

ATTACHMENT 1

REVENUE ASSESSMENTS

- 1 Revenue assessments aim to measure the revenue each State would raise if it applied the Australian average tax rates to its tax bases — that is, if it made the average effort to raise revenue.
 - **Tax bases** are generally measured using the value of transactions or goods in each State that would be taxed under the average tax policy. For example, the tax base for stamp duty on conveyances is the value of property sold and for mining revenue it is the value of mining production. A State has a revenue raising advantage if the per capita value of its tax base exceeds the national value. In that case, making the average tax effort will yield above average per capita revenue.
- 2 There are some cases where we assess the revenue capacity or costs of providing services to be the same in all States (we call this an equal per capita (EPC) assessment) because:
 - we consider all differences in revenues are due to differences in State policies — no State has a disability, or
 - there are disabilities but they cannot be adequately measured or we do not include them because they are not material.
- 3 The revenue bases we have used for each category and how we have measured them are summarised in Table 1. Details of each category assessment are provided in the following attachments.

Table 1 Measures of revenue bases

Revenue source	Tax base and source of data
Payroll tax	The value of payrolls in each State, excluding small employers, the general government sector of the Commonwealth, the States and local government and payrolls below the tax-free threshold. Measured using ABS data on compensation of employees, private sector wages and salaries and public sector wages and salaries.
Land tax	The value of commercial, industrial and residential land. Measured using Valuer General data on land values. The value of commercial, industrial and non-principal residential land, adjusted for the effects of tax free thresholds and progressive tax rates. Measured using State data on land values.
Stamp duty on conveyances	The value of property transferred, adjusted to reflect a common range of taxable transactions and the effects of progressive tax rates. Measured using State data on the value of property transferred. The value of vehicles sold. Measured using State data on the value of vehicles transferred.
Insurance taxes	Total premiums paid for general and compulsory third party insurance. Measured using Australian Prudential Regulation Authority data on premiums.
Motor vehicle registrations	The number of light and heavy vehicles registered. Measured using the ABS motor vehicle census.
Mining royalty revenue	Gross value of minerals produced in each State plus an adjustment for revenue received under revenue sharing arrangements with the Commonwealth. Measured using ABS and State data on value of mining production.
Other revenue	Population. All States were considered to be able to raise the average per capita revenue for this category.

A GLOBAL ASSESSMENT OF REVENUE

- 4 Some States said a single assessment of revenue would be preferable to the Commission's traditional tax by tax approach. They said a global assessment:
 - is simple
 - is less policy contaminated, because it is not tied to how States raise taxes
 - removes disincentives (to either tax reform or tax compliance) and grant design inefficiencies
 - captures the capacity of the community to pay taxes.
- 5 They suggested a range of global indicators, including EPC, household disposable income, and adjusted Gross State Product.
- 6 Our primary concern is that the indicators so far investigated produce a very different measure of States' revenue capacities. This means these indicators go too far beyond the legal basis of State taxes.

- 7 We have not adopted a global approach because:
- Equalisation is about the capacity of States to raise taxes rather than the capacity of communities to pay taxes.
 - States cannot tax global revenue bases in reality. Tax by tax assessments reflect how States actually raise revenue; they are more consistent with the ‘what States collectively do’ supporting principle.
 - Revenue raising disabilities differ for different taxes. Revenue bases that reflect legislative basis are better able to capture these differences than a global assessment.
 - There are data problems with global assessments; for instance, the identified potential indicators do not allow for differences in industry structure, income distribution, wealth or ability to export tax bases. A global measure implies the burden of the tax falls on the residents of the taxing State. However, if the burden falls on overseas residents or residents of another State, a global measure can understate the capacity of the taxing State.
- 8 The advantage of a tax by tax approach is its focus on the legislative bases available to States, it captures the activities States are legally empowered to tax and are actually taxing.

BROADER REVENUE ASSESSMENTS

- 9 Some States have suggested the Commission undertake a broader assessment of individual revenues. They said broader assessments focus on the activities States are legally empowered to tax but do so in ways that are:
- simple: they require much less data
 - less policy contaminated: they are not tied to the detail of how States raise taxes.
- 10 A broader assessment would focus on the potential revenue base available to States, rather than on how States tax that potential base. For example, it would ignore tax free thresholds, progressive rates of tax, and exemptions States may offer.
- 11 Our concern with broader revenue assessments is they can omit aspects of States’ tax policy that have a material impact on their GST distributions. Where intrinsic differences exist in the tax bases available to States and where States act on those differences (progressive rates of tax, for example), we believe we should examine them. Where we can measure aspects of State tax policy that are material and we can do so reliably and in a way that is not unduly complex, we think we should.
- 12 We propose to choose the broadest possible indicator that is consistent with what States collectively do. We will consider making adjustments where:
- the adjustment is consistent with what States collectively do

- it would produce a materially different GST distribution
- reliable data are available that would allow us to make the adjustment.

ADJUSTMENTS FOR ELASTICITY EFFECTS

- 13 The revenue methodology uses observed tax bases to measure the capacity of a State to raise revenue. We assume each State applies the average revenue policy, including the average taxation rates. Economic theory suggests that if States' actual tax rates differ from the average, that difference can affect the level of activity and therefore the observed size of States' tax bases. States imposing above average rates of tax would shrink their tax bases and vice versa.
- 14 Elasticity adjustments have been assessed in the past, but were discontinued in the 1999 Review because of concerns about our ability to reliably measure elasticity effects. Table 2 shows the history of elasticity adjustments.

Table 2 History of elasticity adjustments

Review	Petroleum	Tobacco	Mining
1985	-	Adjustment assessed for Queensland only	-
1988	-	Price elasticity of demand of -0.15 for all States	-
1993	Price elasticity of demand of -0.5 for all States	Price elasticity of demand of -0.15 for all States	Tax elasticity of supply of -3 for all States
1999	-	-	Tax elasticity of supply of -3 for all States

Source: Commonwealth Grants Commission, Reports on Research in Progress, 1996, Volume 2, page 283.

- 15 The GST Distribution Review said there may be merit in the Commission further investigating the impact of tax rates on the size of State tax bases.
- 16 The ACT suggested the Commission investigate incorporating tax elasticity effects into revenue assessments, to avoid penalising States that undertake tax reform. It believed elasticity effects could have significant impacts where tax reform shifted a State's revenue effort from taxes with high elasticity to those with low elasticity. In these circumstances, the net effect would be to increase the overall size of a State's tax base, and thus its assessed revenue raising capacity.
- 17 New South Wales suggested the Commission could incorporate tax elasticity effects for insurance using data from the Henry Review (Australia's Future Tax System), possibly combined with discounting. However, the Henry tax review does not contain the estimates of interstate relative elasticity we require. We do not think it is appropriate to discount in this situation. A discount would imply that States with

higher efforts are those with above average revenue bases. This is not always the case.

- 18 We have examined whether adjustments for elasticity effects can be reliably made and whether they are likely to produce materially different GST distributions. Our analysis suggests the adjustments would need to be large to be material, larger than those suggested in economic literature.
- 19 New South Wales suggested the Commission assess elasticity adjustments by judgment. Making an adjustment would be simple. We know which States are high taxing and which are low taxing, so we could make a conservative estimate for each individual tax base, moving its tax base in the appropriate direction. However, our concern is that the elasticity differs for different tax bases, and we have little information on that. For example, New South Wales has above average effort on Land tax, and below average effort on Stamp duty on conveyances. An elasticity adjustment would dampen their land tax base and expand their stamp duty base. However, we have no information on which of these adjustments should be larger. As such, we are concerned that we cannot reliably make an elasticity adjustment, even a conservative one. We have decided not to base elasticity adjustments on judgment, as in the absence of reliable data, our judgment would be to introduce small elasticity adjustments and they would fail our materiality threshold.
- 20 We have decided not to make adjustments for elasticity effects in the 2015 Review. We do not have reliable data available that would allow us to make an assessment of these effects that is material and reliable.
- 21 ***Other State impacts on revenue base.*** In addition to having variable tax rates, which affect the size of a revenue base, States have other differences in policies that may affect the size of their revenue base. States have raised this issue in the context of potential discounting of mining revenue, and we have considered the issue in Attachment 7. However, there is a broader question here.
- 22 In principle, we would prefer to measure the tax base that each State would have if it had the average industry policy, the average level of infrastructure for industry, the average tax rate etc. We consider that there are probably differences between States in these policies. However, we have no evidence on which States have more pro-development policies, and which have less pro-development policies. As such, we have not identified any method for removing the policy differences that exist in the revenue bases we measure. We do not consider that a discount is an appropriate response to this issue.

ATTACHMENT 2

PAYROLL TAX

Summary of changes since the 2010 Review

- There have been no changes to this assessment.

WHAT IS INCLUDED IN THE PAYROLL TAX CATEGORY?

- 1 Payroll tax is a broad based tax that is imposed on the wages and related benefits (remuneration) paid by employers. Taxable remuneration includes wages, salaries, allowances, commissions, bonuses, employer superannuation contributions, fringe benefits, the value of shares and options, payments to some contractors, payments by employment agencies arising from employment agency contracts, remuneration paid by a company to company directors, employment termination payments and accrued leave.
- 2 Table 1 shows States raised \$20.8 billion from payroll tax in 2012-13.

Table 1 Revenue from payroll tax, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Payroll tax	6 946	4 751	3 751	3 415	1 077	304	319	205	20 768

Source: ABS Government Finance Statistics (GFS) data and State data.

- 3 Table 2 shows payroll tax contributed around 19% of State own-source revenue in 2012-13.

Table 2 Payroll tax as a proportion of State own-source revenue

	2009-10	2010-11	2011-12	2012-13
Total for category (\$m)	16 795	17 986	19 779	20 768
Total own source revenue (\$m)	86 388	94 809	98 699	107 061
Proportion of total own source revenue (%)	19.4	19.0	20.0	19.4

Source: Commission calculation using ABS GFS data and State data.

How are revenues raised?

- 4 States signed a protocol in March 2007¹ to harmonise the scope of the tax. Since then they have harmonised in eight key areas² and six States have fully harmonised legislation. State tax rates and thresholds differ.
- 5 Employers are liable for payroll tax if their remuneration paid (in Australia) exceeds a general deduction threshold. Thus, the remuneration paid by small firms is exempt. Table 3 shows each State's tax rate and general deduction threshold for 2012-13.

Table 3 Legislated tax rates and general deduction thresholds as at 1 July 2012

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Tax rate (%)	5.45	4.90	4.75	5.50	4.95	6.10	6.85	5.50
Threshold (\$'000)	689	550	1 100	750	600	1 010	1 750	1 500

Source: New South Wales Treasury, *Interstate Comparison of Taxes 2012-13*.

- 6 States apply grouping provisions to prevent employers breaking up their operations into separate businesses to avoid, or reduce, payroll tax liability.
- 7 States offer exemptions. Some exemptions are common, such as the payrolls of non-profit charitable institutions and remuneration paid to employees on maternity leave or performing services overseas for a continuous period of more than six months. Some exemptions are offered by a majority of States, such as the remuneration paid to apprentices and trainees in approved non-profit group training schemes and remuneration paid by local governments. Some exemptions are offered by a minority of States. They can offer full or partial payroll tax rebates or concessions to employers in particular industries, or in relation to particular groups of employees. For example, three States offer a rebate to employers hiring new employees with a disability. South Australia offers a rebate for remuneration associated with the construction of renewable energy projects, and Queensland for remuneration associated with film and television production in the State.
- 8 While the Constitution prevents States from imposing payroll tax on Commonwealth general government sector employees, higher education institutions are liable. Similarly, under the 1995 Competition Principles Agreement between States and the Commonwealth, significant government business enterprises at all levels of government are liable.

¹ In a protocol signed in July 2010, States confirmed their continued commitment to legislative and administrative harmonisation.

² The eight key areas of harmonisation were: timing of lodgement and returns, motor vehicle allowances, accommodation allowances, a range of fringe benefits, work performed outside a jurisdiction, employee share acquisition schemes, superannuation contributions for non-working directors, and grouping of businesses.

ASSESSMENT APPROACH

Scope of the revenue base

- 9 We measure revenue capacity using ABS national accounts data on Compensation of Employees (CoE). CoE is a broad measure of the remuneration paid, covering wages, salaries, other cash benefits on behalf of employees (such as superannuation) and non-cash benefits.
- 10 We adjust CoE to reflect:
 - the reduced scope of the public sector
 - the average policy to exempt payrolls below an average threshold.
- 11 ***The reduced scope of the public sector.*** We exclude the remuneration of employees in the general government sectors.³ This means the scope of public sector remuneration is restricted to the remuneration paid to employees of public sector corporations and higher education institutions.⁴
- 12 States supported restricting the scope of public sector remuneration. This adjustment has a material impact on the GST distribution.
- 13 ***Exempt payrolls below a threshold.*** A business is liable for payroll tax if its remuneration exceeds the general deduction threshold. Five States said we should adjust CoE to exclude remuneration below the threshold because it reflected 'what States do', was material and could be made reliably. They said the fiscal capacities of States with proportionally more small firms would be overstated if the threshold was not taken into account. Three States said we should discontinue the threshold adjustment because it adds unnecessary complexity and compromises the policy neutrality of the assessment.
- 14 We have retained the threshold adjustment and removed the remuneration below it. The threshold is a major feature of State tax policy and there are material differences between the States in the proportion of total remuneration paid by small firms.

