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Horizontal Fiscal Equalisation

by

John Wilkinson

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EXECUTIVE SUMMARY

- Horizontal Fiscal Equalisation was originally devised as a principle for distributing federal government grants to the states and territories, but has now become the basis for apportioning GST revenue (pp.1-8)
- There has been considerable agitation, on the part of New South Wales and Victoria, for Horizontal Fiscal Equalisation to be abandoned, and replaced by a per capita approach for distributing GST revenue (p.47)
- GST revenue forms a significant part of state and territory budgets (pp.20-25)
- Different states, and territories, levy significantly varying rates of tax within their own boundaries (pp.14-16, 25-50)
- States' and Territories' need for GST revenue depends, to a varying degree, on the state of production within their own jurisdictions (pp.12-20)

1. INTRODUCTION

In a recent article in *Economic Papers*, Mark McGovern and his colleagues observed that “Since 2000 the states. . . have been. . . [substantially] funded through the Goods and Services Tax (GST). In many ways this has catalysed calls for reform. . . because. . . the 1999 Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations established that this ‘GST Pool’ was to be distributed among the states on the basis of horizontal fiscal equalisation (HFE). . . [and] the states disagree about exactly what this HFE entails.”¹

It is the aim of the paper to provide an outline of Horizontal Fiscal Equalisation and to examine the argument over its application to the distribution of federal government grants to the states.

2. ORIGINS OF HORIZONTAL FISCAL EQUALISATION AS A COMPONENT OF COMMONWEALTH FUNDING ASSESSMENT

(a) Establishment of the Commonwealth Grants Commission

About ten years after federation, the newly established federal government decided to introduce special financial consideration for those former individual colonies which (as states) now believed they had a weaker financial position as components of the new commonwealth. After particular representations by Western Australia, provisions were included in the *Surplus Revenue Act 1910* (passage of which was secured by the Fisher government) for a special payment to WA (in recognition of the state’s large contribution to national customs and excise revenue). Similar representations were subsequently made by Tasmania, which also resulted in the Fisher government’s obtaining passage of an Act to provide a grant to that state. During the 1920s, Western Australia and Tasmania made representations, to the now Bruce-Page federal government, to have their special grants continued: and South Australia subsequently joined in to appeal for a special grant for itself.²

Matters came to a head in 1932, in the midst of the 1930s trade depression, when the WA government decided to hold a referendum on seceding from the federation, on the grounds of unfair financial treatment. The then prime minister (Joe Lyons of the United Australia Party, forerunner of the Liberal Party) visited Western Australia to bolster the “no” vote. As further reinforcement, he announced that he would establish a commission to consider the grounds for special grants. While the motion in favour of secession received a large majority of votes, people in Western Australia, in a state election held later in the year, voted in a government which was against secession. Lyons, in response, proceeded in 1933

¹ Mark McGovern, Adrian Kay, Gillian Bristow and David Pickernell, “Turkeys Don’t Vote for Christmas? An Analysis of Horizontal Fiscal Equalisation Experiences in Australia and the United Kingdom” in *Economic Papers*, vol.21, no.4, December 2002, p.83.

² Commonwealth Grants Commission, *Equality in Diversity: Fifty Years of the Commonwealth Grants Commission* (Australian Government Publishing Service, Canberra, 1983), pp.6-16.

to establish a Commonwealth Grants Commission (CGC).³

Between the 1930s and the 1960s, the role of the CGC was to recommend to the federal government the extent of small, special grants which could be made to Tasmania, South Australia and Western Australia. In the late 1950s, Queensland also successfully argued a case (to the Menzies government) that it too should be eligible for a special grant. Collectively these states became known as the “claimant” states. Western Australia remained a claimant state until 1968 (the start of the minerals boom); Tasmania, South Australia and Queensland remained claimant states until the 1970s.⁴

The basis on which the CGC made its recommendations became known as “horizontal fiscal equalisation” (equalisation amongst the states, side-by-side). As Professor Peter Groenewegen has written, “equalisation grants should be large enough to allow the poorer states to provide the same standard of services as the more wealthy ones”.⁵

(b) Extension of the Commonwealth Grants Commission’s Role Amongst All the States

In keeping with their status as independent colonies of Britain (upon the continent of Australia) the colonial forerunners of the Australian states had levied their own income tax. New South Wales introduced income tax in 1895, although it remained relatively minor as a revenue raising source (next to customs and excise, stamp, inheritance and land taxes) until the 1930s. During the 1930s however, the Lang and other state governments increased income tax to a point where, by the end of the 1930s, it produced 20% of state revenue.⁶

In the meantime a new tax was introduced, at a federal level, which would gradually develop into a major source of revenue at a state level. Mathews and Jay have written that the “important new tax which was imposed during the war, and which became permanent, was the payroll tax, introduced in 1941 by the Menzies-Fadden government to finance child endowment. . . [it was a] levy of 2.5 per cent on [employers’] payrolls in excess of. . . £20. . . a week, including those of state and local authorities”.⁷

In 1942, only months after Japan’s attack on the American Pacific Fleet at Pearl Harbor, John Curtin decided to place all the resources of the nation at his disposal. At the 1942 premiers conference (held in April) Curtin made the premiers an offer: if they would

³ Ibid.

⁴ Peter Groenewegen, *Public Finance in Australia: Theory and Practice*, third edition (Prentice Hall, Sydney, 1990), p.255.

⁵ Ibid.

⁶ W.J. Campbell, *Australian State Public Finance* (Law Book Company of Australasia, Sydney, 1954), pp.64-71.

⁷ R.L. Mathews and W.R.C. Jay, *Federal Finance: Intergovernment Financial Relations in Australia since Federation* (Nelson, Sydney, 1972), p.177.

surrender their income tax powers for the duration of the war, he would guarantee their regaining those tax powers at the end of hostilities. The premiers refused the offer. Curtin then obtained the passage of four Acts through federal parliament: the *Income Tax Act 1942*, the *Income Tax Assessment Act 1942*, the *Income Tax (Wartime Arrangements) Act 1942* and the *States Grants (Income Tax Reimbursement) Act 1942*. The first three Acts facilitated the wartime transfer of the (former) states' income taxing powers to the federal government. The last Act provided for a grant, by the federal government, to each of the states to compensate them for the revenue that income tax would have brought. In 1942, New South Wales was awarded a grant of £15,356,000.⁸ Later in 1942, the premiers of Western Australia, South Australia, Victoria and Queensland challenged Curtin's legislation in the High Court, but lost.

At the end of the war, in 1945, the premiers appealed to Chifley (prime minister, following the death of Curtin) for the return of the income tax powers. Chifley refused for, as Kingsley Laffer had pointed out at the end of 1942, in the *Economic Record*, "it followed from the High Court's unanimous declaration of the validity of the Income Tax Act and the Income Tax Assessment Act that even in peace-time the commonwealth can levy what rates of income tax it likes and that its collections have priority over state collections."⁹ Once again however, as Curtin had done, Chifley introduced legislation to provide grants to the states to compensate them for the loss of income tax: the *States Grants (Tax Reimbursement) Act 1946*. From 1946 to 1959 these transfers were known as tax reimbursement grants and, amongst the states, New South Wales received about £20 million in 1947-1948 (about 45% of the total) – rising to around £65 million in 1958-1959 (but, as a proportion of the total, falling to about 37%). In 1959 the Menzies government renamed these transfers "Financial Assistance Grants (FAGs)". By 1975 the FAG received by NSW amounted to around \$1 billion (an amount, however, which had fallen even further to about 30% of the total).¹⁰

One important source of revenue, however, was actually transferred to the states during this period. In 1970 the state premiers once more confronted the then federal prime minister (John Gorton) over their perceived difficulties with revenue: again arguing to be able to levy income tax themselves and presenting Gorton with a manifesto entitled *The Financial Relationships of the Commonwealth and the States*. Gorton essentially refused to heed the remonstrations of the states but his successor (William McMahon) was receptive, and in June 1971 decided to transfer payroll tax to the states.¹¹

⁸ See the *Journal of the Parliaments of the Empire*, vol.XXIII, no.3, July 1942, p.598.

⁹ Kingsley Laffer, "Taxation Reform in Australia" in the *Economic Record*, vol.XVIII, December 1942, p.178.

¹⁰ NSW Treasury, *An Introduction to Government Finance and Accounting* (NSW Treasury, Sydney, 1987), p.24; Hugh Emy, *The Politics of Australian Democracy: Fundamentals in Dispute*, second edition (MacMillan, Melbourne, 1978), p.106.

¹¹ Mathews and Jay, *op.cit.*, p.248.

Malcolm Fraser, after his election as prime minister in 1975, decided to change the FAG system with one that hearkened back to the days when the colonies, and subsequent states, had their own individual income tax power. Fraser wanted one-third of federal income tax to be returned to the states (an amount which, in 1977-1978, was calculated at \$4.3 billion). However, as Alan Morris has written, accompanying these arrangements, “the commonwealth and the states came to an agreement in 1976 that there would be an assessment made of the relative fiscal needs of all the states. In 1977 they agreed that the review would be based on the equalisation principle. . . [with an] agreement in 1978 that it should be the [commonwealth grants] commission that undertook the review.”¹² In the early 1980s however, at the 1981 premiers conference, Fraser decided to shift the reimbursement arrangements from transferring one-third of personal income tax, to transferring a portion of all the taxes levied by the federal government (these, as well as income tax, included sales tax, customs duties and excise duties). This form of financial assistance, which had already grown from \$4.3 billion in 1977-1978 to \$6.3 billion in 1980-1981, had by now increased even further to \$8.2 billion in 1981-1982 and to \$9.2 billion in 1982-1983.¹³

Bob Hawke, following his election in 1983 as the leader of an ALP government, initially preserved Fraser’s scheme, but then, according to Peter Groenewegen, “The May 1985 premiers conference abandoned this procedure. . . [and] restored the concept of financial assistance grants growing at a specified rate.” Nevertheless the amount of financial assistance, which had grown even further from \$10.3 billion to \$10.9 billion in the first two years of the Hawke government, increased even more to \$11.9 billion in 1985-1986 and \$13.2 billion in 1986-1987. During the second half of the 1980s, however, the amount was restricted to around \$13 billion (reaching only \$13.6 billion in the recession of 1990-1991). During the 1990s, under the prime ministerships of Paul Keating (1991-1996) and John Howard (1996 onwards) the financial assistance grants to the states grew from \$14.1 billion in 1992-1993 to \$16.8 billion by 1998-1999.¹⁴

(c) The Increased Significance of HFE Following the Introduction of the GST

In 1997 the difficulties of the states and territories, in regard to finance, were heightened by the decision of High Court to invalidate the NSW *Business Licences Franchises*

¹² Don Nicholls, *Managing State Finance: The New South Wales Experience* (NSW Treasury, Sydney, 1991), pp.118-119; Alan Morris, “The Commonwealth Grants Commission and Horizontal Fiscal Equalisation” in the *Australian Economic Review*, vol.35, no.3, September 2002, pp.319-320.

¹³ Nicholls, op.cit., p.120; Peter Groenewegen, “Federalism” in Brian Head and Alan Patience (eds.), *From Fraser to Hawke* (Longman Cheshire, Melbourne, 1989), p.246.

