



Queensland Government
Treasury

Queensland Treasury Response to
Commonwealth Grants Commission
Position Paper 2008/11

Miscellaneous Revenue

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SUMMARY OF QUEENSLAND'S POSITION

Queensland recognises the need for a category comprising the minor revenues and believes that aggregation of these revenues should, for the most part, be a presentational exercise. However, the proposal to include fire services levies in the category results in a significant change to the assessment.

The Commission proposes assessing the entire category on an equal per capita (EPC) basis reflecting the current treatment for some components of the category, and that states are unlikely to face disabilities in raising these revenues. While Queensland accepts that the majority of the revenues included in the Miscellaneous Revenue category should be treated on an EPC basis, Queensland believes there is a case for the fire services levy component to be assessed on a differential basis.

Queensland considers that fire services levies should not be assessed on an equal per capita (EPC) basis. States have different capacities to raise the fire service levy, which ought to be accounted for in a differential assessment. Queensland proposes a number of alternative approaches for assessing these levies differentially.

States have different capacities to raise revenue from gambling, although Queensland recognises the difficulty in unravelling policy differences and finding an underlying cause for the differences in gambling revenue. Queensland proposed an alternative methodology as part of the 2010 Review process although the Commission considered it unsuitable.

Queensland believes that an EPC treatment is appropriate for the remainder of the revenues, income earnings on interest and user charges that will comprise this category.

Key Issues

- the Miscellaneous Revenue category to be assessed on an EPC basis; and
- the Fire Services Levy to be assessed as a differential component in the Insurance Tax category by simply adding the for fire services levies raised on a land value basis, to the Insurance revenue base.

METHODOLOGICAL ISSUES

The Commission intends to have a miscellaneous revenue category comprising revenues that will be assessed on an equal per capita basis and to include the following revenues in the category:

- minor revenues;
- revenues collected in a minority of States; and
- revenues for which a reliable and material assessment cannot be developed.

It has been concluded the following revenues satisfy those criteria:

- property titles user charges;
- fees and fines;
- public safety user charges (including fire and emergency services levies);
- user charges — other than those associated with functions usually performed by public trading enterprises (PTEs);

- business taxes that are to be abolished under the Inter Governmental Agreement;
- gambling revenue;
- contributions by trading enterprises; and
- net interest and dividend income.

Assessment Structure and Data

Queensland supports the Commission's proposal to include a miscellaneous category comprising minor revenues in the 2010 Review and assess it on an EPC basis. The inclusion of minor revenues, user charges and revenues levied by minority of states is appropriate.

However, Queensland believes that the proposal to include fire services levies in this category, and assess it EPC, will not address disabilities and the differing capacities to raise revenue between States. Several reliable and material assessments can be devised for the differential assessment of fire services levy revenue.

Fire Services Levy

In the Commission's position paper *2008/11 Miscellaneous Revenue* the Commission states that the most appropriate measure of fire services levy would be unimproved land values but that no such measure is available. Queensland believes that although a direct measure may not exist, there are numerous proxy measures available to create a robust, simple and transparent assessment of the fire services levy.

The Commission has previously accepted the case for differential assessment of fire services levy on the basis that states have significant differences in their capacities to raise revenue from this source. Queensland considers that this conceptual case is still valid and that to assess these revenues as EPC will ignore material differences and produces an assessment that will not reflect 'what states do'.

Queensland believes that the Commission should assess the fire services levy differentially in either of the Insurance, Land tax or Miscellaneous categories. Queensland proposes that on the basis of simplicity that the Insurance Tax option is the most appropriate, but will outline all options below.

Insurance Tax assessment category

Queensland believes that the simplest method would be to add the revenue raised from FSL from states data requests to the revenue base for Insurance revenue. A single Insurance Tax assessment could then be made that included the impact of FSL. This would simplify the assessment as the FSL would not need to be removed from the Insurance base for those states that raise it from insurance.

An alternative approach would be to use the current data source (premium revenue for fire and industrial special risk and house owners/householders insurance) as this represents the most comparable measure of capacity to raise these revenues. These premiums could be used to develop a separate factor for a FSL component within the Insurance tax assessment. These approaches are both simple, transparent and reflect states circumstances in raising FSL.