Data sources and adjustments

- 15 The ABS provide CoE data separately for the public and private sectors. We estimate an average CoE threshold by weighting each State's threshold by its share of the total remuneration paid. We calculate the average threshold annually to take account of

³ States cannot impose payroll tax on Commonwealth employees and tend not to impose payroll tax on local government employees. We have also excluded payroll tax on State government employees because the tax paid is an internal budget transfer. Also excluded was the remuneration of Australian Defence Force personnel and employees of Australian embassies and consulates employed overseas.

⁴ Higher education institutions are classified to the general government sector in the ABS GFS. They are included in the assessment since they are subject to payroll tax in all States.

any change in State legislation. The average CoE threshold in 2012-13 was \$0.78 million.

- 16 CoE are not available by size of payroll so we cannot estimate the impact of the average threshold using CoE. We have used ABS data on the wages and salaries in each sector, which are available by size of payroll. Wages and salaries data are narrower in scope than CoE and we have used a lower threshold for wages and salaries. Based on the average proportion of CoE comprising wages and salaries between 2009-10 and 2012-13, we have set the private sector wages and salaries threshold at 90% of the CoE threshold and the public sector wages and salaries threshold at 86% of the CoE threshold.
- 17 The general government sector is not taxable, but public sector corporations are. Whether certain functions are performed by the general government or by public sector corporations vary depending on the policies of each State. We have used total wages and salaries of public sector employees in 'commercial' industries, rather than wages and salaries of the public sector corporations. By choosing industries in which public sector activity is predominantly commercial⁵, the assessment is not affected by State decisions on whether an agency is part of its general government sector or a public sector corporation.
- 18 The revenue base for 2012-13 was derived by:
 - applying the public sector taxable proportion (adjusting for scope and the threshold) to the public sector CoE
 - applying the private sector taxable proportion to private sector CoE
 - adding the taxable public sector CoE and taxable private sector CoE.

⁵ Agriculture, forestry and fishing; Manufacturing; Electricity, gas, water and waste services; Transport, postal and warehousing; and Finance and insurance services.

Table 4 Calculating the taxable proportion of Compensation of Employees, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Public sector									
CoE (\$b) (a)	46	30	28	16	12	3	11	3	148
Taxable proportion (%)	22.6	19.7	21.4	18.3	16.0	21.4	10.0	10.0	19.7
Taxable CoE (\$b)	10	6	6	3	2	1	1	0	29
Private sector									
CoE (\$b) (a)	187	139	111	84	34	8	9	6	578
Taxable proportion (%)	70.5	69.8	71.2	77.0	67.0	62.4	63.2	67.8	70.9
Taxable CoE (\$b)	132	97	79	65	23	5	6	4	410
Total taxable payrolls (\$b)	142	103	85	68	25	6	7	4	439

(a) Excludes CoE for members of the defence forces and employees of Australian embassies and consulates overseas.

Source: Unpublished ABS data and 2012-13 annual reports from the Department of Defence and the Department of Foreign Affairs.

19 Table 5 shows the derivation of a national average effective rate of tax for 2012-13. It was obtained by dividing total tax collections by the taxable CoE revenue base. It also shows each State's assessed revenue was derived by applying the national average effective rate of tax to its revenue base.

Table 5 Illustrative assessed revenue and revenue raising capacity, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Actual revenue (\$m)	6 946	4 751	3 751	3 415	1 077	304	319	205	20 768
Taxable payrolls (\$b)	142	103	85	68	25	6	7	4	439
Average tax rate (%)									4.7
Assessed revenue (\$m)	6 713	4 856	4 014	3 208	1 170	279	327	200	20 768
Assessed revenue (\$pc)	913	854	870	1 295	704	544	864	842	906
Revenue raising capacity	1.007	0.943	0.960	1.429	0.777	0.601	0.953	0.929	1.000

Note: Revenue raising capacity ratio is calculated as assessed revenue per capita divided by average revenue.

Source: Commission calculation.

20 Table 6 shows calculation of the category on a per capita basis. It shows that Western Australia is assessed to have the capacity to raise significantly more than average, while South Australia and Tasmania have much smaller than average capacities. Most of the difference is driven by compensation of employees, although the adjustments for the scope of the public sector and the tax free threshold are both material.

Table 6 Illustrative assessed revenue per capita, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
EPC	906	906	906	906	906	906	906	906	906
Compensation of all employees	-3	-61	-42	241	-117	-266	675	187	0
Adjust for scope of public sector (a)	14	25	2	58	-48	-36	-649	-213	0
Tax free threshold	-4	-16	4	90	-37	-59	-68	-38	0
Total category	913	854	870	1 295	704	544	864	842	906

(a) Includes removal of remuneration paid to Australian embassy, defence force and Commonwealth government employees (which States are legally unable to tax), State general government sector employees (since any tax paid represents an internal budget transfer), and local government general government sector employees (since average policy is not to tax them) and public sector payrolls below the average threshold.

Source: Commission calculation.

ISSUES NOT ASSESSED IN THIS CATEGORY

21 ***Fly-in fly-out workers.*** Western Australia said an adjustment should be made to CoE to account for its large number of fly-in/fly-out (FIFO) workers from other jurisdictions. It said remuneration paid to these workers was included in its CoE but, under nexus agreements⁶, payroll tax was payable in their State of residence. We do not have reliable data on the remuneration paid to FIFO workers and their State of residence to allow us to consider an adjustment.

WHAT IS THE IMPACT ON THE GST DISTRIBUTION?

22 Table 7 shows the extent to which the assessment for this category moves the distribution of GST away from an equal per capita distribution in 2012-13. It shows GST revenue is redistributed from States assessed to have above average revenue raising capacities (New South Wales and Western Australia) to States with below average revenue capacity (Victoria, Queensland, South Australia, Tasmania, the ACT and the Northern Territory).

⁶ For companies that operate in multiple jurisdictions, there are agreements that determine the jurisdiction in which payroll tax is payable. The agreement takes in a number of factors including the employees' principal place of residence.

Table 7 Illustrative GST impact of the Payroll tax assessment, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
Dollars million	-48	294	165	-963	336	185	16	15	1 011
Dollars per capita	-7	52	36	-389	202	362	42	65	44

Source: Commission calculation.

CHANGES SINCE THE 2010 REVIEW

- 23 The 2015 Review assessment method is unchanged from the 2010 Review method. Most States supported retaining the 2010 Review method.

ATTACHMENT 3

LAND TAX

Summary of changes since the 2010 Review

- Metropolitan improvement levies are combined with the property part of fire and emergency levies and assessed using the value of properties.
- The assessment method for land taxes levied on a landholder basis is unchanged.

WHAT IS INCLUDED IN THE LAND TAX CATEGORY?

- 1 The Land tax category comprises two related but separate tax streams.
 - An all property component.
 - These are land taxes levied on both income producing properties and principal residences.
 - They are imposed on a property basis, multiple land holdings are not taken into account.
 - Metropolitan improvement levies are only levied in certain geographic areas of the State.
 - They include metropolitan improvements duty and fire and emergency levy (when imposed on properties).
 - An income producing property component.
 - States generally exempt a person's principal place of residence and land used for primary production, general government and charitable purposes.
 - This comprises land taxes levied on an aggregated landholder basis. Landholders face tax rates reflecting their total value of all land holdings.
 - They are generally called land tax by the States.
- 2 Table 1 shows States raised \$7.1 billion from land tax in 2012-13.

Table 1 Category revenues, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
All property	0	193	348	322	134	41	29	0	1 067
Income producing property	2 333	1 589	990	559	381	89	71	0	6 011
Category	2 333	1 782	1 338	881	515	130	100	0	7 078

Source: ABS GFS data and State data.

- 3 Table 2 shows land tax contributed around 7% of State own-source revenue in 2012-13.

Table 2 Land tax as a proportion of State own-source revenue

	2009-10	2010-11	2011-12	2012-13
Total for category (\$m)	6 455	6 802	6 946	7 078
Total own source revenue (\$m)	86 388	94 809	98 699	107 061
Proportion of total own source revenue (%)	7.5	7.2	7.0	6.6

Source: Commission calculation using ABS Government Finance Statistics (GFS) data and State data.

How are revenues raised?

- 4 **All property component.** Most States levy these land taxes using a property based levy that is collected by councils with rate notices. The levy can comprise a fixed charge and a charge based on the value of the property.
- 5 New South Wales and the Northern Territory do not have a property based fire and emergency levy. Victorian councils will commence collecting a property based levy in 2013-14.
- 6 **Income producing property component.** Most States levy these land taxes on the aggregated value of taxable land holdings above a threshold. The tax payable is calculated on the combined value of the taxable land above the threshold according to the State's tax rates.
- 7 The ACT taxes land on an individual taxable property basis and has no deduction threshold. The Northern Territory does not levy land tax.
- 8 Table 3 shows States impose land taxes at progressive rates – the marginal rate of duty increases with the value of land holdings.

Table 3 Marginal rates of land tax, 2013

	NSW	Vic	Qld (a)	WA	SA	Tas	ACT	NT (b)
General deduction threshold (\$000)	406	250	600	300	316	25	-	-
Marginal tax rate (%) at:								
\$0.5 m	1.60	0.20	-	0.09	0.50	1.50	1.80	-
\$1.0 m	1.60	0.80	1.65	0.47	2.40	1.50	1.80	-
\$2.5 m	2.00	2.25	1.65	1.22	3.70	1.50	1.80	-
\$5.5 m	2.00	2.25	1.75	1.46	3.70	1.50	1.80	-
Over \$11 m	2.00	2.25	1.75	2.16	3.70	1.50	1.80	-

(a) Data applicable to residential properties. Queensland applies a lower threshold of \$350 000 to land owned by companies, trustees and absentees.

(b) The Northern Territory does not levy land tax.

Source: Commission calculation, using State general duty rates published in New South Wales Treasury, *Interstate Comparison of Taxes, 2012-13*.

- 9 Most States value land for tax purposes on the basis of site values. Queensland values land on an unimproved value basis.
- 10 In all States, except the ACT, the liability for land tax is assessed using the aggregate value of land held by an owner or a group of owners, less the value of any exempt land such as a principal place of residence. However, they differ in their treatment of land held by two or more people.
- In New South Wales and Victoria jointly owned land is assessed and taxed as if it was owned by a single owner. The land value is then allocated between the joint owners according to their interest in the land. Each person's interest in the joint land is aggregated with their other land holdings and they are taxed on the basis of the total value of all taxable land holdings. To avoid double taxation, individuals are able to claim any land tax paid on the joint land as a credit towards their individual assessment.
 - In Queensland, the value of jointly owned land is allocated between each owner and aggregated with any other holdings. Each owner is taxed on the basis of their total value of taxable land.
 - In Western Australia, South Australia and Tasmania jointly owned land is assessed and taxed as if it was owned by a single owner. The assessment is kept separate from any other land owned individually or jointly by the joint owners. These States only aggregate the value of property when it is held by the same owner(s).
 - The ACT taxes land owned jointly as if it was owned by one person. The ACT does not have a land tax-free threshold and does not aggregate the value of land held by an owner — each property is taxed individually.

CATEGORY STRUCTURE

- 11 The assessment of Land tax is in two components:
- an all property component
 - an income producing property component.
- 12 Table 4 shows the assessment structure for the category, the disabilities that are assessed and the size of each component, using 2012-13 data.

Table 4 Category structure, Land tax, 2012-13

Component	\$m	Disability	Influences measured by disability
All property	1 067	Value of property	Recognises the additional revenue capacity of States with a greater total value of property.
Income producing property	6 011	Value of taxable property	Recognises the additional revenue capacity of States with a greater total taxable value of property aggregated by landholder.
		Progressive rates of tax	Recognises the additional revenue capacity of States with proportionally more properties in higher value ranges.

Source: Commission calculation.

ALL PROPERTY COMPONENT

- 13 This component comprises revenue from:
- Metropolitan improvement levies. Victoria (\$193 million in 2012-13) and Western Australia (\$85 million in 2012-13) are the only States to impose metropolitan improvement levies. In the 2010 Review, the Commission treated these levies as above average effort and assessed them so that they had no impact on the GST distribution.
 - The property part of fire and emergency levies. States impose these levies on insurance products, properties and motor vehicles. Those levies raised on a property basis are included in this component. Levies raised on an insurance basis are included in the Insurance tax category and levies raised on motor vehicles are included in the Motor taxes category.
- 14 We assess these revenues using Valuer General (VG) data on the value of properties. This revenue base reflects that the levies are imposed on a per property basis (not an aggregated landholder basis) and on all residential properties. We discontinued collecting VG data in 2010. We will need to collect them again. For the draft report, we have used the value of properties in 2007-08, the last VG data we have.
- 15 Table 5 shows the derivation of a national average effective rate of tax for 2012-13. It was obtained by dividing total tax collections by the total value of land. It also shows

each State's assessed revenue was derived by applying the national average effective rate of tax to its revenue base.

