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Executive summary

The ACT Taxation Review follows the Commonwealth Government’s major review of taxation, *Australia’s Future Tax System* (AFTS), which was released in 2010. It is the first such review since self-government.

Current State and Territory taxes are the result of a long history of Commonwealth-State financial interactions. Notwithstanding the reasonable justifications for the current systems, it is difficult to envisage that the ACT’s tax system, and indeed, all States’ and Territories’ tax systems, would look the same if established today. It is also difficult to envisage that the current taxation system would be suitable for the needs of the Territory’s community and its economy over the coming decades.

It is generally well accepted that changes to Australia’s tax system will be necessary and will occur. The ACT will not be immune from change.

Tax reform will ensure that future generations do not endure reduced levels of service or the higher economic costs of an unfair and inefficient tax system.

This Review has assessed the efficacy of the current ACT taxation system and its capacity to respond to emerging priorities and needs – now and into the future. The ACT Taxation Review Panel (the Panel) has considered whether the system raises taxes fairly and effectively, and provides the stability and certainty required to continue to deliver essential community services to Canberrans.

There are risks to the long-term sustainability of the Territory’s revenues. The Goods and Service Tax (GST) base has been eroding. The Territory’s economy and its revenues are sensitive to the decisions by the Commonwealth Government on its public sector expenditure. Major own source taxes are volatile, unfair and inefficient, and therefore unsustainable in the long-term.

The inefficiency of some major State and Territory taxes has been well recognised. The Panel has identified feasible reform options and flexible pathways – a sketch plan for reform. The Panel sees scope also for broader structural reform, facilitated through shorter term measures to progressively improve the efficacy of the current ACT taxation system.

Taxation settings are intrinsically bound with the economic, social and policy context in all jurisdictions. The Review does not proffer a singular path to a fairer and more efficient taxation system. Rather, it provides a range of a possible trajectories and reform opportunities. Decisions on the implementation of reform are appropriately determined by Government.

The Review

The Panel assessed the current ACT taxation system against the principles of stability, efficiency, equity, and administrative effectiveness. It also recognised structural factors that are outside the control of the Territory Government.

The Panel received a number of submissions that reflected a range of community views.

Analysis presented here should be taken as a starting point to inform more detailed work on implementing tax reform in the Territory.

To assess the efficacy of a taxation system, it is necessary to understand the demographic and economic structure of the society within which it operates. The Review includes a detailed snapshot of the ACT and its socio-demographic composition and also a comparative analysis of overall taxation levels across jurisdictions. This helps identify trends in practice and benchmark settings.
The Panel was mindful of the role of taxation systems in supporting levels of expected services for the community. In this context, it considered the revenue implications of reform options, and explored revenue replacement where it was felt appropriate to do so. The economic, welfare and distributional impacts of most options was analysed, including implementation and transition arrangements.

To provide a practical reform framework, the Review also considered the role which the current policy objectives and strategies of the ACT Government will play in driving and defining reform.

Opportunities to engage with the Commonwealth on proposed options have been identified to support the case for reform.

The Territory

The Territory’s specific circumstances, its economic capacity, position in the Australian Capital Region, and demographic structure present both opportunities and challenges.

The local labour force is relatively well educated, younger, healthier, more productive and highly mobile. The relatively higher socio-economic status generates higher demand for services as well as capacity to support reform.

Household earnings are greater, on average, compared to other jurisdictions. This is not a justification for increased taxation. However, it does suggest a relatively higher capacity to absorb some of the distributional impacts of any reform. This could be achieved through a progressive distribution of the transitional impacts.

Commonwealth Government activity represents a large proportion of the economy. The relatively large public sector provides stability in the labour market and the overall economy. The reliance on a single large employer of this scale also poses risks for the economy.

As a regional centre and the seat of national government, Canberra is a significant employment hub for the surrounding area of New South Wales (NSW). The economies of the ACT and surrounding region are closely linked.

Overall the Panel has concluded that the impact of cross-border activity results in a net fiscal cost to the Territory. This cost is expected to rise as the population in the surrounding region outstrips growth within the Territory. While the ACT should support development in the region, it should not be at the expense of economic growth in the Territory.

The ACT’s economy and its budget have considerable dependence on the land supply and construction industry. It provides substantial revenue, and supports economic activity, employment, and population growth.

The ACT taxation system

Four key taxes raise the majority of revenue in the ACT: payroll tax, conveyance duty, general rates and land tax. Other taxes and levies also play an important role in the provision of government services to the Canberra community. Land-based revenue is the predominant tax base in the ACT.

The Territory Government is responsible for functions delivered in other jurisdictions by both State and local Governments. While funding and delivering municipal services, it also collects general rates. This broader tax base, not readily available to other jurisdictions, puts the ACT in a unique position to pursue reform through substitution of transaction taxes with land-based taxes.
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The ACT’s taxation effort is higher than its assessed capacity to raise taxes, as measured by the Commonwealth Grants Commission. The Territory’s expenditure on services has been higher than the national average, funded by above average taxation.

These assessments, however, are gauged against the national average capacity to raise taxes and deliver services. In fact, the ACT collects the lowest tax revenue per capita as a proportion of mean disposable income compared with the national average. Taxation per employed person is also below the national average.

The ACT has a higher than average capacity to tax transactions and relatively lower capacity to tax land. By contrast, actual taxation effort is greater for land-based sources, and lower for transactions. Overall taxation effort in the ACT, based on Commonwealth Grants Commission’s assessments, is more efficient relative to the national average.

National average capacity and practice are useful references. The leasehold land system, economic composition and the role of the Commonwealth in the ACT provide a mix of constraints and unique reform opportunities.

Case for reform

The AFTS considered taxes on transactions, insurance and payroll to be inefficient and distortionary and proposed that these be abolished.

The Panel has concluded that there are risks to the long-term sustainability of the Territory’s revenues.

Over the last decade, growth in the GST has not kept pace with economic growth by around 1 per cent. A relatively rapidly rising share of Australian consumer spending is on items that are exempt from the GST, such as health and education.

Some of the ACT’s current taxes are either not stable, do not deliver growth commensurate with the growth in the economy, or are highly inefficient. Such taxes are unsustainable in the long-term.

Duty on conveyances is the most unstable and unpredictable tax. This tax is fundamentally unfair, in that it raises around a quarter of the total taxation revenue of the Territory from around 9 per cent of the people whose circumstances may impose the necessity to move to different accommodation. For this tax, around 38 cents of the economic value is lost for every dollar raised.

It is estimated that around 36 cents of economic value for every dollar raised in payroll tax is lost due to its narrow base. Payroll tax in the other States and Territories is less inefficient, at around 22 cents per dollar raised, because their taxes are generally levied on a broader base.

The Territory’s levels of economic activity and its revenues are highly susceptible to the Commonwealth Government’s decisions on its public sector expenditure and programs. Duty on conveyances in particular can be subject to significant fluctuation, reducing the longer term stability of the budget and sustainability of services to the community.

The Panel considers that the conceptual case for reform is well established. The difficulty is in transitioning to more efficient taxes. This proposed reform should broadly maintain revenue neutrality annually over the course of the transition, to maintain the overall social and economic benefits that flow from government services and expenditure. The analysis presented in this report indicates that there are likely to be significant distributional impacts in any transition to efficient tax bases. The impacts for lower income groups can be ameliorated through progressive tax settings.
Policy objectives

The principal purpose of taxes is to raise sufficient revenue to finance Government services and programs. The design of a particular tax can also be used to deliver welfare benefits. Taxes and taxation settings can be useful mechanisms to target specific policy objectives and provide incentives for valuable or desirable behaviours. Indeed, there are circumstances where taxes can increase economic efficiency.

The Review is generally framed in the context of priorities set by the ACT Government.

Meeting the service needs of the community

Taxation systems should support sustainable services to the community.

The Territory’s current revenues and expenses are structurally in balance. Short-term adjustments may, however, be necessary due to the volatility of taxes, effects of global events, and local service pressures.

Looking forward, it is difficult to accurately project the expenditure needs for the long-term, due to changes in expectations, technology and policy responses. General trends and directions can, however, be identified. The population is ageing. Costs of health services are growing faster than the rate of economic growth.

Taxes and tax settings that equitably and efficiently draw on and support, economic growth to meet the growing service needs will be necessary.

A strong economy

The dependence of the ACT economy on government activity reflects the position of Canberra as the seat of national government. Significant diversification of the economy as a short to medium term goal is unrealistic. Policies to make the ACT attractive for business and industry location should nevertheless be pursued. The Territory has sound infrastructure and excellent services. There is evidence that its service levels are factors in attracting people and businesses to locate in the ACT.

In the coming decades, as the nation’s capital depletes its stock of land, consideration will need to be given to innovative and administratively practical responses. To the extent possible, there should be no disincentives for households and businesses to locate within the Territory borders as opposed to the surrounding region. Supply of affordable land should continue to be a key policy objective.

Considerable investments in infrastructure for services such as transport, water and sewerage will be required. Land value capture should be factored into revenue generation to finance infrastructure, and provide a stable source of revenue growth to deliver services.

Supporting urban densification

Densification improves the efficiency of the city. It also provides greater choice and opportunity to leverage and enhance existing social and physical infrastructure. Increasing population density in urban areas and reducing residential building block sizes will invariably require investment. However, these expenditures also deliver benefits in the form of property value enhancements.

The value from higher use of individual parcels of land is captured through Lease Variation Charge (LVC). These charges have been codified and provides an efficient tax tool to capture value from public investment in infrastructure and densification.
The current general rates system results in higher effective tax rates for smaller plots of land. In order to support urban densification goals, a more equitable distribution of rates on the basis of area occupied as well as market values should be considered.

**Sustainable transport**

The success of sustainable transport corridors is expected to defer the need for congestion charging and road tolls in the ACT. Together with urban densification and transit oriented development along corridors, these strategies will achieve a more compact and efficient city and reduce wider environmental impacts.

**Cost of living**

The socio-economic composition of the Territory’s population suggests that there is scope for improving vertical equity, that is, households with higher levels of income should pay an appropriately higher level of tax. The ACT Government, like other State governments, does not hold the precise range of information to accurately measure vertical equity. However, progressive general rates represent the most appropriate instrument available to the ACT Government for implementing its goals for vertical equity.

The implementation of reform and changes to any taxation setting will have distributional impacts on households. The existing concessions system should be utilised to cushion the impacts of reform on low income households.

**The task of tax reform**

Tax reform is difficult. The behaviour of markets and individuals adjusts, even to what may be inefficient taxes. No other State or Territory is presently pursuing a process for tax reform, despite the major recommendations of the AFTS for the jurisdictions to do so.

It is possible to argue that, as a small jurisdiction, the ACT should follow other governments and wait for a national approach to reform. However, inequitable and inefficient taxes have social and economic costs. As a small jurisdiction that is responsible for both State and local government functions, the ACT is in a unique position to lead reform.

By carefully controlling the tax reform process, the Territory can make sure that ‘we get it right’, that the public is appropriately consulted, and that the implementation of reforms is carefully managed.

National consensus on pursuing structural reform will take time. In the ACT, specific measures and steps can still be considered for the short-term. Individually and combined, they will provide a basis for the transition as it inevitably occurs.

In order to maximise the prospects of success for ACT tax reform, the options presented to the Government in this report are aimed, as much is as possible, at achieving revenue neutrality in each year.

The Panel has proposed a staged approach. This will allow the Government to monitor, and if necessary, adjust the impact of the reforms. These include the effects on where Canberrans decide to reside, employment patterns, and the reaction of governments, especially NSW and bordering local councils.

The Panel recognises that the process of modernising the Territory’s tax system must be fair and equitable if it is to succeed. The modernisation proposals, as detailed in the recommendations of this report, have a number of built-in fairness features. First, the staged approach will minimise ‘windfall’ gains and losses for Canberra households. Second, the
proposed reforms, if adopted, will significantly enhance horizontal equity – the requirement that households with similar levels of income should pay similar amounts of tax. Thirdly, the report has considered potential opportunities to improve vertical equity – that is, those with greater economic capacity should have a higher tax burden.

Engaging the Commonwealth Government

Engaging the Commonwealth Government and seeking its support is essential in pursuing any tax reform. Removing or reducing inefficient taxes will have benefits for the Territory economy and revenues. Second round benefits may also accrue to the Commonwealth. Those benefits, repatriated through federal financial transfers, could be used to provide an offset against the negative revenue impacts on the Territory and the community.

The Territory’s GST entitlements could well be adversely affected through a redistribution of the revenue gains, or a higher assessment of revenue raising capacity resulting from improvements in economic efficiency through tax reform. This outcome could be avoided through a direction to the Commonwealth Grants Commission (CGC).

The Panel notes that, through the expanded terms of reference for the GST Distribution Review, the Commonwealth Government is seeking advice on potential changes to revenue distribution formulas to encourage State tax reform. This may give rise to Commonwealth strategies to push States and Territories to fall in line with AFTS recommendations.

Explaining the reform

The taxation system must serve the needs of the ACT community. Any changes to the taxation system should be considered and explained in the context of that objective.

Changes to taxation settings or systems are difficult. Public discussion on taxation reform can very quickly degenerate as individual elements are taken out of context. New proposals may create uncertainties, fears and costs. Communication is paramount.

The changes proposed need to be explained. The benefits of those changes need to be explained. Stakeholders need to be engaged with the reform. Whether real or imagined, concerns with reform need to be understood, acknowledged and addressed.

Recommendations

The Panel makes the following 27 recommendations for taxation reform in the ACT. Two further alternative and additional recommendations have been made by the Panel Chair.

**Recommendation 1**

Adopt taxation instruments and settings that deliver stable revenue growth proportionate with economic growth.

**Recommendation 2**

With regards to long-term structural reform, over a period of time that is adequate for appropriate transition:
- abolish duty on conveyances
- retain a form of tax on payroll to maintain a diversified tax system
- abolish duty on general insurance and life insurance, and
- adopt a broad-based land tax as a base for revenue replacement.
Recommendation 3
Pursue measures and steps in the short-term that, individually and combined, make progress towards long-term structural reform.

Recommendation 4
To the extent possible, ensure that there are no disincentives for households and businesses to locate within Territory borders as opposed to the surrounding region.

Recommendation 5
Engage the Commonwealth Government and seek its support in pursuing any taxation reform.

Recommendation 6
Seek Commonwealth support in ensuring that taxation reforms do not impose unintended penalties through the application of the GST distribution process.

Recommendation 7
Use the Lease Variation Charge and a broad-based land tax as instruments for land value capture. Taxation settings should ensure sufficient revenue to support the necessary investment in infrastructure and services.

Recommendation 8
Duty on motor vehicle transfers should be continued. A road user charge system would be best progressed through a national agreement between all the States and Territories.

Recommendation 9
Pursue the introduction of parking fees in the Parliamentary Triangle.

Recommendation 10
Abolish conveyance duty. In doing so:
• pursue at least a 10 year, and up to a 20 year, transition plan to ameliorate the impact of the change on households
• have due regard for conveyance duty paid in the years leading up to the change, and
• recognise the significance of the change and consult with the community on the transition plan.

Recommendation 11
Address the impacts on low income households from the substitution of the tax through the concessions system, with a possible expansion of the current rebate scheme.

Recommendation 12
For households not eligible for rebates, allow deferral of rates as an option, based on age and asset tests.

Recommendation 13
Expand the Home Buyer Concession Scheme by:
• progressively reducing the marginal tax rates, and
• extending the threshold.
Recommendation 14
Continue a Pensioner Duty Concession Scheme over the transition period, and adjust the property value thresholds to support ageing in place and access to housing choices within an area.

Recommendation 15
Extend the eligibility criteria for the duty deferral scheme and provide an option to amortise duty over a period of ten years.

Recommendation 16
Support ageing in place through expanding the duty deferral scheme and deferral of rates, with outstanding tax liabilities recovered at the time of sale.

Recommendation 17
Work towards national harmonisation of the payroll tax system.

Recommendation 18
Over time, abolish residential land tax in its current form.

Recommendation 19
Transfer the commercial component of land tax to general rates on commercial properties.

Recommendation 20
Adopt ‘site value’ of land as the valuation basis for the determination of rates, land tax, and Lease Variation Charges. The site value should exclude improvements on the land (such as buildings and sheds) but include improvements to the land by way of clearing, filling, grading, draining, levelling or excavating of the land.

Recommendation 21
Levy general rates via a two-part charge incorporating an element to meet the cost of basic city services, and a progressive general taxation component contributing to general revenue.

Recommendation 22
Abolish duty charged on general insurance and life insurance premiums, with the general rates as the revenue replacement source.

Recommendation 23
In order to ensure that the benefits of insurance tax reform are passed to the consumers, establish a monitoring and regulatory role for the Independent Competition and Regulatory Commission.

Recommendation 24
Retain the Ambulance Levy, however, review its administration.

Recommendation 25
Consider increasing gambling machine taxes, having regard to the impacts of the prospective reform at the national level, and the contribution clubs make to the community.
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**Alternative Recommendation 25 from the Panel Chair**

Consider increasing gambling machine taxes only after the impacts of the prospective reform at the national level have been assessed, and there has been an objective and independent evaluation how the Canberra clubs industry applies the revenues derived from poker machines.

**Recommendation 26**

Consider a two-part tariff on gaming machines comprising a licence fee per machine and a progressive tax component.

**Recommendation 27**

Use the concession system to ‘cushion’ the distributional impacts of reform through the transition period, and on an ongoing basis.

**Additional recommendation from the Panel Chair**

Consider allowing poker machines in Casino Canberra.
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Introduction

Key points

- The ACT Taxation Review is the first major study of the ACT’s taxation system since self-government.
- The Commonwealth’s GST Distribution Review, announced in March 2011, will make recommendations on incentives and disincentives to improve the efficiency of State taxes.
- Changes to the GST distribution formulae may require States to reform their taxation settings.
- The ACT Taxation Review Panel found the ACT has a solid platform on which to make reforms including:
  - a community which is more productive, and has higher incomes on average
  - good infrastructure and excellent services
  - considerable Government control over land through its ownership, planning and regulatory roles, and
  - progressive policies on living costs, land and housing affordability, and sustainability, including sustainable transport.

This report is about taxes specific to the ACT. It arises out of a set of circumstances; the most obvious driver was the release of the Commonwealth Government’s report *Australia’s Future Tax System* (AFTS).¹

As for its peers, demands on the ACT Budget are growing as a result of population ageing, consequent increases in the need for health services, and the increasing dependency of the non-working population on the relatively smaller working population. Taxation reform will be necessary to ensure a stable and efficient revenue base to meet growing expenditure needs.

The need for locally determined reform was given further impetus in November 2011, when the Commonwealth Treasurer expanded the terms of reference of the GST Distribution Review. Amongst other things, the GST Distribution Review is to recommend possible changes to provide incentives and disincentives to improve the efficiency of State taxes.² State and Territory tax reform may be needed to respond to changes to the GST distribution formulae.

Even without that context, the ACT’s revenue base, including its allocation of GST, presents a longer run risk to sustainability. Its major taxation revenue streams are unfair, unstable and, as such, unsustainable.


Around a quarter of ACT own-source taxation revenue is raised from less than 9 per cent of households through duty on conveyances. Similarly, businesses delivering the same goods and services are taxed differently under current payroll tax settings. Land tax, as currently applied, discriminates on the basis of housing tenure.

The level of economic activity in the ACT is also highly dependent on the decisions of successive Commonwealth Governments on public expenditure. Equally, the large Commonwealth Public Service presence does provide some stability to the Territory economy.

This Review is the first major study of the ACT’s taxation system since self-government. It highlights the need for long-term structural reform and provides a transition framework.

In making its recommendations, the Panel recognises that changes to taxation settings or systems are difficult.

The case for State tax reform has been made previously at the conceptual level. This Review has assessed the feasibility of reform and possible short-term measures that would lead to structural change in the longer term.

In the Panel’s view, the Territory’s policy settings have many strengths and a level of maturity. These qualities mean that it is well placed to undertake long-term structural reform of its taxation system that will, ultimately, have significant benefits.

The strengths of the ACT that provide a platform for the recommended reforms include:

- the relatively higher socio-economic status and incomes of the local population providing capacity to support reform
- good infrastructure and excellent services, recognising that considerable future investments are required
- considerable Government control over land through its ownership, planning and regulatory roles, and
- clear, progressive policies on living costs, land and housing affordability, and sustainability, including sustainable transport.

The proposed reforms look to complement and build on these strengths.
The review of the Territory’s taxation system, announced by the ACT Treasurer in August 2010, was initiated to assess the overall efficacy, revenue streams, and sustainability of the tax base.

The ACT Taxation Review occurred at a time:

- of relatively high vertical fiscal imbalance, meaning the Commonwealth Government collects significantly more taxes than it needs for service delivery, while direct access to stable revenues has been reduced in an environment of increasing budget pressures for States and Territories
- when revenue collected and distributed to the States and Territories from the GST has not kept pace with the growth of the economy
- when recurrent expenditure in the ACT continues to be above the national average, at around 20 per cent above the CGC’s assessed need, and
- when the costs of some government services, such as health, have been rising at rates well above economic growth rates across all jurisdictions.

The Review Panel and its task

The ACT Taxation Review Panel (the Panel) comprised former ACT Treasurer, Mr Ted Quinlan (Chair); the ACT Under Treasurer, Ms Megan Smithies; and Professor Alan Duncan, from the National Centre for Social and Economic Modelling (NATSEM) at the University of Canberra. In broad terms, the Panel was required to:

- review the overall efficacy of the tax system, current revenue streams, and the sustainability of the tax base
- make recommendations and findings on whether current ACT taxes are appropriate, equitable, efficient, and provide the stability and certainty required to continue to deliver community services, and
- provide a social impact assessment for any proposed reforms.

The terms of reference for the Review are at Appendix A. The announcement of the Review by the (then) Treasurer, Katy Gallagher MLA, is at Appendix B.

In conducting this review, the Panel has considered the findings and recommendations of the AFTS report. A summary of key recommendations from the AFTS Review is at Appendix C.

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3 Originally, Professor Anne Harding was nominated to the Panel, however, Professor Duncan the current director of NATSEM, was nominated subsequently.
The AFTS Review suggested revenue raising should be concentrated on four robust and efficient broad-based taxes:

- personal income, assessed on a more comprehensive basis
- business income, designed to support economic growth
- rents on natural resources and land, and
- private consumption.

The view of the AFTS Panel was that additional specific taxes should exist only to improve social outcomes or market efficiency through better price signals, and should only be used where they are a better means to achieve a desired outcome. It also noted that user charges should complement taxes as they signal the underlying resource cost of publicly provided goods and services.

The AFTS Review suggested that other existing taxes should have no place in the future tax system and over time should be abolished.

The ACT, like its counterparts, has a broad range of taxes – ten are analysed in this report. The Panel sees scope for reducing the total number of taxes in the Territory, but not to the extent proposed by the AFTS Review.

The Review Panel has developed a framework through which some existing taxes can be shifted to more efficient land-based taxes.
Scope and approach

Key points

- The Panel assessed the current system and individual taxes against the principles of stability, efficiency, equity and simplicity. It also considered ACT-specific factors, such as the local economy, regional and cross-border effects, socio-demographic characteristics and expenditure needs.

- Expert analysis on the ACT’s available stock of land, cross-border growth in population and demand for services, and implications for the Territory’s own-source revenues and GST revenue distributions was commissioned.

- The concept of fairness was a key consideration.

- ACT Government policy objectives and priorities, including for housing, economic development, urban densification and sustainability, were also taken into account.

Analysis and modelling

Significant taxes considered in this Review include:

- general rates
- duty on conveyances
- payroll tax
- land tax
- insurance taxes
- gambling taxes
- Lease Variation Charges
- Fire and Emergency Services Levy
- Utilities Network Facilities Tax, and
- duty on motor vehicle registrations and transfers.

Each of these taxes was assessed against criteria for equity, stability, economic efficiency, and administration.

Information from a wide range of well regarded sources was used for this Review ensuring balanced and in-depth analysis. These sources included the Commonwealth Grants Commission (CGC), the Australian Bureau of Statistics (ABS), industry publications, and published academic research.

A regional economic model was commissioned to estimate the impacts of changes to transaction taxes and payroll tax on the Territory’s economy, and its interaction with the broader region. The social impacts of potential reform scenarios were assessed through established NATSEM models.
The time horizon for the Review is the next two decades, although the underlying longer term trends, such as demographic changes and climate change, were recognised by the Review.

A ‘policy neutral’ expenditure growth rate, based on past trends and future potential changes in demographic and other demand factors has been assumed in this Review.

The adequacy and reasonableness of the current taxation level has been assessed, including through comparative analysis with other jurisdictions and over time. The relative stability of revenue streams has been examined for predictability and volatility.

Fundamentals: the importance of fairness

A modern ACT taxation system must be fair if it is to succeed. The proposed reforms are designed to enhance horizontal equity where the tax burden is shared equally by households with similar capacity and circumstances.

The Commonwealth is mainly responsible for implementing the nation’s vertical equity goals through the redistribution of household income with the Income Tax and Social Security System. Tax design should, however, have regard to vertical equity through progressive rates.

A staged approach to reform will minimise ‘windfall’ gains and losses for Canberra households.

Principles of a tax system

The Panel identified four key principles for assessing current taxes.

- **Stability** – taxes should raise a level of revenue that is broadly predictable and likely to continue over time in order to provide certainty in service delivery.

- **Efficiency** – an efficient taxation system does not distort activity or unnecessarily influence the behaviour of consumers and producers.

- **Equity** – in-principle, taxes should be both horizontally and vertically equitable. Horizontally equitable taxes apply to people in similar financial circumstances in the same way. Vertically equitable taxes increase with income and so are about an individual’s capacity to pay.

- **Simplicity** – taxation should be simple, transparent, practical and enforceable, with minimal administration and compliance costs.

There is, out of necessity, a degree of trade-off between these principles when designing a taxation system. For example, a tax that is efficient is not necessarily equitable.

A shift in the economic incidence of a tax creates winners and losers. Potential impacts of taxation reform on households need to be understood. The Panel considered these aspects at length and its recommendations recognise this.
Government policy objectives and priorities

In making its recommendations, the Panel was mindful of the Government’s stated policy objectives. In-principle, any measures proposed should not adversely impact but support the achievement of policy objectives.

Policy objectives considered include the following:

- housing, affordability of tenure, and ageing in place
- economic development
- urban densification, and
- sustainability.

Public consultation

The Panel sought public submissions and held meetings and discussions with representatives from key business and community groups. The Chair of the Panel also wrote to key stakeholders and political parties inviting them to meet and discuss their views on the future of the ACT’s taxation system.

Fifteen submissions were received and nine meetings held. In general, business groups suggested reduced business taxes and community groups stressed the need for a taxation system that provides adequate capacity to provide services to vulnerable members of the community. Another key theme was the need for the Government to continue to provide services.

A number of submissions proposed increasing the coverage of land-based taxes to replace other taxes, in particular duty on conveyances. Duties were generally viewed as distortionary and inefficient. The proposals ranged from the complete removal of duty on conveyances, to the introduction of duty thresholds for unit trusts.

There was significant variation in views on payroll tax. Suggestions included a fairer tax on the value-add of labour, national harmonisation of payroll taxes, and a reduced threshold.

A summary of submissions and meeting discussions is provided at Appendix D.

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Context for the reform proposals

Key points

- The Review took account of the external reform context, including the National Tax Forum.
- The ACT’s major own-source taxes are volatile and inefficient.
- Reform requires careful consideration of the distributional impacts and any potential distortions that may occur immediately before or after.

This section highlights some of the key national and local issues that were foremost in the Panel’s considerations. Locally, the most complex issues can be summed up as the GST revenue base eroding over time, and the volatility and inefficiency of the ACT’s major own-source taxes.

National Tax Forum

On 4-5 October 2011, the Commonwealth Government hosted the National Tax Forum (the Forum) to discuss reform opportunities over the coming decade. Consensus that State taxes could be improved was evident at the Forum, although views on the optimal approach differed. A particular focus of discussions was on taxes on insurance and conveyance duties.

Participants at the Forum acknowledged the need for States to retain access to robust tax bases to fund and provide critical services. Discussion also noted the difficult fiscal circumstances all governments are facing.

It was acknowledged that the difficulty of tax reform is not in identifying inefficient taxes or desirable replacements but in developing practical and implementable paths.

The GST revenue base is eroding

The GST replaced a number of State taxes. The ACT’s share of GST is equal, in size, to three quarters of own-source revenues or the sum of the four largest streams: payroll tax, duty on conveyances, general rates and land tax.

Nationally, the GST revenue base:

- has grown at a slower rate than the economy because of a rising share of Australian consumer spending on GST exempt items, such as health and education, and
- does not capture all imported online sales, which are growing.

While the Commonwealth is responsible for the collection of the GST, there is little incentive for it to protect this base, as it is a State tax.
ACT major own-source taxes are volatile and inefficient

Some of the ACT’s current taxes are not stable, do not keep pace with the economy, and are highly inefficient.

Duty on conveyances, which account for almost 25 per cent of ACT own-source revenue, is the most unstable and unpredictable tax. It is highly inefficient. For every dollar raised, 38 cents are lost in economic cost.

Payroll tax, which raises more than 25 per cent of ACT own-source tax revenue, is also inefficient, with an economic cost of 36 cents for every dollar raised. This compares with an average of 22 cents per dollar in other States.

The inefficiency of both taxes relates, in large part, to the narrow or limited base on which they are currently levied.

The Territory’s economy is highly susceptible to Commonwealth Government decisions on expenditure and program delivery. Duty on conveyances, in particular, can experience significant fluctuations as a result of Commonwealth fiscal policy.

Financing the reforms

General principles of public policy suggest that the overall public benefit of reform should outweigh the aggregate social costs. Invariably, there are distributional changes – the economic benefits of reform can accrue differently across the population over time and across the different levels of government.

Reform should provide community benefits, however, it also needs to be financed. These costs can be borne by the ACT Government budget, which in turn, flow onto all taxpayers, or alternatively designed to affect a particular group such as those benefiting from the reform directly.
A modern ACT tax system

Key points

- The ACT should reform its taxation system to provide efficient and sustainable revenue.

- The Panel recommends that long-term structural reform should include: abolishing duty on conveyances, general and life insurance, retaining a form of payroll tax as part of a diversified tax system, and providing replacement revenue through a broad-based land tax.

- A modern tax system should:
  - provide for stable revenue growth
  - facilitate economic activity
  - encourage structural reform, and
  - ensure equity and social prosperity.

The Panel considers that a modern ACT tax system should spread the taxation base more broadly and move away from unpredictable, unfair, and volatile revenue sources.

The modernised tax system recommended in this Review would see:

- duty on conveyances abolished
- payroll tax reformed to harmonise with NSW, and
- a broad-based land tax shared by all dwellings.

A broad-based land tax, as proposed in the AFTS Review, is the preferred base for revenue replacement. The ACT has ready access to this base in the form of general rates. The Panel proposes changes to the method of taxing for general rates.

To maximise the prospects of success, the reform options aim to achieve revenue neutrality in each year. The staged approach provides balanced incentives for future ACT Governments to complete the task.

The Panel proposes a change in the tax mix to improve the stability of the tax system. Given its local government functions, the ACT has a unique advantage in establishing a future taxation system with a broad-based land tax, which will help provide stable revenue growth.

The proposed reforms to land taxation should support economic activity.

The Panel considers that national consensus and joint action is warranted to progress certain structural reforms. The ACT can act now to improve the local situation, including through pursuing harmonisation of arrangements with other jurisdictions.

National Agreements to improve regulatory barriers have been supported by all the States and Territories in an effort to harmonise business administration in payroll tax, financial reporting systems and associated legislation. These reforms are seen as essential in the future. This Review has explored the impacts of harmonisation in relation to payroll, gambling and land taxes.

The Panel considers that concessions should continue to be a strong feature of the tax system in ensuring equity, social prosperity and to cushion the impact of reform.
Recommendations

The Panel makes the following recommendations in relation to overarching structural reform to the Government.

**Recommendation 1**

Adopt taxation instruments and settings that deliver stable revenue growth proportionate with economic growth.

**Recommendation 2**

With regards to long-term structural reform, over a period of time that is adequate for appropriate transition:
- abolish duty on conveyances
- retain a form of tax on payroll to maintain a diversified tax system
- abolish duty on general insurance and life insurance, and
- adopt a broad-based land tax as a base for revenue replacement.

**Recommendation 3**

Pursue measures and steps in the short-term that, individually and combined, make progress towards long-term structural reform.

**Recommendation 4**

To the extent possible, ensure that there are no disincentives for households and businesses to locate within Territory borders as opposed to the surrounding region.
Part 2
The current economy and tax systems

Commonwealth-State financial relations 24
People of the ACT 31
Composition of the ACT’s economy 37
The ACT's expenditure needs 43
Key policy objectives 48
Comparative analysis of ACT taxes 51
Commonwealth–State financial relations

Key points

- States and Territories are limited in their revenue raising capacity.
- The mismatch between Commonwealth and State revenue raising capacity and expenditure needs has been exacerbated by previous reforms which abolished State taxes without identifying appropriate State-based revenue replacement sources.
- Horizontal Fiscal Equalisation (HFE) has served States and Territories well as a principle to promote equitable community outcomes. However, major reform needs to be supported through mechanisms other than HFE.

Vertical fiscal imbalance

Financial arrangements between the Commonwealth, States and Territories are shaped by constitutional arrangements and inter jurisdictional agreements. These settings limit the taxation capacity of States and Territories (States).

The Commonwealth Government has the exclusive right to levy excise and customs duties, including specific taxes on goods such as fuel, alcohol and tobacco. It collects significantly more revenue than it needs for its own expenditure responsibilities, and States have a shortfall in revenue, known as Vertical Fiscal Imbalance (VFI).

The tax bases available to States relate to property, motor vehicles, insurance, land and labour.

Table 1  Annual growth in Commonwealth and State own source revenue and expenses, 2000-01 to 2009-10 and 2000-01 to 2007–08

<table>
<thead>
<tr>
<th></th>
<th>CAGR (2000-01 to 2009-10) (%)</th>
<th>CAGR (2000-01 to 2007-08) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commonwealth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Own source revenue</td>
<td>5.1</td>
<td>7.2</td>
</tr>
<tr>
<td>Own source expenses</td>
<td>6.8</td>
<td>6.2</td>
</tr>
<tr>
<td>States</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Own source revenue</td>
<td>7.5</td>
<td>6.6</td>
</tr>
<tr>
<td>Own source expenses</td>
<td>7.5</td>
<td>6.7</td>
</tr>
</tbody>
</table>


Table 1, shows the compound annual growth rate (CAGR) for Commonwealth and State own-source revenue and expenses from 2000-01 to 2009-10 and 2000-01 to 2007-08.5

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5 Growth rates to 2007-08 are provided to exclude the abnormal effects of global financial crisis on revenues and expenses for both the Commonwealth and States and Territories.
Between 2000-01 and 2007-08, growth in own-source revenue and expenses of States remained near parity. By contrast, Commonwealth own-source revenue grew faster than expenses during this time.

Over the period between 2008-09 and 2009-10, growth in Commonwealth expenditure exceeded revenue. This was the result of the stimulus measures which were implemented in response to the global financial crisis.

Financial transfers from the Commonwealth to States can be broadly categorised as either transfers under National Agreements, or redistributions of the GST.

Funding from National Agreements provides States with varying degrees of control over expenditure decisions. In general, this funding is tied to specific requirements whereas the GST distributions are not, and based on the application of HFE.

Australia has a high degree of VFI, which has increased since the introduction of GST. Growth in this imbalance and a comparison with other countries is shown in Chart 1.

**Chart 1** Vertical fiscal imbalance: a comparison of Australia with other federations

The AFTS Review noted the important role of State governments in facilitating economic activity and delivering services. However, its recommendations did not consider the need for States to retain discretion and flexibility in determining the appropriate mix of services for their populations. A reduction in the revenue from ACT taxes without replacement from another source would invariably reduce services, if a balanced budget was to be maintained. It would also lead to an increase in VFI.

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6 For example, the funding could be tied to a particular sector, such as education, or to the achievement of particular outcomes, outputs or performance targets, such as reduction in waiting times for elective surgery.


8 Provincial government level only for Canada. VFI has been defined as the transfer of federal funds from the central government to sub-national governments as a proportion of total sub-national revenue.
Horizontal fiscal equalisation

The objective of HFE is to give all States with the financial capacity to provide their citizens an equal level of service, taking into account their unique revenue and expenditure circumstances. Through HFE the Commonwealth Government distributes funds from a finite pool. When a State receives a greater share of the GST distribution, others receive less.

Distributions are based on annually updated assessments of per person relativities for each State, to which HFE is applied. The Commonwealth Grants Commission (CGC) recommends the per person relativities to the Commonwealth Treasurer, and GST is distributed accordingly.

In developing relativities, the CGC attempts to capture major differences in demographic, economic and geographic circumstances between the States. In making its assessment, consideration is given to factors which are outside the control of the States and potential rather than actual revenues raised by each jurisdiction.

Assessed needs can vary quite significantly over time, depending on the economic circumstances of jurisdictions. For example, a property market growth cycle in one State would influence the relative revenue generating ability of that State and reduce its needs. Similarly, on the expenditure side, the relative growth rates of population and age structure may change over time, leading to varying assessed needs.

Chart 2 and Chart 3 show assessed revenue and expense needs of the ACT over the three years to 30 June 2010. The per capita revenue needs of the ACT, assessed by the CGC, decreased by around 44 per cent in 2009-10 due to the relatively higher conveyance duty collections.

The Panel’s view is that HFE is not an appropriate mechanism to support and finance tax or economic reform.

9 In 2008-09, the ACT received an increase in its assessed revenue needs due in part to mining royalty collections in resource rich states. In 2009-10 however, as economic conditions tempered due to global circumstances, the ACT’s relatively strong economic performance reduced its revenue needs.

**Chart 2** ACT assessed revenue needs

<table>
<thead>
<tr>
<th>Year</th>
<th>Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>141.5</td>
</tr>
<tr>
<td>2008-09</td>
<td>185.0</td>
</tr>
<tr>
<td>2009-10</td>
<td>104.5</td>
</tr>
</tbody>
</table>

**Chart 3** ACT assessed expense needs

<table>
<thead>
<tr>
<th>Year</th>
<th>Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>-69.3</td>
</tr>
<tr>
<td>2008-09</td>
<td>-71.7</td>
</tr>
<tr>
<td>2009-10</td>
<td>-72.5</td>
</tr>
</tbody>
</table>

ACT’s reliance on federal transfers

States and Territories have differing levels of reliance on financial transfers from the Commonwealth. The ACT is one of the less reliant jurisdictions, receiving on average 41 per cent of its revenue from the Commonwealth Government over the last 10 years.

Various factors influence the ACT’s GST share. On the revenue side, key factors include a lack of mineral resources and the limited taxable land base. The ACT Government cannot tax the Commonwealth Government, meaning large parcels of land, most notably the Parliamentary Triangle, are exempt from land taxes.

Even though the Commonwealth Government is payroll tax exempt, the level of payroll tax collected in the ACT reduces its share of the GST. This reflects above average payroll tax collection, a strong labour market with one of the highest average wages in the country, the highest nationwide participation rate, and historically low unemployment rates.

On the expenditure side, the relatively high socio-demographic population and high levels of urbanisation influence the need for government provided services.

Chart 4 Composition of State revenue sources, 2009-10


A declining GST share indicates that a State or Territory is outperforming its counterparts and therefore its community requires less in the way of financial support.
Implications for reform

The CGC revenue assessments were an important consideration for the Panel. This includes potential second round effects that could occur due to reforms to existing taxes, although these effects should not be a barrier to reform.

There are a number of avenues that can be explored to ensure States retain the benefits of local reform. HFE may not be the preferred way to achieve this objective.

Stability of federal financial transfers

Chart 5  Total federal financial transfers to the ACT, 2001-02 to 2009-10

Trends in financial transfers were affected by the reform of Commonwealth-State financial relations in 2008, which established a framework of performance and accountability, and incorporated updated escalation rates for high growth services, such as health and disability services.

The Commonwealth’s economic stimulus measures, in response to the global financial crisis, were partly implemented through increased funding to States, particularly for education and public housing initiatives, meaning a significant growth in grants in 2008-09 and 2009-10.

The composition of Commonwealth grants to the ACT has changed slightly over the past decade. Untied grants provide between 53 and 62 per cent of total grants. Growth in tied and untied grants varied significantly during this period, as demonstrated in Table 2.

Aggregate economic growth may increase or decrease the overall GST pool, as can factors such as comparative population growth, property market performance, and other economic and labour market conditions.

The overall GST pool has been relatively stable since its introduction, with a one per cent increase in Gross Domestic Product (GDP) leading to a 0.99 per cent increase in GST revenue on average. The volatility in GST revenue from year to year is low, with a standard deviation from long run growth of around 5.6 per cent. However, the share that the ACT receives had considerable volatility.

10 A component of growth in 2008-09 and 2009-10 also related to the new Intergovernmental Agreement on Federal Financial Relations and associated funding package agreed to by the Council of Australian Government.
Most Commonwealth provided tied grants are equalised across jurisdictions on a population share basis, so if a State receives more than its population share in a tied grant, its GST share is reduced. In effect, this overrides the fiscal arrangements underpinning federal policy in areas of State service delivery. It does not overturn policies themselves, particularly where funding is tied to a project or outcome, but it nullifies the fiscal impact on States’ budgets. This is intended to avoid inequitable shares of federal grants being provided on the basis of political objectives rather than genuine need.

Tied funding ensures that projects of interest to the Commonwealth Government are delivered. Generally, tied federal grants can be much more variable than untied payments, depending on Commonwealth priorities.

<table>
<thead>
<tr>
<th>Table 2</th>
<th>Change in composition of federal grants to the ACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tied ($ million)</td>
<td>452</td>
</tr>
<tr>
<td>Compound Growth over 2001-02 (%)</td>
<td>-11.1</td>
</tr>
<tr>
<td>Untied ($ million)</td>
<td>544</td>
</tr>
<tr>
<td>Compound Growth over 2001-02 (%)</td>
<td>13.2</td>
</tr>
<tr>
<td>Proportion Untied (%)</td>
<td>54.6</td>
</tr>
</tbody>
</table>

Source: Australian Capital Territory, Consolidation Annual Financial Reports.

<table>
<thead>
<tr>
<th>Chart 6</th>
<th>Growth in untied and tied federal grants to the ACT, 2001-02 to 2009-10</th>
</tr>
</thead>
</table>

Source: Australian Capital Territory, Consolidation Annual Financial Reports.

11 Notably there are timing issues to consider as there is a lag between when a State receives a direct federal grant and when its GST share may be reduced.
Commonwealth Government involvement

Taxation reforms should be underpinned by Commonwealth support to ensure that it does not have an adverse impact on the Territory’s GST entitlement.

The Commonwealth Government’s engagement and support will be vital, not only for pursuing the national agreements recommended in the AFTS Review but also for helping ensure ACT reform does not adversely affect the Territory.

For example, removing or reducing inefficient taxes will have benefits for the Territory economy and community. However, the Territory’s GST entitlements could be adversely affected through a redistribution of the revenue gains, or a higher revenue raising capacity assessment due to improvement in economic efficiency.

GST Distribution Review

The Commonwealth Government has commissioned a review of current GST distribution arrangements. The Terms of Reference of the GST review were expanded in November 2011 to include recommendations on incentives and disincentives to improve the efficiency of State taxes. This is indicative of the Commonwealth’s intention to use GST distribution formulae as a mechanism to drive changes to State taxation policy settings.

The Panel considers that HFE and the GST distribution formulae are not the appropriate policy tools to influence State taxation settings.

The expanded Terms of Reference, however, seek to address a concern raised by this Review as well as others that HFE should not be a disincentive to State tax or economic reform.

Recommendations

The Panel makes the following recommendations to the Government.

Recommendation 5

Engage the Commonwealth Government and seek its support in pursuing any taxation reform.

Recommendation 6

Seek Commonwealth support in ensuring that taxation reforms do not impose unintended penalties through the application of the GST distribution process.
People of the ACT

Key points

- The ACT has the highest standard of living in Australia with a relatively younger, highly educated and productive population. It has the lowest levels of disadvantage in the country. Average household incomes are around 20 per cent higher than the national average.

- Differences in wealth and income are most noticeable in households in the bottom two and the fourth income quintiles. On average households in these quintiles record average net wealth around 34 per cent higher than nationally.

- As the population ages, the dependency ratio is projected to change from just over 40 per cent in 2011, to almost 60 per cent in 2055.

- The relatively higher socio-economic profile of the ACT indicates capacity to support reform.

The higher standard of living in the ACT provides a more stable taxation base on which to undertake reform. On average across all households, the ACT records 16 per cent higher average net wealth than Australia. Differences in wealth and income are most noticeable in households in the bottom two and the fourth income quintiles. In the ACT, these quintiles record an average net wealth around 34 per cent higher than nationally.

Notwithstanding this, the Territory is facing numerous demographic challenges, such as population ageing, that will affect the Government’s ability to meet service needs.

In 2011, an estimated 363,764 people resided in the ACT. This is about 1.6 per cent of the Australian population. By 2030 Canberra’s population is expected to be around 453,000, up 24.6 per cent, and by 2043, it is projected to be 500,000.

The median age in the ACT is around 33.9 years. This is around three years younger than the national median age. The median age is expected to rise to 37.5 by 2030, and 39.9 by 2059.

Between 2007 and 2030, the proportion of individuals aged between 0-24 and 25-64 is expected to decline by 3 and 4.5 per cent respectively, and the proportion aged over 65 to increase by 7.5 per cent.

In the coming decades, the number of individuals outside the workforce who are likely to require the support of others in their daily life, such as the young and the elderly, relative to the number of individuals in the workforce will increase. Those requiring support will grow from just over 40 per cent in 2011 to almost 60 per cent in 2055. Aged dependency is

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13 Ibid.


expected to double to more than 30 per cent, while child dependency will be largely stable at around 25 to 30 per cent. These ratios are, however, lower than the Australian average, and relatively low compared to other OECD members and developed nations. The participation rate for older cohorts is also increasing.16

Chart 7  Distribution of ACT population by age, 2007, 2030 and 2056.

<table>
<thead>
<tr>
<th></th>
<th>0–24</th>
<th>25–64</th>
<th>65+</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>34.7%</td>
<td>55.6%</td>
<td>9.8%</td>
</tr>
<tr>
<td>2030</td>
<td>31.6%</td>
<td>51.1%</td>
<td>17.3%</td>
</tr>
<tr>
<td>2056</td>
<td>30.3%</td>
<td>50.1%</td>
<td>19.6%</td>
</tr>
</tbody>
</table>


Income profile

The income profile of the Territory provides a base for assessment of the possible impacts of reforms and the associated need for government assistance. Based on ABS data, the ACT has the highest income profile across all income quintiles in Australia. This can be attributed to a combination of low unemployment at 3.8 per cent, a high participation rate at 72.1 per cent, the highest average number of employed persons per household and the large proportion of public sector employment.17

In the June quarter 2011, the seasonally adjusted average weekly ordinary time earnings (AWOTE) in the ACT were around $1,529, about 15 per cent higher than the national average of $1,323.18 Mean weekly gross household income in the ACT in 2009-10 was $2,024, or about 52 per cent higher than the national average equivalent weekly figure of $1,323.

In 2009-10, the mean gross household income per week for the lowest ACT income quintile was $577, or around $30,004 annually. That was about 60 per cent higher than the comparative figure nationally for the bottom quintile at $360 per week or $18,720 annually.
Income equality and equity

The ACT has relatively greater income equality. The bottom two income quintiles earn around 16 per cent of total income, compared with 14 per cent nationally.

Chart 8  Income share across income quintiles

![Chart showing income share across income quintiles](chart.png)


Household characteristics by income

There are currently 139,793 households in the ACT, with an estimated average of 2.6 people per household.\(^{19}\) Around 75 per cent of households receive their main source of household income from wages and salaries, compared with 61 per cent nationally.

In 2009-10, pensions and allowances provided the main household income for an estimated 10 per cent, or 13,600 households, in the ACT, compared with 25 per cent nationally.\(^{20}\) Of those, around 47 per cent were aged pensioners; 38 per cent received disability and carer payments; and 15 per cent received unemployment and study payments. Twenty three per cent of households received family support payments.

Around 70 per cent of ACT households own their own home, 41 per cent with a mortgage and 29 per cent without, compared with 69 per cent nationally.\(^{21}\)

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\(^{21}\) Ibid.
ACT households: net worth by income quintile

Households in the second income quintile have the same average income as the third income quintile nationally and high net worth.

ACT households in the third, forth, and fifth income quintiles also have higher incomes than the national average, but have lower net wealth. This reflects a relatively younger population in earlier stages of life with higher mortgage rates.

**Chart 9**  Mean household net wealth by income quintiles, 2009-10


* Estimates have a relative standard error of 25 per cent to 50 per cent and should be used with caution.
ACT households: by family composition

In 2009-10, 55 per cent of households in the ACT comprised couples, around six per cent comprised of single parent families with dependent children, and 22 per cent were lone person households. Lone person households were most predominant in the bottom income quintile, representing around 68 per cent of all households in that quintile.

Households experiencing significant financial stress

The number of ACT households experiencing significant financial stress in 2009-10 was similar to that observed nationally within the bottom income quintile, and around eight per cent higher for those in the second lowest income quintile. Overall, ACT households recorded less incidences of significant financial stress on average, at 9.6 per cent compared with the Australian average of 16.4 per cent.

Chart 10 Household Expenditure Survey, Australia: Summary of Results 2009-10, Cat. No. 6530.0, ABS, Canberra.
Access to short-term funds

The capacity to raise funds of around $2,000 for short-term unexpected costs is considered an indicator of the ability of a person or household to cope with unexpected financial stress. Against this indicator, the ACT recorded higher levels of financial stress in the bottom two income quintiles at around 30 per cent for the lowest and 23 per cent for the second. This was slightly higher than the Australian average of around 27 per cent and 19 per cent, respectively.

However, the ACT recorded significantly lower levels of financial stress across all other income quintiles, with an average of 9 per cent compared with the Australian average of 14 per cent.

The Panel noted that the higher levels of financial stress for those in the bottom two quintiles, when seeking short-term funds, indicate there is scope for further assistance, through the concessions system, for low-income households that experience unexpected short-term costs.

Chart 11 Households unable to raise short-term funds by income quintiles, 2009-10

Composition of the ACT’s economy

Key points

- The ACT has a high proportion of public sector employment at 50.2 per cent of total employment, compared with 25.8 per cent nationally.
- Public sector activity reduces exposure to changes in the economic cycle, but increases vulnerability to Commonwealth Government policy and expenditure decisions, compared with other jurisdictions.
- The funding shortfall that arises from cross-border impacts is expected to rise as the regional population growth outstrips that of the ACT.
- The ACT’s land stock provides a base for estimating revenue capacity, until such time as it may be exhausted or augmented. It also provides a proxy on future economic capacity.

The ACT’s economic composition reflects its position as the national capital. Public sector employment accounts for around half of the ACT’s total employment. Nearly 62 per cent of these public sector employees work in public administration and safety, 20 per cent in education and training, and 18 per cent in health care and social assistance.

The ACT also has a robust private sector, accounting for 49.8 per cent of employment (74.2 per cent Australia wide).

Table 3  Private and public sector employment in ACT and Australia

<table>
<thead>
<tr>
<th></th>
<th>ACT (%)</th>
<th>Australia (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector</td>
<td>49.8</td>
<td>74.2</td>
</tr>
<tr>
<td>Public Sector</td>
<td>50.2</td>
<td>25.8</td>
</tr>
</tbody>
</table>


The largest industries within the ACT in terms of employment include public administration and safety (36.0 per cent), professional, scientific and technical services (9.9 per cent), and construction (8.9 per cent). The ACT differs from the national average most significantly in public administration and safety due to its high level of public sector employment.

There are some industries that the ACT economy naturally cannot support, for example, mining and agriculture. These are unlikely to ever be significant sources of economic activity in the ACT.
## Table 4  Composition of industry in terms of employment in ACT and Australia

<table>
<thead>
<tr>
<th>Industry</th>
<th>ACT Proportion of Total Employed (%)</th>
<th>Australian Proportion of Total Employed (%)</th>
<th>Difference (ACT - Aust)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry and Fishing</td>
<td>0.1</td>
<td>2.9</td>
<td>-2.8</td>
</tr>
<tr>
<td>Mining</td>
<td>0.1</td>
<td>2.7</td>
<td>-2.6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1.6</td>
<td>10.2</td>
<td>-8.6</td>
</tr>
<tr>
<td>Electricity, Gas, Water and Waste Services</td>
<td>1.1</td>
<td>1.6</td>
<td>-0.5</td>
</tr>
<tr>
<td>Construction</td>
<td>8.9</td>
<td>11.1</td>
<td>-2.2</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>1.7</td>
<td>4.3</td>
<td>-2.7</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>5.0</td>
<td>8.1</td>
<td>-3.1</td>
</tr>
<tr>
<td>Accommodation and Food Services</td>
<td>4.3</td>
<td>4.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Transport, Postal and Warehousing</td>
<td>1.9</td>
<td>5.9</td>
<td>-4.0</td>
</tr>
<tr>
<td>Information Media and Telecommunications</td>
<td>2.0</td>
<td>2.1</td>
<td>-0.1</td>
</tr>
<tr>
<td>Financial and Insurance Services</td>
<td>1.0</td>
<td>4.4</td>
<td>-3.4</td>
</tr>
<tr>
<td>Rental, Hiring and Real Estate Services</td>
<td>1.4</td>
<td>1.8</td>
<td>-0.4</td>
</tr>
<tr>
<td>Professional, Scientific and Technical Services</td>
<td>9.9</td>
<td>8.6</td>
<td>1.3</td>
</tr>
<tr>
<td>Administrative and Support Services</td>
<td>3.3</td>
<td>3.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Public Administration and Safety</td>
<td>36.0</td>
<td>7.6</td>
<td>28.4</td>
</tr>
<tr>
<td>Education and Training</td>
<td>8.6</td>
<td>6.5</td>
<td>2.1</td>
</tr>
<tr>
<td>Health Care and Social Assistance</td>
<td>7.4</td>
<td>9.4</td>
<td>-1.9</td>
</tr>
<tr>
<td>Arts and Recreation Services</td>
<td>1.8</td>
<td>1.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Other Services</td>
<td>3.8</td>
<td>4.1</td>
<td>-0.3</td>
</tr>
</tbody>
</table>


**Note**  Numbers in table may not add due to rounding.
Economic risks and sensitivities

The composition of the ACT economy is reflected in the components of demand contributing positively to State Final Demand (SFD) growth. Since 2000-01, around 60 per cent of the ACT’s SFD has been driven by public consumption and investment.

**Chart 12 Components of demand contributing to SFD growth**

Commonwealth Government consumption makes the largest contribution at 52 per cent of all SFD growth. In 2010-11, Commonwealth Government activity represented around 34.5 per cent of investment spending and 56.6 per cent of all consumption.

The large public service presence in the ACT means both the public and private sectors of the economy have less exposure to changes in the economic cycle. Conversely, it also means the ACT has greater vulnerability to Commonwealth Government policy and expenditure decisions compared with other jurisdictions. In the medium term, some uncertainties remain around the extent of fiscal consolidation by the Commonwealth Government and the associated impact on the ACT.

**Regional and cross-border impacts**

Forty-five per cent of the ACT’s geographical land mass is national park reserve, with the remaining land either urban or rural leases or ACT administered parks and wildlife reserves.

Canberra is a significant employment hub for surrounding NSW. On average, more than 21,000 people commute daily from NSW to the ACT for employment. An estimated 4,300 Canberrans commute to NSW daily for employment, mostly to Queanbeyan.
While other States experience cross-border flows where cities or towns are located alongside a border, the scale of movement between the ACT and the region is significantly different. Cross-border economic and employment flows are generally reasonably symmetrical in most other States. This is in stark contrast to the Australian Capital Region.

Surrounding NSW residents rely on the ACT for key services such as health and education. For example, the self-sufficiency of the Greater Southern Area Health Service for acute care is in the order of 75 per cent. Cross-border students make up roughly 10 per cent of enrolments in ACT schools.

The ACT is compensated for the delivery of some services to cross-border residents through inter-jurisdictional agreements or through the CGC’s assessments of revenue sharing relativities that are used to distribute GST revenues. However, payments for cross-border service delivery do not appear to provide adequate compensation to the ACT.