Land Tax assessment category

Queensland believes that the FSL can also be simply assessed in the land tax assessment by adding the revenue raised from the levy to the land tax revenue to determine the assessment category average revenue. Fire services levy data is currently collected in the annual actual revenue data request. There would be no need to alter any other aspect of the methodology for the land tax assessment – with the site values used as a proxy for unimproved land values.

Miscellaneous Revenue assessment category

If the previous options are not deemed suitable, FSL should be assessed as a component of the Miscellaneous Revenue category, with the remainder of the category to be assessed EPC. It could be argued that assessing this component separately adds complexity but other proposed methods for assessment categories treat some components as EPC while other components are assessed differentially. More importantly, a two component Miscellaneous Revenue assessment will improve the overall assessment outcome by better reflecting ‘what states do’ and addressing a material revenue raising difference between states.

Queensland believes that there are several options for developing a differential assessment of fire services levies as a component within the Miscellaneous Revenue assessment, including the use of:

1. premium revenue for fire and industrial special risk and house owners/householders insurance;
2. general insurance factor from the Insurance Tax assessment; or the
3. land value data from the land tax assessment

1. Premium Revenue

The 2004 Review methodology for public safety user charges uses premium revenue for fire and industrial special risk and house owners/householders insurance from Australian Prudential Regulation Authority (APRA) as a measure of states’ capacity to raise revenue from fire services levies.

These types of premiums are, for the most part, to insure the value of land and associated structures, and present the Commission with an appropriate measure. This data is comparable across states and Queensland believes this is the most suitable proxy measure for fire services levy revenue as a component of the miscellaneous revenue assessment.

Queensland believes that if the Commission decides to differentially assess a fire services levy component in the miscellaneous revenue category, that premium revenue data from APRA should be used as a broad indicator.

2. General Insurance Tax Factor

If premium data is not considered appropriate, the Commission could simply apply the general insurance factor derived in the insurance tax assessment to a fire services levy component in the miscellaneous revenue assessment.

3. Land Data

If premium data or the general insurance tax factor approaches are not considered appropriate, the Commission can explore whether land value data is a reasonable proxy for fire services levies.

A simple option to develop a differential assessment of FSL could be to apply the category factors derived from the land tax assessment to the standard revenue from fire services levies to determine the relative revenue raising capacities of states.

An alternative option is to use the land value data, without the value distribution adjustment as a more accurate proxy, to create factors for the differential assessment of fire services levy revenue in the miscellaneous revenue assessment.

Gambling Revenue

Queensland has demonstrated to the Commission that there is a conceptual case for a differential assessment for the relative capacities of states to raise revenue from gambling taxation. Queensland has provided expenditure and turnover data compiled by the Queensland Office of Economic and Statistical Research's *Australian Gambling Statistics* to support the case.

Queensland doubts that differences of the magnitude observed can be solely or even mainly the result of policy differences between the States. Further, the Commission's paper 2007-03 *Proposed Methods for Revenue Assessments* outlined that gambling revenue met the \$50 per capita activity materiality threshold.

However, in spite of the conceptual case, supporting evidence and materiality, the Commission has not progressed a differential assessment of Gambling Revenue. Queensland has provided an alternative methodology which has not been progressed by the Commission and it is unclear whether any other options have been explored.

Queensland is willing to assist the Commission in developing an appropriate, reliable and robust methodology, as this will undoubtedly improve the equalisation outcome by appropriately recognising the differing abilities of states to raise this type of revenue.

CONCLUSION

Queensland believes that the Commission's proposal to assess a category with minor revenues as EPC is an appropriate method for assessing most of revenue allocated to the miscellaneous revenue category, with the exception of fire services levy.

Queensland considers that the fire services levy should be assessed differentially with the simplest approach to assess fire services levy with the insurance tax category. Alternatively, Queensland believes it could also be assessed in the land tax assessment category, or as a component within the miscellaneous revenue category.

Queensland believes that the Commission should continue developing a methodology to differentially assess gambling revenue. Queensland has provided an alternative approach and believes that the differences in revenue raising capacity are too great to be assessed on an EPC basis.