Table 5 Illustrative assessed revenue, all property component, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Actual revenue (\$m)	0	193	348	322	134	41	29	0	1 067
Revenue base (\$b)	766	531	380	315	117	22	34	7	2 172
Average tax rate (%)									0.0
Assessed revenue (\$m)	376	261	187	155	57	11	17	4	1 067

Note: Assessed revenue calculated as the product of a State's revenue base and the average rate of tax.

Source: Commission calculation.

INCOME PRODUCING PROPERTY COMPONENT

Data source

- 16 There are two main sources of land data — taxable land values from State Revenue Offices (SRO data) and VG data. Neither SRO data nor VG data are perfect. There are advantages and disadvantages in using each source:
- VG data are more comparable between the States, but less accurately reflect how States levy land tax. The VG data is on a property basis. Because they value each parcel of land, the VGs are not able to provide information on the aggregated land holdings of individual owners and they cannot separate taxable residential land from non-taxable residential land (such as principal places of residence)
 - the SRO land holdings data more closely reflect how States levy land tax. They exclude non-taxable land and they are based on the aggregated land holdings of individual owners. However, each State's data reflects the way it levies land tax — its scope and exemptions, its treatment of jointly owned property and its valuation approach. Consequently, SRO data are affected by individual State policies and are less comparable across States.
- 17 Most States support using SRO data. We think the SRO holdings data are preferable on conceptual grounds. All States, except the ACT and the Northern Territory, levy land tax on the aggregated land holdings of individual owners. The SRO holdings data are on this basis, the VG data are not. We believe States can continue to improve the comparability of their SRO data. While we have some concerns about comparability between States, we have decided to source our land data from State Revenue Offices.
- 18 The scope of land that is dutiable differs across States. We have attempted to capture the revenue base that best reflects what States collectively do. There are a number of adjustments required to achieve this and they are all material.

Adjustments to State data

- 19 SRO data are affected by State policies, including differences in tax rates and thresholds, land tax policies and methods of aggregation.
- 20 The Commission asked New South Wales, Victoria and Queensland to adjust their holdings data to make them more consistent with the treatment of jointly owned land in Western Australia, South Australia and Tasmania.
- 21 We increased the ACT's land values data by 2% because it imposes land tax on an individual property basis rather than the aggregated holdings of land owners. We estimated land values for the Northern Territory by setting them to 0.6% of the total land holdings data for other States in each value range. All States supported making these adjustments for the ACT and the Northern Territory.
- 22 For all States, we assess the revenue raised from properties of \$0.3 million or less equal per capita because of concerns about States' ability to accurately record and report on the value of taxable land below their general deduction thresholds.
- 23 **Scaling.** It is usually the case that the total revenue derived from SRO data does not equal the total revenue provided to the ABS by State Treasuries and which we use to derive the State average revenue. Therefore, we scale SRO data to match the revenue reported by the ABS in each State. States' land values are scaled by the same ratio. This is a relatively minor adjustment, increasing New South Wales's base by 5%.
- 24 **Progressive rates of tax.** States impose land taxes using progressive rates. Land tax data indicate there are substantial differences between States in the value distribution of land and allowing for these differences has a material effect on assessed revenue raising capacities.
- 25 We estimated the impact of progressive rates of tax by calculating average effective rates of tax for each of 15 value ranges, applying those effective rates of tax to each State's value of land in that range and aggregating across the 15 value ranges. If this assessment is compared to one using a single rate of tax, it shows that the assessment of progressive rates increases the revenue bases of Queensland, Western Australia and the Northern Territory, and reduces the revenue bases of the other States. The State provided land data show these three States have proportionally more of their land values located in the value ranges above \$1 million.
- 26 Table 6 shows the impact of this adjustment on the data provided by States.

Table 6 Revenue base, income producing property component, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b
Estimated value of taxable land (a)	312	284	135	146	60	12	11	6	965
Progressive rates of tax	0.989	0.940	1.388	1.022	0.584	0.496	0.604	1.013	1.000
Revenue base	309	267	187	150	35	6	7	6	965

(a) Includes adjustments for scaling and differences in the scope of transactions subject to duty.

Source: Commission calculation.

27 Table 7 shows the derivation of a national average effective rate of tax for 2012-13. It was obtained by dividing total tax collections by the total value of land aggregated by landholder. It also shows each State's assessed revenue was derived by applying the national average effective rate of tax to its revenue base.

Table 7 Illustrative assessed revenue, income producing property component, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Actual revenue (\$m)	2 333	1 589	990	559	381	89	71	0	6 011
Revenue base (\$b)	309	267	187	150	35	6	7	6	965
Average tax rate (%)									0.6
Assessed revenue (\$m)	1 922	1 660	1 166	931	217	37	41	36	6 011

Note: Assessed revenue calculated as the product of a State's revenue base and the average rate of tax.

Source: Commission calculation.

Discounting

28 We have some concerns about the reliability and comparability of the SRO data. We note that there are inconsistencies between the total value of land holdings and the distribution of those holdings across values.

- 44% of taxable land is in holdings of over \$2 million in Queensland compared with a national average of only 29%, yet the State has the 3rd lowest value of land per capita.
- 29% of taxable land is in high value parcels in both New South Wales and Western Australia, yet Western Australia's total value per capita is 90% above that of New South Wales.

29 Inconsistencies are further evidenced by the need to make adjustments to New South Wales, Victoria and Queensland data because of their different treatment of jointly owned properties; and to the ACT because it does not aggregate land holdings.

30 Western Australia asked us to apply a 50% discount as, in addition to our concerns with data reliability, it considers the impact of State policies on the value of land to be significant. We consider a 25% discount to the income producing component reflects

our level of confidence in the suitability of the SRO data as a proxy for what we are trying to measure.

31 Table 8 shows how applying the discount changes the category assessed revenues.

Table 8 Illustrative assessed revenue after discounting, income producing property component, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Assessed revenue	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Before discounting	1 922	1 660	1 166	931	217	37	41	36	6 011
After discounting	1 924	1 618	1 177	861	272	61	56	43	6 011

Source: Commission calculation

BRINGING THE ASSESSMENT TOGETHER

32 Table 9 shows the derivation of category assessed revenue. The revenue raising capacities of New South Wales, Victoria and Western Australia are assessed to be above average.

Table 9 Illustrative assessed revenue and revenue raising capacity, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
All property (\$m)	376	261	187	155	57	11	17	4	1 067
Income producing property (\$m)	1 924	1 618	1 177	861	272	61	56	43	6 011
Assessed revenue (\$m)	2 300	1 879	1 363	1 016	329	72	72	46	7 078
Assessed revenue (\$pc)	313	331	296	410	198	141	191	195	309
Revenue raising capacity	1.013	1.071	0.957	1.327	0.641	0.456	0.620	0.630	1.000

Note: Revenue raising capacity ratio is calculated as assessed revenue per capita divided by average revenue.

Source: Commission calculation

33 Table 10 shows that Western Australia has significantly higher average property values per capita, while South Australia, Tasmania and the Northern Territory have significantly lower average property values per capita.

34 While Queensland has lower than average property values per capita, those properties tend to be in high value parcels, which attract higher tax rates. Therefore Queensland has the capacity to raise close to average land tax.

35 Because of our concerns with the quality of data in this assessment, we have discounted it by 25%. We therefore assess the four smaller States as having a greater capacity than the raw data would imply.

Table 10 Illustrative assessed revenue per capita, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
All property component									
EPC distribution	47	47	47	47	47	47	47	47	47
Property values	5	-1	-6	16	-12	-25	-3	-31	0
Total component	51	46	40	62	35	21	44	15	47
Income producing property component									
EPC distribution	262	262	262	262	262	262	262	262	262
Taxable property values	2	49	-80	106	-39	-118	-81	-113	0
Progressive tax rates	-3	-19	71	8	-93	-73	-72	2	0
Discount	0	-7	2	-28	33	48	38	28	0
Total component	262	285	255	347	163	119	148	179	262
Total category	313	331	296	410	198	141	191	195	309

Source: Commission calculation.

WHAT IS THE IMPACT ON THE GST DISTRIBUTION?

36 Table 11 shows the extent to which the assessment for this category moves the distribution of the GST away from an equal per capita distribution in 2012-13. It shows GST revenue is redistributed from States assessed to have above average revenue raising capacities (New South Wales, Victoria and Western Australia) to States with below average revenue capacity (Queensland, South Australia, Tasmania, the ACT and the Northern Territory).

Table 11 Illustrative GST impact of the Land tax assessment, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
All property component	-34	4	28	-39	20	13	1	7	73
Income producing property component	5	-127	33	-211	164	73	43	20	339
Dollars million	-29	-124	61	-250	184	86	44	27	403
Dollars per capita	-4	-22	13	-101	111	168	117	114	18

Source: Commission calculation.

CHANGES SINCE THE 2010 REVIEW

37 The 2015 Review assessment method has one change from the method adopted in the 2010 Review. The property part of fire and emergency levies has been added to

metropolitan improvement levies. This component is assessed using the value of properties.

- 38 Most States supported retaining the 2010 Review method. Three States proposed changes to the level of discounting.

ATTACHMENT 4

STAMP DUTY ON CONVEYANCES

Summary of changes since the 2010 Review

- Stamp duty on the transfer of motor vehicles has been included in this category.
- Expenses and duty concessions relating to first home owners (such as First Home Owners Bonus Payments) have been moved from this category to Housing.
- The land rich adjustment for Tasmania has been discontinued because it is not material.

WHAT IS INCLUDED IN THE STAMP DUTIES CATEGORY?

- 1 The Stamp duty on conveyances category comprises:
 - stamp duty on property
 - stamp duty on vehicle sales.
- 2 Property duties are a tax on the transfer of ownership of property. The tax is based on the value of property transferred and is paid by the purchaser.
- 3 The concept of taxable property is very broad. It comprises both real property (such as land, houses, apartments, shops, factories, offices etc) and non-real property (such as copyrights, goodwill, patents, partnership interests and options to purchase). The category includes duty raised from the sale of major State government owned assets, but excludes duty raised on the transfer of marketable securities.¹ The category excludes State expenses and concessions for first home owners (such as the First Home Owners' Scheme, First Home Owners' Bonus Payments and duty concessions for first home buyers) as these are assessed in the Housing category.
- 4 Vehicle duties are a tax on the transfer of ownership of vehicles. The tax is based on the value of the vehicle transferred and is paid by the purchaser.
- 5 Table 1 shows States raised \$15.2 billion from conveyances in 2012-13.

¹ Only New South Wales and South Australia levy duty on marketable securities. An assessment of these duties would not be material and they are included in the Other revenue category.

Table 1 Revenue from Stamp duties on conveyances, 2012-13

Duty on:	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Property	4 568	3 276	1 887	1 785	773	139	229	126	12 782
Vehicles	636	636	509	404	149	38	30	26	2 427
Total	5 203	3 912	2 396	2 189	922	177	258	152	15 209

Source: ABS GFS data.

6 Table 2 shows conveyances contributed around 14% of State own-source revenue in 2012-13.

Table 2 Stamp duties on conveyances as a proportion of State own-source revenue

	2009-10	2010-11	2011-12	2012-13
Total for category (\$m)	14 417	14 603	13 820	15 209
Total own source revenue (\$m)	86 388	94 809	98 699	107 061
Proportion of own source revenue (%)	16.7	15.4	14.0	14.2

Source: Commission calculation using ABS Government Finance Statistics (GFS) data and State data.

How are revenues raised?

- 7 **Duties on property.** States impose property duties at progressive rates. Adjusting for progressive rates of tax has a material impact on States' assessed revenue capacities.
- 8 States also have differences in the range of properties that are subject to duty. For example, Victoria has a concession for 'off the plan' transactions, but those transactions are fully dutiable in most other States. Allowing for differences in the range of property subject to duty has a material impact on States' assessed revenue raising capacities.
- 9 **Duties on vehicles.** Most States impose the stamp duty on the value of the vehicle, but one State varies the rate according to number of cylinders. Rates can also vary according to the use of the vehicle and whether the vehicle is a new registration or a used vehicle transfer. A broadly common range of vehicles (such as vehicles acquired for resale by used car dealers, transfers arising from settling estates and family law arrangements and vehicles acquired by benevolent institutions) are exempted from duty across the States.

CATEGORY STRUCTURE

- 10 The assessment of Stamp duties on conveyances is in three components:
- an equal per capita (EPC) component

- a property component
- a vehicles component.

11 Table 3 shows the assessment structure for the category, the disabilities that are assessed and the size of each component, using 2012-13 data.

Table 3 Category structure, Stamp duty on conveyances, 2012-13

Component	Size	Disability	Influences measured by disability
	\$m		
EPC component	437	Population	Revenue from corporate reconstructions, sales of major State assets and land rich transactions of listed corporations are assessed equal per capita.
Property component	12 345	Value of property transferred	Recognises the additional revenue capacity of States with a greater total value of property transferred.
		Progressive rates of tax	Recognises the additional revenue capacity of States with proportionally more transactions in higher value ranges.
Vehicles component	2 427	Value of vehicles transferred	Recognises the additional revenue capacity of States with a greater total value of vehicles transferred.

