

Chapter 6 Territory Own-Source Revenue

Overview Northern Territory own-source revenue comprises predominantly taxes and mining revenue but also includes fees and charges, miscellaneous property income, interest received and profit and loss on disposal of assets.

Nationally, own-source revenue represents more than half of states' total revenue, with the remaining revenue sourced from Commonwealth grants. Although the Territory is more reliant on Commonwealth grants than other jurisdictions, the Territory's own-source revenue nonetheless forms an important component of total revenue. In addition to being a significant source of revenue for the states, own-source revenue provides states with fiscal autonomy and flexibility to tailor services to meet the needs of their constituents.

Full details of revenue collected from the Territory's own sources are set out in *Budget Paper No 3*.

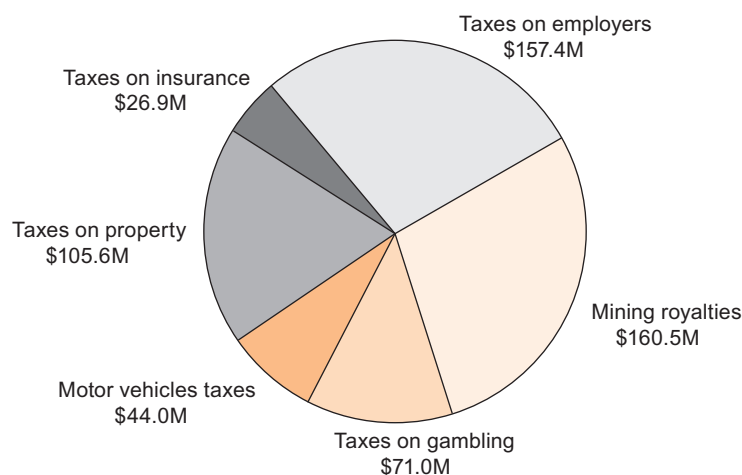
This chapter provides an explanation of the Territory's own-source revenue regime, revenue collection forecasts and how it compares with other jurisdictions. It also includes a statement of the Territory's forecast tax expenditures as a result of concessions and exemptions for 2009-10 through to 2012-13, as required by the *Fiscal Integrity and Transparency Act*.

Analysis of Territory Revenue

The estimated revenue in 2008-09 from the main components of own-source revenue totals \$637.4 million, compared to the forecast total of \$488.0 million. This is mostly a result of a revision to the mining royalty revenue estimate to \$224.6 million from the original forecast of \$88.0 million.

Chart 6.1 shows the Territory's estimated own-source revenues in 2009-10 according to the classification used in the Uniform Presentation Framework, adopted for the Territory's reporting requirements.

Chart 6.1: 2009-10 Main Own-Source Revenue Categories



Note: Excludes payroll tax collected from general government entities.

Source: Northern Territory Treasury

The projected revenue for 2009-10 from main own-source revenue totals \$565.4 million and the main contributors are expected to be mining royalties at \$160.5 million or 28.4 per cent, taxes on employers (payroll tax) at \$157.4 million or 27.8 per cent, and taxes on property (stamp duties on capital transactions) at \$105.6 million or 18.7 per cent. The composition of the Territory's own-source revenue has changed as a result of the growing importance of mining revenue.

Mining and Petroleum Revenue

Mining revenue is obtained from royalties or rent equivalents levied on the recovery of mineral commodities from mining tenements in the Northern Territory. Similarly, petroleum revenue accrues from royalties imposed on the production of petroleum in the Territory. Mineral and petroleum royalties are not a tax but a charge for resource usage, payable to the Government as the owner of the site or the mineral or petroleum rights over the site.

The Territory's mining royalty revenues are largely based on a profits-based regime provided within its *Mineral Royalty Act*. The Territory's profits-based regime uses the net value of a mine's production to calculate royalty, based on a rate of 18 per cent. In contrast, ad valorem regimes calculate royalty based on a mine's gross production value. Other royalty schemes calculate royalty on the tonnage of minerals extracted.

The Territory's profits-based royalty scheme provided by the *Mineral Royalty Act* is unique to the Territory as ad valorem regimes predominate in other jurisdictions. Profits-based royalty schemes are generally accepted as being less likely to alter decisions to commence mining, and is the royalty basis used for the Commonwealth's Petroleum Resource Rent Tax.

Like the states, the Territory's petroleum royalty revenues are based on an ad valorem rate of 10 per cent after allowing post wellhead costs up to the point of sale.

Mineral royalties are collected in the Northern Territory from mining and quarrying for gold, silver, bauxite, manganese, lead, zinc, sand, gravel, laterite, vermiculite and lime. The Territory is unable to receive royalties in respect of uranium mined in the Territory as, unlike the other states, the Commonwealth retains the ownership of this uranium. Nonetheless, the Territory receives a grant in lieu of uranium royalty from the Commonwealth. The only uranium mine in the Territory is the Ranger Project, which has an ad valorem royalty scheme as settled by the Commonwealth. The Territory receives a portion of this royalty based on a rate of 1.25 per cent of the value of production. This royalty rate reflects the Territory's royalty regime that applied at the time the Ranger arrangements were settled between the mine operator and the Commonwealth.

The Commonwealth has recently introduced legislation that imposes royalty on any new uranium mines in the Territory based on the Territory's *Mineral Royalty Act*. At the time of writing, this legislation is in the process of being considered by the Senate. Under the introduced legislation, the royalty collected by the Commonwealth will be provided to the Territory as a grant in lieu of royalty. In effect, this will place the Territory in a fiscal position that is equivalent to the states in respect of the mining of uranium.