¹⁴ Peter Groenewegen, “Federalism”, pp.246,261; Brian Galligan, “Australian Federalism: The Challenge of Governing in the 1990s” in Ian March (ed.), *Governing in the 1990s: An Agenda for the Decade* (Longman Cheshire, Melbourne, 1993), p.300; Richard Rye and Bob Searle, “The Fiscal Transfer System in Australia” in Ehtisham Ahmad (ed.), *Financing Decentralised Expenditures: An International Comparison of Grants* (Edward Elgar, Cheltenham, 1997), p.155; Treasurer of the Commonwealth of Australia, *Budget Statements 1998-1999*, budget paper no.3, pp.19-27.

(Tobacco) Act 1987. This eventuated as a result of two parties – Ha and Lim and Walter Hammond and Associates – challenging the NSW government’s right to impose licence fees for wholesaler’s licences. In 1993 the income raised in NSW, through business licence franchise fees amounted to \$1.3 billion and by 1997 it had reached nearly \$2 billion. The Howard government, in response to the Ha and Hammond decision, initially implemented safety net arrangements. These consisted mainly of increased federal customs and excise duties on tobacco and alcohol, and an increase in the (then) wholesale sales tax rate on alcoholic beverages with the revenue (less administrative costs) being returned to the states.¹⁵ However, observers such as the president of the Taxation Institute of Australia remarked at the time that “The states and territories will be looking to the commonwealth to make up this enormous shortfall. . .this decision makes a consumption tax for Australia inevitable.”¹⁶ At the end of 1998 the Howard government introduced legislation, into federal parliament, entitled A New Tax System (ANTS) providing both for the replacement of the federal government’s wholesale sales tax by a goods and services tax (applying at a rate of 10% from 1 July 2000), and for a change to the previous system of federal financial assistance to the states. In April 1999 the state premiers concluded an Inter Governmental Agreement (IGA) on the new arrangements for federal-state financial relations. Under the new scheme, the federal government would no longer provide the states with financial assistance grants (which, in the particular case of New South Wales, amounted to about \$4.8 billion in financial year 1998-1999). It would be the revenue from the goods and services tax (GST) which would now be transferred to the states: in the form of GST revenue grants. Clause B2 of the IGA stated that “The pool of funding to be distributed according to HFE principles in a financial year will comprise GST revenue grants”.¹⁷

*Australian Federal Government Revenue: 1969-1970 to 1998-1999 (approx.)*¹⁸

1969-1970	\$7.097 billion
1973-1974	\$11.89 billion
1976-1977	\$21.418 billion
1981-1982	\$40.831 billion
1985-1986	\$64.845 billion
1989-1990	\$95.517 billion
1993-1994	\$100.142 billion
1996-1997	\$129.845 billion
1998-1999	\$146.521 billion

¹⁵ David Collins, *The Impact of the GST Package on Commonwealth-State Financial Relations* (Australian Tax Research Foundation, Sydney, 2000), p.26.

¹⁶ *High Court’s Landmark Decision Means GST Inevitable*. Press Release. Taxation Institute of Australia. 5 August 1997.

¹⁷ Treasurer of NSW, *Budget Statement 1999-2000*, budget paper no.2, p.3-20; Treasurer of the Commonwealth of Australia, *Budget Statement 2000-2001*, budget paper no.3, p.11 and *Budget Statement 2002-2003*, budget paper no.3, chapter 2, p.10.

¹⁸ Tony Makin, “The Public Accounts and Fiscal Policy” in the *Australian Economic Record*, vol.35, no.3, September 2002, p.349.

3. THE COMMONWEALTH GRANTS COMMISSION, HORIZONTAL FISCAL EQUALISATION AND ITS IMPACT ON GST REVENUE DISTRIBUTION

(a) Principles of the CGC's Determination

In previously determining the level of financial assistance grants to a state or territory, the Commonwealth Grants Commission attempted to determine whether one state or territory suffered a disability – in comparison to another state or territory - in providing services to its citizens. The federal-state relations committee of the Victorian parliament has described the CGC's definition of a disability as follows:

a factor. . .[that] requires. . .[a state or territory government] to expend more or less than. . .[they] on average must spend, in order to achieve a particular object. . .or which reduces or increases. . .[a state or territory government's] relative capacity to raise revenue from a given taxation effort.¹⁹

(b) Instances of Disabilities

Although the terms, in which the nature of disabilities are expressed above, appear somewhat general, the CGC has indicated precise disabilities that it considers some states and territories endure when it comes to providing services to people within their boundaries. One instance of this was given by Dick Rye and Bob Searle (chair and secretary, respectively, of the CGC during the 1990s) in their portrayal of the disability which they believed the Northern Territory endures,

[in] the Northern Territory. . .[there is] a population of only 170,000 or so. . .quite evenly distributed over an area of 1.35 million square kilometres. About one-quarter of the territory's population is indigenous Australian Aborigines. The costs of providing schools, medical and other services to Aboriginal settlements in remote, often semi-desert, areas are very high. All in all, the territory's relative per-capita cost of service provision is nearly three times the average for the other states.²⁰

Another instance of a disability was provided by Dick Rye, to the Victorian parliament's federal-state relations committee, in 1999:

The recent increase in the ACT's relativity primarily reflects a decline in its relative revenue raising capacity as a result of falling property values in 1996-97.²¹

¹⁹ Federal-State Relations Committee of the Parliament of Victoria, *Australian Federalism: The Role of the States* (Parliament of Victoria, Melbourne, 1998), p.41.

²⁰ Richard Rye and Bob Searle, "The Fiscal Transfer System in Australia" in Ahmad, op.cit., p.158.

²¹ Federal-State Relations Committee (Parliament of Victoria), *Report on Register of Specific Purpose Payments Received By Victoria*, volume 1 (Government Printer, Melbourne, 1999), p.11.

(c) Aim of Horizontal Fiscal Equalisation

With references to disabilities, such as the examples cited above, the policy, behind the system of distribution of the financial assistance grants, was fully enunciated during the period of the Fraser government: when financial assistance grants were apportioned amongst all the states and territories taking into account the relative fiscal needs of all. The CGC declared in 1981 that,

each state [should be able] to provide, without imposing taxes and charges at levels appreciably different from the levels of taxes and charges imposed by the other states, government services at standards not appreciably different from the standards of the government services provided by the other states.²²

At base is a goal of equity, as outlined by Jeff Petchey and Graeme Wells,

Essentially the . . . [Commonwealth Grants Commission] formula allows each state to share the total tax base of all the states, and to raise a given amount of revenue from its own base, without having to tax its citizens more heavily, or lightly, than the average tax rate. . . [it] is designed to support uniformity in the provision of access to public services across states. . .²³

(d) Impact of Horizontal Fiscal Equalisation

The CGC's application of considerations for disability – added to its estimations of each state and territory's capacity "to provide government services at standards not appreciably different. . . from. . . other states" without "imposing taxes and charges at levels appreciably different. . . from. . . other states" – results in the CGC favouring one state or territory, over another, in its apportionment of GST revenue grants (rather than advocating a simple distribution per head of population). The proportional expression of that favouring is expressed by what the commission has called relativities: these relativities capture the per capita equalisation grant, for each state and territory, as a ratio of a national average. This is indicated by the following table which shows the relative per capita shares of general purpose grants, amongst the states and territories, between 1983-1984 and 2002-2003:

²² Review Committee on Commonwealth-State Funding (Ross Garnaut and Vince Fitzgerald), *Review of Commonwealth-State Funding*, final report (Melbourne, 2002), p.34.

²³ Jeff Petchey and Graeme Wells, "Australia's Federal Experience", paper presented at the 30th Conference of Economists, University of Western Australia, Perth, 23-26 September 2001.

*Relative Per Capita Shares of General Purpose Grants: 1983-1984 to 1996-1997
(Australia=100)²⁴*

	NSW	Vic	QLD	WA	SA	Tas	ACT	NT
83-87	79.4	79.7	109.3	117.8	122.3	147.5	208.2	551.9
88-92	78.8	78.3	107.0	118.5	126.6	149.6	190.9	595.3
93-97	83.7	84.7	103.6	104.4	119.7	161.1	115.5	586.9

In 2000, the year that the GST became effective, the CGC's relativities for the individual states and territories were as follows:

Commonwealth Grants Commission Relativities: 2000²⁵

	NSW	Vic	QLD	WA	SA	Tas	ACT	NT
2000	0.90913	0.87049	1.01830	0.98365	1.18258	1.51091	1.11289	4.16385

The impact of bringing these relativities to bear, on the distribution of GST revenue, has become evident in the first years of apportionment of the GST. This was as follows in 2002-2003:

GST Revenue Distribution Amongst the States and Territories: 2002-2003 (approx.)²⁶

New South Wales	\$9 billion
Victoria	\$6.4 billion
Queensland	\$5.8 billion
Western Australia	\$2.9 billion
South Australia	\$2.8 billion
Northern Territory	\$1.5 billion
Tasmania	\$1.2 billion
Australian Capital Territory	\$0.6 billion

The distribution was based on the impact of the relativities. A per capita based distribution, contrasted with a distribution apportioned on the CGC's basis, can be shown as follows:

²⁴ *Review of Commonwealth-State Funding*, p.53.

²⁵ Treasurer of the Commonwealth of Australia, *Budget Statement 2000-2001*, budget paper no.3, p.14.

²⁶ Treasurer of the Commonwealth of Australia, *Commonwealth Budget 2002-2003*, Final Budget Outcome, part 4.

*GST Revenue Distributed On Equal Per Capita Basis: 2002-2003 (approx.)*²⁷

Australian Population (2002)	GST Revenue Total	Equal Per Capita Distribution
19,783,952	\$30.4 billion	\$1,540

*GST Revenue Per Capita, In Practice, via CGC Relativities: 2002-2003 (approx.)*²⁸

Northern Territory	\$7,673
Tasmania	\$2,628
Australian Capital Territory	\$1,908
South Australia	\$1,875
Queensland	\$1,569
Western Australia	\$1,499
New South Wales	\$1,361
Victoria	\$1,298

4. MAJOR STATES' ALREADY DEVELOPED FISCAL RESOURCES V. EFFORTS OF THE MINOR STATES TO CATCH UP

(a) Capacity to Raise Revenue: Major States

The ability of a state or territory, to raise revenue, clearly depends on the level of commerce and industry in the state and the accompanying rise in the income level of those resident within its boundaries. The great proportion of commerce and industry in Australia is, however, in New South Wales and Victoria.

New South Wales

The population of New South Wales in 2002 was 6,671,426.²⁹ New South Wales is the wealthiest state in Australia. According to Cap Gemini Ernst Young, there are around 105,000 people in Australia who can be defined as millionaires (in US dollar terms). Ann Harding, and her colleagues from the National Centre for Economic Modelling (NATSEM) have estimated that 40% of the nation's millionaires live in NSW. The number of wealthy people in the state can thus be roughly shown as follows:

²⁷ Population figures from Australian Bureau of Statistics, *Australian Demographic Statistics* (Australian Bureau of Statistics, Canberra, 2003), ABS Catalogue 3101.0.

²⁸ Calculated from *Commonwealth Budget 2002-2003*, Final Budget Outcome, part 4.

²⁹ Australian Bureau of Statistics, *Australian Demographic Statistics*, ABS Catalogue 3101.0.