Source: Commission calculation.

EPC COMPONENT

12 This component comprises revenue from:

- Duty on corporate reconstructions. Most States refund the duty collected or exempt the transactions to encourage economic reform. Previous terms of reference directed that these revenues not affect State GST requirements.
- The sale of major State assets. These revenues arise because of differences in State policies on the ownership of assets.
- Revenue from duty on the land rich transactions of listed companies. Land rich transactions involving listed corporations are not common, but they can be large. To date, such transactions have been a minor source of revenue for States. The ad hoc nature and volatility of these transactions makes it difficult for us to construct a reliable estimate for States that do not levy duty.

13 A differential assessment is not made of these revenues — each State is assessed to have the same per capita capacity. Table 4 shows the assessed revenue for this component.

14 Data on revenue from these sources are collected from State Revenue Offices (SROs).

Table 4 Illustrative assessed revenue, EPC component, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Actual revenue	223	2	6	131	65	0	5	5	437
Assessed revenue	140	108	88	47	32	10	7	5	437

Source: Commission calculation.

PROPERTY COMPONENT

- 15 This component comprises revenue from duty on the transfer of ownership of property.
- 16 The Commission sources the value of properties and the duty raised from them from SROs. The scope of transactions that are dutiable differs across States. We have attempted to capture the revenue base that best reflects what States collectively do. There are a number of adjustments required to achieve this and they are all material.
- 17 **Non-real property.** As part of the Intergovernmental Agreement on Federal Financial Relations (the IGA), States have agreed to abolish duty on non-real transactions, but they have different timetables for its abolition. Most States still apply duty. We handle these transactions by treating them like other dutiable transactions. Any revenue raised is added to component revenue and we make an adjustment to increase the revenue bases of States that do not levy the duty. We increase their revenue bases by 6% (1% in the case of the ACT²). This is the treatment we applied when we last included non-real property transactions.
- 18 Some States argued for a different treatment. Under the IGA, States that abolish duty on non-real property agree not to reintroduce it.³ Tasmania said this means these States (Victoria, Tasmania and the ACT) no longer have revenue capacity in this area. Victoria agreed. They argue the IGA can be viewed as a binding agreement between the Commonwealth and States. Under the IGA, States agreed to abolish duty on non-real property before 1 July 2013 and not reintroduce it.
- 19 The appropriate interpretation of the IGA in this context depends on how binding it is on State policy choice. As a placeholder, in the draft report, we have continued the treatment we applied when we last included non-real property transactions.
- 20 We seek State views on the appropriate treatment of this issue.

² ACT data for prior years indicate non-real property transactions were a minor part of its revenue base. Based on the prior ACT data, the Commission assessed a lower adjustment for the ACT.

³ Intergovernmental Agreement on Federal Financial Relations (2009) Schedule B, Clause B2(g).

- 21 **Off the plan concessions.** Victoria does not levy duty on off the plan purchases. The Commission makes an adjustment to increase its revenue base by 2.75%.⁴
- 22 **Unit trusts.** Queensland, Western Australia and South Australia tax a wider range of unit trusts than other States. The Commission makes an adjustment to decrease their revenue bases by 3%.
- 23 **Refunds.** The Commission also asks States to account for refunded transactions in the data they provide. If a transaction is refunded, the Commission asks States to report the refund in the year the refund is provided, not the year in which the original transaction occurred. This ensures that we appropriately assess a State's revenue in the year it is received. This is consistent with the Commission's approach of assessing the original transaction in the year it occurs.
- 24 **Scaling.** The data States supply on the value of transfers and revenue raised are obtained from their State revenue offices (SRO). It is usually the case that the total revenue derived from SRO data does not equal the total revenue provided to the ABS by State Treasuries and which we use to derive the State average revenue. Therefore, we scale SRO data to match the revenue reported by the ABS in each State. States' value of transactions data are scaled by the same ratio.
- 25 **Progressive rates of tax.** States impose conveyance duty using progressive rates. Table 5 shows all States have progressive rates — the marginal rate of duty increases with the value of the property transferred.

Table 5 Effective tax rates on transfer of property, selected values, 2012-13

Value of transfer	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
\$150 000	2.5	2.7	2.4	2.7	3.2	2.8	2.5	2.4
\$300 000	3.0	4.4	3.0	3.4	3.8	3.3	3.5	2.8
\$450 000	3.5	4.9	3.1	3.8	4.2	3.6	4.5	3.5
\$600 000	3.7	5.2	3.3	4.1	4.5	3.7	5.0	3.9
\$750 000	3.9	5.3	3.6	4.3	4.7	3.9	5.0	4.2
\$1 000 000	4.0	5.5	3.8	4.5	4.9	4.0	5.0	4.8

Note: The effective rates of tax are calculated as the duty payable on the transaction (derived using each State's legislated rates) divided by the value of the transaction.

Source: Commission calculation, using State general duty rates published in New South Wales Treasury, *Interstate Comparison of Taxes, 2012-13*.

- 26 Data on the value of transfers indicate there are substantial differences between States in the value distribution of transfers and allowing for these differences has a material effect on assessed revenue raising capacities.

⁴ We note South Australia introduced an off the plan concession in May 2012 for some regions in Adelaide. It forecasts it will lose around 0.2% of revenue. An adjustment of this size would not be material. We have not, therefore, included an off the plan adjustment for South Australia.

27 We estimated the impact of progressive rates of tax by calculating average effective rates of tax for each of 16 value ranges, applying those effective rates of tax to each State's value of transactions in that range and aggregating across the 16 value ranges. If this assessment is compared to one using a single rate of tax, it shows that the assessment of progressive rates increases the revenue bases of New South Wales and Western Australia and reduces the revenue bases of the other States. The State provided land data shows these two States have proportionally more of their land values located in value ranges above \$1m.

28 Table 6 shows the impact of this adjustment on the data provided by States.

Table 6 Illustrative revenue base, property component, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Estimated value of taxable transactions (a)	118 550	83 578	63 243	51 690	15 897	4 275	5 783	2 945	345 960
Progressive rates of tax	1.042	0.976	0.981	1.003	0.930	0.887	0.949	0.980	1.000
Revenue base	123 573	81 559	62 035	51 842	14 787	3 793	5 486	2 885	345 960

(a) Includes adjustments for scaling and differences in the scope of transactions subject to duty.

Source: Commission calculation.

29 Table 7 shows the derivation of a national average effective rate of tax for 2012-13. It was obtained by dividing total tax collections by the total value of the property transferred. It also shows each State's assessed revenue for this component was derived by applying the national average effective rate of tax to its revenue base.

Table 7 Illustrative assessed revenue, property component, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Actual revenue (\$m)	4 345	3 274	1 881	1 654	708	139	224	121	12 345
Revenue base (\$b)	124	82	62	52	15	4	5	3	346
Average tax rate (%)									3.6
Assessed revenue (\$m)	4 410	2 910	2 214	1 850	528	135	196	103	12 345

Note: Assessed revenue calculated as the product of a State's revenue base and the average rate of tax.

Source: Commission calculation.

VEHICLES COMPONENT

30 All States impose duty on the value of the vehicle sold and nearly all have a multi-tiered rate structure, which varies between States. States generally apply the same rates to new and used vehicles.

31 The value of the vehicles sold reflects the base that States tax. Differences between States in the value distribution of sales could affect their relative revenue raising

capacities but it is not material to apply a value distribution adjustment, and reliable data on values is not available for a number of States.

- 32 The revenue base for stamp duty on registrations and transfers is the value of vehicles liable to pay the duty, data which is supplied by States. All States except Victoria and the Northern Territory can provide data on the value of vehicle sales. The Commission estimates Victoria's values using its total revenue collections (dissected into new and used vehicles) and its legislated tax rates. We estimate the Northern Territory's values using the revenue it raises and its legislated tax rate.
- 33 Table 8 shows the derivation of the stamp duty component.

Table 8 Illustrative assessed revenue, vehicle component, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Actual revenue (\$m)	636	636	509	404	149	38	30	26	2 427
Revenue base (\$m)	19 955	17 190	16 156	11 564	4 381	1 239	1 002	851	72 339
Average tax rate (%)									3.4
Assessed revenue (\$m)	669	577	542	388	147	42	34	29	2 427

Note: Assessed revenue calculated as the product of a State's revenue base and the average rate of tax.

Source: State data on the value of vehicles liable for duty.

BRINGING THE ASSESSMENT TOGETHER

- 34 Table 9 shows the derivation of category assessed revenue. The revenue raising capacities of New South Wales and Western Australia are assessed to be above average.

Table 9 Illustrative category assessed revenue and revenue raising capacity, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
EPC component (\$m)	140	108	88	47	32	10	7	5	437
Property component (\$m)	4 410	2 910	2 214	1 850	528	135	196	103	12 345
Vehicles component (\$m)	669	577	542	388	147	42	34	29	2 427
Assessed revenue (\$m)	5 219	3 595	2 844	2 285	706	187	237	136	15 209
Assessed revenue (\$pc)	710	633	616	922	425	364	626	571	664
Revenue raising capacity	1.069	0.953	0.929	1.390	0.640	0.549	0.943	0.861	1.000

Note: Revenue raising capacity ratio is calculated as assessed revenue per capita divided by average revenue.

Source: Commission calculation

- 35 Table 10 shows the calculation of the category on a per capita basis. It shows that Western Australia is assessed to have the capacity to raise significantly more than average, while South Australia and Tasmania have much smaller than average

capacities. Most of the difference is driven by the value of properties sold in the properties component.

Table 10 Illustrative category assessed revenue, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
EPC component	19	19	19	19	19	19	19	19	19
Property component									
EPC	539	539	539	539	539	539	539	539	539
Sales per person	37	-14	-49	206	-197	-241	7	-97	0
Progressive rate of tax	24	-13	-9	2	-24	-34	-28	-9	0
Total	599	512	480	746	317	264	518	432	539
Vehicles component									
EPC	106	106	106	106	106	106	106	106	106
Sales per person	-15	-4	12	51	-17	-25	-17	14	0
Total	91	101	117	157	88	81	89	120	106
Category	710	633	616	922	425	364	626	571	664

Source: Commission calculation

WHAT IS THE IMPACT ON THE GST DISTRIBUTION?

36 Table 11 shows the extent to which the assessment for this category moves the distribution of the GST away from an equal per capita distribution in 2012-13. It shows GST revenue is redistributed from States assessed to have above average revenue raising capacities (New South Wales and Western Australia) to States with below average revenue capacity (Victoria, Queensland, South Australia, Tasmania, the ACT and the Northern Territory).

Table 11 Illustrative GST impact of the Stamp duty on conveyances assessment, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
EPC component (\$m)	0	0	0	0	0	0	0	0	0
Property component (\$m)	-448	151	271	-515	368	141	8	25	963
Vehicles component (\$m)	109	25	-54	-126	29	13	6	-3	183
Dollars million	-338	176	217	-641	397	153	14	22	979
Dollars per capita	-46	31	47	-259	239	299	38	92	43

Source: Commission calculation.

CHANGES SINCE THE 2010 REVIEW

- 37 Most States supported retaining the 2010 Review assessment method. We have made three changes:
- We have included stamp duties on the transfer of ownership of vehicles in the category.
 - Expenses and duty concessions relating to first home owners (such as First Home Owners' Bonus Payments) are moved from this category to Housing.
 - In the 2010 Review, we applied a land rich adjustment, which adjusted for how States tax the sales of entities which hold land. We have discontinued that adjustment because it is not material — it failed the \$10 per capita data adjustment threshold.

ATTACHMENT 5

INSURANCE TAX

Summary of changes since the 2010 Review

- Fire and emergency levies imposed on insurance premiums are included in the category. In the 2010 Review they were included in the Other revenue category, and assessed EPC.

WHAT IS INCLUDED IN THE INSURANCE TAX CATEGORY?

- 1 Insurance tax includes duties on various types of insurance that are mostly levied on premiums. They include life, general and compulsory third party (CTP) motor vehicle insurance. The insurance premium paid is a measure of the insured risk. State governments impose duty on top of the insurance premium. These duties are generally imposed on insurance companies, but passed on to consumers. Two States impose fire and emergency levies on insurance products. The revenue they raise is part of total insurance tax revenue and is included in this category.
- 2 Table 1 shows States raised \$5.2 billion from insurance taxes in 2012-13.

Table 1 Revenue from insurance tax, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Insurance tax	1 700	1 665	670	576	429	86	48	42	5 217

Source: Commission calculation using State data.

- 3 Table 2 shows insurance tax contributed around 5% of State own-source revenue in 2012-13.

Table 2 Insurance tax as a proportion of State own-source revenue

	2009-10	2010-11	2011-12	2012-13
Total for category (\$m)	4 295	4 616	5 009	5 217
Total own source revenue (\$m)	86 388	94 809	98 699	107 061
Proportion of total own source revenue (%)	5.0	4.9	5.1	4.9

Source: Commission calculation using ABS Government Finance Statistics (GFS) data and State data.

