Legislative Assembly for the ACT

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Revenue Raising Issues in the ACT

FEBRUARY 2004

REPORT 8

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Resolution of appointment

The Standing Committee on Public Accounts was appointed by the Legislative Assembly on 11 December 2001 to:

(i) examine:

(A) the accounts of the receipts and expenditure of the Australian Capital Territory;

(B) the financial affairs of authorities of the Australian Capital Territory; and

(C) all reports of the Auditor-General which have been presented to the Assembly;

report to the Assembly, with such comments as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Assembly should be directed;

(ii) inquire into any question in connection with the public accounts which is referred to it by the Assembly and to report to the Assembly on that question; and

(iii) examine matters relating to economic and business development, small business, tourism, market and regulatory reform, public sector management, taxation and revenue and sustainability.

Terms of reference

Inquire into and report on revenue raising issues in the ACT with particular reference to:

(1) The adequacy, equity, efficiency, certainty and sustainability of revenue raising in the ACT;

(2) The impact of revenue raising on social equity, the environment and the overall economy of the Territory, in particular the employment and investment opportunities; and

(3) The value for money of the cost-effectiveness of incentives which involve forgoing revenue.

Preface

The inquiry broadly investigated current methods employed by the ACT Government in raising revenue and the implications these methods have for adequacy, equity, efficiency, certainty and sustainability. A number of ways to improve current aspects of public revenue raising were presented to the Committee and consequently, the Committee made relevant recommendations to address the identified issues.

The Committee acknowledges that revenue raising is a highly important instrument in providing and sustaining public services for the community. The Committee initially found that there was a lack of interest shown in this inquiry by the Canberra community and contacted relevant parties to make submissions to the inquiry or appear before the Committee. It has been suggested that taxpayers are willing to pay taxes for services that are reasonable and that they are in need of. The Committee feels that the Government needs to do more work in relation to revenue raising which would include gauging the community's attitude towards the issues associated with revenue raising.

Other matters of concern to the Committee were the sustainability of the supply of land for new development to meet the growing population. Issues canvassed in this area relate to maintaining the natural environment while meeting the housing and infrastructure needs of the Canberra community.

Evidence was also presented to the Committee in relation to poker machine or gaming taxes. The Committee remains concerned about the relatively small amount of revenue that is filtered back into addressing the negative social impact of poker machine gambling compared to the amount that is raised through poker machines.

A recurring theme in evidence presented to the Committee also made distinction between the regressive nature of current taxes and fines from motor vehicle registration to parking fines. Flat taxes are highly popular across varying Governments throughout Australian jurisdictions as they are easily administered. However, such taxes are regressive and inequitable and therefore do not represent best practice.

The Committee believes that revenue raising will be an area of continued interest for this and successive governments, and that any developments made in this area by other Australian jurisdictions should be formally considered and reviewed where appropriate by the Government.

Finally, the Committee would like to thank the Treasurer, Department of Treasury Officers and other individuals who willingly shared their expertise and experience in public revenue raising either by lodging submissions to the inquiry or appearing at public hearings.

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Summary of recommendations

The Committee recommends that:

Recommendation 1

The Government undertake an evaluation, possibly in association with the Commonwealth and other States and the Northern Territory to:

(1) determine the potential for an increased revenue flow to States and Territories, and

(2) the adequacy of compensation measures to offset the regressive impact of the GST.

Recommendation 2

The Government assess the potential to abolish certain revenue raising measures, as proposed in the IGA.[1]

Recommendation 3

The Community Engagement Unit be tasked with developing a communication strategy to inform the community on how revenue is raised and the limitations of the current revenue base and the need to develop new sources of revenue and to determine community views on current and possible new revenue measures.

Recommendation 4

Without compromising social considerations, the Government review those tax lines which have been assessed by the Commonwealth Grants Commission to be below the average revenue raising effort with a view to improving the ACT's overall revenue raising effort.

Recommendation 5

The Government as a matter of urgency develop regulations and legislation to ensure where necessary, measures to minimise tax avoidance.

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[1] A list of these taxes can be found at Appendix D.

Recommendation 6

The Government examine current taxes for their regressivity and consider options which are more progressive as alternatives.

Recommendation 7

The Government assess the potential equity benefits of broadening the land tax base.

Recommendation 8

The Government review the social and environmental sustainability of current taxes on motor vehicle ownership and use.

Recommendation 9

The Government review the efficiency of and the social, economic and environmental sustainability impacts of the current stamp duty system in the ACT and the potential for replacing conveyance tax with a broader land tax.

Recommendation 10

The Government explore ways other than providing tax incentives to business, for attracting business investment within and to the ACT.

Recommendation 11

The Government establish a comprehensive concessions policy with the aim of promoting greater efficiency, transparency, accountability and equity.

Recommendation 12

The ACT Government write to the Commonwealth Government, asking it:

(1) to review the Commonwealth Grants Commission's insistence that State and Territory Governments maximise their revenue from gambling, and

(2) that any fiscal requirements imposed on States and Territories be informed by social and environmental impact analysis.

Recommendation 13

Further research be done to establish:

(1) the extent of problem gambling in the ACT; and

(2) the various cultural, age, gender, socio-economic, and other social attributes of problem gamblers in the ACT, as a means to develop effective tools to both better regulate gambling and to address problem gambling, according to the particular groups of people most at risk in our community. This work would build on the survey[2], filling in the gaps by investigating in particular problem gambling in the different cultural groups in the ACT community.

Recommendation 14

The Government address the social problems caused by problem gambling through:

(1) stricter regulation;

(2) evaluation of the current monitoring and enforcement system; and

(3) ensuring that an appropriate amount of gambling revenue goes to a 'problem gambling fund', to fund problem-related gambling services, gambling research and community education.

Recommendation 15

The Government consider the feasibility of incorporating environmental concerns into revenue raising measures through instruments such as 'green usage taxes' that should be consistent with the Office of Sustainability's indicators when issued.

Recommendation 16

The Government explore the possibility of adopting greenhouse performance benchmarks for electricity suppliers similar to those in NSW.

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[2] Australian Institute for Gambling Research, University of Western Sydney, Survey of the nature and extent of gambling and problem gambling in the ACT, July 2001, <http://www.gamblingandracing.act.gov.au/Documents/AIGR_FinalReport.pdf>

1. Conduct of the inquiry

1.1. The Committee advertised the inquiry in the local print media and also invited individuals to lodge submissions. The Committee received nine written submissions to the inquiry. Details of those individuals and organisations are at Appendix A. Consequently, three public hearings were held on 16 October 2002, 18 December 2002 and 30 April 2003. A list of the witnesses who appeared before the Committee is at Appendix B.

2. Overview and introduction

2.1. The inquiry into revenue raising in the ACT was self referred by the Standing Committee on Public Accounts on 22 May 2002. The Committee has addressed the terms of reference and issues presented to this inquiry in three chapters.

2.2. Chapter 3 outlines the ACT's sources of revenue. The amounts raised through each revenue raising measure are outlined as are limitations to revenue raising. Chapter 4 addresses the adequacy, equity, efficiency, certainty and sustainability of revenue raising in the ACT with reference to existing methods of revenue raising. Chapter 5 addresses the economic, social and environmental impact of revenue raising on the ACT community. This chapter examines economic incentives provided by the ACT Government in the form of concessions, exemptions and waivers to business and their value for money. This chapter also briefly examines the impact of gaming taxes on compulsive gamblers and others and raises issues for further consideration. In each chapter, the Committee has also outlined specific areas and issues that require further investigation and has included these issues in its recommendations.

2.3. The Committee has concluded that adequate, equitable efficient and sustainable revenue raising should result in adequate, efficient, equitable and sustainable public services. The Committee is of the view that adequacy, equity, efficiency, certainty and sustainability are relevant to the amount collected in revenue, the source of that revenue, as well as the methods used to collect it. It is on this basis, that the Committee has made its recommendations. A summary of these recommendations can be found on pages viii, ix and x of this report.

3. The ACT's sources of revenue

3.1. In 2003-04, it is estimated that the ACT Government will derive 31% of its revenue from taxes, fees and fines. The remaining 69% of government revenue will be derived from other own source revenue (which includes but is not limited to 'dividends from Territory Owned Corporations, revenue from associates and joint ventures, land sales and investment returns[3])', user charges and Commonwealth grants.[4] User charges largely consists of payment for services by non ACT Government entities such as service receipts, cross border health receipts, in patient fees, sales and parking fees. The components of general Government revenue as estimated for 2003-2004 are represented graphically in Figure 3.1 at Appendix C.[5]

3.2. In 2003-2004, the estimated total revenue received will be from the following categories: taxes, fees and fines $723.6 million; Commonwealth grants - $1 020.9 million; user charges $187.9 million; and other revenue - $427.9 million.[6]

3.3. The category, 'taxes, fees and fines' consists largely of 'duty charged on conveyancing, payroll tax, general rates, gambling tax and land tax'. Fees and fines relates to traffic and infringement parking fines, motor vehicle registration fees and regulatory service fees.[7] Regulatory service fees include, but are not limited to 'building control fees, waste management fees, motor transport regulation and environmental regulation including domestic animal services'.[8] Other items included in the taxes, fees and fines category are debits tax, duty on general insurance, share duty, casino licences and court fines.[9]

3.4. The ACT Revenue Office is responsible for the collection of taxes with the exception of the Gambling and Racing Commission, which is responsible for the administration of revenue from gambling. The Central Financing Unit within the Department of Treasury 'is responsible for general government investments, including investments made in respect of the Superannuation Provision Account. The unit receives interest revenue on these investments as

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[3] ACT Government Budget 2003-2004, Budget at a glance Paper No 2, p 2; Government submission to the Standing Committee on Public Accounts' Inquiry into Revenue Raising Issues in the ACT, 5 August 2002, p 8.
[4] id., Budget 2003-2004, Budget Overview Paper No 3, p 2.
[5] ibid., p 83.
[6] Budget Paper No 2, p 2.
[7] Government submission, p 3.
[8] ibid., Appendix 1.
[9] ibid., pp 5-7.

well as administering dividend payments'.[10] The Department of Urban Services is responsible for the collection of most fees, fines and user charges. Other ACT Government departments and agencies deliver a range of local government and state type services to the community ranging from waste management and park maintenance to health services and the provision of education.

Limitations to revenue raising

3.5. The Government outlined specific 'unique' features to the ACT, which have an impact on the Territory's ability to raise revenue. These are:

- [Canberra is] 'a land-locked city-state that combines local and state responsibilities to give its local government elements in its tax structure, i.e. General Rates on properties and other municipal charges;
- [The] Geographic location of the ACT necessitates maintaining a competitive taxing regime with NSW in order to attract business to the Territory/or maintain existing business in the ACT, and maintain sustainable economic growth;
- Revenue sources are severely limited in the absence of major sources of primary, secondary [or] tertiary industry such as mining, pastoral [and] shipping. Major tax bases are property and payroll;
- [Canberra is an] economy significantly reliant on the public sector and lacking in substantial manufacturing, primary industries and resources; and
- Commonwealth funding accounts for approximately 46%[11] of the ACT's General Government Sector revenue'.[12]

3.6. The Government highlighted that under the Uniform Income Tax Act, Australian States are

> …prevented from levying their own income taxes, not because the states ha[ve] lost this right, but because the Commonwealth will most likely cut grants to any state that imposed such a tax.

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[10] ibid., pp 2 & 3.
[11] This figure is now estimated to be 43%, 2003-2004 ACT Government Budget, Budget Paper No 3, p 83.
[12] Government submission, p 9.

> The Government argues the result has been …'that States/Territories have been denied access to the most important direct and indirect revenue sources available to States or provinces in other federations. The Government notes that …the States and Territories are forced to rely on taxes designed to indirectly access income through taxing expenditure, transactions and regulatory charges.[13]

3.7. Further the Government acknowledges that the

> ACT will continue to have some unique challenges protecting and developing its revenue base, because of its lack of natural resources within the boundaries of the Territory and the inability of the Territory to levy payroll tax and other [taxes] on the largest employer in the Territory (the Commonwealth).[14] This is in addition to …limited business activity associated with large corporations, limited resource wealth such as minerals, petroleum and gas, and economies of scale [as]… the ACT supplies a range of similar services to those supplied in States much larger than the ACT.[15]

Goods and Services Tax

3.8. The goods and services tax (GST) now provides the ACT, along with the other States, with a secure and broadly based revenue source, and a source of revenue that is anticipated to be a growing source of revenue for the States.

3.9. The evidence of the history of the GST since its introduction in July 2000 shows that, at a national level, the estimates of revenue to be collected from the GST have been less than the actual revenue that was received. These outcomes are shown in Table 3.1.

[13] ibid.
[14] ibid.
[15] ibid., p 9.

Table 3.1: Analysis of GST outcomes for Australia[16]

Year of estimate [a]	GST: Estimates and outcomes for various years $m				
	2000-01	2001-02	2002-03	2003-04	2004-05
2000-01	24 052	27 868	28 872	30 469	
2001-02 [b]	24 180	27 480	29 170	30 830	32 600
2002-03		27 360	29 690	31 310	33 090
2003-04			31 230	32 050	33 815

Notes:
a Years in this column refer to the year in which the relevant budget was brought down.

b There is a reduction in the estimates of gross GST revenue for 2001-02 because of changes in the GST policy framework.

3.10. The results for actual GST revenue in each of the three years for which results are available shows that the final result in each case is substantially above the revenue estimates that had been provided in earlier Commonwealth budgets.

3.11. In 2002-03, for example, the estimates of revenue from the GST were increased in each of the previous two years. Ultimately, the actual result of $31,230 million in revenue was 5 per cent greater than the most recent estimate – and that estimate had been revised at least twice.