A key feature of the Territory's profits-based regime is that both prices and mining costs, including mine set-up costs carried forward to profitable years, are taken into account in royalty calculations. If commodity prices, production costs or the value of the Australian dollar rise or fall, royalty liabilities alter accordingly. This is evident in the large increase in mining revenue from \$94.4 million in 2007-08 to an estimated \$224.6 million in 2008-09, as miners profited from commodity prices being at historical highs during 2007-08, some of which flowed through to the 2008-09 royalty assessment period. One particular miner experienced an unprecedented increase in price and demand for its mineral commodities. The upward revisions to

the Territory's 2008-09 mining revenue forecasts were substantially influenced by the extraordinary profitability of this miner.

Mining revenue forecasts are reliant on advice from mining companies of their estimated liability for the financial year and their estimates of commodity price movements, production levels and the value of the Australian dollar. However, the estimate of mining royalty during the 2008-09 royalty assessment period was problematic as there was both unprecedented growth in production and commodity prices and subsequent falls in production levels and commodity prices following the global financial crisis (GFC).

The forecast for 2009-10 is \$160.5 million, a decrease of \$64.1 million from the 2008-09 estimate. The downward forecast is due to the fall in miners' estimates of commodity prices and predicted decrease in mining production as global demand for commodities declines, due to the GFC.

Taxation Revenue

The Territory's taxation revenue for 2008-09 is expected to total \$412.8 million. In 2009-10, taxation revenue is expected to decline by 1.9 per cent to \$405.0 million largely as a result of lower conveyance stamp duty receipts.

The components of the Territory's taxation revenue are payroll tax, stamp duty on conveyances, taxes on gambling, taxes on insurance and motor vehicle fees and taxes. Table 6.1 shows the estimate of the Territory's taxation revenue for 2008-09 and forecast for 2009-10.

Table 6.1: Northern Territory
Taxation Revenue

	2008-09 Estimate	2009-10 Estimate
	\$000	\$000
Taxes on employers		
Payroll tax ¹	153 413	157 389
Taxes on property		
Conveyance duty	115 883	105 343
Other duty	299	302
Taxes on the provision of goods and services		
Taxes on gambling	73 599	71 008
Taxes on insurance	25 640	26 897
Taxes on use of goods and performance of activities		
Motor vehicle taxes	44 000	44 000
Total	412 834	404 939

¹ Payroll tax from public financial corporations, public non-financial corporations and the private sector.
Source: Northern Territory Treasury

Payroll Tax

Payroll tax is payable in the Northern Territory when the total Australian wages of an employer (or group of employers) exceed the Territory's general exemption level, currently \$1.25 million. The threshold reduces proportionately if an employer pays wages in another state or territory.

Payroll tax is calculated at a rate of 5.9 per cent on taxable wages paid by an employer for services rendered by employees in the Northern Territory. The Government has committed to reducing the payroll tax rate to 5.5 per cent in 2012.

In 2008-09, payroll tax revenue is estimated at \$153.4 million, an increase of \$11.4 million from 2007-08, despite the reduction in the tax rate from 6.2 per cent

to 5.9 per cent that commenced from 1 July 2008. The increase in payroll tax revenue has been driven by the combined result of the Territory's wages growth of 4.3 per cent and employment growth of 2.5 per cent in 2008-09.

In 2009-10, a number of factors will influence payroll tax collections. These include:

- growth in employment is forecast to slow and unemployment is expected to rise in the Territory;
- consumer confidence is expected to decline as a result of the ongoing deterioration of the global economy;
- forecast rise in unemployment rates in other jurisdictions. This will affect payroll tax receipts as the Territory's payroll tax base predominantly comprises employers who employ staff interstate as well as in the Territory and it is these national employers that may reduce employee levels;
- the effect of the GFC on employment in the mining sector; and
- a reduction of \$1.3 million resulting from the harmonisation of the Territory's payroll tax legislation. Further details on this reform are provided in Chapter 4.

Consequently, payroll tax revenue in 2009-10 is forecast to grow by 2.4 per cent rising in the subsequent years, before returning to the long-term growth rate of 5.0 per cent by 2012-13.

Stamp Duty

Conveyance Duty

The Territory's conveyance duty is derived from direct and indirect conveyances of dutiable property in the Territory. Such property comprises of real estate and transfers of businesses.

Conveyance duty in the Territory is calculated by a formula that determines a rate applicable to the value of dutiable property conveyed. The minimum rate is 1.5 per cent and the maximum rate is 4.95 per cent, applying to a dutiable property with a dutiable value of \$525 000 or more. This is different to the other states which levy stamp duty on a marginal rate scheme. A comparison of the Territory's stamp duty regime with the other states is provided later in this chapter.

In 2008-09, the Territory is expected to collect \$115.9 million in stamp duty on conveyances, compared with \$112.2 million in 2007-08. The increase in conveyance duty collections is mainly due to a number of large commercial conveyance transactions and increases in residential prices over this period.

In 2009-10, the conveyance duty forecast is estimated to decline to \$105.3 million arising from a predicted reduction in commercial transactions, particularly large commercial property sales, offset by growth in the average value of residential transactions. However, it is expected that revenue growth will return to longer term growth rates of 2.5 per cent in subsequent years.

The estimate does not include any impact from the Government's changes to the stamp duty landholder regime that imposes stamp duty on takeovers of listed entities. A conservative view has been adopted because of the difficulties in predicting such takeovers of listed entities that hold land in the Territory. Chapter 4 provides further information on this revenue measure.

