



COMMONWEALTH GRANTS COMMISSION

DRAFT ASSESSMENT PAPER CGC 2003/5

STAMP DUTIES ON SHARES AND MARKETABLE SECURITIES

Prepared for the Commission's 2003 Conferences on Draft Assessments

AUGUST 2003

NOTE

Included in this paper are the results of preliminary calculations based on the methods proposed throughout the paper and using the data currently available. Those results are indicative only and should be seen as work in progress. Ongoing changes are being made to standards and factor calculations as new data come to hand. Moreover, the calculations have been done using a prototype assessment system and are subject to ongoing revision as checking processes proceed.

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INTRODUCTION

1. This paper presents a draft assessment for the Stamp Duties on Shares and Marketable Securities category. Early in the review, this category was designated as a no change category and a discussion paper was not released for it. This paper responds to comments in State submissions and at the 2002 conferences.

1999 REVIEW ASSESSMENT METHOD

Description of the category

2. In the 1999 Review, this category covered net collections from stamp duty on transfers of shares and marketable securities.

Implications of tax reform

3. As part of the tax reforms associated with the introduction of the Goods and Service Tax (GST), the Australian and State Governments signed the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA)* in June 1999. Under the IGA, States agreed to abolish stamp duties on quoted marketable securities from 1 July 2001. Under the transitional arrangements of the IGA, update terms of reference since the 1999 Review have asked for two sets of relativities:

- (i) a set to distribute a combined pool of GST revenue and health care grants — hereafter called *the GST relativities*; and
- (ii) a set to distribute a combined pool of Financial Assistance Grants (FAG) and health care grants (based on the assumption of a continuation of the Australian—State Government financial arrangements that applied in 1999-2000) — hereafter called *the FAG relativities*.

4. For GST relativities, the category comprised stamp duty on unquoted transactions only, because States abolished stamp duties on quoted marketable securities from 1 July 2001. The Commission backcast the abolition of stamp duties on quoted marketable securities by excluding the revenue for years prior to 2001-02.

5. For FAG relativities, the category comprised stamp duty on quoted marketable securities and stamp duty on unquoted transactions. An estimate was made of the revenue that would have been raised from stamp duties on quoted marketable securities for 2001-02. So, the revenue standard for the FAG assessment was larger than the revenue standard for the GST assessment.

6. Table 1 shows the revenue standards for this category for both assessments. In 2001–02, stamp duties on shares and marketable securities totalled \$112.3 million (or \$5.73 per capita) for the GST relativities. This represented 0.29 per cent of State own-source revenue in the 2003 Update. For the FAG relativities, category revenues totalled \$787.3 million (or \$40.17 per capita). This represented 1.61 per cent of State own-source revenue in the 2003 Update.

Table 1 STANDARD REVENUES FOR STAMP DUTIES ON SHARES AND MARKETABLE SECURITIES

| | | 1997-98 | 1998-99 | 1999-2000 | 2000-01 | 2001-02 |
|----------------------------------|------|---------|---------|-----------|---------|---------|
| GST relativities | | | | | | |
| Standard revenue | \$pc | 4.55 | 4.16 | 5.76 | 7.61 | 5.73 |
| Percentage of own source revenue | % | 0.27 | 0.22 | 0.30 | 0.39 | 0.29 |
| FAG relativities | | | | | | |
| Standard revenue | \$pc | 29.23 | 35.06 | 44.59 | 47.88 | 40.17 |
| Percentage of own source revenue | % | 1.41 | 1.48 | 1.84 | 1.97 | 1.61 |

Source: 2003 Update Working Papers, Volume 2, pages 12, 21, 249 and 257.

The revenue base

7. The rates of duty imposed on transfers of shares and marketable securities are the same in all States. It follows that differences in per capita revenue collections reflect the underlying differences in revenue raising capacity. The assessment was made using the actual per capita method. However, there were some minor differences between States in the range of transactions subject to tax. Adjustments were made to remove the effects of differences in the scope of activities that were subject to duty. The adjustments were:

- **Capital reductions adjustment.** Capital reductions have been dutiable in Western Australia since November 1995 but were exempt in other jurisdictions. This adjustment removed revenue raised from capital reductions from Western Australia's revenue and, therefore, its revenue base. The data were sourced from Western Australia.
- **Share buy-back adjustment.** The share buy-back adjustment took account of differences in the policy on charging duty on share buy-backs. New South Wales and Victoria exempted share buy-backs, the other jurisdictions taxed them. The adjustment was made to ensure the assessments reflected the application of the same revenue raising policies in all States. It reduced the revenue bases of those States that tax share buy-backs by one per cent. A small adjustment was made because the evidence at the time was that basis that a majority of States were moving towards exempting share buy-backs.