3.12. A broadly similar pattern emerges for the ACT when the estimates of GST revenue are examined alongside the actual outcomes in the ACT. These results are shown in Table 3.2.

[16] The information used in this table is derived from data taken from ACT Government Budgets for the years 2000-2001, 2001-2002, 2002-2003, 2003-2004, 2004-2005 and the Commonwealth Government's Federal Budget 2003-2004, Budget Paper No 3.

Table 3.2: Analysis of GST results for the ACT[17]

Year of estimate [a]	GST: Estimates and outcomes for various years $m				
	2000-01	2001-02	2002-03	2003-04	2004-05
2000-01	474	565	590	629	
2001-02 [b]	506	555	578	606	630
2002-03		548	600	639	675
2003-04			598	627	653

Notes:
a Years in this column refer to the year in which the relevant budget was brought down.
b Policy changes made to the GST framework reduced estimates of GST revenue for 2001-02 and out years.

3.13. The analysis of GST revenues for the ACT since 2000-01 shows that, in two out of the three years, the estimates of revenue anticipated from the GST increased, although there appears to be much more volatility in these estimates than there is at the national level.

3.14. As part of the new tax system, the Federal Government provides the States and territories with Budget Balancing Assistance (BBA).[18] BBA is intended to ensure that, in the transition years following the introduction of the new tax system, no State or Territory would be worse off than if the tax reforms had not been implemented. Queensland and the Northern Territory now do not require BBA payments. In 2003-04, it is expected that Western Australia, Tasmania and the ACT also will not require BBA payments.

3.15. In light of the fact that the ACT Government has accepted the principle of sustainability and triple bottom line reporting, any analysis of the GST should include environmental and social implications. The majority of the Committee is of the view that as a tax, the GST does not meet the objectives of equity and sustainability.

3.16. The social impact of the GST was acknowledged by ACTCOSS who stated

> The impact of the GST is felt through prices rather than incomes. This means that those with the lowest incomes pay the greatest proportion of their incomes in tax, while those on the highest

[17] ibid.
[18] This analysis of Budget Balancing Assistance has been drawn from the Federal Government's Budget Paper No. 3, *Federal Financial Relations 2003-04*, one of the papers prepared for the 2003-04 Budget.

> incomes pay the lowest proportion of their incomes in tax. The GST is…a highly regressive tax. As the regressive GST is paid daily by all citizens of the ACT on low incomes, this places greater importance on making the ACT tax system less regressive to offset the GST's impact.[19]

3.17. The Committee recommends that:

Recommendation 1

The Government undertake an evaluation, possibly in association with the Commonwealth and other States and the Northern Territory to:

(1) **determine the potential for an increased revenue flow to States and Territories, and**

(2) **the adequacy of compensation measures to offset the regressive impact of the GST.**

3.18. Typically, the responses of the States to the situations in which they have found themselves has been to implement a wide range of revenue-raising measures in the search for increased revenue flows. These types of imposts have included payroll tax, a range of stamp duties imposed on various transactions, bed taxes, duties imposed on various financial transactions and instruments, taxes on gambling activities and motor vehicle taxes. Many of these measures are (or have been) relatively minor sources of revenue and/or can require complex administration and compliance.

3.19. One important consequence of the negotiations leading to the implementation of the GST was the acknowledgement by the Federal Government and the States that there were a number of less efficient taxing measures that could be abolished. The Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA) that was signed by each Government set out a program for abolishing certain taxing measures.[20]

3.20. Under the terms of the IGA, some quite significant and complex taxes have been abolished. From July 2000, wholesale sales tax and bed taxes were abolished as were financial institutions duty. Stamp duty on marketable securities was also abolished from July 2001. The abolition of the debits duty

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[19] ACTCOSS submission, Attachment 2, p 14.
[20] Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations, http://www.pm.gov.au/news/media_releases/1999/intergovernmental_agreement.htm.

in July 2005 will be another major step in easing the complexity of revenue raising measures applying around Australia.[21]

3.21. Subject to the outcome of the deliberations of the Ministerial Council, it is proposed that a number of stamp duties will be abolished by 2005. These stamp duties are currently imposed on certain conveyancing, non-marketable securities, leases, certain loan securities, certain credit and rental arrangements and certain financial instruments.

3.22. There are two important consequences arising from the provision of the GST revenues to the States: first, this now becomes a revenue source that is expected to grow in line with the expansion of economic activity across Australia. Secondly, it raises the prospect of replacing many smaller and less efficient revenue raising measures that are currently used by various States[22].

3.23. The Committee recommends that:

Recommendation 2

The Government assess the potential to abolish certain revenue raising measures, as proposed in the IGA.[23]

Committee comment

3.24. The Committee notes the limitations the ACT faces in raising revenue and believes the obstacles outlined by the Government should only serve to stimulate discussion about new and or innovative ways to raise revenue.

3.25. It has been suggested by one submission that

> There is abundant evidence of people's readiness to accept substantive, reasonable charges for specific services that they want, need and understand.[24]

3.26. Another submission also supported this concept in relation to taxpayers' willingness to pay environmental taxes.

> Surveys have shown that over 80% of residents in the ACT are supportive of increased taxes to enhance environmental services. The public very strongly support hypothecation.[25]

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[21] NSW abolished debits tax as of 1 January 2002.
[22] Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations, http://www.pm.gov.au/news/media_releases/1999/intergovernmental_agreement.htm.
[23] A list of these taxes can be found at Appendix D.
[24] B Odgers, Submission to the Inquiry into Revenue Raising, 23 July 2002, p 1.

3.27. The Committee believes that more work needs to be undertaken to determine taxpayers' willingness to pay tax. The Committee believes this could be undertaken by firstly informing taxpayers about how revenue is raised and the implications various revenue raising methods have on revenue levels and also the accompanying social and environmental implications.

3.28. The Committee recommends that:

Recommendation 3

The Community Engagement Unit be tasked with developing a communication strategy to inform the community on how revenue is raised and the limitations of the current revenue base and the need to develop new sources of revenue and to determine community views on current and possible new revenue measures.

3.29. Given the pressure on public budgets, the Committee was most interested to determine why the Government did not include a number of revenue raising measures in its submission. These measures appear to satisfy the requirement of being 'own source revenue' measures and, therefore, appear to the Committee to warrant inclusion in the analysis.

3.30. Table 3.3 at Appendix C shows the measures that were included in the Government's submission to this inquiry. The revenue raised from these measures, estimated to be $1.089 billion, is equivalent to 49 per cent of the total revenue that was estimated to be raised during 2002-03. A list of those measures that were not included in the Government's submission is listed in Table 3.4 at Appendix C.

3.31. In aggregate terms, the measures in Table 3.2 represent 10 per cent of the ACT's estimated own source revenue in 2002-03 and around 5 per cent of total revenue raising effort for 2002-03. As a consequence, the Committee would have expected that these measures would have been incorporated into the Government's analysis.

3.32. The Committee recognises that there may have been valid reasons for these measures to have been omitted from the Government's analysis.

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[25] Conservation Council of the South East Region and Canberra, Submission to the ACT Legislative Assembly Standing Committee on Public Accounts Inquiry into Revenue Raising Issues in the ACT 2002, p 1.

3.33. Nevertheless, the Committee observes that some of these measures generate quite a significant quantum of funds: motor vehicle transfers[26] ($20.812 million); user charges – ACT Government ($17.651 million); miscellaneous contributions for building hire, voluntary contributions and similar items ($15.036 million); superannuation contributions from the PTE[27] sector ($11.545 million); fees from drivers for obtaining or renewing licences ($5.479 million).

3.34. The Committee finds it surprising that these measures were not included. The Committee notes that some of these measures appear to have attributes that could make them useful sources of revenue growth. If the Government was to pursue a policy of seeking to encourage increased use of public transport, for example, the fees imposed on the transfer of motor vehicles and on obtaining a motor vehicle licence could be increased.

3.35. The Committee also observes that there appears to be some confusion in the Government's submission relating to Appendix 1. Initially, the information that is supposed to be included in this Appendix is described in section 3.1 as 'Information on other taxes, fees and fines'. The submission then notes, in section 3.1.11, that 'More details on fees for regulatory services is provided in Appendix 1'. Appendix 1 comprises details on four regulatory arrangements for which fees are charged.

3.36. The Committee is surprised that the Government, in its submission to this inquiry, limited its analysis to the ACT's own sources of revenue. There is no analysis of the GST and not even any discussion of the short history of the GST in relation to the ACT's revenues. The only references to the GST are made in passing when other matters are being discussed.

3.37. The Committee acknowledges that it is extremely difficult for States and Territories to identify and implement new revenue-raising measures. Nevertheless, the advent of the revenues generated from the GST has fundamentally changed the revenue outlook for all States and Territories. The Committee expected some analysis of this new revenue flow in the Government's submission.

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[26] The Committee draws attention to an apparent error in Budget Paper No. 3 of 2002-03 in relation to this item. It is described, in Table 5.2.4 as 'Motor Vehicle Rego & Transfers'. In fact, revenue derived from motor vehicle registration fees is shown separately in Table 5.2.7.

[27] Public Trading Enterprises – 'This is an ABS categorisation of certain public sector agencies. It comprises Government controlled corporations and quasi-corporations mainly engaged in the production of market goods and/or non financial services', ACT Budget 2003-2004, Paper No 3, p 319.

4. The adequacy, equity, efficiency, certainty and sustainability of revenue raising in the ACT

4.1. The Committee chose to investigate revenue raising in the ACT in reference to its adequacy, equity, efficiency, certainty and sustainability. The definitions of the terms adequacy, equity, efficiency, certainty and sustainability and how they relate to this inquiry follow. Relevant Government and community comments and recommendations are also included under each category. It should be noted that issues relating to each category are not exclusive to that category and due to the differing social impacts of revenue raising there is some overlap in the issues presented.

Adequacy

4.2. The adequacy of revenue raising seeks to determine whether the level of revenue raised is enough to meet specific projects and initiatives as determined by the Government or other outside agencies or individuals. The definition of how much is 'adequate' differs depending on the viewpoint taken and the activities that are to be funded. The Committee received a varied response as to whether revenue raising in the ACT is adequate.

Government comment

4.3. In relation to the adequacy of the ACT to raise revenue, the Government has stated that

> the adequacy of ACT own source revenue needs to be considered in the context of overall revenue including Commonwealth funding and GST share, and against the expenditure level required to meet the essential government services as expected in the community. The ACT's capacity to raise revenue must also be taken into account when assessing what options are realistically available to amend taxation policy.[28]

4.4. The Government has provided a table representing Government revenue sources for the period 2001-2002 to 2005-2006. This table is reproduced as Table 4.1 at Appendix C. The Government has further stated that

> total revenue from taxes, fees and fines is expected to remain constant over the next three years to 2005-2006.[29]

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[28] Government submission, p 11.
[29] ibid., p 12.

4.5. In accordance with the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA), the ACT, like other Australian States and the Northern Territory

> receive[s] all the revenue raised by the goods and services tax (GST).[30] GST revenues are distributed amongst the States [and Territories] on the basis of horizontal fiscal equalisation (HFE) principles.[31] The aim of HFE is to…improve equity for all Australian residents.[32]

4.6. Under HFE principles the Commonwealth Government distributes 'general revenue assistance' to states and territories based on 'per capita relativities', which are recommended by the Commonwealth Grants Commission (CGC). The CGC makes its recommendations regarding general revenue assistance based on terms of reference provided by the Commonwealth Government. In forming its recommendations, the CGC consults with States and Territories. These terms of reference

> define the general approach to be followed by the CGC as well as any specific conditions or limitations on the extent to which fiscal equalisation is to apply. The CGC provides annual updates and five yearly reviews.[33]

4.7. The fiscal equalisation principle advocates that

> Each State should be given the capacity to provide the average standard of State-type public services, assuming it does so at an average level of operational efficiency and makes an average effort to raise revenue from its own sources.[34]

4.8. In its submission to the 2004 CGC review, the ACT Government stated that the ACT is not able to tax the Commonwealth as the predominant employer in the Territory. Further…'the ACT's relatively low revenue raising capacity can be highlighted by the following comparison:

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[30] Under the IGA, when the GST was introduced, the States and Territories agreed to abolish and or reduce certain taxes so that each could 'receive all GST revenue', R, Webb, Reseach Note no. 13 2002-03, Public Finance and Vertical Fiscal Imbalance, Economics, Commerce and Industrial Relations Group, Department of the Parliamentary Library, 15 October 2002, p 1.
[31] Government submission, p 12.
[32] Commonwealth Government Budget 1997-98, <http://www.budget.gov.au/1997-98/horizont.asp>
[33] ibid., p 2.
[34] Commonwealth Grants Commission, The Commission and its history, <http://www.cgc.gov.au/cgc-generalpages/history_of_cgc.htm>

- 51% of the top ASX-200[35] companies in 2002 are located in NSW, 26% in Victoria, 10.5% in WA and 0% in the ACT;

- Commercial/industrial land tax, the value of only two of Sydney's premier buildings is larger than the value of the **entire** Canberra commercial property sector; and

- [In] mining royalties, WA collected $777.0 m[illion] in royalties in 1999-00, Qld $464.0 m[illion], NSW $215 m[illion] and the ACT less than $1m[illion]'.[36]

4.9. Despite this, the ACT has an overall …'greater than Australian average effort to raise revenue from the tax being assessed'. Table 4.2 at Appendix C outlines in the second last column, the ACT's revenue raising effort, and average effort from 1996-97 to 2000-01'.[37] As evident from Table 4.2 and as stated by the Government,

> 'There are several tax lines… where the CGC assesses the ACT as making a below average revenue raising effort including:

- Stamp Duty on Conveyances;
- Financial Transactions Taxes;
- Gambling Taxation;
- Heavy Vehicle Registration Fees and Taxation;
- Stamp Duty on Motor Vehicle Registrations and Transfers; and
- Other Taxes'.[38]

4.10. In addition to HFE principles and in line with 'budget balancing assistance' under the IGA, the Commonwealth Government also provides 'transitional assistance' so that …'each State's budgetary position will be no worse off than had the reforms in the [IGA] not been implemented'.[39]

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[35] The S&P/ASX200 is an index which reflects the prices of the largest 200 stocks currently listed on the Australian Stock Exchange and represented almost 90% of the whole Australian market at 30 June 2002, The Australian Stock Exchange, Top 200 Options - brochure, <www.asx.com.au>; <www.asx.com.au/statistics/13/IndexDescription_MS3.shtm>.
[36] ACT Submission to the Commonwealth Grants Commission 2004 Review, May 2002, p 27.
[37] Government submission, p 10.
[38] ibid.
[39] ibid., p 13.