In the 2005-06 Budget, the Territory Government announced a timetable for the abolition of a number of stamp duties that were listed for review in the Intergovernmental Agreement on the Reform of Commonwealth-State Financial

Relations. In accordance with this announcement, the Territory has abolished stamp duty on unquoted marketable securities from 1 July 2006, stamp duty on grants and renewals of leases and franchises from 1 July 2006, and stamp duty on hiring arrangements from 1 July 2007.

Stamp duty on the non-land component of business conveyances was originally scheduled for abolition from 1 July 2009. However, this has been deferred until 1 July 2012. Chapter 4 provides further information on the rationale for this change. The impact of the deferral is to reinstate revenue of \$9.6 million in 2009-10 and decrease the 2012-13 forecast by \$10.3 million, reflecting the conveyance duty long-term growth parameter of 2.5 per cent.

Stamp Duty on Insurance

Insurance duty is imposed on general and life insurance policies, with general insurance contributing to the majority of the revenue collected from this duty. Stamp duty on general insurance is calculated at a rate of 10 per cent of the premium paid on all general insurance products that relate to property or risk that may occur in the Territory. Where the policy also relates to a risk or property outside the Territory, the premium is apportioned accordingly. Stamp duty on life insurance is levied on life insurance policies relating to a person residing in the Northern Territory and is calculated at a rate of 10 cents per \$100 or part thereof of the sum insured.

Revenue from insurance duty is forecast to be \$25.6 million in 2008-09. In 2009-10, insurance duty is forecast to grow by 4.9 per cent to \$26.9 million based on historical growth rates.

Motor Vehicle Taxes

Motor vehicle taxes comprise stamp duty on the transfer and initial registration of motor vehicles and motor vehicle registration fees.

Generally, the stamp duty is levied on the purchase price of the vehicle at a rate of \$3 per \$100 or part thereof. Revenue from this source in 2008-09 is estimated to be \$20 million, a decrease of \$1.7 million or 7.8 per cent from 2007-08, reflecting a falling trend in new car sales in the Territory. In 2009-10 it is expected to remain at \$20 million, reflecting similar levels of car sales.

Motor vehicle registrations comprise heavy vehicle registrations and light vehicle registrations. Heavy vehicle registration fees are uniform across Australia and are set by the National Transport Commission. Light vehicle registration fees are determined by each state. In the Territory, the fee is calculated by reference to a differential rate scale based on the engine capacity of the vehicle. In 2008-09 and forward years, the Territory is estimated to receive \$24.0 million in motor vehicle registration fees.

Gambling Taxes

Gambling taxes constitute a significant proportion of state and territory revenues and in 2009-10 gambling tax revenue is forecast to be \$71.0 million, or the fourth largest own-source revenue. The components of gambling taxes in the Northern Territory are community gaming machine tax, lotteries tax, wagering tax, bookmaker turnover tax, casino/internet tax and community benefit levy.

In 2008-09, the Territory is estimated to have received \$73.6 million in gambling taxes, an increase of \$2.5 million from 2007-08. Table 6.2 shows the estimated revenue from each of the Territory's gambling taxes.

Table 6.2: Estimated Revenue from Gambling Taxes

Tax/duty	2008-09 Estimate	2009-10 Estimate
	\$000	\$000
Community gaming machine tax	26 579	25 066
Lotteries tax	13 129	13 457
Casino/internet tax	11 924	12 520
Bookmakers – racing and sports betting taxes	11 642	9 349
Wagering tax	7 502	7 690
Community benefit levy	2 823	2 926
Total	73 599	71 008

Source: Northern Territory Treasury and Department of Justice

In 2008-09, additional tax revenue from the increase in community gaming machine profits in clubs and hotels has been offset by the lower community gaming machine tax rates introduced by the Northern Territory Government from 1 January 2009.

In 2009-10, community gaming machine tax revenue is expected to decline by \$1.5 million, reflecting growth in collections at the long-term rate of 10 per cent, offset by the lower community gaming machine tax rates.

Table 6.3 compares the previous community gaming machine tax scales for clubs with the new regime applying to both hotels and clubs.

Table 6.3: Community Gaming Machine Taxation Rates

Clubs turnover thresholds (prior to 1 January 2009) ¹	New hotels and clubs turnover thresholds (post 1 January 2009)	Marginal tax rate ²
up to \$5000	up to \$10 000	12.91%
\$5001 to \$50 000	\$10 001 to \$100 000	22.91%
\$50 001 to \$150 000	\$100 001 to \$200 000	32.91%
\$150 00 and over	\$200 001 and over	42.91%

¹ Prior to 1 January 2009, hotels paid community gaming machine tax at the flat rate of 42.91 per cent.

² Hotels continue to pay a 10 per cent community benefit levy in addition to community gaming machine tax.

Bookmaker turnover tax is forecast to decrease from \$11.6 million in 2008-09 to \$9.3 million in 2009-10, reflecting an increase in bookmaker betting turnover offset by the temporary moratorium on turnover tax relating to betting on thoroughbred and harness racing in New South Wales. The Government has provided this moratorium as an interim measure while bookmakers attempt to resolve issues regarding the imposition of a 1.5 per cent product fee by Racing NSW. The forward estimate forecasts are based on a long-term growth rate of 10 per cent.

Bookmaker turnover tax is levied on the value of bets placed with a bookmaker. The tax on race betting is 0.33 per cent of turnover for all thoroughbred, greyhound and harness racing events. The tax on sports betting is 0.25 per cent of turnover for internationally sourced bets. Domestically sourced bets do not incur tax because they are subject to GST.