*Millionaires in Australia/New South Wales: 2003*³⁰

Number of Millionaires in Australia (US dollars)	105,000
Number of Millionaires in NSW (40% of Australian Total)	42,000

This concentration of wealth is reflected in the fact that the highest income earning statistical divisions (in Australian Bureau of Statistics terms), in Australia, are in Sydney. This is shown in the yearly increase in aggregate income for these localities:

*Sydney: Real Aggregate Income of Top Income-Earning Statistical Divisions 1976-1991*³¹

1976	\$34.6 billion
1981	\$39.9 billion
1986	\$43.5 billion
1991	\$49.2 billion

This concentration of wealth is further reflected in the fact that nine, out of the top 10 suburbs by average taxable income in Australia, are in Sydney, as the accompanying table also indicates:

*Top 10 Suburbs in Australia by Average Taxable Income: 1998-1999*³²

Darling Point (Sydney)	\$93,620
Toorak (Melbourne)	\$84,399
Balmoral (Sydney)	\$79,197
Bellevue Hill (Sydney)	\$76,498
Hunter's Hill (Sydney)	\$74,298
Northbridge (Sydney)	\$72,406
Vaucluse (Sydney)	\$70,709
Killara (Sydney)	\$66,076
Woollahra (Sydney)	\$68,022
Pymble (Sydney)	\$66,849

³⁰ Cap Gemini Ernst and Young have estimated that there are 1.8 million people in the Asia-Pacific region with financial assets of over US\$ 1 million. See Cap Gemini Ernst and Young, *World Wealth Report 2003* (Cap Gemini Ernst and Young, USA, 2003), p.3; figures for total number of Australian millionaires supplied by Alex Lee of Cap Gemini Ernst and Young (Melbourne); for percentages of millionaires in New South Wales see Ann Harding, Simon Kelly and Lisa Lau, "A Hard Act to Follow" in *Business Review Weekly*, 23 May – 19 June 2002, p.38.

³¹ Paul Cashin and Loris Strappazon, "Disparities in Australian Regional Incomes: Are They Widening or Narrowing?" in the *Australian Economic Review*, vol.31, no.1, March 1998, p.10.

³² AMP-Natsem, *Income and Wealth Report*, February 2002.

The significance of this concentration of wealth is manifested both in the gross state product (GSP) of the state (the highest amongst the states) and the proportion of that GSP to the gross domestic product of the nation as a whole:

*Gross State Product, Individual Australian States 2001-2002*³³

New South Wales	\$243 billion
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*States' and Territories' Share of Australian GDP: 2001-2002*³⁴

New South Wales	35%
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Victoria

Victoria is the second-most wealthy state in Australia. Victoria's population in 2002 was 4,854,000.³⁵ Victoria also has a high number of millionaires: out of the 105,000 in Australia, an estimated 20% live in Melbourne. The number of wealthy people in Melbourne can be illustrated accordingly:

*Millionaires in Australia/Victoria: 2003*³⁶

Number of Millionaires in Australia (US Dollars)	105,000
Number of Millionaires in Melbourne (20% of Australian Total)	21,000

This concentration of wealth is reflected in the fact that Melbourne has the second-highest group of high income earning ABS statistical divisions in Australia. This is indicated in the yearly increase for aggregate income in these localities:

*Melbourne: Real Aggregate Income of Top-Income Earning Statistical Divisions 1976-1991*³⁷

1976	\$29.2 billion
1981	\$31.8 billion
1986	\$35.2 billion
1991	\$38.2 billion

³³ Australian Bureau of Statistics, *Australian National Accounts: State Accounts*, ABS Catalogue 5220.0 (Australian Bureau of Statistics, Canberra, 2002).

³⁴ *ibid.*

³⁵ ABS Catalogue 3101.0.

³⁶ See footnote 28.

³⁷ Cashin and Strappazon, *op.cit.*

This concentration of wealth is also reflected in the fact that Melbourne's top 8 suburbs, in terms of average taxable income, rank second only to New South Wales on a national level:

*Top 8 Suburbs in Melbourne by Average Taxable Income: 1998-1999*³⁸

Toorak	\$84,399
Canterbury	\$65,678
Brighton	\$63,060
East Melbourne	\$62,270
Malvern	\$58,727
Kew	\$56,233
South Yarra	\$55,929
Armadale	\$55,854

Victoria's gross state product is (correspondingly) the second highest amongst the states and its contribution to Australian GDP was equally the second most important, during financial year 2001-2002:

*Gross State Product, Individual Australian States: 2001-2002*³⁹

Victoria	\$179 billion
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*States and Territories Share of Australian GDP: 2001-2002*⁴⁰

Victoria	25.7%
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(b) Minor States' and Territories' Past Fiscal Strategy for Increased Share of GDP

Despite the fact that the locus of industry and commerce has been in New South Wales and Victoria, the states and territories have had a certain capacity to attract more activity. James Walter has described how, on a fiscal level, the National Party government in Queensland set about doing this during the 1970s:

The abolition of . . . [inheritance] duties. . . major cuts in stamp duties, yearly increases in the exemption levels on payroll tax, and decreasing land taxes were examples of the emphasis on low taxation to induce foreign and interstate capital to invest in Queensland's economic 'progress' and 'development'.⁴¹

³⁸ AMP-Natsem, op.cit.

³⁹ ABS Catalogue 5220.0.

⁴⁰ ibid.

⁴¹ James Walter, "Johannes Bjelke-Petersen: 'The Populist Autocrat'" in Denis Murphy, Roger Joyce and Margaret Cribb (eds.), *The Premiers of Queensland*, second edition (University

(c) Individual Minor States' Fiscal Capacities, and Present Fiscal Strategies, for Increased GSP

Queensland

Brisbane has a significantly smaller concentration of wealth than in either Sydney or Melbourne. The statistics for the aggregate income (between 1976 and 1991) of the top-income earning statistical divisions in Brisbane are as follows:

Brisbane: Real Aggregate Income of Top-Income Earning Statistical Divisions 1976-1991⁴²

1976	\$9.9 billion
1981	\$11.3 billion
1986	\$13.2 billion
1991	\$15.4 billion

Brisbane's top suburbs, by average taxable income, only rank fourth besides those of the other states and territories, and this is reflected in Queensland's average taxable income for 1998-1999:

Top 3 Suburbs in Brisbane by Average Taxable Income: 1998-1999⁴³

Hamilton	\$52,382
Kenmore	\$48,073
St. Lucia	\$46,397

Currently Queensland's gross state product is the third highest in Australia, and its GSP makes the third highest contribution to Australian GDP:

Gross State Product Individual Australian States: 2001-2002⁴⁴

Queensland	\$115 billion
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States and Territories Share of Australian GDP: 2001-2002⁴⁵

Queensland	16.8%
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of Queensland Press, Brisbane, 1999), p.502.

⁴² Cashin and Strappazon, op.cit.

⁴³ AMP-Natsem, op.cit.

⁴⁴ ABS Catalogue 5220.0.

⁴⁵ *ibid.*

Queensland's lack of concentration of wealth, compared to that in Sydney and Melbourne, is manifested in the nature of production in the state. As the Queensland government observed, in its 2003 submission to the *Inquiry into the Structure and Distributive Effects of the Australian Taxation System* conducted by the Australian Senate,

Queensland generally has a lower wage structure than the rest of Australia. The average full-time wage and salary earner in the state earned. . .in 2001-02, \$3,200 below that earned in the rest of Australia. . .Queensland's lower wage structure is partly due to differences in its industrial structure. . .Queensland employs a lower share of workers in high-income industries such as finance and insurance, communication services, and property and business services, but a higher share of workers in relatively low-wage service industries such as construction, hospitality and retail. . .⁴⁶

Queensland has not only pursued a policy of low state taxes in the past, but continues to pursue a low state tax policy in the present. In his budget statement for 2003-2004, the current Queensland state treasurer declared that,

one of the Queensland government's key. . .fiscal objectives is to maintain a competitive tax environment. . .By maintaining low tax rates, Queensland provides a competitive advantage to business. . .[accordingly] the state continues to maintain competitive tax levels in relation to other states. . .[indeed] Queensland's taxation revenue raising effort, as assessed by the Commonwealth Grants Commission, has remained below the Australian policy standard (equal to 100%) for some time.⁴⁷

Western Australia

Western Australia has the fourth highest gross state product in Australia, despite (like Queensland) not having the same number of wealthy individuals as New South Wales and Victoria. Nevertheless the minerals boom has brought significant wealth to the state. As late as the early 1940s, there were only half a million people living in Western Australia (compared to an Australian population, in the other states combined, of 6½ million). During the early to mid 1960s, however, mineral production in WA increased by 240% and then, between the late 1960s and the mid-1970s, mineral production increased by 420%. By the late 1970s, mineral production in Western Australia contributed over 20% of total

⁴⁶ Queensland Government, Submission to the *Inquiry into the Structure and Distributive Effects of the Australian Taxation System* conducted by the Economic References Committee of the Australian Senate (2003), pp.5-6.

⁴⁷ Treasurer of Queensland, *State Budget 2003-2004*, budget paper no.2, pp.70,72. In 2002 the Australian Industry Group (AIG) presented a paper to a tax forum, held by the Queensland branch of the National Party, in which the AIG observed that, "total taxation per capita in Queensland in 2000/1 was the lowest in Australia: \$1,434 compared to the standard national average of \$1,993, which is almost 28% lower." See Australian Industry Group, "Building a Stronger Industry Base for Queensland: The Case for Further Tax Reform", paper presented to the *Queensland National Party Tax Forum*, Queensland Parliament House, 16 October 2002.

Australian export income.⁴⁸ The population of Western Australia in 2002 was 1,919,000.⁴⁹ Western Australia continues to have a fast growing individual state economy. In a statement on the Western Australian economy, the premier of WA (Geoff Gallop) declared that, during financial year 2002-2003, the gross state product of Western Australia grew at 5.4% compared to a national average of 4.1%.⁵⁰

Perth now has the fourth-highest group of high income earning statistical divisions in Australia. The figures for these localities, between 1976 and 1991, are accordingly:

*Perth: Real Aggregate Income of Top-Income Earning Statistical Divisions 1976-1991*⁵¹

1976	\$8.6 billion
1981	\$10.2 billion
1986	\$11.9 billion
1991	\$13.9 billion

Perth's top 5 suburbs, by average taxable, rank third (as a comparative group) behind those of Sydney and Melbourne:

*Top 5 Suburbs in Perth by Average Taxable Income: 1998-1999*⁵²

Cottesloe	\$59,044
Nedlands	\$56,342
City Beach	\$53,217
Claremont	\$52,998
Mosman Park	\$52,687

It was the minerals boom, of the 1960s onwards, that led to WA's currently having the fourth highest gross state product in Australia, and the fourth most important contribution to Australian GDP:

*Gross State Product, Individual Australian States: 2001-2002*⁵³

Western Australia	\$77 billion
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⁴⁸ See WA Government, *Drivers and Shapers of Economic Development in the 21st Century* (WA Government, Perth, 2003), chapter 2.

⁴⁹ ABS Catalogue 3101.0.

⁵⁰ Premier of Western Australia, "Trade Route Australia," 6 August 2003 from <http://www.stroudgate.net>.

⁵¹ Cashin and Strappazon, op.cit.

⁵² AMP-Natsem, op.cit.

⁵³ ABS Catalogue 5220.0.

