1904 firms are below 4m and 1955 above.
- For firms below the boundary, calculate 15% rebate on the wages payable at the midpoint between 4m and the bracket minimum. Multiply this rebate by the number of firms below 4m.
- For firms within the boundary:
    - Split the firms into quarters.
    - Calculate a diminished rebate based on the mid-point wages payable for each quarter (see table below), multiply each of these rebates by ¼ the number of firms within the boundary.
    - Sum these amounts to get an estimate of the value of the total rebate received by this bracket, minus this amount from the total tax payable for the bracket.

Figure 30: Rebate Assumption worked example

WAGES PAYABLE BRACKET EFFECTIVE WA BRACKET	FIRMS BELOW $4M	FIRMS BETWEEN $4M AND $7.5M		FIRMS ABOVE $7.5M	TOTAL NUMBER OF FIRMS	TOTAL VALUE OF REBATE	VALUE OF TAPERING
		WAGES PAYABLE PER QUARTER	NUMBER OF BUSINESSES PER QUARTER				
10m to 50m WA: $1.351m to $6.757m	1904	Q1: 4.34m	489	0	3859	$58 million	$31.9 million
		Q2: 5.03m	489				
		Q3: 5.72m	489				
		Q4: 6.41m	489				
50m to 100m WA: $5.11m to $10.22m	0	Q1: 5.41m	120	503	984	$4.4 million	$4.4 million
		Q2: 6.01m	120				
		Q3: 6.61m	120				
		Q4: 7.20m	120				

Source: Pracsys 2023

The result of this process is a total rebate of $58 million for the 10m to 50m bracket and $4.4 million for the $50m to $100m bracket. The tapering has a total effect of $36.4 million in this scenario.

9.0 Appendix 2: Input Output Tables Methodology

Input-Output Tables Methodology

Input-Output tables provide information about supply and disposition of commodities in the Australian economy as well as the structure and inter-relationships between industries.[33] The National Input-Output tables were used to derive input-output multipliers. The multipliers predict the total impact on all industries of changes in the demand for output of any one industry. Total impact multipliers were calculated for employment, gross value added and output. The obtained multipliers were then combined with expenditure data to estimate the direct and indirect economic effect of the projects on the economy.

Assumptions and Limitations

The following assumptions and limitations apply to the model:

- Results of the model represent the gross impacts in the absence of capacity constraints.
- National Input-Output table approximates the actual patterns of linkages between industries in the regional economy.
- Analysis assumes that the industrial structure of the economy is fixed.
- Estimates the employment impact based on the average output per Full Time Equivalent (FTE) employee. It is likely a significant component of the impact will result in an increase in the number of hours worked by existing employees, with some additional employment created.

33 ABS, 1995, Introduction to Input-Output Multipliers. Available from: https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5246.01989-90

10.0 Appendix 3: Re-allocation of Wages Across States

This benefit models the effect of businesses re-allocating their investment into employment between states in Australia based on a change in payroll tax that leads to an overall reduction in tax burden. Ohm (2018)[34] observed that businesses re-allocated capital investment across states where depreciation changes led to an overall reduction in tax burden; this was used for a proxy for the effect of a reduction in tax burden due to a payroll tax reduction.

A separate CoreData survey of businesses survey found that payroll tax accounted for 10% of non-WA business' decisions when considering interstate investment.

To compare the tax environment across states, payroll tax in combination with land tax and stamp duty (other taxes levied at the state level) has been used to determine whether each scenario would have an overall effect on tax burden. To assess this state tax burden, stamp duty and land tax were calculated for each state across a range of asset values to determine which states had either a higher, comparable, or lower tax burden than WA at the state level, excluding payroll tax. Figure 31 shows a high-level comparison of stamp and land duty in other states compared to WA.

Figure 31: Comparison of other state taxes relative to WA

LAND TAX \ STAMP DUTY	Higher	Comparable	Lower
Higher	VIC, SA	QLD	
Comparable	TAS, NT		ACT
Lower		NSW	

Source: Pracsys 2023

To keep the estimate conservative, states which have a generally lower land tax and stamp duty than WA have been excluded. Using this method, New South Wales and Australian Capital Territory were excluded from the interstate investment calculation.

Using the data on payroll tax in WA, a figure for wages paid in WA by interstate firms was derived, by using the sum of wages for brackets where the proportion of total wages paid in WA was less than 50%.