Importance of the category

8. The importance of the Stamp Duties on Shares and Marketable Securities category differs between the GST and FAG assessments because of the abolition of stamp duties on quoted marketable securities. This difference reduced the category standard for the GST relativities and it also affected the revenue base assessment, because the disabilities associated with stamp duties on quoted marketable securities were different from those associated with unquoted transactions.

9. Table 2 shows the grant share effects of the assessment for both relativities. Compared with an equal per capita distribution, the GST assessment redistributed \$34.3 million and the FAG assessment redistributed \$246.9 million in the 2003 Update.

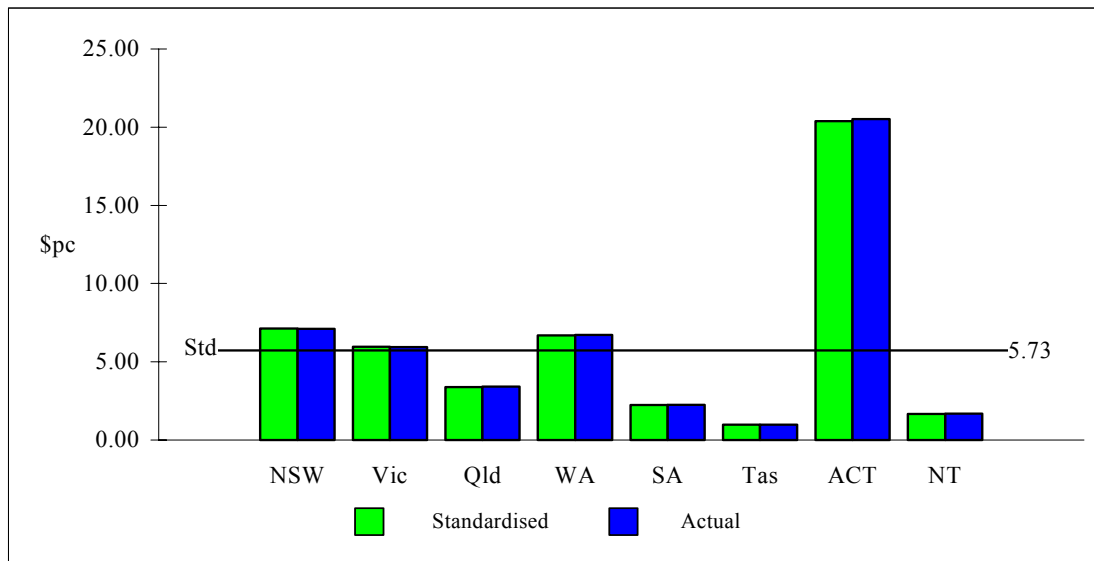
Table 2 GRANT DISTRIBUTIONS OF STAMP DUTIES ON SHARES AND MARKETABLE SECURITIES COMPARED WITH EPC DISTRIBUTION

| Change in grants | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total redistributed |
|------------------|--------|-------|-------|------|------|------|-------|-----|---------------------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| GST relativities | -23.5 | 11.7 | 12.2 | 3.2 | 3.8 | 2.5 | -10.7 | 0.9 | 34.3 |
| FAG relativities | -193.5 | -43.0 | 127.1 | 43.6 | 49.7 | 18.3 | -10.4 | 8.2 | 246.9 |

Source: 2003 Update Working Papers, Volume 2, page 106 and 285.

