

CHAPTER 9

OTHER REVENUE

WHAT IS INCLUDED IN THE OTHER REVENUE CATEGORY?

- 1 Other revenue is a residual revenue category, comprising revenues which the Commission has decided should not influence States' GST shares. These are:
 - revenues for which a reliable and material assessment could not be developed;
 - revenues collected from taxes that are not part of the average revenue raising policies, such as the taxes on business that are being phased out but which remain in some States; and
 - a balancing item to ensure the total revenues included in the Commission's assessments equal those in the ABS government finance statistics (GFS).
- 2 The revenue sources included in the Other revenue category are:
 - business taxes that are to be abolished under the Intergovernmental Agreement;
 - gambling revenue;
 - fees and fines;
 - user charges (such as property titles user charges and public safety user charges) but not those associated with admitted patients, housing and functions usually performed by public trading enterprises;
 - contributions by trading enterprises; and
 - interest and dividend income.
- 3 The Commission assesses these revenues on an equal per capita basis (EPC) — that is, each State is treated as if it could raise the average per capita amount of these revenues. An EPC assessment has no impact on State relativities.
- 4 In the ACT's case, Other revenue also includes revenue from municipal rates because the ABS GFS data combine its State and municipal transactions.

- 5 There is a wide variation in the importance of Other revenue as a revenue source between the States (see Table 9-1). In 2008-09, Other revenue represented 43 per cent of total revenue (see Table 9-2).

Table 9-1 Other revenue, by State, 2008-09

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Category revenue (\$m)	9 054.2	10 260.4	9 386.3	2 538.1	3 330.7	977.8	1 288.4	493.3	37 329.2
Total (\$pc)	1 285.85	1 912.55	2 158.01	1 151.55	2 066.21	1 954.41	3 704.07	2 225.44	1 724.89
Proportion of State revenue (%)	36.7	50.1	46.7	23.4	52.5	58.9	65.0	46.7	42.8

Note: The ACT figure includes revenue from municipal rates.

Source: Commission calculation using State data and actual revenue data obtained from State Revenue Offices.

Table 9-2 Other revenue as a proportion of State own-source revenue

	2005-06	2006-07	2007-08	2008-09
Total for category (\$m)	38 422.0	41 720.1	38 781.9	37 329.2
Total own-source revenue (\$m)	78 043.0	86 408.3	87 598.6	87 173.8
Proportion of total own source revenue (%)	49.2	48.3	44.3	42.8

Source: Commission calculation using ABS GFS data and actual revenue data obtained from State Revenue Offices.

ASSESSMENT APPROACH

- 6 Under the 2010 Review assessment guidelines, a differential assessment is made if a conceptual case for the assessment exists, comparable and reliable data are available to support a reliable assessment method and the assessment would have a material effect on State GST requirements¹. As a consequence, all revenue sources that do not meet these guidelines should not be assessed differentially — that is, they would be assessed EPC and not affect the GST distribution.
- 7 This residual revenue category covers the revenues that are left after those which should be assessed differentially have been identified and classified to other categories.
- 8 The States have supported having a residual revenue category assessed EPC, although there were different views on what revenues the category should include. Some States argued gambling revenue, fire and emergency service levies and miscellaneous user charges should either be assessed as separate categories or as part of other categories.

Gambling taxation

- 9 Queensland, South Australia and Tasmania argued the Commission should make a differential assessment of gambling revenue because substantial revenues were collected (average revenue

¹ See *materiality test* in Commission terminology section in this volume.

was \$229 per capita in 2007-08 and was around eight per cent of State own-source revenue) and there were differences in the capacities of the States to collect them.

- 10 We have decided to assess gambling revenue EPC because neither we nor the States were able to develop a reliable assessment. We consider differences in State policies on regulatory and related matters affect the interstate comparability of ABS estimates of gambling expenditure in each State and those effects cannot be reliably removed. Nor is it possible to construct policy neutral proxies by reference to the underlying factors that drive gambling expenditure. While the literature indicates personal income is not a good guide to gambling expenditure, it provides limited guidance on which socio-economic and behavioural factors are relevant. In any case, growth in online gambling, which facilitates gambling by overseas or interstate residents, has been weakening the link between gambling expenditure by residents of a State and the revenue raised by that State².