The Panel understands that in some cases the lack of robust information, for example, in relation to enrolled students or offenders being managed through the judicial system, is one reason for the shortfall in payments.

Even if concerns around underreporting and shortcomings of data were addressed, the Territory would continue to incur net fiscal costs because:

- some services, such as health care, are uncapped under National Agreements, and as such, the demand risks are entirely with the Territory
- cost-recovery mechanisms may be structured to provide reimbursement funding in respect of the national average cost of providing a service, not the ACT’s specific costs
- the CGC’s equalisation framework covers State government functions only. It does not attempt to provide compensation for local government services provided to cross-border residents, and
- cost allocations and attributions may be on a marginal basis, although the level of services provided is not marginal.

The shortfall in funding for cross-border service delivery is expected to rise as the regional population outstrips growth within the ACT.

It is estimated that cross-border residents have an average net fiscal cost of more than $2,000 per person. These costs represent a shortfall in direct or indirect revenue per person for substituted population growth occurring in surrounding regions.

The factors influencing preferences to locate in surrounding NSW need to be understood. However, it is reasonable to conclude that land supply constraints and housing affordability in the ACT would be significant factors.

Land supply constraints are expected to have significant adverse impacts for the ACT economy. The table below provides selected economic outputs for the Territory under a simulated zero population growth scenario with all expected population growth occurring in adjacent areas of NSW. The model used for the analysis allows labour and other resources to move freely between regions and jurisdictions. The figures in Table 5 represent the deviation of the simulated scenario from the ‘base case’ where the Territory’s population growth follows its long-run historical path.

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25 This estimate is based on a measure concerning the intensity with which NSW residents would, on average, access ACT Government provided services, compared to an in-border resident. The measure has been derived using a combination of ACT expenditure estimates, actual cross-border usage data and CGC data.
Part 2  The current economy and tax systems

Table 5  Selected macroeconomic impacts for the ACT – zero population growth simulation (difference compared to baseline scenario)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GSP ($ million)</td>
<td>-115</td>
<td>-214</td>
<td>-973</td>
</tr>
<tr>
<td>percentage change (%)</td>
<td>-0.5</td>
<td>-1.1</td>
<td>-2.7</td>
</tr>
<tr>
<td>Real consumption ($ million)</td>
<td>-1,170</td>
<td>-1,155</td>
<td>-2,991</td>
</tr>
<tr>
<td>percentage change (%)</td>
<td>-10.6</td>
<td>-9.5</td>
<td>-19.1</td>
</tr>
<tr>
<td>Budget impact ($ million)</td>
<td>-140</td>
<td>-153</td>
<td>-365</td>
</tr>
<tr>
<td>Employment FTEs</td>
<td>610</td>
<td>-603</td>
<td>-835</td>
</tr>
</tbody>
</table>

Source  Macroeconomics.

Modelling indicates that the effects are significant and increasing over time. The initial impact of a population growth slowdown in the ACT and, thus, a reduction in the supply of available labour would drive an increase in real wages. Whilst higher wages attract more workers and employment increases in the short run, these benefits are short lived. A steady decline in demand in the ACT would lead to falling output, employment, and real wages over time.

This analysis confirms that development of the surrounding region has benefits for the Territory’s economy, and to the extent possible, the ACT should support developments in the region. This should not, however, be at the expense of growth in the Territory as there would be a net fiscal cost. To the extent possible, considerations of availability of land and housing affordability should be equalised for households making locational choices between the ACT and its surrounding region.

In this context, the Review has explored reform options that may assist in encouraging households to reside in the ACT.

The ACT’s economic capacity

Land and other resources are important foundations for economic activity and future taxation revenue. In considering the future taxation system for the ACT, it is necessary to understand the limitations on economic capacity and the implications for revenue growth.

Land stock provides a baseline for estimating revenue capacity during the time horizon over which it may be exhausted or need to be augmented. The stock of developable land also provides a proxy on unused future economic capacity and land availability to support a growing population.

Current forecasts for average annual residential dwelling demand range from between 2,800 to 3,000 dwellings per annum to 2030.26

The Territory Plan identifies approximately 5,600 hectares of land which can be used as future urban areas in the ACT in the short to medium term. This land has the capacity to support about 48,300 new residential dwellings, in addition to separate commercial and industrial uses, and has an estimated value of around $3.2 billion.27 Based on current estimates of residential demand and government policy, this land could provide around 70 years of residential dwelling supply.28

28 Ibid.
In the medium to longer-term, capacity exists for about 70,000 additional dwellings under current estimates.

Land within existing urban areas that could be redeveloped to higher value use is estimated to have capacity for around 61,000 additional dwellings. Half of these are proposed for established urban areas, where the capacity is considerably higher but the realisation of capacity depends on community preferences, timing of urban redevelopments and associated infrastructure provisions.

There is an estimated 160 hectares of existing urban unleased land within current developable urban areas, with a value of between $500 million to $600 million. Such land tends to have an existing use either by the Territory or the community, may comprise of small odd shaped parcels of residual land or require minimal work to provide services such as roads, power and water.

Aggregating the various types of developable land provides an estimated total future capacity of around 153,000 dwellings for land outside the current urban areas.\(^{29}\) Based on current population forecasts\(^{30}\) and a government policy of 50 per cent of residential dwelling demand being met from infill, this represents around double the current number of dwellings available within the ACT, and provides capacity for around 100 years of population growth.

\(^{29}\) CB Richard Ellis, unpublished, Land Asset Review, Canberra.

The ACT’s expenditure needs

Key points

- ACT Government expenditure on service provision has grown an average of 6.5 per cent annually over the last decade and is expected to reach $4.1 billion in 2011–12.
- The costs of providing services in areas such as health care and disability have been increasing at rates well above the normal escalation rates for inflation or population growth in all jurisdictions.
- Currently health expenditure accounts for 26 per cent of the budget. This is expected to grow to 37 per cent by 2030.
- Based on historical economic growth, projected expenditure growth is not expected to outpace economic growth.

The ACT Government provides a diverse range of services to the community, including municipal functions that are commonly the task of local councils.

Over the last decade, ACT Government service provision has increased, with expenditure growing an average 6.5 per cent annually, and expected to reach $4.1 billion in 2011-12. Health and education, growing at 26 per cent and 23 per cent respectively, are the major individual expenditure components.

The costs of providing services in areas such as health care and disability have been increasing at rates well above the normal escalation rates for inflation or population growth in all jurisdictions. For example, health expenditure currently accounts for 26 per cent of the budget. This is projected to grow to 37 per cent by 2030, driven by population ageing.

Chart 13  Per capita ACT Government expenditure by age cohort, 2007-08

Source  ACT Treasury.

32 The Commonwealth-State funding agreements recognise the growth in both price and use of services, through incorporating escalation rates of 8.4 per cent for health care and 6.9 per cent for disability services.
Invariably, governments face difficult policy choices when allocating resources. For the purposes of this Review, future expenditure needs have been estimated based on an annual expenditure growth rate for the projection period that could be reasonably described as ‘policy neutral’.

**Chart 14** Projected population growth, ageing, and aggregate expenditure growth, 2011-2056

Demographic projections suggest ageing will be less of a concern in the longer term than it is today. A much greater challenge for the future will be cost escalation in certain sectors of the budget.

Two scenarios of annual expenditure growth were modelled. These were based on historical growth and demographic changes respectively. Both approaches provide projections of compound annual average growth that are similar and within each other’s upper and lower bound estimate.

Both models produce comparable growth rates. The historical growth model indicates a central estimate of expenditure growth of 5 per cent per annum (plus or minus 1 per cent). More detailed analysis is provided in Appendix E.

The demographic growth model provides a central estimate of 5.25 per cent per annum (also plus or minus 1 per cent). The model projects expenditure, population and demographic changes and growth rates for major expenditure items such as health, education, disability.

There will be variations around these central estimates, resulting from factors such as changes in efficiency, demand for services, decisions on levels of service, and new policy initiatives.
Although the expenditure growth rate appears stable through time, there are small differences from year to year. These are due to changes in the composition of expenditure, for example, health as a share of the budget growing, as well as population growth and ageing. In the medium term, population growth becomes less of a contributing factor to expenditure growth while ageing increases in importance.

These growth projections were benchmarked by comparing the estimates with long-run growth in the economy. The Territory’s nominal Gross State Product (GSP) has grown at an annual rate of 6.5 per cent over the past 20 years. This suggests that, based on historical economic growth, projected expenditure growth is not expected to outpace economic growth.

This observation is premised on efficient revenue instruments being used to draw on economic growth and meet the expenditure needs. Achieving historic trend growth over the coming decade will be a challenge for governments. In addition to the substantial expenditure pressures in areas of service delivery such as health, there will be an ongoing need for investment in infrastructure to support economic growth and development. This includes replacement and provision of new infrastructure to meet the needs of a growing city.

Further information on the ACT’s expenditure and service levels are included in Appendix F.

Source ACT Treasury.
Composition and growth of total revenue

From 2000-01 to 2009-10, ACT general government sector revenue grew at around 7 per cent per annum.\textsuperscript{34}

Chart 16 categorises the main revenue components. The growth in Commonwealth grants, taxes, fees and fines and user charges have been relatively steady, representing around 85 per cent of revenue. The greater volatility in other revenue streams is largely due to one off events, such as large insurance recoveries or changes in returns on financial investments. Of particular note is the relatively higher growth in commercial revenues from 2006-07, mainly from increased land development generally and ACT Government affordable housing policies.

In the earlier years of the decade the land supply system in the Territory, similar to other jurisdictions, could not respond to the sharp surge in demand. This resulted in above normal activity and revenues from land supply in subsequent years. This is a short-term adjustment that should be viewed as the response of the budget to changing economic circumstances. Once the land supply system returns to normal, revenue from commercial activities will need to adjust proportionately.

\textbf{Chart 16} Contributors to total revenue

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{chart16.png}
\caption{Contributors to total revenue}
\end{figure}

\textbf{Source:} ACT Treasury.

\textsuperscript{34} Derived from Australian Bureau of Statistics, various, Government Financial Statistics, Cat. No.5512.0, ABS, Canberra and ACT Treasury data.
There has been little change to the overall composition of revenue sources. Commonwealth revenue has remained between 40 to 50 per cent, taxes total around 30 per cent, fees and users charges at 10 per cent, and commercial and other revenue at 15 per cent.

Commonwealth grants, own-source revenue and user charges are all stable revenue sources, having recorded low, average annual variances typically between 7 to 8 per cent and consistent compounded annual growth rates of around 6 to 7 per cent over the past 10 years.

Commercial revenue had the highest annual variability with 10 year average annual movements of 35 per cent and a compounded annual growth rate of around 13 per cent.

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**Chart 17** Composition of revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Taxation revenue</th>
<th>Fees, fines and user charges</th>
<th>Commercial activities</th>
<th>Other</th>
<th>Commonwealth grants</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000–01</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001–02</td>
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<td>2002–03</td>
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<td>2003–04</td>
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<td>2004–05</td>
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<td>2005–06</td>
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<td>2006–07</td>
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<td>2007–08</td>
<td></td>
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<td>2008–09</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>2009–10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source** ACT Treasury.
Key policy objectives

Key point

- Taxation structures reflect successive decisions of governments and localised circumstances. Decisions to reform a suite of or individual taxes must therefore be informed by the priorities of the government of the day.

The Panel has made recommendations that reflect the following,

- Structural reform must support local economic development and ensure the Territory is well placed to benefit from its unique position as the seat of national government in the growing Australian Capital Region.
- Revenue raising measures should be equitably distributed across the community. They should not disadvantage groups or impose prohibitive costs to the community. Targeted assistance should be provided to the most vulnerable.
- Affordable housing outcomes should be supported across the range of tenure options. Entry to the property market should not be inhibited.
- Urban densification should be supported. This includes taking measures to protect existing revenue bases by transitioning these to sustainable alternative bases.
- Improved environmental outcomes must be facilitated. Measures that support sustainable transport options locally and as part of national reforms are necessary to respond to increased congestion.

The Panel has also been mindful of the role of taxation systems in supporting levels of expected services to the community. Taxes and tax settings should ensure that present and future generations do not endure reduced levels of services or the higher economic costs of an unfair and inefficient tax system.

Economic development

Tax arrangements can influence the decisions of business to invest in, or individuals to relocate to, a particular jurisdiction. This is a particularly pertinent consideration for the ACT given its proximity to NSW and cross-border dynamics, local municipal service arrangements, the role of the Commonwealth as an employer, and its economic diversity.

Investments in essential services and infrastructure are necessary to support growth of the local economy. Revenue stability allows for this on an ongoing basis and is particularly desirable for the ACT as a provider of both State and municipal services.

The focus of the Review has been to assess the feasibility of the proposed structural reforms, and design and transition arrangements that will provide adequate revenue while also supporting economic growth.

Cost of living

Income levels, the price of goods and services, and policy settings all influence the overall cost of maintaining a socially acceptable, minimum standard of living. The impact of taxation policies on living costs should feature in any decisions of government to undertake reform.
Pension levels, many tax rates and some significant rebates in areas like Medicare and childcare are set by the Commonwealth which limit the capacity of State and local governments to influence overall costs of living to some extent.

Acknowledging this role, this Review has assessed the impact of taxes, rates, fees and charges within the control of the ACT Government on household budgets. These are areas in which the ACT Government can influence the distributional impact, quantum, incidence and thresholds of taxes, rates and fees.

### Housing affordability

Housing affordability is a complex issue that is influenced by a range of factors including land supply, interest rate settings, credit availability and planning as well as the socio-economic profile of a jurisdiction.

The key taxation settings which impact investment within the housing market, and in turn affordability, are negative gearing, capital gains tax and land tax. Significant reform in this area is dependent on Commonwealth leadership.

Real Estate Institute of Australia (REIA) data shows that the average proportion of family income required to meet a home loan repayment in the ACT is 18.8 per cent, compared with the national average of 34.6 per cent.\(^{35}\) The proportion of family income required to meet rent payments in the ACT is 16.5 per cent, compared with the national average of 25 per cent.

While at an aggregate level there does not appear to be high levels of housing stress in the ACT, it should be acknowledged that households in the bottom ACT income quintile typically encounter costs in this area which are disproportionate to their income.

In coming years, it will be important to ensure that higher levels of suitable housing are available to meet growing demand by those aged over 65, with commensurate benefits for accommodation more generally. Land supply and pricing policies should support a dynamic housing market, both for the rental and owner-occupation markets, with an adequate supply of affordable land for housing for those at the margins of home ownership.

Changes to taxation can assist in better allocation of stock, improvement in the vacancy chain, and increased investment in the housing market. Those improvements are canvassed in the respective chapters on conveyance duty and land tax.

### Urban densification

Urban densification in the ACT can maximise the environmental and economic benefits of using existing infrastructure.

The ACT Government has a target of 50 per cent of the dwelling demand being met by urban infill over the coming decade. Residential areas that can support urban densification have been identified as existing town centres and along major transport routes.

Increasing urban density in keeping with community expectations of service, infrastructure and sustainability outcomes requires planning regulations that reflect appropriate land variation charges.

A more equitable distribution of rates on the basis of consumption of land as well as market values will support policy objectives of urban densification and land value capture. However, transitioning to these arrangements will need to be gradual and occur over a long time while also managing distributional impacts.

Sustainable transport
The ACT Government has a target of a 40 per cent reduction in greenhouse gas emissions by 2020 based on 1990 levels.

Various policy levers can be used to drive sustainability outcomes. This can include taxation settings and subsidies, although it is important to recognise that implementing these measures at the local level can be complex.

Current ACT road user charges include vehicle registration fees, motor vehicle duty on transfers and initial registrations, and parking fees. Targeted signals through these changes can help reduce congestion and improve environmental outcomes.

However, improving the overall efficiency of the ACT transport system in an environmentally sustainable way will require other policy responses, such as sustainable transport models that reduce traffic congestion, road accidents, air pollution and the cost of building and maintaining transport infrastructure.

Over the longer term, taxation and user charge settings to capture the environmental, infrastructure and social costs associated with the running of a vehicle, should be progressed as part of a nationally driven approach.
Comparative analysis of ACT taxes

Key points

- The ACT’s tax mix is broadly consistent with other jurisdictions, except for mining royalties and conveyances.
- The ACT has relatively higher than average capacity to raise taxes from transactions and lower than average capacity to tax land. It raises more revenue from land taxes.
- Taxation revenue in the ACT relative to the size of the economy, incomes and employed persons is well below the national average, attributable to the relatively higher output in the economy, higher incomes and a higher participation rate.
- Lower taxation relative to incomes is not a justification for increased taxation, but does indicate capacity to support long-term tax reform.

Comparison with other jurisdictions

Comparison with other States is important for assessing the reasonableness of ACT taxation levels and growth paths.

While there are inevitable differences between States and Territories in terms of how they collect taxation revenues, due to capacity, policy, and economic conditions, the ACT’s taxation mix appears to be within the norm.

The ACT’s taxation relative to a range of economic parameters such as output as measured by GSP per head of population, disposable incomes, and employed persons is below the national average.

Jurisdictions generate tax revenue broadly in line with population shares as shown in Table 6. In 2009-10, State and local governments collected around $66 billion in taxation, with the ACT collecting around $1.1 billion or 1.7 per cent.36

Table 6  Proportion of total State and local government taxation and population, 2009-10

<table>
<thead>
<tr>
<th></th>
<th>NSW (%)</th>
<th>VIC (%)</th>
<th>QLD (%)</th>
<th>WA (%)</th>
<th>SA (%)</th>
<th>TAS (%)</th>
<th>ACT (%)</th>
<th>NT (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of total states and local government taxation</td>
<td>33.7</td>
<td>25.6</td>
<td>18.0</td>
<td>11.4</td>
<td>7.1</td>
<td>1.7</td>
<td>1.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Proportion of total population</td>
<td>32.4</td>
<td>24.8</td>
<td>20.2</td>
<td>10.3</td>
<td>7.4</td>
<td>2.3</td>
<td>1.6</td>
<td>1.0</td>
</tr>
</tbody>
</table>

The ACT’s assessed capacity to generate revenue from land-based taxation is well below average and its assessed revenue raising capacity from transactions is above the national average. The Territory’s actual taxation effort on transactions is lower than the national average but higher on land.

Relatively lower taxation per capita in the ACT is not a justification for increasing taxes. However, it does suggest capacity to absorb some of the distributional impacts of any reform and transition to a changed taxation base. Taxation instruments and recent changes across States’ taxes are in Appendix G.

The resource rich states of Queensland (QLD) and Western Australia (WA) have had the most rapid growth in total tax revenues over the last 10 years.

**Chart 18** State and local government taxation revenue per capita, 2009-10

![Chart 18](image)


**Chart 19** Growth in aggregate State and local government taxation revenues

![Chart 19](image)

**Source** Australian Bureau of Statistics, *Taxation Revenue*, Cat No. 5506.0, ABS, Canberra.
Taxation mix, capacity and effort taxation bases and relative effort

The ACT’s tax mix is broadly consistent with other jurisdictions, except for two areas. Without mining royalties, there is a greater emphasis and reliance on conveyance duty.

Chart 20 Composition of ACT tax revenue compared to the national average

Land, transactions and labour cover around 90 per cent of the total taxation capacity in the ACT and around 80 per cent of actual tax revenue. With relatively higher taxation effort on the more efficient land-based taxation and lower effort on less efficient transaction-based taxes, overall taxation effort in the ACT is more efficient relative to the national average.

Chart 21 ACT taxation capacity relative to Australian taxation capacity – main taxation bases, 2009-10

---

37 Mining royalties are sometimes excluded from analyses of State taxes. However, given the rapidly growing importance of royalties to State government budgets, the revenue stream is viewed as an important inclusion for this particular analysis.


**Chart 22** ACT actual taxation relative to taxation capacity, 2009-10

![Chart Image](image_url)


**Note** Other Revenue includes gambling taxes.

---

**Taxation effort on individual taxes**

The CGC assesses the ACT as having to raise taxes of $2,460 per person, compared with the national average of $2,458 per person.

By contrast, actual taxation effort in the ACT is around 7.7 per cent above the national average at $2,649 per person.

**Chart 23** Assessed revenue raising capacity, 2009-10

**Chart 24** Actual taxation per capita, 2009-10

![Chart Image](image_url)


The greatest difference between the ACT and the national average is in the Territory’s below average capacity to generate land tax, and above average capacity to generate revenue from duty on conveyances.

---

38 Actual taxation effort is the amount of tax revenue received relative to the level of taxation required to provide the average levels of service as assessed by the Commonwealth Grants Commission.
Actual taxation per capita, shown in Chart 24, reflects lower taxation effort in payroll tax, and higher effort in land tax, both relative to the national average and the assessed capacity. These differences reflect deliberate policy decisions.

For example, the ACT has the highest land tax liability of all jurisdictions on properties valued up to $1 million. Similarly, it has the most generous payroll tax-free threshold.

**Taxation relative to economy and income**

The level of taxation relative to the size of the economy is a widely used reference for taxation. Taxation relative to income provides an indicator of capacity to contribute tax.

The ACT’s taxation revenue as a share of GSP has remained fairly constant, ranging from 3.8 to 4.5 per cent of GSP, over the past 10 years. It has been consistently below the national average level and most jurisdictions, apart from WA and the NT.

### Table 7  Tax revenue as a percentage of GSP, 2000-01 to 2009-10

<table>
<thead>
<tr>
<th>Year</th>
<th>Proportion of GSP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>4.5</td>
</tr>
<tr>
<td>2001-02</td>
<td>3.8</td>
</tr>
<tr>
<td>2002-03</td>
<td>4.1</td>
</tr>
<tr>
<td>2003-04</td>
<td>4.3</td>
</tr>
<tr>
<td>2004-05</td>
<td>3.8</td>
</tr>
<tr>
<td>2005-06</td>
<td>3.9</td>
</tr>
<tr>
<td>2006-07</td>
<td>4.1</td>
</tr>
<tr>
<td>2007-08</td>
<td>4.2</td>
</tr>
<tr>
<td>2008-09</td>
<td>3.9</td>
</tr>
<tr>
<td>2009-10</td>
<td>4.1</td>
</tr>
</tbody>
</table>


Taxation as a share of disposable income is a more relevant measure of the capacity to pay tax. The ACT has the lowest proportion of tax revenue per capita as a proportion of mean disposable income, 5.4 per cent lower than the national average. This is largely attributed to ACT having a higher mean disposable income than other jurisdictions and higher participation rates.
### Table 8  State and local taxes as a proportion of disposable income

<table>
<thead>
<tr>
<th>Percentage of Disposable Income</th>
<th>NSW (%)</th>
<th>VIC (%)</th>
<th>QLD (%)</th>
<th>WA (%)</th>
<th>SA (%)</th>
<th>TAS (%)</th>
<th>ACT (%)</th>
<th>NT (%)</th>
<th>Australia (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8.2</td>
<td>8.3</td>
<td>7.6</td>
<td>8.3</td>
<td>8.1</td>
<td>6.5</td>
<td>5.4</td>
<td>5.5</td>
<td>7.2</td>
</tr>
</tbody>
</table>


### Table 9  Taxation revenue per employed person

<table>
<thead>
<tr>
<th>Taxation per employed person</th>
<th>NSW ($)</th>
<th>VIC ($)</th>
<th>QLD ($)</th>
<th>WA ($)</th>
<th>SA ($)</th>
<th>TAS ($)</th>
<th>ACT ($)</th>
<th>NT ($)</th>
<th>Australia ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6,389</td>
<td>6,109</td>
<td>5,233</td>
<td>6,317</td>
<td>5,815</td>
<td>4,853</td>
<td>5,637</td>
<td>4,137</td>
<td>5,961</td>
</tr>
</tbody>
</table>

Part 3

The ACT’s current taxes

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Measuring stability, fairness, equity and efficiency

Key points

- All governments need stable revenue sources to ensure the sustainability of services.
- Taxation should be simple, transparent, practical and enforceable, with minimal administration and compliance costs.
- It would be desirable for taxes to grow in-line with, or slightly below, economic growth.
- In the ACT, land tax and conveyance duty have grown well in excess of the economic growth, although tax rates have remained unchanged.
- Overall, in the ACT conveyance duty stands out as the most unstable and unfair tax. Gambling taxes and the Lease Variation Charge have the lowest economic costs.

Stability of taxes

Taxes need to provide stable sources of revenue for governments to meet their expenditure planning and service obligations with reasonable certainty. The stability of taxes can be assessed in terms of their volatility and predictability.

Volatility

While stability of revenues is desirable at all levels of government, it has a greater significance for State, Territory and local governments. The Commonwealth Government can strategically accumulate deficits and surpluses from fluctuating tax revenues and draw on these to support economic policy. State and local governments, on the other hand, are more concerned about the adequacy of revenues to meet their expenditure requirements. Their fiscal capacities are also limited.

Various quantitative measures can be used to assess, and objectively compare, the volatility of various taxes and the tax system as a whole. For this report, two measures have been selected:

- sensitivity to economic growth, and
- variance from long-term growth.

The stability of a tax has been traditionally measured through its elasticity with respect to a reference parameter. For this assessment, economic output as measured by GSP has been chosen as a reference.\(^{39}\)
Part 3  The ACT’s current taxes

Chart 25  Change in taxes relative to the size of the economy

Land tax and conveyance duty, in the left segment of Chart 25, are highly sensitive to changes in GSP. They are progressive and the significant increases in property prices over time have pulled the base for land tax and conveyance duty into higher effective tax rates.

The group of taxes in the centre segment of Chart 25 change in relative proportion to GSP. Payroll tax is largely expected to move in line with GSP as the tax base of annual payroll will change relative to economic conditions. The rating factor in the general rates system is adjusted each year to account for increases in land values and the Wage Price Index (WPI) so that general rates revenue reflects the increase in costs of government services. Similarly, insurance taxes will increase as the base for the insurance premiums tax tends to rise with the level of prices.

Overall, total taxes are relatively elastic, largely due to the influence of conveyances which make up close to 25 per cent of total tax revenue (in 2011-12). Once these are removed, total taxes are slightly closer to unitary elastic.

Gambling taxes appear to be the least affected by changes in GSP. They are levied on gambling consumption which is considered to be relatively income inelastic and therefore unlikely to fluctuate significantly when economic conditions change.

The second measure to assess the volatility of a tax is the variance of the tax around its CAGR. The CAGR for 2000-01 to 2009-10 is calculated for various taxation lines.\(^{40}\) Conveyance duty is the most volatile of all the taxes, which may also lead to greater variability in total taxation revenue.

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\(^{40}\) For each year under investigation, the difference between the actual growth from the previous year and CAGR is evaluated to determine the deviation of actual growth from the long run growth. The standard deviation of these differences provides a measure of the spread of the variation around CAGR.
The two different measures, which produce different results, have been used to rank the volatility of taxes in the ACT. Results are particularly different for land tax. The significant increases in land values over time have contributed to greater increases in land tax revenue compared with changes in GSP, leading to a higher elasticity. In this sense the elasticity is a better measure of the adequacy of taxation revenue to meet the Government’s expenditure needs. Standard deviation around CAGR better reflects the fluctuations in taxation revenue over time.

Source ACT Treasury.

Note Numbers are rounded to the first decimal.
Given the inherent volatility in a tax, its impact can be eased by improving forecasts. There are several statistical methods available to evaluate forecast performance, all of which are subject to interpretation. Here, the measure of mean absolute percentage error (MAPE) has been adopted.  

**Table 10** Predictability of selected taxes

<table>
<thead>
<tr>
<th>Tax</th>
<th>MAPE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Rates</td>
<td>1.3</td>
</tr>
<tr>
<td>Land Tax</td>
<td>4.6</td>
</tr>
<tr>
<td>Payroll Tax</td>
<td>4.8</td>
</tr>
<tr>
<td>Gambling Taxes</td>
<td>4.9</td>
</tr>
<tr>
<td>General Insurance</td>
<td>8.1</td>
</tr>
<tr>
<td>Total Taxes</td>
<td>9.9</td>
</tr>
<tr>
<td>Conveyance</td>
<td>31.3</td>
</tr>
</tbody>
</table>

*Source* ACT Treasury.

*Note* Numbers are rounded to the first decimal.

General rates, payroll, gambling and land taxes are less variable and, therefore, more predictable than transaction taxes, such as insurance taxes. Conveyance duty is the most volatile and the least predictable, while the other taxes could be viewed as reasonably stable.
Economic efficiency

An efficient taxation system is one that does not distort activity or influence the behaviour of consumers and producers. Taxes that distort behaviour typically result in a sub-optimal economic outcome.

The structure of a tax can affect its efficiency. For example, where the tax base is restricted through the use of tax-free thresholds or specific exemptions, this may encourage taxpayers to alter their behaviour. However, desirable social outcomes can be achieved through the tax system by deliberately guiding behaviour. Taxes of this nature, generally referred to as Pigovian taxes, are useful policy instruments to achieve broader social and economic benefits.

The economic efficiency of a tax is measured by the excess burden on the economy due to the tax, which will be higher if the tax base is more mobile. Taxes with narrower bases (or greater exemptions) will have relatively higher excess burden.

Overall, State and Territory taxes typically have high excess burden with the exception of general rates and land taxes.

Marginal and average excess burden

The excess burden is defined as the ratio of change in welfare to change in tax revenue.

Change in welfare is defined as the amount of compensation required after the tax change to restore the consumer’s utility to the original level.

The excess burden can be measured in marginal as well as in average terms.

- Marginal excess burden (MEB) is the economic harm from a small increase in a tax, expressed in cents per dollar of additional revenue. The MEB highlights the impact of changes in a tax.
- The average excess burden (AEB) represents the economic harm from introducing the whole tax, expressed in cents per dollar of additional revenue and provides a means of assessing the impact of removing the tax.

Welfare loss is the decreased economic well being to society, caused by the application of a tax which results in society not achieving maximum utility.

The estimates of excess burden are sourced from the analysis commissioned by the AFTS Review for the national economy. Modelling for select ACT taxes commissioned for the ACT Review indicates slightly higher AEB from conveyance duty (38 per cent) compared with the national modelling and considerably higher than AEB for payroll tax for the ACT (36 per cent), due to the relatively narrower tax base.

The welfare loss associated with gambling taxes was estimated at 92 cents for every dollar in the AFTS Review. The ACT Taxation Review estimated this at close to zero and considers that gambling taxes are highly efficient. Subsequent advice from KPMG confirms the zero estimate.

43 Macroeconomics modelling.
44 Ibid.
Part 3  The ACT’s current taxes

Chart 29  Excess economic burden from various taxes

<table>
<thead>
<tr>
<th>%</th>
<th>Municipal rates</th>
<th>Land taxes</th>
<th>Conveyance duty</th>
<th>Motor vehicle registration</th>
<th>Motor vehicle stamp duties</th>
<th>Payroll tax</th>
<th>Insurance tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>MEB</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AEB</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Equity

The general principle is that taxes should be both horizontally and vertically equitable. Horizontally equitable taxes apply to people in similar financial circumstances in the same way. Vertically equitable taxes are those that increase with either wealth or income.

While providing concessions to those on low-incomes may improve vertical equity, broader exemptions can promote horizontal inequity by taxing otherwise similar activities differently (payroll tax is a case in point).

Fixed transaction fees and charges tend to be vertically inequitable. For example, motor vehicle registrations are the same dollar amount for all vehicles of a given weight regardless of a person’s income.

Tax expenditures can be used to achieve equity goals. However, care must be taken to ensure that this approach generates a better outcome than the use of direct expenditure or regulation to achieve the objective.

Payroll tax, with its high threshold, could be considered as relatively more inequitable. Small businesses do not pay the tax but larger companies providing a similar service or good do pay on the basis of their size, albeit, as a policy objective to encourage the development of the former as a sector in the ACT.

Conveyance duty with progressive rates is often referred to as inequitable, even though it applies to all purchasers at a point in time. This is based on the observation that the small proportion of the population buying property pays a general tax that finances general services.

Land tax is payable on commercial properties and rental dwellings. To the extent that it affects the cost of consumption of housing, it is inequitable, being discriminatory on the basis of tenure.

Generally, taxes should be horizontally and vertically equitable.
Compliance and administration costs

Taxation should be simple, transparent, practical and enforceable, with minimal administration and compliance costs.

Simple taxes are easier to administer and impose fewer costs on taxpayers. There is also typically a greater level of compliance where taxes are easily understood and where there is less uncertainty around the tax base.

Table 11  Administration, collection, compliance and debt recovery costs of ACT taxes

<table>
<thead>
<tr>
<th></th>
<th>Administration and Collection % of Revenue</th>
<th>Compliance % of Revenue</th>
<th>Debt Recovery % of Revenue</th>
<th>% of Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Tax</td>
<td>0.45</td>
<td>0.27</td>
<td>0.10</td>
<td>0.82</td>
</tr>
<tr>
<td>Rates</td>
<td>0.38</td>
<td>0.00</td>
<td>0.09</td>
<td>0.47</td>
</tr>
<tr>
<td>Payroll Tax</td>
<td>0.09</td>
<td>0.21</td>
<td>0.02</td>
<td>0.32</td>
</tr>
<tr>
<td>Conveyance</td>
<td>0.25</td>
<td>0.02</td>
<td>0.00</td>
<td>0.28</td>
</tr>
<tr>
<td>Insurance Duty</td>
<td>0.03</td>
<td>0.05</td>
<td>0.00</td>
<td>0.08</td>
</tr>
</tbody>
</table>

Source  ACT Treasury.

Note  Totals may not add due to rounding.

The table above highlights the following:

- administration costs for land tax are reasonable as a proportion of land tax revenue, although relatively higher than the administration costs of other taxes. This is largely due to the narrow nature of the land tax base
- general rates have low compliance and debt recovery costs
- the administration and collection of rates revenue is relatively higher. These are costs associated with undertaking regular land valuations; an appeal processes; and with providing the technological resources and capacity to administer general rates to over 130,000 rateable properties each quarter
- the primary administration costs associated with payroll tax revenue are low because the tax is levied on relatively few firms
- compliance and administration costs for conveyance duty are relatively low, as the administrative processes, such as the exchange of contracts, already exist and are undertaken regardless of whether conveyance duty is being levied. The costs of administering associated concessions, such as the Home Buyers Concession Scheme (HBCS), are also low as the relevant information is provided to the ACT Revenue Office prior to assessment of duty, and
- administration of insurance duty is relatively straight forward and low cost, as it is the responsibility of insurance companies to report on and remit the duty.
Assessing the ACT’s current taxes

Following is an assessment of the ACT’s individual taxes against the key taxation principles of stability, economic efficiency, equity, and simplicity.

The assessments have considered the atypical circumstances of the Territory, including where necessary its narrow tax bases, industry structure, socio-economic status of its population and its regional geographical positioning.

Duty on conveyances

Key points

- All States and Territories rely heavily on conveyance duty revenue.
- ACT conveyance duty rates have not changed since 2002, leading to a higher effective rate.
- Conveyance duty is a transaction tax that reduces exercise of preferences by households in the housing market. It can be a barrier to entry to the housing market for potential first home owners.

Duty on conveyances is a tax levied by States and Territories on the value of property transferred. In general, it is designed as a progressive tax, with varying marginal tax rates based on the value of property transacted. States and Territories also use a combination of tax free thresholds and concession schemes to support first home buyers.

The ACT imposes duties on a range of Territory related documents and transactions under the Duties Act 1999, the duty on conveyances being one of the most prominent. In 2010-11, duty on conveyances raised about $272 million (22 per cent of total tax revenue).

Table 12  Duty on conveyances rates

<table>
<thead>
<tr>
<th>Property Price</th>
<th>Duty Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to $100,000</td>
<td>$20 or $2.00 per $100 or part thereof, whichever is greater.</td>
</tr>
<tr>
<td>$100,001 to $200,000</td>
<td>$2,000 plus $3.50 per $100 or part thereof by which the value exceeds $100,000.</td>
</tr>
<tr>
<td>$200,001 to $300,000</td>
<td>$5,500 plus $4.00 per $100 or part thereof by which the value exceeds $200,000.</td>
</tr>
<tr>
<td>$300,001 to $500,000</td>
<td>$9,500 plus $5.50 per $100 or part thereof by which the value exceeds $300,000.</td>
</tr>
<tr>
<td>$500,001 to $1,000,000</td>
<td>$20,500 plus $5.75 per $100 or part thereof by which the value exceeds $500,000.</td>
</tr>
<tr>
<td>$1,000,001 and over</td>
<td>$49,250 plus $6.75 per $100 or part thereof by which the value exceeds $1,000,000.</td>
</tr>
</tbody>
</table>

Source  ACT Revenue Office.

The median house price increased by 35 per cent, between 2004-05 to 2010-11. Effective conveyance duty rates increased by around 15 per cent.
Duty is levied on all property transacted within the ACT, comprising houses, land, improvements, and commercial premises.

From 2000-01 to 2010-11, the median value of property transactions in the ACT increased by 163 per cent from $175,000 to $460,000.\(^4\) The growth in prices has not been uniform and the distribution of property prices has become broader. However, due to eligibility tests and the relative number of transactions, it does not have a distortionary effect on price.

**Chart 30** Distribution of property transaction values in the ACT

![Distribution of property transaction values in the ACT](chart30)

*Source* ACT Planning and Land Authority (ACTPLA) data.

*Note* Bin size of $20,000.

Fixed conveyance duty rates have led to increased conveyance duty revenues over time. As a proportion of property value, the amount of conveyance duty paid has increase over time across all deciles. The amount of duty payable on the median price has increased by around 56 per cent from $11,755 in 2004-05 to $18,300 in 2010-11, whereas the median property price increased by 35 per cent.

**Chart 31** Comparison of effective conveyance duty rate in 2000–01 and 2010–11

![Comparison of effective conveyance duty rate in 2000–01 and 2010–11](chart31)

*Source* ACT PL&A data.

\(^4\) ACTPLA data. Note that this excludes land sales.
ACT Government concessions and assistance to certain groups – people with disabilities, on pensions and low income earners – assist with the cost of conveyance duty. These schemes include the HBCS, the Special Disability Trust duty exemption, the Pensioner Duty Concession Scheme (PDCS) and the Deferred Duty Scheme.46

The HBCS is well targeted with around 55 to 60 per cent of first home buyers receiving some concession. Its property value thresholds are adjusted twice yearly to take account of changes in the housing market. Under the scheme, eligible people may pay duty as low as $20 for a property with a price of $362,000 on land with an unimproved value of $202,000 or less. The concessional rate is available to eligible homebuyers for properties below the median sale price for the previous two quarters.

Table 13  Duty payable on median value of property transactions in the ACT

<table>
<thead>
<tr>
<th>Year</th>
<th>Median Property Transaction Price ($)</th>
<th>Duty Payable on Median Price ($)</th>
<th>Duty as a % of Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>341,000</td>
<td>11,755</td>
<td>3.45</td>
</tr>
<tr>
<td>2005-06</td>
<td>350,000</td>
<td>12,250</td>
<td>3.50</td>
</tr>
<tr>
<td>2006-07</td>
<td>370,000</td>
<td>13,350</td>
<td>3.61</td>
</tr>
<tr>
<td>2007-08</td>
<td>409,000</td>
<td>15,495</td>
<td>3.79</td>
</tr>
<tr>
<td>2008-09</td>
<td>420,000</td>
<td>16,100</td>
<td>3.83</td>
</tr>
<tr>
<td>2009-10</td>
<td>445,000</td>
<td>17,475</td>
<td>3.93</td>
</tr>
<tr>
<td>2010-11</td>
<td>460,000</td>
<td>18,300</td>
<td>3.98</td>
</tr>
</tbody>
</table>

Source ACTPLA data and ACT Treasury.

Table 14  HBCS benefit on a property purchase

<table>
<thead>
<tr>
<th>Property Value $</th>
<th>Duty Payable without any concession $ (a)</th>
<th>Duty payable with HBCS $ (b)</th>
<th>HBCS Benefit = (a) – (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>350,000</td>
<td>12,250</td>
<td>20</td>
<td>12,230</td>
</tr>
<tr>
<td>400,000</td>
<td>15,000</td>
<td>7,031</td>
<td>7,968</td>
</tr>
<tr>
<td>450,000</td>
<td>17,750</td>
<td>16,431</td>
<td>1,319</td>
</tr>
<tr>
<td>500,000</td>
<td>20,500</td>
<td>20,500</td>
<td>0</td>
</tr>
</tbody>
</table>

Source ACT Revenue Office.
As demonstrated in the chart below, the HBCS supports activity within the lower end of the market. However, due to eligibility tests and the relatively small number of transactions, it does not have a distortionary effect on price.

Chart 32 shows the current ACT property market distribution, including those who receive the First Home Owners Grant (FHOG) and HBCS.

**Chart 32** Current ACT property market distribution (2010-11)

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**Comparative analysis**

All States and Territories rely heavily on conveyance revenue. Across Australia, it contributed an average of 18.6 per cent to total taxation revenue in 2009-10, and around 22 per cent in the ACT. All jurisdictions have similar conveyance duty structures with the exception of NT, but different marginal rates and thresholds. The taxation environment and settings in the ACT are distinguished by:

- relatively broader property value distribution, with a greater proportion of properties transacting in the $400,000 to $800,000 range, and
- a relatively higher marginal tax rate for high value properties.

**Taxation relative to capacity**

Most States and Territories, except for NSW and QLD, raise a higher level of conveyance duty than their assessed capacity. This is shown in Chart 33.

The ACT has an above average capacity to raise revenue from conveyance duty as assessed by the CGC. This is because the ACT has the lowest proportion of properties below $300,000 and significantly greater shares of property transactions in the $400,000 to $800,000 value range, reflecting the Territory’s city-state nature where almost all property transactions occur in Canberra.

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48 Conveyance duty in the NT is calculated by a formula which includes a quadratic factor for properties up to $125,000.
Part 3 The ACT’s current taxes

Chart 33 Conveyance duty taxation capacity and effort, 2009-10


Chart 34 Value distribution of property transactions by jurisdiction, 2008-09

Table 15 Comparison of conveyance duty taxes across Australian jurisdictions

Conveyance duty
Marginal rates are applied per $100 or part of the excess above the lower limit of the range unless explicitly specified. Rate for the highest value range is underlined.

<table>
<thead>
<tr>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>WA</th>
<th>SA</th>
<th>TAS</th>
<th>NT</th>
<th>ACT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General duty rates:</strong></td>
<td><strong>General duty rates:</strong></td>
<td><strong>General duty rates:</strong></td>
<td><strong>General duty rates:</strong></td>
<td><strong>General duty rates:</strong></td>
<td><strong>General duty rates:</strong></td>
<td><strong>General duty rates:</strong></td>
<td><strong>General duty rates:</strong></td>
</tr>
<tr>
<td>$0–$14,000: $0.125% (min $2)</td>
<td>$0–$25,000: $1.40%</td>
<td>$0–$5,000: Nil</td>
<td>$0–$80,000: $1.90%</td>
<td>$0–$12,000: $20</td>
<td>$0–$25,000: Duty calculated by the formula: D=(0.06571441V^2)+15V</td>
<td>$0–$100,000: $20 or $2.00 per $100 whichever is greater.</td>
<td></td>
</tr>
<tr>
<td>$14,001–$30,000: $175+1.50%</td>
<td>$25,001–$100,000: $350+2.40%</td>
<td>$25,000–$100,000: $1,050+3.50%</td>
<td>$80,001–$100,000: $1,290+3.50%</td>
<td>$100,01–$30,000: $150+2.00%</td>
<td>Where D = duty payable in $ V = 1/1000 dutiable value Over $525,000: 4.95% of total value Over $525,000: 4.95% of total value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$30,001–$80,000: $415+1.75%</td>
<td>$130,001–$300,000: $2,870+6.00%</td>
<td>$100,001–$250,000: $2,090+3.80%</td>
<td>$30,001–$50,000: $480+3.00%</td>
<td>$150,01–$300,000: $1,675+3.00%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$80,001–$100,000: $8,990+4.50%</td>
<td>Over $390,000: $17,325+4.5%</td>
<td>$250,001–$500,000: $7,790+4.75%</td>
<td>$50,001–$100,000: $1,080+3.50%</td>
<td>$150,001–$225,000: $3,925+3.50%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over $1 million: $40,490+5.50%</td>
<td>Over $980,000: $37,125+5.25%</td>
<td>Over $500,000: $19,465+5.15%</td>
<td>$100,001–$200,000: $2,830+4.00%</td>
<td>Over $225,000: $6,550+4.00%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For Residential Property
(From 1 June 2004)

| General duty rates for principle place of residence purchases: | General duty rates for principle place of residence purchases: | General duty rates for principle place of residence purchases: | General duty rates for principle place of residence purchases: |
| $0–$25,000: 1.40% | $0–$120,000: 1.90% | $0–$120,000: 1.90% | $0–$100,000: 1.00% |
| $25,001–$100,000: $2,870+6.00% | $120,001–$150,000: $2,280+2.85% | $120,001–$150,000: $2,280+2.85% | $120,001–$140,000: $1,167+3.00% |
| $100,001–$250,000: $17,325+4.5% | $250,001–$500,000: $7,790+4.75% | $250,001–$500,000: $7,790+4.75% | $250,001–$300,000: $1,675+3.00% |
| Over $250,000: $37,125+5.25% | Over $500,000: $19,465+5.15% | Over $500,000: $19,465+5.15% | Over $500,000: $19,465+5.15% |

Duty rates for principle place of residence purchases:
Concessional rate of 1% for values up to $350,000 plus scheduled transfer duty on the excess.

For Homes (not first)
Effective 1 July 2008

| Liability includes contents of buildings. Various exemptions are available. | Liability includes contents of buildings. Various exemptions are available. | Liability includes contents of buildings. Various exemptions are available. | Liability includes contents of buildings. Various exemptions are available. |
| Duty rates: | Duty rates: | Duty rates: | Duty rates: |
| $0–$100,000: $20 or $2.00 per $100 whichever is greater. | $100,001–$200,000: $2,000+3.50 per $100 or part thereof. | $200,001–$300,000: $5,500+4.00 per $100 or part thereof. | $300,001–$500,000: $9,500+5.50 per $100 or part thereof. |
| $100,001–$1 million: $8,990+4.50% | $300,001–$500,000: $8,990+4.50% | $500,001–$1 million: $11,330+5.00% | $500,001–$1 million: $11,330+5.00% |
| $1 million–$3 million: $40,490+5.50% | Over $500,000: $21,330+5.50% | Over $500,000: $21,330+5.50% | Over $500,000: $21,330+5.50% |
| Over $3 million: $49,250+6.75% | Over $725,000: $28,453+5.15% | Over $725,000: $28,453+5.15% | Over $725,000: $28,453+5.15% |

Conveyance duty payable as a proportion of median house price is broadly consistent across all States and Territories, ranging between 3 to 5 per cent across Australian capital cities, as shown in Table 16.

**Chart 35** Conveyance duty payable on median house price in capital cities

<table>
<thead>
<tr>
<th>City</th>
<th>Median house price ($)</th>
<th>Conveyance duty payable ($)</th>
<th>Conveyance duty as a proportion of median house price (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney</td>
<td>644,700</td>
<td>24,502</td>
<td>3.8</td>
</tr>
<tr>
<td>Melbourne</td>
<td>590,000</td>
<td>30,470</td>
<td>5.2</td>
</tr>
<tr>
<td>Brisbane</td>
<td>435,000</td>
<td>13,650</td>
<td>3.1</td>
</tr>
<tr>
<td>Perth</td>
<td>470,000</td>
<td>16,340</td>
<td>3.5</td>
</tr>
<tr>
<td>Adelaide</td>
<td>410,000</td>
<td>16,830</td>
<td>4.1</td>
</tr>
<tr>
<td>Hobart</td>
<td>370,000</td>
<td>12,350</td>
<td>3.3</td>
</tr>
<tr>
<td>Canberra</td>
<td>525,000</td>
<td>21,938</td>
<td>4.2</td>
</tr>
<tr>
<td>Darwin</td>
<td>515,000</td>
<td>25,154</td>
<td>4.9</td>
</tr>
</tbody>
</table>


All jurisdictions have comparable conveyance duties payable up to dutiable values of $350,000. For transaction values between $1 million and $1.46 million the ACT is the second highest taxing jurisdiction and for properties valued above $1.46 million, the ACT levies the highest level of conveyance duty.
Incidence – who pays

Although the property buyer bears the legal incidence of conveyance duty, the economic incidence may be different. In theory, the more inelastic party in the transaction will bear a greater proportion of the tax burden, regardless of who is legally required to pay the conveyance duty. The incidence has been analysed under different conditions, with varying conclusions.\(^5^0\)

Overall, the incidence of conveyance duty will depend on the specific market conditions and the distribution of bargaining power between buyers and sellers. In a supply constrained market, it is to be expected that the incidence will be on buyers.

Impact on housing supply and demand

Conveyance duty is a transaction tax that reduces the willingness of individuals to participate in the housing market. Its cost can reduce housing turnover, and has implications for the efficient allocation of resources within the housing market.\(^5^1\) In other words, there is a sub-optimal number of dwelling transactions and thereby a lower supply of, and demand for, dwellings than at the economically efficient level.\(^5^2\)

With conveyance duty, the price of moving increases but the price of renovating remains unchanged. Conceptually, and at an aggregate level, conveyance duty reduces turnover in

---


\(^5^2\) Supply can be separated into two parts. The sale of new dwellings (those added to the market which increase the overall housing stock) and the sale of existing dwellings (those offered for re-sale by individuals already in the market, which do not affect overall stock).
the market. This conclusion is supported by empirical analysis of housing market transactions which suggests a 10 per cent change in conveyance duty results in around 1.5 per cent change in transactions.53

On the demand side, conveyance duty can be a barrier to entry as it introduces an artificial time lag between the points where individuals decide to acquire a dwelling and are financially capable.

Removing conveyance duty would, in the short-term, reduce the amount of savings required to place a deposit on a property purchase for individuals who are trying to enter the housing market, or are considering moving to another property, and do not receive a concession.54

However, as the demand for dwellings is brought forward, there would be a short-term increase in demand for properties which would place upward pressure on prices.55

While the removal of conveyance duty would not result in permanently elevated demand for housing, there would be a sustained increase in the price of property. This would be due to lower transaction costs impacting the level of speculation, and property owners increasing the price of the property to capture the amount of conveyance duty removed. Any reform would need to be accompanied by unconstrained supply.

Assessment against the criteria

Overall, conveyance duty rates poorly against the criteria:

- it is an inefficient tax that distorts consumer behaviour and exercise of housing preferences, leading to misallocation of resources in the economy
- it could be viewed as inequitable, as the tax burden is carried by a small number of people transacting, and it only applies to those who purchase real property, and
- it is volatile and unpredictable.

Economic efficiency

The impact of duties on individuals’ behaviour and choices has been examined. Generally, the literature points to decreased household mobility,56 distorted location choice, and lock-in effects in the housing market.57 Such effects are not unique to conveyance duty. Capital Gains Tax also has similar lock-in effects.58

Conveyance duty can also bring about misallocation in secondary markets, such as labour and transportation, and negative welfare effects in the primary housing market.59 For example, an individual may choose to decline a job offer at a distance from their current residence or choose to commute the long distance to avoid moving and incur moving costs.

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For investments in the residential property market in the ACT, the duty paid is tax deductible. While this makes the Territory more attractive for investment, there may be flow on impacts on prices.

It is useful to note that some researchers argue that in addition to welfare costs, there are welfare benefits. The KPMG Econtech Computable General Equilibrium (CGE) modelling for AFTS estimated that nationally conveyance duty had high marginal and average excess burdens, around 34 and 31 cents in the dollar, respectively. This is further supported by ACT specific CGE modelling which showed the ACT conveyance duty regime to have a marginal excess burden of around 38 cents in every dollar. Further detail on ACT specific modelling can be found in Appendix H.

**Equity**

Conveyance duty can be viewed as inequitable from two perspectives. First, it only applies to those who purchase a real property as opposed to other forms of property. Second, a small proportion of the community bears the taxation burden, which falls heavily on more frequent movers. These include younger individuals and households that experience greater changes in composition such as jobs, relationships and household size.

Barriers to entry created by conveyance duty are reduced, to some extent, by concessions provided by governments to first home owners and low-income households. A list of conveyance duty concessions provided across States and Territories is provided in Table 17.

**Table 17** Conveyance duty concession schemes

<table>
<thead>
<tr>
<th>Conveyance duty concession schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
</tr>
<tr>
<td>First home-new home scheme (from 1 January 2012)</td>
</tr>
<tr>
<td>VIC</td>
</tr>
<tr>
<td>Off the plan sales duty concessions</td>
</tr>
<tr>
<td>Reduction of duty for eligible first home buyers</td>
</tr>
<tr>
<td>Pensioner duty concession</td>
</tr>
<tr>
<td>Principal place of residence concession</td>
</tr>
<tr>
<td>QLD</td>
</tr>
<tr>
<td>First home concession</td>
</tr>
<tr>
<td>WA</td>
</tr>
<tr>
<td>First home owner rate of duty</td>
</tr>
<tr>
<td>SA</td>
</tr>
<tr>
<td>First home bonus grant (will be abolished from 1 July 2013)</td>
</tr>
<tr>
<td>TAS</td>
</tr>
<tr>
<td>First home owners duty concession</td>
</tr>
<tr>
<td>ACT</td>
</tr>
<tr>
<td>HBCS</td>
</tr>
<tr>
<td>PDCS</td>
</tr>
<tr>
<td>NT</td>
</tr>
<tr>
<td>First home owner concession</td>
</tr>
<tr>
<td>Federal</td>
</tr>
<tr>
<td>FHOG</td>
</tr>
</tbody>
</table>

*Source* State and Territory Revenue Offices.

60 In this case it is argued that stamp duty raises the private marginal costs of moving to better reflect the social marginal cost of moving which includes negative externalities from reduction in social capital. The welfare reduction from stamp duty is countered by the increase in social welfare by guiding buyers to internalise the negative externality of moving. See for example, Dietz, R. & Haurin, D., 2003, *The Social and Private Micro-Level Consequences of Homeownership*, Journal of Urban Economics, vol. 54 and Frijters, P. & Leigh, A., 2008, *Materialism on the March: From Conspicuous Leisure to Conspicuous Consumption?*, Journal of Socio-Economics, vol. 37, no. 5, pp. 1937-1945.
These concessions mean that conveyance revenue largely comes from those already in the property market who are either moving or purchasing a property in addition to their primary residence. In this context conveyance duty can be viewed as a progressive tax. Conveyance duty is vertically equitable, with properties at higher values incurring a larger tax burden.

**Compliance and administration costs**

Compliance and administration costs for conveyance duty are relatively low (estimated to be around 0.28 per cent of total conveyance revenue in 2010-11), as the administrative processes, such as the exchange of contracts, already exist and are undertaken regardless of whether conveyance duty is being levied. The costs of administering associated concessions, such as the HBCS, are relatively higher due to the means testing in income threshold.