Wagering tax is imposed on both on-course and off-course totalisators at the rate of 40 per cent of the licensee's commission. Tax of 20 per cent of the licensee's commission is paid for races other than thoroughbred, harness and greyhound races and Australian sports. Tax at the rate of 10 per cent of the licensee's

commission is paid for international sports. The forward estimate forecasts are based on the long-term growth rate of 2.5 per cent.

Other Revenue

User charges

User charges are fees imposed on an individual for the provision of a general government service or good. They are distinct from a tax because those who receive a direct benefit from the service pay the charge. The Territory levies user charges across a range of services including culture and recreation, environment, licensing and transport.

User charges are appropriate for government services where the benefits accrue to the individual who demands the service. This prevents general government revenue being diverted to fund a service where there is no benefit to the public at large. User charges are generally not appropriate for core government services particularly those that are provided to achieve social objectives such as community safety, equal access to health and education and welfare.

User charges are generally set at a flat rate and do not take into consideration the individual's ability to pay. This can raise equity issues as those with limited capacity to pay may not be able to access the service even if they value the service. Some goods and services are viewed by the community as essential and it is desirable for these goods and services to be reasonably available to all members of the community regardless of their capacity to pay for them. To achieve this, essential services may be subsidised by government through concessional (below cost) pricing for particular population groups.

As a basic principle, user charges should be set at full cost recovery. This ensures that those who do not use the service are not penalised indirectly through reduced level of services in other government areas. In addition, user charges should be contemporary through regular reviews of the fee to reflect changes in input costs such as wages and salaries, materials and technology.

A review of the Territory's user charges and conversion of suitable charges to revenue units will be undertaken in 2009-10. Chapter 4 provides further details of this review.

Tax Comparisons

The composition of state taxes is broadly similar between the states, however there are differences in the application. These differences primarily relate to rates, exemptions and thresholds. The ability of states to modify their rates and tax base promotes competition between states and allows states to structure their tax system to meet their different circumstances such as industry structure, house prices, population demographics and revenue needs.

There are various approaches to measuring tax competitiveness. Two common approaches are Commonwealth Grants Commission measures of taxation effort and capacity, and the representative taxpayer model.

Commonwealth Grants Commission

Revenue Effort

The Commission assesses each state's revenue raising effort on an annual basis. Revenue effort is the ratio of the actual amount of revenue a state raises to the amount of tax revenue the Commission assessed could be raised if the state had applied the average tax rates to its tax base.

The average revenue effort is assumed to be 100 per cent. If a state has an above average revenue effort, it will score more than 100 per cent, while below average effort is less than 100 per cent.

Table 6.4 provides a comparison of the Commission's assessment of own-source revenue raising effort in 2007-08 (the latest year that an assessment is available) and includes taxation, mining revenue, contributions by trading enterprises and public safety user charges. The table shows that the Northern Territory's own-source revenue raising effort is almost at the national average and third lowest of all the states.

Table 6.4: 2007-08 Revenue Effort by Jurisdiction

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
	104	97	89	108	108	96	121	99

Source: Commonwealth Grants Commission 2009 Update

Revenue Capacity

States are constrained from growing their own-source revenue either through replacing current taxes with a new growth tax or by expanding existing tax bases. This is evident as nationally, state own-source revenue comprises only about 50 per cent of total state revenue. However, the Territory's own-source revenue comprises 20 per cent of total revenue.

The revenue limitations imposed on the states are the result of the Australian Constitution and changes to Commonwealth-state financial relations. For instance, states are unable to raise excise and customs duties and the Commonwealth has assumed the collection of income tax.

In addition, state taxation policy provides a balance between raising sufficient revenue to deliver government services, minimising the tax burden on the public, fostering business development and creating a tax environment that is competitive with other jurisdictions.

Although all states face similar constraints in raising own-source revenue, the Territory's capacity to raise revenue is further disadvantaged by its relatively small revenue base. This is illustrated in Table 6.5 which shows the Commission's assessed revenue raising capacity for the major taxes and mining revenue. Revenue capacity is the ratio of the per capita amount a state could raise if it applied the national average to its tax base to the per capita average revenue raised. This measure removes differences in state policies.

Table 6.5: Assessed Revenue Raising Capacity, 2007-08

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Payroll tax	110	104	88	110	82	68	83	78
Land tax	116	77	106	155	49	23	88	41
Conveyance duty	91	88	134	126	70	67	98	67
Insurance duty	115	96	91	102	88	70	66	74
Motor vehicle duty	87	102	114	128	84	82	84	107
Gambling taxes	101	101	96	102	96	94	129	103
Total taxation ¹	101	96	107	119	80	72	92	77
Mining revenue	46	5	159	451	49	32	0	217

¹ Total taxation is not the sum of the taxes listed in the table.

Source: Commonwealth Grants Commission 2009 Update

For the major state taxes, the Territory is assessed as having the lowest capacity to raise revenue. This reflected the Territory's different circumstances such as:

- the Territory's industry structure which is characterised by a large number of small and medium businesses that are generally exempt from payroll tax as a result of the Territory's \$1.25 million payroll tax general exemption;
- average land prices in the Territory are lower than the national average; and
- a relatively small number of high value commercial and residential properties.

The Territory is compensated for its relatively small own-source revenue base by the Commission's equalisation process through a higher share of GST revenue. The Territory's low capacity to raise own-source revenue increases its reliance on funding from the Commonwealth.

Representative Taxpayer Model

Comparisons can also be made of states' tax schemes by comparing the amount of tax payable for a representative household or firm. This approach takes into account different circumstances of each state by applying each state's tax rate to a representative/average standard.