Fire and emergency services levies

- 11 Queensland argued that revenue from fire and emergency services levies should be included in the insurance category because the levies were mainly imposed on insurance policies. However, in practice, States impose the levy in many different ways. Some impose it through insurance companies, local governments or land owners by reference to premiums for certain types of insurance, to capital value of the property, unimproved values or a flat amount per property. A few States also impose a levy on motor vehicles. This prevents a clear determination of the average policy and the underlying revenue base. In the absence of a reliable measure of the revenue base, the Commission has decided to assess fire and emergency services levies EPC and include them in the Other revenue category.

Miscellaneous user charges

- 12 South Australia, Tasmania and the Northern Territory argued there were differences across States in their capacity to raise revenue from miscellaneous user charges (which include all user charges except those for welfare housing, transport, electricity and gas, and water and sanitation services³). They suggested those capacities should be measured using broad indicators such as gross state product or household disposable income. The Commission has not made a differential assessment because the conceptual case is not sufficiently strong and the revenues raised from the individual user charges are small.

² In its *Draft Report on Gambling* (2009), the Productivity Commission said ‘the lower rate of taxation and more permissive regulatory regime in the Northern Territory dramatically increased the size of their wagering industry resulting in funding being diverted away from other States’ (pp. 13.14-15). Industry sources estimated that in 2008 \$987 million of turnover leaked from New South Wales to the Northern Territory and \$592 million from Victoria to Northern Territory.

³ These named user charges are offset against the relevant expenses because the capacity to collect the charges is driven by factors similar to those that affect the level of gross expenses.

Contributions by trading enterprises and interest and dividend income

- 13 The discussion on why revenues from these sources are assessed EPC is provided in this volume in Chapter 22, Net lending.

ASSESSMENT METHOD

- 14 Since the Other revenue category is assessed on an EPC basis, the revenue base is State populations, which is measured using ABS estimated resident population data. Table 9-3 shows the revenue base for 2008-09 and each State's share of it.

Table 9-3 Calculation of the revenue base and category factor, 2008-09

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Actual revenue (\$m)	9 054.2	10 260.4	9 386.3	2 538.1	3 330.7	977.8	1 288.4	493.3	37 329.2
Revenue base (million)	7.041	5.365	4.350	2.204	1.612	0.500	0.348	0.222	21.642
Average tax rate (\$pc)									1 724.89
Assessed revenue (\$m)	12 145.6	9 253.7	7 502.4	3 801.7	2 780.5	862.9	600.0	382.4	37 329.2
Assessed revenue per capita (\$pc)	1 724.89	1 724.89	1 724.89	1 724.89	1 724.89	1 724.89	1 724.89	1 724.89	1 724.89
Category factor	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000

Source: Commission calculation using ABS GFS data and actual revenue data obtained from State Revenue Offices.

- 15 Assessed revenues are calculated by applying a State's share of the total population to the total Other revenue.

WHAT IS THE IMPACT ON THE GST DISTRIBUTION?

- 16 The EPC assessment means this category does not have an impact on States' GST shares.
- 17 Table 9-4 provides a summary of the main reasons for changes in our recommendations since the 2009 Update.

Table 9-4 Changes since the 2009 Update, Other revenue

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Shortening the review period	24.6	18.1	-17.5	-20.7	-1.2	-2.0	0.6	-1.9	43.3
Method changes	61.3	-5.4	-49.9	49.9	-38.0	-21.2	9.0	-5.8	120.3
State circumstances	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	85.9	12.8	-67.3	29.2	-39.2	-23.1	9.5	-7.7	137.4

Source: Commission calculation.

- 18 The changes arise because some revenues and user charges that were previously assessed differentially (for example, gambling, property titles and fire and emergency services levies) are now assessed EPC.

UPDATE PROCESS

- 19 We consider it desirable for actual revenues and population data for the latest year to be updated each year.

SIMPLIFICATION

- 20 Overall, there are fewer revenue categories being assessed. A number of revenues and user charges that were previously assessed EPC separately have been brought together in this category. Some revenues that were previously assessed differentially, such as gambling and property titles revenue, are now included in this category and assessed EPC. An EPC assessment is the simplest form of assessment.

FURTHER INFORMATION

- 21 Background material in support of this assessment is published on the Commission's website. That material includes the following documents, released for comment in the development of this assessment, together with State submissions responding to those documents:
- Staff discussion paper *2006/07 Disaggregating revenue*;
 - Staff discussion paper *2007/03-S Proposed methods for Revenue assessments*;
 - Staff discussion paper *2007/06-S Assessing user charges*;
 - Commission position paper *2008/11 Miscellaneous revenue*; and
 - *2010 Review Draft Report*.