**Stability**

Conveyance duty revenue is highly elastic with respect to GSP, low in forecast accuracy, and very volatile around long run growth. While the duty base is considered to be sustainable as property sales are unlikely to cease, it is a highly unreliable source of revenue that is difficult to forecast as it is subject to the cycles of the property market, both turnover and price. The volatility of conveyance duty revenue can be observed across all jurisdictions, shown in Table 18. Since 2001, conveyance duty has fluctuated up or down from the prior year by as much as 60 per cent, which has made forecasting difficult for all jurisdictions. The ACT’s forecasting performance is around the median.\(^{61}\)

**Table 18  Change in conveyance duty revenue from the previous year**

<table>
<thead>
<tr>
<th></th>
<th>NSW (%)</th>
<th>VIC (%)</th>
<th>QLD (%)</th>
<th>WA (%)</th>
<th>SA (%)</th>
<th>TAS (%)</th>
<th>ACT (%)</th>
<th>NT (%)</th>
<th>All States (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001–02</td>
<td>38</td>
<td>47</td>
<td>51</td>
<td>4</td>
<td>20</td>
<td>27</td>
<td>34</td>
<td>25</td>
<td>36</td>
</tr>
<tr>
<td>2002–03</td>
<td>18</td>
<td>12</td>
<td>31</td>
<td>29</td>
<td>21</td>
<td>28</td>
<td>49</td>
<td>23</td>
<td>20</td>
</tr>
<tr>
<td>2003–04</td>
<td>7</td>
<td>16</td>
<td>35</td>
<td>45</td>
<td>35</td>
<td>35</td>
<td>8</td>
<td>49</td>
<td>19</td>
</tr>
<tr>
<td>2004–05</td>
<td>-16</td>
<td>-4</td>
<td>-7</td>
<td>1</td>
<td>-3</td>
<td>7</td>
<td>-25</td>
<td>14</td>
<td>-9</td>
</tr>
<tr>
<td>2005–06</td>
<td>-1</td>
<td>14</td>
<td>13</td>
<td>56</td>
<td>7</td>
<td>8</td>
<td>21</td>
<td>55</td>
<td>14</td>
</tr>
<tr>
<td>2006–07</td>
<td>29</td>
<td>11</td>
<td>30</td>
<td>7</td>
<td>20</td>
<td>11</td>
<td>36</td>
<td>-5</td>
<td>20</td>
</tr>
<tr>
<td>2007–08</td>
<td>-5</td>
<td>25</td>
<td>15</td>
<td>10</td>
<td>26</td>
<td>25</td>
<td>17</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td>2008–09</td>
<td>-31</td>
<td>-24</td>
<td>-38</td>
<td>-55</td>
<td>-21</td>
<td>-23</td>
<td>-28</td>
<td>-4</td>
<td>-33</td>
</tr>
<tr>
<td>2009–10</td>
<td>37</td>
<td>29</td>
<td>10</td>
<td>60</td>
<td>9</td>
<td>8</td>
<td>44</td>
<td>17</td>
<td>29</td>
</tr>
</tbody>
</table>

Payroll tax

Key points

- The ACT collects payroll tax on just 23 per cent of all employee compensation.
- The tax-free threshold in the ACT is, along with the NT, the most generous in Australia. This favours small business.
- The ACT payroll tax base has become increasingly narrow as government employment has expanded.

Payroll tax is imposed on private sector wages and other forms of employee remuneration. It is structured differently in each State and Territory, with varying tax-free thresholds and rates applying to taxable payrolls. It provides an important source of revenue for State and Territory governments.

Views on the efficiency and equity of payroll tax differ. There is evidence on the one hand that payroll tax reduces employment, creates a welfare loss and provides an inefficient method for raising revenue. On the other hand, studies which note that constitutional factors limit tax bases available to States and Territories, argue that payroll tax provides a reasonably efficient method for raising revenue, albeit with room for improvement. In reality, the efficiency and equity of a payroll tax system is likely to differ between States due to the economic circumstances prevailing in each jurisdiction.

The ACT currently levies payroll tax at a rate of 6.85 per cent on employers whose payrolls exceed $1.5 million. This raised approximately $284 million in 2010-11 (around 23 per cent of the ACT’s own-source taxation revenue).

Since 1992-93 payroll tax has increased from about $90 million to almost $284 million in 2010-11, at a compound annual average growth rate of 6.7 per cent. Its contribution to overall taxation has increased from 20 per cent in the 1990s to around 25 per cent in recent years (although it dropped back to 23 per cent in 2010-11).

The tax-free threshold for payroll tax has been increased several times over the past two decades from $0.5 million in 1992 to $1.5 million in 2008-09. The tax rate has been fixed at 6.85 per cent since 1996 (previously it was 7 per cent).

Payroll tax and GSP growth in the ACT have tracked each other closely for the past two decades. The most recent moderation in payroll growth is due to growth in economic activity largely occurring in sectors exempt from payroll tax, such as the public sector. Growth in aggregate public sector wages outstripped private sector wages in 2009-10.62

The ACT’s tax-free threshold is the most generous of all States (the NT also has a $1.5 million threshold). This reduces the amount of remuneration that attracts payroll tax, the most significant exemption being for the government sector. Constitutional arrangements prevent the ACT from levying payroll tax on Commonwealth Government departments. This, combined with the ACT Government’s own payroll, exempts around $7.1 billion in wages (43 per cent of the Territory’s total potential payroll tax base). Another $3.9 billion (24 per cent of the potential payroll tax base) is exempt for businesses with payrolls in the tax-free threshold.

62 Australian Bureau of Statistics, 2011, Employment and Earnings, Public Sector, Australia, Cat. No.6248.0.55.002, and Business Indicators, Cat No.5676.0. ABS, Canberra
The distribution of payroll liability amongst industry differs. The most significant contributor is the professional, scientific and technical services industry, accounting for 30 per cent of the ACT’s payroll tax revenue in 2008-09.

### Table 19  Actual payroll tax paid by industry sector, 2008–09

<table>
<thead>
<tr>
<th>Industry</th>
<th>Total tax paid ($’000)</th>
<th>No. of businesses</th>
<th>Average tax per taxable business ($’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>93</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>Mining</td>
<td>510</td>
<td>9</td>
<td>57</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>8,342</td>
<td>152</td>
<td>55</td>
</tr>
<tr>
<td>Electricity, gas and water and waste services</td>
<td>8,772</td>
<td>16</td>
<td>548</td>
</tr>
<tr>
<td>Construction</td>
<td>11,570</td>
<td>178</td>
<td>65</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>7,321</td>
<td>179</td>
<td>41</td>
</tr>
<tr>
<td>Retail trade</td>
<td>23,805</td>
<td>390</td>
<td>61</td>
</tr>
<tr>
<td>Accommodation and food services</td>
<td>7,554</td>
<td>73</td>
<td>103</td>
</tr>
<tr>
<td>Transport, postal and warehousing</td>
<td>18,012</td>
<td>89</td>
<td>202</td>
</tr>
<tr>
<td>Information media and telecommunications</td>
<td>12,836</td>
<td>103</td>
<td>12</td>
</tr>
<tr>
<td>Financial and insurance services</td>
<td>12,357</td>
<td>109</td>
<td>113</td>
</tr>
<tr>
<td>Rental, hiring and real estate services</td>
<td>3,092</td>
<td>30</td>
<td>103</td>
</tr>
<tr>
<td>Professional, scientific and technical services</td>
<td>75,516</td>
<td>740</td>
<td>103</td>
</tr>
<tr>
<td>Administrative and support services</td>
<td>4,219</td>
<td>34</td>
<td>124</td>
</tr>
<tr>
<td>Public administration and safety</td>
<td>6,280</td>
<td>43</td>
<td>146</td>
</tr>
<tr>
<td>Education and training</td>
<td>35,342</td>
<td>35</td>
<td>1,010</td>
</tr>
<tr>
<td>Health care and social assistance</td>
<td>6,928</td>
<td>119</td>
<td>58</td>
</tr>
<tr>
<td>Arts and recreation services</td>
<td>3,499</td>
<td>37</td>
<td>95</td>
</tr>
<tr>
<td>Other services</td>
<td>5,270</td>
<td>108</td>
<td>49</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>251,318</strong></td>
<td><strong>2,440</strong></td>
<td><strong>103</strong></td>
</tr>
</tbody>
</table>

**Source**  ACT Treasury.

**Note**  Numbers may not sum due to rounding.
Administration of payroll tax in the ACT

There are two options for calculating the tax payable depending on whether a business wishes to claim the ACT proportion of the tax-free threshold or not.

Scenario 1 Employers not claiming the ACT threshold

A member of a business group which has not been nominated and approved as the Designated Group Employer (DGE) is required to pay payroll tax at a flat rate of 6.85 per cent of the total ACT wages for all returns. An individual employer or an approved DGE may choose not to claim the ACT tax-free threshold in each monthly return, but retain the option to claim the tax-free threshold in the annual reconciliation return.

Scenario 2 Employers claiming the ACT threshold

Individual employers or an approved DGE can claim the tax-free threshold in any monthly return or annual reconciliation return. To claim the tax-free threshold, the total ACT wages, ACT group wages (where applicable) and Australia-wide wages for an entire business (or business group) must be declared.

The actual amount of payroll tax payable in a reporting period is calculated in three steps.

- First, the annual tax-free threshold is calculated on a pro-rata basis on the number of days in the financial year where ACT or interstate wages are paid or payable by the employer (or any member of the group). This is the initial annual threshold adjustment.
- Next, total ACT taxable wages (or total ACT Group taxable wages if applicable) are then divided by the total Australia-wide wages. This is then multiplied by the initial annual threshold adjustment (or monthly threshold if applicable) to obtain the final tax-free threshold amount.
- Finally, the tax-free threshold amount is deducted from the total ACT taxable wages. The remainder is multiplied by 6.85 per cent to obtain the primary tax payable.

Comparative analysis

Since the mid-1970s, States have been adjusting the rates, thresholds and deductions in their respective payroll tax regimes. This has led to a varied mix of tax settings operating in each jurisdiction and a range of current thresholds.

While payroll tax settings vary between States, a harmonisation process has been undertaken jointly by jurisdictions to institute common provisions and definitions relating to all payroll tax regimes. States and Territories, however, retain control over rates and thresholds.

Employers are liable for payroll tax when their total Australia wide remuneration exceeds a State’s tax-free threshold. The employer pays payroll tax on the remuneration paid in each state, subject to that State’s payroll tax settings. For example, if an employer had one employee in each jurisdiction, and its total nationwide payroll was $0.9 million, it would be liable to pay payroll tax in NSW, Victoria (VIC), WA and South Australia (SA). Payments made to employees in the remaining jurisdictions would be exempt, due to the employer’s nation-wide payroll not exceeding those States’ tax-free thresholds.
Table 20  Payroll tax thresholds and rates across jurisdictions, 2011–12

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Threshold ($ p.a.)</th>
<th>Tax Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>678,000</td>
<td>5.45</td>
</tr>
<tr>
<td>VIC</td>
<td>550,000</td>
<td>4.90</td>
</tr>
<tr>
<td>QLD</td>
<td>1,000,000</td>
<td>4.75</td>
</tr>
<tr>
<td>WA</td>
<td>750,000</td>
<td>5.50</td>
</tr>
<tr>
<td>SA</td>
<td>600,000</td>
<td>4.95</td>
</tr>
<tr>
<td>TAS</td>
<td>1,010,000</td>
<td>6.10</td>
</tr>
<tr>
<td>ACT</td>
<td>1,500,000</td>
<td>6.85</td>
</tr>
<tr>
<td>NT</td>
<td>1,500,000</td>
<td>5.50</td>
</tr>
</tbody>
</table>

Source  State and Territory Revenue Office websites.

Note  QLD and NT use a deduction system, whereby the tax-free threshold is progressively removed by $1 for every $4 in wages paid above their respective thresholds.

Chart 37  Payroll taxation capacity and effort, 2009-10


Grouping provisions for payroll tax purposes apply in all jurisdictions throughout Australia and are designed to prevent taxpayers using a number of business entities to avoid or diminish their payroll tax liability.
Differences in State payroll tax regimes create environments that favour businesses of differing sizes. The ACT, with its high threshold and rate, favours small business. It is the second lowest taxing jurisdiction on wages up to around $3.8 million, and becomes the highest taxing jurisdiction when wages reach around $5.5 million. The relationship between total wages and payroll tax liability is shown for all States in the chart below.

**Chart 38** Payroll tax liabilities versus total wages

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**Grouping provisions**

Under the grouping provisions, two or more employers may constitute a group if:

- they are related bodies corporate within the meaning of the *Corporations Act 2001 (Commonwealth)*, or
- they use the same employees, or have an agreement for shared use of employees, or an employee is hired by one employer to work in another business, or
- the same persons have controlling interests in a number of businesses (whether conducted by persons, partnerships, corporations or trusts), or
- one has a controlling interest in the other (being a corporation) under the tracing provisions.

If an employer is a member of two or more groups, all the members of those groups will constitute one group. In these instances, the total payroll of the group is assessed for payroll tax purposes rather than assessing the payrolls of each employer individually.

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*Source* ACT Treasury.
Incidence – who pays?

There appears to be no definitive conclusions about the economic incidence of payroll tax in Australia. Most analyses of the economy suggest labour supply is almost completely inelastic, leading to the conclusion that workers, essentially, pay the tax by receiving lower earnings. Empirical literature on the incidence of payroll tax in Australia suggests that consumers pay the tax in the form of higher prices. Another possibility is that employers bear the tax and face reduced profits.

While international studies suggest incidence on wages and employment to varying degrees, there is evidence that the tax incidence is highly dependent on whether the tax is uniform across all firms. The level of labour competition also determines the extent to which firms can pass on the tax.

Modelling of the payroll tax base in NSW, with the expansion of base to include all firms, suggests that the impact of a payroll tax is comparable to that of a broad-based consumption tax. The analysis suggests significant short-run gains from payroll tax reform from improvements in output, employment, and consumption. However in the long-run, the impact is likely to be reduced through adjustments in the real wage.

The AFTS Review approaches the economic incidence question in terms of tradeoffs between capital and labour. Who bears the burden of the tax in the short run depends on which factor of production is more inelastic. This will differ across firms and industries. In the short run, capital is likely to be less mobile and thus bears the economic burden, whilst in the long run investment can be redirected and capital relocated or sold. In this case employees are more likely to bear the economic incidence of the payroll tax over the longer term.

An employer’s ability to pass payroll tax onto employees or prices depends largely on market power in the ACT.

Assessment against the criteria

Views on the efficacy of the payroll tax differ. There is evidence that because thresholds exist payroll tax reduces employment, creates a welfare loss and provides an inefficient method for raising revenue. In reality, the efficiency and equity of a payroll tax system is likely to differ between States due to the economic circumstances prevailing in each jurisdiction.

Overall, payroll tax performs relatively well against the main criteria used to assess taxes and where appropriate, States should retain some form of payroll tax.

Economic efficiency

The main source of inefficiency in payroll tax is its limited coverage, because of the wide range of exemptions which currently apply. In its current form, the tax is far from comprehensive. Its base is narrow and concentrated on larger companies.

In 2008-09, the ACT had total compensation of employees (COE) of $16.5 billion. Exemptions of $7.1 billion (43 per cent) for government wages and salaries, $3.9 billion (24 per cent) for the payroll tax-free threshold, and $1.8 billion (11 per cent) for charities, employees of consulates, and defence force employees were granted. The Territory collects payroll tax on around 23 per cent of total COE.

KPMG found that the exemption of small businesses was not a major source of inefficiency. This is because the small business exemption has offsetting effects. On the one hand the threshold creates distortions by providing incentives for businesses to be smaller than the technically efficient size, which adds to the cost of production. On the other hand, the small business exemption reduces the average rate of tax that is applied, which reduces distortions. Payroll tax exemptions in the ACT are likely to be more distortive as the high threshold means the tax is applied to a narrower base than in other jurisdictions.

While the narrowness of the tax base can be a main contributing factor in reducing economic efficiency, analyses adjusting for the narrow bases also highlight considerable welfare loss from payroll tax.

The Productivity Commission found that tax-free thresholds penalise larger firms, relative to smaller rivals who do not face the additional operating cost of payroll tax. This generates a competitive advantage for smaller firms and may deter some firms from expanding. However, analysis of ABS data on the distribution of firms according to employee numbers suggests there is no noticeable grouping of firms below the Territory’s tax-free threshold.

The KPMG Econtech CGE modelling found that nationally payroll tax had a high marginal and average excess burden at around 41 and 22 cents in the dollar, respectively.

Equity

Payroll tax equity generally relates to a business’ capacity to pay the tax. It is influenced considerably by who ultimately bears the cost of the tax. It can be argued that payroll tax is more inequitable towards labour intensive firms and the use of exemptions generates further inequity by increasing the tax burden on relatively few employers.

As the ACT is principally a service-based economy, labour is an important input (75 per cent of the ACT’s GSP is generated from service sectors compared with 55 per cent nationally).

For industries that compete with the payroll tax exempt public sector for labour, it would be difficult for firms to pass the economic incidence of payroll tax backwards to employees, through lower wages. They would be at a disadvantage compared to businesses operating in that industry that are below the tax threshold. But for certain sectors where skill sets differ markedly from those desired by the public sector, employers would have greater ability to pass-on payroll tax through reduced wages. There would, therefore, be less inequity between firms in these sectors.

Although some sectors do not directly compete with the public sector for labour, higher wages on offer for government jobs may limit the supply of potential labour available for competing professions.

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72 ABS. Customised report and Treasury analysis.
Some economists suggest that if payroll tax was replaced by an income tax surcharge the demand for labour would increase. A surcharge would be more progressive as it falls entirely on labour (or owners of capital). This argument would be more consistent in the ACT than suggestions that payroll tax is similar to a consumption tax given the Territory’s economic structure and payroll tax exemptions.

Compliance and administration costs

Compliance costs are extra costs employers incur in satisfying their payroll tax obligations.

In 2007, States and Territories agreed to harmonise aspects of their payroll tax regimes, as a way to reduce costs for employers.

Notwithstanding harmonisation efforts, there are good reasons to expect payroll tax compliance costs to be higher than compliance costs for other State taxes. Payroll tax is paid more frequently than most State taxes. Firms operating in more than one State may not have simple methods of allocating wages between jurisdictions.

Payroll tax compliance costs for Australian businesses are estimated to be around 3.6 per cent of payroll tax revenue, in general, smaller businesses have a larger burden of compliance. The Territory’s tax-free threshold provides some relief (employers in most sectors would need to have 20 employees before being liable for payroll tax), although it is likely that tax-free thresholds introduce additional administrative and compliance costs by creating a disjoint between the payroll tax base and income tax base. The Government’s costs of administering payroll tax in the ACT are relatively low at an estimated cost of 0.3 per cent of payroll tax revenue in 2010-11 (around $340 per business).

Compliance costs are unlikely to vary significantly in relation to the amount of tax paid by an employer, although the relative complexity of an employer’s financial affairs may increase the compliance burden.

The geographic location of the ACT lends itself to considerable cross-jurisdictional operations. In 2009-10, around 66 per cent of ACT taxpayers had employees in other States. The use of grouping provisions, which combine the payrolls of related entities for the purposes of calculating payroll tax, undoubtedly increases administration and compliance costs, but for as long as tax-free thresholds exist these costs will be unavoidable.

Stability

Payroll tax revenue is almost unit elastic with respect to the growth in economic output, high in forecast accuracy, and little volatility around long run growth. In the ACT, payroll tax has provided a reasonably adequate revenue source. Its predictability is estimated by the forecast accuracy of ACT Government revenue estimates, which has been high compared with other taxes (with a MAPE of around 4.8 per cent).

The variance of payroll tax revenue around its long run growth is relatively low. Payroll tax performs well against all taxes but is slightly more volatile than gambling taxes and general rates.

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Land tax

Key points

- Land tax accounted for 8.7 per cent of total taxation revenue in 2010-11 (5 per cent in the early 2000s).
- A broad-based land tax is widely recognised as an efficient tax.
- Land tax in the current ACT form is not as efficient or equitable as it could be due to its narrow base.

Land tax is an important source of revenue for the Government, amounting to approximately $110 million in 2010-11, compared with about $32 million in 2000-01. Historically, land tax has been advocated as an appropriate, indeed superior, form of taxation. Those arguments were also made in a submission to this Review.

Land tax is imposed under the Land Tax Act 2004 and the marginal tax rates are determined under the Taxation Administration Act 1999. Generally, land tax applies to all rateable commercial properties and any residential properties that are rented, including boarding houses, multiple dwellings, dual occupancies and granny flats. Residential properties owned by a trust or a corporation are liable for land tax, even if they are not rented. However, there are a number of land tax exemptions.

Land tax liability is assessed quarterly, with the land tax liability based on the Average Unimproved Value (AUV) for the past three years. Marginal rates have been unchanged since 2005-06. The rates differ for residential and commercial properties, shown in Table 21.

Table 21 Marginal land tax rates in the ACT

<table>
<thead>
<tr>
<th>AUV up to $75,000</th>
<th>Residential Properties (%)</th>
<th>Commercial Properties (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.60</td>
<td>0.89</td>
<td></td>
</tr>
<tr>
<td>AUV from $75,001 to 150,000</td>
<td>0.89</td>
<td>0.89</td>
</tr>
<tr>
<td>AUV from $150,001 to 275,000</td>
<td>1.15</td>
<td>1.25</td>
</tr>
<tr>
<td>AUV from $275,001 and above</td>
<td>1.40</td>
<td>1.59</td>
</tr>
</tbody>
</table>

Source ACT Revenue Office.

Residential and commercial properties contribute approximately the same level of land tax to total land tax revenue in the ACT (Chart 39).

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81 Currently, residential land used as a retirement village, nursing home, or by a religious institution to provide accommodation to a member to perform their duties, is exempt from land tax. There are also a number of exemptions for other land, such as land used for rural purposes, land owned by a not-for-profit housing corporation and land owned by charities.
Part 3 The ACT’s current taxes

Chart 39 Land tax revenue by residential and commercial properties

Land tax revenue has increased at an annual average growth rate of 12.9 per cent. The increase is attributed to growth in the number of properties in the tax base, and increases in average land values over time.

The number of residential properties liable for land tax between 2000-01 and 2010-11 increased around 2.8 per cent per annum, commercial properties by around 1.8 per cent. The distribution of AUVs of residential properties subject to land tax has shifted in average value and spread over time. This increase is not unique to residential land or the ACT. Growth in land tax partly reflects land value capture, and in itself should not be a concern for changing tax rates.

Chart 40 Distribution of AUV of residential properties subject to land tax, 2004-05 and 2010-11

Comparative analysis

The contribution of land tax revenue to total taxation revenue in the ACT has increased from 5 per cent in the early 2000s to almost 9 per cent in 2010-11, aligning with a national trend for land taxes to comprise a greater proportion of all jurisdictions’ tax revenue (except for the NT which does not levy land tax).

The CGC assesses the ACT as having one of the lowest land tax revenue raising capacities, although in 2009-10, it raised the second highest land tax on a per capita basis. The ACT exerts the highest effort in raising land tax at 171 per cent of assessed capacity.

Chart 41  Land tax capacity and effort, 2009-10

Land tax is levied by all States and largely applied in more or less the same form. One major difference is that land tax for all other jurisdictions is based on an entity’s aggregate land holdings, whereas in the ACT it is determined on each property. In general, the structure of land tax is the same across all jurisdictions that legislate land tax, albeit with different thresholds and marginal rates. The valuation base may range from site value to AUV. WA also imposes a Metropolitan Region Improvement Tax (MRIT) to finance the cost of providing land for public facilities.83

Comparing the effective land tax rates across jurisdictions, the ACT is broadly comparable with most other jurisdictions, and only slightly higher than the national average.

Considering higher than average effective tax rates and no aggregation provisions, land tax on a portfolio of properties will be higher in the ACT than other jurisdictions for a small portfolio of low valued properties. However, the differential will narrow as the portfolio increases in size and value.

Chart 42 shows the share of ACT commercial land by selected value ranges. Similar to Tasmania, SA and the NT, the ACT has a greater share of its commercial land at the lower value ranges. This contributes to the ACT’s below average capacity to raise land tax. However, the ACT’s higher relative tax rates on these lower valued properties contribute to the above national average actual land taxes per capita.

**Chart 42** Value distribution of commercial land across jurisdictions, 2008–09

Table 22 Comparison of land taxes between jurisdictions

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>Land tax is calculated on the combined value of all the taxable land owned above the land tax threshold. The rate of $100 plus 1.6 per cent of the land value between the threshold, ($387,000 for 2011) and the premium rate threshold ($2,366,000 for 2011) and the rate of 2 per cent applies above this threshold. If the land is owned by the trustee of a special trust then the threshold does not apply, a flat rate of 1.6 per cent applies up to the premium threshold and above this, and the rate of two per cent applies.</td>
</tr>
</tbody>
</table>
| VIC         | Land tax is levied annually on the owners of land-based on land holdings at 31 December for the previous year. The general land tax rates for 2009-2011 are based on the total taxable value of landholdings:  
  - less than $250,000: nil  
  - $250,000 to less than $600,000: $275 plus 0.2 per cent of amount greater than $250,000  
  - $600,000 to less than $1 million: $975 plus 0.5 per cent of amount greater than $600,000  
  - $1 million to less than $1.8 million: $2,975 plus 0.8 per cent of amount greater than $1 million  
  - $1.8 million to less than $3 million: $9,375 plus 1.3 per cent of amount greater than $1.8 million, and  
  - $3 million and over: $24,975 plus 2.25 per cent of amount greater than $3 million. |
| QLD         | Land tax is assessed on an owner’s total land holdings using the taxable value. There are two different sets of rates which are applied for individuals, and for companies, trustees and absentees. The current land tax rates for individuals (based on the taxable value of land) are:  
  - less than $599,999: nil  
  - $600,000 to $999,999: $500 plus 1 per cent of amount greater than $600,000  
  - $1 million to $2,999,999: $4,500 plus 1.65 per cent of amount greater than $1 million  
  - $3 million to $4,999,999: $37,500 plus 1.25 per cent of amount greater than $3 million, and  
  - $5 million and over: $62,500 plus 1.75 per cent of amount greater than $5 million. |
Table 22  Comparison of land taxes between jurisdictions [CONTINUED]

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>For companies, trustees and absentees (based on the taxable value of land):</td>
<td></td>
</tr>
<tr>
<td>– less than $349,999: nil</td>
<td></td>
</tr>
<tr>
<td>– $350,000 to $2,249,999: $1,450 plus 1.7 per cent of amount greater than $350,000</td>
<td></td>
</tr>
<tr>
<td>– $2,250 million to $4,999,999: $33,750 plus 1.5 per cent of amount greater than $2,250 million, and</td>
<td></td>
</tr>
<tr>
<td>– $5 million and over: $75,000 plus 2 per cent of amount greater than $5 million.</td>
<td></td>
</tr>
<tr>
<td>WA</td>
<td>Land tax is levied annually on the owners of land-based on land holdings at 30 June, levied for the financial year immediately following this date. WA imposes the MRIT on property with a land tax liability. The land tax rates effective for 2011-12 based on the total taxable value of land are:</td>
</tr>
<tr>
<td>– less than $300,000: nil</td>
<td></td>
</tr>
<tr>
<td>– $300,000 to less than $1 million: 0.09 per cent of amount greater than $300,000</td>
<td></td>
</tr>
<tr>
<td>– $1 million to less than $2.2 million: $630 plus 0.47 per cent of amount greater than $1 million</td>
<td></td>
</tr>
<tr>
<td>– $2.2 million to less than $5.5 million: $6,270 plus 1.22 per cent of amount greater than $2.2 million</td>
<td></td>
</tr>
<tr>
<td>– $5.5 million to less than $11 million: $46,530 plus 1.46 per cent of amount greater than $5.5 million, and</td>
<td></td>
</tr>
<tr>
<td>– $11 million and over: $126,830 plus 2.16 per cent greater than $11 million.</td>
<td></td>
</tr>
<tr>
<td>SA</td>
<td>Land tax is levied annually on the owners of land-based on the total taxable site value of total land holdings at 30 June. The rates currently applicable are:</td>
</tr>
<tr>
<td>– up to $316,000: nil</td>
<td></td>
</tr>
<tr>
<td>– $316,001 to $579,000: 0.5 per cent of amount greater than $316,000</td>
<td></td>
</tr>
<tr>
<td>– $579,001 to $842,000: $1,315 plus 1.65 per cent of amount greater than $579,000</td>
<td></td>
</tr>
<tr>
<td>– $842,001 to $1.052 million: $5,564.50 plus 2.4 per cent of amount greater than $842,000</td>
<td></td>
</tr>
<tr>
<td>– over $1.052 million: $10,694.50 plus 3.7 per cent of amount greater than $1.052 million.</td>
<td></td>
</tr>
<tr>
<td>TAS</td>
<td>Land tax is levied annually on the owners of land at 1 July each year. There are exemptions to properties for land tax. Land tax is calculated on the Assessed Land Value. The rates applicable from 1 July 2010 based on aggregated land value are:</td>
</tr>
<tr>
<td>- $0 to $24,999: nil</td>
<td></td>
</tr>
<tr>
<td>- $25,000 to $349,999: $50 plus 0.55 per cent of the amount greater than $25,000, and</td>
<td></td>
</tr>
<tr>
<td>- $350,000 and over: $1,837.50 plus 1.5 per cent of the amount greater than $350,000.</td>
<td></td>
</tr>
<tr>
<td>ACT</td>
<td>Land tax assessments are based on the most recent AUV of land that incorporates the 2011 unimproved land value.</td>
</tr>
<tr>
<td>NT</td>
<td>Land tax is not imposed in the NT.</td>
</tr>
</tbody>
</table>


Incidence – who pays?

While the legal incidence of land tax lies with the owner of the property, the economic incidence can differ. Residential land tax may be passed through to tenants in the form of higher rents84 whilst commercial land tax could be distributed a number of ways – to the tenant as higher rents, to consumers as higher prices for goods and services, to employees as lower wages, or be borne by the landholder.

Generally in a fully competitive rental market, or when vacancy rates are high, there are impediments to the landlord passing the land tax to the tenants. In the short run, an increase in land tax may be reflected in higher rents but given sufficient competition in the rental market, landlords will absorb land tax in the long run.

84 The owner of the property can pass on the land tax by demanding a higher rent. Since the land tax is not payable until the property is rented, the landlord’s opportunity cost of holding out consists mostly of foregone rental income.
Residential rental vacancy rates in the ACT have been low, below the industry target vacancy rate benchmark of 3 per cent. This has pushed up the median rentals, allowing landlords to more easily pass the land tax to tenants.

Investors would typically consider both the income (rent) and equity (capital gains) returns. The decision about where to invest would take into account both the total return and the mix of returns, reflecting the fact that different returns may suit different investors’ circumstances. There is limited research on reasons for investment in rental dwellings. However, a recent survey of investors found that long-term investment and capital gains are the predominant reasons for investing in property.

An analysis of the rents, land tax liability and property values for the ACT market suggests that land tax at its current rate, and under the current market conditions does not appear to have a significant effect on property investment decisions. This reflects the capacity of investors to pass on at least part of the cost of land tax, and the fact that it is deductible for income tax purposes. Evidence suggests financial aspects such as land tax alone have limited capacity to change the patterns of investors given that they are not only driven by economics but also situational circumstances and personal goals.

Assessment against the criteria

Theoretically, land tax measures well against the key taxation principles of economic efficiency, equity, compliance and administration simplicity, and stability given its broad base potential and the immobility of land. However, its base is currently narrow, meaning it is less efficient and equitable than it could be.

Economic efficiency

A broad-based land tax is widely recognised as an efficient tax. It does not create distortions in production, consumption, and investment when applied at low levels because supply is fixed. Further, land is visible and immobile, making tax evasion difficult. Lastly, land tax is one of few taxes levied on foreigners that cannot be shifted to domestic factors of production.

Its value as an instrument to reduce speculation has also been recognised. Land tax effectively reduces buyers’ risk-adjusted return from land, all else being equal, and therefore they would only be willing to invest in land if the after-tax return is equalised with the return on other investments.

It is important to note that as there is no similar tax on other income earning assets (such as shares), land tax may have a distortionary effect on the market if applied at a sufficiently high level. However, statutory exemptions in the ACT limit the tax base to include only commercial and residential properties that are rented, owned by a corporation or a trustee. The most notable exemption is for owner-occupied properties (78 per cent of ACT residential properties) and unoccupied residential properties.

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85 REIA: Vacancy rates lower than 3 per cent indicate strong demand for rental accommodation.
86 Seelig, T., Thompson, A., Burke, T., Pinnegar, S., McNelis, S. & Morris, A, 2009, Understanding what motivates households to become and remain investors in the private rental market, Australian Housing and Urban Research Institute, March.
88 Seelig, T., Thompson, A., Burke, T., Pinnegar, S., McNelis, S. & Morris, A, 2009, Understanding what motivates households to become and remain investors in the private rental market, Australian Housing and Urban Research Institute, March.
The KPMG Econtech CGE modelling estimated that nationally land tax had a low marginal and average excess burden at around eight and six cents in the dollar respectively.\(^90\)

Whilst broadening the base of land tax is good from an efficiency perspective, land tax in its current form still measures well against other taxes despite its narrow base. As a result, a greater focus on other criteria such as equity, administration and compliance, and stability is useful in assessing land tax.

**Equity**

The incidence of residential land tax can be shared between property owners and renters, depending largely on market conditions. This causes a number of equity issues, with a portion of the land tax payable being contributed by tenants through rental prices, given that renters on average have lower income than property owners.\(^91\)

Land tax is progressive in the ACT, with the average tax rate increasing as AUV increases. Assuming that land ownership is an appropriate and accurate measure of capacity to pay, the progressive tax satisfies vertical equity and horizontal equity. However, this may not necessarily be the case, for example households can be rich in assets but poor in income, especially for retired households and estate transfers.\(^92\)

Similarly, the AFTS Review notes that land tax is not the most optimal mechanism for achieving the objective of vertical equity as land holding by itself does not provide a comprehensive picture of capacity to pay tax.\(^93\)

**Compliance and administration costs**

Administration costs associated with land tax are reasonable as a proportion of land tax revenue, amounting to 0.45 per cent in 2010-11. This is relatively higher than the administration costs of other taxes, largely due to the narrow nature of the land tax base as a result of exemptions. The administration costs could be higher but for the fact that it is administered alongside the general rates system.

The responsibility to report liability for land tax lies with the landlord. Ensuring compliance for land tax and recovering debts accounted for around 0.27 per cent of land tax revenue in 2010-11.

**Stability**

Land tax is a relatively stable and predictable revenue source. As a result it is financially adequate and sustainable.

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General rates

Key points

- The AFTS Review recognises general rates as an efficient and adequate tax.
- ACT general rates are forecast to generate close to $198 million in 2010-11 or 15.8 per cent of own-source taxation revenue.
- Under the ACT’s current rating system, smaller blocks pay a larger amount of general rates on a dollar per squared metre basis than larger blocks. This imposes a disproportionate burden on households that consume and use land more efficiently. It reduces the overall progressivity of general rates.

General rates are an annual charge levied on property owners by local councils to fund a wide range of municipal and other services. General rates recover the cost of municipal services which usually are attributed uniformly across households irrespective of the size of the land plot. Both the legal and economic incidence of general rates falls upon property owners.

General rates are levied on around 137,000 rateable residential properties and 5,700 rateable commercial properties in the ACT. In 2000-01 general rates provided around $105 million in own-source revenue in the ACT, compared with an estimated $198.2 million in 2010-11 and an expected $210.6 million in 2011-12.\(^4\)

The ACT levies general rates on the average (over three years) unimproved value of all property. There are two components – a fixed charge and a valuation charge.

Valuation charge formula

The valuation charge is determined using a rating factor or percentage (P) and the average of the 2009, 2010 and 2011 AUV. The first $16,500 of the unimproved value of a property is exempt from a valuation charge.

The general rates calculation used for units is largely the same, however, it includes an extra component which divides the unimproved land value of the entire unit plan by the number of individual unit entitlements (UE).

There are different fixed charges and rating factors for residential, commercial and rural properties.
The current rating system

The current rating system has the following elements:

- a fixed charge of $555 for residential properties, $126 for rural properties, and $1,258 for commercial properties
- a valuation based charge on the AUV for 2009, 2010 and 2011 land values
- a rate-free threshold of $16,500 applied to the AUV of each property
- rating factors applied to the AUV of:
  - 0.2727 per cent for residential properties
  - 0.1579 per cent for rural properties
  - 0.7711 per cent for commercial properties, and
- a pensioner rebate cap for post 1 July 1997 applicants of $481.

Source ACT Revenue Office.

As a percentage of own-source revenue general rates has remained relatively constant over time, at about 16 per cent in 2000-01 and about 17 per cent in 2009-10. The current general rates structure is largely flat as a result of the single threshold and rate which is applied across all property.

Chart 43 General rates and AUV in Woden by block size

Under the current rating system smaller blocks attract a larger amount of general rates on a dollar per metre squared basis. This imposes a disproportionate burden on households which consume and use land in a more efficient manner and reduces the overall progressivity of general rates.

The average block size for a stand alone house in Canberra is around 800 square metres and varies across districts. The average block size in the Inner South is around 960 square metres while blocks in the newer district of Gungahlin are smaller at an average of 550 square metres. Average block sizes in Belconnen and the Inner North are 804 and 817 square metres respectively. The districts of Tuggeranong, Weston, and Woden have average block sizes of 838, 866 and 917 square metres respectively.

Source Australian Bureau of Statistics, Taxation Revenue, Australia, 2009-10, Cat No. 5506.0, ABS, Canberra.
The amenity of a block including its proximity to services, size and orientation are generally captured in market values. A flat rating structure, while simple, is not progressive.

**Comparative analysis**

In 2009-10, general rates for all State, Territory and local governments accounted for around 16.7 per cent of own-source taxation revenue compared with around 17.7 per cent for the ACT.96

Growth in general rates in the ACT had been capped at CPI, with allowance for growth in stock. In 2007, the annual escalation was changed to WPI to reflect the growth in cost of services.97 This is reflected in the latest available ABS property rates and charges index which was 197.6 in the ACT, compared with the national average of 204.4.98

General rates increases in nearby districts are not restrained according to increases in WPI, with Queanbeyan Council having applied an 8.4 per cent increase in 2010-11.

**Chart 44** The general rates and charges component of the consumer price index - capital cities and Australia

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**Table 23** Comparison of rates

<table>
<thead>
<tr>
<th>Block Size (m²)</th>
<th>200</th>
<th>500</th>
<th>1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUV ($)</td>
<td>184,000</td>
<td>238,000</td>
<td>371,000</td>
</tr>
<tr>
<td>AUV/m²</td>
<td>920</td>
<td>476</td>
<td>371</td>
</tr>
<tr>
<td>Valuation based charge ($)</td>
<td>457</td>
<td>604</td>
<td>967</td>
</tr>
<tr>
<td>Fixed charge ($)</td>
<td>555</td>
<td>555</td>
<td>555</td>
</tr>
<tr>
<td>Rates ($)</td>
<td>1,012</td>
<td>1,159</td>
<td>1,522</td>
</tr>
<tr>
<td>Rates/m²</td>
<td>5.06</td>
<td>2.32</td>
<td>1.52</td>
</tr>
<tr>
<td>(Fixed/rates) charge (%)</td>
<td>55</td>
<td>48</td>
<td>36</td>
</tr>
</tbody>
</table>

**Source** ACT Treasury.

**Note** Rounded to the nearest dollar.

---

Land valuation and rates settings in other jurisdictions

Land value is the common basis for general rates across all jurisdictions, although the valuation basis and the levels set differ. Typically the revenue raised by local councils through general rates and municipal charges must not exceed the budget or expenditure required to deliver services. This ensures transparency.99

The differing valuations used across jurisdictions vary from measures based on the value of the land itself (such as unimproved value) to measures capturing capital value, including the land, and the annual value of rent and income received through property. In addition to municipal rates, some jurisdictions have specific area rates, or service charges.

Valuation methodologies for the setting of general rates

While the valuation methods for general rates have a number of subtle differences they can be broadly categorised as:

- value of the land, excluding improvements (this includes unimproved value, unimproved capital value, land value and site value)
- total market value (this includes capital value and capital improved value), and
- annual rental value (this includes average annual value, annual value, net annual value and gross rental value).

A summary of the valuation methods available in all States and Territories is illustrated here.

<table>
<thead>
<tr>
<th></th>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>WA</th>
<th>SA</th>
<th>TAS</th>
<th>ACT</th>
<th>NT</th>
</tr>
</thead>
<tbody>
<tr>
<td>General rates</td>
<td>Land Value</td>
<td>Site Value, Net Annual Value, Capital Improved Value</td>
<td>Site Value</td>
<td>Rural: UV Non-Rural: Gross Rental Value</td>
<td>Capital Value, Site Value, Annual Value</td>
<td>Land Value, Capital Value, Average Annual Value</td>
<td>Unimproved Value</td>
<td>Unimproved Capital Value, Average Value, Improved Capital Value</td>
</tr>
</tbody>
</table>

Source: Nicholls, D; 12 October 2011; A framework for setting of taxes in the ACT; School of Management, Marketing and International Business, College of Business and Economics, Australian National University.

New South Wales

Three methods of valuation are used within NSW land value, improved value and assessed annual value. Land value in NSW reflects the market value of the land at 1 July in the year of valuation, and excludes the value of the dwelling and other improvements on the land. The NSW Valuer General undertakes the valuations.

Individual councils within NSW determine the rate at which their general rates will be set with four major rating categories used: namely residential, commercial, agricultural and mining. Local councils are provided with the option of applying a maximum of three sub-categories to each of the four major rating categories, each of which may attract different levels of rates.

NSW is currently undertaking a comprehensive review of the Valuation of Land Act 1916.100

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Part 3  The ACT’s current taxes

Victoria

Victorian Councils have the autonomy to choose one of three valuation bases on which to levy their general rates. These include the unimproved market value of the land, capital improved value (the total market value of the land and improvements) or the net annual value (which is the annual rental value, or 5 per cent of the capital improved value for residential and farmland).

The majority of councils choose the capital improved value, while a few use the net annual value to determine general rates. No council currently uses the site value for determining rates. The Valuer General is responsible for determining valuations of property within Victoria.

Council rates in VIC are comprised of three different components, municipal charges, waste charges and a charge determined by the rate in the dollar per property value. 101

Queensland

From 1 July 2011, QLD uses site value as the basis for levying general rates for all residential properties, except for rural sites where unimproved value is used. A site charge is also used for non-rural land for determining general rates. Local councils have autonomy in raising revenue by determining general rates and differential rates. The differential general rate may be levied by a local council where it is considered inequitable to levy a single general rate on all land within the council’s area.

Local councils in QLD also levy utility rates for services such as water, wastewater and waste on the principle of user pays and full cost pricing.

The site value of land is determined by the QLD State Government. 102

Western Australia

In WA local governments levy rates on the Gross Rental Value (GRV) for urban land and buildings, and the unimproved value of rural land.

Local governments in WA also have the capacity to impose differential rates on certain sectors of the community, such as commercial property, and can also create specified area rates to fund specific services to a particular area or group of properties. In addition to these rates councils are able to apply a small range of hypothecated service charges to fund additional services such as community security. 103

South Australia

Local governments in SA are able to levy general rates on either the site value (the value of the land excluding structural improvements), or the capital value (the value of the land including structural improvements). The valuation of property is determined by the SA State Valuation Office and is based on market movements. 104

Tasmania

General rates in Tasmania are levied upon the land value (value of the property excluding visible improvements), capital value (total value of the property) or the assessed annual value (gross annual rental value of the property, excluding GST, council rates and land tax). The levels at which rates are set are determined by the councils’ budgetary requirements. 105


Northern Territory

Local councils within the NT may levy general rates on the unimproved capital value, the improved capital value or the annual value. The values are determined by the Northern Territory Valuer-General.\textsuperscript{106}

Incidence – who pays?

Typically the economic incidence of general rates falls on land as the taxes are applied to a fixed factor. While the incidence of general rates can be considered to be relatively evenly spread between different land types, the majority of the incidence still falls upon residential land.\textsuperscript{107}

In the case of investment property, while the legal incidence falls upon the landholder, the economic incidence may lie somewhere in between both the tenant and the landholder, depending on market conditions.

Assessment against the criteria

Using land as a tax base is highly efficient as it is immobile, and has the capability of delivering adequate and sustainable revenues. Municipal rates were specifically identified within the AFTS Review report as one of the most efficient land-based taxes with the lowest level of marginal welfare loss created.

General rates measure well against the key taxation principles of economic efficiency, equity, compliance and administrative simplicity and stability.

Economic efficiency

General rates are an efficient tax due to the broad base. The fixed component of rates increases the efficiency of the tax as it reduces incentive to purchase a lower value property over a higher value property as a mechanism to reduce the rates bill.\textsuperscript{108}

Furthermore, general rates impose a low excess burden of tax as the incidence is on land.\textsuperscript{109} This can be observed through the low marginal and average excess burden created by general rates observed in Australia, estimated at around two and one cents of consumer welfare per dollar of tax revenue, respectively.\textsuperscript{110}

It is well established that any tax on land should not distort its use and should encourage its most efficient economic use.\textsuperscript{111} However, under the current general rates system households on smaller blocks in the ACT face a larger tax burden on a per square metre basis. This creates economic inefficiency as it creates a larger tax burden on land which is being used more efficiently.\textsuperscript{112}

Equity

General rates are a relatively equitable source of revenue. Property owners with the same unimproved value property pay the same rates and in this sense, the tax is horizontally equitable. The fact that rates increase with property values is also consistent with the concept of vertical equity. The current system is inequitable, with the amount of general rates paid per square metre for smaller blocks being larger than that of larger blocks.


\textsuperscript{107} KPMG Econtech, 2010, *CGE Analysis of the Current Australian Tax System*.


\textsuperscript{110} KPMG Econtech, 2010, *CGE Analysis of the Current Australian Tax System*.

\textsuperscript{111} Sibly, H., 2004, *Ramsey Prices and Qualities*. School of Economics, University of Tasmania.

\textsuperscript{112} Nicholls, D., 2011, *A framework for setting of taxes in the ACT*. School of Management, Marketing and International Business, College of Business and Economics, Australian National University.
Compliance and administration costs

General rates have very low compliance and debt recovery costs at around 0.09 per cent of general rates revenue in 2010-11. However, administration and collection of rates revenue is relatively higher at 0.38 per cent of general rates revenue, due to costs associated with undertaking regular land valuations and providing landholders the capacity and means to appeal against these valuations if desired. There are further costs associated with providing the technological resources and capacity to administer general rates to over 130,000 rateable properties each quarter.

Stability

General rates are levied on a large, immobile taxation base, have high compliance rates, and are a predictable source of revenue. As a result, general rates are highly sustainable and financially adequate in recovering the costs associated with providing municipal services.\(^{113}\)

Forecasting of general rates is relatively simple as the rate is set by the Government based on the recorded average unimproved value of all properties to provide revenue to cover the cost of municipal services. As a result, general rates has recorded the lowest MAPE of all ACT taxes at around 1.3 per cent, compared with the average MAPE of 9 per cent for all taxes.\(^{114}\)

General rates provide a stable source of government revenue in the ACT with the lowest volatility of all the state taxes when considered in the context of annual revenue volatility. Since 2000-01, general rates revenue has shown an average annual variance of 7 per cent and a compounded annual growth rate of 6.69 per cent. The observed annual increases in revenue is due to a combination of increases in the general rates and increases in the average unimproved value of land.\(^{115}\)

General rates concessions in the ACT

The ACT Government provides concessions, and the option to defer payment on general rates to individuals on low-income. This practice provides an administratively and economically efficient means of reducing the cost imposed by general rates, and increases the progressivity of the general rates system.

The total value of revenue foregone in 2010-11 was $6.5 million, including $6 million on general rates and $0.5 million on the fire and emergency services (FESL) levy.

The current general rates rebate is for up to 50 per cent of the general rates rebate on a property, up to a maximum amount of $481. Eligibility for the concession is limited to the principal place of residence and is provided to property owners who hold a Centrelink Pensioner Concession Card or a DVA Gold Card.

Individuals eligible for a rates rebate also receive a 50 per cent rebate on the FESL.

In addition to the rebates, eligible households have an option to defer all or part of the balance of the rates charge, at a low rate of simple interest.\(^{116}\) In 2010-11, there were 99 deferrals, with a total value of $90,200.\(^{117}\)

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116 ACT Revenue Office.

117 Ibid.
Lease variation charge

In 2010-11, the ACT received approximately $14 million in LVC (previously Change of Use Charge) revenue, representing approximately one per cent of total taxation revenue for the ACT.

The ACT is the only Australian jurisdiction with a leasehold land tenure system. A charge on a variation in lease conditions that results in the grant of additional development rights has been in place in the Territory since 1971.

The value provided to an applicant through the grant of additional development rights is akin to the sale of licences or other economic rent generating activities.\(^{118}\)

The leasehold system necessitated the development of a means by which a proportion of the gains arising from changes to the lease and development conditions of land could be returned to the community. The Change of Use Charge (CUC) was initially known as betterment. Betterment is an unearned windfall accruing to a landowner when land prices increase due to planning policies and public investments in infrastructure. A betterment charge or tax seeks to capture the windfall gains to be returned to the community.

Codification

One concern often raised in the ACT had been around the uncertainty for projects as the charge could only be determined once a decision had been made on a development proposal.

Codification, or schedules of charges, was considered a reasonable approach, and indeed recommended by the property industry.\(^{119}\) In the 2009-10 Budget, the ACT Government announced the codification of the CUC in response to industry concerns regarding the clarity and certainty of the CUC payable and the length of processing times.

A system of codified LVC came into effect on 1 July 2011.

Applicants refer to the schedule of codes for their individual suburb and apply the codified fee. Separate fees apply for residential, commercial and industrial developments. The fees are calculated using a market rate index based on land values, calculated by the Australian Valuation Office (AVO) over the last three years.

The codification schedules are to be updated each financial year to ensure that the values are consistent with benchmark property values for the three preceding years. The updated codification schedules are reviewed by a panel of experts which includes representatives from the AVO and the Australian Property Institute.

Rectification

In 2010, as part of the codification project, a practice of low fixed fees being applied to dual occupancy, townhouse and multi-unit developments was identified. The fees being applied were considerably small relative to the market value of the development rights being granted.

This practice was ‘rectified’ in May 2010, almost one year before the commencement of the codification.

Transition arrangements associated with codification and rectification introduced in the 2011-12 Budget provide for tax remissions of 75 per cent at commencement and reducing to the base 25 per cent remission over five years.

\(^{118}\) SGS Economics and Planning, 2006, Change of Use Charge for Leases. Internal confidential report prepared for ACTPLA.

The potential impact of changes to the system through rectification and codification has been the subject of considerable detailed analysis. This includes:

- cost benefit and regulatory impact analysis\(^{120}\)
- conceptual analysis of the changes on the various segments of the development market,\(^{121}\) and
- econometric analysis based on empirical data.\(^{122}\)

These analyses and the experience of changes to tax settings provide useful information on the impact of LVC.

**Comparative analysis**

Betterment capture schemes have been adopted at various times in several States.\(^{123}\) However, they have since been discontinued for a range of reasons, but mainly due to the difficulty in assessing pre-development values.\(^{124}\)

In the ACT, while the administration and calculation of the charge may have changed a number of times,\(^{125}\) the leasehold system and its annual valuation processes allow a reasonable estimation of the change in value from the grant of additional rights through changes to lease and development conditions.

The other jurisdictions operate primarily under a freehold land title system, with various forms of development taxes.\(^{126}\) The fundamental basis on which the developer contributions are calculated, however, is quite different.

In VIC, developers pay development contributions through the planning scheme amendment and planning permit processes.

In QLD, the *Integrated Planning Act 1997* has infrastructure charges provisions which implement “a regime of development contributions based on the user pays principle”.

The NSW development contribution system has the intention of assisting “in providing new and increasing communities with appropriate infrastructure” and is legislated under the *Environmental Planning and Assessment Act 1979*.

**Incidence – who pays?**

The LVC partly recovers the value of the benefits accrued to a landholder through the grant of additional development rights. In essence, it is a tax on economic rent.

Betterment taxes have a sound basis in economic theory. If applied properly, they should introduce little or no excess burden. Although the charge is legally constructed and administered as a tax, it can also be viewed as an asset sale in the context of the grant of additional rights and privileges in a leasehold system.

\(^{120}\) Nicholls, D., 1999, *A Study of Betterment and the Change of Use Charge in the ACT*, School of Management, Marketing and International Business, College of Business and Economics, Australian National University.


\(^{123}\) For example, NSW (*Town and Country Planning Act 1945*, later incorporated into the *Local Government Act 1919*), Tasmania (*Local Government Act 1962*, ss.738, 739), Victoria Town and Country Planning Act, Section 196K, and Western Australia *Town Planning and Development Act*, Section 11(2).


\(^{125}\) Nicholls, D., 1999, *A Study of Betterment and the Change of Use Charge in the ACT*, School of Management, Marketing and International Business, College of Business and Economics, Australian National University.

Table 24 provides revenue per dwelling and the number of dwellings supplied through lease variations between 2007-08 and 2010-11. It highlights that supply is insensitive (highly inelastic) to changes in the average charge paid per unit. That is, an increase or decrease in the average CUC paid per unit has very little effect on supply.

**Table 24  Revenue from CUC and LVC**

<table>
<thead>
<tr>
<th></th>
<th>Total number of units</th>
<th>Residential CUC/LVC revenue received ($)</th>
<th>Average CUC/LVC paid per unit ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007–08</td>
<td>316</td>
<td>549,375</td>
<td>1,739</td>
</tr>
<tr>
<td>2008–09</td>
<td>500</td>
<td>1,819,125</td>
<td>3,638</td>
</tr>
<tr>
<td>2009–10 (50% remission)</td>
<td>544</td>
<td>757,049</td>
<td>1,392</td>
</tr>
<tr>
<td>2010–11</td>
<td>514</td>
<td>4,983,500</td>
<td>9,696</td>
</tr>
</tbody>
</table>

Source ACTPLA.

This confirms the conceptual analysis that the LVC is a tax on economic rent, and as such, it should be set at a high level.

**Assessment against the criteria**

As the LVC isolates and taxes economic rents, it should have no impact on production and consumption decisions.

As the new legislation and schedules have only been in place since 1 July 2011, it is difficult to quantify the compliance and administration costs associated with the codified LVC system. Considerable improvements are, however, expected following codification with:

- around 6,500 less processing days (a 38 per cent reduction), resulting in potentially lower holding costs
- around $375,000 in savings for applicants, by reducing the costs of undertaking private valuation reports, and
- around $100,000 in administration savings for the ACT Government, by reducing the need for ACT Civil and Administrative Tribunal mediation, and verification of all applicants by the AVO.

The LVC can be difficult to forecast in the short-term due to the uncertain nature of the property market. The volatility and predictability concerns should be outweighed by the high efficiency of this tax. With the Government’s policy of urban densification, LVC will be an important instrument to capture land value enhancements arising from public investments in infrastructure and urban densification.

**Recommendation**

The Panel makes the following recommendation to the Government.

**Recommendation 7**

Use the LVC and a broad-based land tax as instruments for land value capture. Taxation settings should ensure sufficient revenue to support the necessary investment in infrastructure and services.

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Insurance taxes

Key points

- Insurance taxes are considered highly inefficient. They are essentially transaction taxes, although they are levied on aggregate premiums and likely to be less visible to the consumer.

- The ACT is comparable with other jurisdictions for the duty rates charged on insurances.

Insurance taxation comprises duty on general insurance, duty on life insurance, and the Ambulance Levy. Total ACT revenue from insurance taxes is approximately $61.2 million in 2010-11 (about 5 per cent of taxation revenue).

Insurance taxes, legislated in the ACT since 1953 and levied under the Duties Act 1999, are effectively duties based on premiums paid.

Life insurance and general insurance both incur Commonwealth, and State and Territory taxes such as the GST and duty. Life insurance is input taxed: policies incorporate a significant element of saving and are categorised as a financial service, thus they are treated the same as other financial services for the treatment of GST.\(^{128}\) General insurance is taxed at the GST rate, which is based on dividing supplies of general insurance into two components, the payment of a premium and the payout of a claim.\(^{129}\) This approach ensures that the GST is only collected on the insurer's value add.\(^{130}\)

<table>
<thead>
<tr>
<th>Type of insurance tax</th>
<th>Actual revenue for 2010–11 ($ million)</th>
<th>Forecast revenue for 2011–12 ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duty on General Insurance</td>
<td>43.3</td>
<td>44.3</td>
</tr>
<tr>
<td>Duty on Life Insurance</td>
<td>2.0</td>
<td>2.3</td>
</tr>
<tr>
<td>Ambulance Levy</td>
<td>14.9</td>
<td>14.6</td>
</tr>
</tbody>
</table>

Source ACT Budget 2011–12.

Note Rounded to the nearest dollar.

The duty is payable monthly. In the ACT, there are currently 204 insurance companies offering general insurance, 25 insurance companies offering life insurance policies, and 35 private health insurance companies. Table 26 shows the taxation rates on insurance payable in the ACT.


\(^{129}\) Ibid.

\(^{130}\) Ibid.
A number of exemptions to general insurance duty are in place in the ACT. Amateur sporting and community not for profit bodies are exempt from duty on public liability insurance and other prescribed general insurance required to hold a public event. Workers compensation, Compulsory Third Party (CTP) motor vehicle personal injury insurance, health insurance and international trade insurance are also exempt.

### Comparative analysis

In 2010-11, insurance taxes contributed between 3.5 per cent and 9.9 per cent of total State and Territory own-source taxation revenue.