Payroll Tax

Table 6.6 compares the payroll tax rates and thresholds for each jurisdiction. The table shows that the Northern Territory's payroll tax exemption threshold is the second highest in Australia and its payroll tax rate is the third highest.

Table 6.6: State and Territory Payroll Tax Rates and Exemption Thresholds

	NSW	Vic	Qld ¹	WA	SA	Tas	ACT	NT	Ave
Threshold (\$M)	0.62	0.55	1.00	0.75	0.55	1.01	1.50	1.25	0.90
Rate (%)	5.75	4.95	4.75	5.50	5.00	6.10	6.85	5.90	5.60

¹ Queensland's threshold diminishes so that no exemption is provided for employers with wages over \$4 million. Source: State legislation and information available as at 20 April 2009.

Since 2001, the Northern Territory Government has provided significant payroll tax relief for Territory businesses by reducing the payroll tax rate from 6.5 per cent to 5.9 per cent and by increasing the exemption threshold from \$0.6 million to \$1.25 million. These changes have maintained the competitiveness of the Territory's payroll tax regime with other jurisdictions, particularly for small to medium size businesses.

This is illustrated in Table 6.7, which provides the effective payroll tax rate at various wage levels for each jurisdiction after taking into consideration individual state thresholds and the payroll tax rates. For small to medium businesses with wages up to \$5 million, the Territory has the most competitive payroll tax scheme as it has either the lowest or second lowest effective payroll tax rate. For larger businesses with wage costs over \$5 million, the Territory has a more favourable effective payroll tax rate than the Australian Capital Territory, New South Wales and Tasmania and is comparable to that in Western Australia.

Table 6.7: Effective State and Territory Payroll Tax Rates at Various Wage Levels

Wages	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
\$M	%	%	%	%	%	%	%	%
2	4.0	3.6	3.2	3.4	3.6	3.0	1.7	2.2
4	4.9	4.3	4.8	4.5	4.3	4.6	4.3	4.1
5	5.0	4.4	4.8	4.7	4.5	4.9	4.8	4.4
6	5.2	4.5	4.8	4.8	4.5	5.1	5.1	4.7
10	5.4	4.7	4.8	5.1	4.7	5.5	5.8	5.2
20	5.6	4.8	4.8	5.3	4.9	5.8	6.3	5.5

Source: State legislation and information available as at 20 April 2009

Payroll Tax Harmonisation

In March 2007 state and territory Treasurers issued a joint media release agreeing to:

- adopt common payroll tax provisions and definitions in eight agreed areas by 1 July 2008; and
- move towards adopting a range of payroll tax harmonisation measures agreed between New South Wales, Victoria and Tasmania.

The majority of the Northern Territory's payroll tax is collected from taxpayers that employ in a number of states and territories. Accordingly, it follows that there are significant compliance cost benefits for these taxpayers arising from the harmonisation of payroll tax legislation and administration because differences create additional requirements for these taxpayers when paying payroll tax in each of the states and territories.

From 1 July 2008, the Northern Territory harmonised its payroll tax legislation with the other states and territories in eight agreed areas. These measures have saved employers about \$1.7 million in payroll tax. From 1 July 2009, the Northern Territory will adopt identical legislation, as far as possible, with New South Wales, Victoria and Tasmania. The main changes relate to payroll tax exemptions for charities and certain wages of employees participating in voluntary work for bush fires and emergency relief, and wages paid as maternity leave. The 2009-10 measures are expected to save employers a further \$1.3 million in payroll tax. A more detailed discussion of the payroll tax harmonisation is provided in Chapter 4.

Stamp Duty on Conveyances

The Northern Territory Government provides significant incentives to promote home ownership in the Territory, including the first home owner stamp duty concession and the principal place of residence stamp duty rebate. Territory first home buyers pay no stamp duty on the first \$385 000 of their purchase, a saving of up to \$15 515. For other home buyers, a rebate of \$2500 is provided on the purchase of a principal place of residence. This is equivalent to a stamp duty concession on the first \$111 850 of the value of the residence.

The median house price in each capital city is used to compare stamp duty payable in each state. Chart 6.2 shows that Darwin has the third highest median house price in a capital city behind Sydney and Canberra.

Chart 6.2: Median House Prices



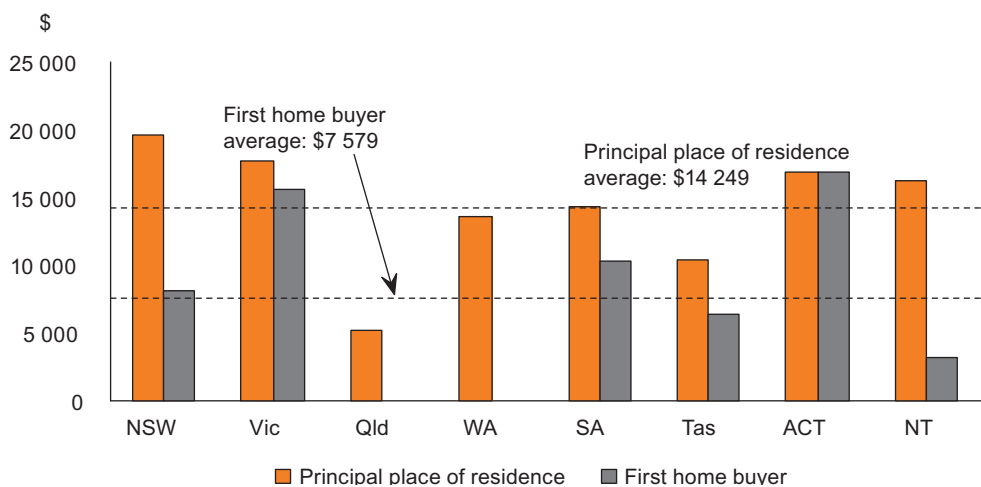
Note: Median house prices as at December 2008.