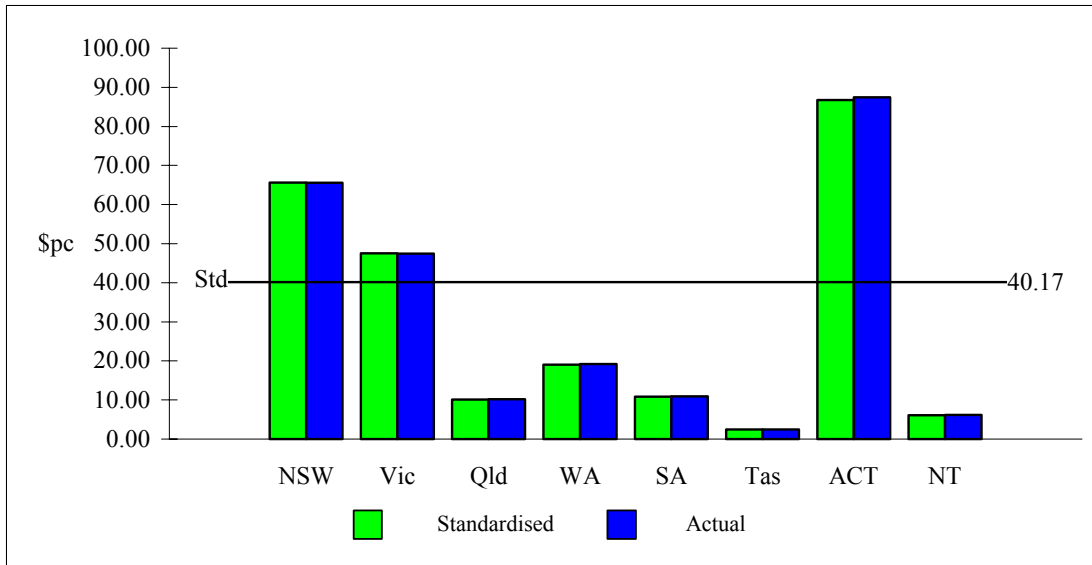
10. Figure 1 shows the assessment for Stamp Duties on Shares and Marketable Securities for the GST relativities for the 2003 Update.

Figure 1 STAMP DUTIES ON SHARES AND MARKETABLE SECURITIES: GST ASSESSMENT STANDARDISED, ACTUAL, AND STANDARD REVENUES PER CAPITA, 2001-02



11. Figure 2 shows the assessment for Stamp Duties on Shares and Marketable Securities for the FAG relativities for the 2003 Update.

Figure 2 STAMP DUTIES ON SHARES AND MARKETABLE SECURITIES: FAG ASSESSMENT STANDARDISED, ACTUAL, AND STANDARD REVENUES PER CAPITA, 2001-02



MAJOR DEVELOPMENTS SINCE THE 1999 REVIEW

12. The major developments have been:

- the introduction of the IGA and the agreement to abolish stamp duties on quoted marketable securities from 1 July 2001; and
- the decision by Victoria and Tasmania to abolish duty on unquoted marketable securities from 1 July 2002.

CATEGORY DEFINITION FOR THE 2004 REVIEW

13. No State commented on the category definition and the Commission has found no reason to change the definition. The category will continue to comprise net collections from stamp duty on transfers of shares and marketable securities.

ISSUES FOR THE 2004 REVIEW

Measure of the revenue base

14. **Preliminary State views.** Only *Tasmania* commented on this category and it supported a continuation of the current assessment method.

15. It said Victoria's decision to abolish stamp duty on unquoted transactions was a State policy decision and the Commission would have to estimate the revenue Victoria would have raised had it continued to tax unquoted transactions.

16. **Analysis and evaluation.** The decision by Victoria and Tasmania to abolish stamp duty on unquoted transactions requires the Commission to estimate the revenue they would have raised, in 2002-03 and subsequent years, had they continued to tax those transactions.

17. The Commission considers they can be estimated with acceptable confidence. It proposes to estimate them by assuming the past relationship between the revenue for these States and those for the other jurisdictions also applies into the future.

18. **Commission decision.** The Commission accepts that a conceptual case has been established for estimating revenues for abolished taxes. If the amounts were not estimated, equalisation would not be achieved because the assessments would not reflect the application of the standard revenue raising policy in every State. Therefore, the Commission has decided to:

- (i) estimate stamp duty on unquoted transactions revenue for Victoria and Tasmania for the years 2002-03 onwards.

Policy adjustments

19. **Preliminary staff proposal.** In *Discussion Paper CGC 2000/07 Simplicity*, Commission staff proposed to simplify the assessment by removing the two adjustments — the capital reductions adjustment and the share-buy back adjustment — because the impact they had on grant shares was not material.