How are revenues raised?

- 4 Duties are collected on three broad categories of insurance:
 - Life insurance. Most States impose duty on the sum insured. South Australia imposes the duty on annual premiums. Western Australia does not impose a duty. Most States also impose duty on term or temporary insurance policies at a rate of 5% of the first year's premium.
 - General insurance — such as commercial and domestic motor vehicle, home and contents, public liability and professional indemnity. All States impose a fixed rate of duty on premiums. The rate varies between 6% and 11%. Three States (New South Wales, Queensland and Tasmania) apply concessional rates to certain types of general insurance.
 - CTP motor vehicle insurance. Victoria and Western Australia impose a single rate of duty on premiums. Queensland, South Australia and Tasmania impose a flat fee. New South Wales, the ACT and the Northern Territory do not tax CTP insurance.
- 5 Some classes of insurance are commonly exempt from duty. All States exempt medical benefits insurance¹, commercial marine insurance and reinsurance. All States except Queensland exempt workers' compensation insurance. Queensland taxes it at a concessional rate. There are a number of other exemptions that are only applied in one or two States.

ASSESSMENT METHOD

- 6 Table 3 shows the derivation of a national average effective rate of tax for 2012-13. It was obtained by dividing total tax collections by the total general insurance revenue base. It also shows each State's assessed revenue was derived by applying the national average effective rate of tax to its revenue base.
- 7 The national average effective tax rate is 15.9%. This is higher than the legislated rate on all insurance products. This is because a range of revenue is included in the category but not in the revenue base (for example, life insurance revenue and revenue from fire and emergency levies).
- 8 While there are differential rates applied to the different classes of insurance, the size of these revenue bases is relatively small, and further disaggregation into different classes is not material.

¹ New South Wales imposes a Health Insurance Levy on private health insurers. It is not classified as an insurance tax and is included in Other revenue.

Table 3 Illustrative assessed revenue and revenue raising capacity ratio, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Actual revenue (\$m)	1 700	1 665	670	576	429	86	48	42	5 217
Taxable premiums (\$m)	11 335	7 592	6 541	3 446	2 511	586	465	299	32 776
Average tax rate (%)									15.9
Assessed revenue (\$m)	1 804	1 208	1 041	549	400	93	74	48	5 217
Assessed revenue (\$pc)	245	213	226	221	240	182	196	200	228
Revenue raising capacity	1.078	0.934	0.992	0.972	1.057	0.800	0.860	0.879	1.000

Note: Revenue raising capacity ratio is calculated as assessed revenue per capita divided by average revenue.

Source: Commission calculation.

SCOPE OF PREMIUMS INCLUDED IN THE REVENUE BASE

- 9 Some insurance premiums are taxed, while others are not. We have attempted to capture the revenue base that best reflects what States do.
- 10 **Exempt classes of insurance.** No State imposes duty on medical benefits insurance or reinsurance. Australian Prudential Regulation Authority (APRA) data exclude premiums relating to these classes of insurance.
- 11 No State imposes duty on commercial marine insurance. However, commercial marine insurance premiums are included in the APRA data and it is unable to separate them. At a national level, these premiums represent less than 2% of total premiums. A data adjustment to remove them would not be material and we have left them in the APRA premium data.
- 12 **Life insurance.** While APRA can provide data on the total premiums paid for general insurance and CTP insurance by State, it cannot provide life insurance data by State. Therefore, life insurance premiums are not included in the tax base.
- 13 We considered removing revenue on life insurance premiums from the category, and assessing it equal per capita (EPC). Four States provided data to suggest duties on life insurance are a small proportion (less than 5%) of all insurance taxes. A data adjustment to exclude life insurance duties from the category is not material. We have, therefore, left life insurance duties in the category and assessed them using the general insurance revenue base.
- 14 **Workers' compensation.** Queensland is the only State that imposes duty on workers' compensation insurance, and it does so at a concessional rate. Workers' compensation premiums comprised around 21% of its total premiums in 2012-13. However, the duty raised on workers' compensation premiums comprised only 2% of its Insurance taxes. We considered assessing these duties as a separate component within the Insurance taxes category. However it is simpler, and not materially

different, to include the duties raised as Insurance tax revenue, but exclude the premiums from the revenue base. Most States supported this approach.

- 15 **Fire and emergency services levies.** Since the 2010 Review, Victoria has moved from insurance-based to property-based emergency services funding. Only New South Wales and Tasmania continue to collect fire and emergency services levies on insurance products. We consider these levies to be similar to an insurance tax and include them in the category.
- 16 Insurance-based fire and emergency services levies are also included in the total premiums data provided by APRA.² We have removed these levies from the general insurance revenue base, as their inclusion would overstate the revenue base of the three States that impose levies on insurance.
- 17 **Summary.** As a consequence, the revenue base for insurance taxes is:
 - total premiums paid as published by APRA
 - less premiums for reinsurance
 - less premiums for workers' compensation
 - less any fire and emergency levies included in premiums paid.

Data sources and adjustments

- 18 The Commission sources insurance premium data from APRA. However, from 2012-13, APRA is no longer able to provide premium data for public insurers.³ The main classes of insurance provided by public insurers are: CTP insurance; workers' compensation; and insurance for public sector agencies.
- 19 In the 2010 Review, the Commission included CTP premiums paid to public insurers to ensure comparability with States where CTP insurance was privately underwritten. For 2012-13, we sourced premiums data from public insurers' annual reports. For the Northern Territory, we used State-provided data.⁴
- 20 As outlined in the previous section, we exclude workers' compensation premiums from the revenue base. This includes workers' compensation premiums paid to public insurers. We also exclude duty on premiums paid by general government sector agencies, because it is an internal budget transfer. While public sector corporations in some States are insured with public insurers, data are not available to split their

² Under Australian accounting standard AASB 1023, reported gross earned premiums include fire and emergency services levies.

³ Public insurers are those that are controlled, or wholly owned, by a State government, irrespective of whether the assets insured are government or private assets. These insurers are not regulated by APRA.

⁴ The Territory Insurance Office provides several classes of insurance to government agencies and the general public. We used data provided by the Northern Territory to exclude workers' compensation premiums.

premiums from those paid by general government sector agencies. As a result we have excluded from the revenue base all premiums paid to public insurers by public sector agencies. We will continue to include premiums paid to public insurers by private sector agencies and individuals (primarily CTP premiums).

- 21 Given the confidentiality of data, a dissection of the revenue base is not presented.

WHAT IS THE IMPACT ON THE GST DISTRIBUTION?

- 22 Table 4 shows the extent to which the assessment for this category moves the distribution of the GST away from an equal per capita distribution in 2012-13. It shows GST revenue is redistributed from States assessed to have above average revenue raising capacities (New South Wales and South Australia) to States with below average revenue capacity (Victoria, Queensland, Western Australia, Tasmania, the ACT and the Northern Territory).

Table 4 Illustrative GST impact of the Insurance tax assessment, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
Dollars million	-130	85	9	16	-21	23	12	7	151
Dollars per capita	-18	15	2	6	-13	46	32	27	7

Source: Commission calculation.

- 23 Table 4 shows the Insurance tax assessment is material - the redistribution exceeds the disability materiality threshold of \$30 per capita. New South Wales said the assessment should be discontinued if it failed the materiality test.

CHANGES SINCE THE 2010 REVIEW

- 24 The category includes fire and emergency services levies on insurance products. In the 2010 Review, these levies were assessed in the Other revenue category.

ATTACHMENT 6

MOTOR TAXES

Summary of changes since the 2010 Review

- The assessment method is unchanged, but the stamp duties on the transfer of motor vehicles assessment have been moved to the conveyances category.
- Revenue from fire and emergency levies on motor vehicles has been moved from Other revenue to this category.

WHAT IS INCLUDED IN THE MOTOR TAXES CATEGORY?

- 1 The Motor taxes category includes annual motor vehicle registration, fire and emergency levies imposed on motor vehicles, traffic improvement and number plate fees and revenues raised by the Commonwealth under its Federal Interstate Registration Scheme (FIRS).
- 2 The category does not include stamp duties on vehicle sales, duty collected on compulsory third party insurance premiums or driver licence and permit fees. Stamp duties on vehicle sales are assessed in the Stamp duty on conveyances category. Revenue from duty on insurance premiums is assessed in the Insurance tax category while driver licence and permit fee revenue is assessed in the Other revenue category.
- 3 Table 1 shows States collected \$6.3 billion in motor taxes in 2012-13. Around 81% came from light vehicle registration charges and 19% from heavy vehicle registrations.

Table 1 Revenue from motor taxes, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Light vehicle registrations	1 941	961	1 238	520	268	83	96	17	5 123
Heavy vehicle registrations (a)	292	301	256	188	105	24	5	18	1 189
Total	2 233	1 262	1 493	708	374	107	101	35	6 313

(a) Includes revenue from Federal Interstate Registration Scheme.

Source: Commission calculation using State data.

4 Table 2 shows motor taxes contributed around 6% of own-source revenue in 2012-13.

Table 2 Motor tax revenue as a proportion of total State own-source revenue

	2009-10	2010-11	2011-12	2012-13
Total for category (\$m)	5 034	5 466	5 838	6 313
Total for own source revenue (\$m)	86 388	94 809	98 699	107 061
Proportion of own source revenue	5.8	5.8	5.9	5.9

Source: Commission calculation using State data.

How are revenues raised?

- 5 Motor vehicle registration fees are imposed annually.
- 6 Registration fees vary across States and can be set according to the engine capacity, the number of cylinders and use of the vehicle. The average policy is for different rates of tax to be paid according to vehicle types and for the rate of tax to increase with vehicle size — light vehicles pay the lowest rates with rigid trucks paying higher rates and articulated trucks paying higher rates again.

CATEGORY STRUCTURE

- 7 Motor taxes are assessed in two components:
- light vehicle registrations
 - heavy vehicle registrations.
- 8 Table 3 shows the category's assessment structure and the size of each component.

Table 3 Category structure, Motor taxes, 2012-13

Component	Size	Disability	Influence measured by disability
	\$m		
Light vehicle registrations	5 123	Number of light vehicles	Recognises the differential revenue States can raise from the annual registration fees applying to light vehicles.
Heavy vehicle registrations	1 189	Number of heavy vehicles	Recognises the differential revenue States can raise from the annual registration fees applying to heavy vehicles.

Source: Commission decision

- 9 For each component, we derive a national average effective rate of tax by dividing total tax collections by the total relevant revenue base.
- 10 For each component, a State's assessed revenue — the revenue it would collect if it applied the average tax rate — is derived by multiplying its revenue base by the

national average effective rate of tax. A State's category assessed revenue is obtained by adding its assessed revenue for each component.

Registrations

- 11 States impose vehicle registration fees on the basis of set amounts per vehicle per year. At the broadest level, interstate differences in revenue raising capacities reflect differences between States in the number of vehicles registered per capita.
- 12 States impose substantially higher fees on heavy vehicles and the interstate distribution of light and heavy vehicle vary. Accounting for both differences has material effects. For that reason, light and heavy vehicles are assessed separately.
- 13 We measure States' capacity to raise revenue from light vehicles using the number of passenger and light commercial vehicles on the register in each State, as recorded in the annual ABS Motor Vehicle Census. Most (98%) of the light vehicle revenue is raised from these two classes of vehicles and it is not material to further disaggregate them. Table 4 sets out the derivation of the light vehicles component.

Table 4 Illustrative assessed revenue for light vehicle registrations, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Actual revenue (\$m)	1 941	961	1 238	520	268	83	96	17	5 123
Revenue base ('000)	4 598	4 043	3 267	1 825	1 198	398	256	131	15 718
Average tax rate (\$ per vehicle)									326
Component assessed revenue (a) (\$m)	1 499	1 318	1 065	595	391	130	84	43	5 123

(a) Calculated as the product of the State's number of light vehicles and the average tax per vehicle.

Source: ABS, *Motor Vehicle Census*, Cat. No. 9309.0 and State revenue data.

- 14 We measure States' capacity to raise revenue from heavy vehicles using the number of heavy rigid and articulated trucks on the register in each State, as recorded in the annual ABS Motor Vehicle Census.¹ Most (86%) of the heavy vehicle revenue is raised from these two classes of vehicles and it is not material to further disaggregate them. Table 5 sets out the derivation of the heavy vehicles component.

¹ States have confirmed their heavy vehicle numbers include vehicles registered under FIRS.

Table 5 Illustrative assessed revenue for heavy vehicle registrations, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Actual revenue (\$m)	292	301	256	188	105	24	5	18	1 189
Revenue base ('000)	105	104	92	66	31	10	2	6	417
Average tax rate (\$ per vehicle)									2 853
Component assessed revenue (\$m)	300	297	263	190	89	29	5	16	1 189

(a) Calculated as the product of the State's number of heavy vehicles and the average tax per vehicle.

Source: ABS, *Motor Vehicle Census*, Cat. No. 9309.0; State revenue data.