#### Table 27 The proportion of insurance taxes as a share of total state taxes

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Share of total taxation revenue (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New South Wales</td>
<td>3.5</td>
</tr>
<tr>
<td>Victoria</td>
<td>9.9</td>
</tr>
<tr>
<td>Queensland</td>
<td>6.7</td>
</tr>
<tr>
<td>Western Australia</td>
<td>7.0</td>
</tr>
<tr>
<td>South Australia</td>
<td>9.4</td>
</tr>
<tr>
<td>Tasmania</td>
<td>5.7</td>
</tr>
<tr>
<td>Australian Capital Territory</td>
<td>4.7</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>6.0</td>
</tr>
</tbody>
</table>

*Source: State and Territory 2011-12 Budget papers.*
The ACT is comparable with the other jurisdictions for the duty rates charged on insurance but the ACT is below the average with both dollar insurance taxes per capita and effort to raise revenue (Chart 45).

**Chart 45** Insurance taxes per capita and revenue raising effort against assessed capacity, 2009-10

![Bar chart showing insurance taxes per capita and revenue raising effort against assessed capacity for different jurisdictions including NSW, VIC, QLD, WA, SA, TAS, ACT, NT.]


**Incidence – who pays?**

While insurance taxes are paid by the insurance companies, the cost is directly passed through to the consumers and as such the economic incidence falls solely on the consumer through the payment of premiums.\(^\text{132}\)

The duty increases with the level of insurance cover and may create adverse consequences of under insurance and less than optimal production of insurance products. In addition to these costs to the economy, under-insurance caused by insurance taxes can impose a direct cost on government where there is an expectation of direct assistance should a major catastrophe occur.

Direct offshore foreign insurers who do not have an Australian branch or actively seek customers or business in Australia do not need to comply with the provisions of the *Insurance Act 1973*, and thus have a competitive advantage. The number of foreign insurers who may have policies held by individuals in Australia is largely unknown, which means that the impact of overseas insurers who do not pay duty is difficult to estimate.\(^\text{133}\)

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Table 28  Comparison of insurance-based taxes across Australia

<table>
<thead>
<tr>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>WA</th>
<th>SA</th>
<th>TAS</th>
<th>NT</th>
<th>ACT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Life Insurance</strong> (Based on sum insured, except in SA.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$0-$2,000:</td>
<td>$1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over $2,000:</td>
<td>$1.00 +20c</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>per $200 or part.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Over $2,000:</td>
<td>$1.20 +24c per</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$200 or part</td>
<td>$200 or part</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>above $2,000.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$201-$2,000:</td>
<td>12c per $200 or part.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$0-$2,000:</td>
<td>12c per $200 or part.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over $2,000:</td>
<td>0.05% of the first $2,000 + 0.1% of balance.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No duty on life insurance policies.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$1.50 per $100 or part thereof of net premiums of previous year paid as annual licence (Min $100).</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to $2000:</td>
<td>10c per $200 or part.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over $2000:</td>
<td>$1.00+20c per $200 or part in excess of $2,000.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10c per $100 or part thereof of the sum insured.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$0-$2,000:</td>
</tr>
<tr>
<td></td>
<td>$1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$1.00</td>
</tr>
<tr>
<td></td>
<td>Over $2,000:</td>
<td>$1.00 +20c per</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$200 or part</td>
</tr>
<tr>
<td></td>
<td>$200 or part</td>
<td>$200 or part</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>thereof in excess of $2,000.</td>
</tr>
</tbody>
</table>

| **General Insurance** |               |               |               |               |               |               |              |
| 9% of the premium.   | 10% of previous month’s premiums. | 7.5% of the premium for contracts of general insurance. | 10% of gross premiums. | $11 per $100 or part thereof of premiums. | 8% of premiums. | 10% of premiums. | 10% of gross premium. |

| **Ambulance Levy** |               |               |               |               |               |               |              |
| Emergency Services Funding: From 1 July 2009, the State Emergency Service will be funded in the same way. Once the cost of operating the services is determined, the insurance industry, Local Councils and State Budget contribute. | No ambulance levy imposed. | Community Ambulance Cover (CAC): CAC replaced the voluntary Queensland Ambulance Service Subscription Scheme and transport charges for nonsubscribers. | Emergency services levy: The levy rates vary by property type and by region. | No ambulance levy imposed. | No ambulance levy imposed. | Not imposed. | Ambulance levy charged to health insurance providers. |

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Assessment against the criteria

Taxation on general insurance is relatively broad-based as most households have some form of insurance. Nonetheless, this duty is imposed on a transaction and therefore creates an incentive not to insure.\textsuperscript{135} Overall taxes on insurance are an inefficient method of raising revenue and may not be sustainable in the long run because of the pressure on governments to provide compensation after the event.

Equity

The tax base for transaction based taxes such as general and life insurance duty is narrow. Insurance taxes exhibit horizontal equity, whereby individuals in similar circumstances are liable to pay the equivalent tax. Due to the complexity of insurance products available, duty on general insurance is calculated on the same basis across all policy holders, whereas life insurance duty differs according to the sum insured and by type of insurance contract. In addition, the Ambulance Levy paid by private health insurance companies is based on the number and type of contributions, and thus is horizontally inequitable.

Inequity exists as a result of a small tax base paying for government services that a specific subset of the community may benefit from. In the case of natural disasters in QLD, for example, those most heavily affected were located in low lying areas and many homes were under-insured. The expectation that governments will bail out those in need creates a continuation of under-insurance and inequity.

As the amount of duty is determined by the value of assets being insured it reflects some of the principles of vertical equity. However, no consideration is given to the capacity of individuals to pay the duty.

Compliance and administration

Administration, collection, and back-end compliance costs of duty on general insurance and life insurance, at a cost of around 0.08 per cent of total insurance taxes revenue in 2010-11, is relatively straightforward and low cost. This reflects the requirement for insurance companies to report on and remit the duty.

The Ambulance Levy is also simple to administer, as the calculations are performed by insurers, and compliance is high.

Overall, insurance taxes are simple to administer and are an easily understood system of taxation for stakeholders. The rates for duties on insurance are calculated without difficulty by insurance companies and other insurance lending organisations.

Stability

Life insurance duty generates only a small amount of revenue and as such is not considered to be financially adequate. The sustainability of this revenue source is relatively sound, although it has been identified as potentially the first of state taxes to be replaced with general insurance taxes. The scenarios of abolishing insurance taxes are explored later in the report.

\textsuperscript{135} For the ACT, the level of underinsurance is not clear. However, it is expected that this is likely to be lower compared to other jurisdictions given the relatively higher incomes. The 2003 bushfires highlighted underinsurance of between 25 and 30 per cent.
Gambling taxes

Key points

- Gambling taxes are economically efficient, having little influence on the overall level of activity.
- Due to this efficiency, taxes are not an effective mechanism to address problem gambling. Social programs are more effective at reducing the impact and incidence of problem gambling.
- The ACT has the lowest gaming machine tax rate in the country. There is scope and justification for increasing gaming machine tax.

Gambling taxes consist of gaming machine tax, the ACTTAB licence fee, the casino tax, and interstate lotteries. These taxes are a small and falling proportion of revenues collected by the Territory.

In 2000-01, around 6.8 per cent of total ACT Government taxation revenue was collected from gambling taxes. By 2010-11, this had decreased to around 4 per cent of revenue (Chart 46).

The largest share of gambling taxes came from gaming machine taxation at about 66 per cent, followed by interstate lotteries at 28 per cent, with the remainder coming from ACTTAB licence fees and casino tax.

The decreased share of taxation revenue from gambling can be attributed to a range of factors. These include:

- the increase in total taxation revenue due to the introduction of the GST
- in 2004, restrictions on note acceptors in gaming machines
- in 2006, the smoking ban
- a general decrease in prevalence of gambling, and
- changes to total taxation revenue composition as a result of the introduction of the GST.

Chart 46  ACT gambling taxes as a percentage of taxation revenue

![Chart 46 ACT gambling taxes as a percentage of taxation revenue](chart.png)

Source  ACT Treasury.
ACT expenditure on gambling decreased as a percentage of household disposable income (HDI) from two per cent in 2000-2001 to 1.1 per cent in 2008-09. This is largely due to an increase in disposable incomes while real expenditure on gambling has remained relatively constant at an average of $865 per capita annually since 2000-01.\(^\text{136}\) Nationally, the proportion of household consumption expenditure on gambling dropped from 3.9 per cent in 1998-99 to 3.1 per cent in 2008-09.\(^\text{137}\)

**ACTTAB licence fee**

In 1996, ACTTAB was granted an exclusive 20-year licence to provide totalisator betting services. It pays an annual licence fee to the ACT Government. This is equal to 10 per cent of the present value of ACTTAB’s estimated profit after income tax equivalents for the 20 year period. Revenue from the licence fee was $1.33 million in 2010-11.

**Casino tax**

The casino licence was granted in 1992 to Casino Canberra. The operator has an exclusive right to operate table games in the ACT but cannot operate gaming machines.

Casino Canberra pays an annual licence fee to the ACT Government, linked to CPI. It also pays taxation on its overall revenue from table games, with the rate set at 10.9 per cent of gross revenue for general gaming operations and 0.9 per cent of gross revenue for commission based operations. The tax rates for the casino licensee in the ACT are defined in the *Casino Control Act 2006*. The licence fee is set by notifiable instrument and cannot be changed more than once every 12 months. The last change was in 2006.

**Gaming machine tax**

There are two regimes for taxing gaming machines in the ACT. Both regimes tax revenue coming from player losses. Older draw poker style or Class B machines are taxed at a flat rate of 25.9 per cent of its gross monthly revenue. While modern or Class C gaming machines are taxed through a progressive regime with a tax-free threshold of $15,000 of monthly gross revenue (Table 29).

There are currently 69 gaming machine licensees in the ACT operating 5,024 poker machines. Eleven hotels and taverns operate a total of 70 older Class B gaming machines. In 2010-11, gaming machines in hotels and taverns contributed $153,000 out of the total tax revenue from this tax of $35.4 million.

By contrast, 58 community clubs operate 4,954 newer, Class C gaming machines.

<table>
<thead>
<tr>
<th>Monthly gross gaming machine revenue ($)</th>
<th>Current tax rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-15,000</td>
<td>0</td>
</tr>
<tr>
<td>15,001-25,000</td>
<td>15</td>
</tr>
<tr>
<td>25,001-50,000</td>
<td>17</td>
</tr>
<tr>
<td>&gt;50,000</td>
<td>21</td>
</tr>
</tbody>
</table>

**Table 29** Gross Gaming Machine Revenue (GGMR) taxation rates for Class C gaming machines

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\(^{137}\) Ibid.
**The community gaming model**

The ACT Government has a long standing policy that community clubs, as not for profit entities, are entitled to substantial tax concessions. Recognising this, the *Gaming Machine Act 2004* mandates that clubs must contribute a minimum of eight per cent of net gaming machine revenue as community contributions. This requirement also ensures that tax concessions are targeted at community clubs.

Net gaming revenue is gross revenue, minus taxes paid and 24 per cent of gross revenue. The range of community contributions made by clubs in 2009-10 is reflected in the chart following.

Percentage of total club contributions, 2009-10

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charitable &amp; social welfare</td>
<td>6.42%</td>
</tr>
<tr>
<td>Problem gambling (adjusted)</td>
<td>6.32%</td>
</tr>
<tr>
<td>Sport and recreation</td>
<td>2.57%</td>
</tr>
<tr>
<td>Women’s sport (adjusted)</td>
<td>6.42%</td>
</tr>
<tr>
<td>Non-profit activities</td>
<td>6.32%</td>
</tr>
<tr>
<td>Community infrastructure</td>
<td>15.40%</td>
</tr>
<tr>
<td>Total</td>
<td>66.38%</td>
</tr>
</tbody>
</table>


**Note** Examples of non-profit activities include contributions to schools or other educational institutions or programs, and contributions to multicultural activities.

Community contributions do not include donations to political parties. These contributions have not been reported to the Gambling and Racing Commission since 2004-05.

**Interstate lotteries**

Lotteries are provided in cooperation with VIC, NSW and QLD. The taxation of lotteries is based on revenue sharing arrangements and rates with each jurisdiction.

For lotteries provided in cooperation with VIC, the ACT receives 79.4 per cent of the proportion of player loss on all tickets sold in the Territory. This arrangement applies to all games except soccer pools, for which it receives 57.5 per cent of player loss.

For lotteries provided in cooperation with NSW, the ACT receives 66.1 per cent of the proportion of player loss on tickets sold in the Territory for all games.

For lotteries provided in cooperation with QLD, the ACT receives 22 per cent of all ticket sales for all games.

Total revenue from lotteries in 2010-11 was around $14.3 million.

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138 In April 2011 Tattersall’s, which operates Victorian lotteries as well as owning NSW Lotteries Corporation indicated that it will be aligning Territory lottery operations under the NSW Lotteries brand and will be phasing out Tattersall’s Victorian lottery sales in the ACT.
Part 3  The ACT’s current taxes

Contexts

A range of considerations influence overall gambling taxation settings. This includes social impacts and the need for regulation, economic incidence, and emerging technologies.

Current ACT Government policies which impact on gambling in the ACT include regulatory measures to reduce problem gambling and support for those currently experiencing problems, taxation on player losses, and settings that acknowledge the role of community clubs as gaming venues.

Commonwealth reforms

On 2 September 2010, the Prime Minister, the Hon Julia Gillard MP, and Mr Andrew Wilkie MP signed an agreement which, amongst other things, commits the parties to implementing a national mandatory pre-commitment scheme for gambling machines. Under the terms of the agreement, implementation will begin in 2012 and be fully operational by 2014.

The agreement also includes the implementation of a $250 a day withdrawal limit from automatic teller machines in poker machine venues. While the details of these reforms are yet to be finalised, implementation of mandatory pre-commitment technology is likely to have regulatory costs for both government and gaming machine operators. These include the costs of developing central monitoring systems and where necessary replacing machines in order to comply.

Consolidation of clubs

There has been continuing consolidation within the ACT market. There are substantial differences in profitability between large multi-venue clubs and small clubs. Over the last several years many small clubs have amalgamated, ceased operations or been taken over by multi-venue clubs. With continuing pressure on the industry, it is expected that this trend may continue.

Online gambling

At present, online gambling is a relatively small component of the current market. However, it has grown significantly over the last 10 years and is expected to continue to increase in the future.

This raises a number of revenue and regulatory issues for governments to consider including, the scope and ability for governments to implement harm minimisation measures.

Social issues

The social costs of problem gambling include family breakdown, poverty, child neglect and increased welfare dependency. The number of adults in Australia suffering significant problems from gambling is estimated at between 80,000 and 160,000.139 A further 230,000 to 350,000 adults experience moderate risks that may make them vulnerable to problem gambling.

The Commission estimated the annual social costs of problem gambling to be at least $4.7 billion. Assuming an equal per capita distribution of the social costs of problem gambling in Australia, the ACT proportion is around $75 million per year.

It is estimated that 0.5 per cent of the adult population in the Territory are problem gamblers. This compares with 0.4 per cent in NSW, QLD and SA, and 0.7 per cent in VIC.140

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A survey completed in 2009, on problem gambling in the ACT found that about 5 per cent of electronic gaming machine players reported losses of $5,000 or more in the previous 12 months.\textsuperscript{141}

**Comparative analysis**

The ACT has the lowest gambling tax rate in the country resulting in relatively low real per capita revenue from gambling compared to other states (Chart 47). The sharp drop in 1999-00 represents the introduction of the GST. The lower revenue is due to the ACT having the lowest effective tax rate (Chart 48).

**Hotel Venues**

The ACT applies a single flat tax rate of 25.9 per cent on monthly gaming machine revenue. This is one of the lowest rates of gambling taxation of States and Territories in hotel venues. VIC and QLD also apply flat rates on gross and monthly profit respectively. However, these are supplemented by requirements to contribute to designated community investment funds. NSW, SA, TAS and the NT all apply a type of gambling tax based on a progressive rate.
Table 30  Gaming machine arrangements in hotel venues

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Hotels</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>Marginal tax rates levied on gross revenue derived from gaming machines $0-$200,000: nil, $200,001-$1 million: 33%, $1 million-$5 million: 36%, &gt;$5 million: 50%.</td>
</tr>
<tr>
<td>VIC</td>
<td>Flat tax rate of 32.57% on gross profit. 8.33% of this gross profit is allocated to a Community Support Fund. Tattersalls is also required to pay an additional tax equal of 7% of its gross gaming revenue at hotels in lieu of a licence fee payment.</td>
</tr>
<tr>
<td>QLD</td>
<td>Flat tax rate of 35.91% on monthly profit. 8.5% of this is allocated to a Community Investment Fund. Hotels are also required to contribute to the Health Services Fund.</td>
</tr>
<tr>
<td>SA</td>
<td>Marginal tax rates based on annual net gambling revenue in a financial year. The tax rates range from the tax-free threshold of less than $75,000 to a high rate of $1,563,170.50 plus 65% of the excess.</td>
</tr>
<tr>
<td>TAS</td>
<td>Marginal tax rates based on annual net gambling revenue in a financial year. Annual net gambling revenue of less than $35 million is taxed at a rate of 20.88%. Gambling revenue in excess of $35m is taxed at 25.88%. In addition, a Community Support Levy of 4% of gross profit is payable.</td>
</tr>
<tr>
<td>ACT</td>
<td>Flat tax rate of 25.9% of gross monthly gaming machine revenue.</td>
</tr>
<tr>
<td>NT</td>
<td>Marginal tax rates based on monthly gross profits ranging from 12.91% for profits less than $10,000 to 42.91% of profit over $200,001, In addition, a Community Benefit Levy of 10% of gross profits is payable.</td>
</tr>
</tbody>
</table>


Note  WA excluded as the state does not have gaming machines.

Clubs
Most jurisdictions apply a progressive tax regime on gambling machines in clubs with the exception of VIC which currently combines a flat rate tax with a large licence fee.

From 2012, VIC is changing its gaming machine model to an owner-operator model. As part of these changes to taxation arrangements the health benefit levy, which is currently in place, is set to be abolished and a progressive tax regime introduced for both hotels and clubs. The marginal tax rate on clubs earning more than $1 million will be reduced by 1.85 per cent if clubs contribute the equivalent to eligible community projects.

There are, however, significant differences in the progressivity of gaming machine tax regimes across jurisdictions. The ACT regime is generally consistent with the experience in other jurisdictions charging a progressive rate for coin machines with gross monthly revenue in excess of $15,000. Rates of taxation in the Territory remain some of the lowest in the country.
Table 31 Gaming machine taxation arrangements for clubs by jurisdiction

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Clubs</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>Marginal tax rates based on annual gross revenue. If annual gaming machine profit is under between $1 million and $1.8 million a tax rate of 29.5% applies. The tax-free threshold applies to gross revenue under $1 million. If annual gaming machine profit is over $1.8 million, tax rates range from a tax free threshold of $200,000 to the highest rate of 28.4% for gross revenue over $20 million. Under the Community Development and Support Expenditure Scheme, the marginal tax rate will be decreased by 1.5% if a club contributes 1.5% of gaming revenue in excess of $1 million to eligible community projects.</td>
</tr>
<tr>
<td>VIC</td>
<td>Flat tax rate of 24.24% of gross profit. In addition, a Health Benefit Levy of $4,333.33 per annum per machine is payable.</td>
</tr>
<tr>
<td>QLD</td>
<td>Marginal tax rates based on monthly metered win. Tax rates range from a tax free threshold of $9,500 to 35.91% for monthly metered wins over $1.4 million.</td>
</tr>
<tr>
<td>SA</td>
<td>Marginal tax rates based on annual net gambling revenue. The tax rates range from the tax-free threshold of $75,000 to the highest rate of $1,240,200.50 plus 55% of excess for annual net revenue over $3.5 million. These rates include a levy of 8.5% for the Community Investment Fund.</td>
</tr>
<tr>
<td>TAS</td>
<td>Marginal tax rates based on annual net gambling revenue in a financial year. Annual net gambling revenue of less than $35 million is taxed at a rate of 20.88%. Gambling revenue in excess of $35 million is taxed at 25.88%. In addition, a Community Support Levy of 4% of gross profit is payable.</td>
</tr>
<tr>
<td>ACT</td>
<td>Marginal tax rates based on monthly gross revenue. $0-$15,000: 0%, $15,000-$25,000: 15%, $25,000-$50,000: 17%, &gt;50,000: 21% Clubs are also required to contribute 8 per cent of net gaming machine revenue as community contributions.</td>
</tr>
<tr>
<td>NT</td>
<td>Marginal tax rates based on monthly gross profits. Tax rates range from 12.91% for profits under $10,000 to the highest rate of 42.91% for monthly gross profit over $130,000. In addition, a Community Benefit Levy of 10% of gross profits is payable.</td>
</tr>
</tbody>
</table>


Note: WA excluded as the state does not have gaming machines.

The ACT has one of the lowest gambling machine taxation rates for clubs of comparable jurisdictions. When applying the rates applied in other jurisdictions to the Class C gaming machines in the Territory, the only regime that collected less revenue was NSW with a reduction of around $1.6 million in revenue.

Taxation revenue from gaming machines would need to increase by $20 million to achieve national average taxation.
Table 32  Impact of other jurisdictions’ gambling taxation regimes on the ACT

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Total revenue ($ million)</th>
<th>Difference from current ACT revenue ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>32.02</td>
<td>-1.59</td>
</tr>
<tr>
<td>VIC</td>
<td>63.07</td>
<td>29.46</td>
</tr>
<tr>
<td>SA</td>
<td>73.67</td>
<td>40.06</td>
</tr>
<tr>
<td>TAS</td>
<td>42.85</td>
<td>9.25</td>
</tr>
<tr>
<td>QLD</td>
<td>38.90</td>
<td>5.29</td>
</tr>
<tr>
<td>NT</td>
<td>65.46</td>
<td>31.85</td>
</tr>
<tr>
<td>Average</td>
<td>53.04</td>
<td>19.43</td>
</tr>
</tbody>
</table>

Source  ACT Treasury Analysis.

Further analysis on the harmonisation of gaming machine tax with NSW is provided in Part 4.

Canberra Casino licence fee and tax rate

Most States and Territories impose a licence fee on casinos but the various tax regimes are generally casino specific.

Table 33  Casino taxation arrangements in Australia

<table>
<thead>
<tr>
<th>Casino</th>
<th>Licence fee</th>
<th>Tax rate</th>
<th>Super Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crown Casino (VIC)</td>
<td>$358.4 million (fully paid)</td>
<td>Gaming machines: 24.69% of gross gaming revenue.</td>
<td>A progressive tax of 1% for each $20 million of gross gaming revenue above $500 million (CPI adjusted)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Table games: 21.25%</td>
<td></td>
</tr>
<tr>
<td>Star City Casino (NSW)</td>
<td>Exclusivity agreement extended for 12 years from 2007 for a fee of $100 million</td>
<td>14.41% of gross revenue from combined table gaming and gaming machines</td>
<td>1% per each $5 million on revenue above $630.5 million p.a. to a maximum of 38.91%</td>
</tr>
<tr>
<td>Canberra Casino (ACT)</td>
<td>Annual fee $806,544 for 2009-10 linked to CPI</td>
<td>General gaming operations: 10.9% of gross revenue</td>
<td></td>
</tr>
<tr>
<td>Lasseters Casino (NT)</td>
<td>Not imposed</td>
<td>Table games: 8% of gross profit. Poker machine tax: 21% gross profit</td>
<td></td>
</tr>
<tr>
<td>Skycity Darwin Casino (NT)</td>
<td></td>
<td>Keno and table games: 12% of gross profit less GST. Commission-based Games 9.09% of gross profit less GST. Poker machine tax: 20% of gross profit.</td>
<td></td>
</tr>
<tr>
<td>Burswood Entertainment Complex (WA)</td>
<td>$2.423 million (2010). (indexed annually according to CPI)</td>
<td>International commission business: 11%, Gaming machines: 20%, table games and Keno 18%</td>
<td></td>
</tr>
</tbody>
</table>
Incidence – who pays?

Government restrictions on the supply of gambling services allow licence holders to make higher profits than they would in a purely competitive marketplace. The ACT also applies restrictions to player return ratios on electronic gaming machines.

Gambling taxes in the ACT apply to the profits from this activity, less player losses. This is a direct tax on economic rents from gambling. Overall the cost, or economic incidence, of this tax is borne by gambling venues including clubs and the Canberra Casino.

Assessment against the criteria

There is a strong case for taxing gambling given that these measures do not distort behaviour and are therefore economically efficient. Taxes on the profits or economic rent from gambling should therefore be pursued by governments, given the need for complementary measures to reduce social and community impacts of this activity.

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Table 33  Casino taxation arrangements in Australia [CONTINUED]

<table>
<thead>
<tr>
<th>Casino</th>
<th>Licence fee</th>
<th>Tax rate</th>
<th>Super Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>SA</td>
<td>Not imposed</td>
<td>Table games: 0.91% of net gambling revenue. Gaming machines: 34.41% of net gambling revenue.</td>
<td></td>
</tr>
<tr>
<td>Wrest Point Casino (TAS) AND Country Club Tasmania</td>
<td>For 2010-11, $136,600 per month (amount is indexed annually)</td>
<td>Table games: 0.88% of gross profit. Gaming machines &lt;$35m: 20.88%. ≥ $35m: 25.88% of excess. From 1 July 2013 a single flat tax rate of 25.88% will apply to all gross profit.</td>
<td></td>
</tr>
<tr>
<td>Treasury Casino Brisbane (QLD)</td>
<td>$194,361 per quarter increases on 1 July each year based on CPI.</td>
<td>Keno and table games: 20% of monthly gross gaming revenue. Gaming machines: 30% of monthly gross revenue.</td>
<td></td>
</tr>
<tr>
<td>Jupiters Casino Gold Coast (QLD)</td>
<td></td>
<td>Keno and table games: 20% of monthly gross gaming revenue. Gaming machines: 30% monthly gross revenue.</td>
<td></td>
</tr>
<tr>
<td>Jupiters Townsville (QLD)</td>
<td></td>
<td>Keno and table games: 10% gross revenue. Gaming machines: 20% of gross revenue</td>
<td></td>
</tr>
<tr>
<td>The Reef Hotel Casino Cairns (QLD)</td>
<td></td>
<td>Keno and table games: 10% gross revenue. Gaming machines: 20% gross revenue.</td>
<td></td>
</tr>
</tbody>
</table>


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142 Ibid.
Economic efficiency

The economic efficiency of gambling taxation partly depends on whether or not higher tax rates on gambling discourage gambling activity or increase player loss.

While machines are required by law to display at the very least a ‘return-to-player’ ratio, a change in a tax rate might not necessarily be reflected by a change in this return to player ratio, as taxes are levied on the venue and not on a machine-specific basis. This is especially apparent if an operator has the return-to-player ratio set at the minimum legislated level, currently 87 per cent in the ACT.

As a result of this lack of an explicit price signal, increases in taxation would have a relatively minor effect on demand. As a consequence, gaming machine revenues are a relatively efficient tax base, as the activity is largely unaffected by the rate of tax.

It is also important to consider the impact of gambling taxes on the behaviour of those consumers who experience problems with gambling. It is unclear whether higher tax rates would discourage problem gamblers from playing gaming machines, and in fact reduced player return ratios may increase damaging behaviour such as ‘chasing losses’.

The KPMG Econtech CGE modelling suggests that nationally gambling tax had the highest marginal and average excess burden at around 92 and 54 cents in the dollar respectively. Subsequent advice and modelling from KPMG confirms that as gambling revenue is economic rent, gambling taxes do not distort behaviour and have no efficiency cost.143

Compliance and administration costs

The administration and compliance costs of gambling taxes are relatively high, estimated to be around 1.1 per cent of total gambling taxation revenue, excluding the cost of gambling and racing regulation.

Stability

Nominal gambling taxation has grown by 24 per cent from $43.2 million in 2000-01 to $53.5 million in 2010-11. Gaming machine tax and lotteries tax consistently contribute more than 95 per cent of all gambling taxation revenue, with lotteries taxation growing from $13.1 million in 2000-01 to $14.3 million in 2010-11 (an increase of 9.2 per cent) and gaming machine taxation from $27.1 million in 2000-01 to $35.4 million in 2010-11. During this period there were substantial changes to gaming machine taxation, with the introduction of the GST in 2000 and a 2 per cent increase in the highest bracket of marginal tax rates in 2004-05. However, gaming machine taxation revenue has been steady since 2003-04, which reflects the mature nature of the gaming machine industry.

Nominal revenue from casino taxation has remained almost constant since 2000-01, at approximately $2 million.

The ACTTAB licence fee has increased in nominal terms, from $0.8 million in 2000-01 to $1.33 million in 2010-11. This figure differs significantly from the licence fee in 1998-99 of $5.93 million. This reflects the increasingly competitive wagering marketplace in Australia, in which the growth of corporate bookmakers and the development of a national market has significantly undermined the dominance of ACTTAB.

Equity

Gambling taxation is often seen to be ‘fair’ because it is based on discretionary spending from consumers and it is a voluntary activity in which there is an explicit choice by consumers to gamble or not.144

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144 However, for some players there may in fact not be an explicit choice to gamble or not (the Productivity Commission estimated between 0.5 per cent and 1 per cent of gaming machine players were problem gamblers).
Fire and Emergency Services Levy

Key points

- The FESL is a relatively efficient, predictable, and broad-based tax.
- It is equally distributed between the residential and commercial sectors.

The FESL was introduced in 2007. It is a relatively efficient, predictable, and broad-based tax as it is based on property, an immobile resource which results in the levy effectively being an increase in general rates in the ACT. All jurisdictions except the NT impose a form of fire and/or emergency services levy, although some jurisdictions levy the charge on a less efficient base of insurance (Table 35).

In the ACT, the FESL is charged on all rateable properties to partly cover the cost of providing fire and emergency services. The levy raised $26.6 million in 2010-11 (2 per cent of total taxation revenue). It is equally distributed between the residential and commercial sectors. For rateable residential properties, it was a fixed charge of $101.80 per property in 2010-11. For commercial properties, the levy is calculated based on the AUV.

A flat charge for residential property is justified as the weight of response required in the event of an emergency is similar regardless of property size.

For commercial properties, the levy, based on property value, is consistent with both horizontal and vertical equity. However, there has been some criticism of this levy from the commercial property sector referring to:

- the FESL being unique and/or its design/implementation not having regard to risks that are to be covered by the emergency services, and
- undue burden on the commercial property sector, while there is justification to spread the tax burden on other groups (such as residential and car users).

For the commercial sector, although unimproved value is not a perfect measure, it is a reasonable proxy for risk associated with the nature of activity and the weight of response and capability required to respond to any incident.\textsuperscript{145}

Car owners also contribute to the cost of emergency services through the road rescue fee. It can be reasonably argued, however, that fire brigade capacity is primarily maintained to respond to structure fires and response to road accidents merely uses the standby capacity.

As a stand-alone tax the FESL would not be financially adequate. There is a significant disparity between the amount of revenue collected by the Ambulance Levy and FESL and road rescue fee compared to the cost of providing these services. Under the current funding model only a third of the cost of providing the service is directly recovered.

\textsuperscript{145} For example, the weight of response required, and the capability that needs to be maintained, to respond to any incident in a shopping centre or a high rise building will be considerably higher (including aerial emergency vehicles) compared with a standalone business.
**Part 3  The ACT’s current taxes**

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>Imposes the fire services levy on insurance premiums rather than land.</td>
</tr>
<tr>
<td>VIC</td>
<td>Formally the fire services levy was imposed on insurance premiums, but is changing to be based on property.</td>
</tr>
<tr>
<td>QLD</td>
<td>Imposes a fire levy on certain properties calculated on the class of urban district the property is situated in, the activity the land is used for, and the size and nature of any improvements on the land.</td>
</tr>
<tr>
<td>WA</td>
<td>Part of the emergency services levy (ESL) which is a levy on property. The levy is calculated based on the ESL category, the ESL rate for that ESL category, the properties gross rental value and the use of the property.</td>
</tr>
<tr>
<td>SA</td>
<td>Part of the emergency services levy which is a levy on land. The levy rate is 0.000964 per cent for 2011–12.</td>
</tr>
<tr>
<td>TAS</td>
<td>The fire levy is a component of rates, levied on properties.</td>
</tr>
<tr>
<td>ACT</td>
<td>The FESL is charged on all rateable properties in the ACT. FESL in 2011-12 has a fixed charge of $101.80 for residential and rural properties; a pensioner rebate of 50 per cent; and a valuation-based charge for commercial properties with a rating factor of 0.3907 per cent applied to the average of the 2009, 2010 and 2011 unimproved land values in excess of the rate-free threshold of $16,500.</td>
</tr>
<tr>
<td>NT</td>
<td>Does not impose any emergency or fire service levies, however does levy charges for commercial fire alarm monitoring.</td>
</tr>
</tbody>
</table>

**Table 34  Comparison of jurisdictions’ fire and emergency services levies**

**Chart 49  Fire and Emergency Services Levy revenue compared with the expense of providing the services**

**Source**  States and Territories Treasury websites and Revenue Office websites.

**Note**  (e) Estimate.
(f) Forecast.

Includes fire and emergency services and ambulance services.
Assessment against the criteria

Overall FESL is an efficient land-based tax, which reflects part of the cost of providing a service.

The levy is a relatively efficient and predictable, broad-based land tax that does not distort behaviour. It is applied as a flat charge on residential property and does not influence the decision about the type of housing purchase.

The flat rate on residential property is horizontally equitable. The levy could be seen as vertically inequitable as people who have limited income will have to pay the charge similarly to those who have more financial resources. This is partially corrected by the fact that eligible pensioners receive a rebate on this levy of up to 50 per cent.

FESL is administratively simple and low cost as the residential property information and commercial property values required are already available from rates determinations. Nonetheless, rolling the FESL into general rates would further simplify administration and compliance.

FESL is a sustainable tax given that it has a clear purpose and that all other jurisdictions with the exception of the NT impose a form of fire and/or emergency services levy.
Utilities Network Facilities Tax

Key point

- Overall the Utilities Network Facilities Tax is an efficient tax as it is a tax on the land consumed by linear infrastructure of utilities.

The Utilities Network Facilities Tax (UNFT) was introduced in 2007, and applies to the owner of a utility network facility that is installed on or under land in the ACT. The ACT is the only jurisdiction to levy this particular tax. It is akin to land rent.

The amount of UNFT payable is calculated by multiplying the determined annual rate by the linear route length of the network. The total revenue from the UNFT in 2010-11 was $22 million (2 per cent of total taxation revenue). The initial rate introduced in the 2007-08 financial year was around $676 per kilometre of network route length, which has since been increased annually by WPI to $749 per kilometre in 2010-11.

While the rate is currently determined by changes in WPI, an alternative method would be to set the rate according to changes in unimproved value. Such a method would have led to a determined rate in 2010-11 of about $797 per kilometre of network route length, and total estimated revenue would be around $20.4 million (about 6.4 per cent higher than current revenue).

The UNFT has been subject to legal proceedings which disputed the validity of the UNFT. However, on 5 October 2011, the High Court handed down its decision which unanimously found that the UNFT was valid.\(^\text{147}\)

The UNFT rates well against the taxation principles.

The UNFT is a relatively broad-based tax and could be classed as economically efficient, as it is applied to the land consumed by utility services. As the UNFT is applied to all utility providers and is passed directly on to consumers it is unlikely to distort investment decisions.

There are some questions around the equity of this tax as users of essential utility services are required to pay an amount that is determined irrespective of income. These concerns are reduced somewhat through concessions on some utility costs for low income earners.

Administration and compliance costs were high at the outset, but have decreased as the tax was embedded in business practices.
Taxes on motor vehicles

Key points

- The ACT received approximately $119 million (or 9.5 per cent) of total taxation revenue in 2010-11 in revenue from motor vehicle registration and duty.
- Motor vehicle registration rates moderately well against the key taxation principles, whereas motor vehicle duties rate poorly.

The ACT received approximately $119 million (9.5 per cent) of total taxation revenue in 2010-11 in revenue from motor vehicle registration and duty.

Registration fees depend on vehicle type and weight, or in the case of a motorbike, its engine capacity. The fees charged for passenger vehicles, goods carrying vehicles, and motorbikes are based on either vehicle weight or engine size. Pensioners, Health Care Card, the unemployed, ACT Seniors and Department of Veterans Affairs Gold Card holders, however, are entitled to a concession on motor vehicle registration. This concession varies between categories and is administered as a discount over the counter when applying for or renewing an ACT motor vehicle registration.

In 2010-11, motor vehicle registration revenue was around $90.2 million, and is forecast to increase to approximately $96 million in the 2011-12 financial year.\textsuperscript{148}

Assessment against the criteria

Overall motor vehicle registration rates moderately well against the key taxation principles.

Economic efficiency

Motor vehicle registration is a relatively efficient tax overall being levied upon a broad base which has relatively low impacts on household behaviour. However, motor vehicle registration has a number of distortive impacts on businesses.

Motor vehicle registration is essentially a tax on capital for business with both high marginal and average excess burden at 37 and 32 cents of consumer welfare per dollar of revenue respectively. As motor vehicles are price sensitive, motor vehicle registration creates a distortion in production from motor vehicles towards other factors of production, such as labour, land, fixed factors and structures.\textsuperscript{149}

Compliance and administration costs

The administration of motor vehicle registration is efficient as it is an annual charge levied on all motor vehicles. There is a high degree of compliance with the regime and a low cost of enforcement.

\textsuperscript{148} Australian Capital Territory, 2011, 2011-12 Budget, ACT Government, Canberra.
\textsuperscript{149} KPMG Econtech, 2010, CGE Analysis of the Current Australian Tax System.
Stability

Motor vehicle registration is a stable source of taxation that is easy to forecast, typically growing in line with CPI and increases in the number of registered vehicles. Motor vehicle registration revenue has grown by an average of 7 per cent per annum compounded, with annual growth varying from 3 to 10 per cent.\textsuperscript{150}

Equity

Motor vehicle registration is generally equitable with the registration cost of a car of similar weight being identical regardless of the owner. However, it is not vertically equitable for individuals on different incomes. The only degree of vertical equity is provided through concessions on motor vehicles registration for persons holding a Commonwealth concession card.

Duty on motor vehicle registrations and transfers

The ACT Government charges duty on the initial registration of a vehicle and on the transfer of registered vehicles to new owners. In 2010-11, such revenue was around $28.8 million (2.3 per cent) of own-source taxation revenue. This is forecast to increase to around $31 million in 2011-12 (2.5 per cent).\textsuperscript{151}

Duty is charged under the \textit{Duties Act 1999}, with the amount payable based on a vehicle’s dutiable value (GST-inclusive). For newly registered vehicles duty payable is also dependant on their Green Vehicle Rating (GVR), as determined by the Green Vehicles Stamp Duty Scheme. The scheme sets differential motor vehicle duty costs for new light vehicles to provide an incentive for the purchase of low-emission vehicles and a disincentive against the purchase of vehicles with poor environmental performance. The environmental performance score is a number between 1 to 20 which is calculated by adding the car’s greenhouse rating and air pollution score.

Once a vehicle is assigned a GVR, duty payable can be determined by reference to the vehicles, dutiable value.

\textbf{Table 35 Motor vehicle duty rates}

<table>
<thead>
<tr>
<th>Green vehicle rating</th>
<th>Environment performance score</th>
<th>Duty payable on vehicles with value less than or equal to $45,000</th>
<th>Duty payable on vehicles with value greater than $45,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>16+</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>B</td>
<td>14 or more but less than 16</td>
<td>2 per cent of the dutiable value</td>
<td>$900 + 4 per cent of dutiable value exceeding $45,000</td>
</tr>
<tr>
<td>C</td>
<td>9.5 or more but less than 14</td>
<td>3 per cent of the dutiable value</td>
<td>$1350 + 5 per cent of dutiable value exceeding $45,000</td>
</tr>
<tr>
<td>D</td>
<td>Less than 9.5</td>
<td>4 per cent of the dutiable value</td>
<td>$1800 + 6 per cent of dutiable value exceeding $45,000</td>
</tr>
</tbody>
</table>

\textbf{Source} ACT Taxation Administration (Amounts Payable – Motor Vehicle Duty) Determination 2010 (No.2).

\textsuperscript{150} Australian Bureau of Statistics, \textit{Taxation Revenue, Australia}, 2009-10; Cat. No. 5506.0, ABS, Canberra and Australian Capital Territory Consolidation Annual Financial Reports.

\textsuperscript{151} Australian Capital Territory, 2011, \textit{The 2011-12 Budget}, ACT Government, Canberra.
User charges

Key points

- In 2011-12, user charges are estimated to be $346.186 million.
- They equate to about 11 per cent of revenue, compared with the national average of 10.5 per cent.
- The Review Panel identified principles it considers should be used by the ACT Government if there is a detailed study of user charges.

User charges are an important part of State and Territory revenue, being a more direct means of raising revenue.\textsuperscript{152} In 2011-12, $346.186 million is estimated to have been raised through user charges in the ACT. This compares with $344.017 million in 2010–11.\textsuperscript{153}

Comparative analysis

User charges are in place in all States and Territories in Australia, however the type and definition of user charges differ from jurisdiction to jurisdiction which makes comparison difficult.

Table 36 Comparison of user charges between jurisdictions, 2009-10

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>User Charges</th>
<th>Proportion of revenue (%)</th>
<th>User charges per capita ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>Rents and leases</td>
<td>11</td>
<td>1,041</td>
</tr>
<tr>
<td></td>
<td>Fees for service</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Entry fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Patient fees and other hospital charges</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Department of Veterans’ Affairs</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Court fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Road tolls</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other sales of goods and services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VIC</td>
<td>Motor vehicle regulatory fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other regulatory fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sale of goods</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Provision of services</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rental</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Refunds and reimbursements</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Inter-sector capital asset charge</td>
<td></td>
<td></td>
</tr>
<tr>
<td>QLD</td>
<td>Fee for service activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>TransLink</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rent revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sale of land inventory</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hospital fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Transport and traffic fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other sales of goods and services</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


### Table 36  Comparison of user charges between jurisdictions, 2009-10 [CONTINUED]

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>User Charges</th>
<th>Proportion of revenue (%)</th>
<th>User charges per capita ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>WA</td>
<td>Refers to revenue from the direct provision of goods and services, and includes fees and charges for the supply of services, sales of goods and services, fees from regulatory services and work done as an agent for private enterprises. It also includes rental income under operating leases and on produced assets such as buildings and entertainment, but excludes rent income from the use of non-produced assets such as land.</td>
<td>7</td>
<td>1,029</td>
</tr>
</tbody>
</table>
| SA | - Regulatory fees  
- Health unit fees  
- Commonwealth contributions  
- TAFE fees  
- Schools revenue  
- Metroticket sales  
- Drivers’ license fees  
- Other user charges | 13 | 1,354 |
| TAS | - Abalone licences  
- Commonwealth recurrent grants  
- Environment fees  
- Land information charges  
- Land Titles Office dealings  
- Marine farms fees and recoveries  
- Other revenue  
- Other sales of services  
- Quarantine fees  
- Regulatory fees  
- Royalty fees  
- Royalty income  
- Water license fees | 8 | 814 |
| ACT | - Parking fees  
- Inpatient fees  
- Non-inpatient fees  
- Meals and accommodation  
- Cross border health receipts  
- Sales  
- Service receipts (non ACT Government)  
- Rent from Tenants  
- Miscellaneous  
- User charges – ACT Government | 11 | 1,152 |
| NT | Revenue from the direct provision of goods and services and includes fees and charges for services rendered, sale of goods and services, fees from regulatory services and work done as an agent for private enterprises. It also includes rental income under operating leases and on produced assets such as buildings and entertainment, but excludes rental income from the use of non-produced assets such as land. | 5 | 1,077 |

**Source**: States and Territories 2011-12 Budget Papers; ACT Treasury Analysis; Australian Bureau of Statistics, *Government Finance Statistics, Australia*, 2009-10, ABS Cat No. 5512, and *Australian Demographics Statistics*, June 2010, ABS Cat No. 3101, ABS, Canberra.\(^{154}\)

**Note**: Figures rounded to the nearest dollar.

\(^{154}\) Government Finance Statistics (GFS) revenue from sales of goods and services at the state and local government level was used as a proxy for user charges in each jurisdiction. Estimated user charges per capita is calculated as GFS revenue from sales of goods and services in 2009-10 (ABS Cat. No. 5512.0) divided by estimated resident population as at June 2010 (ABS Cat. No. 3101.1). Estimated user charges as a proportion of total revenue is calculated as GFS revenue from sales of goods and services divided by total GFS revenue in 2009-10 (ABS Cat. No. 5512.0).
QLD has the highest proportion of revenue from user charges and the NT has the lowest. The national average is 10.5 per cent of revenue from user charges, compared with 11 per cent in the ACT.

### User charges

User charges are currently imposed by governments on users that directly benefit from a public good or service. A public good in its pure form is non-rival and non-excludable. In reality, public goods are likely to be rivalrous at its limits due to congestion and overconsumption. For example, publicly provided roads without tolls are non-excludable (because no one can be excluded from using the road) and non-rival (when there are few cars) as one person’s use does not diminish the amount that another individual can consume.

User charges can be argued to be efficient as they make “providers and users more aware of the cost of the goods and services”. The reason for this is that public goods, when provided for free, will lead to overconsumption and create a deadweight loss to society. User charges ensure that user consumes the efficient amount of the good and encourage the internalisation of negative externalities.

Theoretically an efficient user charge would cover the marginal social costs of consuming the good or service to ensure that only those who value the good or service above the actual costs of provision consume it.

**Chart 50 Efficient and equitable application of user charges**

<table>
<thead>
<tr>
<th>Price</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>Q*</td>
</tr>
<tr>
<td>$P^*$</td>
<td>Q*</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Price</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>Q*</td>
</tr>
<tr>
<td>$P^*$</td>
<td>Q*</td>
</tr>
</tbody>
</table>


---

In the previous chart, the optimal user charge is $P^*$, reducing the deadweight loss to society by the blue triangle and lowering the quantity consumed from $Q_0$ to $Q^*$. A user charge set at this optimal rate is not considered to be a tax as it reflects the actual costs to society (full cost recovery shown as the green triangle).

The *Victorian Guide to Regulation* considers that user charges should be set on a full cost recovery basis to ensure both efficiency and equity of user charges.\(^{156}\)

Ensuring that those who benefit from publicly provided goods and services pay for them is a way of improving equity.\(^{157}\) The type of user charge and how it is implemented will affect the administration costs and complexity of collection of revenue by the Government.

The AFTS Review supports the more frequent application of user charges by State Governments.\(^{158}\) However, user charges should not (generally) be used to fund public goods.

**Policy considerations**

There are a number of important considerations relating to user charges and cost recovery. A poorly designed user charge can exacerbate equity and efficiency outcomes, while a carefully designed user charge can aid a government in achieving its objectives.

The multiple objectives associated with public goods make it difficult to apply a user charge. For example, roads are a form of public infrastructure that is funded through consolidated general revenue, not on a non-user pays basis, because some base level of infrastructure is required regardless of intensity of use. However, at the same time, roads are often a target for environmental goals as their overuse can heavily impact on the local biodiversity and natural resources. User charges can help users to pay for the real cost of road consumption by applying a price mechanism.

User charges are thought to increase the allocative efficiency by ensuring that those who consume the good are those who value it the most. However, user charges can exclude access to those who do not have the capacity to pay even if they value the benefit of consumption above the marginal cost.\(^{159}\) As a result, essential goods and services are a public service and should not be limited by user charges. These include public goods such as national defence, street lights, parks, footpaths and bicycle lanes.

**Principles of user charges**\(^{160}\)

The AFTS Review considers that public goods should be funded from broad-based taxes, as opposed to introducing user charges which are more narrowly based.\(^{161}\)
The Panel considers that the following principles should be adopted when examining the application of user charges in the future. User charges should be:

- cost-effective and administratively simple
- equitable and fair, whereby those in a similar circumstance will have the same tax burden, and it exhibits progressivity
- able to provide an adequate source of revenue to predictably recover the marginal cost of the public good, but not raise extra revenue, as it could then be seen as a tax
- targeted and have community acceptance for the need of a price mechanism
- aimed to overcome a market failure, through constraining the use of a public good to economically efficient or environmentally acceptable levels, which requires detailed knowledge of marginal costs, externalities and benefits, and detailed knowledge of how to change behaviour without increasing taxation revenue
- supported by government policies to minimise any costs to the community, and
- transparent to those who are liable.

In addition to these principles, the Panel recommends that guidelines be developed for the user charges currently applied in the ACT and for the charges to be benchmarked against the other jurisdictions. These should take into account the indexation of fees and whether they are still essential, according to the principles above.

**Road User Charges**

The necessary technologies for road use charging exist today. However, any move towards such a system of charging would be best progressed through a national agreement between all the States and Territories.

Roads should be viewed as a utility as well as an important public service. Pricing road use would pose the main challenge in progressing towards this system.

Congestion pricing is a useful tool to manage demand. For the transport system in Canberra, however, the introduction of congestion taxes and toll roads represent a significant cost while offering limited benefits. For the Territory, improvements to the road and public transport infrastructure represent the best value for money proposition for congestion reduction.

Free parking in the Parliamentary Triangle is a major contributor to peak hour Canberra congestion. The ACT Government should continue to pursue the introduction of parking fees in the Parliamentary Triangle.

**Recommendations**

The Panel makes the following recommendations to the Government.

**Recommendation 8**

Duty on motor vehicle transfers should be continued. A road user charge system would be best progressed through a national agreement between all the States and Territories.

**Recommendation 9**

Pursue the introduction of parking fees in the Parliamentary Triangle.
Levies

Key points

- In 2010-11, the ACT received about $45 million from levies. They are an important source of revenue given the ACT’s small tax base.
- Levies are considered equitable, simple to administer and transparent. However, often State and Territory levies are narrowly based and relatively inefficient.
- Specific ACT levies include the ACT City Centre Marketing and Improvements Levy (CCMIL).

Levies are collected to raise taxation revenue to help fund a specific community purpose. Commonly, levies are collected for a specific time period to address a particular policy objective, although they can be ongoing. Levies are considered equitable, simple to administer and transparent. However, State and Territory levies are often narrowly based and relatively inefficient.\(^{162}\)

The ACT received approximately $45 million in revenue from levies in 2010-11.\(^{163}\)

Comparative analysis

A list of levies applied in Australian States and Territories is provided in the table below. The jurisdictions have different, ‘non standardised’ levies in place which makes a comparative analysis difficult.

**Table 37** Comparison of levies between jurisdictions, 2009-10

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>User Charges</th>
<th>Estimated levies charges as a proportion of revenue (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>Health insurance levy</td>
<td>1.1</td>
</tr>
<tr>
<td></td>
<td>Parking space levy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Waste and environment levy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Private transport levy</td>
<td></td>
</tr>
<tr>
<td>VIC</td>
<td>Congestion levy</td>
<td>0.7</td>
</tr>
<tr>
<td></td>
<td>Metropolitan improvement levy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Financial accommodation levy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Levies on statutory corporations</td>
<td></td>
</tr>
<tr>
<td>QLD</td>
<td>Health services levy</td>
<td>1.1</td>
</tr>
<tr>
<td></td>
<td>Casino taxes and levies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fire levys</td>
<td></td>
</tr>
<tr>
<td>WA</td>
<td>ESL</td>
<td>0.8</td>
</tr>
<tr>
<td></td>
<td>Building service levy</td>
<td></td>
</tr>
<tr>
<td>SA</td>
<td>ESL on fixed property</td>
<td>1.2</td>
</tr>
<tr>
<td></td>
<td>Natural resources management levies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Save the River Murray levy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Emergency services levy on mobile property</td>
<td></td>
</tr>
<tr>
<td>TAS</td>
<td>Fire services levies</td>
<td>1.4</td>
</tr>
<tr>
<td></td>
<td>Betting exchange taxes and levies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Totalisator wagering levy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Motor vehicle fire levy</td>
<td></td>
</tr>
</tbody>
</table>


Levies in the ACT are important for collecting taxation revenue due to the small tax base available. The ACT has the highest proportion of total taxation revenue from levies, compared with other jurisdictions.

Specific purpose levies include the ACT City Centre Marketing and Improvements Levy (CCMIL). It is applied to all rateable commercial properties in the city and selected commercial areas in the suburbs of Braddon, Turner, adjacent to the city centre. The tax base is divided into two zones, and the levy is applied on the AUV of each property for the retail core and the non retail core. In 2010-11, the ACT collected approximately $2.068 million from this levy.

In 2010-11, the ACT received an estimated $2.168 million from the ACT Energy Industry Levy, which funds:

- the Territory’s national regulatory obligations and costs for the Australian Energy Market Commission and the Ministerial Council on Energy’s responsibilities under the Australian Energy Market Agreement, and
- local regulatory costs incurred by the Territory in relation to energy utility services.

Broadly, levies are based on the policy settings which apply to a specific jurisdiction. Levies can be voluntary or involuntary, which sets them apart from user charges. For example, the flood levy applies nationally and is involuntary.

### Policy considerations

The major consideration in introducing a levy is that the costs being funded have a high priority and are not subject to regular resource allocation processes.

Levies are thought to increase the allocative efficiency of revenue by ensuring that regulatory costs are recovered from the revenue raised. The AFTS Review noted that targeted charges, such as levies should be applied to recover the cost of providing a regulatory service and burdened by those best able to internalise the cost of the activity.\(^{164}\)

Carefully designed levies can produce efficient outcomes to aid a government in achieving its policy objectives and promoting equity. The permanency of a levy should reflect the activity for which it is designed to recover costs.

### Principles of levies

As discussed, levies have similar characteristics as user charges. The principles of user charges also apply to levies.

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Concessions

Key points

- Overall the ACT Concessions’ Program provides an efficient and effective means of promoting equity within society and in some instances, assisting in achieving Government priorities.
- In 2009-10, concessions cost the ACT Government more than $224 million.

Concessions are a reduction, discount, subsidy, rebate, waiver or exemption provided by the Government on the value of goods, services or associated fees to an individual, family, household or organisation. Concession programs provide governments an additional means, apart from direct income support, to assist people on low incomes.

The ACT’s Concessions Program has evolved over time to respond to the changing needs of the community and national reforms that implement reciprocity arrangements and promote greater uniformity across the country. It is ultimately funded from taxation revenue and is an intrinsic part of the taxation/transfer system. The concessions program helps ensure an appropriate balance is achieved between collecting taxes and supporting those in the community in need of assistance.

The Government also provides a number of environmental rebates designed to assist in achieving other government priorities, such as helping community groups, business, households and individuals reduce energy consumption and greenhouse gas emissions.

In 2007, the ACT Government administratively reviewed concessions. As a result, it implemented measures to improve accessibility and build a more coordinated system. The Review found there to be a high degree of consistency across States and Territories in relation to the types of concessions offered, and that differences were largely due to geographical, meteorological and environmental factors.

Eligibility for concessions

Eligibility for concessions is generally based on income and asset tests. Other concessions, such as the FHOG, have separate eligibility requirements.

Concessions assist:
- aged pensioners, other people on Centrelink benefits, including those with low incomes who require ongoing assistance to meet the costs of essential services such as electricity, public transport, motor vehicle registration, drivers’ licences, rates, water and sewerage costs
- first home buyers and those on low incomes purchasing a property or aged pensioners needing to downsize to a more suitable property
- people with a disability or ongoing health condition who may need assistance with equipment and with everyday transport to meet additional costs in managing their illness at home
- young people, including those with a disability or from low-income households, who need assistance to meet schooling and transport costs, and
- community organisations, charities, hospitals, schools, religious organisations and other groups that may need assistance with key costs or in purchasing government land.
In 2009-10 over $224 million was provided for concessions administered by seven government agencies. The main concessions in 2010-11 follow:

- 13,370 rate payers received an average rebate of $484 on rates and the FESL, with $6.5 million in revenue forgone
- 14,306 residents received an average rebate of $354 on their water and wastewater account at a cost of around $5.1 million
- 24,589 residents received an average rebate of $198 on their electricity account, at a cost of around $4.9 million
- 1,509 households received a Home Buyer Concession on conveyance duty, with 615 home buyers (41 per cent percent) paying a maximum duty of $20 and the remainder paying up to $25,100, costing the Territory $12.5 million
- 91 aged pensioners received a concession on conveyance duty to downsize their properties, with 62 (68 per cent) paying a maximum of $20 and the remainder paying up to $25,100, costing $1.1 million
- 2,816 first home buyers received $7,000 towards the cost of their new home, costing $18.3 million
- 11,269 tenancies under the Public Rental Housing Assistance Program, with $114.3 million in revenue foregone
- 48,295 people received an average discount of around $143 on their vehicle registration, costing $6.9 million
- 13,350 people (around 40 per cent of ambulance users) were provided with free ambulance services, costing $8.3 million
- 6.8 million concessional journeys, at an average cost of $1.06 on ACTION buses, costing $7.2 million
- 549 students with special needs and 1,507 other students were provided with free transport to school, costing around $5.1 million
- over 9,500 people received a subsidy for spectacles and low vision aids, costing $1.1 million
- 31,766 people received discounted dental care, costing more than $7.8 million
- over 16,700 people received concessions on specific health services, costing $1.6 million, and
- 2,257 environmental rebates cost $0.8 million.