*States and Territories Share of Australian GDP: 2001-2002*⁵⁴

Western Australia	10.0%
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Western Australia however, like Queensland, has declared its intention to follow a policy of low state taxes: to attract business activity to the state. The current WA state treasurer declared in his 2003-2004 budget speech:

In 2003-2004 the revenue measures are estimated to leave unchanged Western Australia's interstate ranking, in terms of taxation revenue per capita relative to other Australian states and territories. Specifically, Western Australia is expected to continue to be the fourth lowest taxing state on a per capita basis.⁵⁵

South Australia

Not only does South Australia (like Queensland and Western Australia) have a significantly smaller concentration of wealthy individuals than NSW or Victoria, but the state now has a population smaller than that of Western Australia: in 2002 it was 1,519,000.⁵⁶ While business activity was fairly consistent in South Australia, between the 1960s and the 1980s, SA recently has not been accumulating wealth to the extent of some of the other states of Australia. In 2002 the Economic Development Board of South Australia released a report entitled *The State of the State* in which it declared that:

South Australia's average economic growth (2.6%) in the 1990s was below the national average (3.9%). . . private investment in the South Australian economy was consistently lower than the national performance. . . The state's share of the national population has fallen from 8.4% in 1990 to 7.8% currently. With 1.52 million people, South Australia [now] has the smallest population of the mainland states. . .⁵⁷

The aggregate income of Adelaide's top-income earning statistical divisions is currently slightly below that of those in Perth:

⁵⁴ ibid.

⁵⁵ Treasurer of Western Australia, *Budget Speech 2003-2004*, budget paper no.3, chapter 4, p.107.

⁵⁶ ABS Catalogue 3101.0.

⁵⁷ Economic Development Board, *The State of the State: Status Report on the South Australian Economy* (Economic Development Board of South Australia, Adelaide, 2002), pp.3,5,8.

*Adelaide: Real Aggregate Income of Top-Income Earning Statistical Divisions 1976-1991*⁵⁸

1976	\$9.8 billion
1981	\$10.2 billion
1986	\$11.6 billion
1991	\$12.5 billion

Adelaide's top 5 suburbs still have an average taxable income comparable to their counterparts in Perth and Brisbane:

*Top 5 Suburbs in Adelaide by Average Taxable Income: 1998-1999*⁵⁹

North Adelaide	\$53,082
Burnside	\$48,200
Glen Osmond	\$47,368
Walkerville	\$47,070
Unley	\$46,332

SA's gross state product, however, is substantially less than that of Western Australia and is now only the fifth highest in Australia, and its contribution to Australia GDP is equally only fifth in ranking:

*Gross State Product, Individual Australian States: 2001-2002*⁶⁰

South Australia	\$46 billion
-----------------	--------------

*States' and Territories' Share of Australian GDP: 2001-2002*⁶¹

South Australia	10.9%
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As will become evident in the following pages of this outline, South Australia has not, however, chosen to particularly pursue a policy of low state taxes.

Australian Capital Territory

For a jurisdiction with a relatively small population – 323,000 in 2002⁶² - the gross state

⁵⁸ Cashin and Strappazon, op.cit.

⁵⁹ AMP-Natsem, op.cit.

⁶⁰ ABS Catalogue 5220.0.

⁶¹ *ibid.*

product of the Australian Capital Territory is substantial and is indeed larger than that of Tasmania, and its GSP makes the sixth most significant contribution to Australian GDP:

*Gross State Product, Individual Australian States and Territories: 2001-2002*⁶³

Australian Capital Territory	\$14 billion
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*States' and Territories' Shares of Australian GDP: 2001-2002*⁶⁴

Australian Capital Territory	2%
------------------------------	----

Canberra's top 5 suburbs, by average taxable income, are comparable (as a group) to those of Brisbane or Perth:

*Top 5 Suburbs in Canberra by Average Taxable Income: 1998-1999*⁶⁵

Manuka	\$54,992
Deakin	\$49,074
Kingston	\$44,053
Curtin	\$43,051
Fyshwick	\$42,398

As will also be seen in the remainder of this paper, while the ACT levies some taxes at a rate comparable to the major states, it levies other taxes at a decidedly lower rate.

Tasmania

Tasmania's economic development has also tended to lag behind the rest of the Australian states. Tasmania's continuing difficulties in the recent past were highlighted in a report on the Tasmanian economy undertaken, in 1996, by the former Liberal Party federal minister Peter Nixon. Whereas, between 1986 and 1996, private capital expenditure grew throughout the whole of Australia by 35%, in Tasmania it only grew by 9.1%. In Tasmania the official unemployment rate, in 1996, was nearly 11%.⁶⁶ The population of Tasmania in 2002 was 470,000.⁶⁷ These developments are reflected in the statistics for the state's gross domestic product, and for the share of the state's GSP in Australian GDP:

⁶² ABS Catalogue 3101.0.

⁶³ ABS Catalogue 5220.0.

⁶⁴ *ibid.*

⁶⁵ AMP-Natsem, *op.cit.*

⁶⁶ See *The Nixon Report: Tasmania into the 21st Century* (1997).

⁶⁷ ABS Catalogue 3101.0.

*Gross State Product, Individual Australian States and Territories: 2001-2002*⁶⁸

Tasmania	\$12 billion
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*States' and Territories' Share of Australian GDP: 2001-2002*⁶⁹

Tasmania	1.7%
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The five suburbs in Hobart, with the highest average taxable incomes, are not comparable with their counterparts in New South Wales and Victoria:

*Top 5 Suburbs in Hobart by Average Taxable Income: 1998-1999*⁷⁰

Beachside	\$44,048
Sandy Bay	\$43,912
Kingston	\$38,056
South Hobart	\$37,047
Tarooma	\$36,484

Tasmania is also attempting to reduce taxes to attract business activity to the states. The treasurer of Tasmania recently declared that Tasmania,

has the most competitive payroll tax regime for small to medium businesses. . . other than the ACT.⁷¹

Northern Territory

The Northern Territory's gross state product has, despite its being the smallest amongst the states and territories, nevertheless significantly expanded in the last few years. Tim Baldwin (former NT minister for industry) declared at a conference in 2000 that,

With just 1% of Australia's population, the Northern Territory contributes 6% of the nation's export wealth. The NT's gross state product increased by a staggering 7.6% in 1998-99 to \$6,460m and in the past five years the NT has averaged 5.6% growth in its gross state product. . .⁷²

⁶⁸ ABS Catalogue 5220.0.

⁶⁹ *ibid.*

⁷⁰ AMP-Natsem, *op,cit.*

⁷¹ Treasurer of Tasmania, *Budget Speech 2003-2004*, chapter 5.

⁷² *Property Council of Australia Congress 2000* (10-11 July 2000).

The figures for the Northern Territory's gross state product, and its share in Australian GDP, are as follows:

*Gross State Product, Individual Australian States and Territories: 2001-2002*⁷³

Northern Territory	\$9 billion
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*States' and Territories' Share of Australian GDP: 2001-2002*⁷⁴

Northern Territory	1.2%
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While the Northern Territory levies some taxes at a rate similar to the major states, it simply does not levy one of the standard taxes utilised by the other states: land tax.

5. THE BUDGETARY POSITION OF THE STATES: CONTRIBUTION OF THE FEDERAL GOVERNMENT

(a) Individual Revenue Raising

All the states and territories receive money from the federal government: some in greater proportions than others. This can be seen in the sub-sections following.

(b) New South Wales

The NSW state budget for 2000-2001 was around \$30½ billion, as the table following indicates:

*New South Wales State Revenue: 2000-2001*⁷⁵

New South Wales Total Revenue	\$30,456,000,000
-------------------------------	------------------

The contribution of federal government GST revenue, and specific purpose payments, was as follows:

⁷³ ABS Catalogue 5220.0.

⁷⁴ *ibid.*

⁷⁵ Treasurer of New South Wales, *Budget Statement 2000-2001*, budget paper no.2, chapter 3, p.5.

*New South Wales State Budget: Contribution of GST Payments and Specific Purpose Payments, 2000-2001*⁷⁶

GST Payments	\$7.25 billion
Specific Purpose Payments	\$4.46 billion

Thus over \$11½ billion, or around 40% of the New South Wales budget, was contributed by the federal government in 2000-2001.

(c) Victoria

Victoria's state budget for 2000-2001 was around \$23 billion, as the following table shows:

*Victorian State Revenue: 2000-2001*⁷⁷

Victoria Total Revenue	\$22,794,000,000
------------------------	------------------

The contribution of federal government GST revenue, and specific purpose payments, was as follows:

*Victorian State Budget: Contribution of GST Payments and Specific Purpose Payments, 2000-2001*⁷⁸

GST Payments	\$5,902,500,000
Specific Purpose Payments	\$3,850,000,000

Thus \$9,752,000,000 or about 43% of the Victorian budget, was contributed by the federal government in 2000-2001.

(d) Queensland

Queensland's state budget for 2000-2001 was just over \$18 billion, as set out in the table below:

⁷⁶ *ibid.*, p.20.

⁷⁷ Treasurer of Victoria, *Budget Update 2000-2001*, p.20.

⁷⁸ Treasurer of Victoria, *Budget Statement 2003-2004*, chapter 5, p.104; *Review of Commonwealth-State Funding*, p.64.

*Queensland State Revenue: 2000-2001*⁷⁹

Queensland State Revenue	\$18.2 billion
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The contribution of federal government GST revenue, and specific purpose payments, was as follows:

*Queensland State Budget: Contribution of GST Payments and Specific Purpose Payments 2000-2001*⁸⁰

GST Payments	\$5.2 billion
Specific Purpose Payments	\$3.6 billion

Thus \$8.8 billion, or nearly 48% of the Queensland state budget, was contributed by federal government payments in 2000-2001.

(e) Western Australia

Western Australia's state budget for 2000-2001 was about half that of Queensland, as the accompanying table illustrates:

*Western Australia State Revenue: 2000-2001*⁸¹

Western Australia Total Revenue	\$9.8 billion
---------------------------------	---------------

The contribution of federal government GST revenue, and specific purpose payments, was as follows:

*Western Australian State Budget: Contribution of GST Payments and Specific Purpose Payments, 2000-2001*⁸²

GST Payments	\$2.6 billion
Specific Purpose Payments	\$1.9 billion

Thus \$4.5 billion, or almost 46% of the Western Australian state budget, was contributed by federal payments in 2000-2001.

⁷⁹ Treasurer of Queensland, *Budget Statement 2000-2001*, budget paper no.3, p.26.

⁸⁰ *ibid.*, p.30.

⁸¹ Treasurer of Western Australia, *2000-2001 Budget Overview*.

⁸² *ibid.*

(f) South Australia

South Australia's state budget for 2000-2001 was nearly \$7 billion, as illustrated in the following table:

*South Australian State Revenue: 2000-2001*⁸³

South Australia Total Revenue	\$6.8 billion
-------------------------------	---------------

The contribution of federal government GST revenue, and specific purpose payments, was as follows:

*South Australia State Budget: Contribution of GST Payments and Specific Purpose Payments, 2000-2001*⁸⁴

GST Payments	\$2.5 billion
Specific Purpose Payments	\$1.4 billion

Therefore \$3.9 billion, or around 58% of the South Australian state budget, was contributed by federal payments during 2000-2001.

(g) Tasmania

Tasmania's state budget for 2000-2001 was just over \$2 billion, as illustrated below:

*Tasmania State Revenue: 2000-2001*⁸⁵

Tasmania Total Revenue	\$2.19 billion
------------------------	----------------

The contribution of federal government GST revenue, and specific purpose payments, was as follows:

*Tasmanian State Budget: Contribution of GST Payments and Specific Purpose Payments 2000-2001*⁸⁶

GST Payments	\$977,700,000
Specific Purpose Payments	\$316,400,000

⁸³ Treasurer of South Australia, *Budget Speech 2000-2001*, Budget Statement no.2, chapter 5.