Source: Real Estate Institute of Australia, state legislation and information available 20 April 2009

Chart 6.3 provides an interjurisdictional comparison of the stamp duty levied on principal places of residence and first homes on the purchase of a median-priced house in a capital city. For first home buyers, the stamp duty payable in the Territory is well below the national average and is the third lowest behind Queensland and Western Australia.

Despite the Territory having the third highest median house price, the Territory only has the fourth highest stamp duty payable for a median priced principal place of residence.

Chart 6.3: Stamp Duty Payable on Purchase of Median Priced Home



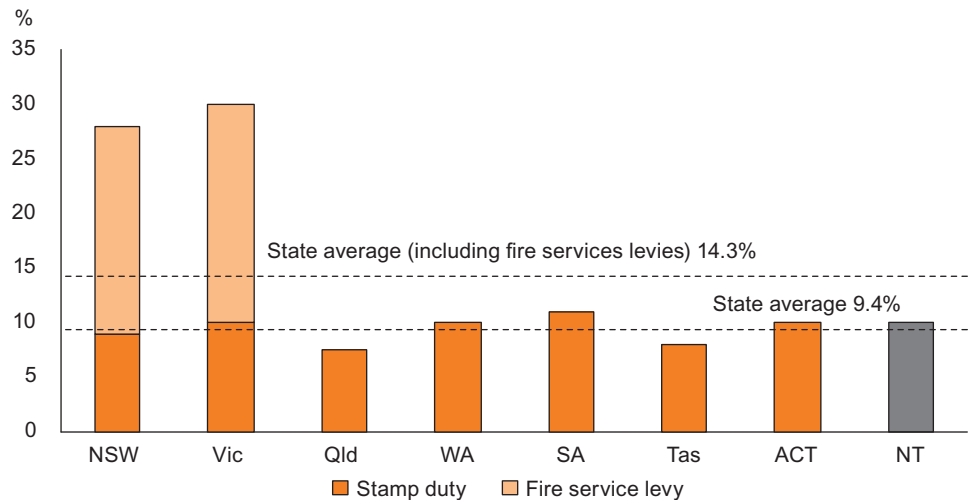
Note: Median House prices as at December 2008.

Source: Real Estate Institute of Australia, state legislation and information available 20 April 2009

Insurance Duty

As shown in Chart 6.4, the Territory is one of the lower taxing jurisdictions for domestic insurance. By comparison, the total tax load on domestic insurance in New South Wales and Victoria is significantly above the national average when fire services levies are taken into account.

Chart 6.4: Average State Tax Rate on Domestic Insurance Premiums



Source: State legislation and information available 20 April 2009

New South Wales and Victoria collect a portion of their fire services levies through a charge on insurance products. Tasmania and the Australian Capital Territory raise the levy on certain types of insurance, but similar to Queensland, South Australia and Western Australia, the large proportion of the levy is from a charge on property owners through local councils. The Territory does not impose any emergency or fire services levies on the general public, although, like the states, it does charge for commercial fire alarm monitoring.

Stamp Duty on Motor Vehicles

Chart 6.5 compares the stamp duty applicable for a new motor vehicle valued at \$35 000. The chart shows that the rate of duty for the Northern Territory is similar to the national average.

Chart 6.5: Stamp Duty Payable on Purchase of \$35 000 Motor Vehicle

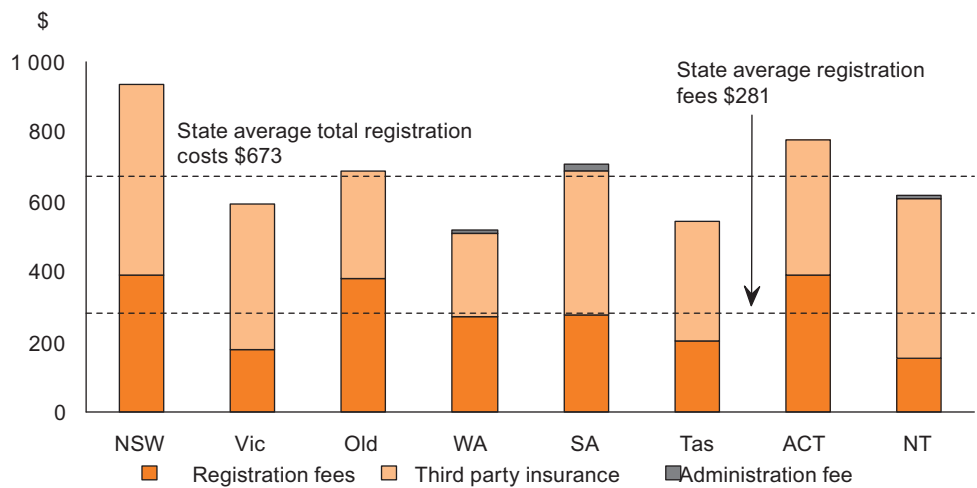


Source: State legislation and information available 20 April 2009

Motor Vehicle Registration

Motor vehicle registration fees comprise registration, compulsory third party and other fees and as such, vary significantly across the jurisdictions. Chart 6.6 compares the costs of registering a medium sized passenger vehicle in each jurisdiction. At \$619, the Territory has the fourth lowest total registration costs. Excluding third party compulsory insurance and other fees, the Territory's registration fee of \$152 is the lowest in Australia.