20. Table 3 shows the effect of removing those adjustments for the 2003 Update.

Table 3 EFFECTS OF REMOVING POLICY ADJUSTMENTS, 2003 UPDATE

| Change in grants | NSW | Vic | Qld | WA | SA | Tas | ACT | NT redistributed | Total |
|------------------|-----|-----|------|------|------|-----|------|------------------|-------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| GST relativities | 0.2 | 0.1 | -0.1 | -0.1 | -0.1 | 0.0 | -0.1 | 0.0 | 0.3 |
| FAG relativities | 0.7 | 0.4 | -0.3 | -0.4 | -0.2 | 0.0 | -0.2 | 0.0 | 1.1 |

21. Capital reductions are still dutiable in Western Australia although Western Australia has not provided data on revenues raised since 1998-99. The revenues that it collected in prior years were small. Table 3 confirmed the impact of these revenues on grant shares was not material.

22. New South Wales and Victoria continue to exempt share buy-back transactions. Table 3 confirmed the impact of this adjustment on grant shares was not material.

23. **Commission decisions.** The Commission acknowledges a conceptual case for continuing to make the two policy adjustments. However, the evidence suggests that the impacts of the adjustments are not material. The Commission does not consider the additional complexity of assessing the adjustments is warranted and it does not propose to assess them in the 2004 Review. The Commission proposes to:

- (i) discontinue the capital reductions adjustment;
- (ii) discontinue the share buy-back adjustment; and
- (iii) assess the Stamp Duties on Shares and Marketable Securities category by the actual per capita method.

PROPOSED ASSESSMENT METHOD FOR THE 2004 REVIEW

Calculation of the revenue base

24. The assessment method for the 2004 Review is similar to that used in the 1999 Review. The revenue base will be actual revenues. In the 1999 Review two adjustments were applied to States actual revenues.

25. Table 4 shows the revenue base for both the FAG and GST assessments.

Table 4 REVENUE BASES, FAG AND GST ASSESSMENTS

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Aust |
|-----------------------|---------|---------|--------|--------|--------|-------|--------|-------|---------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| FAG assessment | | | | | | | | | |
| 1997-98 | 284.841 | 179.964 | 20.646 | 25.175 | 7.674 | 2.660 | 25.336 | 0.585 | 546.881 |
| 1998-99 | 395.000 | 183.800 | 22.620 | 24.900 | 14.729 | 0.660 | 19.907 | 0.213 | 661.829 |
| 1999-2000 | 483.000 | 256.470 | 31.600 | 42.200 | 14.979 | 3.297 | 20.151 | 0.217 | 851.914 |
| 2000-01 | 534.023 | 266.270 | 38.385 | 51.400 | 18.883 | 1.903 | 15.614 | 0.273 | 926.750 |
| 2001-02 | 435.302 | 230.569 | 37.400 | 36.800 | 16.624 | 1.165 | 28.220 | 1.235 | 787.315 |
| GST assessment | | | | | | | | | |
| 1997-98 | 34.026 | 14.178 | 4.499 | 6.805 | 3.935 | 0.334 | 20.565 | 0.548 | 84.890 |
| 1998-99 | 36.000 | 15.000 | 4.760 | 7.200 | 6.544 | 0.074 | 8.864 | 0.163 | 78.605 |
| 1999-2000 | 69.000 | 12.030 | 9.603 | 7.500 | 2.186 | 0.800 | 8.735 | 0.214 | 110.068 |
| 2000-01 | 94.023 | 12.120 | 17.164 | 4.400 | 9.240 | 0.654 | 9.451 | 0.218 | 147.270 |
| 2001-02 | 47.202 | 28.869 | 12.500 | 12.900 | 3.424 | 0.465 | 6.620 | 0.335 | 112.315 |

2004 REVIEW DRAFT CALCULATIONS***Grant share effects***

26. Table 5 shows the proposed GST assessment redistributes \$34.1 million compared with an equal per capita assessment. The proposed FAG assessment redistributes \$246.1 million compared with an equal per capita assessment. These levels of redistribution are similar to those in the 2003 Update; the small differences are due to the removal of the capital reductions adjustment and the share buy-back adjustment.