⁸⁴ Ibid.

⁸⁵ Treasurer of Tasmania, *Budget Statement 2000-2001*, budget overview.

⁸⁶ Ibid., chapter 8, pp.7,17.

Therefore around \$1.3 billion, or about 60% of the Tasmanian state budget, was contributed by federal payments during 2000-2001.

(h) Northern Territory

The Northern Territory's budget for 2000-2001 was just over \$2 billion. This is demonstrated in the table following:

*Northern Territory Revenue: 2000-2001*⁸⁷

Northern Territory Total Revenue	\$2.009 billion
----------------------------------	-----------------

The contribution of federal government GST revenue, and specific purpose payments, was follows:

*Northern Territory Budget: Contribution of GST Payments and Specific Purpose Payments 2000-2001*⁸⁸

GST Payments	\$1.22 billion
Specific Purpose Payments	\$278 million

Therefore around \$1.5 billion, or about 75% of the Northern Territory, was contributed by federal government payments.

(i) Australian Capital Territory

The ACT budget for 2000-2001 was just under \$2 billion, as shown in the accompanying table:

*Australian Capital Territory Revenue: 2000-2001*⁸⁹

Australian Capital Territory Total Revenue	\$1.9 billion
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The contribution of federal government GST revenue, and specific purpose payments, was as follows:

⁸⁷ Treasurer of the Northern Territory, *Budget Speech 2000-2001*, part 1, p.7.

⁸⁸ *ibid.*, chapter 4, p.395.

⁸⁹ Treasurer of the ACT, *Budget Statement 2000-2001*, budget paper no.1, p.7.

*Australian Capital Territory Budget: Contribution of GST Payments and Specific Purpose Payments, 2000-2001*⁹⁰

GST Payments	\$470,600,000
Specific Purpose Payments	\$370,200,000

Consequently around \$840,800,000, or 44% of the ACT budget, was contributed by federal payments during 2000-2001.

6. EFFORTS OF THE INDIVIDUAL STATES AND TERRITORIES TO PROVIDE FOR THEIR OWN CITIZENS: VIA THE VARIOUS SOURCES OF REVENUE

(a) Sources of Revenue

The main sources of internal revenue raising open to the individual states and territories, according to Saul Eslake, (chief economist with the ANZ bank) are:

payroll taxes on employers, taxes on the transfer of property such as real estate or motor vehicles (known as ‘stamp duties’), land taxes and, especially in recent years, taxes on gambling.⁹¹

(b) Main Sources of Revenue and Individual States’ and Territories’ Efforts to Utilise Those Fiscal Resources

Payroll Tax

New South Wales

The size of its population, and the concentration of wealth, facilitates a significant degree of investment which, in turn, enables the state to levy a crucial amount of payroll tax: in New South Wales in 2001 there were 1,805,433 full-time workers.⁹² As the NSW Tax Task Force observed in 1988, “Payroll tax is the most important source of tax revenue for New South Wales.”⁹³ This indicated by the growth in the amount of payroll tax collected

⁹⁰ *ibid.*, budget paper no.3, p.22.

⁹¹ Saul Eslake, *An Introduction to the Australian Economy* (ANZ Banking Group, Melbourne, 2002), p.30.

⁹² Australian Bureau of Statistics, *Census of Population and Housing: Selected Education and Labour Force Characteristics 2001*, ABS Catalogue 2017.0 (Australian Bureau of Statistics, Canberra, 2003), p.7.

⁹³ New South Wales Tax Task Force, *Review of the State Tax System* (NSW Government Printer, Sydney, 1988), p.4.

between the end of the 1980s and the early 2000s:

*New South Wales: Payroll Tax Collected Between late 1980s and early 2000s*⁹⁴

1987-1988	\$1.8 billion
2003-2004	\$4.4 billion

New South Wales levies the tax at a rate of 6%, with a starting point (for application of the tax) of \$600,000.⁹⁵

Victoria

As with New South Wales, the level of wealth in Victoria enables a significant amount of investment in manufacturing and commerce (highlighted by the gross state product of \$183 billion) which, in turn, enables the state to levy a considerable amount of payroll tax: in Victoria in 2001 there were 1,354,647 full-time workers.⁹⁶ This is indicated by the amount of the tax expected to be collected by Victoria in 2003-2004:

*Victoria: Payroll Tax 2003-2004*⁹⁷

Estimated Payroll Tax	\$2.7 billion
-----------------------	---------------

Victoria's level of payroll tax, however, is below the national state and territory average. Victoria also has a lower tax-free threshold than some other states and has even marginally reduced the present rate of payroll tax, as the state treasurer explained in this year's budget speech:

At present, payroll tax of 5.35 per cent is applicable to the payments of taxable wages in excess of the annual tax-free threshold of \$550,000. As part of the government's *Building Tomorrow's Businesses Today* package, the payroll tax rate will be reduced further to 5.25 per cent from 1 July 2003.⁹⁸

Queensland

⁹⁴ NSW Tax Task Force, op.cit., p.2; Treasurer of NSW, *Budget Statement 2003-2004*, budget paper no.2, chapter 3, p.13.

⁹⁵ Western Australian Chamber of Commerce and Industry, *Submission to the Western Australian Review of State Business Taxes* (Perth, 2001), p.33.

⁹⁶ ABS Catalogue 2017.0, p.9.

⁹⁷ Treasurer of Victoria, *Budget Estimates 2003-2004*, p.449.

⁹⁸ *ibid.*, p.448.

Despite having a gross state product considerably less than that of either New South Wales or Victoria, Queensland still has a substantial number of full-time workers within its boundaries: 1,002,596 in 2001.⁹⁹ While Queensland therefore has a considerable capacity to levy payroll tax, the amount raised is as follows:

*Queensland: Payroll Tax 2003-2004*¹⁰⁰

Estimated Payroll Tax	\$1.3 billion
-----------------------	---------------

The fact that, despite having over 1 million full-time workers in the state, Queensland raised less than a third of payroll tax levied in New South Wales (and half that levied in Victoria) is because Queensland deliberately chooses to levy payroll tax at a rate lower than that in other states: indeed it is the lowest of any state (at a rate of 4.75%).¹⁰¹

Western Australia

Despite having a population just over half that of Queensland, however, and a noticeably lower number of full-time workers (520,491 in 2001), Western Australia nearly manages to levy as much payroll tax as Queensland, as the following statistic highlights:¹⁰²

*Western Australia: Payroll Tax 2003-2004*¹⁰³

Estimated Payroll Tax	\$1 billion
-----------------------	-------------

Western Australia in 2002 had a starting point for payroll tax of \$600,000 and variable percentage rates of tax (from 3.65% to 6%). The WA Chamber of Commerce and Industry has observed that,

Western Australia has a higher than average capacity to raise revenue through this base with a lower than average effort relative to the other jurisdictions.¹⁰⁴

South Australia

Because of now having a population less than that of Western Australia, South Australia correspondingly has a lower number of full-time workers than WA: 397,681 in 2001.¹⁰⁵

⁹⁹ ABS Catalogue 2017.0, p.11.

¹⁰⁰ Treasurer of Queensland, *State Budget 2003-2004*, budget paper no.2, p.72.

¹⁰¹ Western Australian Chamber of Commerce and Industry, op.cit.

¹⁰² ABS Catalogue 2017.0, p.14.

¹⁰³ Treasurer of Western Australia, *Budget Speech*, budget paper no.3, chapter 4, p.111.

¹⁰⁴ Western Australian Chamber of Commerce and Industry, op.cit.

¹⁰⁵ ABS Catalogue 2017.0.

Accordingly South Australia does not have same capacity to levy payroll tax as either NSW, Victoria, Queensland or Western Australia. Nevertheless South Australia does levy a considerable sum from this source, as the accompanying table illustrates:

*South Australia: Payroll Tax 2003-2004*¹⁰⁶

Estimated Payroll Tax	\$678 million
-----------------------	---------------

South Australia is able to levy this amount of payroll tax because it maintains a relatively low starting point for payment of the tax (\$456,000 in 2002) and a relatively high percentage rate of levy (5.67%).¹⁰⁷

Tasmania

Because of having a much smaller population than the other states, Tasmania consequently has a much smaller number of workers - just over 111,000¹⁰⁸ – and therefore a much smaller capacity to levy payroll tax, as indicated in the following table:

*Tasmania: Payroll Tax 2003-2004*¹⁰⁹

Estimated Payroll Tax	\$146 million
-----------------------	---------------

Tasmania's noticeably lower amount of payroll tax, however, is also a result of the Tasmanian government's decision to levy the tax at a lower rate than that of most other states and territories. Although Tasmania levies payroll tax at a higher rate than that of its counterparts (6.3%), it has scaled-back the entry point at which the tax would apply to businesses in the state. As the Tasmanian state treasurer explained in his recent budget speech:

The budget initiatives in 2001-02. . . increased the general exemption threshold from \$606,000 to \$1.0 million from 1 July 2001. . .¹¹⁰

Australian Capital Territory

Not only, in 2002, were there around 323,000 people living in the ACT, but the territory is the site of the national capital of Australia and so attracts considerable commercial activity. Certain sectors have grown significantly: the total value of the ACT's retail trade increasing

¹⁰⁶ Treasurer of South Australia, *South Australia State Budget 2003-2004*, budget paper np.3, p.3.7.

¹⁰⁷ Western Australian Chamber of Commerce and Industry, op.cit.

¹⁰⁸ ABS Catalogue 2017.0.

¹⁰⁹ Treasurer of Tasmania, *Tasmanian Budget 2003-2004*, budget paper no.1, chapter 4.

¹¹⁰ Treasurer of Tasmania, *Budget Speech 2003-2004*, chapter 5.

by 33% between 1992-1993 and 1997-1998 (to a total turnover of around \$2½ billion in 1997-1998).¹¹¹ There were over 107,000 full-time workers in the ACT in 2001.¹¹² The potential for payroll tax is therefore considerable, as the table below indicates:

*ACT: Payroll Tax 2003-2004*¹¹³

Estimated Payroll Tax	\$160 million
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As with a number of other states and territories, however, the ACT levies payroll tax at a rate somewhat below that of its counterparts. As the treasurer of the ACT explained in his budget speech:

The payroll tax in the ACT is 6.85% on wages, and other taxable payments made by the employer or employer's group, where Australia-wide wages exceed \$1.250m per annum.¹¹⁴

Northern Territory

In 2002 the population of the Northern Territory was around 200,000 and the number of full-time workers, in 2001, was 60,671.¹¹⁵ The number of full-time workers allows the territory to raise a considerable amount of payroll tax, as the accompanying table indicates:

*Northern Territory: Payroll Tax 2003-2004*¹¹⁶

Estimated Payroll Tax	\$100 million
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The NT government has a starting point for payroll tax similar to that of New South Wales (\$600,000) and levies the tax also at a rate comparable to NSW (6.5%).¹¹⁷

Stamp Duty

New South Wales

¹¹¹ ACT Government, *State of the Territory Report 1999*.

¹¹² ABS Catalogue 2017.0.

¹¹³ Treasurer of the ACT, *ACT Budget 2003-2004*, budget paper no.3, table 5.2.4.