Community comment

4.11. ACTCOSS has stated in its submission to the Committee that

> The ACT Government both suffers from, and gains by being a combined State and Local Government body. While the Government has accepted its dual role, it needs to explain more clearly to ACT citizens the complete range of charges, fees, fines, taxes and duties which make up its revenue base. The Government continues to operate on a Local-State divide, separating its municipal-like revenue measures from its State-like revenue measures. This can be seen in its comparison of taxes between the ACT and New South Wales, produced in Budget Paper 3. There is no comparison of municipal rates with the levels of revenue raised by comparable shire and city councils. This leaves a gap in the community understanding of revenue raising. ACTCOSS recommended that the first stage of any debate about the adequacy of the revenue base needs to be a reorganisation of government information about its revenue raising measures that reports all measures, including municipal-type charges. The next step according to ACTCOSS would be a public education campaign about all the ACT Government imposed taxes, fees, fines and duties and a comparison of these against services provided to the community. ACTCOSS further recommends … that a community education program be undertaken, designed to promote a greater understanding of, and subsequent support for the ACT Government's revenue raising measures.[40]

4.12. ACTCOSS concluded its comments about adequacy by stating that

> [creating] …a tax system that is perceived by citizens to be fair and reasonable…will produce a higher level of public engagement with, and support for, the ACT tax system. Public support and engagement are essential elements in securing the revenue base in the ACT and ensuring there will be sufficient funding for programs and services in the future.[41]

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[40] ACT Council of Social Service Inc. (ACTCOSS) Submission to the ACT Legislative Assembly Inquiry into Revenue Raising in the ACT, August 2002, p 9.
[41] ibid., p 15.

4.13. Another submission was of a similar view stating

> there is abundant evidence of people's readiness to accept substantive, reasonable charges for specific services that they want, need and understand. The same submission further stated …the revenue base for the ACT is manifestly inadequate, in common with the States, Northern Territory, Commonwealth and Local Government generally. It is inadequate in terms of overall quantity, diversity and flexibility, and thus sustainability.[42]

4.14. The Canberra Business Council believes that 'a broad set of principles' is required by which …'future governments could be guided on the question of the adequacy of revenue raising'. These are:

- 'the level of revenue raising and the overall operating outcome should be set within a medium term perspective and be assessed within the context of the overall financial position of the Government and the prevailing economic cycle;
- there should be limits (broadly defined) on the expenditure levels permitted by the Government, particularly where there is a high level of risk inherent in some programs;
- the rates of, and revenues from, individual taxes should take into account the overall taxation burden on the community and businesses, the mobility of the tax base and the rates of taxation in competing jurisdictions; and
- there should be a measure of stability and certainty in taxation'.[43]

4.15. The Conservation Council of the South East Region and Canberra has stated that

> cutting taxes may be popular with the electorate in the short term, but a deteriorating health system and inadequate environmental protection is likely to be even more unpopular with the electorate in the longer term. …[I]t fails to recognise that the community is willing to pay increased taxes when they know what they will get

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[42] B Odgers, Submission pp 1-2.

[43] Canberra Business Council, Submission by Canberra Business Council and Kindred Organizations to the Legislative Assembly for the ACT Standing Committee on Public Accounts, August 2002, p 3.

in return. The community wants certainty in expenditure of their taxation dollars.[44]

Committee comment

4.16. The Committee believes that the basis for determining 'adequacy' rests on whether the revenue raising effort can meet and sustain the level of community services required. The committee also acknowledges that there will always be questions about the adequacy of revenue raising in any jurisdiction regardless of the methods employed by that jurisdiction.

4.17. The Committee and the Government are in agreement that the ACT is at a disadvantage to other States in terms of size, natural resources and large companies that are based in Canberra. These factors undoubtedly impact on the ACT's revenue raising effort.

4.18. The Commonwealth Grants Commission has assessed that the ACT is not meeting its full potential in its revenue raising effort where the following tax lines are concerned: stamp duty on conveyances, financial transaction taxes, gambling taxation, heavy vehicle registration fees and taxation, stamp duty on motor vehicle registrations and transfers and other taxes. The Commonwealth Grants Commission financially penalises the ACT in the vicinity of around $18 million[45] because it does not gamble to the same extent as other Australian jurisdictions.

4.19. The Committee agrees with the Canberra Business Council that there should be a broad set of principles required by which future governments could be guided in determining the adequacy of revenue raising. The Committee considers that such a policy could help to promote a more adequate and sustainable revenue base for the future.

4.20. The Committee recommends that:

Recommendation 4

Without compromising social considerations, the Government review those tax lines which have been assessed by the Commonwealth Grants Commission to be below the average revenue raising effort with a view to improving the ACT's overall revenue raising effort.

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[44] Conservation Council of the South East Region and Canberra, Submission to the ACT Legislative Assembly Standing Committee on Public Accounts Inquiry into Revenue Raising Issues in the ACT 2002, p 1.

[45] Transcript of evidence, Wednesday, 30 April 2003, p 79.

Equity

4.21. Equity relates to the 'fairness' of a tax. In this context, equity relates to whether a tax is regressive or progressive and the implications such taxes have for the taxpayer. Equity is also compared between similar income groups (horizontal) or between varying income groups (vertical). Horizontal equity advocates that 'individuals having equal ability to pay their taxes should be taxed the same'. Vertical equity advocates that taxpayers with differing abilities to pay their taxes should be taxed according to their ability to pay.[46] A regressive tax is one where the tax rate decreases as the dollar amount increases. Regressive taxes are considered inequitable as taxpayers on lower incomes pay a higher proportion of their income on the tax than those on a higher income. Examples of regressive taxes are excise, sales taxes and the GST. A progressive tax is seen as more equitable than a regressive tax as it is based on one's ability to pay. Under a progressive tax, those on a higher income, pay a 'higher tax rate' than those on a lower income. An example of a progressive tax is income tax.

Government comment

4.22. The Government has stated that the

> Commonwealth is the only taxing entity with both the revenue raising capacity and redistribution networks sufficient to efficiently redirect resources in terms of *vertical* and *horizontal* equity. The ACT taxation system has a very limited capacity to efficiently redirect resources within the community. This is partly achieved through a series of non-taxation measures, and the provision of concessions and rebates to pensioners and disadvantaged groups.[47]

4.23. There are two types of concessions offered in the ACT. Some concessions result in foregone revenue, the others represent a cost to the Government. In 1999-2000, concessions were estimated to be… '$80.655 m[illion], including ACT Housing rental rebates of $39 m[illion].[48] The Government also provided a table of concessions and revenue forgone for 1999-2000. This table is reproduced at Appendix C in Table 4.3 Value of revenue forgone on ACT concessions.

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[46] JK Shim & JG Siegel, Dictionary of Economics, John Wiley and Sons Inc., New York, 1995 pp 171 & 347.
[47] Government submission, p 15.
[48] ibid., p 16.

4.24. In addition, the Government has commented that equity within the ACT's tax system could be improved by minimising the impact of

> tax leakages, tax evasion and avoidance. The Government suggests that this is achievable …through effective legislation, …regulatory measures and compliance activities.[49]

4.25. The Government has also stated that the taxation measures announced as part of Budget 2002-2003 aimed to 'achieve sustainable and equitable objectives through:

- contributing to the longer term financial base enabling the funding of essential services to the Canberra community in future years;
- distributing the tax burden more equitably between the business sector and households in order to fund an infrastructure and environment that is expected by the community; and
- minimising any adverse impacts on those who can least afford them'.[50]

4.26. A number of examples were given, namely:

- 'applying an increase in land tax marginal rates for non-residential properties…to restore the more equitable contribution in land tax from the commercial/industrial sectors,…as over the past six years, land tax revenue from non-residential properties has fallen in real terms;
- increasing the stamp duty on conveyancing…to minimise the impact on properties at or below the median ACT house price; and
- requiring ACT clubs to contribute a fixed proportion of their net gaming machine revenue to defined community activities, such as charitable and welfare organisations, safety and social services'.[51]

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[49] ibid.
[50] ibid.
[51] ibid.

4.27. Again, in 2003-2004, the Government announced ‘several revenue initiatives’. Combined, these initiatives would raise just under $16.57[52] in 2003-2004 and included:

- ‘replacing the current corporate reconstruction exemption with a 95% concession;
- applying a rate of duty equal to the conveyance rate on the transfer of business assets where the value of the total transfer is $1 m[illion] or more;
- introducing a loan security duty on commercial loans of $ 1 m[illion] or more;
- introducing a fire reconstruction levy on all rateable property based on the AUV [average unimproved value of a parcel of land];[53]
- increasing the top marginal tax rate for gaming machines;
- introducing pay parking in Barton;
- reforming the taxi and hire car licences scheme;[54]
- continuous registration;
- increasing the water abstraction charge;
- updating the Home Buyer Concession Scheme to reflect current property prices and income levels;
- increasing Fees for Regulatory Services; and
- increasing parking and traffic penalties’.[55]

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[52] ACT Government, 2003-04 Budget, Budget Paper No 2, p 3.
[53] The Treasurer announced on 11 June 2003 that the fire reconstruction levy would not be imposed, Media release, <shttp://www.cmd.act.gov.au/mediareleases/fileread.cfm?file=firelevyabolished.txt>
[54] The Legislative Assembly’s Standing Committee on Planning and Environment inquired into this area through its Inquiry into the Road Transport (Public Passenger Services) Amendment Bill 2003. The Committee presented its report to the Legislative Assembly on 10 February 2004.
[55] ACT Government, 2003-04 Budget, Budget Paper No 3, p 86; Budget Paper No 2, p 3.

Community comment

4.28. The community made comment about the perceived inequities in current taxes imposed by the Government. In particular, there was mention of the way land tax is levied in the ACT in comparison to other Australian jurisdictions. One submission highlighted the high amount of land tax imposed on landowners in the ACT. The submission argued that the cost that is borne by the landowner if in possession of a rental property is usually passed on to the tenant through a higher rent. The following comment was made in relation to this issue:

> Land tax is a contributing factor to the high rents in Canberra's private rental market. Canberra's rents are high when compared to similar markets in other Australian cities where land tax is not imposed to the same extent. Land tax is therefore inequitable because the people, who suffer from it, are private tenants paying high rents, many of whom are in the category of being marginally ineligible for public housing yet unable to afford home ownership.[56]

4.29. The inequity of land tax and the negative impact on tenants of increased rents due to land tax is reiterated by two other submissions received by the Committee.[57] In relation to land tax, ACTCOSS has stated

> in the ACT, land tax is likely to be paid by tenants in the form of higher rents. This has been exacerbated in recent years by the alarming rise in rental costs due to a shortage of rental properties, and large increases in AUVs [average unimproved values] of ACT properties'.[58]

4.30. ACTCOSS has suggested that to balance revenue and equity considerations, that the land tax base should be broadened.

> Broadening the land tax base would make it more progressive and more equitable. However, as land tax is a tax on asset value rather than income, this would need to be done in a way that did not place hardship upon income poor people such as pensioners. This could be achieved through establishing an appropriate threshold. In NSW for example, land tax is $100 plus 1.7% of the

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[56] G Wood, Submission to the standing Committee on Public Account's Inquiry into Revenue Raising in the ACT, 30 July 2002, p 1.

[57] ACTCOSS submission, pp 3 & 8; Conservation Council of the South East Region and Canberra Region submission, p 2.

[58] ACTCOSS submission, p 8.

> value of the property above the threshold is paid on residential properties with an unimproved value of $1, 234, 000 or more.[59]

4.31. Broadening the land tax base was also suggested by Dr Julie Smith who stated

> While it's all very well to say we don't have minerals [in the ACT], we do have other assets, which we should be more fully exploiting from a revenue point of view. I know we haven't for the last 20 or 30 years but, as land revenues start to decline as the price of land goes up, it's an area that we really should be looking at for a number of reasons….Professor John Freebairn[60] of the University of Melbourne [has said] … on this issue …*In principle, a broad based land tax …*and this applies to land tax revenues… *entails minimal efficiency costs, and on this count alone it is an under-utilised tax.*[61]

4.32. Further

> I'd suggest that the ACT, taking into account the comparative advantage it has in land ownership and town planning, expand land revenues via an integrated strategy. By that I mean that, if you're taxing the same base through public land development, betterment or change-of-use charges, land tax and rates, you need to co-ordinate those so that you don't have overlap and duplication. That doesn't mean you can't have a number of different mechanisms for taxing different aspects of the returns from land; but you do need to co-ordinate them to make sure that they're well integrated.[62]

4.33. Returning to the general theme of equity, the Canberra Business Council stated that

> income distribution is not a primary goal of taxation at the Territory level. Individual taxes need to be assessed for their equity implications in terms of: direct impact; rate tapering; thresholds; creation of poverty traps; interactive impacts; cumulative benefits of multiple concessions and attendant complexity for many who are not or no longer financially literate.[63]

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[59] ibid., p 9.
[60] Professor John Freebairn, Opportunities to Reform State Taxes, Conference of Economists, September 2001.
[61] Transcript of evidence, Wednesday 30 April 2003, p 69.
[62] ibid., pp 69 & 70).
[63] The Canberra Business Council submission, p 6.