In 2011-12, the Commonwealth Government is to provide $1.7 million in contributory funding for concessions provided for land and water rates, utilities, including energy and sewerage, motor vehicle registration and public transport, including for interstate Seniors Card Holders. These concessions are covered under the National Partnership Agreement on Certain Concessions for Pensioners and Seniors Card holders.

ACT concessions, apart from the FHOG, are provided in the form of rebates or discounts, rather than through a direct transfer payment of cash to individuals. This contrasts with the assistance provided by the Commonwealth Government, much of which is through direct payments and is made as part of income supplementation.

Table 38 shows the increase in expenditure on the Concessions Program (excluding the taxi subsidy) over the past three years.
Part 3  The ACT’s current taxes

Table 38  Key concession funding

<table>
<thead>
<tr>
<th>Concession</th>
<th>2007-08 $’000s</th>
<th>2009-10 $’000s</th>
<th>Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spectacle/Senior Spectacle Scheme</td>
<td>682</td>
<td>1,127</td>
<td>65</td>
</tr>
<tr>
<td>Pensioner transport (ACTION)</td>
<td>5,763</td>
<td>7,922</td>
<td>37</td>
</tr>
<tr>
<td>Water and sewerage</td>
<td>6,743</td>
<td>8,981</td>
<td>33</td>
</tr>
<tr>
<td>Motor vehicle registration and licences</td>
<td>2,602</td>
<td>3,051</td>
<td>17</td>
</tr>
<tr>
<td>General rates</td>
<td>5,783</td>
<td>6,525</td>
<td>13</td>
</tr>
<tr>
<td>Electricity and gas</td>
<td>4,974</td>
<td>5,025</td>
<td>1</td>
</tr>
<tr>
<td>Pensioner transport (Deane’s buses)</td>
<td>27</td>
<td>19</td>
<td>-30</td>
</tr>
<tr>
<td>Government Assisted Transport Scheme</td>
<td>543</td>
<td>306</td>
<td>-44</td>
</tr>
<tr>
<td>Total</td>
<td>27,117</td>
<td>32,956</td>
<td>22</td>
</tr>
</tbody>
</table>

Source  ACT Department of Community Services Directorate, Annual Reports 2007–08, 2008-09 and 2009-10.

Assessment against the criteria

Overall the ACT Concessions’ Program provides an efficient and effective means of promoting equity within society and in some instances, assisting in achieving Government priorities.

The AFTS Review contained a number of recommendations on concessions. These included recommendations relating to personal income tax, income and family support payments, concessions offered for not-for-profit organisations and clubs, concessions to support environmental outcomes, and rental assistance payments. Recommendation 107 proposed that the Productivity Commission should review concessions across all levels of government and provide recommendations for consideration by COAG.

Some concessions were considered to have questionable objectives and equity outcomes, and highlighted the sustainability of existing arrangements as the population ages. The AFTS Review also indicated that there was a strong case for rationalising a number of concessions, as well as converting some into cash transfers or tax reductions.

Economic efficiency

The concession system across all States and Territories is administered through in-kind transfers such as subsidies or concessions. In the context of State and Territory service provision, the current concession framework provides a relatively efficient means of assisting those most in need.

Economic theory states that the value or usefulness to individuals of an in-kind transfer cannot be more than, but may be less than, an equal provision of finance. In-kind transfers are therefore less efficient and equitable because the capacity of the recipient to exercise personal choice is reduced when compared with the provision of finance.165

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However, there is evidence to suggest that where the in-kind transfer is provided for a good on which the majority of household expenditure would go towards, the difference in utility to individuals is small.\textsuperscript{166} In-kind transfers can provide the Government an additional policy lever to target benefits and reduce associated costs.\textsuperscript{167} It is also argued that cash transfers, due to the untargeted nature, may increase an individual’s reliance upon the assistance, and if not properly structured may create a disincentive for individuals to reduce reliance, or where potential recipients behave in a socially inefficient manner in order to manipulate the magnitude of transfers, in-kind transfers provide greater benefit.\textsuperscript{168}

**Equity**

Eligibility for concessions in the ACT is generally based on income and asset tests, determined by the Commonwealth. Persons eligible for concessions are generally holders of Commonwealth Health or Pensioner Cards. There are also some age related concessions through the Seniors Card which qualify a holder for public transport and motor vehicle registration concessions.

This framework for eligibility provides a base for concessions to be administered and accessed in the ACT which promotes equity.

**Compliance and administration costs**

Administration and compliance costs of concessions vary across individual programs. Where the concessions are administered according to Commonwealth asset and income tests, the cost of compliance is reduced as the applicants only have to prove they hold a Commonwealth Health or Pensioner Card. However, there are a number of administrative inefficiencies. The concessions program is currently administered by seven Government agencies, making the financial appropriations process more costly.

For example, a number of major concessions, such as that for electricity, are administered through the Community Services Directorate. In order to provide this concession, a financial appropriation is provided through the Treasury Directorate to the Community Services Directorate, which is then transferred to the relevant agency or organisation providing the concession or service. This administrative process is largely historical and does not provide additional value to the concession or the program. There is scope to reduce the administrative inefficiencies and costs associated with this practice by transferring this function to a centralised, transactional area of Government such as Shared Services.

**Financial adequacy and sustainability**

The financial adequacy and sustainability of the current concession system in the ACT is reviewed from time to time to determine if supplementation needs to be provided. Currently many concessions are administered through reduced fees and charges on services, goods or taxes levied, and are largely funded through revenue foregone. This provides a sustainable and financially adequate framework for concessions with the revenue lost in a financial year largely determined by the demand for the service or good by qualifying applicants.


Part 4

Opportunities for a better system for the ACT

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## Introduction

### Key points

<table>
<thead>
<tr>
<th>Point</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duty on conveyances could be transferred to a broad-based land tax</td>
<td>could be transferred to a broad-based land tax over 10 to 15 years.</td>
</tr>
<tr>
<td>General rates should be established as the base for progressive</td>
<td>General rates should be established as the base for progressive taxation and the allocation of</td>
</tr>
<tr>
<td>taxation and the allocation of charges for direct services.</td>
<td>charges for direct services.</td>
</tr>
<tr>
<td>Duty on general insurance and life insurance could be abolished with</td>
<td>Duty on general insurance and life insurance could be abolished with general rates as the</td>
</tr>
<tr>
<td>general rates as the replacement base.</td>
<td>replacement base.</td>
</tr>
<tr>
<td>There are a number of options for payroll tax.</td>
<td>There are a number of options for payroll tax.</td>
</tr>
<tr>
<td>Urban densification and transit oriented development should reduce</td>
<td>Urban densification and transit oriented development should reduce environmental impacts.</td>
</tr>
<tr>
<td>environmental impacts.</td>
<td></td>
</tr>
<tr>
<td>Infrastructure investment will be essential.</td>
<td>Infrastructure investment will be essential.</td>
</tr>
</tbody>
</table>

The central proposition of the report AFTS Review argues for the States and Territories to use land and private consumption as the primary bases for taxation. It proposes abolishing State taxes such as transaction taxes, taxes on insurance and payroll tax, considered inefficient and distortionary.

Land is considered an efficient tax base, able to deliver significant and sustainable revenues. However, the current state land taxes are considered to be narrow, making the States and Territories less efficient and less fair than they could be. The AFTS Review proposes that land tax should not discriminate between owners and users of land.

The ACT is in a unique position to pursue some of the suggested reforms due to its combined state and local government functions. For the ACT, the land tax base proposed by the AFTS Review is the general rates tax base.

The Panel’s view is that a robust taxation system should not be totally reliant on one base. The Panel’s view is that a robust taxation system should not be singularly reliant on a particular base, and some caution needs to be exercised.

With regards to structural reform, in summary, the Panel is proposing the following for the ACT:

- duty on conveyances could be transferred to broad-based land tax over 10 to 15 years
- general rates should be established as a base for progressive taxation of land as well as cost recovery for services
- duty on general insurance and life insurance could be abolished with general rates as the replacement base. This could be achieved over three to five years
- the Ambulance Levy should be retained, however, its administration could be improved
- there are a number of options for payroll tax. The current policy settings could be extended with a further increase in the threshold and introduction of an intermediate marginal tax rate. Alternatively, harmonisation of threshold and rates with NSW could be pursued, and
- introduction of road user charges should await national reform. Duty on vehicle transfers should be retained.
Urban densification and transit-oriented development strategies along transport corridors should achieve a more compact and efficient city and reduce environmental impacts. Considerable investments in infrastructure—transport as well as others, such as water and sewerage—will be required. LVC and taxation of land should provide efficient and effective instruments for value capture as well as sources of revenue.

**Revenue composition under AFTS recommendations**

Before looking at the detailed propositions, it is useful to visualise the mix and composition of ACT taxation as well as total revenues if the reforms recommended in the AFTS Review were implemented. The changes in the composition presented below are based on assumptions on revenue replacement through alternative own-source taxation, user charges or national taxes.

Chart 51 shows the current composition of taxes and the composition of taxes under the AFTS Review recommendations where:

- all state taxes on labour have been abolished and replaced by a national tax, distributed through transfers
- transaction taxes such as duties on conveyances and insurance are abolished and replaced by a broad-based land tax, and
- taxes on motor vehicle registrations and transfers have been replaced by a single road user charge.

Under such a scenario, total own-source taxation revenue would fall around $740 million, 83 per cent of which would be a loss of land-based tax revenue.
In order to maintain total revenue neutrality, grants from the Commonwealth would need to increase to around $2 billion (around 18 per cent). User charges would increase by the value of motor vehicle registrations and transfers which would be replaced by a road user charge. Chart 52 shows the revenue mix before and after AFTS recommendations are implemented.

The transfer of payroll tax to a federally based tax would considerably increase the Vertical Fiscal Imbalance (VFI), to the extent that the ACT would be reliant on federal financial transfers for the majority of its revenues.

Obviously, not all the reforms would take effect immediately, or simultaneously. In addition, decisions on structural reform and changing tax bases are complex, and require a broader range of considerations. Nevertheless, the indicative mix should help when considering the impact of AFTS Review reforms on State and Territory revenue composition.

Modelling the impact of structural reform

It is useful to visualise total revenues over time if the reforms recommended in the AFTS Review were implemented. Applying such reforms to historical data assists in providing an indication of how tax revenues would have changed if reforms were undertaken in 2000-01, compared with now. While the analysis is relatively simple as it does not incorporate possible changes in the economy and behaviour that would occur as a result of changes in the taxation system, there is an indication that in an environment with GST and Commonwealth Grants, some of the overall revenue characteristics would be similar.

Taxes on labour

The AFTS Review investigated options to reform payroll taxes so that they better capture the value-add of labour. Although they originally suggest a national income-tax equivalent such as a tax on employee remuneration administered through the pay as you go system, a broad-based consumption tax was considered to be more efficient, equitable and sustainable. This is consistent with the current literature, which argues that consumption is one of the most efficient and sustainable tax bases available to governments.

This option has been modelled by replacing payroll tax in 2000-01 with a national consumption tax equivalent and growing this value over time by the growth in GST.169

The revenue would then have been redistributed to the ACT through Commonwealth grants.

Chart 53 Actual versus consumption tax equivalent

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual Payroll Tax Revenue</th>
<th>Consumption Tax Equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>$100</td>
<td>$200</td>
</tr>
<tr>
<td>2001-02</td>
<td>$150</td>
<td>$250</td>
</tr>
<tr>
<td>2002-03</td>
<td>$200</td>
<td>$300</td>
</tr>
<tr>
<td>2003-04</td>
<td>$250</td>
<td>$350</td>
</tr>
<tr>
<td>2004-05</td>
<td>$300</td>
<td>$400</td>
</tr>
<tr>
<td>2005-06</td>
<td>$350</td>
<td>$450</td>
</tr>
<tr>
<td>2006-07</td>
<td>$400</td>
<td>$500</td>
</tr>
<tr>
<td>2007-08</td>
<td>$450</td>
<td>$550</td>
</tr>
<tr>
<td>2008-09</td>
<td>$500</td>
<td>$600</td>
</tr>
<tr>
<td>2009-10</td>
<td>$550</td>
<td>$650</td>
</tr>
</tbody>
</table>

Source ACT Treasury.

Under this option, there would have been consistent growth in revenue parallel to GST revenue growth at around 7.7 per cent on average. This growth was fairly stable up until 2008-09 when there was a downturn in consumption. In spite of this, a tax on consumption would provide a broader revenue source compared with payroll tax.

Conveyances and insurance taxes

The AFTS Review suggests that conveyance duty and insurance taxes should be abolished and replaced by a broad-based land tax. This is modelled by:

- transferring the total value of conveyance duty and insurance taxes in 2000-01 to land, and
- increasing this value by growth in the total unimproved value of land.

While there would have been a revenue shortfall in some years compared with the actual tax revenue through the current system, this would have been largely due to the volatility observed within conveyance tax revenue as a result of its exposure to economic conditions. Overall such a change would have provided a much more stable taxation base that would have resulted in additional average annual revenue of around $19 million over 2000-01 to 2009-10.

Motor vehicle taxes

The AFTS Review noted that current motor vehicle taxation arrangements would not meet Australia’s future transportation requirements. It suggested that motor vehicle taxation policy should move from indiscriminate taxation to efficient pricing. One of the options considered was to transfer taxes on motor vehicle registrations and transfers to a single user charge based on road usage.
The AFTS Review generally did not favour motor vehicle taxes currently levied in Australia – they will not meet Australia’s future transportation needs.

The user charge is modelled as a per vehicle kilometre charge, estimated by the total value of motor vehicle registrations and transfers in 2000-01 divided by the total number of vehicle kilometres travelled in the ACT in the same year.\textsuperscript{170} It increased in line with CPI for subsequent years. The total user charge for each year is calculated as the user charge per kilometre multiplied by the total vehicle kilometres travelled.

\textbf{Chart 55} Actual revenue from motor vehicle taxes and user charge

![Chart 55](chart.png)

\textit{Source} ACT Treasury.

Whilst revenue from a user charge would have exceeded the actual tax revenue collected from motor vehicles taxes in the initial years, the decrease in vehicle kilometres travelled around 2004-05 and 2005-06 would have led to lower tax revenue under the proposed user charge. Under this scenario there would have been an overall revenue difference of around $7.3 million between 2000-01 and 2009-10. While total vehicle kilometres are a reasonable proxy for road usage, a limitation of the data is that the number of vehicle kilometres travelled is recorded by state of registration.\textsuperscript{171} About 25 per cent of kilometres travelled by ACT registered vehicles are interstate. There is no information available about the number of vehicle kilometres travelled in the ACT by non-ACT registered vehicles.

**Mix and level of revenue over time**

The AFTS Review proposed changes to payroll tax, conveyances, insurance taxes, and motor vehicles taxes which would alter the mix and level of total ACT government revenue. Overall, total taxation revenue would fall significantly due to the abolition of payroll tax and motor vehicle taxes, and there would be less volatility as a result of the transfer of conveyance duty to a broad-based land tax. Once other own-source revenue such as fees, fines and charges are included, the new user charge on motor vehicle use would bring total revenue closer in line with the current structure.


\textsuperscript{171} Ibid.
Duty on conveyances

Key points

- Marginal tax rates and thresholds for conveyance duty, unchanged for 10 years, mean there has been an effective tax rate increase of more than 50 per cent.
- Shifting conveyance duty to a more equitable and efficient tax base will require a long transition period, 10 years or more.
- The progressivity of conveyance duty could be improved through annual changes to marginal tax rates, with credits for those who had paid conveyance duty prior to the changes being introduced.
- The option of expanding the Home Buyer Concession Scheme would result in foregone revenue and an increase in general rates for residential properties.

Marginal tax rates and thresholds for ACT conveyance duty have not changed over the last decade. The increase in dwelling prices, however, has resulted in the effective tax rate increasing by around 50 per cent.

In principle, governments should be able to draw on the growth in economic activity to meet service and infrastructure needs. The increase in duty payable for median dwellings has outstripped income growth. The concession schemes for first homebuyers and pensioners have been well targeted and effective in supporting activity for these groups. For others, empirical analysis indicates that the amount of duty may be a barrier to some people moving to more suitable accommodation.

The Review formed the view that reform could be commenced to improve the progressivity of the current system of conveyance duty on conveyances through a program of annual changes to marginal tax rates. Revenue neutrality could be achieved by transferring the tax to general rates, or within the tax (through higher tax at the upper end).

Reform and revenue replacement options

The following options for reforming conveyance duty have been analysed:

- reducing and adjusting conveyance duty rates to create a more progressive system whilst maintaining revenue neutrality
- abolishing conveyance duty, and
- expanding the Home Buyer Concession Scheme (HBCS) by raising the property value thresholds and removing the household income test.
Summary of options

<table>
<thead>
<tr>
<th>Reform options</th>
<th>Revenue replacement options</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Option 1</strong></td>
<td>Option 1</td>
</tr>
<tr>
<td>Levy a broad-based land tax on all new property transactions</td>
<td>Broad-based land tax</td>
</tr>
<tr>
<td><strong>Option 2</strong></td>
<td></td>
</tr>
<tr>
<td>Reduce conveyance duty rates or replace it entirely</td>
<td></td>
</tr>
<tr>
<td><strong>Scenario 2a</strong></td>
<td>Reduce conveyance duty rates and maintain nominal revenue</td>
</tr>
<tr>
<td><strong>Scenario 2b</strong></td>
<td>Abolish conveyance duty</td>
</tr>
<tr>
<td><strong>Option 3</strong></td>
<td></td>
</tr>
<tr>
<td>Expand the Home Buyer Concession Scheme</td>
<td></td>
</tr>
<tr>
<td><strong>Option 4</strong></td>
<td></td>
</tr>
<tr>
<td>Levy conveyance duty on the average unimproved value of land</td>
<td></td>
</tr>
</tbody>
</table>

These options are scalable in time and in magnitude, and have been modelled to assist the consideration of the financial, social and economic impacts.

If pursued, there will be transitional equity concerns. People who have recently moved, and paid conveyance duty, may see themselves as being taxed twice. Therefore, proportionate credit in reduced rates should be given for conveyance duty previously paid. Administration of this design feature can be simple and at relatively low cost.

There will be distributional impacts, which should be cushioned through the concessions system. Specifically, impacts on low income households can be addressed through an expansion of the current concessions. Deferral of rates should also be made available for eligible households.

The change from conveyance duty to a broad-based land tax would remove a distortion on consumption in the economy, which would lead to higher economic activity in the form of both GSP and employment when compared with the current system.

The economic gains would be primarily the result of reducing the cost of producing and consuming housing services. In the short-term, a broad-based land tax would increase demand and price, partially offsetting the reduction in conveyance duty, overall resulting in larger economic activity and a gain of $13.3 million in real GSP within the first year of transition. The benefits would continue beyond the initial years, albeit slightly decreasing over time.

Computable General Equilibrium modelling indicates that the increase in real consumption and economic activity would boost full time equivalent employment by around 77 positions within the first year. This gain would reduce to around 24 in the tenth year, compared with the base case of retaining the current conveyance duty regime. These impacts are summarised in the table below.

Overall, the benefits are largely in fairness, better allocation of stock and enhanced ability to exercise housing choices.
Table 39 Economic impacts of shifting from conveyance duty to a broad based land tax

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Year 1</th>
<th>Year 5</th>
<th>Year 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GSP $ million</td>
<td>13.3</td>
<td>11.4</td>
<td>8.0</td>
</tr>
<tr>
<td>percentage change (%)</td>
<td>0.077</td>
<td>0.067</td>
<td>0.054</td>
</tr>
<tr>
<td>Real consumption $ million</td>
<td>11.9</td>
<td>10.6</td>
<td>8.0</td>
</tr>
<tr>
<td>percentage change (%)</td>
<td>0.105</td>
<td>0.094</td>
<td>0.077</td>
</tr>
<tr>
<td>Employment (FTEs)</td>
<td>77</td>
<td>51</td>
<td>24</td>
</tr>
</tbody>
</table>

Source: Macroeconomics.

Option 1 Levy a broad-based land tax on all new property transactions

One method of transitioning from conveyance duty to a broad-based land tax on all properties is to abolish conveyance duty and apply a land tax on all new property transactions.

While this transition structure would provide a simple means of transitioning to a broad land tax, without imposing an additional tax burden on households which have recently transacted, there are a number of economic, financial and budgetary impacts that need to be considered.

Budgetary impact

Levying an annual land tax on a property from when it next transacts would require either a budget deficit, funded by borrowings to replace the conveyance revenue lost, a disproportionate amount of land tax being levied on properties as they transact in order to maintain revenue neutrality or significant Commonwealth Government assistance.

In the ACT around 24 per cent of properties have not transacted within the last 20 years. Based on this, it can be assumed that under this transition framework, it would take greater than 20 years for the transition to be complete. It is estimated that this transition would result in a $1.9 billion revenue shortfall over the first 19 years of transition, or an average of around $190 million a year, excluding borrowing costs.

Chart 56 Option 1 – estimated revenue shortfall
Economic impact

Levying a land tax on a property the next time it transitioned may also have a number of economic costs and distort behaviour significantly as an incentive would exist for individuals to hold property for longer in order to avoid entering the new broad-based land tax system.

Transitioning through this method would still impose a form of transaction tax on properties. The transition would also create a number of inequities within the tax system, whereby households of similar quality and location could potentially pay different levels of tax based on whether they have transacted within the new system. In effect, the cost of government services would be placed on households that have recently purchased a property.

Option 2  Reduce conveyance duty rates or replace it entirely

Scenario 2a Reduce conveyance duty rates and maintain nominal revenue

Under this scenario, conveyance duty rates would be reduced but residential conveyance revenue would remain at around $230 million in nominal terms, given the effects of changes in property values and total transactions.

The scenario proposes removing the current $100,000 minimum property value conveyance rate and introducing a $750,000 property value rate. The current conveyance rates would be gradually adjusted to increase progressivity over a 10 year timeframe, while residential conveyance duty revenue would be maintained in nominal terms.

A more progressive conveyance duty regime would lower the marginal rate for properties valued up to $1 million and increase them for properties above this threshold. The conveyance duty payable would be lower for all properties compared with the current system.\(^\text{172}\) The average tax rate would be reduced from 3.4 per cent to 2.7 per cent by year five and 2.2 per cent by year 10.

Chart 57  Scenario 2a – effective stamp duty rates

\[\text{Source: ACT Treasury.}\]
The forecast nominal residential conveyance duty revenue lost from reducing duty rates would be offset by the rates being more progressive, growth in property values and increases in housing turnover. The model assumes that property values will grow at a compound rate of 3.5 per cent per annum and the total number of property transactions will increase by one per cent per annum.\(^ {173} \)

### Table 40 Scenario 2a conveyance duty rates

<table>
<thead>
<tr>
<th>Thresholds ($)</th>
<th>Base Year (%)</th>
<th>Year 5 (%)</th>
<th>Year 10 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 100,000</td>
<td>2.00</td>
<td>1.75</td>
<td>1.25</td>
</tr>
<tr>
<td>100,001 to 200,000</td>
<td>3.50</td>
<td>1.75</td>
<td>1.25</td>
</tr>
<tr>
<td>200,001 to 300,000</td>
<td>4.00</td>
<td>2.75</td>
<td>1.50</td>
</tr>
<tr>
<td>300,001 to 500,000</td>
<td>5.50</td>
<td>4.00</td>
<td>2.50</td>
</tr>
<tr>
<td>500,001 to 750,000</td>
<td>5.75</td>
<td>5.00</td>
<td>3.75</td>
</tr>
<tr>
<td>750,001 to 1,000,000</td>
<td>5.75</td>
<td>5.75</td>
<td>5.25</td>
</tr>
<tr>
<td>1,000,001 and over</td>
<td>6.75</td>
<td>7.00</td>
<td>7.25</td>
</tr>
</tbody>
</table>

*Source* ACT Treasury.

### Revenue foregone and revenue replacement scenarios

While the total nominal residential conveyance revenue would be maintained at around $230 million that would equate to a loss of around $128 million in revenue in the tenth year.

### Chart 58 Scenario 2a - Revenue in the forward ten years

*Source* ACT Treasury.

\(^ {173} \) ACT Treasury modelling. The 3.5 per cent growth rate has been used in order to provide a stable base for comparison of the impacts of reform and is calculated based on long-run CPI and 1 per cent real price growth.
The proportion of conveyance revenue collected from each property price quintile would change: that collected from properties in or below the fourth percentile would decrease from around 59 per cent to 51 per cent by year 10, and that for the top percentile would increase from 41 per cent today to 49 per cent.

**Chart 59** Comparison of the proportion of tax collected from each property price quintile

<table>
<thead>
<tr>
<th>Property value quintile</th>
<th>Base year</th>
<th>Year 5</th>
<th>Year 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2nd</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3rd</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4th</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5th</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source** ACT Treasury.

**Impact on households**
While there is no nominal decrease in residential conveyance revenue under this scenario, there would be a real revenue loss of around $128 million in the tenth year compared with the forecast revenue under the current system. In order to replace lost revenue, average general rates under the current general rates framework would have to increase by around $324 and $660 per rateable property in years five and ten respectively.

**Table 41** Scenario 2a – summary of impacts

<table>
<thead>
<tr>
<th>Scenario 2a: Maintain Nominal Revenue</th>
<th>Base Year</th>
<th>Year 5</th>
<th>Year 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue replacement ($ millions)</td>
<td>0</td>
<td>48.9</td>
<td>114.0 *</td>
</tr>
<tr>
<td>Average household rates (base case) ($)</td>
<td>1,294</td>
<td>1,507</td>
<td>1,790</td>
</tr>
<tr>
<td>Average additional cost per household ($)</td>
<td>0</td>
<td>324</td>
<td>660</td>
</tr>
<tr>
<td>Average household rates ($)**</td>
<td>1,294</td>
<td>1,832</td>
<td>2,451</td>
</tr>
<tr>
<td>Rates relative to average income (%)</td>
<td>1.3</td>
<td>1.6</td>
<td>1.8</td>
</tr>
</tbody>
</table>

**Source** ACT Treasury.

* Adjusted with revenue from simulated transactions.

** Average household rates includes both nominal general rates growth and the additional cost as a result of revenue substitution.
Part 4 Opportunities for a better system for the ACT

Distributional impact
There would be relatively small changes in the distribution of conveyance revenue and the
general rates taxation burden.

Table 42 Scenario 2a – summary of impacts by quintile

<table>
<thead>
<tr>
<th>Quintile</th>
<th>Current average annual rates ($)</th>
<th>Annual rates as a proportion of disposable income (%)</th>
<th>Average annual rates (year 5) ($)</th>
<th>Annual rates as a proportion of disposable income (year 5) (%)</th>
<th>Average annual rates (year 10) ($)</th>
<th>Annual rates as a proportion of disposable income (year 10) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>1,056</td>
<td>3.5</td>
<td>1,442</td>
<td>4.0</td>
<td>1,948</td>
<td>4.6</td>
</tr>
<tr>
<td>Second</td>
<td>1,189</td>
<td>1.8</td>
<td>1,662</td>
<td>2.0</td>
<td>2,198</td>
<td>2.3</td>
</tr>
<tr>
<td>Third</td>
<td>1,234</td>
<td>1.3</td>
<td>1,735</td>
<td>1.5</td>
<td>2,373</td>
<td>1.7</td>
</tr>
<tr>
<td>Fourth</td>
<td>1,323</td>
<td>1.0</td>
<td>1,866</td>
<td>1.2</td>
<td>2,557</td>
<td>1.3</td>
</tr>
<tr>
<td>Fifth</td>
<td>1,546</td>
<td>0.7</td>
<td>2,496</td>
<td>1.0</td>
<td>3,180</td>
<td>1.1</td>
</tr>
<tr>
<td>Total</td>
<td>1,294</td>
<td>1.3</td>
<td>1,832</td>
<td>1.6</td>
<td>2,451</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Source ACT Treasury.

Low income households
The average general rates bill for households in the bottom income quintile would increase by
$386 in year five and $892 in year ten, with $188 (49 per cent) of the modelled increase in
year five and $459 (51 per cent) in year ten because of reform. This represents an increase of
1.1 per cent in annual rates as a proportion of disposable income in the tenth year.

It should be noted that the distributional impact on low income household would be reduced
if the progressivity of the general rates framework was increased.

High income households
The average general rates bill for households in the top two income quintiles would increase by
an average total of $746 at year five and $1,434 at year ten, of which around $477 (64 per cent)
in year five and $845 (59 per cent) in year ten would occur as a result of reform. This
represents an increase in annual rates as a proportion of disposable income of 0.4 per cent in
the tenth year.
Option 2  Reduce conveyance duty rates or replace it entirely

Scenario 2b Abolish conveyance duty

Under this scenario, conveyance duty would be abolished over a ten year period, with the average conveyance duty rates progressively reduced to 1.7 per cent by year five and zero by year 10. The $100,000 property value threshold would be removed, and a $750,000 property threshold would be introduced.

Table 43  Scenario 2b – conveyance duty rates

<table>
<thead>
<tr>
<th>Thresholds ($)</th>
<th>Current (%)</th>
<th>Year 5 (%)</th>
<th>Year 10 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 100,000</td>
<td>2.00</td>
<td>1.00</td>
<td>–</td>
</tr>
<tr>
<td>100,001 to 200,000</td>
<td>3.50</td>
<td>1.00</td>
<td>–</td>
</tr>
<tr>
<td>200,001 to 300,000</td>
<td>4.00</td>
<td>1.50</td>
<td>–</td>
</tr>
<tr>
<td>300,001 to 500,000</td>
<td>5.50</td>
<td>2.50</td>
<td>–</td>
</tr>
<tr>
<td>500,001 to 750,000</td>
<td>5.75</td>
<td>3.25</td>
<td>–</td>
</tr>
<tr>
<td>750,001 to 1,000,000</td>
<td>5.75</td>
<td>4.00</td>
<td>–</td>
</tr>
<tr>
<td>1,000,001 and over</td>
<td>6.75</td>
<td>5.25</td>
<td>–</td>
</tr>
<tr>
<td>Revenue (adjusted) ($ million)</td>
<td>230</td>
<td>143</td>
<td>0</td>
</tr>
</tbody>
</table>

Source  ACT Treasury.

Under this scenario the residential conveyance duty revenue received by property value quintile would be reduced significantly over the ten year period.

Chart 60  Conveyance revenue received by property value quintile

Source  ACT Treasury.
Revenue foregone and revenue replacement scenarios

Around $358 million in forecast residential conveyance revenue would be foregone in the tenth year; conveyance duty would fall from $230 million in the base year, to around $143 million by year five and $0 in the final year.

Chart 61 Scenario 2b - revenue in the forward ten years

Impact – conveyance duty replaced with general rates

The average general rates would increase by around $876 and $2,076 (to totals of $2,384 and $3,867) per rateable property in years five and 10 respectively, in addition to increases in line with WPI, to meet this need. This would increase the average general rates as a proportion of household income from 1.3 per cent now to an estimated 2.0 per cent in year five and 2.8 per cent in year ten.

Table 44 Scenario 2b – summary of impacts

<table>
<thead>
<tr>
<th></th>
<th>Base Year</th>
<th>Year 5</th>
<th>Year 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue replacement ($ millions)</td>
<td>0</td>
<td>132.3</td>
<td>358.3</td>
</tr>
<tr>
<td>Average additional cost per household ($)</td>
<td>0</td>
<td>876</td>
<td>2,076</td>
</tr>
<tr>
<td>Average household rates ($)</td>
<td>1,294</td>
<td>2,384</td>
<td>3,867</td>
</tr>
<tr>
<td>Rates relative to average income (%)</td>
<td>1.3</td>
<td>2.0</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Source ACT Treasury.

* Average household rates includes both nominal general rates growth and the additional cost as a result of revenue substitution.
Distributional impact on households

Households in the bottom three income quintiles would bear a larger proportion of the overall tax burden than currently. However, the proportion of tax revenue across all households would on average remain the same in the final transition year.

Table 45  Distributional impact on households over ten years

<table>
<thead>
<tr>
<th>Quintile</th>
<th>Current average annual rates ($)</th>
<th>Annual rates as a proportion of disposable income (%)</th>
<th>Average annual rates (year 5) ($)</th>
<th>Annual rates as a proportion of disposable income (year 5) (%)</th>
<th>Average annual rates (year 10) ($)</th>
<th>Annual rates as a proportion of disposable income (year 10) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>1,056</td>
<td>3.5</td>
<td>1,763</td>
<td>4.9</td>
<td>2,932</td>
<td>6.9</td>
</tr>
<tr>
<td>Second</td>
<td>1,189</td>
<td>1.8</td>
<td>1,980</td>
<td>2.5</td>
<td>3,316</td>
<td>3.5</td>
</tr>
<tr>
<td>Third</td>
<td>1,234</td>
<td>1.3</td>
<td>2,192</td>
<td>1.9</td>
<td>3,729</td>
<td>2.7</td>
</tr>
<tr>
<td>Fourth</td>
<td>1,323</td>
<td>1.0</td>
<td>2,368</td>
<td>1.5</td>
<td>4,037</td>
<td>2.1</td>
</tr>
<tr>
<td>Fifth</td>
<td>1,546</td>
<td>0.7</td>
<td>3,618</td>
<td>1.5</td>
<td>5,322</td>
<td>1.8</td>
</tr>
<tr>
<td>Total</td>
<td>1,294</td>
<td>1.3</td>
<td>2,384</td>
<td>2.1</td>
<td>3,867</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Source  ACT Treasury and NATSEM.

Low income households

The average general rates bill for households in the bottom income quintile would increase by $707 in year five and $1,876 in year ten, with $508 (72 per cent) of the modelled increase in year five and $1,442 (77 per cent) in year ten because of reform. This represents an increase of 3.4 per cent in annual rates as a proportion of disposable income in the tenth year.

It should be noted that the distributional impact on low income household would be reduced if the progressivity of the general rates framework was increased.

High income households

The average general rates bill for households in the top two income quintiles would increase by an average total of $1,559 at year five and $3,248 at year ten, of which around $1,290 (83 per cent) in year five and $2,656 (82 per cent) in year ten would occur as a result of reform. This represents an increase in annual rates as a proportion of disposable income of 1 per cent in the tenth year.
**Option 3 Expand HBCS**

Option 3 provides for extending the current HBCS to capture a larger proportion of the property market and reduce the conveyance duty burden on a greater number of households. The HBCS creates an increase in activity in the market, however, due to the thresholds and scale it has no significant effect on price. Currently, all households with income less than $120,000 are eligible for a concession.174

**Table 46 Eligible property - residential home**

<table>
<thead>
<tr>
<th>Dutiable value ($)</th>
<th>Concessional duty payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–362,600</td>
<td>$20 (minimum duty)</td>
</tr>
<tr>
<td>362,600–460,000</td>
<td>$18.80 for each $100 or part thereof by which the dutiable value exceeds $362,600 ($20 minimum duty)</td>
</tr>
<tr>
<td>460,000 or more</td>
<td>No concession</td>
</tr>
</tbody>
</table>

Source ACT Revenue Office.

**Table 47 Eligible vacant block - land**

<table>
<thead>
<tr>
<th>Dutiable value ($)</th>
<th>Concessional duty payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–202,000</td>
<td>$20 (minimum duty)</td>
</tr>
<tr>
<td>202,000–254,500</td>
<td>$14.65 for each $100 or part thereof by which the dutiable value exceeds $202,000 ($20 minimum duty)</td>
</tr>
<tr>
<td>254,500 or more</td>
<td>No concession</td>
</tr>
</tbody>
</table>

Source ACT Revenue Office.

Under this option, the income eligibility requirement would be removed and the bottom HBCS threshold for residential houses increased from $362,600 to $500,000. As a result an estimated 84 per cent of first home buyers would be eligible for the full concession, compared with 32 per cent in 2010-11.

The upper threshold of the HBCS would be increased from the current $460,000 to $600,000, resulting in an estimated additional 12 per cent of first home buyers being eligible for a concessional rate of duty. The concessional duty rate would be $26.25 for each $100 or part thereof by which the dutiable value exceeds the lower threshold.

**Table 48 Proposed HBCS structure**

<table>
<thead>
<tr>
<th>Dutiable value ($)</th>
<th>Concessional duty payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–500,000</td>
<td>$20 (minimum duty)</td>
</tr>
<tr>
<td>500,000–600,000</td>
<td>$26.25 for each $100 or part thereof by which the dutiable value exceeds $500,000 ($20 minimum duty)</td>
</tr>
<tr>
<td>600,000 or more</td>
<td>No concession</td>
</tr>
</tbody>
</table>

Source ACT Treasury.

174 The lower property value threshold is determined by the highest sale price in the bottom property value quintile for the previous six months, while the upper property value threshold is determined as the median price value over the same period of time.
The chart below shows the concessional duty by property value under the current scheme and the proposed model.

**Chart 62** Comparison of concessional duty amounts

![Chart showing comparison of concessional duty amounts](chart62)

Source: ACT Treasury.

Expanding the HBCS as proposed would result in an additional $21 million revenue foregone, compared with the current scheme.

**Table 49** Option 3 - breakdown of revenue

<table>
<thead>
<tr>
<th></th>
<th>Current model ($)</th>
<th>Change to proposed scenario ($)</th>
<th>Difference ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>House</td>
<td>11.7</td>
<td>31.7</td>
<td>20.0</td>
</tr>
<tr>
<td>Land</td>
<td>0.8</td>
<td>2.3</td>
<td>1.4</td>
</tr>
<tr>
<td>Total</td>
<td>12.5</td>
<td>33.9</td>
<td>21.4</td>
</tr>
</tbody>
</table>

Source: ACT Treasury.

The cumulative revenue foregone under this scenario is illustrated in the chart below.

**Chart 63** Option 3 - comparison of revenue

![Chart showing cumulative revenue foregone](chart63)

Source: ACT Treasury.
Impact on households
In order to recover the estimated $21 million in revenue foregone, the average general rates bill would need to increase by around $166 per rateable residential property (in addition to growth in line with WPI over time), increasing average general rates as a proportion of household income from 1.3 per cent to an estimated 1.5 per cent.

<table>
<thead>
<tr>
<th>Option 3: HBCS Expansion</th>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue replacement ($'000s)</td>
<td>0</td>
<td>21,443</td>
</tr>
<tr>
<td>Average cost per household ($)</td>
<td>0</td>
<td>166</td>
</tr>
<tr>
<td>Average household rates ($)</td>
<td>1,294</td>
<td>1,460</td>
</tr>
<tr>
<td>Rates relative to average income (%)</td>
<td>1.3</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Source: ACT Treasury.

Distributional impact on households
Expanding the home buyer concession scheme would further reduce the cost of purchasing a new home for a greater number of households.

<table>
<thead>
<tr>
<th>Quintile</th>
<th>Current average annual rates ($)</th>
<th>Average annual rates ($)</th>
<th>Annual rates as a proportion of disposable income (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>1,056</td>
<td>1,178</td>
<td>3.9</td>
</tr>
<tr>
<td>Second</td>
<td>1,189</td>
<td>1,326</td>
<td>2.0</td>
</tr>
<tr>
<td>Third</td>
<td>1,234</td>
<td>1,389</td>
<td>1.4</td>
</tr>
<tr>
<td>Fourth</td>
<td>1,323</td>
<td>1,490</td>
<td>1.1</td>
</tr>
<tr>
<td>Fifth</td>
<td>1,546</td>
<td>1,769</td>
<td>0.9</td>
</tr>
<tr>
<td>Total</td>
<td>1,294</td>
<td>1,460</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Source: ACT Treasury.

Low income households
In order to replace revenue lost, households on low incomes would pay around $122 to $137 more in annual general rates – increases of 0.4 per cent and 0.2 per cent as a proportion of annual disposable income for households within the bottom two income quintiles.

However, conveyance duty would be completely removed on properties below a value of $500,000.

High income households
Households in the top two income quintiles would have an average increase in the annual rates bill of around $167 and $223 respectively – an average increase of 0.1 per cent in general rates as a proportion of annual disposable income for these households.
Option 4  Levy conveyance duty on the average unimproved value of land

Under this option, conveyance duty rates would be levied on the average unimproved value of land not the transaction price. Maintaining nominal revenue would require an increase in the marginal rate for all properties as the average unimproved value is typically lower than the transaction price. A comparison of the distribution of AUV and property transaction value in 2010-11 is illustrated in Chart 64.

Chart 64  Comparison of the distribution of AUV and property value

![Chart showing the comparison of AUV and property value](chart64.png)

Source  ACT Treasury.

Note Bin size of $20,000.

The table below shows the possible changes to conveyance duty rates under this option.

Table 52  Option 1 - revenue replacement of conveyance duty rates

<table>
<thead>
<tr>
<th>Thresholds ($)</th>
<th>Current rate (%)</th>
<th>Proposed rate (base: AUV) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 100,000</td>
<td>2.00</td>
<td>4.50</td>
</tr>
<tr>
<td>100,001 to 200,000</td>
<td>3.50</td>
<td>7.50</td>
</tr>
<tr>
<td>200,001 to 300,000</td>
<td>4.00</td>
<td>9.50</td>
</tr>
<tr>
<td>300,001 to 500,000</td>
<td>5.50</td>
<td>12.50</td>
</tr>
<tr>
<td>500,001 to 1,000,000</td>
<td>5.75</td>
<td>18.00</td>
</tr>
<tr>
<td>1,000,001 and over</td>
<td>6.75</td>
<td>22.20</td>
</tr>
<tr>
<td>Revenue (adjusted)</td>
<td>$230 million</td>
<td>$230 million</td>
</tr>
</tbody>
</table>

Source  ACT Treasury.

The conveyance duty payable under this option would depend upon the AUV, not its transaction value. Where there is large capital value on the land, and a low unimproved value, the purchaser would have a lower rate of conveyance duty, and vice versa.
This difference would be most distinct between high rise units and standalone dwellings, largely due to an apartment's total value comprising a larger capital improvement component compared with standalone dwellings.

It should be noted that any reduction in conveyance duty may be offset, at least partially, by an increase in price.

**Revenue foregone and revenue replacement option**

Under this option the total residential conveyance duty revenue would be maintained at around $230 million in the first year. Revenue would be expected to continue in line with base case forecasts as AUV and property prices tend to increase at the same rate.

**Impact on households**

As there would be no decrease in revenue under this scenario, the impact on households would be dependent upon the AUV relative to the transaction value. This would remove progressivity and the horizontal equity of conveyance duty as the capital value of land would be ignored. For example, land with the same average unimproved value would incur the same conveyance duty regardless of the value or wealth invested in the improvements on the land.

**Recommendations**

The Review makes the following recommendations to Government.

**Recommendation 10**
Abolish conveyance duty. In doing so:

- pursue at least a 10 year, and up to a 20 year, transition plan to ameliorate the impact of the change on households
- have due regard for conveyance duty paid in the years leading up to the change, and
- recognise the significance of the change and consult with the community on the transition plan.

**Recommendation 11**
Address the impacts on low income households from the substitution of the tax through the concessions system, with a possible expansion of the current rebate scheme.

**Recommendation 12**
For households not eligible for rebates, allow deferral of rates as an option, based on age and asset tests.

**Recommendation 13**
Expand the Home Buyer Concession Scheme by:

- progressively reducing the marginal tax rates, and
- extending the threshold.

**Recommendation 14**
Continue a Pensioner Duty Concession Scheme over the transition period, and adjust the property value thresholds to support ageing in place and access to housing choices within an area.
Recommendation 15
Extend the eligibility criteria for the duty deferral scheme and provide an option to amortise duty over a period of ten years.

Recommendation 16
Support ageing in place through expanding the duty deferral scheme and deferral of rates, with outstanding tax liabilities recovered at the time of sale.

Transitioning to a broad-based land tax system
While the conceptual case for the reform of conveyance duty has been established, the transition to an efficient base has not been explored to the same extent. There are a number of factors to take into account for transitioning from the current taxation system. This includes ensuring individuals do not incur any additional or unnecessary tax burden and minimising possible distortions in the market.

A transitional timeframe of ten years has been considered by the Panel. However, this timeframe could be shortened or extended.

Transition framework
A number of issues were considered in developing a transitional framework, specifically to reduce any potential distortions within the housing market and ensure individuals who have recently paid conveyance duty do not have an additional or excessive tax burden.

The transition framework has two components:

■ the removal of conveyance duty and the transition of associated revenue into the general rates system over a period of time, and
■ a conveyance duty credit, which accounts for conveyance duty recently paid on property transactions.

Conveyance duty credit
It would be reasonable to incorporate a credit on properties that have been held for less than ten years. It would essentially exempt all properties (to varying degrees) which have incurred conveyance duty within the past ten years from increases in general rates associated with the transition.

The duration and value of the credit would be determined based on the year in which conveyance duty was paid relative to the year the transition begins. For example, if a property transacted five years prior to the transition period, it would be exempt from any increase in general rates that would occur as a result of the transition for a further five years.

Transitioning conveyance duty to general rates
The conveyance duty rate would decrease during the transition period, and fully removed in the final year of transition. General rates would be increased to offset the reduction in conveyance duty.

As part of the reform transition arrangements, any disproportionate impact on low-income households could be reduced through an expansion of the existing concessions and changes in the structure of the general rates system.
## Payroll tax

### Key points

- The effective payroll tax rate in the ACT is lower than NSW for annual payroll up to $4.6 million.
- Increasing the tax free threshold to $3 million would cost the ACT Government around $85 million, but it would make the ACT more competitive for payrolls up to $12 million.
- A two-tiered threshold could be considered.
- Complete payroll tax harmonisation with NSW would result in a net revenue gain of around $67 million.

Since 1996, the ACT has levied payroll tax at a rate of 6.85 per cent on employers. The current payroll tax free threshold for employers is $1.5 million.

The original intention of the high threshold in the ACT was to foster and encourage growth in micro-businesses. Historically, the ACT has had a smaller proportion of small businesses than nationally. Over time, the distribution of smaller businesses in the ACT has moved closer to the national distribution, partly attributed to the generous exemptions provided to them.

Payroll tax in the ACT is levied on a narrow base as a result of this high threshold. The average excess burden of payroll tax in the ACT is estimated to be high, at around 36 cents for every dollar of revenue, compared with 22 cents for all States and Territories. However, in the context of the Territory’s policy objectives the current settings could be considered suitable.

There is no evidence of significant distortion resulting from current payroll tax settings.

Options for payroll tax reform include increasing the tax rate on larger, less mobile businesses, progressing toward harmonisation (thereby broadening the base), or eventual abolishment. The analysis of these options provides an indication of the economic and distributional impacts that would occur as a result of these reforms.

While there are reasonable policy grounds for maintaining a high tax-free threshold, larger exemptions are also associated with significant efficiency costs. There is scope to reassess the tradeoffs between fostering small businesses and economic inefficiencies created by the narrow base.
Reform and revenue replacement options

These broad approaches are investigated:

- the current policy could be extended by increasing the tax-free threshold or introducing a progressive payroll tax rate, or
- payroll tax settings could be harmonised with NSW, or alternatively the threshold could be harmonised with the tax rate adjusted to maintain revenue neutrality, or
- the tax could be abolished altogether.

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**Chart 65** Cumulative distribution of businesses as a proportion of total businesses by payroll size, 2008–09

Source: ABS and ACT Treasury, unpublished data.\(^{175}\)

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\(^{175}\) Based on unpublished ABS data sourced from Australian Taxation Office information. Data reflect the number of businesses whose main operations exist in the state of interest.
This box summarises various scenarios that have been analysed.

## Summary of options

### Reform options

<table>
<thead>
<tr>
<th>Option</th>
<th>Reform</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Option 1</td>
<td>Extend current policy</td>
<td>Progressive tax rate</td>
<td>Increase tax-free threshold</td>
<td>Abolish payroll taxes completely</td>
</tr>
<tr>
<td>Option 2</td>
<td>Harmonisation with NSW</td>
<td>Complete harmonisation with NSW</td>
<td>Harmonisation with NSW but maintain revenue neutrality</td>
<td></td>
</tr>
</tbody>
</table>

### Revenue replacement options

<table>
<thead>
<tr>
<th>Option</th>
<th>Option 1</th>
<th>Option 2</th>
<th>Option 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reform</td>
<td>A cash flow or value added tax</td>
<td>A tax based on net ‘leasable’ or equivalent area</td>
<td>An income tax surcharge</td>
</tr>
</tbody>
</table>

### Option 1 Extend current policy

**Scenario 1a Progressive tax rate**

Under Scenario 1a, the progressivity of payroll tax would be increased. The marginal tax rate would be lowered to 5.45 per cent, the $1.5 million tax-free threshold would be maintained and a $3 million threshold introduced with a 6.85 per cent marginal tax rate.

CGE modelling of the ACT economy suggested that this reform scenario would have a positive effect. As a result of the reform there would be an increase in full time employment of around 200 FTEs, and an associated increase in real wages.

This would increase real disposable income and consumption. The increase in consumption would increase GSP, which would be further supported by higher investment, albeit lagged.

The impacts would be greatest in the first few years and the positive effects would continue far beyond the first years of reform.

**Table 53** Selected macroeconomic impacts for the ACT – progressive threshold

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GSP ($ millions)</td>
<td>16.5</td>
<td>11.3</td>
<td>7.1</td>
</tr>
<tr>
<td>percentage change (%)</td>
<td>0.095</td>
<td>0.065</td>
<td>0.039</td>
</tr>
<tr>
<td>Real consumption ($ millions)</td>
<td>12.4</td>
<td>9.3</td>
<td>1.4</td>
</tr>
<tr>
<td>percentage change (%)</td>
<td>0.108</td>
<td>0.079</td>
<td>0.026</td>
</tr>
</tbody>
</table>

**Source** Macroeconomics.
The impact of Scenario 1a on different industries has been modelled using 2008-09 payroll tax data. It does not alter the number of taxpayers but decreases the aggregate revenue from payroll tax by around $15 million to $236 million. The amount of tax payable by current businesses falls by an average of $6,100.

Table 54  Scenario 1a - progressive tax rate

<table>
<thead>
<tr>
<th></th>
<th>Decrease in total tax paid by current taxpayers ($’000s)</th>
<th>Decrease in tax paid in full time employee terms (No of FTEs)*</th>
<th>Decrease in tax paid per FTE $**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>-14,938</td>
<td>210</td>
<td>-246</td>
</tr>
<tr>
<td>Average across industries</td>
<td>-786</td>
<td>11</td>
<td>-287</td>
</tr>
</tbody>
</table>

* This is calculated by dividing the decrease in the tax paid by the ACT’s average annual wage rate.

** This is calculated as the decrease in the tax paid divided by the number of FTEs estimated by the wages from the wages of the businesses currently paying payroll tax.

Under this scenario, all industries would benefit from a lower tax burden. The greatest benefit per employer would be in the financial and insurance services industry and the electricity, gas, water and waste services industry.

The progressive tax rate would allow an extra 210 FTEs without impacting on the overall costs of all businesses in net terms. The largest beneficiary would be the professional, scientific and technical services industry (an extra 60 FTEs at no net cost).

It is not expected that ACT businesses would relocate to NSW under this scenario as they would be better off in the ACT. A small number of NSW businesses with payrolls up to $6.1 million could consider the marginal gain from a progressive tax rate to be sufficient incentive to relocate to the ACT.

Scenario 1a would not be expected to improve existing levels of efficiency since there is no broadening of the tax base. Instead, inefficiencies and additional compliance and administration costs would be introduced by the added complexity of a two-tiered tax rate. Further, the two-tiered tax rate might create incentives for employers to structure their affairs with a view to minimising tax.

**Option 1** Extend current policy

**Scenario 1b** Increasing tax-free threshold

Scenario 1b would extend the current payroll tax-free threshold to $3 million and maintain the marginal tax rate at 6.85 per cent. This would reduce payroll tax revenue by about $23 million to a total of $229 million. The number of businesses subject to payroll tax would be reduced by 18 per cent to around 1,900.

CGE modelling indicates that the immediate impact of increasing the tax free threshold would be increased employment by 945 FTEs in the first year as a result of the lower tax burden on businesses. As a result of growth in wages, employees would have higher disposable income and increased consumption, leading to a rise in GSP.

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176 Modelling has been undertaken on 2008-09 data for a two reasons. Firstly, at the commencement of the modelling exercise this was the most recent data available which had had a degree of quality assurance. Secondly, the method used to model the impact of harmonising payroll tax with NSW uses data from the Commonwealth Grants Commission (CGC), the most recent of which is for 2008-09.
The impact of Scenario 1b on different industries in the ACT has been modelled using 2008-09 payroll tax data.\textsuperscript{177} This scenario would result in an overall reduction in the total number of payroll taxpayers leading to a budget revenue shortfall of $23 million.

Raising the threshold to $3 million would deliver the greatest benefit (aggregate tax reductions of $7 million) to the professional, scientific and technical services industry, followed by the construction industry ($3 million). On a per business basis, the education and training industry would be the biggest beneficiary, with an average reduction of just over $33,000 per business.

Table 55  Selected macroeconomic impacts for the ACT – single $3 million threshold  
(difference compared to baseline scenario)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GSP ($ millions)</td>
<td>71.6</td>
<td>42.5</td>
<td>15.9</td>
</tr>
<tr>
<td>\textit{percentage change (%)}</td>
<td>0.413</td>
<td>0.248</td>
<td>0.113</td>
</tr>
<tr>
<td>Real consumption ($ millions)</td>
<td>0.0</td>
<td>33.0</td>
<td>0.2</td>
</tr>
<tr>
<td>\textit{percentage change (%)}</td>
<td>0.445</td>
<td>0.282</td>
<td>0.06</td>
</tr>
<tr>
<td>Employment (FTEs)</td>
<td>945</td>
<td>483</td>
<td>125</td>
</tr>
</tbody>
</table>

\textbf{Source}  Macroeconomics.

The higher tax-free threshold could lead to the employment of an additional 318 FTEs at no extra cost. The professional, scientific and technical services industry would be the biggest beneficiary, potentially employing 80 FTEs at no net cost.

Raising the tax-free threshold would provide a significant benefit to existing payroll tax payers and an incentive for employers with payrolls up to $12 million to relocate from NSW, in particular, where they will begin paying tax at around $0.7 million in 2012-13.\textsuperscript{178}

Although under this option, tax revenue would be significantly reduced, the shortfall would expect to be offset by increased private sector activity generated by extra capacity for investment and new businesses relocating to the ACT.

\textsuperscript{177}  ACT Treasury, unpublished data.
\textsuperscript{178}  This assumes that they are operating in only one location.
From an efficiency perspective, this option ranks less favourably than the current regime since the tax base is narrower. Compliance and administration costs would be reduced as many current taxpayers would become exempt. It is possible that this option would increase the volatility of payroll revenue as the number of businesses subject to tax would be lower, and the performance of individual businesses would have a greater weight on overall payroll revenue.

**Option 2  Harmonise with NSW**

**Scenario 2a  Complete harmonisation with NSW**

Under Option 2a, the payroll tax free threshold and rates would be harmonised with NSW.

In 2011-12, NSW had a threshold of $678,000 and a payroll tax rate of 5.45 per cent.\textsuperscript{179} NSW index the threshold by CPI each year, so that by 2012-13 its threshold is estimated to be around $700,000.

CGE modelling found that harmonising with NSW resulted in an immediate drop in FTEs of around 600 in the first year as firms adjusted to the higher tax thresholds (Table 57). The lower demand for labour would create downward pressure on wages.

Real consumption would fall as employees have less disposable income, leading to a fall in real GSP. Harmonisation would continue to affect the economy after the initial impact but to a lessening degree over time. Overall, however, this option would most likely attract larger companies to the ACT as the benefit and competitiveness increased with the increasing payroll.