This assumption was used on the logic that a firm paying less than half of its payroll in WA was more likely to be headquartered in another state. These wages that are paid into WA by businesses headquartered elsewhere has been used as a proxy for investment into WA from other states.

This figure was then weighted by the proportion of total Australian wages paid by all states other than WA, NSW and ACT (53%) to estimate the proportion of interstate wages paid into WA by firms that may be motivated to increase or re-allocate investment by a payroll tax reduction.

34 Ohrn, E. (2018). The Effect of Tax Incentives on U.S. Manufacturing: Evidence from State Accelerated Depreciation Policies. Available from: https://ericohrn.sites.grinnell.edu/files/State_Bonus/State_Bonus_1_2018.pdf

The potential increase in investment was then assessed by applying the following assumptions:

- Contribution of payroll tax to Investment Decisions: 10%. CCIWA's CoreData survey of business decision making found that payroll tax accounts for 10% of interstate investment decisions.
- Increase in Probability of Investing in Another State Due to a Change in payroll tax: 25% the weighted average propensity to invest interstate found in the CCIWA survey of WA businesses.
- Businesses Considering Investing in Another State: 41%, the proportion of WA businesses who would consider investing in another state, also from the CCIWA survey.

This number is then divided by $10,000 accounting for the survey question format[35], resulting in a value of $7,600 for investment motivated by a $10,000 reduction in payroll tax.

The payroll tax savings for each scenario were then divided into ten-thousandths and multiplied by this figure to determine the amount of interstate investment motivated by each policy change.

Figure 32: Potential Inter-State Investment

SCENARIO	POTENTIAL INTER-STATE INVESTMENT
1.	$110.8 million
2.	$44.8 million
3.	$168.2 million
4.	$221.4 million

Source: Pracsys 2023

The employment supported in each scenario by inter-state investment was calculated using the median compensation per worker based on the input-output tables, adjusted to 2022 values using the wage price index[36].

35 "How would a $10,000 reduction in payroll taxes affect your decision to invest in another State, assuming all other States charge the same payroll tax? (please indicate a percentage increase in the likelihood of investing)"

36 https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/wage-price-index-australia/latest-release

11.0 Appendix 4: Foreign Direct Investment Calculation

The OECD study found that for every 1% change in corporate tax as a proportion of GDP, there was a 0.5% change in Foreign Direct Investment as a proportion of GDP[37].

To mimic this result, ABS figures for foreign direct investment into Australia in 21-22[38], corporate tax in Australia[39] and the WA Gross State Product[40] were used to find the FDI motivated by each policy change.

17.5%, the proportion of Australia's GDP contributed by Western Australia, was used to adjust the corporate tax and FDI figures to a value for WA. These figures were then calculated as a proportion of WA's GSP, 48% for FDI and 7% for Corporate Income Tax (CIT).

The change in payroll tax for each scenario was then subtracted from WA CIT and this lower CIT figured used to find a the % change in CIT/GSP. This % change is then halved, and applied to the figure for FDI/GSP, to find the effect of the 0.5:1 ratio observed in the study. This change is then multiplied by GSP to determine the value for FDI motivated by each scenario.

Figure 33: Potential Foreign Direct Investment

SCENARIO	POTENTIAL FOREIGN DIRECT INVESTMENT
1.	$143 million
2.	$57.9 million
3.	$217.1 million
4.	$285.6 million

Source: Pracsys 2023

It is notable that the effect of taxation on FDI in the study was observed in the short run only. In the long run, higher levels of corporate taxation are positively correlated with FDI. This is explained by the understanding that a stable and robust taxation system is an indicator for investors of a stable business environment. The interpretation of this is that an increase in FDI can be motivated by a change in policy, but it cannot be expected that FDI will continue to grow in the long run due to a reduction in tax alone.

37 Abdioğlu, N., Biniş, M., & Arslan, M. (2016). The effect of corporate tax rate on foreign direct investment: A panel study for OECD countries. Available from: https://dergipark.org.tr/en/download/article-file/561136

38 https://www.abs.gov.au/statistics/economy/international-trade/international-investment-position-australia-supplementary-statistics/latest-release

39 https://www.abs.gov.au/statistics/economy/government/taxation-revenue-australia/latest-release

40 https://www.wa.gov.au/system/files/2023-11/waeconomicprofileoctober2023.docx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