4.34. To ensure the maintenance of social considerations such as equity, ActewAGL is obliged to partake in regulation of all proposed changes in the pricing of its products. The Independent Competition and Regulatory Commission (ICRC)[64] regulates ActewAGL's prices. The ICRC is required to assess the social impact of all proposed changes to prices charged by ActewAGL. ActewAGL has stated that it

> would be pleased to advise the government on this approach to impact assessment to support the government's future assessment of revenue raising mechanisms and options from a social perspective.[65]

4.35. ACTCOSS has commented that 'State and Territory tax systems generally do poorly on tests of equity'. ACTCOSS adds that this is because of the narrow tax base and the under utilisation of the tax base that is available.

> The ACT also fares poorly on the equity test because there is a poor correlation between the item being taxed and the taxpayer's ability to pay. This is the case for most fees, fines and user charges.[66]

4.36. In relation to concessions, ACTCOSS

> does not generally support moves away from universal access for services (such as free parking), even if concessions are provided on low incomes. This is because user charges, even if levied at concessional rates, place additional financial strain on low income households. Further …it is difficult to design a concession that would exempt all people on low incomes from a charge, such as working families on low incomes. ACTCOSS would like to see a concessions policy established by the ACT Government. ACTCOSS believes that … without an overall policy framework, the ACT's various concessions are unlikely to be of value for money for the ACT Government.[67]

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[64] The ICRC 'regulates prices, access to infrastructure services and other matters in relation to regulated industries and investigates competitive neutrality complaints and government-regulated activities. The Commission also has responsibility for licensing utility services and ensuring compliance with licence conditions, <http://www.icrc.act.gov.au>.

[65] J Mackay, ACTEWAGL, Submission to the Standing Committee on Public Accounts' Inquiry into Revenue Raising Issues in the ACT, 9 August 2002, p 1.

[66] ACTCOSS submission, p 3.

[67] ibid., p 4.

4.37. Other comments about inequities in specific taxes include: traffic fines, payroll tax, motor vehicle registration and transfers and motor vehicle registration fees.

4.38. Traffic fines are seen as vertically inequitable as such fines 'are levied in fixed dollar amounts, irrespective of income'[68].

4.39. ACTCOSS argues that the impact payroll tax has on equity is complex. Equity considerations vary depending on which party is impacted by the tax, whether it is the employer, employee or consumers of the product and or service.

> All three agents may bear the incidence of payroll tax. Employers may bear the incidence of payroll tax through lower profits, employees through lower wages or unemployment and consumers through higher prices.[69]

4.40. Further,

> Payroll tax is partly comparable to a consumption tax in its impact as it can be passed on to consumers in the form of higher prices. It is also partly comparable to income tax as it can be passed on to employees in the form of lower wages. In this regard, payroll tax is likely to have adverse equity effects, both vertically and horizontally. However, the magnitude of these effects is difficult to assess.[70]

4.41. ACTCOSS does not advocate the 'abolition of payroll tax' as the reduction in revenue would have to be funded through an increase in other taxes or a reduction in Government spending, which may further impact negatively on equity.[71] ACTCOSS recommends that

> further exploitation of the payroll tax base be investigated.[72]

4.42. Dr Julie Smith has advocated expanding the payroll tax base.

> Approximately half of the payroll tax base is not taxed, if you look at the base being wages, salaries, fringe benefits and so on. In the ACT, although we perform fairly well in terms of revenue effort, on payroll tax we seem to have a policy trying to attract small business from over the border by having very high

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[68] ibid., p 2.
[69] ibid., p 10.
[70] ibid.
[71] ibid., p 11.
[72] ACTCOSS submission, p 6.

> thresholds. I'm not actually sure of who we're trying to favour by doing that – maybe the housing industry. What that does is distort the nature of activity – the people who are taxed – create inequities and reduce revenue for the purposes that the Territory can usefully spend it on. I think you'll find it's a pretty universal argument that you'll be hearing from academic tax economists: you need to widen the base of the payroll tax.[73]

4.43. Further, it has been advocated that

> A flat rate tax on a broad payroll tax base brings simplifications for current large business payroll taxpayers, especially if the workers' compensation or PAYG base is used. Gone will be the complications in measuring business size, especially for businesses with enterprises in different states. Also, the incentives and rewards for socially wasteful expenditures on schemes to avoid and reduce payroll tax would cease.[74]

4.44. In relation to motor vehicle taxes, Freebairn argues that

> Part of the rationale for specific and relatively high taxes on some products is that the taxes represent a crude but feasible and simple form of user pays fee for government provided services and that they raise market prices to reflect external costs of consumption. … all or a part of special taxes now collected on motor vehicles, not just State registration fees but also Commonwealth excise on petroleum products used for on-road purposes can be seen as a fee for government expenditure for road construction and maintenance, policing and support costs for accidents.[75]

4.45. ACTCOSS states that motor vehicle registration and transfer duty is seen to be slightly more progressive than motor vehicle registration fees due to the tiered nature of the former.[76]

> Motor vehicle registration and transfer duty is likely to have only small horizontal equity impacts as it is levied broadly on all new registrations and transfers. The only horizontal equity impacts would occur through people on similar incomes purchasing different value vehicles. However, as the motor vehicle registration and transfer duty is a well known and long standing

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[73] Transcript of evidence, Wednesday, 30 April 2003, p 70.
[74] Professor John Freebairn, op. cit., pp 10 & 11.
[75] ibid., p 6
[76] ACTCOSS submission, p 13.

> cost, it is likely that purchasers would factor the duty into their purchase price.[77]

4.46. In addition, ACTCOSS states motor vehicle registration fees have negative effects on horizontal equity as

> … basing the fee on vehicle weight provides an incentive for people on low incomes to run small cars, but takes no account of whether it is practical for them to do so. A low income family with three children will require a car [with a] larger engine, whereas a single person may not. Thus, the family will potentially pay more than a single person on the same income, who may have a greater capacity to run a smaller car.[78]

4.47. Further to this, one submission stated

> It is sometimes argued ACT stamp duty should be made more progressive. Such a proposal has three problems: Firstly, people would purchase new cars in NSW. This could be gotten around by imposing an additional charge on the first registration of (almost) new vehicles in the ACT; It increases the flow access cost of vehicle purchase compromising safety and environmental objectives; and contribution to equity is likely to be minimal.[79]

4.48. Another submission proposed that

> drivers should pay directly for using major roads like the Tuggeranong Parkway through the introduction of road user charges based on average distances travelled paid via car registrations or directly through tolls. There has been a move to user pays in most areas of government service delivery, but not roads, resulting in a perverse incentive to increase usage of the private motor car. This has resulted in substantial adverse economic, environmental, health and amenity costs to the ACT community. Public transport users, cyclists and pedestrians subsidise care users through the tax system. As a result the public do not adequately comprehend the cost of building and maintaining roads and as a result keep demanding more and more free roads, whenever there is any congestion.[80]

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[77] ACTCOSS submission, p 14.

[78] ibid.

[79] Howard Pender, ACT Government Tax Revenue – Long Run Design Issues, 18 December 2002, p 10.

[80] Conservation Council of the South East and Canberra Region submission, p 3.

4.49. Another submission proposed that in order to combat the external costs of vehicle use that the ACT Government

> investigates the feasibility of installing time of day and geographically variable electronic tolling on major Canberra roads, as is the case in Singapore.[81]

4.50. Further to the environmental and social implications motor vehicle taxes may have on the community, Freebairn has stated

> Where production and consumption activities generate spillover costs or externalities, special externality taxes is one instrument to internalise the external costs and to improve efficiency. In part, State taxes on motor vehicles can be argued to be a tax on pollution externalities and on congestion externalities. Ideally the preferred tax base is the direct externality source, that is units of pollution rather than fuel or motor vehicles, or vehicles travelling in CBDs at peak hours rather than all vehicles at all times. Current State taxes on motor vehicles, mainly registration fees and stamp duties, are only crudely related to the ideal pollution and externality bases. However, they do raise the private cost of motor vehicles and indirectly lead to less pollution and congestion.[82]

4.51. Freebairn proposed that a way to combat the current social and environmental problems associated with motor vehicle taxes is by

> replacing stamp duties on the transfer of new and second hand motor vehicles with a higher annual vehicle registration fee. [This] would not change the overall tax burden on vehicles, but it would remove distortions to ownership decisions, and it would slightly redistribute the tax burden to achieve greater horizontal equity. The removal of the two sets of stamp duties also would bring simplicity and reduce both taxpayer compliance and government administration costs.[83]

Committee comment

4.52. The Committee understands and acknowledges that there may always be some extent of tax avoidance within the community. The Committee acknowledges the inequity this presents between taxpayers and the foregone revenue to the Government and community. The Committee notes that the

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[81] Howard Pender submission, p 10.
[82] Freebairn, op. cit., p 7.
[83] ibid., p 14.

revenue foregone in such instances is difficult to calculate and welcomes any measures the Government may have to tighten tax compliance.

4.53. The Committee also believes as has been stated by a number of the submissions received that most taxpayers are willing to pay taxes if they know where the revenue raising is going and for what purpose.[84]

4.54. The Committee agrees with ACTCOSS in relation to its stance on implementing a community education program to

> promote [a] greater understanding of, and subsequent support for the … Government's revenue raising measures.[85]

4.55. A number of submissions highlighted the problems tenants in the rental market face in increased rents passed on by their landlords due to the high amount of land tax imposed by the Government. The Committee is concerned about this as those in the rental market who are on low incomes and unable to afford property themselves will be further impacted by any increases in rent. Given that the rental vacancy rate in the ACT is below 2%[86], there is little or no alternative for tenants, but to pay a higher rent at the expense of their social equity.

4.56. The Committee agrees with ACTCOSS that

> all Canberrans have a right to participate in the community and this participation contributes to the strengthening of the community, [and that] actions must be taken to alleviate the financial burden of such participation on people on low and fixed incomes.[87]

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[84] Brett Odgers submission, p 1; Conservation Council of the South East Region submission, p 1; ACTCOSS submission, p 15.

[85] ACTCOSS submission, p 9.

[86] The vacancy rate in the private rental market as at March 2003 was 1.9%, Australian Housing Market Statistics Update, June 2003, Department of Family and Community Services, <www.facs.gov.au>, October 2003.

[87] ACTCOSS Submission to the ACT Budget 2002-2003, Theme 2: Reducing Financial Inequality, p 9.

4.57. The Committee is interested in the evidence presented that advocates broadening the land tax base and believes there are efficiency gains to be made by doing so. Further, the Committee agrees with ACTCOSS that further exploitation of the payroll tax base needs to be investigated.

4.58. The Committee is also interested in ways that taxes related to motor vehicles can be more socially equitable, environmentally responsible and efficient.

4.59. The Committee recommends that:

Recommendation 5

The Government as a matter of urgency develop regulations and legislation to ensure where necessary, measures to minimise tax avoidance.

Recommendation 6

The Government examine current taxes for their regressivity and consider options which are more progressive as alternatives.

Recommendation 7

The Government assess the potential equity benefits of broadening the land tax base.

Recommendation 8

The Government review the social and environmental sustainability of current taxes on motor vehicle ownership and use.

Efficiency

4.60. Efficiency of revenue raising as stated in the Government's submission refers to economic efficiency in the distribution of resources and also the administration (including costs of collection) of revenue raising. Efficiency as ACTCOSS defined it 'encompasses [the] simplicity of a tax, its compliance cost, how easily it can be avoided and how transparent it is'.[88] Efficiency is usually the measure used to 'indicate directions for reform'[89] for governments. Efficiency in addition to other economic and social considerations can determine the tax mix used to raise revenue.

Government comment

4.61. In relation to efficiency, the Government has stated that

> any outcome in achieving a more overall efficient tax system for resource distribution needs to be coordinated and implemented across all jurisdictions by all levels of Government. In this context, there have been on-going efforts by Commonwealth/State/Territory Governments to examine tax reform initiatives.[90]

4.62. Further, the Government made the point that

> overall administration costs for the ACT Revenue Office are higher than the national average due to a lack of economy of scale and because the ACT also collects municipal rates, which are low value and high volume based.[91]

4.63. In relation to administrative efficiency, the Government stated that the ACT Revenue Office collects taxes

> 'with a focus on improved efficiency and increased returns, and as far as practical, minimum costs of compliance to taxpayers through such practices as:
>
> - on-line and various methods of payment and lodgement of returns;

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[88] ACTCOSS submission, p 5.
[89] O Gabbitas & D Eldridge, Directions for State Tax Reform, Productivity Commission, 1998, p 31.
[90] Government submission, p 14.
[91] ibid., p 15.

- self assessment, for example, for payroll tax and stamp duties (which also provides certainty of tax assessment for taxpayers), and reduces costs of implementation by the ACT Revenue Office;
- simple tables of rates and formulae such as single marginal rates (compared to the more complicated payroll tax formulae of Queensland and Western Australia); and
- concessions and exemptions of taxes that have minimal administrative impact and low compliance costs, for example, exemptions built into legislation'.[92]

Community comment

4.64. Community comment has focused on the efficiency of land tax, vehicle taxes, and stamp duty on conveyance.

4.65. In relation to land tax, ACTCOSS has commented that

> Land taxes are generally regarded as relatively efficient taxes as they do not distort economic activity. This stems from the fact that land supply is in relatively fixed supply. However, land taxes as applied in the ACT are not nearly as efficient as those applied generally. The ACT exempts owner occupied residential housing from land tax, but includes rental housing. This distorts investment in favour of owner occupancy and against rental income. Land taxes are administratively simple as they are difficult to evade and land title records are easily available. A general land tax would also be administratively more efficient than the present arrangement. As the ACT is also both municipal and state provider, there is a measure of extra efficiency in using the land assets as a revenue base.[93]

4.66. Another submission stated that

> from an efficiency perspective, land tax is preferable to stamp duty [as] stamp duty is an artificial impediment to moving house.[94]

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[92] ibid.
[93] ACTCOSS submission, p 9.
[94] Howard Pender, submission, p 11.