**Table 57** Option 2 - selected macroeconomic impacts for the ACT – harmonising with NSW (difference compared to baseline scenario)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GSP ($ millions)</td>
<td>-46.1</td>
<td>-26.6</td>
<td>-7.1</td>
</tr>
<tr>
<td>percentage change (%)</td>
<td>-0.267</td>
<td>-0.160</td>
<td>-0.072</td>
</tr>
<tr>
<td>Real consumption ($ millions)</td>
<td>-30.3</td>
<td>-18.5</td>
<td>-2.1</td>
</tr>
<tr>
<td>percentage change (%)</td>
<td>-0.265</td>
<td>-0.161</td>
<td>-0.026</td>
</tr>
<tr>
<td>Employment (FTEs)</td>
<td>-614</td>
<td>-317</td>
<td>-82</td>
</tr>
</tbody>
</table>

**Source**  Macroeconomics.

Detailed payroll tax data is collected by the ACT Revenue Office for employers who pay the tax but little information is available on the number or type of businesses with payrolls of $0.7 million to $1.5 million. Proxy measures were required to simulate these employers.

Analysis suggests that harmonising with NSW would have generated approximately $318 million in payroll taxes in 2008-09, a net increase of more than $67 million on actual collections (comprising a $100 million increase in revenue from employers paying the tax for the first time but with a $33 million reduction from existing taxpayers).

For employers currently paying payroll tax, harmonising would on average reduce tax payable per employer by about $14,000. The industries that would benefit the most, on average, are education and training, and electricity, gas and water (large individual contributors).
Businesses in the agriculture, forestry and fishing industry and other services industry would be the only sectors to pay more tax on a per business basis as a result of harmonisation.

**Table 58** Scenario 2a - complete harmonisation with NSW

<table>
<thead>
<tr>
<th></th>
<th>Change in tax paid by current taxpayers (payroll &gt; $1.5m) ($'000s)</th>
<th>Change in tax paid by new taxpayers (payroll $0.7m to $1.5m) ($'000s)</th>
<th>Change in tax paid in FTEs*</th>
<th>Change in tax paid per FTE ($)**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>-33,320</td>
<td>99,873</td>
<td>-936</td>
<td>1,097</td>
</tr>
<tr>
<td>Average across industries</td>
<td>-1,754</td>
<td>5,256</td>
<td>-53</td>
<td>2,056</td>
</tr>
</tbody>
</table>

* This is calculated by dividing the decrease in the tax paid by the ACT’s average annual wage rate.
** This is calculated as the decrease in the tax paid divided by the number of FTEs estimated by the wages from the wages of the businesses currently paying payroll tax.

Complete harmonisation with NSW could deliver an increase in tax payable that is equivalent to 936 FTEs. The largest impact would be expected to be felt in the professional, scientific and technical services industry, which would pay additional tax equivalent to 242 FTEs.

Under the current arrangements it is more beneficial for employers with payrolls up to $4.6 million to be located in the ACT. Therefore, employers with payrolls above that – currently some 164 businesses – are located in the ACT for reasons other than tax optimisation.

Employers located in the ACT for tax purposes may relocate if the financial benefit of moving interstate outweighed the expense of moving. Actual payroll data indicates that employers that are mobile are willing to relocate in order to optimise tax circumstances. For example, in 2008-09 the ACT raised its threshold from $1.25 million to $1.5 million and while many existing employers fell below the tax-free threshold, the number of taxpayers actually increased in net terms. This suggests that changes to payroll tax settings can act as an incentive for businesses to restructure or relocate.

Harmonising with NSW would also have implications for Commonwealth company tax collection. As payroll tax is an eligible business tax deduction, any net increase in the amount of payroll tax collected by the ACT Government would reduce the amount the Commonwealth Government would collect in company tax (not accounting for exempt basis). For example, at the current 30 per cent company tax rate the additional revenue generated in the ACT by harmonising payroll tax with NSW could lead to a $20 million reduction in Commonwealth company tax revenue based on a simple analysis of the deduction.

Overall harmonising with NSW would improve the efficiency of payroll tax as it would broaden the base significantly, reduce inefficiency and to some extent volatility. Lower tax liabilities would create additional capacity for investment by existing taxpayers. However, this would be more than offset by a negative impact on businesses with payrolls between $0.7 million and $1.5 million.

As the rates and thresholds would be identical to NSW under this scenario, the compliance costs should be reduced for those businesses currently subject to payroll tax and which have a presence in NSW. For the new businesses that would become liable for payroll tax, the compliance costs may be greater than for existing businesses as they are likely to have less sophisticated reporting mechanisms and administrative capacity.

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180 Of course, naturally each year there is turnover in the number of taxpayers as employers cease operations and new businesses emerge. However, outside this natural churn a large net reduction in taxpayers was expected, as those taxpayers highlighted became exempt from payroll tax.

181 $66.6 million multiplied by 30 per cent.
Option 2  Harmonise with NSW

Scenario 2b  Harmonise with NSW with revenue neutrality

Scenario 2b, a variation on Scenario 2a, would harmonise payroll tax thresholds with NSW but adjust the Territory’s tax rate to achieve revenue neutrality through lowering the marginal tax rate to 4.31 per cent.

Under this scenario, existing tax payers would save about $79 million, which would be recovered from businesses whose payrolls lie between $0.7 million and $1.5 million. Initially, there would be an increase in full time employment of around 90 FTE, leading to an increase in real consumption by around $7.1 million and subsequently, a real GSP increase of $7.4 million.

Table 59  Option 2 - selected macroeconomic impacts for the ACT – harmonised with NSW but maintaining revenue neutrality (difference compared to baseline scenario)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GSP ($ millions)</td>
<td>7.4</td>
<td>4.4</td>
<td>2.7</td>
</tr>
<tr>
<td>percentage change (%)</td>
<td>0.042</td>
<td>0.022</td>
<td>0.004</td>
</tr>
<tr>
<td>Real consumption ($ millions)</td>
<td>7.1</td>
<td>4.9</td>
<td>1.2</td>
</tr>
<tr>
<td>percentage change (%)</td>
<td>0.062</td>
<td>0.040</td>
<td>0.011</td>
</tr>
<tr>
<td>Employment (FTEs)</td>
<td>92</td>
<td>43</td>
<td>7</td>
</tr>
</tbody>
</table>

Source  Macroeconomics.

Although this option would produce a revenue neutral result, there are different impacts within some industries.

Table 60  Scenario 2b – harmonise with NSW but maintain revenue neutrality

<table>
<thead>
<tr>
<th></th>
<th>Change in tax paid by current taxpayers ($’000s)</th>
<th>Change in tax paid by new tax payers ($’000s)</th>
<th>Net change in tax paid ($’000s)</th>
<th>Change in tax paid in FTEs*</th>
<th>Change in tax paid per FTE ($)**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>-78,963</td>
<td>78,963</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Average across industries</td>
<td>-4,156</td>
<td>4,156</td>
<td>0</td>
<td>-3</td>
<td>796</td>
</tr>
</tbody>
</table>

Source  ACT Treasury.

*  This is calculated by dividing the decrease in the tax paid by the ACT’s average annual wage rate.

**  This is calculated as the decrease in the tax paid divided by the number of FTEs estimated by the wages from the wages of the businesses currently paying payroll tax.

The education and training industry would benefit the most under harmonisation with a $11.7 million reduction in the overall tax burden, the potential to employ an additional 162 FTEs at no net cost, and average tax payable reduced by $360,000 per business. Employers in the electricity, gas and water and waste services industry would receive a reduction of around $202,000 per business.
Accommodation and food services would have the greatest net increase in tax of $4.4 million, equivalent to 86 FTEs.

Those in the professional, scientific and technical services industry would benefit from a $24 million reduction in aggregate tax paid. This would be offset by the additional $24 million contributed by new tax payers in the same industry.

Lowering the payroll tax threshold and reducing marginal tax rates would broaden the base of payroll tax and improve economic efficiency. It would further reduce volatility in payroll tax revenue. However, administration and compliance costs would increase as more businesses became liable for the payroll tax.

**Option 3 Abolish payroll taxes**

The AFTS Review recommended abolishing payroll taxes and replacing them with a broad-based cash flow tax. This is certainly a potential reform direction, but it would leave the Territory exposed financially by removing an important stream of own-source revenue.

**Distributional impacts**

The analysis undertaken on reform options provides an indication of anticipated impacts on tax revenues and average tax burdens for industries. A more detailed examination of the distributional impact of the options is presented in several case studies below. This analysis examines impacts on four employers, actual taxpayers from the manufacturing, construction, retail and professional services industries.

**Employer 1 – Manufacturing industry**

The employer from the manufacturing industry had an ACT payroll of $600,000, Australia wide wages around $80 million and currently pays $40,000 in payroll tax.

- If the ACT moved to a progressive tax regime with a 5.45 per cent rate applying between $1.5 million and $3 million, and 6.85 per cent rate from $3 million, this business would reduce its payroll tax by almost $8,000.
- Raising the tax-free threshold to $3 million would reduce this firm’s payroll tax liability by around $800.
- If payroll tax was harmonised with NSW, this employer would pay tax of only $32,000.
- If payroll harmonisation was revenue neutral with NSW, this business could benefit from a further reduction in its payroll tax liability of around $7,000.

**Employer 2 – Construction industry**

The taxpayer from the construction industry had around $3 million in ACT wages, nationwide wages of $5 million and an ACT payroll tax liability of around $143,000 currently.

- The progressive option would deliver this employer a benefit of $21,000.
- If the tax-free threshold was raised to $3 million, this business would pay around $82,000 in payroll tax, a reduction of more than $62,000.
- The impact on this business of payroll tax harmonising with NSW is minimal, with its payroll tax liability reducing by around $3,000.
- Under the revenue neutral scenario this business’s payroll tax liability would be reduced by $33,000.
**Employer 3 – Retail trade industry**

A large national retail chain was selected from a sample of employers in the retail sector. The employer had taxable ACT wages of around $2 million in 2008-09, with a payroll tax liability of around $130,000.

This business would benefit from a $20,000 reduction in its tax liability if a progressive payroll tax was introduced.

The business would reduce its tax liability by around $7,000 if the threshold rose to $3 million.

Harmonising with NSW would reduce this business’ liability by around $24,000. Almost the entire benefit is derived from the reduced tax rate, since this business was paying tax on close to every dollar of wages paid in the ACT.

Under the revenue neutral scenario this business’s payroll tax liability would be reduced by $46,000.

**Employer 4 – Professional, scientific and technical services industry**

A consulting services firm was selected from the professional services industry. This employer had taxable ACT wages of around $20 million in 2008-09. The business was paying tax on every dollar of wages paid in the ACT, meaning it claimed no threshold exemption in the Territory.

Since this business’ taxable ACT wages were considerably higher, the benefit it would derive from a progressive payroll tax is very low as a proportion of its overall tax liability, i.e, a reduction of around $21,000. It would still be paying close to $1.4 million in payroll tax.

Increasing the threshold to $3 million would not change this business’ tax liability as they are not claiming the threshold exemption in the ACT.

However, by harmonising payroll tax with NSW, this business would save almost $280,000.

Under the revenue neutral scenario this business’s tax liability would be reduced by $508,000.

**Summary of reform options**

The reform options all have varying impacts on effective tax rates by payroll size. Chart 66 shows the impact of these scenarios, as well as the effective tax rates under the current payroll tax regime (the base case).

At lower levels of payoffs, Scenarios 2a and 2b increase the effective tax rate relative to the base case due to a decrease in the tax free threshold. The revenue neutral scenario (Scenario 2b) has a higher effective tax rate than the base case on payrolls up to about $2.9 million. It achieves the lowest effective tax rate on payrolls exceeding $6.9 million. In comparison, the scenario of completely harmonising with NSW (Option 2a) has higher effective tax rate on payrolls up to about $4.6 million.

The progressive tax (Option 1a) has a lower effective rate than the current payroll tax system at all levels of payroll. Introducing a single threshold from $3 million delivers the lowest effective tax rate up to $6.9 million.
Part 4 Opportunities for a better system for the ACT

Raising and lowering thresholds under the various options changes the amount of ACT wages that are exempt. Under the current policy, 24 per cent of wages (or $3.9 billion in total) are exempt from payroll tax. This would fall to 22 per cent of total wages ($3.6 billion) by harmonising the threshold and rate with NSW. With a single $3 million threshold, wages exempt from payroll tax increase to 31.4 per cent of total wages ($5.12 billion). The table below shows the total aggregate wages for the government sector, taxable wages, and exempt wages.

**Table 61 Breakdown of compensation of employees, 2008-09**

<table>
<thead>
<tr>
<th>Compensation of employees</th>
<th>Current policy ($ million)</th>
<th>Harmonisation ($ million)</th>
<th>Threshold of $3m ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government wages and salaries</td>
<td>7,086</td>
<td>7,086</td>
<td>7,086</td>
</tr>
<tr>
<td>Taxable wages</td>
<td>3,750</td>
<td>3,990</td>
<td>3,291</td>
</tr>
<tr>
<td>Threshold exemption</td>
<td>3,875</td>
<td>3,635</td>
<td>4,334</td>
</tr>
<tr>
<td>Other exemptions</td>
<td>1,789</td>
<td>1,789</td>
<td>1,789</td>
</tr>
<tr>
<td><strong>Total compensation of employees</strong></td>
<td><strong>16,500</strong></td>
<td><strong>16,500</strong></td>
<td><strong>16,500</strong></td>
</tr>
</tbody>
</table>


Other considerations

Any reform option could be combined with a shift toward central administration. The ACT Revenue Office could cede collection responsibility for payroll tax to the ATO, and align reporting and payment timelines with employers’ existing business activity statement reporting processes. Administration could be undertaken on a similar fee-for-service basis as the GST. This could significantly reduce compliance costs for employers.
This arrangement would require a significant adjustment to the Business Activity Statement (BAS) reporting requirements as it is not set up to provide accurate wages data on a state-by-state basis. It is therefore unlikely to be supported by the Commonwealth as the benefits accruing to the ACT are not likely to outweigh the additional burden that would be created on all businesses in Australia.

A further option could be to seek to harmonise all payroll tax rates and thresholds across Australia. This would remove incentives for businesses to locate in any one particular jurisdiction for payroll tax purposes and reduce the complexity for businesses located in multiple jurisdictions.

This option would require a commitment by all jurisdictions, which is unlikely given that the nature of businesses in each State and Territory can differ markedly and applying a single rate and threshold across the country may adversely affect businesses in one jurisdiction more than in another.

Further, the significance of payroll tax revenue to total own-source revenue varies markedly between jurisdictions. Harmonising would ignore these differences and could lead to revenue shortfalls and over reliance on other forms of taxation to meet expenditure needs of the community.

Revenue replacement options

This section examines revenue replacement options if payroll tax was reduced or abolished. Abolishing payroll tax would only be of benefit to the economy if it was replaced with a more efficient tax.

**Option 1  A cash flow tax**

The AFTS Review recommended that a broad-based cash flow tax should be adopted and payroll taxes abolished, as this would be consistent with a more efficient and broad-based taxation system.\(^{182}\)

**Option 2  A tax based on net ‘leasable’ or equivalent area**

Net leasable area (NLA) is the area in a building, or floor space, that is rented to tenants, and upon which rental payments are based. It excludes non-leasable space such as hallways, common areas, building foyers, air conditioning and other utility areas.

A tax on NLA would be a rate levied on a per square metre basis for all commercial buildings within a jurisdiction.

In 2011 there were around 2.12 million square metres in net leasable area in 445 separate buildings ranging in size from 120 m\(^2\) to 46,173 m\(^2\).\(^{183}\) Approximately 10 per cent or around 220,000 square metres of this is managed by the ACT and Commonwealth Governments. An average estimated rate of $131 per m\(^2\) would be required to maintain fiscal neutrality if there was a transition from payroll towards a broad-based tax levied on NLA.

Such a transition would have a number of distributional impacts, largely dependent upon market conditions. In times of high vacancy rates, the incidence of the tax would, at least, partially be on the building owners, as lessees would have greater flexibility in relocating. However, companies that occupy large amounts of office space, with lower mobility would most likely incur the incidence of the tax.

---


Overall, depending upon the payroll these companies have, it is likely that businesses would pay less.

An NLA based tax would largely be based on the improvements and capital placed on a land to increase its productive capacity, and as a result would be inefficient. However, the tax would introduce incentives for producers to increase output per square metre in order to reduce the amount of NLA consumed.

The tax ranks poorly when assessed on equity grounds. Properties with the same unimproved land value would be taxed differently as they may have differing NLA. This is inconsistent with the principle of horizontal equity. The tax also does not demonstrate vertical equity as properties would be taxed with less consideration of increases in values per square metre. The tax is also inequitable as it discriminates between industries and land use while placing a larger tax burden upon sectors that require larger amounts of land to produce goods or provide services (eg. supermarkets, airports and industrial zones).

An NLA tax would broaden the base of taxation by including businesses not currently paying payroll tax. In addition, any land that was vacant or unused would incur a tax burden. However, this assessment is also impacted by the level at which the tax would be set. At a low level it would offer a relatively simple means of reducing economic rent, which might be well received by commercial property owners.

This revenue replacement option would require new administrative processes which could be costly to establish. Further, data on area occupied by businesses is not currently collected and costs would be incurred to collect this. However, the tax would be administratively simple to maintain once in place.

A tax on NLA would provide a sustainable and financially adequate source of revenue that would be easy to forecast.

**Option 3 An income tax surcharge**

Under this option, an income tax surcharge would be an additional percentage tax paid by an employee as part of income tax, federally administered by the ATO. This system is used internationally, most prominently in Canada, and referred to as ‘piggybacking’ or ‘tax on income’. The tax base would be shared by the Commonwealth, and States and Territories. This would broaden the current payroll tax base to all employees (above the tax-free threshold for income tax).

The surcharge tax could use either a flat percentage tax on employee income (for example one per cent on income above the federal tax-free threshold) or a progressive rate scale that mimics the federal structure. Under the ‘tax on income’ system, revenue components are separately identifiable in the Pay as You Go (PAYG) and annual tax assessments, even though both are administered by the ATO.¹⁸⁴

This option could be easily adopted by the Territory, indeed all jurisdictions, and would be administratively simple with lower compliance costs and increased efficiency. Other advantages include greater stability of revenue flows, greater capacity for the Government to generate revenue for its service requirements, transparency and accountability, and equity.¹⁸⁵

The incidence of this tax would be expected to be borne by the employee. The distortions created by payroll tax would disappear and the disincentive for firms to increase in size would be eliminated.

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CGE modelling of the removal and replacement of payroll tax with an income tax surcharge suggests that additional economic activity would be generated for the Territory in the short run, but that impact would wane and the option eventually create a drag on the ACT economy. The initial increase in GSP would be associated with increased employment due to lower labour costs. Demand-induced employment increases real wages, leading to increased consumption with a marginal offset associated with the income tax surcharge. Over time the activity from the initial employment impact would decline and eventually outweigh the negative consumption impact associated with the income tax surcharge.

Table 62  Selected macroeconomic impacts for the ACT – income tax surcharge
(difference compared to baseline scenario)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GSP ($ millions)</td>
<td>99.4</td>
<td>21.6</td>
<td>-72.7</td>
</tr>
<tr>
<td>percentage change (%)</td>
<td>0.569</td>
<td>0.137</td>
<td>-0.282</td>
</tr>
<tr>
<td>Real consumption ($ millions)</td>
<td>64.6</td>
<td>7.6</td>
<td>-88.7</td>
</tr>
<tr>
<td>percentage change (%)</td>
<td>0.566</td>
<td>0.097</td>
<td>-0.475</td>
</tr>
<tr>
<td>Employment (FTEs)</td>
<td>1,269</td>
<td>207</td>
<td>-672</td>
</tr>
</tbody>
</table>

Source  Macroeconomics.

Arguments against using base sharing arrangements relate to:
- the exposure from Commonwealth Government adjustments to income tax arrangements that automatically flow through to the state level unless policy changes are put in place
- the restriction on the Territory’s flexibility to design its own income tax structure and avoid bracket creep
- tax base sharing being undesirable because tax bases should be limited to only one level of government, and
- income tax not being suitable for State Governments to tax because the base is too mobile and the States would probably need to depart from the federal tax structure to adopt their own base definitions.\(^{186}\)

On balance it is debatable whether this option presents more advantages than disadvantages. In order for all benefits to be maximised, the base sharing system would need to be well designed and superior to the existing payroll tax arrangements. If the Territory was to adopt this approach it would significantly broaden the tax base and may improve the budget position, but it is also possible that there would be a net outflow of people from the ACT creating an associated reduction in activity.

Recommendation

The Panel has analysed revenue replacement options if payroll tax were abolished and considers that the ACT needs a diversified tax system. A form of payroll tax should be retained in this context.

Recommendation 17

Work towards national harmonisation of the payroll tax system.

**Land tax**

**Key points**

- The AFTS Review proposed extending land tax to principal place of residence. The ACT is in a unique position to do so, it has ready access to such a broad base with its general rates.

- Broadening the base of land tax over time would increase the average rates bill by around $335 per annum. Net benefit for landlords would be around $1,300 per annum.

- The commercial component of land tax should be transferred to commercial rates. There is unlikely to be any significant distribution affects given that all commercial land is already liable for land tax.

In the ACT, land tax is not currently as efficient or equitable as it could be. Currently owner-occupied properties, which account for 78 per cent of ACT residential properties, and unoccupied residential properties are exempt from land tax.

In light of this, the Review investigated the following changes to land tax:

- broaden the base of land tax or abolish land tax
- increase the progressivity of land tax, and
- replace different marginal tax rates with a single flat tax rate.

**Summary of options**

<table>
<thead>
<tr>
<th>Reform options</th>
<th>Revenue replacement options</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Option 1</strong></td>
<td><strong>Option 1</strong></td>
</tr>
<tr>
<td>Broaden the base of land tax or abolish land tax</td>
<td>Redeistribute as general rates</td>
</tr>
<tr>
<td><strong>Option 2</strong></td>
<td></td>
</tr>
<tr>
<td>More progressive land tax, maintain nominal revenue</td>
<td></td>
</tr>
<tr>
<td><strong>Option 3</strong></td>
<td></td>
</tr>
<tr>
<td>Replace different marginal tax rates with a flat rate</td>
<td></td>
</tr>
</tbody>
</table>
Reform options

Option 1  Broaden the base of land tax or abolish land tax

The AFTS Review suggests that the land tax base should be broadened to include owner-occupied residential property, as is currently the case with the ACT general rates system. Applied at the current marginal tax rates, this would raise an additional $340 million in revenue. The chart below shows the current distribution of all rateable residential properties’ AUVs in 2010-11 and the AUVs of properties liable for land tax.

Chart 67  Distribution of all rateable residential properties and residential properties liable for land tax

Broadening the land tax would mean a once off decrease in the value of land for landowners who were previously not liable for land tax but no impact on subsequent landowners because the price at which they purchased the land would have capitalised at the discounted present value of future land tax liabilities. This has implications for transitional arrangements and requires further examination.

This option is similar to abolishing land tax and redistributing as general rates. However, as land tax and general rates currently have different marginal tax rates, the distributional impacts would be different.

The table below shows land tax revenue, the number of properties subject to land tax, and the total number of residential properties in the ACT in 2009-10. Under a revenue neutral scenario where residential land tax is abolished and transitioned to general rates, the average residential rates bill would increase by an estimated $335.

Owners of tenanted property would no longer pay land tax, gaining $1,613 on average (or a net gain of $1,278 on average). This is in addition to being able to claim land tax and general rates as deductible expenses (to a maximum of 45 per cent). Assuming the average property investor has a marginal income tax rate of 37 per cent, the effective cost for landlords is lower.


188 It is assumed full time earnings for a person with an investment property in the ACT is greater than $80,000 annually in 2009-10, placing them in the $80,000 to $180,000 income tax bracket with a marginal tax rate of 37 per cent.
If land tax was abolished and distributed as general rates, investors would effectively pay $805 less tax on average. The change to the average effective residential rates bill for owner-occupied properties and investment properties is shown in the chart below. The investor’s decreased tax burden could potentially be passed on to tenants as lower rents, although there is no administratively simple instrument to ensure that happens.

**Table 63** Change in rates

<table>
<thead>
<tr>
<th></th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land tax revenue (residential) ($ millions)</td>
<td>45,029</td>
</tr>
<tr>
<td>Number of residential properties liable for land tax</td>
<td>27,908</td>
</tr>
<tr>
<td>Average land tax per property ($)</td>
<td>1,613</td>
</tr>
<tr>
<td>General rates revenue (residential) ($ millions)</td>
<td>161,911</td>
</tr>
<tr>
<td>Number of residential properties liable for general rates</td>
<td>134,312</td>
</tr>
<tr>
<td>Average rates per property ($)</td>
<td>1,205</td>
</tr>
<tr>
<td>Average increase in residential rates (budget neutral) ($)</td>
<td>335</td>
</tr>
<tr>
<td>Average change in tax payable by investor ($)</td>
<td>-1,278</td>
</tr>
</tbody>
</table>

**Source** ACT Treasury.

**Impact on households**

Broadening land tax by transitioning to general rates would decrease the tax for the 27,908 properties currently liable for land tax and replace that revenue through an increase of around $335 in general rates for 105,045 owner-occupier households.
Option 2  More progressive land tax, maintain nominal revenue

Under this option, the progressivity of land tax would be increased while revenue would remain at around $110 million in nominal terms. The proposed structure would reduce the three lowest marginal tax rates and increase the highest marginal tax rate.

Table 64  Option 2 - comparison of current system

<table>
<thead>
<tr>
<th>Thresholds ($)</th>
<th>Current (%)</th>
<th>Proposed (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUV up to 75,000</td>
<td>0.60</td>
<td>0.24</td>
</tr>
<tr>
<td>AUV from 75,001 to 150,000</td>
<td>0.89</td>
<td>0.68</td>
</tr>
<tr>
<td>AUV from 150,001 to 275,000</td>
<td>1.15</td>
<td>1.12</td>
</tr>
<tr>
<td>AUV from 275,001 and above</td>
<td>1.40</td>
<td>2.30</td>
</tr>
</tbody>
</table>

Source  ACT Treasury.

The effective tax rate under this option would be higher for properties with an AUV over $320,000 and lower for those below this threshold. This would provide some incentive to invest in properties with lower AUV.

Chart 69  Effective land tax rate for various AUVs under option 2

Making land tax more progressive would lower the proportion of tax collected from all quintiles except the fifth. Since there appears to be some correlation between AUV and rent, a more progressive land tax that created greater incentive to invest in land with lower AUV could potentially improve rental affordability outcomes.

Increasing the progressivity of land tax would result in around 6,000 properties with an AUV above $320,000 incurring a larger tax burden, while 25,000 would have a reduced land tax burden.
Part 4 Opportunities for a better system for the ACT

Option 3 Replace the marginal tax rate with a flat tax rate

The ACT has four different marginal land tax rates for residential property and three for commercial property. The AFTS Review suggests that a flat tax rate may be more efficient and administratively simple. It would remove the incentive for owners to structure their land holdings differently, although this is less relevant for the ACT, given that ACT does not currently have aggregation provisions in the application of land tax.

Replacing the current marginal tax rates with a flat tax would reduce vertical equity as property owners with higher value would pay the same proportional amount in tax as those with lower value.

With regards to simplicity, the flat tax rate would be more administratively simple than progressive tax rates. Further, changing to a flat tax rate system would not require any significant resources as the valuation process is already in place. The thresholds for the different marginal tax rates could be eliminated, reducing the costs of adjusting the thresholds and marginal tax rates in line with growth in land values.

Under this option, maintaining current revenue at a flat land tax rate of 0.959 per cent would be introduced for residential properties. Properties with an AUV below $290,000 would incur additional land tax and properties above this value would have an overall lower land tax burden. As a result, the progressivity of land tax would be reduced.

Properties with lower AUV tend to offer more affordable rental and are smaller. Introducing a flat rate could have a marginal impact on government priorities, such as increasing rental affordability and urban densification.

This option does not address the equity concerns of rental dwellings being subjected to different taxation compared to owner-occupied dwellings.

Chart 70 Distribution of land tax amongst AUV quintiles

![Chart 70 Distribution of land tax amongst AUV quintiles](chart.png)

Source ACT Treasury.

The AFTS Review suggested a flat tax rate may be more efficient and administratively simple.
Revenue replacement options

**Option 1  Redistribute as general rates**

In terms of efficiency, the AFTS Review found that the marginal welfare loss of general rates is small compared to other taxes. Unlike land tax, general rates assessment in the ACT does not differentiate between tenure type such as owner-occupied, rented, or unoccupied, and therefore is a more broad-based tax.

In the ACT, land tax is progressive, with the average tax rate increasing as AUV increases, whereas general rates are regressive, the average tax rates decreases as AUV increases. This reflects that most services provided by the Government benefit a broad range of individuals, regardless of their means to pay. The average tax rate for AUVs is shown in Chart 71. On the current tax rates for land tax and general rates, the tax payable would be equal at an AUV of around $118,000.

Under a budget-neutral option, moving land taxes to general rates would decrease the burden on owners of properties with higher AUVs, which suggests a regressive nature. Further, redistributing the land tax amongst all households would increase the tax burden on current owner-occupiers and decrease the tax burden on current property investors.

**Chart 71  Average tax rates (ATR) for land tax and general rates**

![Average Tax Rates Chart](image)

*Source*  ACT Treasury.

**Recommendations**

The Review specifically recommends the following to the Government.

**Recommendation 18**

Over time, abolish residential land tax in its current form.

**Recommendation 19**

Transfer the commercial component of land tax to general rates on commercial properties.
General rates

Key points

- The ACT’s general rates framework could be changed, expanded and improved to allocate costs of other services and to replace revenue lost from other sources.

- The vertical equity of the general taxation component of rates could be improved. Effective tax rates are much higher for groups with lower incomes on average.

- The current rates system disproportionately taxes smaller properties. This could distort decisions and the productive use of land. It reduces the affordability of smaller blocks.

- Any changes would require adjustments to the concessions and deferment of general rates to adjust for any increases in cost faced by households on low-incomes.

- The site value, determined annually, could provide the most efficient base for land taxation.

- Basing the site charge on the site value would allow for greater flexibility in the general rates system to support Government policy when determining site and service charges.

- A transparent service charge component on general rates notices would clearly make the link between increases in costs of services and rates payable.

The general rates system provides the ACT with a broad, transparent and efficient tax base on which to raise the taxation revenue required to provide services.

Currently the general rates system only provides revenue for the provision of municipal services. This is undertaken on the basis that the municipal services being funded are necessary, provided per property and the benefits are received by all residents. This includes services such as waste, road maintenance and infrastructure.

However, there is room for the current general rates framework to be changed, expanded and improved to capture other services and as a means of replacing the revenue lost from any changes in inefficient taxes, as recommended by the AFTS Review. That Review recommended that under a future taxation system there would be a broad-based land tax and further integration of State and local government taxes.

The ACT has a unique advantage in that it already provides both State and local government functions and taxes. Although it could be made more efficient, equitable and transparent, the general rates framework provides the basis for a simple and efficient broad-based land tax which could be used to replace revenue lost when reducing or abolishing inefficient taxes. The individual services and their related costs could be specified allowing for hypothecated components of the rating system to be increased in line with the cost of providing individual services to users.

An alternate framework for future ACT taxes should also consider the use of both a site charge and a service charge attached to land. Different types of land such as residential, commercial, industrial and rural would attract different levels and rates of site and service charges.
Any changes would require adjustments to the concessions and deferment of general rates to adjust for any increases in cost faced by low-income households.

Reform options

A number of reforms to the general rates framework, either individually or as a package, are possible. Overall they could help improve various aspects of the current general rates framework, including progressivity, economic efficiency, equity and transparency.

This box summarises various scenarios that have been analysed.

### Summary of options

<table>
<thead>
<tr>
<th>Reform options</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Option 1</strong></td>
</tr>
</tbody>
</table>
| Property size and rates
determination |
| **Option 2**                  |
| Increase the progressivity of
the general rates system       |
| **Option 3**                  |
| Restructure the general rates
framework                      |

### Option 1 Property size and rates determination

The current general rates system places a larger tax burden on a per square metre basis for smaller blocks. This can be viewed as inequitable, inefficient and counter-productive in supporting Government policy, such as housing affordability and increasing densification.

This is illustrated in the chart below, using data from a typical suburb in Canberra. The disproportionate tax burden on smaller properties could distort decisions and the productive use of land, and reduces affordability of smaller blocks. Determining rates partly by property size would reduce this inefficiency.

Based on the hypothetical rates in Table 65, the tax burden on smaller properties could be reduced while maintaining revenue overall.

### Chart 72 Rates/m² and block size – sample suburb 2011

<table>
<thead>
<tr>
<th>Rates/m² ($)</th>
<th>Block size (m²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td></td>
</tr>
<tr>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

Source: ACT Treasury.

189 Nicholls, D., 2011, A framework for setting of taxes in the ACT, School of Management, Marketing and International Business, College of Business and Economics, Australian National University.
Part 4  Opportunities for a better system for the ACT

Table 65  Property size and general rates

<table>
<thead>
<tr>
<th>Property size</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 400 m²</td>
<td>$1.30/m²</td>
</tr>
<tr>
<td>401 – 600 m²</td>
<td>$520 + $2.30/m² for every additional square metre above 400 m²</td>
</tr>
<tr>
<td>600 m² +</td>
<td>$980 + $3.30/m² for every additional square metre above 600 m²</td>
</tr>
</tbody>
</table>

**Source**: ACT Treasury.

Using the hypothetical rates for the 1,867 households in the sample suburb, $3.243 million would be provided in revenue, compared with the current $3.218 million of which, 32.2 per cent is the fixed charge. These rates would more equitably levy general rates on larger blocks.

The chart below shows the proposed new rates (in $/m²), which have a significantly different distribution across blocks, compared with the current system.¹⁹⁰ The change would provide greater support to other Government policy, such as urban densification and housing affordability, by reducing the tax burden on smaller blocks.

Chart 73  New rates/m² and block size

**Source**: ACT Treasury.

Impact on households

Under this system, around 40 per cent of households (741) in the sample suburb would have a higher general rates bill and 60 per cent of households (1,126) would pay less while generating a similar amount of revenue.¹⁹¹

Some households would pay up to 90 per cent less, while others on larger parcels of land would pay around 150 per cent more, compared with the current system.


¹⁹¹ Ibid.
Option 2  Increase the progressivity of the general rates system

Currently the general rates framework could be seen as regressive. This can be observed through the general rates payable as a proportion of disposable income. Households in the bottom income quintile spend around 3.5 per cent of annual disposable income on general rates; households in the top two income quintiles spend between 0.7 and 1 per cent (Table 66).

Table 66  General rates payable by income quintile

<table>
<thead>
<tr>
<th>Quintile</th>
<th>Average annual disposable income ($)</th>
<th>Average annual rates ($)</th>
<th>Average annual rates (year 5) ($)</th>
<th>Average annual rates (year 10) ($)</th>
<th>Annual rates as a proportion of disposable income (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>30,155</td>
<td>1,056</td>
<td>1,254</td>
<td>1,490</td>
<td>3.5</td>
</tr>
<tr>
<td>Second</td>
<td>67,083</td>
<td>1,189</td>
<td>1,412</td>
<td>1,677</td>
<td>1.8</td>
</tr>
<tr>
<td>Third</td>
<td>96,394</td>
<td>1,234</td>
<td>1,466</td>
<td>1,741</td>
<td>1.3</td>
</tr>
<tr>
<td>Fourth</td>
<td>136,424</td>
<td>1,323</td>
<td>1,571</td>
<td>1,866</td>
<td>1.0</td>
</tr>
<tr>
<td>Fifth</td>
<td>206,516</td>
<td>1,546</td>
<td>1,836</td>
<td>2,181</td>
<td>0.7</td>
</tr>
<tr>
<td>Total</td>
<td>99,340</td>
<td>1,294</td>
<td>1,508</td>
<td>1,791</td>
<td>1.3</td>
</tr>
</tbody>
</table>

The progressivity of the current system is limited because of the fixed charge component, and the flat rate. Introducing thresholds and marginal rates could reduce the tax burden on low income households.

As an example, changes to increase the progressivity of general rates have been modelled. Under the scenario modelled the fixed charge would be reduced from the current $555 to $150.
Moving to a more progressive general rates framework would lower the general rates bill for properties with a value below $338,000. Those above this threshold would have marginally higher general rates bills.

Under this framework around 104,400 households (76 per cent) would on average pay $256 less in general rates bill, offset by an average increase of around $827 by 32,400 properties with the highest AUV.

Increasing the overall progressivity would also reduce the distributional impacts on lower-income households that occur as a result of transitioning other taxes onto the general rates system.

### Chart 75 General rates payable

<table>
<thead>
<tr>
<th>AUV ($)</th>
<th>Current rates system</th>
<th>Progressive rates system</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>100,000</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>200,000</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>300,000</td>
<td>1,500</td>
<td>1,500</td>
</tr>
<tr>
<td>400,000</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>500,000</td>
<td>2,500</td>
<td>2,500</td>
</tr>
<tr>
<td>600,000</td>
<td>3,000</td>
<td>3,000</td>
</tr>
</tbody>
</table>

**Source** ACT Treasury.
Option 3  Restructure the general rates framework

The ACT has a unique advantage in establishing a future taxation system on land, as recommended by the AFTS Review, due to its combined State and local government functions and the administration of the general rates system.

The general rates system could be broadened to capture all types of land beyond residential and commercial, in line with recommendations of the AFTS Review. Changes could be made to the current general rates framework, including:

- altering the basis on which general rates are determined to include both site and service charges
- determining rates on a per-metre-square basis
- expanding the general rates system to apply to all land types, and
- capturing any lost revenue as a result of changes in inefficient taxes.

Broadening the base to incorporate or replace inefficient taxes may result in a change in tax burden. For example, reducing or removing conveyance duty in favour of a broad-based land tax built on the general rates system would shift the cost imposed at the time of purchase into an annual tax burden levied across all properties.

The adoption of service and site charges could be utilised for greater integration of both State and local government taxation systems. Alternatively, general rates could be retained as an exclusive municipal tax and a broad-based land tax introduced in the same base.

Site valuation method

Currently, general rates are levied upon the AUV of land over the past three years.

The site value of land would be similar in that it would be based on the market value of the land and exclude improvements such as buildings. However, it would include improvements to the land by way of clearing, filling grading, draining, levelling or excavating of the land, so more clearly reflecting the current value of the property. It would be determined annually, and provide the most efficient base for land taxation.192

Many jurisdictions, including NSW, VIC, QLD, SA and TAS193 have moved to the site value of land to determine rates and taxes. The methodology provides a more efficient base for the rates setting and revenue collection. A number of local councils within those jurisdictions use site value to determine rates.

The variable rate levied upon the site value would be determined after removing the service charge.

Site charge

The site charge would be based on the site value, rather than the AUV and would extend to all property. This would allow for greater flexibility in the general rates system to support government policy when determining site and service charges.194

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192 Sibly, H., 2004, Ramsey Prices and Qualities. School of Economics, University of Tasmania.
194 Ibid.
Site charges would provide unhypothecated general revenue for a range of services, both state and local. For example, costs associated with management of nature parks should be recovered through site charges alongside any general tax transferred to rates. A site charge would better reflect the size of the block in its determination, as well as the location through the valuation, and as a result provide a more favourable and efficient base for general rates to be levied on smaller blocks.

Currently, smaller blocks attract a larger general rates cost on a per square metre basis. This could be adjusted under the proposed system with the rating factor considering equity and policy objectives. In principle, different rating factors could be adopted based on specific factors such as consumption of land or the zone. It would be important to clearly enunciate policies, and explain the calculations of the variable rating factors.

For example, the site charge levied on residential properties should be determined by the average site value (ASV) and the percentage multiplier (PM) as follows:

Site charge = ASV × PM

This formula would better reflect the land value through the ASV and land consumption through the PM. It would better support government policy as the site charge could be determined appropriately in particular locations through adjustments in the PM.

Service charges

The general principle of a service charge is that the cost of services (or the charge) is uniformly distributed across all sites. Different service charges may apply, however, for residential, commercial and industrial sites.

The service charge would combine a number of fixed services and charges, such as the FESL, waste disposal, and infrastructure charges.

If adopted, the service charge component of the general rates framework should be disclosed on the rates notices and disaggregated to the extent possible. This approach would improve transparency and provide a clear link between increase in cost of services and rates payable. The proposed service charge would replace a component of the current general rates charging regime and provide a more transparent, partly hypothecated system linked to the services the charges fund. An outline of the current system and the proposed framework is illustrated below.

**Recommendations**

The Panel makes the following recommendations to the Government.

**Recommendation 20**

Adopt ‘site value’ of land as the valuation basis for the determination of rates, land tax, and lease variation charges. The site value should exclude improvements on the land (such as buildings and sheds) but include improvements to the land by way of clearing, filling, grading, draining, levelling or excavating of the land.

**Recommendation 21**

Levy general rates via a two-part charge incorporating an element to meet the cost of basic city services, and a progressive general taxation component contributing to general revenue.

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Current municipal revenue system

Municipal revenue 2010–11 $337.8 million

- General rates revenue $198.2 million
- Commonwealth municipal payments $79.6 million
- User charges $60.0 million
- Residential $165.4 million
- Commercial $32.8 million

Average residential general rates charge $1,210
- Roads and infrastructure services $587
- Community facilities and services $220
- Municipal planning and regulation $33
- Waste and sanitation services $77
- Urban parks and places $261
- Health services and facilities $11
- Municipal events and projects $18

Average commercial general rates charge $5,782
- Roads and infrastructure services $2,805
- Community facilities and services $1,051
- Municipal planning and regulation $160
- Waste and sanitation services $367
- Urban parks and places $1,248
- Health services and facilities $63
- Municipal events and projects $87

Source ACT Treasury.

Note The general rates payable by service has been determined by calculating the proportional cost of a service funded through general rates, on a per property basis.

Current municipal expenditure system

Municipal expenditure 2010–11 $337.9 million

- Roads and infrastructure services $141.0 million
- Community facilities and services $58.9 million
- Urban parks and places $63.6 million
- Municipal planning and regulation $22.5 million
- Waste and sanitation services $27.9 million
- Health services and facilities $3.1 million
- Legal, administrative, emergency and regulatory services $16.6 million
- Municipal events and projects $4.3 million

Source ACT Treasury.
Expanded municipal framework

Estimated revenue 2011–12
$364.9 million

- Transferred taxes $154.1 million
- General rates revenue $184.2 million
- Fire and emergency services levy $26.6 million
- Duty on insurance $44.8 million
- Land tax $109.3 million

Indirect services
site charge component

Direct services
service charge component:

- Environmental waste collection
- Domestic waste collection
- Ambulance Levy
- Road and infrastructure services

Source ACT Treasury.
Insurance taxes

Key points

- Taxes on insurance are essentially transaction taxes. They are considered to be highly inefficient.
- Abolishing duty on general insurance and substituting it with another base, such as through an increase in general rates, would be desirable and administratively simpler.
- The duty from the insurance of dwellings and contents could be replaced by general rates in the first instance.
- Duty on motor vehicles could continue pending the introduction of a national road user charging system.
- Duty on life insurance raises minor revenue, and has been retained in the past to address tax avoidance. This could be abolished concurrent with the duty on general insurance.
- The Ambulance Levy should be retained at this stage.

Conceptual analysis considers insurance taxes to be inefficient. Although they are levied on aggregate premiums and likely to be less visible to the consumer, they are essentially transaction taxes.

Duty on life and general insurance is currently levied on those who pay insurance premiums. If insurance taxes were eliminated and replaced by a broader taxation base such as payroll tax, general rates, or land tax this would change the distribution of the tax burden across society.

Summary of options

Revenue replacement options

Option 1
Replace revenue from insurance taxes through:
- payroll tax
- general rates

ReveEnce replacement options

There is a strong efficiency case for abolishing insurance taxes altogether as they distort decision making and contribute to underinsurance. Removing taxes and levies on insurance premiums would lower ACT Government revenue by around $59 million. There would be a material impact on own-source revenue that would need to be replaced. Two scenarios are presented to broaden the tax base and recover the loss in insurance tax revenue:
- increase payroll tax, or
- increase general rates.
Part 4  Opportunities for a better system for the ACT

Option 1a  Increase payroll tax rate to be revenue neutral

One revenue replacement option would be to increase payroll tax rate from the current 6.85 per cent to 8.25 per cent, with the threshold held at $1.5 million. This would be considerably higher than the next highest state payroll tax rate of 6.1 per cent in Tasmania.

Moving from a tax levied on insurance to an increase in tax on payrolls would still be far from the most efficient option, due to the narrow base of payroll tax. Businesses paying just over one-fifth of the ACT’s compensation of employees would be liable for insurance taxes that cover the whole of the ACT population.

Compliance costs of increased payroll tax would be unlikely to be materially affected and the marginal administrative costs for ACT Revenue Office would be close to nil. However, abolishing insurance taxes completely would remove the burden of insurance tax collection for ACT Revenue Office, and therefore the net impact on compliance and administration costs would be a gain.

Payroll tax is relatively less stable and more exposed to changes in the labour market. It also has a high efficiency cost.

Option 1b  Increase general rates

Land-based taxes such as general rates are broadly deemed to be efficient in the sense that they do not have a material impact on decision making. Abolishing insurance taxes and replacing with increased general rates would shift the incidence to a property based taxation arrangement. By broadening the tax base, the burden is spread across a larger number of households. It would reduce the household cost for those previously paying the insurance tax but significantly increasing the costs for households that were not paying insurance tax.

Abolishing insurance duties would decrease taxation revenue by $62 million in 2011-12.

Distributional impact on households

Overall abolishing insurance tax and replacing the revenue through the general rates system would result in 87.9 per cent of households reducing their taxation by an average of $74, while 12.1 per cent would pay $268 more.

Higher income households are observed to have higher levels of insurance, and consequently incur more insurance tax than low-income households. Around 87.9 per cent of all households in the ACT have an insurance policy, with the highest proportion of households with insurance in the top two income quintiles.

Households in the bottom two income quintiles typically have lower rates of insurance (68.4 per cent in the first income quintile, 85.5 per cent in the second). The distributional impacts by quintile are illustrated in Table 68.

Table 68  Distributional impact of option 1b on households

<table>
<thead>
<tr>
<th>Income quintile</th>
<th>Current rates ($)</th>
<th>Average annual insurance tax paid ($)</th>
<th>Proportion of households with insurance (%)</th>
<th>Proposed rates ($)</th>
<th>Additional rates paid by all households ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>1,056</td>
<td>207</td>
<td>68.4</td>
<td>1,233</td>
<td>177</td>
</tr>
<tr>
<td>Second</td>
<td>1,189</td>
<td>264</td>
<td>85.5</td>
<td>1,421</td>
<td>232</td>
</tr>
<tr>
<td>Third</td>
<td>1,234</td>
<td>317</td>
<td>92.3</td>
<td>1,489</td>
<td>255</td>
</tr>
<tr>
<td>Fourth</td>
<td>1,323</td>
<td>367</td>
<td>93.8</td>
<td>1,607</td>
<td>284</td>
</tr>
<tr>
<td>Fifth</td>
<td>1,546</td>
<td>502</td>
<td>99.6</td>
<td>1,913</td>
<td>367</td>
</tr>
<tr>
<td>Total</td>
<td>1,294</td>
<td>342</td>
<td>87.9</td>
<td>1,562</td>
<td>268</td>
</tr>
</tbody>
</table>

Source  ACT Treasury.
Low income households
Abolishing insurance tax would have the largest impact on households in the first income quintile due to the lower rates of insurance. The average taxation burden across all households in this quintile would increase by $35 overall but currently uninsured households (around 31.6 per cent of the quintile or 8,129 households in 2009-10) would be paying on average $177, in what for them could be seen as an additional tax. The remaining 68.4 per cent of households would be better off by $30.

These impacts however, could be reduced through increasing the progressivity of the general rates system and changes in the general rates rebate.

High income households
Due to the high rates of insurance for households in the top two income quintiles relative to the bottom two, abolishing insurance tax would reduce the overall tax burden by an average of $83 to $135 a year.

Ambulance Levy
Health funds sell ambulance cover as a separate product, and the levy is in effect a cost recovery mechanism. The levy does not fully cover the cost of services, as a significant proportion of the ambulance response and transfer is for non-insured or exempt patients. It is unlikely the Ambulance Levy acts as a disincentive for insurance.

At September 2011, the ACT had the equal highest take up of private health insurance (with WA at 65 per cent). Demand for private health insurance is quite inelastic in the ACT, largely due to the highest average wage of the jurisdictions, and the effect of Medicare Levy.

The levy is calculated on the number and type of private health insurance contributions. It would be inequitable to charge individuals up front for ambulance services which they may or may not use. It is more equitable for individuals to be taxed on a use basis and this levy can thus be used as a cost recovery tool for services provided.

Recommendations
The Panel makes the following recommendations to the Government.

Recommendation 22
Abolish duty charged on general insurance and life insurance premiums, with the general rates as the revenue replacement source.

Recommendation 23
In order to ensure that the benefits of insurance tax reform are passed to the consumers, establish monitoring and regulatory role for the Independent Competition and Regulatory Commission.

Recommendation 24
Retain the Ambulance Levy, however, review its administration.

Gambling taxes

Key points

- The progressivity of gaming machine taxation could be increased to capture more of the economic rent currently accrued by the highest earning clubs.
- A licence fee per gaming machine would provide an economic disincentive for operators to maintain excess machines.
- A two-part tariff system could be adopted.

Reform options

Gambling taxes are efficient. These are taxes on economic rents which do not have significant flow on effects to the consumer. The Panel recognises the contribution of clubs and venues to the community and has made reform proposals which are designed to enhance the efficiency of gambling taxes in the ACT and support the local industry.

Recommendations have also been developed having regard to the national reform context, the experience in other jurisdictions, and the crucial role of governments in minimising unintended social impacts of gambling.

The Panel has identified reform directions that offer opportunities to:

- manage the proposed national gaming machine reform process and support ongoing community contributions from clubs and venues, and
- improve gaming machine taxation arrangements to better reflect contemporary rates and structures underpinning these measures.

Given the continuing operational challenges and the relatively short period remaining on the current licence agreement, the Review has not recommended changes to the amount or structure of taxation of ACTTAB. In any event, an increase in the licence fee would only represent a marginal increase in the overall revenue from gambling.

Interstate revenue sharing arrangements and overall rates of taxation are currently identical to the rates set in other States. In this environment, there does not appear to be a case for specific measures.

Summary of options

Reform options

Option 1
Reform community contributions

Option 2
Change Class C gaming machine taxation arrangements

Option 3
Adopt a two-part gaming machine tariff
Option 1  Reform community contributions

Currently, all licensed clubs with gaming machines must contribute a minimum of eight per cent of net gaming machine revenue as community contributions. Charity contributions made by clubs are in addition to community contributions. On average, they donate substantially more. In 2009-10, a total of $13.57 million or 13.9 per cent of net gaming machine revenue was contributed to community activities.200

The current scheme leads to an uneven distribution of the funding across all relevant contribution areas, as venues have a natural incentive to fund those core activities for which the club is closely aligned. For example, the maintenance of the golf course or sporting field. In 2009-10, 67 per cent of funding was provided to eligible sport and recreation activities and 15 per cent to not for profit activities.201

The possible reforms of the community contributions scheme include:

- allowing single-venue clubs to continue to pay community contributions under the current arrangements, while requiring multi-venue clubs to pay some or all of the eight per cent of net gaming machine revenues into a centrally administered fund
- requiring all clubs to pay a minimum of 8 per cent of net gaming machine revenue into a centrally administered fund
- abolishing contributions and increasing the tax rate to fund centralised community allocations
- increasing the progressivity of the community contribution, ensuring that multi-venue or larger clubs pay more in community contributions, and
- tightening the guidelines surrounding community contributions.

The first three of these options would transfer some or all control of the distribution of community contributions funding from individual clubs to a central administration or board, similar to the Problem Gambling Assistance Fund that commenced on 1 July 2011. Administration of such a scheme could be by an independent board with membership from the community.

In addition, reform of taxation rates to align with the experience in comparable jurisdictions could be considered.

The Panel considers that these reform options should be examined further in the context of the proposed introduction of a national mandatory pre-commitment scheme and associated gambling venue restrictions. This could occur concurrently or subsequent to any national reforms.

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201 Ibid
Option 2  Change Class C gaming machine taxation arrangements

Many operators of gaming machines in the ACT accrue significant economic rent. An optimal taxation regime for gaming machines would capture a portion of any untaxed economic rent\(^2\) that operators accrue due to Government regulation of the market.

The economic rent accrued by operators

The untaxed economic rent that accrued to clubs in 2009-10 is estimated to be $37.33 million based on GGMR ($172.24 million) less:

- costs of machines, including taxation and community contributions ($113.21 million), and
- a reasonable rate of return ($21.70 million).

The untaxed economic rent earned by the ACT clubs sector from gaming machines was estimated by calculating the difference between the revenues currently generated from gaming machines and the costs of operating the machines, including taxes, plus an appropriate return to the clubs. The estimated economic rent for 2009-10 was $37.33 million. Analysis indicates that about 55 per cent of the economic rent accrues to the largest nine venues when ranked by gross gaming machine revenue. Only 3 per cent accrues to the smallest 29 venues as demonstrated in Chart 76 and 77.

An improved taxation regime could include changes in tax rates, so that the majority of the incidence would be shifted to those clubs earning high amounts of revenue and accruing high amounts of economic rent.

**Chart 76**  Economic rent accrued by single venue gaming machine operators

**Chart 77**  Economic rent accrued by multiple venue gaming machine operators

\(^{202}\) The untaxed economic rent earned by the ACT clubs sector from gaming machines is the difference between the revenues currently being generated from gaming machines and the costs incurred in operating the machines (including taxes) plus a reasonable rate of return to the clubs.

\(^{203}\) For the purpose of this analysis two large single venue clubs have been included as multiple venue operators as the number of gaming machines operated and revenue generated is closer to that of multiple venue gaming machine operators.
Gambling taxes

According to the Gambling and Racing Commission, gaming machines revenue in 2009-10 was $172.24 million.* The cost of operating machines is $113.21 million, and involves direct and indirect costs.** Taxes (including the GST) and community contributions were also included as costs of operating machines.

The appropriate return on gaming machines is $21.7 million. Broadly speaking, a company’s assets are financed by either debt or equity. However, gaming machine operators in the Territory are generally companies limited by guarantee and therefore have no shareholders or returns on equity. Furthermore, most clubs have little or no borrowings. These factors mean that the weighted average cost of capital is not directly applicable to ACT venues. However, proxy measures were derived including:

- a long-term average return on assets derived from the gaming and leisure part of the S&P/ASX 200 Consumer Discretionary Index (12.6 per cent)
- the annual cost of debt in the clubs sector measured by averaging actual interest charges from several clubs in 2007-08 and 2008-09 (8.11 per cent), and
- an historical measure of the weighted average cost of capital applying to gaming machine operators in South Australia that was used as part of the gaming tax reforms announced in the South Australian 2002-03 Budget (10.5 per cent).

* This varies slightly from the reported revenue in the Gambling and Racing Commission’s Community contributions made by Gaming Machine Licensees 2009-10 report, as the data set used in the analysis did not include revenue values for two clubs that have since ceased trading.

** As outlined in the Gaming Machine Act 2004, the direct operating costs of machines are estimated to be equal to 24 per cent of gross gaming machine revenue. Indirect costs of machines were estimated by calculating an average area (m²) taken up by a gaming machine using gaming area floor plans from a sample of venues, multiplied by the benchmark operating costs per square metre.

Option 3  A two-part tariff

Flat tax rate
A flat tax rate on gaming machines across all clubs would remove all progressivity from the regime, shift the overall tax burden towards smaller clubs, and limit the ability of the taxation system to capture the substantial amounts of economic rent accrued by a few large operators. A flat rate tax is more appropriate when the returns to scale are constant or no redistributive effects are desired. This is not what is observed in the gaming machine industry in the ACT, which weakens the arguments for a flat tax rate.

Progressive tax rate
A progressive tax recognises the inherent capacity of a venue to pay tax based on the level of its turnover. It is currently used in the ACT, NSW, QLD, SA and NT.204

A progressive rate is appropriate where increasing returns to scale are evident and redistributive effects are desired. There are clearly returns to scale in the ACT. The industry is dominated by nine multi-venue clubs, with a total of 33 venues covering 75 per cent of Class C gaming machines.205 Eighteen of these venues are in the top 20 largest clubs ordered by GGMR, and accrue 83 per cent of Class C gaming machine revenue.