BRINGING THE ASSESSMENT TOGETHER

15 Table 6 shows the derivation of category assessed revenue and States' relative revenue raising capacities — their assessed revenue per capita divided by the average revenue per capita. The revenue raising capacities of New South Wales, ACT and the Northern Territory are assessed to be below average.

Table 6 Illustrative assessed revenue and revenue raising capacity ratio, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Light vehicle component	1 499	1 318	1 065	595	391	130	84	43	5 123
Heavy vehicle component	300	297	263	190	89	29	5	16	1 189
Total assessed revenue	1 799	1 615	1 328	784	480	159	89	59	6 313
Total assessed revenue (\$pc)	245	284	288	316	289	310	235	246	275
Revenue raising capacity	0.888	1.032	1.045	1.149	1.048	1.127	0.854	0.894	1.000

Note: Revenue raising capacity ratio is calculated as assessed revenue per capita divided by average revenue.

Source: Commission calculation.

16 Table 7 shows that the only material aspects of this assessment are Tasmania's above average capacity and the Northern Territory's below average capacity to raise revenue from light vehicles, and the ACT having below average capacity from heavy vehicles.

Table 7 Illustrative assessed per capita revenue for Motor taxes, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Light vehicle component									
EPC distribution	224	224	224	224	224	224	224	224	224
Impact of component	-20	8	7	16	11	30	-2	-44	0
Heavy vehicle component									
EPC distribution	52	52	52	52	52	52	52	52	52
Impact of component	-11	0	5	25	2	5	-38	14	0
Total category	245	284	288	316	289	310	235	246	275

Source: Commission calculation.

WHAT IS THE IMPACT ON THE GST DISTRIBUTION?

17 Table 8 shows the extent to which the assessment for this category moves the recommended distribution of the GST revenue away from an equal per capita distribution in 2012-13. It shows GST revenue is redistributed from States assessed to have above average revenue raising capacities (Victoria, Queensland, Western Australia, South Australia and Tasmania) to States assessed to have below average revenue raising capacities (New South Wales, the ACT and the Northern Territory).

Table 8 Illustrative GST impact of the Motor taxes assessment, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Light vehicle component	145	-48	-34	-41	-19	-15	1	10	157
Heavy vehicle component	81	-2	-23	-61	-3	-3	14	-3	96
Category (\$m)	227	-49	-57	-102	-22	-18	15	7	249
Category (\$pc)	31	-9	-12	-41	-13	-35	40	29	11

Source: Commission calculation.

- 18 **Light vehicle registrations.** New South Wales, the ACT and the Northern Territory are assessed to require greater GST because they have a relatively low share of light vehicles. The low share for the Northern Territory may be due to its high proportion of Indigenous people living in remote areas and the associated low incomes.
- 19 **Heavy vehicle registrations.** New South Wales and the ACT are assessed to require greater GST because they have a relatively low share of heavy vehicles. The low rate in the ACT in part reflects its low level of manufacturing and absence of mining.

Changes since the 2010 Review

- 20 In this review, we have made one change. We have moved Stamp duty on vehicle sales to the Stamp duty on conveyances category.

ONGOING ISSUE

- 21 The Commonwealth and States are discussing heavy vehicle reforms. If this leads to a reform process, the assessment may need to be amended. Any amendment will be undertaken in consultation with States.

ATTACHMENT 7

MINING REVENUE

Summary of changes since the 2010 Review:

- There is now a mineral by mineral assessment with separate assessments of iron ore, coal, gold, onshore oil and gas, copper, bauxite, nickel and 'all other minerals'. Grants in lieu of royalties are assessed APC in a separate component, as in the 2010 Review.
- Subject to the results of further consultation, the impact of higher royalty rates on iron ore fines will be phased in over three years commencing from 2015-16.

WHAT IS INCLUDED IN THE MINING REVENUE CATEGORY?

- 1 The Mining revenue category includes mining royalties levied on mining production. Royalties represent a payment to the owners of a resource for the right to sell, dispose of, or use the resource.
- 2 The category also includes grants in lieu of royalties. These are payments received under revenue sharing arrangements with the Commonwealth. Western Australia receives a payment in relation to royalties from offshore oil and gas production (predominantly from the North-West Shelf) and the Northern Territory receives a payment in relation to royalties on uranium.
- 3 Table 1 shows States raised \$9.3 billion from mining royalties in 2012-13.

Table 1 Revenue from mining royalties and grants in lieu of royalties, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Mining revenue	1 318	45	2 108	5 525	189	29	0	117	9 331

Source: ABS GFS data and State data.

- 4 Table 2 shows mining royalties contributed around 9% of State own-source revenue in 2012-13.

Table 2 Mining revenue as a proportion of State own-source revenue

	2009-10	2010-11	2011-12	2012-13
Total for category (\$m)	6 550	9 565	10 010	9 331
Total own source revenue (\$m)	86 388	94 809	98 699	107 061
Proportion of total own source revenue (%)	7.6	10.1	10.1	8.7

Source: ABS GFS data and State data.

How are revenues raised?

- 5 In most States, mining royalties are based on a percentage of the value of mine production or an amount per tonne of production. In Tasmania, some royalties are based on mine profitability. In the Northern Territory, royalties are based wholly on profitability.
- 6 Royalty rates vary from State to State for most minerals. However, there is a common pattern across States:
- Low value minerals such as salt, sand and gravel are subject to volume-based royalties.
 - Relatively low royalty rates are applied to 'hard rock' minerals such as nickel, copper and gold. Iron ore is an exception; it is a higher quality hard rock mineral and attracts relatively high royalty rates.
 - Relatively high royalty rates are applied to 'soft rock' or shallowly mined minerals such as bauxite and coal.
 - A high royalty rate is generally applied to oil and gas production.
- 7 Table 3 shows the effective royalty rates on selected minerals in 2012-13.

Table 3 Effective royalty rates for selected minerals in 2012-13

	Onshore oil and gas	Coal	Bauxite	Iron ore	Nickel	Gold	Copper	Other minerals
	%	%	%	%	%	%	%	%
Effective rate	10 (a)	7.6	7.4	6.7	2.6	2.3	1.8	5.5

(a) This figure has been rounded for confidentiality reasons.

Source: Commission estimates using ABS data and State data.

- 8 **Role of the Commonwealth.** State Governments own most minerals located on or below the surface of the land (a small proportion are privately owned) and onshore oil and gas. The value of production of these minerals is included in the mining assessment. In addition, the Commonwealth pays grants in lieu of royalties to two States. These grants are also included in the assessment.
- 9 The Commonwealth is responsible for imposing royalties on offshore production of oil and gas. From 1 July 2012, the Commonwealth commenced collecting a Minerals Resource Rent Tax (MRRT) on iron ore and coal. It also imposes a Petroleum Resource

Rent Tax (PRRT) on offshore oil and gas, onshore oil and gas, oil shale and coal seam gas projects. State royalties are fully creditable against MRRT and PRRT liabilities. The revenue raised by the Commonwealth is excluded from the mining assessment.

ASSESSMENT APPROACH

Measuring the revenue base

- 10 Some States said we should use profitability as our measure of mining capacity. While States may take account of the profitability of different minerals when setting and adjusting their royalty rates, the majority of royalties are not imposed on a profit basis. Constructing a reliable mining profitability measure is also difficult; the Commission ceased constructing such a measure when the number of adjustments and the data meant it had become too unreliable. Compared with value of production, which tracks royalty collections, profitability measures tend to fluctuate more with commodity cycles and so may not provide a reasonable estimate of revenue capacity in the short to medium-term.
- 11 We use value of production as our measure of mining revenue capacity. It best reflects what States do, is simple and is supported by reliable data.
- 12 While the majority of royalties are levied on the value of production, the point at which production is valued for royalty purposes can vary. For the two major minerals (coal and iron ore), royalties are generally calculated on 'free on board' (FOB) or sale values. To ensure value of production figures are comparable across States, we ask States to provide us with FOB values for all minerals.

A mineral by mineral assessment

- 13 The biggest concern in developing a mining assessment is finding an appropriate balance between fiscal capacity, what States collectively do and policy neutrality. If policy neutrality were not an issue, we would adopt a mineral by mineral assessment, because it most accurately captures differences in States' mining revenue capacities. If policy neutrality were the sole issue, we would group all minerals together, but that produces an assessment that would not reflect differences in States' capacities. In the 2010 Review, the Commission found a balance by grouping minerals into two groups, muting the influence of individual State mining policies.
- 14 Some States said the Commission should give most weight to capturing differences in States' revenue capacities. Other States said the concentration of minerals in a few States meant a State with a pre-dominance of a mineral could change its royalty rate and exert a significant influence on its GST distribution. For that reason, they favoured most weight being given to policy neutrality and grouping.

- 15 We acknowledge developing a mining assessment which achieves HFE and which is also policy neutral is made more difficult by the dominance of the revenue base by two States. While we believe it is theoretically possible for State policies to affect GST distributions in this area, there is no strong evidence that this happens.
- 16 Our objective is to achieve HFE and primacy should be given to achieving that objective. The supporting principles - what States do, policy neutrality, practicality and contemporaneity, while important, should be subsidiary to this objective. Therefore, in relation to the mining assessment, we have decided on an approach which best achieves HFE by separately assessing minerals where it is material to do so. We propose to separately assess the minerals that generate most royalty revenue: iron ore, coal, gold, onshore oil and gas, copper, bauxite and nickel. We will assess the remaining minerals in one group. Table 4 shows State's shares of the value of production of these minerals and the royalty collected for 2012-13.

Table 4 State shares of value of production and mineral royalties, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Royalty revenue
	%	%	%	%	%	%	%	%	\$m
Iron ore	0.0	0.0	0.0	96.9	2.3	0.4	0.0	0.4	3 880
Coal	41.0	1.3	56.7	0.8	0.2	0.1	0.0	0.0	3 011
Gold	11.5	2.1	6.3	71.6	4.0	1.0	0.0	3.5	286
Onshore oil and gas (a)	..	..	..	..	..	..	..	..	..
Copper	18.8	0.0	28.6	19.0	30.8	2.9	0.0	0.0	136
Bauxite	0.0	0.0	44.5	44.6	0.0	0.0	0.0	10.8	115
Nickel	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0	93
Other minerals (a)	5.0	6.1	41.0	22.7	12.1	2.7	0.0	10.5	692

(a) For confidentiality reasons we are not able to publish onshore oil and gas data. The combined result for onshore oil and gas and other minerals is shown as other minerals.

Source: Commission estimates using ABS data and State data.

- 17 Our intention is to keep this structure until the next review. However, if there is a major change in circumstances, such that another mineral becomes material or one of the material minerals becomes immaterial, we will exercise our judgment on whether HFE would be improved by changing the structure of the assessment.

Iron ore fines

- 18 Since the last methodology review Western Australia has progressively changed the royalty arrangements applying to iron ore fines and significantly increased the revenue it obtains from them. In the normal course of events the averaging processes adopted by the Commission would have phased in the GST distribution consequences of Western Australia's decisions on iron ore fine royalty arrangements.

- 19 However, the Commission was directed in recent Update terms of reference (2011-2014) to ensure that the full impact of those changes did not affect Western Australia's GST distribution, but there is no similar direction in the terms of reference for this review.
- 20 A mineral by mineral assessment provides no special treatment for iron ore fines and, on introduction, would lead to a significant reduction in Western Australia's GST revenue. In effect the impact of Western Australia's decisions, which could have been phased over previous updates, are brought to book in a single year.
- 21 In past methodology reviews the Commission has not proposed any smoothing mechanisms for the impact of methodology changes and in general does not propose any for this review. However, we consider that in this particular case the large scale of the change arising from an explicit terms of reference change applied to past assessment years warrants careful consideration. Notwithstanding this, we appreciate that, because previous updates have not taken full account of Western Australia's higher revenue capacity, when judged over a span of years, a one off adjustment in 2015-16 could be considered an appropriate correction.
- 22 We have given careful consideration to this issue because we believe it raises significant high level questions going to the practical application of fiscal equalisation. While we consider that it requires further consultation with the States and the Commonwealth in the course of this review, we have formed the view that there should be a phased introduction of the impact of higher effective royalty rates on iron ore fines on the GST distribution over three years starting in 2015-16.
- 23 As a placeholder in this draft we have estimated the impact of phasing based on the impact on Western Australia in 2012-13 of leaving iron ore fines in the low royalty rate group rather than moving it to the high royalty group. That would have reduced Western Australia's assessed fiscal capacity by some \$500m. Accordingly we have adjusted by some \$340m the illustrative GST Impact of the Mining Revenue Assessment in Table 13, 14 and 15. We will consider options for giving effect to phasing in consultation with States in preparing our final report.

Grants in lieu of royalties

- 24 These are payments received by States under the revenue sharing arrangements with the Commonwealth. We have decided to continue to assess grants in lieu of royalties as a separate component.
- 25 We will continue to assess these on an actual per capita basis because States' shares of these payments are determined by the Commonwealth. All States support this approach.