4.67. In the previous chapter a number of submissions suggested broadening the land tax base.[95] Freebairn has criticised a narrow tax base and has stated

> Payroll tax, land tax and the stamp duties have tax bases which are narrow and less than a half of the ideal comprehensive base. Narrow bases distort relative prices and induce decision changes which reduce economic efficiency when compared with an aggregate revenue neutral lower rate tax on a broad base.[96]

4.68. In addition to higher house prices[97], the Productivity Commission has stated that stamp duties can create affordability issues for property buyers.

> Even though at least some of the cost is ultimately passed back to the seller, stamp duties on housing transactions can add to affordability problems when house prices rise. In particular, they can increase any 'deposit gap' or necessitate higher mortgages. They also have deficiencies from both efficiency and equity perspectives.[98]

4.69. There are also social and environmental implications associated with stamp duty tax on conveyance as outlined.

> As stamp duties apply only when a property is sold, they inhibit turnover of the housing stock. Prospective first home buyers (unless exempt) have little choice but to pay any stamp duty applicable. But those already in their own house can avoid stamp duty by the simple expedient of staying put, even if a change of housing type or location might better suit their housing needs. To them, stamp duty looms as a tax on buying and selling activity, or on moving, rather than as a tax on the capital value of the home. The 'lock-in' effect has potentially adverse consequences: it can effect the locations in which people choose to

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[95] ACTCOSS submission, p 9; Transcript of evidence, Wednesday 30 April 2003, p 69; Freebairn, op. cit., p 14.
[96] Freebairn, op. cit., p 7.
[97] 'Average house prices across Australia have doubled in nominal terms and risen by nearly 70 per cent in real terms. About half of this increase has occurred in the past two years', Productivity Commission, First Home Ownership Discussion Draft, Chapter 2: Are recent price and affordability trends unusual?, 18 December 2003, p 13; <http: www.pc.gov.au/inquiry/housing/draft report/index.html>
[98] Productivity Commission, First Home Ownership Discussion Draft, Chapter 5: Has taxation played a role?, 18 December 2003, p 76.

> work, keep people in unsuitable housing, and impede transformation and consolidation of cities.[99]

4.70. As has already been stated, the Government announced that it would be

> increasing the stamp duty on conveyancing in such a way as to minimise the impact on properties at or below the median ACT house price.[100]

4.71. In relation to 'compliance cost and avoidance' of tax, ACTCOSS believes that

> taxes need to be non-distorting, have low compliance costs and not create incentives to avoid paying tax where possible.[101]

4.72. ACTCOSS cites the example of motor vehicle transfer duty which

> encourages people purchasing second hand cars in the private market to understate the purchase price. Further, ACTCOSS advocates that mechanisms must be put in place to ensure that this is not widespread and that there are penalties for people understating values to avoid duty.[102]

4.73. In the previous chapter, comment was included from John Freebairn about how to combat the social and environmental problems associated with motor vehicle taxes.[103] John Freebairn advocates replacing stamp duties on the transfer of new and second hand motor vehicles with a higher annual vehicle registration fee. It is argued that this would remove distortions to ownership decisions and simplify the tax, improving overall efficiency.[104]

Committee comment

4.74. The Government has stated that it collects revenue with minimum costs of compliance to taxpayers through various practices. The Committee agrees with this approach. Although, from the evidence presented, the Committee was unable to determine whether taxes, fees and fines are efficiently administered. The Committee acknowledges that the ACT does not have economies of scale in relation to administration costs due to its

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[99] ibid., p 76.
[100] Government submission, p 16.
[101] ACTCOSS submission, p 5.
[102] ibid., p 6.
[103] Refer to page 21 of this report.
[104] Freebairn, op. cit., p 14.

combined state and municipal responsibilities. No evidence was presented to the Committee to overcome this obstacle.

4.75. The Committee also notes the Productivity Commission's comments made in relation to stamp duty as impeding individuals in moving through the buying and selling of their property. This can have environmental and social implications.

4.76. The Committee sees the negative impact of stamp duty not only as an impediment in terms of efficiency, but also individual freedom as in many cases individuals or family groups move out of necessity.

4.77. The Committee believes more research needs to be undertaken to determine the impact of stamp duty. The research should include the costing and modelling of various options. The Committee agrees that a narrow tax base has a negative impact on economic efficiency. As has previously been stated, the Committee advocates broadening the land tax base and investigating how payroll tax can be exploited.

4.78. The Committee recommends that:

Recommendation 9

The Government review the efficiency of and the social, economic and environmental sustainability impacts of the current stamp duty system in the ACT and the potential for replacing conveyance tax with a broader land tax.

Certainty and sustainability

4.79. Certainty and sustainability relates to whether the revenue raising effort is suitable in meeting and maintaining a given level of revenue to meet the current and future economic and financial needs of the Territory. As one submission stated

> certainty and sustainability relates to the level of tax and the predictability and stability of tax rates in future years.[105]

Government comment

4.80. The Government has already outlined the ACT's limitations in raising revenue under the present taxing regime. It is for these reasons that the

[105] Canberra Business Council submission, p 3.

Committee is concerned about the sustainability of the ACT's revenue raising capacity in the medium to long term.

4.81. In relation to certainty and sustainability of revenue, the Government has stated that

> few major taxes collected in the ACT are growth taxes that can provide certainty and sustainability over time.[106]

4.82. The Government cites property based taxes as being the most stable with duty on conveyances and shares the most volatile.[107] The Government further states that

> overall, in most years, the unexpected falls in certain revenue lines are offset by the increase in others, leaving the changes in total revenue collected within [an] acceptable range. An external shock equivalent to the Commonwealth cut-backs, and consequent disruptions to land values and economic activity in 1996-98 can leave the ACT badly exposed to unforeseen revenue losses.[108]

4.83. The Government provided three tables showing what is predicted to happen to specific revenue measures over the period 1999-2000 to 2005-2006. These graphs are reproduced at Appendix C in Figures 4.1, 4.2 and 4.3. Figure 4.1 represents the actual and estimated movement in ACT taxation revenue over the given period. Figure 4.2 represents revenue received from payroll tax, conveyances, general rates and land tax over the given period. Figure 4.3 represents the stability of the taxes listed (taxes, duties, gambling taxes, franchise fees [excise taxes] and other taxes over the given period. The Government has commented that

> the graphs show that the ACT's capacity to raise revenue in future years, in real terms is declining, or at best remaining constant for all key revenue lines.[109]

4.84. The reason given for the performance predicted is

> because it is forecast that there will be limited growth in general rates combined with limited growth opportunities for payroll tax

[106] Government submission, p 13.
[107] ibid.
[108] ibid.
[109] ibid.

> due to the slowing of the economy, and a forecasted drop in conveyancing.[110]

4.85. The Committee sought further information in relation to revenue raised from future land releases (land bank), in terms of future revenue planning and the sustainability of revenue from land bank. The Government responded to the Committee's request for information by stating that

> Since self government 2574 h[ectares] of land which was previously identified for residential development has been conserved for ecological reasons. Each decision has been debated and considered extensively, and often passionately. This is a reflection of our changing values and increased awareness of the environmental value of land in the ACT in context to ecological communities beyond our borders.
>
> It has also meant that an area equivalent to the district of Woden Valley has been removed from the residential development program, an area capable of providing for a population of approximately 50 000 people.
>
> There is a projected 20-30 year life for Gungahlin's land release and this is based on current, realistic growth patterns. However, this land supply will be exhausted within the next 5-10 years if current population growth lifts even modestly above its current 1 percent (to meet the challenges of Australia's changing demographics and to accommodate growth in the Sydney-Melbourne corridor), or if further land is removed from the residential land release program due to ecological concerns.
>
> Decisions to preserve further areas of our natural environment, particularly in Gungahlin, mean the Government is reviewing issues of urban consolidation and its potential to counterbalance the supply of Greenfield land.
>
> Residential land use policies will be the tools which implement the Government's long-term objectives for land. In the context of the Government's Canberra Plan, the Spatial Plan is refining and developing land use and settlement policies for the next 25-30 years.[111]

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[110] ibid.

[111] ACT Government's supplementary submission to the Inquiry into Revenue Raising in the ACT, 21 December 2002.

Community comment

4.86. Community comment about the certainty and sustainability of revenue varied from general comments to more specific issues related to borrowing, environment taxes, dividend policy and land development.

4.87. One submission suggested that

> to be sustainable, a tax or revenue system has to be robust, strong and resilient. It may be more complex and administratively less efficient, but is likely to be more sustainable socially, economically and politically.[112]

4.88. Of the tax base, another submission added

> stability and sustainability are important. Governments should develop a tax base that grows in line with the expenditure needs without significant adjustments to rates of existing taxes and without imposing new taxes. The cautionary note is that such a tax base needs to be regularly assessed so as not to provide scope for ever expanding expenditure on social wants.[113]

4.89. Julie Smith has advocated that borrowing is a revenue strategy that should be considered for the ACT.

> prudent borrowing can be a valid revenue strategy for the territory. The ACT has got virtually no debt in relation to GDP in other states and territories. Debt is appropriate for investments with adequate social returns. Investment includes, in human capital, some education and health spending. Public investments have been shown, again by academic research, to be complementary to private investments in enhancing productivity. It's not a question of public or private; it's a question that public investment helps private investment. The other thing I noted is that state government investments have been declining in recent decades because of perceived limits on borrowing.[114]

4.90. Other suggestions about new sources of revenue include a 5% environment levy on rates and a carbon or energy tax. It is estimated that a 5% environment levy on rates

> would raise $5 million in revenue. Concerns about the social equity of an environment levy can be dealt with by ensuring that

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[112] B Odgers submission, p 1.
[113] Canberra Business Council submission, p 4.
[114] Transcript of evidence, Wednesday, 30 April 2003, p 66.

a percentage of the revenue raised is used to insulate the home of low income households that own their own home and those living in public housing. This will result in substantial savings on heating and help to reduce greenhouse gas emissions.[115]

4.91. In favour of a carbon or energy tax, it is argued that

> Australia has legal commitments to reduce its GHG [green house gas] emissions. If one accepts the majority scientific opinion on the connection between global warming and GHG emission there is also a moral obligation to reduce carbon emission/fossil fuel consumption. Even in the absence of those arguments there is a strong economic efficiency argument for taxing energy consumption by commercial office and residential users because it is in inelastic demand.[116]

4.92. ACTEW has commented about the certainty and sustainability of dividend policy.

> In the interests of the Territory, sustaining or indeed enhancing the projections [in relation to dividends] and indeed enhancement of a significant inflow of this nature could be a key aim to government as this enables discretion in the allocation of such revenues to address social justice issues administered within the general government administration. …it remains an option for the government of the day to direct specific actions by its utility to address and fund specific areas directly. At present, only general prescriptions apply and, to the extent that it is practical, the organisation seeks to emulate best practice standards in meeting its environmental and social responsibilities, as well as its direct commercial responsibilities.[117]

4.93. There is also comment about the Government's role in land development and the associated risk.

> Expenditure restraint is even more important where governments take on risk, on behalf of the taxpayers, that is more appropriately taken and managed by private investors (who may benefit or lose accordingly to a wide range of circumstances). The recent decision by the ACT Government to undertake land development with public fund brings back the spectre of taxpayer capital lying idle in unsold suburbs not so many years ago. This initiative will result in a reduction of stamp duty of some $2 - $2.5 million per

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115 Conservation Council of the South East and Canberra Region submission, p 2.
116 Howard Pender submission, p 11.
117 ACTEW Corporation submission, p 3.

year (duty paid by developers when purchasing greenfields sites at auction). This is based on the stated target of 1200 blocks per year.[118]

Committee comment

4.94. The Committee is concerned about future supplies of land and whether these land releases will be able to meet the growing ACT population. The Government has stated that such considerations are included in the Canberra Spatial Plan. While specific issues concerning land planning are not in the scope of this inquiry, the Committee welcomes any effort to address issues associated with the supply of land in the ACT in the medium term.

4.95. The Committee is also concerned that there are not many taxes, which could provide certainty and sustainability of revenue over time. The ACT needs to be sure that it can sustain its services into the future. Continued reliance on Commonwealth Government grants only serves to weaken the ACT's capacity to expand its revenue base.

4.96. The Committee is interested in the concept presented by Julie Smith of viewing Commonwealth revenue as national revenue. Of this concept Julie Smith has said

> States have a very strong power, in sense of their spending and regulatory role, to negotiate with the Commonwealth, and as a unit they can achieve a lot more than if one individual territory or state approaches them. That's an area where it's important to start viewing the national tax system as a national revenue system and not a Commonwealth tax system and dole for the states, which is the way the Commonwealth would like to view it.[119]

4.97. Further Julie Smith states and the Committee agrees

> It's also in the ACT's interest to pursue the Commonwealth in the sense of keeping a close eye, as we do, on Commonwealth Grants Commission methodologies. We have more than the usual interest in proper cost disability type issues in terms of the Commonwealth's own activities in the ACT, and we need to make sure that the costs of the ACT running the national capital are not hidden costs to the residents and businesses of the territory.[120]

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[118] Canberra Business Council submission, pp 3 & 4.
[119] Transcript of evidence, Wednesday, 30 April 2003, p 68.
[120] ibid., p 68

4.98. The Committee is also interested in public-private partnerships and the technological, knowledge, economic benefits and synergies that may be gained from such ventures. The Committee is aware that a number of state governments are partaking in public-private partnerships.[121]

[121] These include Victoria, New South Wales and Queensland, Radio National, Wednesday, 17 July 2002, <http://www.abc.net.au/rn/talks/lm/stories/s608622.htm>

5. The impact of revenue raising on the ACT community

5.1. This chapter briefly examines the economic, social and environmental impact of revenue raising on the ACT community including the impact on employment and investment opportunities. The Committee has focused on issues relating to business incentives through concessions and waivers, gaming revenue collection (from poker machines) and motor vehicle registration.