205 This includes one venue that is currently not operating, and the operator has indicated that this venue will not be reopened, but the machine licence will be transferred to another club within the multi-venue group.
A two-part tariff

An alternative gaming machine taxation arrangement for the ACT would encompass a two-part tariff, made up of a licence fee per machine and a more progressive tax.

It could introduce an annual licence fee per machine of $1,000. This would be an economic disincentive for operators to maintain an excess supply of machines but would have a proportionally larger impact on smaller clubs that pay relatively low amounts of tax.

This impact could be partially offset by increasing the tax free threshold to $30,000 of gross gaming machine revenue per month. However, clubs that fall below the existing tax-free threshold would not benefit from this change. Alternatively, for clubs with just a small number of machines, for example less than 10, the licence fee could be set at $150, to cover the administrative fee.

Table 69  Current tax rates and thresholds compared with the proposed taxation system

<table>
<thead>
<tr>
<th>Monthly gross gaming machine</th>
<th>Current tax rates</th>
<th>Proposed tax system</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$15,000</td>
<td>0%</td>
<td>Licence fee of $1,000 per machine plus: &lt;$30,000: 0%</td>
</tr>
<tr>
<td>$15,000-$25,000: 15%</td>
<td></td>
<td>$30,000-$200,000: 17%</td>
</tr>
<tr>
<td>$25,000-$50,000: 17%</td>
<td></td>
<td>$200,000-$500,000: 25%</td>
</tr>
<tr>
<td>&gt;$50,000: 21%</td>
<td></td>
<td>&gt;$500,000: 34%</td>
</tr>
<tr>
<td>Total tax revenue</td>
<td>$33.6 million</td>
<td>$43.1 million</td>
</tr>
<tr>
<td>(based on 2009-10)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source  Gaming Machines Act 2004 (ACT).

The tax brackets within the proposed system could be realigned to better reflect the distribution of clubs across the sector. Table 69 shows current tax rates and thresholds and the proposed taxation system based on a two-part tariff with a licence fee and marginal tax rates.

Based on the experience in 2009-10, a two-part tariff would be expected to increase gambling taxation revenue from $33.6 million to $43.1 million. The largest nine gaming venues in the ACT would contribute 82 per cent of this revenue.

An improved taxation regime could include changes in tax rates, so that the majority of the incidence would be shifted to those clubs earning high amounts of revenue and accruing high amounts of economic rent.
Gaming machine reallocation mechanisms

In a perfectly efficient market, with no barriers to competition or other market distortions, the price a potential gaming machine owner would be willing to pay for a licence would equal the expected net value of the cash flows from operating the machine for the specified period of the licence.

Government regulation and an overall cap on the number of gaming machines in the ACT has led to an artificially high value being placed on these machines causing licensees to retain under-used machines.

In the future there will be a need to consider how clubs in greenfield sites will be provided with gaming machines. It may be prudent to consider mechanisms for reallocation. Methods of reallocation could include the following.

Auction licences

In 2010, Victoria auctioned off its gaming machine licences for a 10 year period from 2012, raising approximately $980 million. This was much lower than the expected revenues of up to $3 billion. The ACT has several features that would impact on the efficiency and efficacy of any licence auction, including the:

- presence of barriers to entry for profit-seeking entities due to the restriction on access to Class C gaming machines to only not for profit clubs, and
- need for clubs to satisfy social and needs assessments administered by the Gambling and Racing Commission when seeking more machines for a venue.

\[\text{Source: ACT Treasury.}\]

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\[\text{207 \ Victorian Auditor-General, 2011, } Allocation \ of \ Electronic \ Gaming \ Machine \ Entitlements, \ viewed \ at \ <\text{http://download.audit.vic.gov.au/files/20110629-Electronic-Gaming-Machines.pdf}>.\]
Licence fees
The introduction of a significant licence fee would potentially help remove excess machines from the ACT market, serving as an economic disincentive for operators to maintain excess machines.

In many highly regulated industries, the cost of regulation is met through the tax system. A per machine licence fee would reflect that there is a fixed cost of regulation for each machine, regardless of actual turnover produced. An appropriate licence fee for the ACT to achieve this would be approximately $150 per machine.

A large fixed fee such as that used in Victoria would also shift part of the tax burden away from the total revenue produced by gaming machines in a venue to a per machine basis. In an environment such as the ACT, where there is under-use of machines and a large number of machines per capita, a large licence fee may encourage operators to maintain a more efficient number of machines including voluntarily returning some licences. The imposition of a large licence fee may have a proportionally larger financial impact on smaller clubs, especially those that currently pay little, if any, tax.

Casino Canberra
Casino Canberra is the only licensed casino in the ACT. It holds an exclusive licence for table games but is currently prohibited from operating gaming machines. It is the only casino in Australia that faces such a restriction. This restriction exists as a result of the community gaming model which has been a long standing policy of the ACT Government.

Casino Canberra proposal
Casino Canberra is prepared to pay the ACT Government a licence fee of $10 million dollars and 30 per cent tax on GGMR from the machines to operate 200 class C gaming machines.

The Productivity Commission found that there is no policy rationale for the current restriction on Canberra casino from operating gaming machines. The Commission went on to indicate that:

“Permitting the Canberra casino to operate gaming machines, without expanding the number of gaming machines in the ACT and subject to the application of appropriate regulatory harm minimisation measures, would be unlikely to increase accessibility or increase gambling harms.”

If Casino Canberra was permitted to operate gaming machines, then it would be important that the taxation rate applied to its operations was set after careful consideration.

As the casino is a private operator, it is not required by current law to contribute a portion of profits back to the community. In line with the findings of the AFTS Review, being a for profit operator, any excess economic rent that the casino accrues from gaming machines should be appropriated by government so that it could be returned as such to the community.

An appropriate tax rate, therefore, would be significantly higher than the highest rate set for clubs given that clubs have a mandatory community contribution rate.

The mechanism by which these machines would be acquired would need to be considered carefully and should not add to the overall number of machines in the ACT.

208 A licence fee of $4,333.33 per machine in conjunction with a flat rate tax of 24.24 per cent.
The current community gaming model reflects the range of considerations that Governments take into account when determining policy settings. It is appropriate for decisions on policies of this nature to be informed by economic, social and ethical considerations.

Recommendations

The Panel makes the following recommendations to the Government.

**Recommendation 25**

Consider increasing gambling machine taxes, having regard to the impacts of the prospective reform at the national level, and the contribution clubs make to the community.

*Alternative recommendation from the Panel Chair*

Consider increasing gambling machine taxes only after the impacts of the prospective reform at the national level have been assessed, and there has been an objective and independent evaluation how the Canberra clubs’ industry applies the revenues derived from poker machines.

**Recommendation 26**

Consider a two-part tariff on gaming machines comprising a licence fee per machine and a progressive tax component.

*Additional recommendation from the Panel Chair*

Accommodation of a number of poker machines within the Casino may be difficult under the prevailing cap. This matter ought to be considered outside the cap, as it is a materially different issue from the constriction on the number of machines allowed to clubs.

The cap itself is a simplistic policy instrument. The inequities that it can generate warrant examination. Elsewhere it has been recommended that a two-part tariff could be applied in such a way as to penalise the retention of under performing machines, and thus minimise the total number without a sub-optimal regulatory mechanism.

*Additional recommendation from the Panel Chair*

Consider allowing poker machines in Casino Canberra.
Concessions and tax expenditures

Key points

- The concessions offered by the ACT Government are largely sound. The current Concessions’ Program is appropriately targeted.

- As the concession system helps reduce adverse distributional impacts of reform it would be an important part of the overall transition framework to a new taxation system.

- Concessions are a key component of recommendation to abolish duty on conveyances.

Well-targeted concessions are a fundamental part of any tax system. The ACT’s concessions program has evolved over time and whilst it is largely sound, it is recognised that improvements could benefit not only those who qualify for concessions (through simplified access by amalgamating current separate concessions) but also to make the system administratively more cost-effective.

The role of concessions, including appropriate adjustments, will be fundamental to the success of any reform of the ACT’s tax system.

After considering the recommendations of the AFTS Review and the analysis of the information on concessions and their usage, the Review examined a number of options for reform.

Improving transparency in the ACT Concessions’ Program

While the ACT concessions portal has helped improve concessions’ accessibility for people who meet eligibility criteria, the data available on the use of these discounts and rebates is generally limited. The transparency of the Concessions’ Program could be improved through various means.

The program could be made more transparent through regular monitoring, review and public reporting. One option to achieve this is through embedding the Concessions’ Program in legislation, similar to that in Victoria. While legislation is not necessary to adjust concession administration and processes, it would provide a consistent framework across government.

Administrative reform

Administrative reform could address a number of inefficiencies and inconsistencies regarding the financing and data collection of concessions being provided across government. With the program currently administered across a number of agencies, it inevitably leads to variability in data collection and reporting. Centralising the administration of appropriate concessions and the associated data collection in an agency with a transactional focus would allow for further improvements to be made to the administration of concessions and the recording of information.

Shared Services already undertakes payment and processing functions for a number of concessions, such as free ambulance services. Expanding this role to encompass other suitable concessions would allow for greater consistency and efficiency in administrative processes.
Consolidating concessions
The AFTS Review recommended the consolidation of concessions and the provision of direct monetary assistance. This Review Panel considers such an option is better suited at the Commonwealth Government level where the provision of financial assistance to low-income households is already undertaken through agencies such as Centrelink. Such a change to the current ACT Concessions’ Program would be inappropriate in the context of the ACT and the nature of the concessions administered.

There is scope to consolidate a number of environmental concessions to improve accessibility and administrative efficiency.

Improving equity
The current eligibility requirement for the ACT Concessions’ Program is the ownership of a Pensioner Concession Card and/or a Health Care Card. People holding these cards can have a range of incomes and assets. These differences are not taken into account when a person is applying for a concession.

The main limitation in improving the equity of the concessions system through changes in assessment of eligibility is the additional administrative processes and complexity. Changes to eligibility criteria may also place additional burden on individuals seeking assistance through a prerequisite to provide comprehensive information on income and assets.

Categorising concessions according to priority
Under current arrangements, most concessions, once implemented, are permanent. Under the proposed concessions framework there could be three broad categories, as follows:

- **Base concessions** – detailed in national agreements and supported by all jurisdictions. These include those provided to pensioners for land and water rates, sewerage, electricity, motor vehicle registration, public transport, the First Home Owners’ Grant and the Dental Services Scheme. They form part of some National Partnership Agreements, so many within this category are also provided in other jurisdictions, such as the Spectacle Subsidy Scheme. These concessions remain a core part of the Government’s commitment.

- **Supplementary concessions** – they operate in unison with both Commonwealth income supplementation and ACT Government priorities and may be targeted at individuals and organisations. They help provide a broad range of assistance in areas such as housing, environmental sustainability, health, transport, education and for people with disabilities. This category of concessions may be modified in line with Government policy or higher support priorities. These concessions could be reclassified into the temporary concessions category depending upon effectiveness and levels of need.

- **Temporary concessions** – a temporary concessions category would provide the Government with the flexibility to introduce short-term concessions that address priorities or particular needs that may arise as a result of unforeseen circumstances. Currently there are only a small number of temporary concessions, including the Pensioner Duty Concession Scheme and the Mortgage Relief Scheme. All other concessions are permanent. Temporary concessions may, subsequent to review, be either continued through an extended timeframe or abolished. Temporary concessions could provide an additional means to reduce adverse distributional impacts that may occur as a result of tax reform.

The ACT would benefit from whole of government concessions framework.
Reviewing and reporting on concessions

A regular or cyclical review program for concessions does not currently exist. Increased transparency could be achieved by reviewing base concessions biennially.

Supplementary concessions could be reviewed separately, also biennially, to determine trends in usage by particular client groups, the effectiveness of the programs and the case for reclassifying any as temporary concessions. Temporary concessions could be reviewed towards the end of their timeframe to decide if support should continue.

The overall program could be reviewed every five years, taking into account national agreements, changes in the economic environment, what happens in other jurisdictions, the budget context and particular economic or financial pressures faced by low income families and aged pensioners.

An annual report on the program could be prepared and tabled in the Assembly providing comprehensive information on expenditure on concessions and the people it assists.

Developing a new concessions framework

A new concessions framework should be developed that would categorise concessions according to type.

Key aspects of the new framework could include:

- maintaining and building on current levels of ongoing assistance as appropriate
- continuing to use Commonwealth concession cards as the basis for determining eligibility for existing base concessions
- providing as appropriate, other short-term concessions, in recognition of particular cost of living pressures
- targeting, at times, particular individuals and households that may need additional support for short periods in their lives
- continuing to alleviate the impact of a broader taxation base on pensioners and other low-income earners
- focusing on providing discounts and rebates to alleviate cost pressures, rather than cash payments, as made by the Commonwealth, and
- centralising data on ACT concessions and annual whole of government reporting.

The new concession framework should be underpinned by guiding principles to ensure it:

- is effective in addressing cost of living and other pressures on individuals, households and community organisations
- complements the Commonwealth Government’s direct financial assistance to pensioners and people on low-incomes and tax benefits
- primarily assists individuals and households with the greatest or most pressing needs
- targets supplementary assistance, primarily through income testing as evidenced by Commonwealth concession cards
- facilitates equity and accessibility and helps support target groups’ participation in the community
- supports organisations and groups where there is a clear evidence that they conduct charitable activities to assist those on low incomes and aged pensioners or make a demonstrable contribution to community well being
- makes eligibility and usage transparent
- does not duplicate assistance to groups already supported through mainstream ACT Government or Commonwealth programs
- is financially and economically sustainable and complements core government services, and
- balances a client focus with administrative efficiency.

The new concession framework could be embedded within concessions’ legislation.

**Reducing the impacts of taxation reform**

Any reform to the taxation system would require adjustments to the current transfer system to minimise adverse impacts on households with low incomes. In this context the ACT Concessions’ Program would form an important part of the overall transition framework to a future taxation system in the Territory.

**Recommendation**

The Panel makes the following recommendation to the Government.

**Recommendation 27**

Use the concession system to ‘cushion’ the distributional impacts of reform through the transition period, and on an ongoing basis.

In addition, the Panel makes further recommendations about concessions as part of its recommendation to abolish duty on conveyances over time. Their purpose is to help cushion the impacts of the proposed abolition of conveyance duty for low income households; also for households not eligible for rebates. A recommendation is also made to expand the Home Buyer Concessions Scheme and to continue the Pensioner Duty Concession Scheme while conveyance duty is being transitioned to full abolition. There is also a recommendation to extend the eligibility criteria for the Duty Deferral Scheme.
Environmental taxes

Key points

- Environmental taxes can be complex and difficult to design at the local level.

- The Commonwealth is best placed to address environmental issues through taxation as part of a national scheme.

- The main purpose of environmental taxes should be to improve outcomes, rather than to raise revenue.

- For example, some economic activities may have negative effects on the environment which are not necessarily captured in the market price of goods or services. Environmental taxes can create price signals to encourage firms and households to change their activity.

- These taxes are difficult to design and implement from a local level and the Commonwealth is best placed to address environmental issues through taxation with a national scheme. The Federal Government’s Clean Energy Package, including the establishment of a carbon price, will contribute towards the reduction of greenhouse gas emissions.

- It was suggested during consultation, that the Panel consider funding options for the environment. The preferred measure raised during consultation was to introduce user charges, or a levy to directly fund environmental programs.

- However, the AFTS Review recommends that the environment, as a public good, should be funded out of general taxation revenue. This is the current practice of the ACT Government, where funding for environmental initiatives is considered alongside other competing priorities through the Budget process.

- It was also suggested that additional user charges could be introduced for nature parks in the ACT. This is not recommended as it may discourage people using parks and place a large administrative burden for minimal cost recovery.
Environmental taxes and hypothecation

Hypothecation is the quarantining of revenue from a specific tax for a particular purpose. While there are some benefits to hypothecation, such as greater public acceptance of a tax, its use limits the ability of governments to allocate revenue.

Directly linking environmental expenditures and revenue from a specific tax does not capture the range of policy considerations and objectives in this area.

While, overall the use of hypothecation is not recommended, for environmental programs in particular, it may be required to assess the appropriateness of a taxation proposal.

Where an assessment of the appropriateness of a hypothecated tax proposal is required it should:

- be simple to implement and easy to administer with manageable and efficient administration costs and arrangements
- define a length of time and the outcomes for which the funding is required
- identify a specific purpose and high priority for expenditure that is tied to public benefit rather than short-term government policy objectives
- be equitable and paid by the beneficiaries of the service, and
- generate revenue which is equal to the expenditure needs.
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Appendix A

Terms of Reference

The Review will provide recommendations and findings on the overall efficacy of the tax system including:

- whether the mix of taxes currently levied is appropriate
- whether the current ACT tax base is equitably and effectively distributed
- options to ensure revenue certainty and sustainability of the tax base
- whether reforms are required to improve efficiency and equity of the tax base, and
- completing a social impact assessment of any proposed reforms.

This review is intended to complement and build on the recently completed Commonwealth review of taxation. It should make specific recommendations:

- having regard to the Territory’s expenditure on services
- on the impact of significant changes to Commonwealth taxation settings in the near to medium term, and
- identifying opportunities to engage, both responsively and proactively, with potential reforms to arise from this process.

State and local governments are limited in the number of taxes they are able to apply. The review should:

- be limited to taxes levied by the ACT Government
- consider options to ensure revenue certainty
- provide sufficient revenue to ensure that important community services continue to be provided, and
- have regard to the unique economic, legislative and policy context of the ACT including its leasehold land system, economic composition and the role of the Commonwealth.
ACT Treasurer Katy Gallagher has today announced details of the ACT Taxation Review, including the Terms of Reference and membership of the Review Panel.

“The Government regularly considers its taxation settings as part of the budget process to ensure Canberrans are getting value for money as taxpayers,” Ms Gallagher said.

“The recent release of the Commonwealth’s review of taxation has highlighted the need for the ACT to review its taxation settings more comprehensively to place the Territory in a stronger position to respond to potential Commonwealth reforms in this area,” she said.

“Taxes serve an important purpose of financing services and infrastructure. This review will assess the efficiency and effectiveness of the Territory’s taxation system having regard to the important community services and infrastructure we deliver to all Canberrans.”

“In broad, the review will consider the overall efficacy of the tax system, current revenue streams, and the sustainability of the tax base.”

Ms Gallagher has also announced that former ACT Treasurer Ted Quinlan will chair the Review Panel, which will also include the Under Treasurer Megan Smithies and the University of Canberra’s Professor Ann Harding.

“I have asked for a social impact assessment to be completed for any reforms proposed by the Panel. It is also my expectation that the Review Panel will seek input from the community and business before finalising its report,” Ms Gallagher said.

“The final report, to be delivered by August 2011, will provide recommendations and findings on whether ACT taxes are appropriate, equitably and effectively distributed, and provide the stability and certainty required to continue to deliver important community services to Canberrans.”

Terms of Reference for the Review

The Review will provide recommendations and findings on the overall efficacy of the tax system including:

- whether the mix of taxes currently levied is appropriate
- whether the current ACT tax base is equitably and effectively distributed
- on options to ensure revenue certainty and sustainability of the tax base
- whether reforms are required to improve efficiency and equity of the tax base, and
- completing a social impact assessment of any proposed reforms.
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- provide sufficient revenue to ensure that important community services continue to be provided, and
- have regard to the unique economic, legislative and policy context of the ACT including its leasehold land system, economic composition and the role of the Commonwealth.
### Appendix C

**Summary of proposed National reform**

*Australia’s Future Tax System – list of recommendations*

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<th>Recommendations</th>
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</thead>
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**Australia’s Future Tax System – major reform proposed**

The AFTS provided a medium-to-long-term framework for reform of Australia’s taxation and transfer system. The review argued that the tax and transfer system should be oriented to supporting strong and sustainable economic growth. This should be achieved against the principles of efficiency, equity, transparency and effectiveness.

The review identified a wide range of reform opportunities under nine broad themes.

1. Concentrating revenue raising on four efficient tax bases:
   - personal income, assessed on a more comprehensive base
   - business income, with more growth-oriented rates and base
   - private consumption, through broad, simple taxes, and
   - economic rents form natural resources and land

2. Configuring taxes and transfers to support productivity, participation and growth

3. An equitable, transparent and simplified personal income tax

4. A fair, adequate, work supportive transfer system

5. Integrating consumption tax compliance with business systems

6. Efficient land resource taxation

7. Completing retirement income reform and securing aged care

8. Toward more affordable housing, and

9. A more open, understandable and responsive tax system.

The Review included Commonwealth and State taxes and their interaction with Australia’s welfare system. However, GST was explicitly excluded from the Panel’s scope. The Panel found that:

- Australia has too many taxes and too many complicated and duplicative ways of delivering multiple policy objectives through the tax and transfer systems, and
- against the principles of efficiency, equity, transparency and effectiveness a range of State and Territory taxes do not perform well.

The Panel argued that a range of Commonwealth and state taxes be abolished and their revenues replaced by taxes applying to the four robust and efficient tax bases. It proposed abolishing these taxes:

- insurance
- payroll
- property
- stamp duty on the purchase of motor vehicles, and
- fuel and vehicle-registration taxes, if replaced by more efficient road user charges.

The Panel proposed replacing these taxes with either a broad-based land tax or cash flow tax.
**Australia’s Future Tax System – recommendations relating to State taxes**

### A tax and transfer system for the 21st century

**Recommendation 1**

Revenue raising should be concentrated on four robust and efficient broad-based taxes:
- personal income, assessed on a more comprehensive basis
- business income, designed to support economic growth
- rents on natural resources and land, and
- private consumption.

Additional specific taxes should exist only where they improve social outcomes or market efficiency through better price signals. Such taxes would only be used where they are a better means to achieve the desired outcome than other policy instruments. The rate of tax would be set in accordance with the marginal spillover cost of the activity.

User charging should be complementary, as a mechanism for signalling the underlying resource cost of publicly provided goods and services.

With both specific taxes and user charges, revenue would be a by-product of the tax or charge, not the reason for it. Other existing taxes should have no place in the future tax system and over time should be abolished.

### Land tax and conveyance duty

**Recommendation 51**

Ideally, there would be no role for any stamp duties, including conveyance stamp duties, in a modern Australian tax system. Recognising the revenue needs of the States, the removal of conveyance duty should be achieved through a switch to more efficient taxes, such as those levied on broad consumption or land bases. Increasing land tax at the same time as reducing conveyance duty has the additional benefit of some offsetting impacts on asset prices.

**Recommendation 52**

Given the efficiency benefits of a broad land tax, it should be levied on as broad a base as possible. In order to tax more valuable land at higher rates, consideration should be given to levying land tax using an increasing marginal rate schedule, with the lowest rate being zero, with thresholds determined by the per-square-metre value.

**Recommendation 53**

In the long run, the land tax base should be broadened to eventually include all land. If this occurs, low-value land, such as most agricultural land, would not face a land tax liability where its value per square metre is below the lowest rate threshold.

**Recommendation 54**

There are a number of incremental reforms that could potentially improve the operation of land tax, including:

a) ensuring that land tax applies per land holding, not on an entity’s total holding, in order to promote investment in land development

b) eliminating stamp duties on commercial and industrial properties in return for a broad land tax on those properties, and

c) investigating various transitional arrangements necessary to achieve a broader land tax.
### Taxing consumption

**Recommendation 55**
Over time, a broad-based cash flow tax—applied on a destination basis—could be used to finance the abolition of other taxes, including payroll tax and inefficient State consumption taxes, such as insurance taxes. Such a tax would also provide a sustainable revenue base to finance future spending need.

### Payroll tax

**Recommendation 57**
State payroll taxes should eventually be replaced with revenue from more efficient broad-based taxes that capture the value add of labour.

### Road transport taxes

**Recommendation 61**
Governments should analyse the potential network-wide benefits and costs of introducing variable congestion pricing on existing tolled roads (or lanes) and consider extending existing technology across heavily congested parts of the road network. Beyond that, new technologies may further enable wider application of road pricing if proven cost-effective. In general, congestion charges should apply to all registered vehicles using congested roads. The use of revenues should be transparent to the community and subject to further institutional reform.

**Recommendation 63**
States should improve compulsory third party insurance to better reflect individual risks.

**Recommendation 66**
The revenue-raising component of State taxes on motor vehicle ownership and use should be made explicit, and over time only be used to recover those costs related to road provision. The administrative costs of providing government services should be recovered through user charges where applicable. Quantity limits on taxi licences should be phased out.

### Gambling taxation

**Recommendation 76**
Gambling taxes should be reviewed to ensure that they are focused on recouping economic rent generated by government restrictions on the supply of gambling services or are being used efficiently to impose such restrictions.

**Recommendation 77**
Governments should eliminate gambling tax concessions for particular types of gambling businesses, such as clubs. If governments wish to subsidise particular types of businesses, they should do so through direct expenditures.

**Recommendation 78**
Governments should consider the allocation of responsibilities for the regulation and taxation of gambling, with a view to minimising conflicts in policy-making between revenue-raising and addressing problem gambling.

### Rationalising other taxes

**Recommendation 79**
All specific taxes on insurance products, including the Fire Services Levy, should be abolished. Insurance products should be treated like most other services consumed within Australia and be subject to only one broad-based tax on consumption.

### State tax reform

**Recommendation 119**
Reforms to State taxes should be coordinated through intergovernmental agreements between the Australian Government and the States to provide the States with revenue stability and to facilitate good policy outcomes.
Appendix D

Summary of consultations

Consultation process

On 22 October 2010, the Panel opened its formal consultation process by releasing an information paper and calling for public submissions. The Chair of the Panel wrote to key stakeholders and political parties in the ACT inviting them to meet with the Panel and discuss their views on the future of the ACT’s taxation system.

Fifteen submissions were received and nine meetings held with the Panel. The issues and questions raised in submissions and meetings were considered by the Panel during its deliberations.

Key themes

Overall

The main focus of submissions involved reducing taxes, most notably land taxes, payroll and gambling. Other views focussed on altering tax rates to improve the overall efficiency of the ACT taxation system and another key theme identified was the need for the government to continue to provide government services and concessions in the face of increasing demand for such services.

Land taxes

Land tax scheme

A number of submissions proposed increasing the coverage of land taxes to replace other taxes, in particular conveyance duty. The Motor Trades Association (MTA) proposed that land taxes should not apply to premises that do not produce income.

Conveyance duty

Conveyance duties were generally viewed as being distorting and inefficient with proposals ranging from complete removal of conveyance duty, introduction of conveyance duty thresholds for unit trusts and create specific exemptions to overcome issues involving the multiple application of conveyance duty to Islamic finance transactions.

The ACT Greens requested shifting conveyance duty liability from the buyer to the seller.

Lease Variation Charge

Submissions for land related peak industry bodies and individuals opposed the LVC. Arguments against the LVC focused around the potential distortions of the LVC and a lack of fairness from applying the LVC on current use terms of leases.

A1 The Lease Variation Charge was previously named the Change of Use Charge (CUC) and was amended by the ACT budget 2011-12.
Direct land sales
Dwyer Lawyers proposed that the ACT should cease to sell land without a proper reservation of regularly reviewable rent.

The Financial Services Council considers increasing the level of interest that must be acquired in the entity before land rich provisions apply from 20 per cent, for private unit trusts and 50 per cent, for private companies to 50 per cent and 90 per cent respectively.

First Home Owner Grant (FHOG)
The ACT Greens do not support the FHOG due to the level of market distortions while the REIACT maintains that the FHOG should be enhanced at the new home level.

Payroll taxes
There was significant variation in the view of payroll taxes.

The MTA argued that payroll tax should be reviewed with a view to implementing a fairer tax on the “value add of labour” and instituting a type of grading system attached to the award position descriptions and roles that assigns a payroll tax rate to positions according to their contribution to revenue.

Canberra Business Council (CBC) proposed national harmonisation of payroll taxes, while the ACT Council of Social Services (ACTCOSS) proposed reducing the payroll tax threshold to $1 million. ACTCOSS argues that decreasing the rate of payroll tax would bring about little benefits but reducing the threshold would be a major benefit. It also contends that there is little negative impact from payroll tax on employment decisions.

Gambling taxes
Discussion on gaming tax was polarised. Clubs ACT argued for a decrease in the effective tax rates, particularly at the smaller club levels. Casino Canberra argued for access to poker machines but an increase in the effective tax rates it would pay. ACTCOSS argued for an increase in gaming taxes.

Motor vehicle taxes
The MTA notes that commercial vehicle registration is very expensive compared with general consumer registration. MTA members have no specific issues with the current application of motor vehicle registrations and transfer duty.

Environmental taxes
Taxes with good environmental and social outcomes should be considered.

Concessions
A clear and consistent criterion for waivers and exceptions should be introduced. Consideration should be given to the use of waivers and exemptions as an incentive for green industry and sustainable economic development.

The Bellerive Residents Association have sought to include pensioner rebates for those residents living in retirement complexes under sub-leasing arrangements. The association noted that those residents who move into retirement villages are no longer eligible for the discounts they previously received.
Summary of stakeholders’ views

ACT Council of Social Service
The ACT’s tax base will be insufficient to meet the needs of the community in the future. The role of the tax system in solving Australia’s economic and social problems is often exaggerated.

The ACT Government relies too heavily on land sales for revenue. The ACT Government could re-investigate a parking levy on commercial parking sites. This could raise approximately $3 million, which would be used to fund increased public transport options and concessions.

Concessions for water, energy and gas were not addressed in the information paper. There are concerns about the impact of an ageing population within the ACT and how to encourage older workers to remain within the workforce. There is a requirement to provide support to assist older people remain in their homes.

Payroll tax
A reduction to the payroll tax threshold to $1 million would allow the ACT to retain a competitive advantage over NSW. Decreasing the rate of payroll tax would bring about little benefits but a reduction in the threshold could be used to increase revenue. There is little negative impact of payroll tax on employment decisions. The ACT Government should not change payroll tax exemptions prior to the setup of the National Charity Office.

Land taxes
A broad-based land tax is economically efficient because land is immobile. A decrease in conveyance duty is supported. Conveyance duty increases the costs of entering the housing market.

If the ACT retains conveyance duty then it should only be payable on properties above the median house price, this should be legislated. There is a lack of affordable housing in the ACT.

Gambling
Gaming revenues should be increased to boost revenue and better reflect the social harm caused by poker machines. The following changes to gaming revenues taxed should occur:

Table A1  Gross revenue comparing existing rate and proposed rate

<table>
<thead>
<tr>
<th>Gross revenue ($)</th>
<th>Existing rate (%)</th>
<th>Proposed rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>15,000 - 25,000</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>25,001- 50,000</td>
<td>17</td>
<td>25</td>
</tr>
<tr>
<td>50,000+</td>
<td>21</td>
<td>35</td>
</tr>
</tbody>
</table>

Source  ACTCOSS.

These changes would continue to reflect the increased ability to pay of those clubs which bring in a greater turnover of poker machines. Non-clubs tax should be increased from 25.9 per cent to 35 per cent. Casino tax should increase from 10.7 per cent to 18 per cent.
There has been a decline in the contributions to charitable and social welfare and problem gambling programs. ACTCOSS proposes that a distinct fund be developed for the oversight of distributing community contributions.

Concessions
There are a number of low-income groups in society who are not eligible for a pension base payment in the concessions scheme. The ACT government should develop standardised procedures for assessing eligibility for concessions.

ACT Greens
Taxes have a dual role in raising revenue and changing behaviour. Quality, accessible government services require a reliable Government revenue stream. The FHOG is not supported.

Conveyance duty and land tax are heavily relied on as revenue sources for the ACT Government. Stamp duty should be abolished with a broadening of the land-tax base.

The ACT Government should investigate a land tax system as outlined in the publication, *A Land Value Tax For Scotland – Fair, Efficient, Sustainable*, a report prepared for the Scottish Greens.

Congestion taxes may not be appropriate for the ACT but a parking fee in the Parliamentary Triangle should be introduced. While the ACT has registration fees based on vehicle size it does not have anything based on distance travelled. The Greens are supportive of a mileage-based car user fee.

Payroll taxes should be tiered instead of the current uniform rate.

Australian Financial Markets Association (AFMA)
There is strong demand globally for Shariah compliant investment opportunities, with worldwide Islamic finance assets projected to reach US$1.6 trillion by 2012.

The *Duties Act 1999* currently impedes the development of an Islamic finance capital market within the ACT, by charging duty multiple times on the two most frequent Islamic financing techniques: Ijara and Murabaha. By exempting these two key Islamic financing techniques from the application of duty, the cost of funds to Canberran businesses and individuals may reduce, while liquidity increases. By exempting Islamic financing techniques from duty, the inflow of funds seeking Islamic investments into the ACT will increase the number of dutiable transactions and may increase overall duty receipts.

The ACT is in a unique position to benefit from removing the barriers to Islamic financing, as buildings and equipment leased to the ACT and Federal Governments are attractive investments for foreign investors. The ACT Government should take a principles-based approach in codifying relevant exemptions that will address the multiple application of conveyance duty to Islamic finance transactions.

Bellerive Residents Association
Where prime account holders of residential developments are corporate entities, pensioners are unable to claim ACT Government concessions such as land tax, water rates and electricity. It is inequitable to deny a sector of the community, especially the older community, access to concessions because of this circumstance.
Canberra Business Council

The CBC raised the following issues:

- Competitiveness of the ACT Taxation system relative to other jurisdictions
- Constitutional limitations placed on the ACT in relation to taxes
- The Commonwealth Grants Commission’s compensation process
- The amount of revenue required to fund expenditure needs into the future
- Red tape incurred by complying with the ACT tax system
- Cross border issues
- Attractiveness of a congestion tax
- The impact on the ACT from harmonisation of various taxes, and
- The reliance the ACT budget places on land sales.

Casino Canberra

A business case was made for Casino Canberra receiving 200 electronic gaming machine (EGM) licences. The Casino has offered a one-off licence fee of $10 million and a 30 per cent tax on gross gaming machine revenue from the machines. The current tax rate for EGMs at hotels is 25.9 per cent.

The Productivity Commission found that permitting the Canberra Casino to operate gaming machines, without expanding the number of gaming machines in the ACT and subject to the application of appropriate regulatory harm minimisation measures, would be unlikely to increase accessibility or increase gambling harms.

Placing gaming machines within the Casino will create a regular and sustainable revenue source for the ACT. Additionally it will provide benefits to the ACT as a tourist centre, catering for national and international visitors, as a social amenity for local residents who, under current plans would not have the same facilities as those enjoyed by suburban Canberran residents, and can do so with the greatest opportunity for harm minimisation.

ClubsACT

Changes to the gaming tax thresholds should be made to give relief to small, medium and large clubs. The sector’s gaming revenue has declined in recent years – 22 per cent in real terms between 2003 and 2010. The club sector has focused on non-gaming revenue streams to offset the fall.

There are a number of reasons for the fall including anti-smoking regulations. While all other jurisdictions’ gaming machine revenue resulted in a marked decrease, the ACT and South Australia did not return to pre-smoking ban levels of revenue.

The lack of transfer scheme for EGMs, the lack of al fresco gaming and the regulatory burden faced by clubs have the largest impact on revenue. The Commonwealth proposal to implement a mandatory pre-commitment scheme will significantly harm the club industry. Based on a trial in Quebec of a similar pre-commitment technology, the national reforms could reduce revenue by as much as 30 per cent.

Ninety-nine per cent of all revenue comes from the top gross gaming machine tax bracket.
Table A2  Gross gaming machine revenue per month shown using applicable tax rate

<table>
<thead>
<tr>
<th>Gross gaming machine revenue per month ($)</th>
<th>Applicable tax rate (%)</th>
<th>Tax revenue (annual) ($)</th>
<th>As percentage of total revenue (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>15,000-25,000</td>
<td>15</td>
<td>46,980</td>
<td>0.13</td>
</tr>
<tr>
<td>25,000-50,000</td>
<td>17</td>
<td>229,536</td>
<td>0.65</td>
</tr>
<tr>
<td>+ 50,000</td>
<td>21</td>
<td>35,168,292</td>
<td>99.22</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>35,444,808</td>
<td>100</td>
</tr>
</tbody>
</table>

Source  ClubsACT.

Note  Gross Gaming Machine Revenue of less than $15,000 per month has a zero tax rate.

The tax thresholds are not set appropriately as many clubs are not in a position to take advantage of the lower thresholds simply because the threshold for the top tax rate cuts in too early. ClubsACT recommends that gaming machine taxation thresholds are amended. Four options are put forward:

**OPTION 1 – estimated reduction in revenue of $6,419,868 per year**
- Up to $30,000 per month  0%
- $30,000 to $150,000 per month  15%
- $150,000 to $500,000 per month  17%
- $500,000 and more  21%

**OPTION 2 – estimated reduction in revenue of $8,529,828 per year**
- Up to $50,000 per month  0%
- $50,000 to $300,000 per month  15%
- $300,000 to $500,000 per month  17%
- $500,000 and more  21%

**OPTION 3 – estimated reduction in revenue of $4,761,468 per year**
- Up to $30,000 per month  0%
- $50,000 to $120,000 per month  15%
- $120,000 to $300,000 per month  17%
- $300,000 per month or more  21%

**OPTION 4 – estimated reduction in revenue of $2,896,788 per year**
- Up to $20,000 per month  0%
- $20,000 to $100,000 per month  15%
- $100,000 to $200,000 per month  17%
- $200,000 and more  21%
Council on the Ageing (COTA)

The Panel should take into account the ageing population within the ACT and focus on the requirements likely to be placed upon the ACT Government when the population is 25 per cent elderly.

In their submission to the Review, COTA stated that it is inequitable for older people, who use less Government services than younger people, to pay similar amounts of tax.

Housing assistance offered by the Government is mainly focused on helping younger people purchase property: e.g. assistance through the first home owners grant. Also, current concessions do not assist older people willing to move to smaller premises. There is scepticism of the extent of take up of the benefits provided by the duty deferral concessions offered by the ACT Government. This concession is used only by a small subset of the senior community.

There should be a broad-based tax system which is progressive, simple and understood clearly.

The core issue faced by older people willing to downsize their accommodation is the unavailability of suitable properties within the same community, i.e. within five kilometres of their current residence. The Panel should consider options that increase the incentives for older people to transition from larger housing to smaller housing, e.g., a last home buyer’s owner scheme.

Dwyer Lawyers

The ACT can and should be a tax haven.

Efficiency of land tax

There are only three tax bases, the factors of production: land, labour and capital. All taxes fall on the returns to these factors of production.

The uniquely efficient tax is one on the unimproved value of national resources, while all other should be abolished and replaced by a uniform tax on the unimproved market value of land. The ACT should cease to sell land without a proper reservation of regularly reviewable rent thereby becoming more competitive and increasing the revenue base.

Legality of taxes

The ACT’s water abstraction charge (WAC) is essentially an excise tax as it is a price set above the short run marginal cost. Similarly much of ACTEW’s dividend to the ACT Government represents a form of excise taxation in addition the WAC.

It is Dwyer Lawyer’s expectation that the Utilities Network Facilities Tax and the WAC will be struck down by the High Court (current litigation continuing).

Housing Industry Association

The Review needs to correctly consider the impact of taxation charges as an incentive as they relate to housing in the ACT. Increased investment in housing is important in the context of Australia and the ACT’s growing undersupply of housing.

Stamp duties are a very inefficient tax as they impede the efficient use of the existing housing stock, add to upfront house purchasing costs and make it more difficult for home buyers to secure credit. There should be a review to examine an option of reducing or significantly
decreasing conveyance duty on new properties in the ACT should be undertaken. The land tax can severely hamper or alter a decision to invest in the ACT, particularly when other jurisdictions have better concessions or exempt thresholds.

The government should consider land tax relief even if this is at a 50 per cent concessional rate over a 12 month period so that any loss in revenue can be measured against gains in productivity, employment and across other government revenue streams eg conveyance duty.

Addressing land tax also has the added benefit of increasing the amount of housing stock and will assist in overcoming issues associated with low vacancy rates. LVCs are not necessary when land tax and conveyance duty can be levied by the ACT Government. LVCs create another layer of tax that can act as a huge disincentive to development.

The ACT’s first home owner grant

The first home owner grant in the ACT is an important mechanism to assist aspiring buyers to enter home ownership, and is also important given that there is movement towards a period of marked downturn in dwelling starts.

The ACT’s First Home Owner Grant should be retained and enhanced, targeted towards new homes.

The ACT’s home buyer concession scheme

The Home Buyer Concession Scheme provides concessional conveyance duty for a select group of home owners. However, broader concessions are needed. If the Government wanted to make savings, it may think about providing the concession only on new homes in order to stimulate new building within the Territory. Broader removal or large concession from conveyance duty should be limited to the purchase of new homes.

The ACT should work with the Commonwealth Government to address impediments to the efficient supply of housing in Australia through COAG, but to also take whatever action is available to:

- improve the speed of planning, zoning and approvals processes
- reduce delays and uncertainty caused by existing developer charging regimes
- remove or reduce inefficiencies caused by a variety of regulations, including unnecessary building requirements in the ACT, and
- to speed up the availability of serviced, ready-to-be-developed land for residential building.

Motor Trades Association

The Motor Trades Association is concerned over the relatively higher rates of commercial land tax, commercial vehicle registration and other taxes on non income producing assets compared with charges levied on consumers. Payroll tax should be reviewed with a view to implementing a fairer tax on the “value add of labour”. MTA cited the costs and non-productivity of revenue from apprentices and personal leave allowances as examples supporting this view.

It suggests instituting a type of grading system attached to the award position descriptions and roles that assign a payroll tax rate to positions according to their contribution to revenue.

It is also concerned that higher rates of commercial and land tax do not apply to premises that do not produce income. That a grandfather clause is implemented to protect from incurring a change of use charge–existing lease holders who wish to change the use of their property to one within the purpose clauses in their current lease.

Current concessions offered to not-for-profit organisations must be kept in place.
Master Builders Association (MBA)

The key issues are:

- housing affordability
- property taxes
- transaction taxes on housing
- change of use charge
- payroll tax, and
- land supply release.

Replacing conveyance duty with a broad-based land tax would lower the barrier in purchasing property. In that respect it would be positive, but the MBA believes the transition would be difficult, and an assessment on its impact on encouraging people to live within the ACT would need to be undertaken.

The ACT is on par with other jurisdictions for tax rates in general and more generous with payroll tax for small companies. National occupational licensing is a concern for the construction industry as there is no transparency on the issuance of licences and where the revenues raised will be spent. There are current shortages in the rental and ownership property markets.

Large demand for two-bedroom units is pushing prices out of reach of young adults, and forcing persons aged 25 to 27 to return to their parents’ house/s.

National Disability Services (NDS)

Sufficient revenue needs to be raised with a fair proportion of it to be directed to community services to assist people with disability to participate within their community.

The recommendations of NDS are:

- immediately increase funding to disability support services to address the significant levels of unmet and under-met demand
- support the implementation of a national disability insurance scheme
- improve access to affordable assistive technology for all people with disability who would benefit
- commit to fully funding disability services
- investigate options to increase the proportion of disability services provided by non-government organisations
- make provision to fully fund all wage increases that may arise from the equal remuneration case being considered by Fair Pay Australia
- remove all existing barriers to public venues and prioritise efforts to improve the availability of accessible and affordable transport services for people with disability, and
- review concessions available to people with disability to maximise their ability to participate within their community.

People with disabilities are more likely to live in a jobless household and less likely to participate within their community.
Property Council of Australia (PCA) – ACT Division

The property market bears too much tax relative to other industries in the market. The Change of Use Charge is inequitable, creates uncertainty, is distorting, and is unlikely to raise the revenue forecasted in the budget due to behavioural shifts.

The Fire Services Levy is inequitable in that has a discriminatory impact on the commercial property sector, is arbitrary in that there is no relationship between tax paid and the risk of fire and emergency services being called on, and is unstable because the revenue source is unable to be predicted with certainty. The ACT’s fire and emergency services should be funded from general revenue or imposed on activities that reflect the greater risk – such as car registrations.

The ACT’s property market is uncompetitive relative to other jurisdictions, resulting in investment capital for large developments flowing elsewhere where the returns are higher due in large part to risks and uncertainties with the crown lease system, including change of use charge, building and development provisions and fees and the threat of termination.

Land release is too slow within the ACT.

Conveyance duty is a disincentive to transact in the housing market, however transitioning to a broad-based land tax would be difficult and may create distortions if the ACT introduces it in isolation to the other States and the Northern Territory.

Cross boarder use of the ACT services must be dealt with in the Review. The Commonwealth Grants Commission does attempt to equalise it, however there is some debate as to whether the equalisation funding is fair for the ACT’s case.

The PCA wants a tax system that is efficient, equitable, simple, stable and transparent.

The PCA suggested that the Review should be expanded to include Government expenditure.

Queanbeyan Landcare

Queanbeyan Landcare made the following recommendations:

- The ACT Government be made more accountable for the expenditure of water abstraction charges (WAC), including direct, transparent and regular reporting to the community
- All revenue outgoings from water abstraction charges be directed to the management of catchments in the ACT Region
- The intention of the water abstraction charge be investigated to determine how broadly WAC revenue can be directed across catchments
- Benefits of the WAC accrue to parts of the Molonglo catchments lying within NSW, in recognition of both the ceding the waters of the NSW Catchments to the National Capital and the application of the Charge on residents of Queanbeyan in NSW, and
- In time, establish an overall authority overseeing catchment management across the ACT Region, and having the responsibility for the expenditure of revenue from the WAC.

Real Estate Institute of the Australian Capital Territory (REIACT)

REIACT is of the view that conveyance duty is not conducive to housing affordability and should be abolished. It is more equitable that everyone pays more in terms of other charges that fund the operation of the ACT rather than a section of the community that has been selected to be allowed to contribute.

Land tax reduces the return on investment in real estate or it is passed through to the rental and is a tax on tenants.
R. S. Gilbert

The codification of the CUC, applying to pre-1971 land is taking away from lessees their contract rights and will have a huge impact, with redevelopment probably grinding to a halt.

It is not appropriate, or the rectification of a past wrong, for Government to try to bring earlier contracts it entered into line with later contracts, just because the later ones are more favourable to it.

Under the CUC developers will offer lessees considerably less for their land. The CUC will reduce infill, conveyance duty and CUC revenue.

If the Government wants to tax redevelopment, it should replace the CUC with a moderate tax on the re-development itself instead of the value on which the redevelopment is taking place.

Stephen Brown

Betterment charges

The ACT community is being cheated while property developers are profiting from the current system of the amounts payable on lease purpose clause changes. They key issue is that the pre-charge value is being assessed to include the full redevelopment potential. The charges should be set to recover the greater part of the increase in value by the lease purpose change.

Residential rates

ACT people pay the highest rates in Australia, more than three times the rates in Mosman or Hunters Hill. Part of the reason for this is that Canberra rates are calculated on an ad valorem basis as oppose to fixed charge. The fixed charge in Canberra is 12 per cent of rates. The rates do not reflect consumption of government services, therefore there is a powerful case to move towards a flat charge. At the very least rates assessments should be restructured so that half of the rates revenue comes from a fixed charge.

Cross border services

The ACT community is providing services to the NSW residents without full compensation. Understanding there is an allowance for this under the Commonwealth Grants Commission, this does not make up the full cost of provision. Therefore any review of ACT taxation should aim to ensure that the ACT obtains full cost recovery for the provision of cross boarder services, reducing the tax burden on ACT residents.

The Association for Good Government

ACT Government expenditure on public services and infrastructure is directly reflected into the ACT land values which accrue to private landholders. Given land values increase as a result of the presence, activity and co-operation of the local community as a whole, the rent is a natural source of government revenue. To the extent that any other tax is applied, labour and capital (the other factors of production as oppose to land) taxation emerges as inefficient burden on labour and productive capital investment.

Taxes on labour and capital are inefficient because they discourage investment from the industry.
Payroll tax is regressive and acts as a disincentive to employment, competition, capital investment and business growth. Therefore the abolition of payroll tax and the replacement of its revenues with site rent would bring a large influx of business investment and job growth in the ACT.

All current taxes be abolished and the ACT Government collect full site rent (the annual unimproved value of privately held ACT land) as the sole source for ACT revenue. The ACT could collect five per cent of the total unimproved value of all sites regardless of their use.

The submission suggests an order for abolition of ACT Government taxes duties levies and charges.

The Financial Services Council (FSC)

Conveyance duty
Conveyance duty is hindering of purchase of property by property trusts and are complicating ownership arrangement by ‘balanced trusts’ of ACT property.

The FSC recommended that the ACT consider:

- adopting a threshold before potential imposition of conveyance duty. Thresholds apply in every other state, and
- increasing the level of interest that must be acquired in the entity before land rich provisions apply from 20 per cent, for private unit trusts and 50 per cent, for private companies to 50 per cent and 90 per cent respectively.

The Tax Institute

The Tax Institute recommends:

- increasing GST and abolishing inefficient and complicated state and territory taxes as per the AFTS Review, any increase in GST should pass through to States
- reducing the number of state and territory taxes with state and territories deriving income from efficient and broad-based taxes
- phasing out and abolishing payroll tax if no abolition then national payroll tax harmonisation
- reduction and abolition of conveyance duty
- abolition of land tax (if no abolition then land tax should be applied on an increasing marginal rate schedule, with thresholds determined by a per square meter value; have a broadened land tax base to include all residential properties, and applying land tax rates so that the lowest threshold attracts a rate of zero per cent), and
- greater harmonisation and uniformity in tax administration across the States and Territories.
List of face to face meetings and submissions

Meetings
- ACT Council of Social Service
- ACT Greens
- ACT Motor Trades Association
- Canberra Business Council
- Casino Canberra
- ClubsACT
- Council of the Ageing
- Master Builders Association of the ACT
- Property Council of Australia–ACT Division

Submissions
- ACT Council of Social Service
- ACT Motor Trades Association
- Australian Financial Markets Association
- Bellerive Residents Association
- Casino Canberra
- ClubsACT
- Dwyer Lawyers
- Housing Industry Association
- National Disability Services
- Queanbeyan Landcare
- R.S. Gilbert
- Stephen Brown
- The Association for Good Government - ACT Branch
- The Financial Services Council
- The Real Estate Institute of the Australian Capital Territory
- The Tax Institute
Appendix E

Expenditure growth rate

Overview

The ACT’s expenditure growth outlook over the next 20 years and beyond has been assessed through two models, the Historical Growth Model (HGM) and Demographic Growth Model (DGM). These projections are based on population forecasts and take into account the ageing population within the ACT.

The HGM is the simpler of the two models relying on historical growth rates in government expenditure, while the DGM’s forecasted budget impacts are linked to demographic cost drivers, notably age. The DGM’s slightly higher annual growth rate of 5.28 per cent, compared to 5.04 per cent for the HGM, results in total ACT Government expenditure of $10.193 billion in 2029-30, $411 million higher than the HGM.

Chart A1  Government expenditure forecast - DGM

A key assumption underlying the development of the models is a ‘no change basis’ for current policy settings. In other words, current expenditure levels are ‘fixed’ and projected into the future using historical growth in prices, wages and projected changes in population. This approach ensures that as far as is practical, expenditure projections are policy neutral and do not attempt to pre-empt future policy changes.

Source ACT Treasury.
Sensitivity analysis has been undertaken to measure the models’ responsiveness in terms of expenditure growth, with respect to changes in individual cost drivers and parameters. The analyses provide a range of potential growth trajectories (including upper and lower bounds) within which there can be a reasonable degree of certainty future expenditure needs will lie.

**Demographic Growth Model**

The DGM fixes general government expenditure at a point in time and projects it forward at a compounded composite growth rate based upon health, education, disability and remaining expenditure growth factors. An underlying assumption of the model is maintaining current government policy settings and indexing those policies into the future in line with the cost drivers.

Under the DGM, expenditure components are driven by age, with individual components growing in line with movements in the Territory’s age distribution. In this way, the model captures changing expenditure needs relating to population ageing.

ACT Government population projections indicate the age distribution will gradually have a greater concentration of individuals aged 60 and above. Table A3 illustrates how this change will affect the ACT’s age distribution over the next 20 years.

Allocating components of expenditure according to age requires a link to be drawn between the services provided and the expected age of the residents accessing those services. For certain components, such as schools, education or obstetrics services, there are clearly recognisable links. For others, however, no obvious links are evident and thus, expenditure was allocated across all age cohorts evenly. Chart A3 provides per person expenditure according to each age cohort.
### Table A3  Natural DGM expenditure growth rate, upper and lower bounds

<table>
<thead>
<tr>
<th></th>
<th>Natural expenditure growth rate (%)</th>
<th>Upper bound (%)</th>
<th>Lower bound (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Health</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health Price Index (a)</td>
<td>3.35</td>
<td>3.96</td>
<td>2.74</td>
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<tr>
<td>Hospital Utilisation Increase* (b)</td>
<td>0.58</td>
<td>0.58</td>
<td>0.58</td>
</tr>
<tr>
<td>Technology Factor* (c)</td>
<td>1.20</td>
<td>1.20</td>
<td>1.20</td>
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<tr>
<td>Composite Health Growth Factor</td>
<td>5.20</td>
<td>5.82</td>
<td>4.58</td>
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<tr>
<td><strong>Education</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WPI (e)</td>
<td>4.17</td>
<td>5.29</td>
<td>3.05</td>
</tr>
<tr>
<td>Productivity (f)</td>
<td>1.07</td>
<td>0.48</td>
<td>1.66</td>
</tr>
<tr>
<td>Australian Government Schools</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recurrent Cost Index (g)</td>
<td>4.78</td>
<td>5.02</td>
<td>4.54</td>
</tr>
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<td>Population Growth^* (h)</td>
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<tr>
<td>Composite Education Growth Factor</td>
<td>3.66</td>
<td>4.87</td>
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<tr>
<td><strong>Disability</strong></td>
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<tr>
<td></td>
<td>5.28</td>
<td>5.28</td>
<td>5.28</td>
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<tr>
<td><strong>Remaining Expenditure</strong></td>
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<td></td>
</tr>
<tr>
<td>CPI (d)</td>
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<td>3.31</td>
<td>2.06</td>
</tr>
<tr>
<td>WPI (e)</td>
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<tr>
<td>Productivity (f)</td>
<td>1.07</td>
<td>0.48</td>
<td>1.66</td>
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<tr>
<td>Population Growth^* (h)</td>
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<td>0.00</td>
<td>0.00</td>
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<tr>
<td>Composite Remaining Expenditure</td>
<td>2.89</td>
<td>4.12</td>
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<tr>
<td><strong>Composite Growth Rate</strong></td>
<td><strong>5.28</strong></td>
<td><strong>6.27</strong></td>
<td><strong>4.33</strong></td>
</tr>
</tbody>
</table>

1. Composite health growth factor \((1+a)(1+b)(1+c)\)
2. Composite education growth factor \((0.65*(e-f)+(0.35*g)+1)*(1+h)-1\)
3. Composite remaining expenditure \((1+h)*(1+(d*0.45)+((e-f)*0.55))-1\)

* Standard deviation not applied
^ Population growth is already taken into account for each age cohort

**Source**: ACT Treasury.

### Chart A3  Population comparison by age cohort, 2007 to 2030

![Population comparison by age cohort, 2007 to 2030](chart)

**Source**: ACT Treasury.
The mathematical construct of the sum of expenditure per age cohort, which underpins the DGM is as follows:

\[
\text{population in each age cohort} \times \text{health expenditure per capita per cohort} \times \text{health specific cost index} + \\
\text{population in each age cohort} \times \text{education expenditure per capita per cohort} \times \text{education specific cost index} + \\
\text{population in each age cohort} \times \text{disability expenditure per capita per cohort} \times \text{disability-specific cost index} + \\
\text{population in each age cohort} \times \text{remaining age related expenditure per capita per cohort} \times \text{weighted composite labour and non labour price index} + \\
\text{population in each age cohort} \times \text{remaining non age related expenditure per capita} \times \text{weighted composite labour and non labour price index}
\]

Source: ACT Treasury.

The demographic model fixes large expenditure components (health, education and the remainder) at a point in time and indexes them into the future. Expenditure components are fixed within each age cohort. The table below shows three different scenarios for expenditure growth rates under the DGM. As shown, the natural DGM expenditure growth rate is 5.28 per cent, with an upper and lower bound of 6.27 per cent and 4.33 per cent respectively.
Health expenditure is forecast to become an increasing share of government expenditure, growing from 22.6 per cent in 2009-10 to 37.7 by 2029-30. This delivers an accelerating expenditure growth rate over time as total budget growth approaches health’s higher growth rate.