¹¹⁴ *ibid.*, budget paper no.3.

¹¹⁵ ABS Catalogues 2017.0 and 3101.0.

¹¹⁶ Treasurer of the Northern Territory, *Northern Territory Budget 2003-2004*, budget paper no.2, chapter 7.

¹¹⁷ Western Australian Chamber of Commerce and Industry, *op.cit.*

According to Saul Eslake's outline above, taxes on property can also constitute a substantial source of internal state revenue. In recent years the concentration of wealthy people in Sydney has led to the development of a commerce in very highly priced houses. This, in turn, has fed in to an overall acceleration of house prices in Sydney, as the following table indicates:

Individual House Price Rises in Sydney by Suburb: 1940-2000¹¹⁸

	1940s	1950s	1960s	1970s	1980s	1990s	2000-03
Point Piper			£25,000				\$13.2m
Darling Point	£35,000				\$6.25m	\$12.5m	
Bellevue Hill				\$675,000		\$6.5m	
Pymble					\$700,000	\$3.3m	
Killara	£6,500				\$650,000		
Pittwater				\$231,735	\$1.6m		
Roseville				\$82,500			\$1.75m
Mosman				\$193,500		\$1.69m	
Neutral Bay					\$130,500	\$465,000	
Woollahra					\$220,000	\$1.03m	
Hunters Hill					\$275,000	\$810,000	
McMahons Point				\$49,500		\$800,000	\$1.57m
Randwick				\$197,500			\$4.3m
Tamarama					\$365,000	\$1.98m	
Birchgrove				\$85,000		\$1.8m	
E. Balmain	£525				\$377,500		
Ashfield					\$420,000	\$1.6m	
Putney	£100					\$475,000	
Haberfield					\$100,00	\$450,000	
Hurstville					\$114,000	\$642,000	
Hurlstone Park						\$281,000	\$734,000

¹¹⁸

Sydney Morning Herald (SMH), Domain, 6 January 2001, p.2H; *SMH*, Domain, 5 April 2003, p.2H; *SMH*, 9 October 1993, p.63; *SMH*, 22 July 1995, p.67; *ibid.*, Domain, 5 July 2003, p.2H; *ibid.*, Domain, 28 June 2002, p.3H; *SMH*, 9 December 1995, p.101; *ibid.*, Domain, 31 August 2002, p.3H; *ibid.*, 16 June 2001, p.3H; *ibid.*, 4 May 2002, p.3H; *SMH*, 16 June 2001, p.11; *SMH*, Domain, 25 August 2001, p.2H; *ibid.*, 27 April 2002, p.2H; *SMH*, 17 August 2002, p.1; *SMH*, Domain, 31 May 2003, p.2H; *ibid.*, 2 June 2001, p.2H; *ibid.*, 27 July 2002, p.3H; *ibid.*, 17 May 2003, p.2H; *SMH*, 11 June 2001, p.10; *SMH*, Domain, 9 June 2001, p.2H; *ibid.*, 17 August 2002, p.2H; *SMH*, 7 July 1997, p.6; *ibid.*, 21 July 1997, p.7; *ibid.*, 25 August 1997, p.4; *ibid.*, 7 February 1998, p.4; *ibid.*, 9 March 1998, p.6; *ibid.*, 25 May 1999, p.7;

Hillsdale				\$65,000			\$807,000
Kurnell			£2,000				\$725,000
Paddington					\$135,000		\$800,000
Potts Point					\$260,000		\$1.6m
E. Sydney					\$42,500	\$445,000	
E. Redfern					\$121,600	\$955,000	
Redfern				\$28,000		\$290,000	
Merrylands					\$58,000		\$232,000

The constant rise in house prices, and in the overall value of land, has allowed state governments in New South Wales to focus on stamp duty for an ever increasing source of internal state revenue. This is shown by the accompanying table:

Sydney: Median House Price, and Stamp Duty, Increases 1980s–early 2000s¹¹⁹

	early 1980s	early 1990s	2002	September 2003
Median House Price	\$65,000	\$180,000	\$315,000	\$465,000
Stamp Duty	\$1,065	\$4,790	\$9,665	\$16,000

This has led to a situation where NSW intends to raise the following amount of conveyancing tax, and land tax, for 2003-2004:

New South Wales: Estimated Conveyancing Tax and Land Tax 2003-2004¹²⁰

Estimated Total Conveyancing Revenue	\$3.4 billion
Land Tax	\$1.2 billion

While the money amount of stamp duty collected is considerable, the rate levied in New South Wales is not the highest amongst the states and territories: the rate in 2002 being, according to the Real Estate Institute of Australia, 3.07% of the Sydney median house price (placing NSW only fourth, amongst the various jurisdictions, according to the percentage level of impost).¹²¹

The starting point (in terms of valuation) for the imposition of land tax, in New South Wales, is \$261,000.¹²²

¹¹⁹ Peter Freeman, "Hard Pressed Home Buyers – Where the Blame Lies" in the *Sydney Morning Herald*, 3 June 1992, p.33; Real Estate Institute of Australia, *Submission to the Review of Commonwealth-State Funding* (Real Estate Institute of Australia, 2002), p.6; figures for September 2003 supplied by Ray White Real Estate.

¹²⁰ Treasurer of NSW, *Budget Statement 2003-2004*, budget paper no.2, chapter 3, p.13.

¹²¹ Real Estate Institute of Australia, *Submission to the Review of Commonwealth-State Funding* (2002).

¹²² New South Wales Treasury, *Interstate Comparison of Taxes 2001-2002* (NSW Treasury, Sydney, 2001), p.24.

Victoria

In Victoria, as much as in New South Wales, the relative concentration of wealth in Victoria also manifests itself in investment in housing. This is evident in the rise in house prices, between March 2002 and March 2003:

Melbourne Median House Price Rises (by Suburb): March 2002-March 2003¹²³

	March 2002	March 2003	%age Increase
Toorak	\$1,391,000	\$1,588,000	14%
Brighton	\$748,000	\$825,000	10%
Black Rock	\$639,300	\$770,250	20%
South Yarra	\$587,400	\$890,000	52%
Kew	\$581,700	\$683,500	18%
Camberwell	\$548,500	\$726,000	32%
Balwyn	\$538,600	\$690,000	28%
Essendon	\$427,000	\$510,000	19%
Carlton	\$393,500	\$535,000	36%
Moonee Ponds	\$372,800	\$448,000	20%
North Melbourne	\$357,700	\$387,500	8%
Preston	\$268,400	\$315,000	17%
Footscray West	\$258,000	\$283,500	10%
Melton	\$118,000	\$160,000	36%

Individual house sales in Melbourne, however, often exceed the median return. In May 2003, for instance, a house at Ivanhoe East sold for \$2.2 million.¹²⁴ This consistent increase, in the value of houses in Victoria, and the value of land overall, has allowed the state to levy a substantial amount of stamp duty and land tax:

Victoria: Stamp Duty and Land Tax 2003-2004¹²⁵

Estimated Stamp Duty	\$1.8 billion
Estimated Land Tax	\$767 million

Victoria indeed levies stamp duty at the highest rate amongst the states and territories: 4.61% of the Melbourne median house price.¹²⁶

¹²³ See WBP Property Valuers and Consultants, quarterly newsletter no.2, 2003.

¹²⁴ See *The Age*, 5 May 2003.

¹²⁵ Treasurer of Victoria, *Budget Estimates 2003-2004*, p.449.

¹²⁶ Real Estate Institute of Australia, op.cit.

The valuation starting point for the imposition of land tax, in Victoria, is \$85,000. In 1999-2000 the amount of land tax levied in Victoria was \$411 million.¹²⁷

Queensland

While Queensland is a state with a high proportion of low-wage earners, there is considerable evidence of prosperity in investment in housing. Many expensive homes in Brisbane now sell at prices at least comparable to Melbourne, as shown by the following table:

*Brisbane: Luxury House Sales by Selected Suburbs, 2002*¹²⁸

Hamilton	\$3,525,000
Clayfield	\$3,300,000
Chelmer	\$3,250,000
Hawthorne	\$3,170,000
East Brisbane	\$2,825,790
Norman Park	\$2,800,000

Outside the prices paid for luxury homes, there has been an equally significant rise in the median price for suburban houses, as the accompanying table also indicates:

*Median House Prices Brisbane: 1998-2002*¹²⁹

	1998	2002	% age Increase
Ascot	\$294,000	\$560,000	90%
St. Lucia	\$286,000	\$489,000	71%
New Farm	\$258,000	\$405,000	57%
West End	\$211,000	\$398,000	88%
Paddington	\$220,000	\$380,000	72%
Hawthorne	\$206,000	\$372,500	80%
Kangaroo Point	\$180,000	\$321,500	78%
Coorparoo	\$170,000	\$299,500	76%
Morningside	\$142,000	\$275,000	93%
Holland Park	\$136,000	\$250,800	84%

This consistent increase, in the value of houses in Brisbane (in particular), and an accompanying increase in the value of land, has allowed the state to levy a considerable

¹²⁷ NSW Treasury, *Interstate Comparison of Taxes 2001-2002*; Property Council of Australia, *Analysis of State Government Stamp Duty and Land Tax Revenues (January 2001)*.

¹²⁸ See PRD Nationwide Research, January 2003.

¹²⁹ Real Estate Institute of Queensland, *Annual Research Review*, 1998 and brisbaneproperties.com.au.

amount of stamp duty (currently called “transfer duty) and land tax, as the following table indicates:

Queensland: Stamp Duty (“Transfer Duty”) and Land Tax 2003-2004¹³⁰

Estimated Stamp Duty (“Transfer Duty”)	\$1.2 billion
Estimated Land Tax	\$314 million

Again the amount of duty levied in Queensland, on the sale of houses, is also relatively low (in comparison with other states and territories) because Queensland has the second-lowest rate of stamp duty as a percentage of the capital city (Brisbane) median house price: 2.76%.¹³¹

Furthermore the amount of land tax raised in Queensland is also significantly low because the state government chooses to deliberately levy land tax at a lower rate than that in other states and territories. As the Queensland treasurer commented in his budget speech for 2003-2004:

The government’s application of three-year averaging – whereby the land value is determined by averaging the unimproved property values for the current and preceding two years, rather than simply using the current year valuation – has mitigated the impact of. . .valuation increases on land tax payers. . .Queensland is the only state to apply three-year averaging to land tax. . .[furthermore] From 2003-04, the land tax statutory deduction for residents will be increased by \$20,000, from \$200,000 to \$220,000. The exemption threshold for companies, trustees and absentees will also be increased by \$20,000, from \$150,000 to \$170,000.¹³²

Western Australia

As in the other states, the presence of wealth in the state is similarly reflected in the price of houses. There are several suburbs in Perth, for instance, where houses have sold for over \$1 million, as the following table shows:

¹³⁰ Treasurer of Queensland, *State Budget 2003-2004*, budget paper no.2, p.72.

¹³¹ Real Estate Institute of Australia, Submission to the *Review of Commonwealth-State Funding*.

¹³² Treasurer of Queensland, *State Budget 2003-2004*, budget paper no.2, p.73.