The economic impact including the impact on employment and investment opportunities

5.2. As one submission has stated, there is no doubt that the

> ACT's rates of taxation and overall level of revenue raising are essential components of an economic framework and [are] conducive to promoting the growth of the private sector and, with it, jobs and income growth for the local economy.[122]

5.3. The Government has commented that in

> the period from 1995-96 to December 2000, around 28 ACT companies benefited from business incentives to [the value of] $13.4 m[illion], … paid in the form of cash grants and/or concessions in areas such as Payroll Tax, Stamp Duty, Land Discounts, and Rent Waivers. During this period, the intention was that up to 1,700 full time equivalent jobs were to be generated in the ACT as a result.[123]

5.4. In 2002-2003, the Government provided the following incentives for business:

- 'maintaining the payroll tax threshold at $1.25 m[illion]; and
- exemption from land tax on residential land owned by builders and developers for the …purpose of development and redevelopment for a two year period from the date ownership commenced, to allow for the completion and subsequent sale of property'.[124]

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[122] Canberra Business Council submission, p 4.
[123] Government submission, p 17.
[124] ibid.

5.5. In order to facilitate employment growth, the Government has implemented initiatives which

> assist businesses from the start up phase through to major expansion activities.[125]

5.6. The Government is of the view that, business incentives, waivers and the like

> provide incentives to stimulate employment and economic growth, particularly in view of competing or inconsistent regimes outside the ACT's borders.[126]

5.7. Business incentives available are:

- tax concessions and waivers which are either full or partial payroll tax concessions (and depend on jobs created); land tax concessions and stamp duty concessions;[127]
- corporate reconstruction exemption provided for under the *Duties Act 1999* which 'provide[s] relief from duty when property is transferred within a corporate group, in approved circumstances, where there is no change in the ultimate beneficial ownership of the property';
- provision of land (either at 'full market value, less than market value, at no cost, at market value with the option of payment over an agreed period of time, or with a reduction in land rent charges'); and
- other assistance which includes 'workforce training, access to surplus government accommodation and limited establishment costs'.[128]

[125] ibid.
[126] ibid.
[127] ibid.
[128] ibid., p 18.

5.8. Waivers are provided

> in situations where a tax liability arises from an unintended consequence of legislation. These are generally one off and assessed on a case by case basis, or where the intention of the Government is to provide relief but there is a time delay because of a need to have legislation prepared and passed by the Legislative Assembly.[129]

5.9. The Government has provided a table representing the actual and estimated tax waivers provided in the period from 2000-01 to 2006-07 for payroll tax, conveyancing, shares, rates and land tax and business assets. This information has been reproduced in Table 5.1 at Appendix C.

5.10. In criticism of waivers and concessions the following comment was made.

> tax incentives are bad public policy. Tax incentives, tax expeditures and tax concessions [these terms are used interchangeably]. These undermine tax system integrity mainly in tax avoidance and unethical behaviour. They reduce budgetary control and efficient fiscal management because they tend to be open-ended and highly volatile. You can't control them in the same way that Treasury can control direct spending programs, so you tend to get expenditure blow-outs or revenue cost blow-outs in this case. There is no annual scrutiny of the level of those concessions, because it is money you don't collect rather than money you spend.
>
> From an economic point of view, tax incentives and tax concessions have adverse efficiency effects, favouring some activities and taxpayers over others and requiring higher rates of tax on the remainder of the taxpayers for activities. Key examples for the territory are payroll tax, land revenues and gambling tax. Tax expenditures also have adverse equity effects in terms of reduced revenue for redistributive programs; increased regressivity of the revenue base – by and large because tax concessions are usually given to the politically powerful and not to the people who most need them; and less horizontal equity between comparable activities and taxpayers.[130]

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[129] ibid.

[130] Transcript of evidence, Wednesday, 30 April 2003, pp 67 & 68.

5.11. This commentator advocates that a better approach to promoting economic investment is to design a grants program, which would allow for greater budget scrutiny and transparency.[131]

5.12. In relation to concessions, ACTCOSS has stated that

> although the ACT has a large concessions program, it does not have a comprehensive concessions policy. [Moreover] without an overall policy framework, the ACT's various concessions are unlikely to most effectively achieve the objectives of increasing affordability and participation for people on low incomes and alleviating poverty, and are unlikely to be value for money.[132]

5.13. The Government has already stated that none of the large companies as listed in the Australian Stock Exchange's ASX 200 index reside in Canberra.[133] Canberra is also limited in terms of commercial and industrial property. It has been argued that tax incentives should not be used to lure investment into the ACT. Rather it has been suggested that an agreement be made between State and Territories not to compete by offering tax concessions for relocation to specific areas.[134]

5.14. This view is reiterated by one witness who said

> tax competition is dumb. It's a dumb strategy for the ACT. It's a race to the bottom the ACT cannot win. If we cut our taxes to attract business and investment here, other States have got much greater revenue capacity to cut theirs.[135]

5.15. When asked about concessions provided as incentives to stimulate business relocation, the Treasurer responded by stating

> The Government accepts that in the past there have been bargaining processes between jurisdictions, and businesses do come to Government and say they want this form of help or that form of assistance or they won't carry out their business here, they'll go take it elsewhere. I can advise that at the last meeting of Treasurers, it was agreed by all States except Queensland that States would move to eliminate that type of competition. There is already an agreement in place between Victoria and New South

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131 ibid., p 68.
132 ACTCOSS submission, p 4.
133 see p 6 of this report.
134 Canberra Business Council submission, p 5.
135 J Smith, Transcript of evidence, 30 April 2003, p 67.

> Wales, and they believe that it's operating satisfactorily for them.[136]

Committee comment

5.16. The Committee believes as has been stated earlier, that the identified limitations of the ACT should serve to stimulate further discussion about innovative methods to stimulate investment within and attract investment to the ACT.

5.17. The Committee agrees with the Canberra Business Council that the ACT Government should negotiate an agreement through the Council of Australian Governments (COAG) to not compete through offering tax concessions for business relocation to specific areas. The Committee acknowledges that increased investment within the ACT would significantly boost the ACT local economy, but believes there may be better ways to approach questions about investment than competing with other more resourced and larger capital cities. Better ways to attract investment may include as suggested by one witness that concessions be replaced with grants that business can apply for, but which are subject to the accountability mechanisms that other grant recipients must adhere to.[137]

5.18. The Committee also notes the comments put forward about the negative impact of waivers and concessions and believes that further investigation into making waivers and concessions more equitable and efficient is warranted.

5.19. The Committee also agrees with ACTCOSS that the ACT Government should establish a concessions policy in order to maintain equity and accountability where concessions are concerned.

5.20. The Committee notes what the Canberra Business Council has stated in relation to the influence the ACT Government has on the local economy. The Canberra Business Council has stated that

> there is little scope for the ACT Government, through its fiscal policy settings to significantly affect the short term economic performance of the Territory.[138]

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[136] Treasurer, Transcript of evidence, 30 April 2003, p 75.
[137] Transcript of Evidence, 30 April 2003, p 76.
[138] Canberra Business Council submission, p 3.

5.21. As is further stated, greater economic players such as the Commonwealth Government and the Reserve Bank of Australia have a greater power than the ACT Government in influencing the local economy in the short run. The Committee acknowledges that the revenue raising capacity of the ACT is limited for the various reasons mentioned earlier in this report[139]. The Committee agrees with the Canberra Business Council that

> Government should ensure that its own activities are sensitive to, and set in accordance with the needs of local economic cycles.[140]

5.22. The Committee recommends that:

Recommendation 10

The Government explore ways other than providing tax incentives to business, for attracting business investment within and to the ACT.

Recommendation 11

The Government establish a comprehensive concessions policy with the aim of promoting greater efficiency, transparency, accountability and equity.

The social impact

5.23. The social impact of revenue raising has implications for equity and has already been discussed in some detail in Chapter four. Regardless of the tax mix used by Government, there will be implications for social equity. As ACTCOSS has stated

> revenue is the other side of social expenditure. A community cannot have the services to create a better future if it does not have the revenue to pay for them.[141]

5.24. The Committee was particularly interested in the impact that gaming revenue collected had in resolving problems associated with problem gambling. As previously stated, the Commonwealth Grants Commission has assessed the ACT as having a below average revenue raising effort in

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[139] These are namely the lack of natural resources that exist within the ACT, the ACT's inability to levy payroll and other taxes on the Commonwealth, limited business activity associated with large corporations and economies of scale in services, Government submission, p 11.
[140] ibid.
[141] ACTCOSS submission, p 2.

gambling taxation, in addition to other areas.[142] This equates to 'about $18 million below standard'.[143] Part of the Budget 2002-2003 initiatives employed by the Government to achieve greater equity and sustainability included

> requiring ACT clubs to contribute a fixed proportion of their net gaming machine revenue to defined community activities, such as charitable and welfare organisations, safety and social services.[144]

5.25. The Government does not agree that the ACT's revenue raising capacity is below average in relation to gambling taxation and has stated

> The ACT provides access to every form of gambling available elsewhere in Australia, and the taxation rates applied to gambling in the ACT are broadly on par with the other States. Notwithstanding this availability, the ACT population does not demonstrate the propensity to gamble to the extent of other jurisdictions. The use of Household Disposable Income (HDI) as a measure of revenue capacity overstates the revenue that the ACT is able to raise and hence leads to the conclusion by the Commonwealth Grants Commission that the ACT's revenue effort is below average.[145]

5.26. The Committee recommends:

Recommendation 12

The ACT Government write to the Commonwealth Government, asking it:

(1) **to review the Commonwealth Grants Commission's insistence that State and Territory Governments maximise their revenue from gambling, and**

(2) **that any fiscal requirements imposed on States and Territories be informed by social and environmental impact analysis.**

5.27. In 2001-2002, the level of community contributions of 'net gaming revenue' was set at 6%. This represented $13.1 million from a total of $105 million in net gaming machine revenue. Just less than 75% of total community contributions 'were from the category of sport and recreation.

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[142] Government submission, p 10.
[143] Transcript of evidence, 30 April 2003, p 79.
[144] Government submission, p 16.
[145] Treasurer, Answer to question on notice asked at public hearing on Wednesday, 30 April 2003, Attachment A, dated 29 May 2003.

The level of contributions for the 2002-2003 financial year was set in the legislation at 7% of net gaming machine revenue. An amendment to the *Gaming Machine Act 1987* also allows clubs to claim '$4 as a community contribution for every $3 contributed to women's sport'.[146]

5.28. Government regulation of gambling defines the size of the tax base and the gambling industry. One witness noted that throughout the nineties, governments in general

> deregulated gambling, massively expanding the gambling base and the tax base, and there was a huge increase in gambling tax revenue. That was not because rates were put up but because the gambling tax base expanded so greatly with huge social costs. Approximately a third of the revenue from gambling comes from 2% of people who are addicts.[147]

5.29. This witness disagreed with the Government's initiative to require community contributions from clubs. It was suggested that in order to overcome the problem of collecting the majority of poker machine revenue from problem gamblers, that gambling revenues be earmarked for programs to assist problem gamblers. The witness stated that

> At least 30% of… revenues should be going back to fix up the problem…created.[148]

5.30. The Conservation Council of the South East and Canberra Region proposed increasing the tax on gaming with a view to using the additional revenue for environmental and social purposes. The Council also suggested the establishment of a community grants program similar to that in Western Australia and Queensland. The Council qualified its suggestions by stating that gambling tax should not become a large proportion of public revenue to provide incentive for governments to promote the activity.[149]

5.31. In 1999, the Productivity Commission reported that

> the growth of gambling has led to significant (and because of the mutuality principle[150], largely untaxed) income flows to some

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[146] ACT Gambling and Racing Commission, Annual Report 2002-2003, p 24.
[147] ibid., pp 70-71.
[148] ibid., p 71.
[149] Conservation Council of the South East and Canberra Region submission, p 2.
[150] The mutuality principle is the idea that an individual 'cannot make a profit by selling from him to herself. An amount received from oneself is not regarded as income and is therefore not subject to tax. The concept has been extended to defined groups of people who contribute to a common fund, controlled by the group for a common benefit. Any amount

> clubs in some jurisdictions, changing the character of a segment of the club sector. [It is] estimate[d] that the tax foregone arising from the application of the mutuality principle to clubs was around $100 million in 1997-98. Overall, gambling income was just below 60 per cent of income earned by all clubs in New South Wales in 1997-98, and nearly 70 per cent in ACT clubs. In South Australia, by comparison, it was about 22 per cent, while for Tasmania, Western Australia and the Northern Territory combined it was around 10 per cent.[151]

5.32. Further

> the privileged access by clubs to highly profitable gambling opportunities, particularly gaming machines, *combined* with mutuality (which protects much of the revenue from clubs from income taxation) has been seen by some as unfair, inefficient and socially undesirable. There has been a large expansion of part of the club sector in some states and an increased concentration on gambling as their main business. This has skewed the traditional nature of clubs and has led to the development of 'super clubs' in some areas. This then raises the question of whether the club cocktail of mutuality, and a heavy and rapidly growing dependence on gambling revenues by a segment of the club industry, is one which policymakers should accept with restraint.[152]

5.33. When asked what concessions are offered to clubs in the ACT, the Government stated

> there are no concessions in relation to any ACT taxes, fees or charges offered to the club industry. There is, however a credit

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surplus to that needed to pursue the common purpose is said to be simply an increase of the common fund and as such not considered income, and not subject to tax. Over time, groups which have been considered to have mutual income have included church groups, bodies corporate, clubs (including licensed clubs), friendly societies, credit unions, automobile associations, insurance companies and finance organisations. A common feature of mutual organisations in general, and of licensed clubs in particular, is that participants usually do not have property rights to their share in the common fund, nor can they sell their share. And when they cease to be members, they lose their right to participate without receiving a financial benefit from the surrender of their membership. A further feature of licensed clubs is that there are both membership fees and, where prices charged for club services are greater than their cost, additional contributions. It is these additional contributions which constitute mutual income': Productivity Commission, Australia's Gambling Industries: Inquiry Report, Part D: The policy environment, 16 December 1999, 21.3 Mutuality; <http://www.pc.gov.au/inquiry/gambling/finalreport>

[151] ibid., 21.1.