Chart 6.6: Annual Registration Fees and Charges for a Medium Sized Passenger Vehicles



Note: Based on a 6 cylinder Holden Commodore.
 Source: State legislation and information available 20 April 2009

The higher compulsory third party premiums in the Territory reflect the inherently higher costs due to the small size of the Territory and relatively high road accident casualties. Motor Accident Compensation scheme premiums will increase by 5 per cent from 1 July 2009 in accordance with the Independent Motor Accident Compensation Contributions Commissioner’s determination. The Commissioner’s determination aims to ensure that likely compensation claims for the upcoming year can be met and that the scheme maintains a prudent solvency margin. Chart 6.6 incorporates this increase in compulsory third party insurance in the Territory.

Land Revenue

This category includes taxes on the ownership of land, where the taxes are based on the assessed unimproved value of the land. It also includes any metropolitan land planning, development and fire and emergency services levies that are included in the land tax base of some states.

Land tax is an important source of income for states, generating about \$4.26 billion in revenue in 2007-08. Land tax is levied on the total holding of unimproved land value of commercial land and investment residential property, although a general exclusion is provided for land used for primary production. Land tax rates are generally progressive and most jurisdictions have tax-free thresholds.

The Territory does not impose a land tax. However in its 2009 Update, the Commonwealth Grants Commission assessed that the Territory could raise about \$19.1 million if the Territory adopted the average state policies on land tax.

Tax Expenditure

Tax concessions are often provided to benefit a specified activity or class of taxpayer. They are expenditures in the sense that their impact on the budget is similar to direct outlays, and they can be used to achieve similar goals to spending programs.

Tax expenditures can be provided in a variety of ways including by way of exemption, deduction, rebate or reduced tax rate.

The tax expenditure statement details revenue estimated to be forgone by the Government or financial benefits obtained by taxpayers as a result of tax exemptions or concessions provided by the Government. Identifying this expenditure assists in providing a more accurate picture of what the Government contributes by way of taxation concession to assist various groups or industries.

The tax expenditures identified in this statement relate to the more important and material concessions application in the Territory. In accordance with the *Fiscal Integrity and Transparency Act*, the tax expenditure statement provides forecast information for 2009-10 and following three financial years.

Methodology

Tax expenditures have been estimated by applying the benchmark rate of taxation to the forecast volume of activities or assets exempted by a particular concession. Only those future events that are certain or highly likely to impact on assumed tax bases or tax rates have been taken into consideration in estimating future tax expenditures. Otherwise, the existing taxation arrangements have been assumed to apply for future years.

Measuring tax expenditures requires the identification of:

- a benchmark tax base;
- concessionary taxed components of the benchmark tax base, such as specific activity or class of taxpayer; and
- a benchmark tax rate to apply to the concessionary taxed components of the tax base.

The establishment of a tax benchmark provides a basis against which each tax concession can be evaluated. The aim of the benchmark is to determine which concessions are tax expenditures rather than structural elements of the tax.

By definition, tax expenditures are those tax concessions not included as part of the tax benchmark.

Payroll Tax

The benchmark tax base for payroll tax is assumed to be all wages (as defined under the payroll tax legislation) paid in the Territory. The benchmark tax rate is 5.9 per cent.

Table 6.8: Payroll Tax Expenditure

	2008-09	2009-10	2010-11	2011-12	2012-13
Tax expenditure (\$M)	131.7	136.4	139.7	144.6	141.7

As data is not generally collected in relation to employers that do not have a payroll tax liability, tax expenditure in relation to many payroll tax concessions is difficult to estimate. Accordingly, the reported estimated tax expenditure has been derived by comparing Australian Taxation Office data about wages paid by employers in the Territory to data reported by employers registered for payroll tax in the Territory. The difference provides a reasonable estimate of wages that are not subject to Territory payroll tax because of payroll tax concessions.

The reported estimated tax expenditure in relation to payroll tax mainly comprises the following exemptions.

Small Business Exemption

The first \$1.25 million of wages paid by employers are exempt from payroll tax in the Territory. Employers with wages below this amount are not required to pay tax and those with payrolls exceeding this amount pay tax only on the excess, saving up to \$73 750 per annum for each employer.

Charities and Other Exempt Bodies

Private educational institutions, local governing bodies, religious institutions, public benevolent institutions and public hospitals are exempt from payroll tax to the extent

that wages are paid for an employee's services that relate directly to the purpose for which the organisation was established. In the 2009-10 Budget, the Government has extended the payroll tax exemption to encompass all non-profit organisations having a sole or dominant purpose that is charitable, benevolent, philanthropic or patriotic. In addition, employment agencies providing temporary staff to exempt organisations will be able to claim payroll tax exemption for these wages.

Apprentices, graduates and Others

Businesses receive payroll tax exemptions for apprentices, graduates of approved tertiary institutions and employees receiving wages funded under the Community Development Employment Projects program.

Other New Exemptions Resulting from Payroll Tax Harmonisation

As part of the Territory Government's commitment to harmonise its payroll tax legislation as far as practical with other jurisdictions, the Government will introduce from 1 July 2009, the following payroll tax exemptions:

- wages paid to employees participating in voluntary work for bushfires and emergency relief; and
- wages paid as maternity and adoption leave for a maximum of 14 weeks.