*Perth Suburbs by Highest Individual House Sale over \$1 million: as at June 2003*¹³³

Dalkeith	\$4,500,000
Applecross	\$3,700,00
Mosman Park	\$3,445,000
Claremont	\$3,400,000
Peppermint Grove	\$2,650,000
City Beach	\$2,450,000
Cottesloe	\$2,280,000
Crawley	\$2,150,000
West Perth	\$2,088,000
Attadale	\$2,000,000
Rossmoyne	\$1,900,000
Churchlands	\$1,650,000
North Fremantle	\$1,630,000
East Perth	\$1,575,000
Marmion	\$1,450,000
East Fremantle	\$1,375,000
Nedlands	\$1,305,000
Shenton Park	\$1,250,000
Mount Pleasant	\$1,240,000
Salter Point	\$1,235,000
Floreat	\$1,200,000
Subiaco	\$1,200,000
Booragoon	\$1,130,000
Bassendean	\$1,122,500
Mount Claremont	\$1,100,000
Wembley	\$1,100,000
Sorrento	\$1,060,000
Mount Lawley	\$1,050,000
Swanbourne	\$1,005,000

Again, despite having a population just half that of Queensland, the Western Australian state government raises close to the same amount as Queensland levies in stamp duty:

*Western Australia: Stamp Duty and Land Tax 2003-2004*¹³⁴

Estimated Stamp Duty	\$969 million
Estimated Land Tax	\$277 million

¹³³ Real Estate Institute of Western Australia: *Suburb Profiles*.

¹³⁴ Treasurer of Western Australia, *Budget Speech 2003-2004*, budget paper no.3, chapter 4, p.111.

While WA therefore raises a significant amount of money from stamp duty, the rate of stamp duty in 2002 was the sixth lowest in Australia: 2.77% of the Perth median house price.¹³⁵ This is an outcome, as in the case of Queensland, of a decision by the WA state government to deliberately levy taxes at a rate less than other states.

The valuation starting point for the payment of land tax, in Western Australia, was \$50,000.¹³⁶

South Australia

There are a number of wealthy suburbs in Adelaide, but the median price of houses in these suburbs is much less than those of their counterparts in Sydney and Melbourne, as the accompanying table indicates:

*Adelaide: Median House Prices, Wealthier Suburbs, 1998-2002*¹³⁷

	1998	2002	%age Increase
North Adelaide	\$266,700	\$537,000	101%
Malvern	\$274,000	\$491,700	79%
Beaumont	\$245,500	\$444,400	81%
Glen Osmond	\$250,000	\$400,000	60%
Burnside	\$256,800	\$360,000	40%
Glenunga	\$220,800	\$355,000	60%
St. Peters	\$292,100	\$328,600	30%
Myrtle Bank	\$231,300	\$328,600	42%
Somerton Park	\$201,800	\$328,600	62%
Unley	\$206,300	\$328,100	59%
Fullarton	\$205,600	\$317,900	54%

Taxes on property, in South Australia, make a higher contribution to state revenue than even payroll tax, and total the following dollar amount:

*South Australia: Taxes on Property 2003-2004*¹³⁸

Estimated Taxes on Property	\$783 million
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¹³⁵ Real Estate Institute of Australia, Submission to the Review of Commonwealth-State Funding.

¹³⁶ NSW Treasury, *Interstate Comparison of Taxes 2001-2002*.

¹³⁷ ABC Adelaide, ABC Online, "How Your Suburb Performed During the Property Boom", 15 November 2002 using figures from the Real Estate Institute of South Australia.

¹³⁸ Treasurer of South Australia, *South Australia State Budget 2003-2004*, budget paper no.3, p.3.7.

South Australia in fact levies the third highest rate of stamp duty amongst the states and territories: 3.23% of the Adelaide median house price.¹³⁹ The valuation starting point, for the payment of land tax in South Australia, is \$50,000. In 1999-200 the amount of land tax raised in South Australia was \$138 million.¹⁴⁰

Tasmania

Tasmania, on the other hand, despite its difficulties during the 1990s, is currently gaining a small degree of benefit from the current national surge in investment in housing, as the following figures indicate:

Hobart: Median House Price Most Expensive Suburbs 2002¹⁴¹

Battery Point	\$447,000
Sandy Bay	\$311,000
Acton Park	\$300,000

Even the overall median house price, in Hobart, has increased significantly between the early 1980s and the early 2000s, as statistics illustrate:

Hobart: Median House Prices 1983 to 2001¹⁴²

1983	\$48,000
2001	\$123,000

The increase in house prices has allowed the Tasmanian government to utilise the property sector as a significant source of revenue, although the amount of land tax levied seems relatively low, as illustrated by the following table:

Tasmania: Stamp Duties and Land Tax 2003-2004¹⁴³

Estimated Stamp Duties	\$116 million
Land Tax	\$25 million

¹³⁹ Real Estate Institute of Australia, op.cit.

¹⁴⁰ NSW Treasury, *Interstate Comparison of Taxes 2001-2002*; Property Council of Australia, *Analysis of State Government Stamp Duty and Land Tax Revenues: January 2001*.

¹⁴¹ See Portico Property at <http://www.portico.info/>

¹⁴² Abel Realty at <http://www.abelrealty.com.au>.

¹⁴³ Treasurer of Tasmania, *Tasmanian Budget 2003-2004*, budget paper no.1, chapter 5.

Although the above amount seems substantial, Tasmania also chooses – as in the case of its payroll tax – to levy stamp duty at a rate less than that of its counterparts: 2.42% of the median price of a house in Hobart (the lowest rate amongst the states and territories).¹⁴⁴

The valuation commencement point, for the levying of land tax in Tasmania, is \$1,000.¹⁴⁵

Australian Capital Territory

The ACT, like other states and territories, has also experienced a considerable increase in the price of houses. This is illustrated by the following table:

*ACT: Suburbs with Median House Prices over \$300,000 (early 2003)*¹⁴⁶

Forrest	\$900,000
O'Malley	\$640,000
Yarralumla	\$497,000
Deakin	\$450,000
Hall	\$445,000
Red Hill	\$435,000
Campbell	\$390,000
Barton	\$372,000
Isaacs	\$369,000
Chapman	\$355,000
Ainslie	\$350,000
Nicholls	\$341,000
Hughes	\$325,000
Curtin	\$319,000
Fadden	\$315,000
Farrer	\$310,000
Lyneham	\$309,000
Aranda	\$308,000
Griffith	\$300,000

The ACT is consequently able to levy a substantial amount of stamp duty (or “conveyance duty” as it is termed in the ACT budget), and a significant amount of land tax, as the following figure demonstrates:

¹⁴⁴ Real Estate Institute of Australia, *Submission to the Review of Commonwealth-State Funding*.

¹⁴⁵ NSW Treasury, *Interstate Comparison of Taxes 2001-2002*.

¹⁴⁶ Real Estate Institute of the ACT.

ACT: Stamp Duty (“Conveyance Duty”) and Land Tax 2003-2004¹⁴⁷

Estimated Stamp (“Conveyance”) Duty	\$117 million
Estimated Land Tax	\$40 million

ACT conveyance tax is not levied at the same rate as other states and territories. In 2002 the ACT rate of conveyance tax was the fifth lowest amongst the eight states and territories: 2.82% of the Canberra median house price.¹⁴⁸ The valuation commencing point, for the imposition of land tax in the ACT, is \$0 and a rate of 1% is levied on land valued between \$0 and \$100,000. A higher rate is levied thereafter.¹⁴⁹

Northern Territory

With the expansion of commercial activity in Darwin, many houses there have increased in price by over 100%, as illustrated by the statistics for the rise in median house prices between the late 1980s and the early 2000s:

Darwin: Median House Prices 1986-2003¹⁵⁰

1986	2003
\$87,000	\$215,000

Luxury houses, in Darwin, have reached prices over three times the median, as these examples from the NT valuer-general’s annual report for 1999-2000 indicate:

Darwin: Luxury House Sales 1999-2000 (By Suburb and Price Received)¹⁵¹

Fannie Bay	\$750,000
Larrakeyah	\$710,000
Larrakeyah	\$610,000
Brinkin	\$608,888
Brinkin	\$560,000
Fannie Bay	\$550,000

¹⁴⁷ Treasurer of the ACT, ACT Budget 2003-2004, budget paper no.3.

¹⁴⁸ Real Estate Institute of Australia, *Submission to the Review of Commonwealth-State Funding*.

¹⁴⁹ NSW Treasury, *Interstate Comparison of Taxes 2001-2002*.

¹⁵⁰ Press Release, Real Estate Institute of Australia, 27 June 2003 and Abel Realty (Adelaide) at <http://www.abelrealty.com.au>

¹⁵¹ See “Darwin Residential” section of the *Annual Report of the Northern Territory Valuer-General 1999-2000*.

Parap	\$510,000
Parap	\$495,000

Such increases in the prices of houses has allowed the NT government to utilise the property market as a means of revenue, as indicated by the Territory government's estimates for stamp duty during 2003-2004:

*Northern Territory: Stamp Duty 2003-2004*¹⁵²

Estimated Stamp Duty	\$73 million
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The Northern Territory indeed levies the second-highest rate of stamp duty amongst the states and territories: 3.3% of the Darwin median house price.¹⁵³

The NT does not levy any land tax.

Gambling Tax

Victoria

According to the figures collected by the central collection agency for gambling statistics (the Tasmanian Gaming Commission), people in Victoria lost the second highest amount, on an average per capita basis, amongst the populations in the states and territories during 2001-2002 (\$1,179 average, a head).¹⁵⁴

Further statistics, collected by the Tasmanian Gaming Commission, indicate that Victoria collects the highest amount of gambling revenue, per capita, amongst the states and territories (\$422 in 1999-2000).¹⁵⁵ The Victorian government is consequently able to source gambling as an important area of revenue, levying tax on poker machine gambling at a rate of 24% of player loss:¹⁵⁶

¹⁵² Treasurer of the Northern Territory, *Northern Territory Budget 2003-2004*, budget paper no.2, chapter 7.

¹⁵³ Real Estate Institute of Australia, op.cit.

¹⁵⁴ See Carol Altmann, "Betting Losses Up to \$15bn" in *The Australian*, 24 September 2003, p.4.

¹⁵⁵ Tasmanian Gaming Commission, *Australian Gambling Statistics 1974-1975 to 1999-2000*.

¹⁵⁶ NSW Treasury, *Interstate Comparison of Taxes 2001-2002*.

*Victoria: Gambling Tax 2003-2004*¹⁵⁷

Estimated Gambling Tax	\$1.5 billion
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New South Wales

The fact of having an average level of taxable income higher than most other states and territories allows New South Wales to levy a considerable amount of revenue from gambling. According to the latest figures collated by the Tasmanian Gaming Commission, people in New South Wales lost the highest amount on gambling (on an average per capita basis) of any state and territory population during 2001-2002 (\$1,211 per capita).¹⁵⁸

In terms of the rate of levy of gambling tax, NSW ranks second-highest amongst the states and territories (\$318 per capita in 1999-2000).¹⁵⁹ The NSW government is consequently able to extract a substantial level of gambling tax, imposed at a rate of 10.9% on annual profits (derived from poker machines) between \$200,000 and \$1 million:

*NSW: Gambling Tax 2003-2004*¹⁶⁰

Estimated Gambling Tax	\$1.3 billion
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Queensland

Although the level of average taxable income is somewhat below that of New South Wales, there is still a significant amount of money spent on gambling in Queensland. The Tasmanian Gaming Commission estimates that people in Queensland, on an average per capita basis, lost \$841 a head in 2001-2002.¹⁶¹

On a per capita basis, the Queensland government raises the third-lowest amount amongst the states and territories (\$232 in 1999-2000).¹⁶² Nevertheless the current state government does levy a considerable amount of gambling tax, which is imposed on the amount bet less the payout to players, and levied (from 17% upwards) on a starting figure of \$9,500:¹⁶³

¹⁵⁷ Treasurer of Victoria, *Budget Estimates 2003-2004*.