BRINGING THE ASSESSMENT TOGETHER

26 Table 5 to Table 12 show each State's value of production for each component and the calculation of assessed revenue. They also show States' relative revenue raising capacities – their assessed revenue per capita divided by the average revenue per capita. These tables do not have revenue data by State. This is because States provide some mining data to us on a confidential basis and we are not able to publish some details of the mining assessment. We have had to estimate revenue and value of production for some components; we will seek State data to replace our estimates.

Table 5 Illustrative assessed revenue and revenue raising capacity, iron ore component, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Actual revenue (\$m)									3 880
Revenue base (\$m)	13	0	14	56 369	1 341	236	0	214	58 186
Average royalty rate (%)									6.7
Assessed revenue (\$m)	1	0	1	3 759	89	16	0	14	3 880
Assessed revenue (\$pc)	0	0	0	1 517	54	31	0	60	169
Revenue raising capacity	0.001	0.000	0.001	8.960	0.318	0.181	0.000	0.354	1.000

Source: Commission estimates using State data.

Note: No phase-in has been applied to iron ore fines in this table.

Note: Each State's relative revenue raising capacity is calculated by dividing its assessed revenue per capita by the average revenue per capita.

Table 6 Illustrative assessed revenue and revenue raising capacity, coal component, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Actual revenue (\$m)									3 011
Revenue base (\$m)	16 353	501	22 603	311	65	36	0	0	39 868
Average royalty rate (%)									7.6
Assessed revenue (\$m)	1 235	38	1 707	23	5	3	0	0	3 011
Assessed revenue (\$pc)	168	7	370	9	3	5	0	0	131
Revenue raising capacity	1.278	0.051	2.817	0.072	0.022	0.040	0.000	0.000	1.000

Source: Commission estimates using State data.

Table 7 Illustrative assessed revenue and revenue raising capacity, gold component, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Actual revenue (\$m)									286
Revenue base (\$m)	1 447	269	792	8 970	497	120	0	436	12 530
Average royalty rate (%)									2.3
Assessed revenue (\$m)	33	6	18	205	11	3	0	10	286
Assessed revenue (\$pc)	4	1	4	83	7	5	0	42	12
Revenue raising capacity	0.360	0.087	0.314	6.621	0.547	0.427	0.000	3.347	1.000

Source: Commission estimates using State data.

Table 8 Illustrative assessed revenue and revenue raising capacity, copper component, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Actual revenue (\$m)									136
Revenue base (\$m)	1 425	0	2 170	1 441	2 335	220	0	0	7 591
Average royalty rate (%)									1.8
Assessed revenue (\$m)	26	0	39	26	42	4	0	0	136
Assessed revenue (\$pc)	3	0	8	10	25	8	0	0	6
Revenue raising capacity	0.585	0.000	1.420	1.756	4.242	1.296	0.000	0.000	1.000

Source: Commission estimates using State data.

Table 9 Illustrative assessed revenue and revenue raising capacity, bauxite component, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Actual revenue (\$m)									115
Revenue base (\$m)	0	0	688	690	0	0	0	168	1 545
Average royalty rate (%)									7.4
Assessed revenue (\$m)	0	0	51	51	0	0	0	12	115
Assessed revenue (\$pc)	0	0	11	21	0	0	0	52	5
Revenue raising capacity	0.000	0.000	2.213	4.127	0.000	0.000	0.000	10.437	1.000

Source: Commission estimates using State data.

Table 10 Illustrative assessed revenue and revenue raising capacity, nickel component, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Actual revenue (\$m)									93
Revenue base (\$m)	0	0	0	3 625	0	0	0	0	3 625
Average royalty rate (%)									2.6
Assessed revenue (\$m)	0	0	0	93	0	0	0	0	93
Assessed revenue (\$pc)	0	0	0	37	0	0	0	0	4
Revenue raising capacity	0.000	0.000	0.000	9.249	0.000	0.000	0.000	0.000	1.000

Source: Commission estimates using State data.

Table 11 Illustrative assessed revenue and revenue raising capacity, onshore oil and gas and other minerals components combined (a), 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Actual revenue (\$m)									692
Revenue base share (%)	5.0	6.1	41.0	22.7	12.1	2.7	0.0	10.5	100.0
Assessed revenue (\$m)	35	42	283	157	84	18	0	73	692
Assessed revenue (\$pc)	5	7	61	63	51	36	0	305	30
Revenue raising capacity	0.156	0.245	2.035	2.097	1.674	1.194	0.000	10.107	1.000

(a) For confidentiality reasons we are not able to publish onshore oil and gas data. Separate assessments have been made of onshore oil and gas and other minerals. The combined result is shown.

Source: Commission estimates using State data.

Table 12 Illustrative assessed revenue and revenue raising capacity, grants in lieu of royalties component, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Actual revenue (\$m)	0	0	0	1 114	0	0	0	5	1 120
Assessed revenue (\$m)	0	0	0	1 114	0	0	0	5	1 120
Assessed revenue (\$pc)	0	0	0	450	0	0	0	22	49
Revenue raising capacity	0.000	0.000	0.000	9.205	0.000	0.000	0.000	0.457	1.000

Source: Budget Paper No 3 and State provided data.

27 Table 13 shows the assessed revenue raising capacity of the mining assessment overall. The revenue raising capacities of Queensland, Western Australia and the Northern Territory are assessed to be above average. Queensland's strong capacity is due to its dominance in coal production. Western Australia's strong capacity is driven largely by iron ore and grants in lieu of royalties, although it also has a relatively strong capacity in a number of other minerals. The Northern Territory's strong capacity is largely due to its above average share of production for the residual minerals.

Table 13 Illustrative assessed revenue and revenue raising capacity, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Iron ore	1	0	1	3 759	89	16	0	14	3 880
Coal	1 235	38	1 707	23	5	3	0	0	3 011
Gold	33	6	18	205	11	3	0	10	286
Onshore oil and gas (a)	..	..	..	..	..	..	..	..	..
Copper	26	0	39	26	42	4	0	0	136
Bauxite	0	0	51	51	0	0	0	12	115
Nickel	0	0	0	93	0	0	0	0	93
Other minerals (a)	35	42	283	157	84	18	0	73	692
Grants in lieu of royalties	0	0	0	1 114	0	0	0	5	1 120
Phase-in iron ore fines	122	95	77	-340	28	9	6	4	0
Total assessed revenue (\$m)	1 451	180	2 176	5 088	259	52	6	119	9 331
Total assessed revenue (\$pc)	197	32	472	2 053	156	102	17	498	407
Revenue raising capacity	0.785	0.078	1.159	5.043	0.383	0.250	0.041	1.223	1.000

(a) For confidentiality reasons we are not able to publish onshore oil and gas data. The combined result for onshore oil and gas and other minerals is shown as other minerals.

Source: Table 5 to Table 12.

28 Table 14 shows the assessed revenue raising capacity for each mineral on a per capita basis. Comparing this with the national average for each mineral will show the GST impact in 2012-13.

Table 14 Illustrative assessed revenue per capita, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Iron ore	0	0	0	1 517	54	31	0	60	169
Coal	168	7	370	9	3	5	0	0	131
Gold	4	1	4	83	7	5	0	42	12
Onshore oil and gas (a)	..	..	..	..	..	..	..	..	..
Copper	3	0	8	10	25	8	0	0	6
Bauxite	0	0	11	21	0	0	0	52	5
Nickel	0	0	0	37	0	0	0	0	4
Other minerals (a)	5	7	61	63	51	36	0	305	30
Grants in lieu of royalties	0	0	0	450	0	0	0	22	49
Phase-in iron ore fines	17	17	17	-137	17	17	17	17	0
Total category	197	32	472	2 053	156	102	17	498	407

(a) For confidentiality reasons we are not able to publish onshore oil and gas data. The combined result for onshore oil and gas and other minerals is shown as other minerals.

Source: Table 5 to Table 12 and ABS population data.

ISSUES NOT ASSESSED IN THIS CATEGORY

29 Based largely on State comments, we have considered four other issues, but have not made adjustments in the category to reflect them.

- Should we use an external standard for measuring royalty rates?
- Should mining royalties be treated as the sale of a State asset?
- Should the mining assessment provide an incentive for resource States to develop and expand their mining sectors?
- Should the mining assessment be discounted?

An external standard

30 We did consider another option for improving the policy neutrality of the mining assessment — the use of an external standard. We considered both historical State royalty rates and international royalty rates as a way of making the assessment less prone to State influence.

31 No State supported an external standard. Most said international royalty rates would represent a major departure from usual Commission practice and it would move away from ‘what States collectively do’. Some States also queried whether using historical State royalty rates was a way of addressing policy neutrality concerns or merely delaying them.

32 Differences between Australia and other countries in royalty policies and mining operating costs mean that a reliable external standard is difficult to construct. Nor do we believe that assessment based on historical royalty rates can adequately capture States fiscal capacities when mineral prices and value of production vary substantially from year to year. For these reasons we have not adopted an external standard at this time.

Should mining royalties be treated as the sale of a State asset?

- 33 Queensland said mining revenue was more like the sale of a State asset than a State tax. It said mining revenue should be treated like other State asset sales. Western Australia acknowledged the theoretical merit of this approach, but it noted its impracticalities.
- 34 A problem with treating royalties as the sale of a State asset is that we would need to treat the value of mineral assets as a financial asset subject to equalisation. We would equalise the mineral assets of new mines even before royalties had been earned.
- 35 The GST Distribution Review considered this issue. The panel concluded the case had not been made that mining revenue should be treated differently to States' other own-source revenue.
- 36 The States and the Australian Statistician treat mining revenue like other State revenue and most States support treating royalties like other State revenues.
- 37 Based on the above, we will continue to treat mining revenue like other State revenue.

Should the mining assessment provide an incentive for resource States to develop and expand their mining sectors?

- 38 Two States said the mining assessment should provide an incentive for States to develop their mining sectors. Other States said providing incentives for development of the industry would be contrary to the equalisation objective and policy neutrality.
- 39 We are not asked to pursue objectives other than HFE. For this reason, our approach to the mining assessment is not designed to provide either an incentive or a disincentive for resource States to develop and expand their mining sectors.

Should the mining assessment be discounted?

- 40 Some States said the mining assessment should be discounted because:
- the assessment does not recognise mining related expenses, including previously unequalised expenses
 - policy non-neutralities exist
 - State's revenue bases are sensitive to their industry policies

- there are large GST impacts when royalty rates change
 - the Commission needs to exercise judgment
 - there are intergenerational risks from future changes to HFE.
- 41 ***Mining-related expenses.*** We have assessed mining-related expenses where we can do so reliably. We do not believe there are other material mining-related expenses or previous expenses that are unassessed. We do not, therefore, believe a discount is warranted for this reason. However, as noted elsewhere we continue to seek State views on whether our current approach adequately captures mining-related expenses.
- 42 ***Policy non-neutrality.*** Western Australia said States put different effort into developing their mining industries and their different efforts should be removed from the revenue base. While it acknowledged it was not possible to determine what each States' production would have been under average policies, it said it would be reasonable to conclude Western Australia's production would be lower.
- 43 We recognise there may be differences in State efforts and there is a conceptual case that any differences in efforts should be removed. However, it is not clear to us how we would quantify those differences. In the case of mining, any differences in efforts would be confounded by the differences in mineral endowments. It would be difficult to untangle these influences and make judgments about the impact of State efforts on production levels. For example, Western Australia said its 60% share of production exceeded its 39% share of known economic reserves for Bauxite and suggested this was evidence it made a more pro-mining effort than other States. Other people attribute the difference to other reasons. The Australian Mines Atlas attributes this not to differences in government policy but because 'despite the low grade, the mines ... have low reactive silica, making the bauxite relatively easy to refine'. Disentangling the net impact of policy in specific cases appears daunting.
- 44 There are many differences in the reserves between States:
- the quality and grade of mineral
 - social, economic and environmental values of mine area
 - access to infrastructure and associated cost of developing the mine.
- 45 These differences make it very difficult to determine whether one State is developing its resources at a faster rate than another.
- 46 We are not convinced a discount is appropriate. Aside from the difficulties of trying to untangle the impact of differences in State efforts on production levels, a discount would imply States with relatively higher production are all pro-development States; this may not be the case. Applying a discount here would also mean we would have to consider whether States with relatively larger tourism industries or education

sectors require a discount because the size of their sector implies a difference in policy effort.