[152] ibid., 21.2.

> and refund scheme in relation to the GST. Following the introduction of the GST, the *Gaming Machine Act 1987* was amended to provide that clubs receive a credit against their gaming machine tax liability for GST paid on gaming machine revenue. To assist the viability of smaller clubs, the club industry, through ClubsACT, agreed to all clubs accepting a discount of the credit equal to the refundable credit amount payable to the smaller clubs. The total value of refunds during 2001-2002 was $271 827.16.[153]

5.34. The Government has reported that

> In 2002-2003 the revised budget gaming machine expenditure (player loss) for the ACT [was] estimated to be in the vicinity of $180.4 million. The estimate for 2003-2004 [was] $187.1 million.[154]

Committee comment

5.35. The Committee finds it alarming to note that approximately 30% of revenue from poker machine gambling is generated by approximately 2% of people who are gaming machine addicts.

5.36. The Committee recommends that:

Recommendation 13

Further research be done to establish:

(1) **the extent of problem gambling in the ACT; and**

(2) **the various cultural, age, gender, socio-economic, and other social attributes of problem gamblers in the ACT, as a means to develop effective tools to both better regulate gambling and to address problem gambling, according to the particular groups of people most at risk in our community. This work would build on the survey[155], filling in the gaps by investigating in particular problem gambling in the different cultural groups in the ACT community.**

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[153] Treasurer, Answer to question on notice asked at public hearing on Wednesday, 30 April 2003, dated 23 May 2003.

[154] ibid.

[155] Australian Institute for Gambling Research, University of Western Sydney, Survey of the nature and extent of gambling and problem gambling in the ACT, July 2001, <http://www.gamblingandracing.act.gov.au/Documents/AIGR_FinalReport.pdf>

Recommendation 14

The Government address the social problems caused by problem gambling through:

(1) **stricter regulation;**

(2) **evaluation of the current monitoring and enforcement system; and**

(3) **ensuring that an appropriate amount of gambling revenue goes to a 'problem gambling fund', to fund problem-related gambling services, gambling research and community education.**

The environmental impact

5.37. The environmental impact relates to the environmental benefit or damage that might be inflicted as a result of methods employed to raise revenue. Comment is provided in relation to issues surrounding ecologically sustainable development and determining methods to compensate the future for any damage and to prevent damage.

5.38. A number of submissions have provided alternatives to current revenue raising sources, which have a perceived positive impact on the natural environment. One submission advocated that the minimum all day parking fee in Civic be increased to 'provide a greater financial incentive to use alternative transport (such as public transport).

5.39. The submission suggests that the revenue raised be used to

> 'enhance …[the] public transport system and improve services for cycling and walking'.[156]

5.40. Other suggestions included that:

- 'betterment tax be charged at 100% (instead of 75%) with case by case discounts given to those redevelopments which are in Canberra's best interest, economically, socially and environmentally;
- increase the water abstraction charge to provide incentive for households to minimise wasting water;
- landfill charges be increased over time to reflect the time cost of disposal to landfill; and

[156] Conservation Council of the South East Region and Canberra submission, p 1.

- land tax for investment properties be increased to the level charged in NSW to discourage NSW investors choosing to invest in the ACT rather than in NSW which in turn drives up prices for rental accommodation and impacts on low income households'.[157]

5.41. In relation to abstraction charges, ACTEW Corporation has stated that it

> supports the concept of water users paying the environmental costs of their water use. The water abstraction charge was designed to reflect the cost of monitoring ACT catchments, restoring damage caused to the environment as a result of collecting, storing and delivering water, and a value that reflects the scarcity of water as a resource.[158]

5.42. ACTEW further stated

> The [water abstraction] charge is by far the highest in Australia (approx $6 million pa) and whilst, the ACT community has been supportive of water conservation initiatives the community is astute and our consistent feedback indicates a clear preference to ensure that any amendment to the water abstraction charge reflects changes in the base costs, while revenue from the charge is directed towards the purposes intended. The catchment costs are relatively transparent but this is not the case for the scarcity value of water component of the charge or the more subtle environmental costs of water abstraction.[159]

5.43. Two submissions make suggestions in relation to new sources of green or environmental taxes. The Conservation Council of the South East Region and Canberra propose that a 5% 'environment levy' be placed on rates.

> Concerns about the social equity of an environment levy can be dealt with by ensuring that a percentage of the revenue raised is used to insulate the homes of low income households that own their home and those living in public housing. This will result in substantial savings on heating and help to reduce greenhouse gas emissions.[160]

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[157] ibid., pp 1 – 2.
[158] ACTEW Corporation submission, p 2.
[159] ibid., pp 2-3.
[160] , Conservation Council of the South East and Canberra Region submission, p 2.

5.44. Another new tax suggestion was that of road user charges in the form of a road toll. The argument for this is

> there has been a move to user pays in most areas of government service delivery, but not roads, resulting in a perverse incentive to increase usage of the private motor car. Further it is argued that as a result there have been substantial adverse economic, environmental, health and amenity costs to the ACT community. Public transport users, cyclists and pedestrians subsidise car users through the tax system. As a result the public do not adequately comprehend the cost of building and maintaining roads and as a result keep demanding more free roads, whenever there is any congestion.[161]

5.45. The final suggestion was that the ACT

> adopt greenhouse performance benchmarks for electricity suppliers as in NSW. Benchmarks have been set to achieve a 5% reduction in per capita greenhouse gas emissions from 1990 levels by 2007. Electricity suppliers must meet the targets or pay a penalty per tonne of emissions above the target. The penalty is set at an amount at least as high as the marginal cost of abatement so there is an incentive to meet the target, but is capped at $15 per tonne. This system encourages compliance and hence positive environmental change but also creates a penalty for non compliance.[162]

5.46. As was earlier stated one submission makes the point in relation to a carbon or energy tax that

> the ACT is probably in the best position to introduce a [carbon or energy] tax because there is very little energy intensive industry.[163]

5.47. Other issues related to motor vehicle taxes with environmental implications is dealt with in more detail under the section dealing with equity.

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[161] ibid., p 3.
[162] ibid.
[163] H Pender, submission, p 11.

Committee comment

5.48. As has already been stated, one submission has said that 'over 80% of residents in the ACT are supportive of increased taxes to enhance environmental services'.[164] The Committee is concerned that revenue collected from the water abstraction charge is not being directed specifically into water conservation initiatives. The Committee would welcome earmarking revenues from water abstraction charges for use in water conservation initiatives.

5.49. The Committee notes with interest the arguments put forward by various submissions in favour of green taxes. The Committee believes there is impetus in the community to gradually move towards a taxing system, which incorporates environmental concerns to a greater extent than it presently does.

5.50. The Committee recommends that:

Recommendation 15

The Government consider the feasibility of including environmental concerns into revenue raising measures through instruments such as 'green usage taxes' that should be consistent with the Office of Sustainability's indicators when issued.

Recommendation 16

The Government explore the possibility of adopting greenhouse performance benchmarks for electricity suppliers similar to those in NSW.

[164] Conservation Council of the South East Region and Canberra submission, p 1.

6. Conclusion

6.1. The Committee has made 16 recommendations based on the evidence presented to it. In conclusion, the Committee believes that there are significant issues relating to revenue raising which remain to be dealt with namely, improving the revenue base, either through reforming current taxes or introducing new taxes. Regardless of the approach taken and the tax mix used by Government, the Committee is in agreement that social and environmental concerns should be weighted similarly to economic considerations.

Brendan Smyth, MLA
Chair

25 February 2004

Appendix A – Written submissions received by the Committee

1. Mr Brett Odgers, private citizen

2. Mr Geoff Wood, private citizen

3. Mr Daniel Stubbs, Director, and Ms Karen Nicholson, Policy Officer, ACT Council of Social Service Incorporated

4. Mr Ted Quinlan, MLA, Treasurer

5. Mr John Miller, Executive Director, Canberra Business Council Incorporated

6. Ms Nicola Davies, Director, Conservation Council of the South East Region and Canberra

7. Mr John Mackay, Chief Executive Officer, ActewAGL

8. Mr Paul J Perkins, Chief Executive Officer, ACTEW Corporation Limited

9. Mr Howard Pender, private citizen

Appendix B – Witnesses who appeared before the Committee

1. Mr Brett Odgers, private citizen

2. Ms Kathryn Maxwell, President, Conservation Council of the South East Region and Canberra

3. Mr John MacKay, Chief Executive Officer, ActewAGL

4. Ms Maria Storti, Chief Finance Officer, ActewAGL

5. Mr John Miller, Executive Director, Canberra Business Council Incorporated

6. Mr Craig Sloan, Vice Chairperson, Canberra Business Council Incorporated

7. Mr Daniel Stubbs, Director, ACT Council of Social Service Incorporated

8. Ms Karen Nicholson, Policy Officer, ACT Council of Social Service Incorporated

9. Mr Howard Pender, private citizen

10. Dr Julie Smith, private citizen

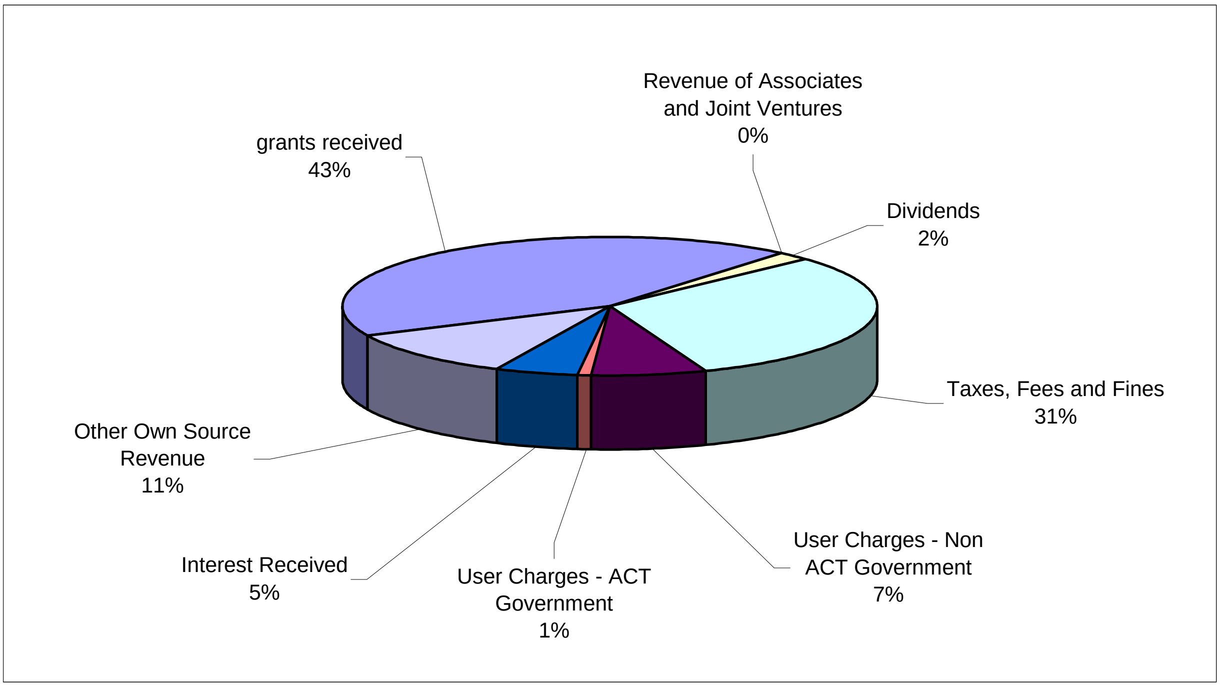
11. Mr Ted Quinlan, MLA, Treasurer

12. Ms Tu Pham, Deputy Chief Executive, Department of Treasury

13. Dr Mark Mullins, Acting Commissioner for ACT Revenue, Department of Treasury

Appendix C – Graphs and tables

Figure 3.1 - Components of General Government Revenue 2003-2004[165]



[165] Pie chart reproduced using data supplied from Figure 5.2.1 Components of General Government Revenue 2003-04, Budget Paper No 3, p 83.