Stamp Duty on Conveyances

The benchmark tax base is assumed to be sales of all dutiable property, including chattels that are part of a transaction that conveys other dutiable property. The benchmark tax scale is the stamp duty scale that applies in 2008-09.

Table 6.9: Stamp Duty on Conveyances Expenditure

	2008-09	2009-10	2010-11	2011-12	2012-13
Tax expenditure (\$M)	315.2	37.8	38.8	39.7	37.5

A significant proportion of the tax expenditure for stamp duty on conveyance in 2008-09 relates to a sizeable landholder transaction that was subject to the corporate reconstruction exemption. For the forward years the tax expenditure estimates are based on a historical revenue base indexed by normal growth parameters.

Corporate Reconstructions Exemption

Corporate groups formed by commonly owned corporations are able to reorganise the ownership of assets without incurring a stamp duty liability. The estimated tax expenditure is the actual stamp duty forgone for approved reconstruction exemptions.

First Home Owner Concession

First home buyers are eligible for a stamp duty concession on the first \$385 000 of the value of the home, a saving of up to \$15 515. Tax expenditure is estimated by actual collections in relation to the concession.

Principal Place of Residence Rebate

Other home buyers are entitled to a rebate of \$2500 when purchasing a principal place of residence. This is equivalent to a stamp duty concession on the first \$111 850 of a home's value. Tax expenditure is estimated by actual collections in relation to the rebate.

Other Conveyance Duty Exemptions

As part of the 2009-10 Budget, the Government has broadened the stamp duty exemption base from 1 July 2009 to include the following.

- Currently, property transferred to public benevolent institutions, religious institutions, public hospitals and public education institutions for a purpose other than the carrying on of a commercial activity conducted by or on behalf of the entity are exempt from stamp duty. This exemption will be extended to all

charitable organisations having a sole or dominant purpose that is charitable, benevolent, philanthropic or patriotic.

- Non-motorised trailers, including caravans will be exempt from motor vehicle registration stamp duty.

Several other conveyance stamp duty exemptions collectively result in significant revenue forgone, the largest of which are:

- the transfer of a company's property, on its winding up, to a shareholder of the company entitled to the property on a distribution in kind;
- an exemption under the Commonwealth *Family Law Act* for instruments made pursuant to a court order that alter the interests of the parties to a marriage; and
- the conveyance of property between partners of a de facto relationship on the breakdown of the relationship.

Stamp Duty on General Insurance Policies

The benchmark tax base is all classes of general insurance policies. This does not include life insurance policies, which are treated differently for stamp duty purposes. The benchmark tax rate is 10 per cent of the premium.

Table 6.10: Stamp Duty on General Insurance Policies Expenditure

	2008-09	2009-10	2010-11	2011-12	2012-13
Tax expenditure (\$M)	16.1	16.8	17.5	18.2	18.8

The Territory provides stamp duty concessions on certain insurance products to reduce the costs of such insurance, namely workers compensation insurance and private health insurance. Tax expenditure has been estimated using total work health insurance policy premiums paid during past years compared to total payroll data of employers in the Territory and data on private health insurance premiums obtained from the Private Health Insurance Administration Council.

Motor Vehicle Registration Fees

Motor vehicle registration concessions are available to holders of a Northern Territory Pensioner and Carer Concession Card or a Northern Territory Seniors Card to an annual value of up to \$104 and \$52 respectively. Table 6.11 shows the motor vehicle registration fees expenditure. Actual registration fee data has been used to estimate this item of tax expenditure.

Table 6.11: Motor Vehicle Registration Fees Expenditure

	2008-09	2009-10	2010-11	2011-12	2012-13
Tax expenditure (\$M)	1.4	1.4	1.4	1.4	1.4

Mineral Royalties

The benchmark tax base is assumed to be all profitable mining operations in the Territory and the benchmark tax rate is 18 per cent.

Table 6.12: Mineral Royalties Expenditure

	2008-09	2009-10	2010-11	2011-12	2012-13
Tax expenditure (\$M)	2.4	0.5	0.5	0.5	0.5

Royalty payers are able to reduce the amount of royalty that they pay in the Territory for eligible exploration expenditure (EEE) incurred for their mining operations in the Territory. In addition, they have been able to utilise exploration expenditure incurred by others, through acquiring exploration expenditure certificates (EECs), to also reduce the amount of royalty that they are required to pay. However, the amount by

Review of Australia's Tax and Transfer System

which royalty may be reduced through the use of EEE is limited to a maximum of 25 per cent of the amount that would otherwise be payable.

EECs have not been issued since 1 July 2003, so the number and value of EECs available to reduce royalty has been diminishing since then. It is believed that there is minimal stock of EECs available to royalty payers, so royalty payers will be increasingly restricted to EEE expended on their own mining tenements.

The estimated cost of this concession is based on projected future mineral royalty collections, assuming that royalty payers will seek to maximise their royalty deduction by using EEE.

On 13 May 2008, the Commonwealth announced a comprehensive review of Australia's tax and transfer system. The scope of the review encompasses all Commonwealth and state taxes, improvements in the transfer payment system for individuals and working families, incentives for workforce participation and skill formation, tax expenditures and incentives for individuals to save for their future. The objective of the review is to create a tax and transfer system that will position Australia to deal with long-term social, economic, demographic and environmental challenges.

The review is considering a wide range of issues related to the fairness and efficiency of state taxes. The panel is considering all facets of state taxes including composition, efficiency, harmonisation, simplification and natural resource charging.

The review panel is required to provide a final report to the Commonwealth Treasurer by the end of December 2009. The recommendations of the panel may have implications for states' tax base and long-term Commonwealth-state financial relations.