Table 5 EFFECTS OF PROPOSED ASSESSMENTS, 2003 UPDATE

| Change in grants | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total redistributed |
|------------------|--------|-------|-------|------|------|------|-------|-----|---------------------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| GST relativities | -23.3 | 11.8 | 12.1 | 3.1 | 3.8 | 2.5 | -10.8 | 0.9 | 34.1 |
| FAG relativities | -192.8 | -42.7 | 126.8 | 43.2 | 49.6 | 18.3 | -10.6 | 8.2 | 246.1 |

Revenue raising capacity ratios

27. Table 6 compares the revenue raising capacity ratios for 2001-02 for the 2003 Update with the 2004 Review draft assessments for both the FAG and GST relativities.

Table 6 REVENUE RAISING CAPACITY RATIOS, 2001-02

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Std |
|-----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | \$pc | \$pc | \$pc | \$pc | \$pc | \$pc | \$pc | \$pc | \$pc |
| FAG assessment | | | | | | | | | |
| 2003 Update | 1.6343 | 1.1840 | 0.2515 | 0.4735 | 0.2702 | 0.0608 | 2.1587 | 0.1525 | 1.0000 |
| 2004 Review draft | 1.6317 | 1.1822 | 0.2537 | 0.4778 | 0.2725 | 0.0613 | 2.1771 | 0.1538 | 1.0000 |
| GST assessment | | | | | | | | | |
| 2003 Update | 1.2443 | 1.0410 | 0.5902 | 1.1656 | 0.3908 | 0.1713 | 3.5568 | 0.2904 | 1.0000 |
| 2004 Review draft | 1.2403 | 1.0376 | 0.5943 | 1.1735 | 0.3934 | 0.1715 | 3.5801 | 0.2924 | 1.0000 |

Standardised revenue

28. Table 7 compares the assessments in per capita for 2001-02 for the 2003 Update with the 2004 Review draft assessments for both the FAG and GST relativities. It shows that the policy adjustments make minor differences to the assessments.

Table 7 STAMP DUTIES ON SHARES AND MARKETABLE SECURITIES ACTUAL AND STANDARDISED REVENUE, 2001-02

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Std |
|------------------------------|-------|-------|-------|-------|-------|------|-------|------|-------|
| | \$pc | \$pc | \$pc | \$pc | \$pc | \$pc | \$pc | \$pc | \$pc |
| FAG assessment | | | | | | | | | |
| (a) Actual revenue | | | | | | | | | |
| 2003 Update | 65.55 | 47.49 | 10.19 | 19.18 | 10.95 | 2.46 | 87.46 | 6.18 | 40.17 |
| 2004 Review draft assessment | 65.55 | 47.49 | 10.19 | 19.18 | 10.95 | 2.46 | 87.46 | 6.18 | 40.17 |
| (b) Standardised revenue | | | | | | | | | |
| 2003 Update | 65.65 | 47.56 | 10.10 | 19.02 | 10.85 | 2.44 | 87.72 | 6.12 | 40.17 |
| 2004 Review draft assessment | 65.55 | 47.49 | 10.19 | 19.18 | 10.95 | 2.46 | 87.46 | 6.18 | 40.17 |
| GST assessment | | | | | | | | | |
| (a) Actual revenue | | | | | | | | | |
| 2003 Update | 7.11 | 5.95 | 3.41 | 6.73 | 2.25 | 0.98 | 20.52 | 1.68 | 5.73 |
| 2004 Review draft assessment | 7.11 | 5.95 | 3.41 | 6.73 | 2.25 | 0.98 | 20.52 | 1.68 | 5.73 |
| (b) Standardised revenue | | | | | | | | | |
| 2003 Update | 7.13 | 5.97 | 3.38 | 6.68 | 2.24 | 0.98 | 20.38 | 1.66 | 5.73 |
| 2004 Review draft assessment | 7.11 | 5.95 | 3.41 | 6.73 | 2.25 | 0.98 | 20.52 | 1.68 | 5.73 |

Reality check

29. Standardised revenues will be the same as actual revenues.

Updateability

30. States provide actual revenue data on stamp duties from unquoted transactions for the assessment period. An estimate will have to be made for Victoria and Tasmania for 2002-03 onwards because these States no longer duty those transactions. The estimates will be made by assuming the past relationship between the revenue for these States and those for the other jurisdictions also applies into the future.

31. The FAG assessment requires an estimate of the revenue States would have raised had they continued to impose stamp duties on quoted transactions. These estimates are obtained from the Commonwealth Mid-year Economic and Fiscal Outlook.