Table 3.3: Taxing measures included in the Government's submission

Taxing Measure	Budget Estimate $'000
Payroll Tax	150 918
General Rates	110 507
Land Tax	38 519
Debits Tax	13 939
Conveyances [166]	108 063
General Insurance	24 137
Shares & Marketable Securities	4 885
ACTTAB Licence Fee	1 292
Bookmarkers' Turnover Tax	67
Gaming Tax	26 958
Casino Tax	2 050
Interstate Lotteries	12 812
Motor Vehicle Registration	49 430
Casino Licence Fees	642
Change of Use Charge	3 932
Fees for Regulatory Services	41 331
Traffic Infringements Fines	12 177
Court Fines	250
Parking Fines	7 094
Parking Fees	10 325
In-patient Fees	12 538
Cross Border Health Receipts	47 100
Sales	10 637
Service Receipts	72 365
Interest Received	65 075
ACTEW dividend	50 924

[166] The estimates included in the Government's submission should be the same as those set out in the relevant budget paper for the 2002-03 budget – Budget Paper No. 3, as the estimates were for 2002-03.

Other revenue	101 556
Lease Sales	109 075
Total	**1 088 598**

Table 3.4: Taxing measures not included in the Government's submission

Taxing Measures	Budget Estimate $'000
Hiring Duty	2 870
Leases	3 788
Life Insurance	769
Motor Vehicle Registration & Transfers[2]	20 812
Other Duties	5 064
Ambulance Levy	5 207
TOCTAX	319
Waivers-Tax	4 703
Drivers' Licences	5 479
Other Fines	377
Non-Inpatient Fees	2 134
Miscellaneous	8 989
User Charges - ACT Government	17 651
ACTTAB	373
CIT Solutions	213
Superannuation Contributions	11 545
MLA Members	424
Rents and Commutations	3 450
Contributions	15 036
Total	**109 203**

Table 4.1 - The Act's Revenue Sources for the period 2001-02 to 2005-06[167]

	2001-02 Estimated Outcome $ 000	2002-03 Budget $000	Var %	2003-04 Estimate $000	2004-05 Estimate $ 000	2005-06 Estimate $000
Revenue and Grants received						
Taxes, Fees and Fines	658 171	658 391	..	667 709	686 647	692 219
User charges – non ACT Govt.	164 292	164 088	..	161 136	161 050	164 140
User charges – ACT Govt.	20 211	17 651	-13	18 570	19 477	20 242
Interest received	80 997	65 075	-20	61 013	59 853	62 670
Other own source revenue	201 247	241 086	20	228 294	271 257	286 105
Grants received	993 926	1 002 895	1	1 034 009	1 069 838	1 115 104
Revenue of Associates and Joint Ventures	23 394	2 304	-90	4 027	0	0
Dividends	46 056	51 510	12	56 062	59 835	61 670
Total Revenue	2 188 294	2 202 998	1	2 230 820	2 327 957	2 402 150

[167] Appears in its original form in Table 2: Revenue Sources, Government submission, p 12.

Table 4.2 - Revenue Raising Effort, Average Effort from 1996-97 to 2000-01[168]

Tax Line	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
	%	%	%	%	%	%	%	%
Payroll Tax	116.10	95.00	74.49	92.23	99.29	107.17	124.79	112.57
Land Revenue	89.43	110.59	88.77	114.70	192.99	267.34	129.26	0.00
Stamp Duty on Conveyances	100.53	123.44	75.26	99.21	103.81	104.72	96.99	113.33
Financial Transactions Taxes	101.62	102.66	74.83	118.79	113.66	117.88	82.44	107.92
Stamp Duties on Shares and Marketable Securities	99.50	99.50	100.50	102.45	100.50	100.50	100.50	100.50
Gambling Taxation	100.41	133.98	84.89	50.56	97.44	78.93	68.86	87.09
Insurance Taxation	80.49	109.58	114.71	116.79	117.64	121.50	142.19	112.41
Heavy Vehicle Registration Fees and Taxation	100.28	94.17	94.32	111.61	131.28	16.29	98.39	130.38
Other Vehicle Registration Fees and Taxation	128.84	70.94	129.05	60.90	84.43	61.87	127.22	69.94
Stamp Duty on Motor Vehicle Registrations and Transfers	102.55	112.97	67.46	104.95	116.39	103.31	99.70	101.19
Driver's Licence Fees	115.88	76.02	70.77	119.26	151.20	79.65	133.64	101.79
Other Taxes	184.61	33.06	85.48	59.63	26.68	68.05	76.64	271.58
Total Taxes	**106.23**	**104.49**	**80.68**	**94.51**	**104.91**	**98.06**	**103.17**	**104.93**

Table 4.3 – Value of revenue foregone on ACT concessions in 1999-2000[169]

Concession	Value of revenue foregone in 1999-2000 ($million)
Motor vehicle registration concession	4.2
Pensioner rebate on general rates	3.4
Home buyers' concession duty scheme	1.1
Driver's licence concession	0.5
Debits Tax rebate	0.01

[168] Appears in its original form in Table 1 – Revenue Raising Effort, Average Effort from 1996-97 to 2000-01, Government submission, p 10.
[169] The original table appears as Table 4 in the Government's submission, p 16.

Figure 4.1 – The Actual and Estimated ACT Taxation Revenue for the period 1999-2000 to 2005-2006[170]

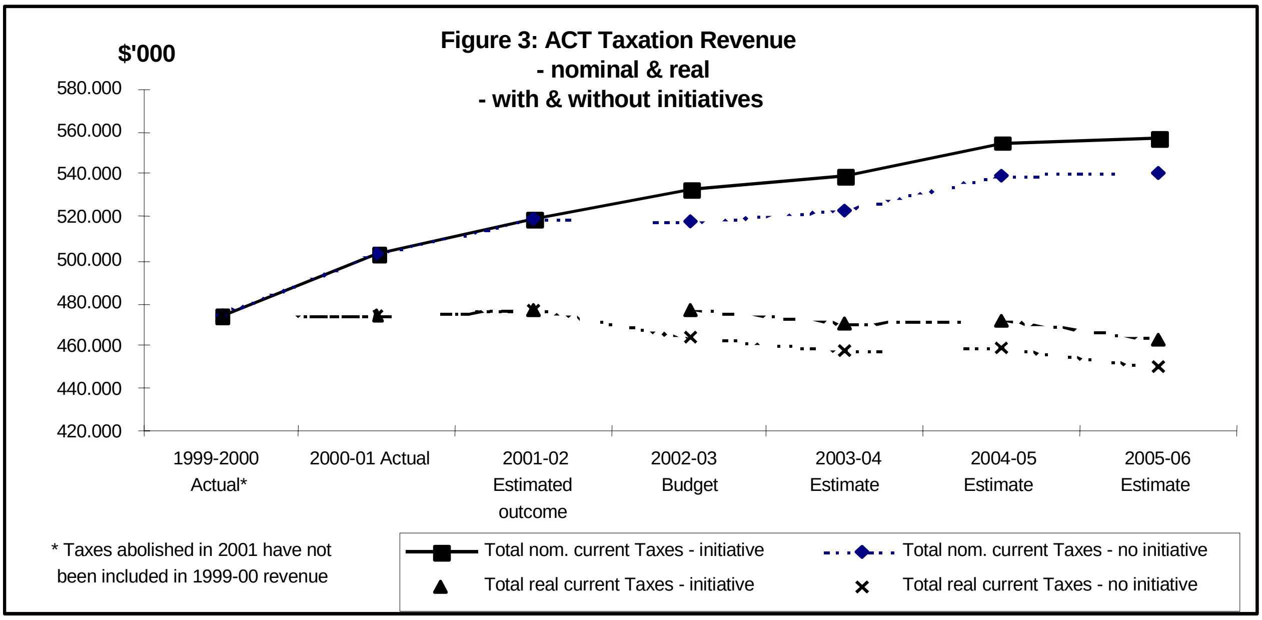
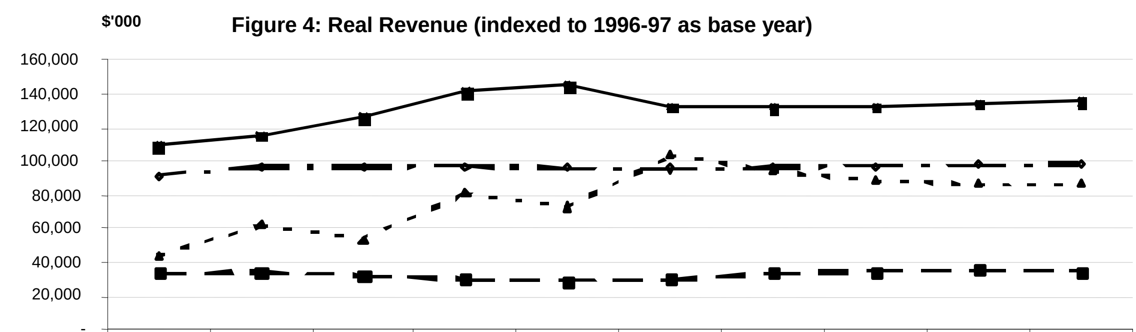


Figure 4.2 – Real Revenue received from payroll tax, conveyances, general rates and land tax over the period 1999-2000 to 2005-2006[171]



	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Payroll Tax	109,165	115,489	125,988	140,905	145,066	132,304	131,683	132,542	133,895	135,283
Conveyances	43,431	62,097	53,902	81,181	72,962	103,507	94,290	88,454	86,400	86,625
General Rates	91,754	96,513	96,594	97,045	96,087	95,688	96,422	97,099	97,758	98,407
Land Tax	33,608	34,289	32,095	30,085	29,340	29,642	33,610	34,724	35,233	35,142

Payroll Tax   Conveyances   General Rates   Land Tax

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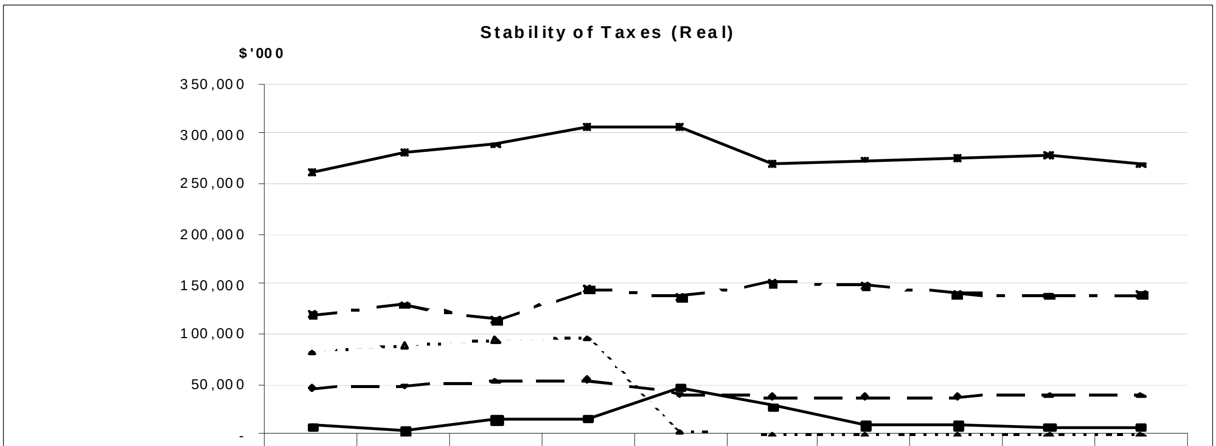
170 Taken from the Government submission, Figure 3, p 13.

171 Taken from the Government submission, Figure 4, p 14.

Figure 4.3 – The Real Stability of Taxes (taxes, duties, gambling taxes, franchise fees and other taxes) over the period 1999-2000 to 2005-2006[172]



	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Taxes	262,000	281,258	288,249	306,327	306,922	270,101	273,877	276,230	278,463	268,832
Duties	119,306	129,816	113,981	144,642	137,394	152,147	148,671	140,271	138,470	138,955
Gambling Taxes	46,259	48,266	53,420	54,116	39,720	37,789	37,676	37,641	39,269	39,245
Franchise Fees	82,260	88,540	93,680	96,393	2,627	-	-	-	-	-
Other Taxes	8,549	4,026	15,594	15,994	47,663	27,996	8,925	8,695	8,304	8,131

Table 5.1 – The actual and estimated tax waivers provided in the period 2000-01 to 2006-07 (AUD) [173]

	Payroll Tax	Conveyancing	Shares	Rates and Land Tax	Business Assets	Total
2000-01	4 709 259	10 193 628	444 499	-	21 721 834	37 069 219
2001-02	4 348 237	21 430 271	12 007	-	6 489	25 797 002
2002-03	4 129 886	552 547	12 307	-	6 651	4 701 391
2003-04	4 092 326	566 361	12 614	-	6 817	4 678 118
2004-05	3 842 266	580 520	12 930	-	6 987	4 442 703
2005-06	3 842 353	595 033	13 253	-	7 162	4 457 801
2006-07	3 938 412	609 909	13 584	-	7 341	4 569 246

[172] Taken from the Government submission, Figure 10.5, p 14.
[173] The original table appears as Table 5 – Tax Waivers in the Government's submission, p 18.

Appendix D – Treatment of certain taxes in the Intergovernmental Agreement on the reform of Commonwealth-State financial relations[174]

1. Taxes abolished

As from 1 July 2000:	Wholesale sales tax
	Taxes applied on petroleum, liquor and tobacco
	Bed taxes
As from 1 July 2001:	Financial institutions duty
	Stamp duties on quoted marketable securities

2. Tax scheduled to be abolished

As from 1 July 2005:	Debits tax, subject to review by the Ministerial Council [175]

3. Taxes to be reviewed

The Ministerial Council will review, by 2005, the need for the retention of stamp duty on non-residential conveyances; leases; mortgages, debentures, bonds and other loan securities; credit arrangements, instalment purchase arrangements and rental arrangements; cheques, bills of exchange, promissory notes; and unquoted marketable securities.

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[174] <http://www.pm.gov.au/>

[175] NSW abolished debits tax on 1 January 2002