- 47 We will continue to monitor developments in State mining policies. It is possible that the impact of differences in policy effort in some areas could become clearer, for example, if coal seam gas (where States appear to have different policies) became material.
- 48 Western Australia was also concerned that an assessment based on States' actual royalty rates had the potential to generate large GST impacts when those rates change. It said a reasonable incentive for States would be to retain one third of any royalty rate increase after GST impacts. The Commission has decided to take a mineral by mineral approach giving primacy to HFE considerations and it would not be consistent with this, nor with our discounting guidelines, to apply a discount to any changes in rates. The terms of reference do not ask us to limit HFE to a percentage of the increase in State royalty revenue. Based on the discussion above, at this stage, we do not consider a discount is warranted for possible policy non-neutrality considerations.
- 49 ***Need to exercise judgment.*** When we were considering grouping minerals, we intimated we might need to exercise a large degree of judgment in deciding the mining assessment. However, we have decided not to group minerals. Consequently, we do not believe the mining assessment requires us to exercise a large degree of judgment. As such, this is not a justification for a discount.
- 50 ***Intergenerational risks.*** Western Australia said HFE currently equalises mining revenues but there is no guarantee that the future form of HFE will appropriately support States whose resources have been depleted. Consequently, the current form of HFE creates a future adjustment risk for resource States.
- 51 We are asked to devise methods in accordance with the principle of fiscal equalisation alone and to do so on the basis of current policy settings. While future policy changes might impact on State fiscal capacities, we do not consider that we should speculate on what policy changes might eventuate nor design a methodology to internalise those speculations. We do not, therefore, believe a discount is needed because of intergenerational risk.
- 52 ***Conclusion.*** Most States opposed the application of a discount. We consider discounting appropriate when it helps us achieve a better HFE outcome, for example, when we are concerned about data quality (see discussion of discounting in Chapter 3). We do not think this is the case with our proposed mining assessment. We do not propose applying a discount to the mining assessment.

What is the impact on the GST distribution?

- 53 Table 15 shows the extent to which the assessment for this category moves the distribution of GST away from an equal per capita distribution in 2012-13. It shows GST revenue is redistributed from States assessed to have above average revenue raising capacities (Queensland, Western Australia and the Northern Territory) to States with below average revenue capacity (New South Wales, Victoria, South Australia, Tasmania and the ACT).
- 54 This redistribution is dominated by the redistribution arising from iron ore (\$3.3 billion), coal (\$1.4 billion), other minerals (\$0.3 billion) and Grants in lieu of royalties (\$1.0 billion).
- 55 The ACT has no mineral production, which means it receives its population share of all mineral royalties (\$407 per capita).

Table 15 Illustrative GST impacts, Mining revenue assessment, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Iron ore	1 244	962	780	-3 339	192	71	64	26	3 339
Coal	-269	709	-1 101	302	213	65	50	31	1 370
Gold	59	65	39	-174	9	4	5	-7	181
Onshore oil and gas (a)	..	..	..	..	..	..	..	..	..
Copper	18	34	-11	-11	-32	-1	2	1	55
Bauxite	37	29	-28	-39	8	3	2	-11	78
Nickel	30	23	19	-83	7	2	2	1	83
Other minerals (a)	187	130	-144	-82	-34	-3	11	-65	328
Grants in lieu of royalties	359	278	225	-993	81	25	18	6	993
Phase-in iron ore fines	-122	-95	-77	340	-28	-9	-6	-4	340
Category (\$m)	1 544	2 133	-298	-4 079	418	157	148	-22	4 399
Category (\$pc)	210	375	-65	-1 646	251	305	390	-91	192

(a) For confidentiality reasons we are not able to publish onshore oil and gas data. The combined result for onshore oil and gas and other minerals is shown as other minerals.

Source: Commission calculation.

Changes since the 2010 Review

- 56 The 2010 Review method assessed mining revenues in three components:
- high royalty minerals — comprising onshore oil and gas, export coal, lump iron ore and bauxite
 - low royalty minerals — the remaining minerals

- grants in lieu of royalties.
- 57 In the 2015 Review, we propose a mineral by mineral assessment with separate assessments of iron ore, coal, gold, onshore oil and gas, copper, bauxite, nickel and 'all other minerals'. We propose to continue to assess grants in lieu of royalties on an actual per capita basis in a separate component.
- 58 Subject to consultation we propose to phase in the full impact on GST shares of increases in the effective rate of royalty on iron ore fines previously excluded from assessment by update terms of reference. This phasing would commence in 2015-16.

ATTACHMENT 8

OTHER REVENUE

Summary of changes since the 2010 Review

- The assessment method is unchanged. Revenue from fire and emergency levies has been moved from this category to the Land tax, Insurance tax and Motor taxes categories.

WHAT IS INCLUDED IN THE OTHER REVENUE CATEGORY?

- 1 The Other revenue category is a residual revenue category. It includes revenues for which:
 - a conceptual case for a differential assessment does not exist
 - data to support a reliable assessment method is not available or
 - a differential assessment would not have a material effect on State GST requirements.
- 2 The category covers the revenues that are left after those which are assessed differentially have been identified and classified to specific revenue categories.
- 3 The revenues include:
 - taxes that are to be abolished under the Intergovernmental Agreement and are not differentially assessed
 - 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
 - interest and dividend income.
- 4 Table 1 shows States raised \$43.1 billion from other revenues in 2012-13.

Table 1 Other revenue, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Gambling revenue	1 873	1 745	1 034	218	421	93	54	55	5 493
Fees and fines	499	700	401	157	102	20	28	13	1 920
Other user charges	3 611	4 428	3 268	1 755	890	268	300	145	14 665
Contributions by trading enterprises	954	174	291	378	157	133	84	15	2 186
Interest and dividend income	2 709	1 845	3 700	1 051	433	127	416	83	10 364
Other	3 258	1 953	1 052	427	1 310	80	423	14	8 517
Category revenue	12 904	10 845	9 746	3 986	3 313	721	1 305	325	43 145
Share of total revenue (%)	39.5	44.7	45.3	23.1	48.6	46.4	61.2	37.1	40.3

Source: Commission calculation using ABS Government Finance Statistics (GFS) data.

5 Table 2 shows other revenues contributed around 40% of State own-source revenue in 2012-13.

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

	2009-10	2010-11	2011-12	2012-13
Total for category (\$m)	32 841	35 771	37 297	43 145
Total for own source revenue (\$m)	86 388	94 809	98 699	107 061
Proportion of own source revenue	38.0	37.7	37.8	40.3

Source: Commission calculation using ABS GFS data.

SCOPE OF THE CATEGORY

- 6 All States supported having a residual revenue category assessed equal per capita (EPC). The States agreed most of the revenues currently included in this category should continue to be so. However, there were differences of opinion on the inclusion of gambling revenue, fire and emergency levies and residual user charges.
- 7 **Gambling revenue.** South Australia said gambling regulations have become more consistent and a differential assessment could be based on Australian Gambling Statistics data and States' collections of player loss and tax revenue data.
- 8 The ACT considered there was a conceptual case for a differential assessment of gambling revenue, comprising sub-components for different gambling types with different indicators.
- 9 During this review, we examined a number of different approaches to assessing gambling, including the level of gambling activity, a socio-demographic approach and a broad indicator approach.

- 10 An undiscounted assessment based on the level of gambling activity would be material (it would redistribute more than \$30 per capita for a State). However, given the lack of data quantifying the nature and impact of policy differences affecting the level of gambling activity, some discount would be warranted. Even with a modest discount, an assessment would not be material. Thus, we have not been able to develop a material assessment based on the level of gambling activity.
- 11 A number of different gambling prevalence studies point to different forms of gambling appealing to different segments of the population. However, we have been unable to find data that relate gambling spending or loss to specific demographic characteristics. Thus, we have not been able to develop a socio-demographic indicator of gambling capacity.
- 12 We found no link between household income and gambling activity. In the case of poker machines, there was some evidence that low income predicted higher levels of gambling, but the evidence was not sufficiently robust to use. Prevalence studies suggest some forms of gambling (for example, horse racing or casino gambling) may be associated with higher incomes but, again, the effect could not be quantified. In addition, any effect could potentially be offset by the influence of low income on poker machine gambling, if that could be proven. Finally, we constructed an assessment using data from work undertaken by the Productivity Commission in 1999 on gambling by different age cohorts.¹⁶ We have concerns about the data quality and its currency, but in any case the assessment was not material. Thus, we have not been able to develop a broad indicator assessment of gambling.
- 13 We consider there to be insufficient evidence to construct a reliable and material differential assessment of gambling revenue. The Commission will continue to assess gambling revenue EPC in the Other revenue category.
- 14 ***Fire and emergency services levies.*** Two States (New South Wales and Victoria) raise fire and emergency levies by applying duty to insurance products. Four States have a property based model. Tasmania has three levies, one on property, one on insurance products and one on motor vehicles. In 2013-14, Victoria switched from an insurance based model to a property based model. Some States considered these revenues should be assessed with like taxes.
- 15 Victoria's switch to a property based model means that an assessment of the levies raised from properties will be material. Consequently, we have moved revenue from fire and emergency levies to other categories:
 - revenue from levies on property will be relocated to the Land tax category

¹⁶ Technical paper 10 *Gambling Revenue*, found at http://www.pc.gov.au/data/assets/pdf_file/0006/13686/technicalpaper10.pdf

- revenue from levies on insurance products will be relocated to the Insurance tax category
 - revenue from levies on motor vehicles will be relocated to the Motor taxes category
- 16 **User charges.** Some States have argued user charges should be differentially assessed and offset against the related expenses.
- 17 Our general approach to user charges is:
- if we consider the drivers of user charges to be the same as the drivers of use of the related service, we net off user charges (for example, transport services)
 - if we have data on the drivers of net cost, we net off user charges (for example, Health category)
 - if the drivers of user charges are different from the drivers of use of the related service and if an assessment of user charges is material, we assess them separately and offset that assessment against the expense assessment (for example, housing)
 - otherwise, we assess them EPC in the Other revenue category.
- 18 Table 3 summarises how we currently assess user charges.

Table 3 Treatment of user charges

User charge	Basis of assessment
Health patient fees and user charges	Revenues are netted off expenses and an assessment is applied to the net cost.
Housing – rental revenue	There is a separate revenue assessment in the Housing category.
Water charges	Revenues are netted off expenses and an assessment is applied to the net cost.
Electricity charges	Revenues are netted off expenses and an assessment is applied to the net cost.
Transport services – fare revenue and user charges	Revenues are netted off expenses to estimate the level of subsidies. A transport assessment is applied to the net expenses.
Mining industry user charges	Revenues are netted off expenses and an assessment is applied to the net cost.
Other user charges, including fees and fines, property titles, student fees, visitor fees etc	Assessed equal per capita in the Other revenue category

Source: Commission decision.

- 19 Some States said we should undertake a broad indicator assessment of the residual user charges in the Other revenue category. States suggested a number of indicators (such as Gross State Product, household disposable income and population). We do not think any of these indicators provide a reliable measure of States’ capacity to raise revenue from user charges. If it was average policy to collect higher user charges in States with bigger economies or incomes, these indicators may be appropriate. We

examined the correlation between the level of user charges and a range of broad indicators. In some cases the relationship was not strong, in other cases we had concerns about the reliability of the indicator. Overall, we are not convinced that a broad assessment of these revenues is the correct approach.

- 20 **Rate of return.** The ACT argued the assessment should recognise that all States may not have the same capacity to earn revenue from their net financial worth, even if the per capita value of net financial worth is equalised. They said the rate of return on equity in public corporations varies depending on the services the corporations provide. The ACT said its capacity to earn dividends was constrained because port authorities will be a large part of equity once housing and urban transport is excluded and it does not have the capacity to hold equity in a port.
- 21 We accept States hold their net financial worth in different ways and this affects the returns they earn. However, our decision to treat housing and urban transport corporations as part of the general government sector means most of the impact on State fiscal capacities is appropriately recognised.
 - Non-policy factors which may lead some States to hold above average proportions of their assets in those low yielding entities are recognised in the investment assessment.
 - The corporations which remain as part of net financial worth (mainly ports, electricity and water authorities) provide positive returns and the extent to which individual States invest in them is affected by their policy choices.
- 22 While the ACT may not have a port, we consider it has the capacity to hold assets with a similar rate of return.
- 23 We have decided not to allow for any differences in rates of return disability and have assessed interest and dividend earnings on an equal per capita basis.

ASSESSMENT METHOD

- 24 Since the Other revenue category is assessed EPC, the revenue base is State populations, which is measured using ABS estimated resident population data. Table 4 shows each State's revenue base in 2012-13.
- 25 Assessed revenues for 2012-13 are calculated by applying a State's share of the total population to total Other revenue. This is equivalent to applying the average effective rate of tax or charges of \$1 882 per person to each State's revenue base.

Table 4 Illustrative assessed revenue and revenue raising capacity, 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Average revenue (\$m)	12 904	10 845	9 746	3 986	3 313	721	1 305	325	43 145
Assessed revenue (\$m)	13 846	10 698	8 683	4 665	3 129	965	712	448	43 145
Assessed revenue (\$pc)	1 882	1 882	1 882	1 882	1 882	1 882	1 882	1 882	1 882
Revenue raising capacity	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000

Note: Revenue raising capacity ratio is calculated as assessed revenue per capita divided by average revenue.

Source: Commission calculation.

WHAT IS THE IMPACT ON THE GST DISTRIBUTION?

- 26 The EPC approach to this category means it does not have an impact on States' GST shares.

CHANGES SINCE THE 2010 REVIEW

- 27 The 2015 Review assessment method is unchanged from the 2010 Review method.
- 28 We have made one change to the revenues classified to this category, we have relocated fire and emergency levies to other categories:
- revenue from levies on property will be relocated to the Land tax category
 - revenue from levies on insurance products will be relocated to the Insurance tax category
 - revenue from levies on motor vehicles will be relocated to the Motor taxes category.