**Structural demographic changes**

Table A4 provides the results of a sensitivity analysis. The analysis indicates expenditure growth is most sensitive to increases in hospital use and the health technology factor, where a 1 per cent increase in the growth rate results in an increase in total expenditure of around of $925 million.\(^2\)

### Table A4  Sensitivity analysis for a 1 per cent change in input variables

<table>
<thead>
<tr>
<th>Test Value:</th>
<th>Original (%)</th>
<th>Tested (%)</th>
<th>Revised Growth Rate (%)</th>
<th>Sensitivity (%)</th>
<th>2029-30 $m Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Health</strong></td>
<td></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Health Price Index (a)</td>
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<td>Hospital Utilisation Increases (b)</td>
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<td>1.58</td>
<td>5.72</td>
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<td>925</td>
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<td>Technology Factor (c)</td>
<td>1.20</td>
<td>2.20</td>
<td>5.72</td>
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<td>925</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WPI (e)</td>
<td>4.17</td>
<td>5.17</td>
<td>5.64</td>
<td>0.3563</td>
<td>749</td>
</tr>
<tr>
<td>Productivity (f)</td>
<td>1.07</td>
<td>2.07</td>
<td>4.94</td>
<td>-0.3437</td>
<td>-676</td>
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<tr>
<td>Australian Government Schools Recurrent Cost Index (g)</td>
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<td>5.78</td>
<td>5.34</td>
<td>0.0563</td>
<td>115</td>
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<td>Population growth* (h)</td>
<td>0.00</td>
<td>0.00</td>
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</tr>
<tr>
<td>CPI (d)</td>
<td>2.68</td>
<td>3.68</td>
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<td>WPI (e)</td>
<td>4.17</td>
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<td>1.07</td>
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<td>Population growth* (h)</td>
<td>0.00</td>
<td>0.00</td>
<td>5.28</td>
<td>0.0000</td>
<td>0</td>
</tr>
</tbody>
</table>

Source ACT Treasury.

1. Composite health growth factor: \((1+a)(1+b)(1+c)\)
2. Composite education growth factor: \((0.65*(e-f)+(0.35*g)+1)*(1+h)-1\)
3. Composite remaining expenditure: \((1+h)*((1+d*0.45)+((e-0.35))/1)\)

* ACT Government data.

The median age within the ACT community is projected to increase from 36 years to 39 years by 2030, and 41 by 2056.

Chart A5 maps the projected year-on-year growth in the average age of the ACT’s population. While the ACT is currently undergoing the highest year-on-year increases in average age, this rate is forecast to slow and is expected to level off by 2056.

\(^2\) Care should be used when interpreting these estimates. The figures are in 2029-30 prices. Furthermore, the impact incorporates an element of population growth, thus, it cannot simply be discounted back to a present value for comparison purposes. The figures should be used as indicative estimates, provided for illustrative purposes only.
**Chart A5** Year on year growth in the average age of the ACT population

[Graph showing year on year growth in the average age of the ACT population from 2008 to 2016.]

*Source* ACT Treasury.

Chart A6 divides the population into three age cohorts: 0-24, 25-64, and 65+, showing the proportion of the population in each. As expected, the 65+ category continues to increase into the outer years as the population ages, beginning at 10 per cent in 2008, and increasing to over 17 per cent by 2030. Over the same time period, those aged 0-24 fall from 35 per cent to 32 per cent, and 25-64 from 56 per cent to 51 per cent.

**Chart A6** 2007-2030 ageing population demographics

[Bar chart showing the percentage distribution of the population by age cohort from 2007 to 2030.]

*Source* ACT Treasury.
Per capita expenditure begins to rise from 55 onwards. If the population mix now were identical to that forecast for 2056, Government expenditure would be over $342 million (approximately a 11 per cent increase) more assuming per capita expenditure remained constant.

Historical Expenditure Growth Model

The HGM fixes general government expenditure at a point in time (2009-10 audited outcome) and projects it forward at a compounded composite growth rate based upon health, education and remaining expenditure growth. Another way to think about this model is taking a ‘snapshot’ of current government expenditure policies and indexing those policies into the future.

By applying historically derived indexation rates to existing expenditure lines, the model should, in theory, quarantine any change in government policies from growth projections. For example, if the cost of delivering a given amount of transport services grows at roughly four per cent, but government expenditure in the transport sector exhibits growth of seven per cent, even after accounting for population growth, the Government’s policy is clearly changing in such a way that delivers additional funding to transport. This model attempts to exclude those policy changes.
The mathematical construct of the three growth factors used to project forward expenditure is shown below.

**Table A5  Sensitivity analysis for a one per cent change in input variables**

<table>
<thead>
<tr>
<th>Composite health growth factor =</th>
</tr>
</thead>
<tbody>
<tr>
<td>((1 + \text{health price index}1 \cdot a))</td>
</tr>
<tr>
<td>((1 + \text{population weighted for hospital utilisation}1 \cdot b))</td>
</tr>
<tr>
<td>((1 + \text{technology}1 \cdot c))</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Composite education growth factor =</th>
</tr>
</thead>
<tbody>
<tr>
<td>((1 + \text{population growth}2 \cdot h))</td>
</tr>
<tr>
<td>((1 + [\text{Australian government schools recurrent cost index}3 \cdot g \times \text{non-labour expenditure} / \text{total expenditure}]))</td>
</tr>
<tr>
<td>((1 + \text{wage price index}4 \cdot e - \text{labour productivity}5 \cdot f) \times \text{labour expenditure} / \text{total expenditure} ))</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Composite residual growth factor =</th>
</tr>
</thead>
<tbody>
<tr>
<td>((1 + \text{population growth}2 \cdot h))</td>
</tr>
<tr>
<td>((1 + [\text{consumer price index}3 \cdot d \times \text{non-labour expenditure} / \text{total expenditure}]))</td>
</tr>
<tr>
<td>((1 + \text{wage price index}4 \cdot e - \text{labour productivity}5 \cdot f) \times \text{labour expenditure} / \text{total expenditure} ))</td>
</tr>
</tbody>
</table>

**Sources**

1. National Healthcare Agreement.
2. CMD demographic projections.

1 Composite health growth factor \((1+a)(1+b)(1+c)\)
2 Composite education growth factor \((0.65*(e-f)+(0.35*g)+1)*(1+h)-1\)
3 Composite remaining expenditure \((1+h^b*(1+d^0.45)+((e-d^0.55)))-1\)

* Standard deviation not applied

^ Population growth is already taken into account for each age cohort

The three factors are applied to expenditure from the 2009-10 audited financial statements according to the relative weighting of health, education and residual expenses.

Although the proposed model attempts to mimic the future growth in expenditure in a policy neutral fashion, there is an implicit change in the relative importance and thus, weighting of different expenditure components. This is due to differential growth rates between separately identified sectors and residual expenditure. For example, health expenditure is growing much more rapidly than the rest of the budget. Therefore, the proportion of the budget devoted to health care will increase over time.

Further factors could also be included, for example, to capture the impact of increased Commonwealth payments on ACT expenditure growth. A significant share of the recent growth in Commonwealth payments has been in respect of ‘tied’ payments. Tied payments directly impact the Territory’s expenditure levels. Consideration could also be given to incorporating a variable reflecting future expected policy changes, such as an increase in services provided above natural growth, through for example, new initiatives.
Results of expenditure growth forecast

Annual expenditure is forecast to grow at an average 5.04 per cent in nominal terms over the next 20 years. Health expenditure is forecast to grow annually at 6.89 per cent, education is forecast to grow at 4.76 per cent, and remaining expenditure by 4 per cent. When upper and lower estimates of input variables are used, annual expenditure growth ranges between 4.03 per cent and 6.04 per cent.

Upper and lower estimates were obtained for wages, health price indices, the Australian government schools recurrent cost index, CPI, and productivity gains using the standard deviation between the long run average and historical observations. For other input variables standard deviations were not available. For example, with respect to the health technology factor, this growth rate was a ‘point in time estimate’ calculated by the Productivity Commission. No data is available to determine a long run average or standard deviation. Population growth estimates represent official ACT Government projections.

Table A6  Natural HGM expenditure growth rate, upper and lower bounds

<table>
<thead>
<tr>
<th></th>
<th>Natural expenditure growth rate (%)</th>
<th>Upper bound (%)</th>
<th>Lower bound (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health Price Index (a)</td>
<td>3.35</td>
<td>3.96</td>
<td>2.74</td>
</tr>
<tr>
<td>Population Weighted for Hospital Utilisation* (b)</td>
<td>2.20</td>
<td>2.20</td>
<td>2.20</td>
</tr>
<tr>
<td>Technology Factor* (c)</td>
<td>1.20</td>
<td>1.20</td>
<td>1.20</td>
</tr>
<tr>
<td>Composite Health Growth Factor</td>
<td>6.89</td>
<td>7.52</td>
<td>6.26</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WPI (e)</td>
<td>4.17</td>
<td>5.29</td>
<td>3.05</td>
</tr>
<tr>
<td>Productivity (f)</td>
<td>1.07</td>
<td>0.48</td>
<td>1.66</td>
</tr>
<tr>
<td>Australian Government Schools Recurrent Cost Index (g)</td>
<td>4.78</td>
<td>5.02</td>
<td>4.54</td>
</tr>
<tr>
<td>Population Growth* (h)</td>
<td>1.05</td>
<td>1.05</td>
<td>1.05</td>
</tr>
<tr>
<td>Composite Education Growth Factor</td>
<td>4.76</td>
<td>5.97</td>
<td>3.55</td>
</tr>
<tr>
<td>Remaining Expenditure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CPI (d)</td>
<td>2.68</td>
<td>3.16</td>
<td>2.06</td>
</tr>
<tr>
<td>WPI (e)</td>
<td>4.17</td>
<td>5.29</td>
<td>3.05</td>
</tr>
<tr>
<td>Productivity (f)</td>
<td>1.07</td>
<td>0.48</td>
<td>1.66</td>
</tr>
<tr>
<td>Population growth* (h)</td>
<td>1.05</td>
<td>1.05</td>
<td>1.05</td>
</tr>
<tr>
<td>Composite Remaining Expenditure</td>
<td>4.00</td>
<td>5.16</td>
<td>2.76</td>
</tr>
<tr>
<td>Composite Growth Rate</td>
<td>5.04</td>
<td>6.04</td>
<td>4.03</td>
</tr>
</tbody>
</table>

1  Composite health growth factor = (1+a)(1+b)(1+c)
2  Composite education growth factor = (0.65*(e-f)+(0.35*g)+1)*1+h)-1
3  Composite remaining expenditure = (1+h)*1+(d*0.45)+(e-f*0.55)-1

* ACT Government data.

Source  ACT Government data.
The acceleration in growth results from the health growth factor exerting a greater influence on total expenditure over time, due to a greater share of expenditure being allocated to health.

Because expenditure on health is growing more rapidly than non-health expenditure, it is forecast to grow from 25.09 per cent in 2009-10 to between 33.13 per cent and 38.33 per cent of ACT government expenditure by 2029-30. This results in accelerating expenditure growth over time as total budget growth approaches health’s higher growth rate.

Table A7  Change in Budget composition from growth rates

<table>
<thead>
<tr>
<th></th>
<th>2009-10 (%)</th>
<th>Under natural DGM expenditure growth rate 2029-30 (%)</th>
<th>Upper bound (%)</th>
<th>Lower bound (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>25.09</td>
<td>35.58</td>
<td>38.33</td>
<td>33.13</td>
</tr>
<tr>
<td>Education</td>
<td>23.91</td>
<td>22.66</td>
<td>23.63</td>
<td>21.80</td>
</tr>
<tr>
<td>Remaining</td>
<td>51.00</td>
<td>41.76</td>
<td>43.23</td>
<td>39.86</td>
</tr>
</tbody>
</table>

Source  ACT Treasury.

Table A8 provides the results of a sensitivity analysis. The analysis calculates the impact of one per cent change in the growth rates for each input variable used to calculate overall expenditure growth. The analysis indicates expenditure growth is most sensitive to changes in population, where a one per cent increase in the growth rate causes a 0.688 per cent increase in overall expenditure growth.

Table A8  Sensitivity analysis for a one per cent change in input variables

<table>
<thead>
<tr>
<th>Test Value:</th>
<th>Original (%)</th>
<th>Tested (%)</th>
<th>Revised Growth Rate (%)</th>
<th>Sensitivity (%)</th>
<th>2029-30 $m Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.00% Health</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health Price Index</td>
<td>3.35</td>
<td>4.35</td>
<td>5.42</td>
<td>0.3831</td>
<td>739</td>
</tr>
<tr>
<td>Population Weighted For Hospital Utilisation</td>
<td>2.20</td>
<td>3.20</td>
<td>5.43</td>
<td>0.3881</td>
<td>749</td>
</tr>
<tr>
<td>Technology Factor</td>
<td>1.20</td>
<td>2.20</td>
<td>5.43</td>
<td>0.3921</td>
<td>757</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WPI</td>
<td>4.17</td>
<td>5.17</td>
<td>5.43</td>
<td>0.3891</td>
<td>751</td>
</tr>
<tr>
<td>Productivity</td>
<td>1.07</td>
<td>2.07</td>
<td>4.66</td>
<td>-0.3759</td>
<td>-677</td>
</tr>
<tr>
<td>Australian Government Schools</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recurrent Cost Index</td>
<td>4.78</td>
<td>5.78</td>
<td>5.12</td>
<td>0.0821</td>
<td>154</td>
</tr>
<tr>
<td>Population Growth</td>
<td>1.05</td>
<td>2.05</td>
<td>5.73</td>
<td>0.6881</td>
<td>1,365</td>
</tr>
<tr>
<td>Remaining Expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CPI</td>
<td>2.68</td>
<td>3.68</td>
<td>5.24</td>
<td>0.1961</td>
<td>372</td>
</tr>
<tr>
<td>WPI</td>
<td>4.17</td>
<td>5.17</td>
<td>5.43</td>
<td>0.3891</td>
<td>751</td>
</tr>
<tr>
<td>Productivity</td>
<td>1.07</td>
<td>2.07</td>
<td>4.66</td>
<td>-0.3759</td>
<td>-677</td>
</tr>
<tr>
<td>Population Growth</td>
<td>1.05</td>
<td>2.05</td>
<td>5.73</td>
<td>0.6881</td>
<td>1,365</td>
</tr>
</tbody>
</table>

Source  ACT Treasury.
The final column of the Table A8 provides the estimated budget impact in 2029-30. In other words, the dollar sensitivity with respect to a one per cent change in input variables.

### Comparison between models

The models both produce similar expenditure growth estimates. The demographic based model’s estimate of 5.28 per cent growth is marginally higher than the 5.04 per cent growth delivered by the historical growth model. This difference reflects the demographic model’s ability to capture the higher costs associated with an ageing population. However, it is interesting to note that a considerable share of the increased costs have been offset through a declining proportion of high cost school aged children.

A potential criticism of both models is the marked difference between the projected growth rates and historical expenditure growth rates. This criticism, although valid, simply reflects the attempt to ensure policy neutrality throughout the model, both in respect of Commonwealth and State policies.\(^A3\)
Appendix F

Expenditure comparisons

Overview

Two expense ratios based on Commonwealth Grants Commission (CGC) data are used to assess the cost and level of services in the ACT compared to other jurisdictions – the assessed cost of service ratio and the assessed level of service ratio.

Assessed cost of service ratio

The assessed cost of service ratio is calculated as the State and Territory’s (State) assessed expenses per capita relative to the Australian average expenses per capita.

A State’s assessed expenses per capita is the amount that the jurisdiction is required to spend in order to provide a level of services commensurate with the Australian average. Therefore a ratio above 100 per cent indicates that the State faces above average costs in providing an average level of services.

Assessed level of service ratio

The assessed level of service ratio is calculated as a State’s estimated expenses per capita relative to its assessed expenses per capita. Given that the assessed expenses per capita is the expenditure required to provide an average level of services, a ratio above 100 per cent indicates that the State or Territory provided a level of services above the national average.

A4 The CGC notes that the ACT’s level of services is not strictly comparable with other jurisdictions as its expenses may include municipal transactions, which are excluded for other States and the Northern Territory. However the standardisation of assessed expense needs and actual expenses against the national average removes some of this distortion.
Total expenses

All jurisdictions except the Northern Territory faced relatively similar costs of providing an average level of aggregated services to their residents. The Northern Territory would incur double the costs of any other jurisdiction in providing the same level of aggregated services.

ACT provided a notably higher level of services than all jurisdictions with actual expenses being around 22 per cent above the expense required to meet the national average service level.

**Chart A8** Assessed cost of services ratio and assessed level of services ratio, 2009-10


Schools education

All jurisdictions except the Northern Territory faced relatively similar costs in providing an average level of schools education. ACT had a slightly lower assessed cost than the national average and provided a higher level of schools education services than the national average.

**Chart A9** Assessed cost of schools education ratio and assessed level of schools education ratio, 2009-10

Admitted patient services

All jurisdictions except the Northern Territory and ACT faced relatively similar costs of providing an average level of admitted patient services. ACT had the lowest costs of admitted patient service provision amongst all jurisdictions while Northern Territory faced the highest cost in providing an average level of services.

ACT’s actual provision of admitted patient services is estimated to be in line with the national average.

Chart A10 Assessed cost of admitted patient services ratio and assessed level of admitted patient services ratio, 2009-10

Community and other health services

All jurisdictions except the Northern Territory faced relatively similar costs of providing an average level of community and other health services. ACT had above average costs of service provision, similar to Tasmania and Western Australia. In spite of this, ACT had the highest estimated expenses per capita relative to its assessed expenses, providing an above average level of community and other health services.

Chart A11 Assessed cost of community and other health services ratio and assessed level of community and other health services ratio, 2009-10

Welfare and housing services

ACT had the lowest cost of providing an average level of welfare and housing services and provided a significantly higher level of services than nationally. On the contrary, Northern Territory had the highest cost of service provision and provided the lowest level of welfare and housing services.

**Chart A12** States’ and Territories’ assessed cost of welfare and housing services ratio and assessed level of welfare and housing services ratio, 2009-10

<table>
<thead>
<tr>
<th>State</th>
<th>Assessed Cost of Service Ratio (%)</th>
<th>Assessed Level of Service Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>VIC</td>
<td>100</td>
<td>150</td>
</tr>
<tr>
<td>QLD</td>
<td>150</td>
<td>200</td>
</tr>
<tr>
<td>WA</td>
<td>200</td>
<td>250</td>
</tr>
<tr>
<td>SA</td>
<td>250</td>
<td>300</td>
</tr>
<tr>
<td>TAS</td>
<td>300</td>
<td>350</td>
</tr>
<tr>
<td>ACT</td>
<td>350</td>
<td>400</td>
</tr>
<tr>
<td>NT</td>
<td>400</td>
<td>450</td>
</tr>
</tbody>
</table>

Appendix G

Taxation instruments and recent changes across States’ taxes

The table below provides a summary of the taxes and levies that are used in other States and may be applicable to the ACT, also others that are unable to be applied in the ACT under the Constitution.

Table A9  Taxes used in Australia and overseas

<table>
<thead>
<tr>
<th>Taxes</th>
<th>Constitutionally able to apply</th>
<th>Currently applied in the ACT</th>
<th>Applied in other jurisdictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airport taxes</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Ambulance levy</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Amusement taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital gains tax</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Flow tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change of use</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>City centre marketing and improvement levy</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Congestion levy</td>
<td></td>
<td></td>
<td>VIC</td>
</tr>
<tr>
<td>Consumption tax</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customs tax</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developer fees</td>
<td>✓</td>
<td>✓</td>
<td>All</td>
</tr>
<tr>
<td>Duty on life insurance</td>
<td>✓</td>
<td>✓</td>
<td>All</td>
</tr>
<tr>
<td>Employee social security contributions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer social security contributions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy industry levy</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Environmental taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estate taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excise tax</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial institution and transaction fees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fire services levy</td>
<td>✓</td>
<td>✓</td>
<td>All</td>
</tr>
<tr>
<td>Fringe benefits tax</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gambling taxes</td>
<td>✓</td>
<td>✓</td>
<td>All</td>
</tr>
<tr>
<td>General Insurance</td>
<td>✓</td>
<td>✓</td>
<td>All</td>
</tr>
<tr>
<td>Gift taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth areas infrastructure contribution</td>
<td></td>
<td></td>
<td>VIC</td>
</tr>
<tr>
<td>Health insurance levy</td>
<td></td>
<td></td>
<td>NSW</td>
</tr>
</tbody>
</table>
The ACT applies two taxes that other jurisdictions do not, namely the City Centre Marketing and Improvement Levy, and the Energy Industry Levy. However, other jurisdictions apply taxes which the ACT does not, which include:

- congestion levy
- growth areas infrastructure contribution
- health insurance levy
- parking space levy
- premium property duty
- road tolls, and
- transport accident charges.

The table below outlines some of the more significant tax revenue changes and initiatives in other jurisdictions over the past four years.
### Table A10  Significant tax revenue changes and initiatives in other jurisdictions from 2007-08 to 2011-12

<table>
<thead>
<tr>
<th>Taxes</th>
<th>New South Wales</th>
<th>Victoria</th>
<th>Queensland</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2007-08</strong></td>
<td><strong>Land tax</strong></td>
<td><strong>Land tax</strong></td>
<td><strong>Land tax</strong></td>
</tr>
<tr>
<td></td>
<td>Reduced tax rate from 1.7% to 1.6%</td>
<td>Top rate cut from 3% to 2.5%</td>
<td>Introduced 50% cap on annual increase in land values used for calculating land tax</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Middle rate cut from 1.8% to 1.3%</td>
<td>Individual tax free threshold increased from $500,000 to $600,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Low rate cut from 1.2% to 0.8%</td>
<td>Company threshold increased from $300,000 to $350,000.</td>
</tr>
<tr>
<td></td>
<td><strong>Payroll tax</strong></td>
<td><strong>Payroll tax</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Increased threshold from $200,000 to $225,000.</td>
<td>Increased tax rate from 5.15% to 5%.</td>
<td></td>
</tr>
<tr>
<td><strong>2008-09</strong></td>
<td><strong>Payroll tax</strong></td>
<td><strong>Conveyance duty</strong></td>
<td><strong>Payroll tax</strong></td>
</tr>
<tr>
<td></td>
<td>Threshold rose from $600,000 to $625,000, indexed by CPI. Progressive reduction in tax rate from 6% to 5.5%.</td>
<td>Threshold increased by 10%. Bonus $3000 for first home buyers, on top of $5000 Victorian grant and $7000 Federal grant.</td>
<td>Extended $1 million deduction phasing out at a rate of $1 for every $4 of wages above threshold.</td>
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<td></td>
<td></td>
<td><strong>Land tax</strong></td>
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<td></td>
<td></td>
<td>Increased thresholds by 10% and reduced top tax rate from 2.5% to 2.25%.</td>
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<td></td>
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<td><strong>Payroll tax</strong></td>
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<td></td>
<td></td>
<td>Reduced tax rate from 5.05% to 4.95%.</td>
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<tr>
<td><strong>2009-10</strong></td>
<td><strong>Payroll tax</strong></td>
<td><strong>Payroll tax</strong></td>
<td></td>
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<tr>
<td></td>
<td>Cut tax rate to 5.65%</td>
<td>Tax rate reduced from 4.95% to 4.9%.</td>
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</tr>
<tr>
<td></td>
<td>Increased threshold to $638,000.</td>
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<td></td>
<td><strong>Conveyance duty</strong></td>
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<tr>
<td></td>
<td>50% discount on newly constructed dwellings up to value of $600,000 until 31 Dec 2009.</td>
<td></td>
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</tr>
<tr>
<td><strong>2010-11</strong></td>
<td><strong>Payroll tax</strong></td>
<td><strong>Payroll tax</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rate reduced from 5.65% to 5.45%.</td>
<td>Tax rate reduced from 4.95% to 4.9%.</td>
<td></td>
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<tr>
<td></td>
<td>Threshold increased from $638,000 to $658,000.</td>
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<tr>
<td></td>
<td><strong>Conveyance duty</strong></td>
<td></td>
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<tr>
<td></td>
<td>Off the plan dwellings and aged pensioners purchasing new home up to $600,000 exempt to June 2012.</td>
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<td></td>
<td><strong>Gambling tax</strong></td>
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<tr>
<td></td>
<td>Hotels exempt from gaming machine tax on first $200,000 of profits. Rates increased up to $5 million profit.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>2011-12</strong></td>
<td><strong>Conveyance duty</strong></td>
<td><strong>Conveyance duty</strong></td>
<td><strong>Landholder duty</strong></td>
</tr>
<tr>
<td></td>
<td>Cut first home buyer threshold by 50% over four years. Pensioner and concession card holders receive higher threshold from $40,000 to $750,000 if principle place of residence. Buying first farm full exemption threshold up to $300,000.</td>
<td>50% grant to first home buyer up to value of $600,000 until 31 Jan 2012. Abolished transfer duty for principle place of residence.</td>
<td>New 50% charge on acquisition of unlisted company or 90% or more of a listed company worth $2million or more.</td>
</tr>
<tr>
<td>South Australia</td>
<td>Western Australia</td>
<td>Tasmania</td>
<td>Northern Territory</td>
</tr>
<tr>
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</tr>
<tr>
<td><strong>Payroll tax</strong></td>
<td><strong>Land tax</strong> Adjusted tax scale.</td>
<td><strong>Payroll tax</strong> Ceased indirect tax assistance programs.</td>
<td><strong>Conveyance duty</strong> Increased stamp duty concession for first home buyers from $225,000 to $350,000.</td>
</tr>
<tr>
<td>Reduced tax rate from 5.5% to 5%.</td>
<td><strong>Conveyance duty</strong> Doubled first home buyer concession threshold to $500,000, with reduced rate up to $600,000.</td>
<td><strong>Fuel tax</strong> Discontinued subsidies and replaced by a 20.8% reduction in motor tax for light vehicles and lowered duty on transfer of heavy vehicles from 3% to 1%.</td>
<td><strong>Payroll tax</strong> Reduced tax rate from 6.2% to 5.9%.</td>
</tr>
<tr>
<td><strong>Conveyance duty</strong></td>
<td><strong>Motor vehicle registrations</strong> Reduced duty payable.</td>
<td><strong>Payroll tax</strong> Ceased indirect tax assistance programs.</td>
<td><strong>Conveyance duty</strong> Reduced tax rate from 6.2% to 5.9%.</td>
</tr>
<tr>
<td><strong>Payroll tax</strong> Increased threshold from $504,000 to $600,000</td>
<td><strong>Conveyance duty</strong> Concessional transfer duty scale introduced. Reducing amount of duty payable by between 18.8% and 4.8%.</td>
<td><strong>Fuel tax</strong> Discontinued subsidies and replaced by a 20.8% reduction in motor tax for light vehicles and lowered duty on transfer of heavy vehicles from 3% to 1%.</td>
<td><strong>Conveyance duty</strong> Increased threshold from $504,000 to $600,000 Reduced tax rate from 5% to 4.95%.</td>
</tr>
<tr>
<td>Reduced tax rate from 5% to 4.95%.</td>
<td><strong>Land Tax</strong> Threshold increase by 20% and 10%. Tax rate reduced by 33% for the two lower thresholds.</td>
<td><strong>Land tax</strong> Concessionary transfer duty scale introduced. Reduced amount of duty payable by between 18.8% and 4.8%.</td>
<td><strong>Payroll tax</strong> Reduced tax rate from 6.2% to 5.9%.</td>
</tr>
<tr>
<td><strong>Petroleum subsidy scheme</strong> abolished 1 January 2011.</td>
<td><strong>Metropolitan Region Improvement Tax</strong> Threshold increased from $250,000 to $300,000. Marginal tax rate reduced from 0.18% to 0.15%.</td>
<td><strong>Land tax</strong> Threshold increased from $250,000 to $300,000. Marginal tax rate reduced from 0.18% to 0.15%.</td>
<td><strong>Payroll tax</strong> Reduced tax rate from 6.2% to 5.9%.</td>
</tr>
<tr>
<td><strong>Conveyance duty</strong> First home bonus grant increased to $8,000 up to $400,000 value of home.</td>
<td><strong>Payroll tax</strong> One off rebate for businesses with payrolls of up to $1.6 million.</td>
<td><strong>Payroll tax</strong> Rebate for new positions created.</td>
<td><strong>Conveyance duty</strong> Increased threshold from $385,000 to $540,000 for first home buyers.</td>
</tr>
<tr>
<td><strong>Payroll tax</strong> Threshold increased from $552,000 to $600,000</td>
<td><strong>Land tax</strong> 50% cap on growth in land value in calculating tax.</td>
<td><strong>Payroll tax</strong> Rebate for new positions created.</td>
<td><strong>Payroll tax</strong> Reduced tax rate from 6.2% to 5.9%.</td>
</tr>
<tr>
<td>Tax rate reduced from 5% to 4.95%.</td>
<td><strong>Land tax</strong> Reduction in tax rate from 2% to 1.5% for land valued $350,000 and $750,000 and a further 1% reduction for above $750,000. Land below $350,000 paid 1.5% tax.</td>
<td><strong>Fuel tax</strong> Discontinued subsidies and replaced by a 20.8% reduction in motor tax for light vehicles and lowered duty on transfer of heavy vehicles from 3% to 1%.</td>
<td><strong>Conveyance duty</strong> Increased threshold from $385,000 to $540,000 for first home buyers.</td>
</tr>
<tr>
<td><strong>Conveyance duty</strong></td>
<td><strong>Mining royalty</strong> Rate increase for iron ore from 5.625% to 7.5%.</td>
<td><strong>Gambling tax</strong> Abolished product levy on betting exchange commissions. Reduced tax rate for events from 15% to 5%. Reduced annual licence fee from 350,000 fee units to 300,000 fee units.</td>
<td><strong>Conveyance duty</strong> One off build bonus grant of $10,000 up to the value of $530,000 between may and December 2011 Introduced new conveyance rate of 5.45% for houses above $3 million.</td>
</tr>
<tr>
<td><strong>Payroll tax</strong> Exporters rebate reduced from 20% to 10%, and abolished from July 2013.</td>
<td><strong>Conveyance duty</strong> Cease vacant block concession and first home buyer established dwelling concession.</td>
<td><strong>Gambling tax</strong> Abolished product levy on betting exchange commissions. Reduced tax rate for events from 15% to 5%. Reduced annual licence fee from 350,000 fee units to 300,000 fee units.</td>
<td><strong>Payroll tax</strong> Reduced tax rate from 5.9% to 5.5%. Annual threshold increased from $1.25 million to $1.5 million.</td>
</tr>
<tr>
<td><strong>Petroleum subsidy scheme</strong> abolished 1 January 2011.</td>
<td><strong>Land tax</strong> Pensioners no longer exempt for general land and holiday homes.</td>
<td><strong>Payroll tax</strong> Ceased trainee and apprenticeship rebate, replaced with two years tax relief for new positions created until 30 June 2012.</td>
<td><strong>Conveyance duty</strong> One off build bonus grant of $10,000 up to the value of $530,000 between may and December 2011 Introduced new conveyance rate of 5.45% for houses above $3 million.</td>
</tr>
<tr>
<td><strong>Mining royalty</strong> Phase out of first home buyer reduced, reduced to $4000 from 1 July 2012 and abolished by 1 July 2013.</td>
<td><strong>Payroll tax</strong> Ceased trainee and apprenticeship rebate, replaced with two years tax relief for new positions created until 30 June 2012.</td>
<td><strong>Payroll tax</strong> Ceased trainee and apprenticeship rebate, replaced with two years tax relief for new positions created until 30 June 2012.</td>
<td><strong>Payroll tax</strong> Reduced tax rate from 5.9% to 5.5%. Annual threshold increased from $1.25 million to $1.5 million.</td>
</tr>
</tbody>
</table>

**Source** State and Territory Revenue Offices, State and Territory budget papers.
Appendix H

Specifications of i-STAR model

To support the Review’s analysis, ACT Treasury commissioned a regional economic model. The model was developed by Macroeconomics.com.au, and is known as ACT i-STAR (the Model) (Industries, States, Territories and Region).

The shell of the Model was derived from the TERM (The Enormous Regional Model) built by Monash Centre of Policy Studies (CoPS) in the 2000s and modified by Macroeconomics based on the current requirements to reflect the key stylised facts about the ACT economy and existing policy settings.

It is a ‘bottom-up’ CGE model of the Australia economy which treats each region as a separate economy.

Overview

The ACT i-STAR model is a dynamic model that permits the running of scenarios over multiple years, for multiple regions, for changes in exogenous variables such as taxes, technology, tariffs, etc. It incorporates dynamic features including:

- equations explaining regional labour market adjustment
- equations relating investment to capital in year-to-year simulations
- equations explaining the relationship between year-to-year capital growth and rate of return expectations
- equations that facilitate the running of forecasting and dynamic policy simulations, and
- regional data.

The key feature of the Model, is that it can handle a great number of regions or sectors. The master database distinguishes 172 sectors in 206 statistical sub-divisions (SSDs) corresponding to the Australian Statistical Divisions. The high degree of regional detail makes the Model a useful tool for examining the regional impacts of shocks (especially supply-side shocks) that may be region-specific.

The Model also allows a top-down disaggregation of employment and income within each Statistical Division to the SLA (Statistical Local Area) level. That is, results originally generated for the 57 SDs may be broken down according to Australia’s 1,379 SLAs. Essentially this level of fine disaggregation allows for analysis of policy impacts by Federal and State electorates or by local council.

A5 TERM was originally developed by Mark Horridge at the Centre of Policy Studies see <http://www.monash.edu.au/policy/term.html>. Since then, Glyn Wittwer has developed a dynamic version of the model, an application of which Wittwer et al. (2005) is an example.
The database

The database draws upon the ABS 2005-06 input-output table and uses various data sources to estimate regional shares of national activity for production, investment, household consumption, exports and imports.

In the case of production, following the CoPS procedure, the model relies on the CoPS regional employment estimates, which in turn are based on ABS labour force surveys and the 2006 census.

Typically, investment shares are set equal to production shares as a first guess. Regional shares of international trade were generated from unpublished ABS export and import data. Government expenditures shares were based partly on employment numbers using CoPS original estimates and where necessary supplemented with data provided by ACT Treasury.

Government revenue data was supplemented and revised over the course of the Review to handle simulations requested by the Secretariat. The ABS State Accounts provide control totals for state level macro variables and broad sector household expenditures. Initial share estimates are calculated so as to tally with state accounts data.\textsuperscript{A6}

Regional detail

The aggregation of the Model used in the present application also includes a representation of all the statistical local areas of Canberra and South East NSW.

In a bottom-up representation, each region has its own production functions, households, investors and government, so that prices are determined separately. The four bottom-up regions are ACT, South East NSW, Rest of NSW and Rest of Australia.

A top-down representation imposes the same price impacts on each sub-region of the bottom-up region of which it is a part. The top-down module includes activity shares for each small region. Industries designated as “national” within the top down module have the same percentage change in output as the bottom-up region of which they are part.

“Local” industries refer to relatively non-traded sectors, such as local shopping, that are based on changes in local demands arising from the industry composition of a region. This enables the top-down module to capture local ‘multiplier’ impacts.

The bottom-up Canberra region is split into 108 SLAs for top-down representation. The bottom-up South East NSW region is split into 15 top-down regions. We do not present any top-down split for the rest of Australia.

The motivation for using a top-down representation is that we can include detail for many more regions that a bottom-up model without the computational cost of the latter. Top-down modeling is suitable when a shock is not specific to a particular region.

Theory

The theory of the Model is much the same as that in national CGE models. Each industry selects inputs of labour, capital and materials to minimise the costs of producing its output.

The levels of output are chosen to satisfy demands and demands reflect prices and incomes. Investment in each industry reflects rates of return. However, instead of a commodity being produced by a single national industry, in the Model, the commodity is produced by an industry in each region.

Instead of having two sources of supply (domestic and imported), in the Model commodity users have many sources of supply (each region in the chosen aggregation plus imports). Instead of having a single government and a single household, the Model has a national government, state governments (in this application, ACT, NSW and the rest of Australia) and a household in each region.

Regions in the Model are specified as separate economies, linked by trade. The Model imposes a fixed exchange rate and free trade between regions, and common external tariffs. In this sense, the Model remains a national, rather than international model. This means that behavior in foreign markets is determined outside the model (i.e. exogenously).

**Labour market**

The regional labour market adjustment mechanism, in levels, is given by:

\[
\left( \frac{W_r^t - 1}{WF_r^t} \right) + \alpha \left( \frac{EMP_r^t - LS_r^t}{EMP_r^{t-1} - LS_r^{t-1}} \right)
\]

(1)

The interpretation of (1) is that if the deviation shock weakens the labour market in region \( r \) and period \( t \) relative to forecast, real wages \( W_r^t \) in deviation will fall relative to forecast \( WF_r^t \).

In addition, there will be an initial enlarged gap between labour market demand \( EMP_r^t \) and supply \( LS_r^t \), relative to forecast levels \( EMP_r^{t-1} \) and \( LS_r^{t-1} \). In successive years, the gap between demand and supply will gradually return to forecast through a further decline in real wages. The speed of labour market adjustment is governed by \( \alpha \), a positive parameter. The regional labour supply equation is:

\[
LS_r^t = \frac{\sum_q (W_q^t)^\gamma S_q^t}{\sum_q (WF_q^t)^\gamma S_f^t}
\]

(2)

The deviation in regional labour supply from forecast depends on the deviation in regional relative to national real wages from forecast. In (2), \( \sum_q (W_q^t)^\gamma S_q^t \) is a measure of labour responsiveness to real wages summed across all regions, where \( \gamma \) is a positive parameter and \( S_q^t \) is the share of region \( q \) in national employment.

Should the deviation in real wages from forecast fall in a particular region relative to the situation nationally, this equation implies that labour supply in the particular region will fall, while in other regions it will rise.

Combining (1) and (2), adjustment in the labour market in a given region will initially occur via a combination of additional unemployment and lower real wages. Unemployment will eventually return to forecast rates, with lower real wages. As real wages fall relative to the base case, the region’s labour supply will also fall. Within this theory, long run labour market adjustment occurs as a combination of inter-regional labour migration and changes in regional real-wage differentials.

**Closure**

The standard CGE national model policy closure is employed for ACT Tax Review simulations: national employment and the balance of trade are fixed but regional employment, GDP or GSP and interregional trade balances may change. Employment rising relative to base case in a region results in a gradual rise in the wage paid in that region as well as an increase in the labour supply due to migration. Over time, employment returns to base case and all labour market adjustment shows up as wage rises and population movement.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ABS</td>
<td>Australian Bureau of Statistics</td>
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<tr>
<td>ACT</td>
<td>Australian Capital Territory</td>
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<tr>
<td>ACTCOSS</td>
<td>ACT Council of Social Service</td>
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<tr>
<td>AFTS</td>
<td>Australia’s Future Tax System</td>
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<tr>
<td>ATO</td>
<td>Australian Taxation Office</td>
</tr>
<tr>
<td>AUV</td>
<td>Average Unimproved Value</td>
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<td>ASV</td>
<td>Average site value</td>
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<tr>
<td>AWE</td>
<td>Average Weekly Earnings</td>
</tr>
<tr>
<td>AWOTE</td>
<td>Average Weekly Ordinary Time Earnings</td>
</tr>
<tr>
<td>CBC</td>
<td>Canberra Business Council</td>
</tr>
<tr>
<td>CCMIL</td>
<td>City Centre Marketing and Improvement Levy</td>
</tr>
<tr>
<td>CGC</td>
<td>Commonwealth Grants Commission</td>
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<tr>
<td>CGE</td>
<td>Computable General Equilibrium</td>
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<tr>
<td>CoPS</td>
<td>Centre of Policy Studies</td>
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<tr>
<td>COAG</td>
<td>Council of Australian Governments</td>
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<tr>
<td>COE</td>
<td>Compensation of Employees</td>
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<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
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<tr>
<td>CTP</td>
<td>Compulsory Third Party</td>
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<tr>
<td>DGE</td>
<td>Designated Group Employer</td>
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<td>EGM</td>
<td>Electronic Gaming Machine</td>
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<tr>
<td>ERP</td>
<td>Estimated Resident Population</td>
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<td>ESL</td>
<td>Emergency Services Levy</td>
</tr>
<tr>
<td>FHOB</td>
<td>First Home Owner’s Boost</td>
</tr>
<tr>
<td>FHOG</td>
<td>First Home Owner Grant Scheme</td>
</tr>
<tr>
<td>FTE</td>
<td>Full-time Equivalent (in relation to staff positions)</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GGMR</td>
<td>Gross Gaming Machine Revenue</td>
</tr>
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<td>GGS</td>
<td>General Government Sector</td>
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<tr>
<td>GRA</td>
<td>General Revenue Assistance</td>
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<tr>
<td>GSP</td>
<td>Gross State Product</td>
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<td>GST</td>
<td>Goods and Services Tax</td>
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<tr>
<td>HFE</td>
<td>Horizontal Fiscal Equalisation</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>--------------</td>
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</tr>
<tr>
<td>HDI</td>
<td>Household disposable income</td>
</tr>
<tr>
<td>MBA</td>
<td>Master Builders Association</td>
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<tr>
<td>NFPS</td>
<td>Non-Financial Public Sector</td>
</tr>
<tr>
<td>NLA</td>
<td>Net Leasable Area</td>
</tr>
<tr>
<td>NPPs</td>
<td>National Partnership Payments</td>
</tr>
<tr>
<td>NSW</td>
<td>New South Wales</td>
</tr>
<tr>
<td>NT</td>
<td>Northern Territory</td>
</tr>
<tr>
<td>NTER</td>
<td>National Tax Equivalent Regime</td>
</tr>
<tr>
<td>PAYG</td>
<td>Pay As You Go</td>
</tr>
<tr>
<td>PC</td>
<td>Productivity Commission</td>
</tr>
<tr>
<td>PM</td>
<td>Percentage multiplier</td>
</tr>
<tr>
<td>QLD</td>
<td>Queensland</td>
</tr>
<tr>
<td>RBA</td>
<td>Reserve Bank of Australia</td>
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<td>SA</td>
<td>South Australia</td>
</tr>
<tr>
<td>SFD</td>
<td>State Final Demand</td>
</tr>
<tr>
<td>SPPs</td>
<td>Specific Purpose Payments</td>
</tr>
<tr>
<td>TAS</td>
<td>Tasmania</td>
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<tr>
<td>UE</td>
<td>Unit entitlement</td>
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<tr>
<td>VFI</td>
<td>Vertical Fiscal Imbalance</td>
</tr>
<tr>
<td>VIC</td>
<td>Victoria</td>
</tr>
<tr>
<td>WA</td>
<td>Western Australia</td>
</tr>
<tr>
<td>WAC</td>
<td>Water Abstraction Charge</td>
</tr>
<tr>
<td>WPI</td>
<td>Wage Price Index</td>
</tr>
</tbody>
</table>
Appendices

Appendix J

Glossary

Ad Valorem tax: A tax that is levied as a percentage of the value of a particular good or service; for example, a 3 per cent royalty on the value of gold production or an 8 per cent tax on the value of an insurance premium. *

Annual assessed value: the sum of all rental payments paid to the land owner in a year.

Average weekly earnings: Average weekly earnings statistics represent average gross (before tax) earnings of employees. Estimates of average weekly earnings are derived by dividing estimates of weekly total earnings by estimates of number of employees. *

Average Weekly Ordinary Time Earnings (AWOTE): Weekly ordinary time earnings refers to one week's earnings of employees for the reference period attributable to award, standard or agreed hours of work. It is calculated before taxation and any other deductions (for example, superannuation, board and lodging), have been made. *

Aged dependency: A measure used to compare the size of the older population to the working age population. It is calculated as the number of people aged 65 years and over (that is, 'old age dependants') divided by the number of people aged 15-64 years, multiplied by 100. A7

Average unimproved value: In the ACT, the average of the past three years unimproved land values.

Capital value: The total market value of the land including buildings and other improvements.

Child dependency: The dependency criterion is applied to two groups of people in slightly different ways: children under 15 and dependent students. Children under the age of 15 are not legally able to work full-time and thus cannot support themselves; and dependent students, aged 15-24 years old and studying full-time are also assumed to be unable to support themselves financially since, by virtue of their student status, they are generally unable to work enough hours to fully support themselves. A8

Commonwealth grants: Includes general revenue in the form of Goods and Services Tax (GST) grants from the Commonwealth Government that contribute to the financing of State and Territory operations. This is in addition to specific purposes monies, where the Commonwealth Government wishes to have involvement in the direction of the expenditure, either Specific Purpose Payments or National Partnership Payments. Grants are also received for on-passing to third parties (for example to non government schools), where the Territory has no discretion in their allocation.

Commonwealth Grants Commission (CGC): Established by the Commonwealth Government in 1933, the CGC is an independent authority that makes recommendations to the Commonwealth Government concerning the distribution of the pool of GST among the States and Territories in accordance with the principles of horizontal fiscal equalisation (HFE).

Compliance cost: Expenses incurred in meeting the requirements of legislation or regulations. Compliance costs include a wide range of monetary and non-monetary costs. *


**Consumer Price Index (CPI):** The CPI measures changes in the price of a basket of goods and services (groups) which are typical of the purchases made by metropolitan households in the eight capital cities.

**Corrective tax:** A tax designed to make markets more efficient by exposing producers and consumers to prices that reflect the costs that they impose on others (such as pollution).*

**Dependency ratio:** The dependency ratio is a measure used to compare the size of the working age population to the size of the non-working age population, calculated as the sum of people aged 0-14 and 65 years and over (that is, ‘dependents’) divided by the number of people aged 15-64 years, multiplied by 100.**

**Depreciation (economic):** The decline in the market value of an asset over its life.*

**Depreciation (tax):** The decline in value of an asset for taxation purposes, which may differ from economic depreciation.*

**Distortion:** Any action or thing that reduces economic efficiency. Distortions generally arise when private action (such as price-fixing by a cartel), or public action (such as a tax imposed by government), changes an individual’s or firm’s behaviour.*

**Economic incidence:** The person or entity that bears the final burden of a tax (or receives the benefit of a transfer), after response effects, such as price and wage changes, are taken into account. This is distinct from who actually makes the tax payment transaction (the legal incidence). For example, with a consumption tax the supplier of goods and services may bear the legal incidence and, therefore, pay the tax. However, if they can factor the tax into what the consumer pays, the consumer bears the economic incidence.*

**Economic rents:** An economic rent is the excess of the return to a factor of production above the amount that is required to sustain the current use of the factor (or to entice the use of the factor). For example, if a worker is paid $100,000 but would still be willing to work at the same job if they were paid $75,000, their economic rent would be $25,000.*

**Effective tax rates (labour taxes):** Effective marginal tax rates (EMTRs) for labour measure the proportion of gross pay lost in taxes and reduced transfer payments due to a small change in gross income (for example, a change of $1.00). Effective average tax rates (EATRs) for labour are a measure of the proportion of gross pay that is lost to tax or reduced transfer payments due to that gross income.*

**Effective tax rates (savings and investment):** Effective marginal tax rates (EMTRs) on savings and investment measure the effect of taxation on the return to an investment in a marginal project, which is one that earns no super normal profits. Effective average tax rates (EATRs) for investment measure the effective tax burden on an additional unit of investment. EATRs can be used to examine the tax burden on investments with super normal profits.*

**Efficiency:** Efficiency means making the best use of resources. ‘Technical’ or ‘productive’ efficiency means producing as many goods or services as possible from a given set of inputs. ‘Allocative’ or ‘economic’ efficiency means putting productive resources (like labour, land or capital), to their highest value use and distributing goods and services to consumers in a way that best satisfies consumer needs and wants.*

**Elasticity:** A measure of the responsiveness of one variable to changes in another. For example, the ‘price elasticity of demand’ refers to the percentage change in the amount of a good purchased (‘demand’) following a percentage change in its price. If the percentage change in demand is more than the percentage change in price, demand is said to be price ‘elastic’; if it is less, demand is said to be price ‘inelastic’.*
First Home Owner Boost (FHOB): The FHOB supplements the First Home Owner Grant (FHOG). The FHOB is funded by the Commonwealth Government and applied to contracts entered into on or before 31 December 2009.

First Home Owner Grant (FHOG): States and Territories are required to fund a FHOG to offset the impact of the Goods and Services Tax (GST) on the price of new homes.

Full-Time Equivalent (FTE): A measure of the total level of staff resources used. The FTE of a full-time staff member is equal to 1.0. The calculation of an FTE for part-time staff is based on the proportion of time worked compared to that worked by full-time staff performing similar duties. Contractors are excluded.

General Government Sector (GGS): This is an Australian Bureau of Statistics (ABS) categorisation of certain public sector agencies. It covers agencies mainly engaged in the production of goods and services outside the normal market mechanism, for consumption by government itself and the general public. The agencies’ costs of production are mainly financed from public revenues and they provide goods and services to the general public, or sections of the general public, free of charge or at nominal charges well below the cost of production.

General Revenue Assistance (GRA): Covers a broad range of payments including GST payments which are provided to the States and Territories by the Commonwealth without conditions to be spent according to their own budget priorities.

Goods and Services Tax (GST): The GST is an indirect, broad-based consumption tax.

GST revenue: GST revenue collected by the Commonwealth Government is transferred to the States and Territories as untied financial assistance in accordance with the principle of horizontal fiscal equalisation.

Government Finance Statistics (GFS): The framework used by the ABS for presentation of data on government outlays, revenue and financing transactions through either the General Government Sector or the public component of the business sector (the Public Trading Enterprise sector) in accordance with an internationally accepted set of concepts and definitions.

Grants (non ACT Government): These include payments to individuals or organisations for general assistance or for a particular purpose that contribute to the achievement of the program’s objectives. Grants may be for capital and the grant name or category reflects the use of the grant.

Gross State Product (GSP): The total value of production within a State or Territory which is the State/Territory equivalent of gross domestic product.

Harmonised financial statements: These are consolidated financial statements prepared in accordance with the ‘AASB 1049, Whole of Government and General Government Sector Financial Reporting’, standard to meet the requirements of the GFS, the AASB and the Uniform Presentation Framework.

Horizontal equity: Horizontal equity refers to people in similar circumstances being treated in a similar way. For instance, by paying a similar amount of tax in the context of the tax system, or receiving a similar level of benefit in the transfer system.*

Horizontal Fiscal Equalisation (HFE): A concept used to distribute GST Revenue amongst the State and Territory governments such that, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each would have the capacity to provide services at the same level.

Income effect: If the price of a commodity (of any type) rises, there are two effects. Firstly, the real income of people who use it falls. This generally, but not always, causes them to use less of it and/ or other goods. This is called the income effect. Secondly, the price of that commodity rises relative to other commodities, causing people to use less of it and more of the other commodities. This is called the substitution effect.*
**Income support**: Transfer payments from government to low-income individuals and families to assist with the cost of living. There are two types of income support payment in the existing Australian transfer system: pensions (for example, the Age Pension or the Disability Support Pension), and allowances, like Newstart Allowance and Youth Allowance.*

**Income tax benchmark**: A theoretical tax structure that involves levying tax on all additions to an individual’s ability to purchase goods and services in a given period. It taxes both the return from labour and the return from savings. A nominal income tax taxes the entire return from saving. A real income tax taxes only the return from saving in excess of inflation; that is, it taxes additions to the real quantity of goods and services the individual can purchase in a given period.*

**Legal incidence**: The individual or entity legally liable to pay a tax or receive a transfer bears the legal incidence of the tax or transfer. It often differs from the economic incidence (see economic incidence).*

**National agreement**: An agreement with the Commonwealth defining the objectives, outcomes, outputs and performance indicators, and clarifying the roles and responsibilities that will guide the Commonwealth and the Territory in the delivery of services across a particular sector.

**National Specific Purpose Payment (SPP)**: A Commonwealth financial contribution to support State and Territory delivery or services in a particular sector.

**National Tax Equivalent Regime (NTER)**: An administrative arrangement between the Commonwealth Government, States and Territories which notionally applies relevant taxation laws to nominated State and Territory government business enterprises.

**Net annual value**: The rental value of property minus the landowner’s costs, including land taxes and maintenance.

**Not-For-Profit organisation (NFP)**: An organisation that is not operated for the profit or gain of its individual members, both while the organisation is being carried on, and on its winding up.*

**Offset**: Tax offsets directly reduce the amount of tax paid. They are different from deductions, which reduce total assessable income. Tax offsets were previously known as rebates. They can be non-refundable (that is, they can reduce a taxpayer’s liability to zero, but cannot result in a refund), or refundable.*

**Operating leases**: Leasing arrangements in which all substantial risks and rewards incidental to ownership of a leased asset effectively remain with the lessor (the owner of the asset) rather than passing to the lessee (which would make it a finance lease).

**Other economic flows**: For the whole of government harmonised operating statement, other economic flows includes changes in the value of assets from revaluations, non-financial asset sales and non-mutual bad debts written off.

**Output**: Goods produced or services provided by, or on behalf of, an agency to the community. Outputs allow for the measurement of the cost of an agency to provide goods or services to the ACT community.

**Participation (labour force)**: Labour force participation is people in work or looking for work. The labour force participation rate is the labour force as a percentage of the civilian population aged 15 years and over.*

**Participation Tax Rate (PTR)**: The proportion of gross pay lost in taxes and reduced transfer payments when a person takes up paid employment.*

**Productivity**: The amount of goods or services that can be produced from a given set of inputs. Productivity rises when more outputs can be produced from the same number of inputs.*

**Progressive taxation**: Where the average rate of tax increases as income increases.*
**Provision**: Liability for which the amount or timing of the future sacrifice of economic benefits that will be made is uncertain.

**Public good**: A commodity of which the consumption has to be decided by society as a whole, rather than by individuals.

**Receipts**: Cash inflows for a period, irrespective of when the moneys are earned.

**Regressive taxation**: Where the average rate of tax decreases as income increases.*

**Relativity GST**: A per capita ratio assessed by the CGC for use by the Australian Treasury in calculating the share of the GST revenue that a State or Territory requires to achieve HFE. The Australian average relativity is 1.0. By way of example, a jurisdiction assessed by the CGC as having a relativity of 2.0 would require twice as much GST revenue per capita than the Australian average to achieve HFE.

**Resource rent tax**: A tax that applies to the super normal profits, or economic rent of a resource project.*

**Service charge**: The service charge includes a number of current services or charges on land that could be combined together. These include, for example, domestic waste collection; road maintenance; stormwater infrastructure maintenance; and fire and emergency services.

**Site value**: The site value is the current market value of the land excluding improvements.

**Site charge**: General unhypothecated charge based on the site value of land that may support policy objectives. The site charge forms the basis of a new State taxation system.

**Social costs**: The total costs of an activity. This includes the private cost as well as the spillover or external cost imposed on people who are not directly involved in the activity.*

**State Final Demand (SFD)**: The aggregate obtained by summing government final consumption expenditure, household final consumption expenditure, private gross fixed capital formation and the gross fixed capital formation of public corporations and general government.*

**Tax base**: The tax base is the assessed value upon which a tax is levied; for example, taxable income.*

**Tax expenditure**: A tax concession that provides a benefit to a specified activity or class of taxpayer.*

**Unimproved land value**: The value of land excluding any capital improvements.

**User charges**: Revenues resulting from the sale of goods and services to consumers. User charges include revenue that the reporting agency controls, and excludes Territory (administered) revenue. User charges exclude government payment for outputs.

**Vertical equity**: Vertical equity is the principle that people with low means should receive greater assistance than those with higher means, and that those with greater economic capacity should have a higher tax burden.*

**Vertical fiscal imbalance**: The difference between the relative revenue raising capacity and spending responsibilities of the Commonwealth and States and Territories.

**Wage Price Index (WPI)**: The WPI is a price index which measures changes over time in wages and salaries for employee jobs, unaffected by changes in the quality or quantity of work performed. Changes in wages and salaries resulting from changes in the composition of the labour market are excluded from the WPI movements.

**Wealth tax**: Wealth taxes can be either recurrent or levied on transfers between one party and another (for example, bequest and gift taxes). A recurrent wealth tax is levied on the entire wealth of a household or business. A tax on a specific asset class, like a land tax, is a property tax but not a wealth tax.
Appendix K

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