¹⁵⁸ Altmann, *ibid.*

¹⁵⁹ Tasmanian Gaming Commission, *op.cit.*

¹⁶⁰ Treasurer of NSW, *Budget Statement 2003-2004*, budget paper no.2, chapter 3, p.13.

¹⁶¹ Altmann, *ibid.*

¹⁶² Tasmanian Gaming Commission, *op.cit.*

¹⁶³ NSW Treasury, *Interstate Comparison of Taxes 2001-2002*.

*Queensland: Gambling Tax 2003-2004*¹⁶⁴

Estimated Gambling Tax	\$680 million
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Western Australia

While the level of household disposable income per capita in WA is actually slightly higher than in Queensland - \$23,000 in 2000-2001 – the decision of the Western Australian government, not to allow poker machines in WA (except at the casino in Perth), has restricted the level of gambling in the state. The Tasmanian Gaming Commission estimates that people in WA lost the lowest amount, on an average per capita basis, amongst the populations of the states and territories in Australia (\$469 average, a head, in 2001-2002).¹⁶⁵ As a consequence WA raises the lowest amount of gambling tax, per capita, of all the states and territories (\$150 in 1999-2000).¹⁶⁶ This is evident in its estimates for gambling revenue, for 2003-2004:

*Western Australia: Gambling Tax 2003-2004*¹⁶⁷

Estimated Gambling Tax	\$119 million
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South Australia

While the level of household disposable income per capita in South Australia is \$4,000 less than that in New South Wales, people in SA still lost, on an average per capita basis, \$783 on gambling in 2001-2002.

On a per capita basis, South Australia raises the third-highest amount of gambling revenue per capita (\$300 in 1999-2000)¹⁶⁸ and consequently utilises this as a significant means of revenue. The tax is levied at a rate of 20%, and higher, on annual net gambling revenue in a year.¹⁶⁹ The estimated gambling revenue in SA, for 2003-2004, is as follows:

¹⁶⁴ Treasurer of Queensland, *State Budget 2003-2004*, budget paper no.2, p.72.

¹⁶⁵ Altmann, *ibid.*

¹⁶⁶ Tasmanian Gaming Commission, *op.cit.*

¹⁶⁷ Treasurer of Western Australia, *Budget Speech 2003-2004*.

¹⁶⁸ Tasmanian Gaming Commission, *op.cit.*

¹⁶⁹ NSW Treasury, *Interstate Comparison of Taxes 2001-2002*.

*South Australia: Gambling Tax 2003-2004*¹⁷⁰

Estimated Gambling Tax	\$371 million
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Tasmania

Although household disposable income per capita, in Tasmania, was \$6,000 less than that in New South Wales in 2000-2001, and \$2,500 less than that in South Australia in the same year (\$19,500 per capita), people in Tasmania lost nearly as much as people in South Australia on gambling in a year (\$726 average per capita in 2001-2002).¹⁷¹

On a per capita basis, however, the Tasmanian government raises the second-lowest amount of gambling revenue (\$210 in 1999-2000).¹⁷² The tax is levied on annual net gambling revenue in a financial year: at a rate of 15.8%, on that part of the revenue up to \$30 million, and at a rate of 20% and higher on the portion over \$30 million.¹⁷³ The estimates for Tasmanian gambling revenue for 2003-2004 are accordingly:

*Tasmania: Gambling Tax 2003-2004*¹⁷⁴

Estimated Gambling Tax	\$66½ million
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Australian Capital Territory

With many of the people within its boundaries having the highest level of household disposable income per capita in Australia in 2000-2001 (\$31,000 per capita), the population of the ACT has been able to lose a considerable amount of money on gambling (\$965 average per capita in 2001-2002: the third highest amongst the state and territory populations).

On a per capita basis, however, the ACT government raises the fourth-lowest amount of gambling revenue amongst the states and territories (\$268 in 1999-2000).¹⁷⁵ Gambling tax in the ACT is levied on gross monthly gambling machine profits: at a rate of 0% up to the first \$8,000 and then at a rate of 23% and higher for the portion of profit over \$8,000.¹⁷⁶ The territory's estimates for gambling revenue for 2003-2004 are as follows:

¹⁷⁰ Treasurer of South Australia, *South Australia State Budget 2003-2004*.

¹⁷¹ Altmann, *ibid.*

¹⁷² Tasmanian Gaming Commission, *op.cit.*

¹⁷³ NSW Treasury, *Interstate Comparison of Taxes 2001-2002*.

¹⁷⁴ Treasurer of Tasmania, *Tasmanian Budget 2003-2004*, budget paper no.1, chapter 5.

¹⁷⁵ Tasmanian Gaming Commission, *op.cit.*

¹⁷⁶ NSW Treasury, *Interstate Comparison of Taxes 2001-2002*.

*ACT: Gambling Revenue 2003-2004*¹⁷⁷

Estimated Gambling Revenue	\$48 million
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Northern Territory

Since people in the NT have a household disposable income per capita only \$500 less than that of New South Wales in 2000-2001, and with many people from other states and from overseas losing money on internet betting and sports betting only available in the NT, there is a high rate of money lost on gambling in the territory: \$1,576 average per capita in 2001-2002 (combining the money lost both by people living in the NT, and by those from overseas utilising NT gambling facilities).¹⁷⁸

On a per capita basis (amongst the resident population) the Northern Territory government raises the fourth-lowest amount of gambling revenue amongst the states and territories (\$271 in 1999-2000).¹⁷⁹ The tax is levied on gross monthly gambling machine revenue: at a rate of around 13% on revenue up to \$5,000 and from 22% upwards thereafter.¹⁸⁰ The NT's estimates for gambling tax, in 2003-2004, are as follows:

*Northern Territory: Gambling Tax 2003-2004*¹⁸¹

Estimated Gambling Tax	\$39 million
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*Motor Vehicle Tax*New South Wales

The presence of a population of 6 million people within its boundaries, and the degree of commercial activity that a gross state product of \$249 billion indicates, also allows New South Wales to raise a number of levies on the ownership and operation of motorised vehicles. For instance, the cost of a driver's licence in NSW (for 1 year) is \$36 and the fee to register a private motor car is \$43.¹⁸² In 2003-2004 the amount projected to be raised is as follows:

¹⁷⁷ Treasurer of the ACT, *ACT Budget 2003-2004*, budget paper no.3.

¹⁷⁸ Altmann, *ibid.* Two major internet betting concerns in the NT are Sportsbet and IASbet.

¹⁷⁹ Tasmanian Gaming Commission, *op.cit.*

¹⁸⁰ NSW Treasury, *Interstate Comparison of Taxes 2001-2002*.

¹⁸¹ Treasurer of the Northern Territory, *Northern Territory Budget 2003-2004*, budget paper no.2, chapter 7.

¹⁸² NSW Treasury, *Interstate Comparison of Taxes 2001-2002*.

*NSW: Motor Vehicle Ownership and Operation Tax, 2003-2004*¹⁸³

Motor Vehicle Ownership and Operation Tax	\$1.1 billion
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Victoria

With nearly 5 million people living in Victoria, and the degree of commercial activity that a gross state product of \$183 billion signifies, Victoria is also able to raise substantial levies on the ownership and operation of motorised vehicles. For example, the vehicle permit fee (as it is called in Victoria) is \$16.50 and a driver's licence is \$39 (for 3 years). The estimates for the present year are accordingly:

*Victoria: Estimated Motor Vehicle Ownership and Operation Tax, 2003-2004*¹⁸⁴

Motor Vehicle Ownership and Operation Tax	\$1.2 billion
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Queensland

With 3½ million people living in Queensland, and a corresponding amount of commercial activity that a gross state product of \$120 billion indicates, Queensland has the capacity to raise substantial levies on the ownership and operation of motorised vehicles. While the cost of a 1 year licence is low in Queensland (\$11.40), the “traffic improvement fee” is comparable to car registration fees in NSW and Victoria (\$35.70).¹⁸⁵ The Queensland government has estimated that it will raise the following amount in motor vehicle tax for 2003-2004:

*Queensland: Estimated Motor Vehicle Tax, 2003-2004*¹⁸⁶

Motor Vehicle Tax	\$676 million
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Western Australia

With nearly 2 million people living in Western Australia, and the amount of economic activity that the above descriptions of the WA economy indicate, Western Australia also has a substantial capacity to raise levies on the ownership and operation of motorised vehicles. While WA, for instance, levies a “recording fee” of \$15.35 on privately owned

¹⁸³ Treasurer of NSW, *NSW Budget 2003-2004*.

¹⁸⁴ Treasurer of Victoria, *Victorian Budget 2003-2004*.

¹⁸⁵ NSW Treasury, *Interstate Comparison of Taxes 2001-2002*.

¹⁸⁶ Treasurer of Queensland, *Queensland Budget 2003-2004*.

motor cars, it charges \$31.40 for a 1 year driver's licence.¹⁸⁷ The WA government estimates, for revenue from motor vehicle taxes, for 2003-2004, are as follows:

*Western Australia: Estimated Motor Vehicle Tax 2003-2004*¹⁸⁸

Motor Vehicle Tax	\$563 million
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South Australia

The smaller population in South Australia, and the correspondingly smaller scale of commercial activity, are factors which together lead to the state being able to levy considerably less, than other jurisdictions, in the form of motor vehicle tax. Furthermore the SA government has tended to levy motor vehicle charges at a somewhat lower rate than in NSW or Victoria. For example, in 2001-2002 the fee for a 1-year driver's licence was \$22, and the charge for new registration of a motor car was \$20.¹⁸⁹ This is underlined by the following figure for the projected amount of that tax in SA:

*South Australia: Motor Vehicle Tax 2003-2004*¹⁹⁰

Estimated Motor Vehicle Tax	\$354 million
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Tasmania

With far fewer people than even South Australia, Tasmania has correspondingly a more restricted capacity to levy taxes on the ownership and utilisation of motor vehicles. Charges for motor car registration, and for driver's licences, are actually levied at a higher rate in Tasmania than in some other states and territories. In 2001-2002 the fee for registration of a motor car was \$60, and a 1 year diver's licence was \$20. The Tasmanian government's estimates for motor tax, in 2003-2004, are as follows:

*Tasmania: Motor Tax 2003-2004*¹⁹¹

Estimated Motor Tax	\$43 million
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Australian Capital Territory

Since the ACT is the site of the national government, and since the ACT has a population

¹⁸⁷ NSW Treasury, *Interstate Comparison of Taxes 2001-2002*.

¹⁸⁸ Treasurer of WA, *Western Australia Budget 2003-2004*.

¹⁸⁹ NSW Treasury, *Interstate Comparison of Taxes 2001-2002*.

¹⁹⁰ Treasurer of SA, *South Australian Budget 2003-2004*.

¹⁹¹ Treasurer of Tasmania, *Tasmanian Budget 2003-2004*.

of over 300,000, it has a considerable capacity to levy the ownership and utilisation of motorised vehicles. In 2001-2002 the ACT government charged a “one-off” fee of \$58 for car registration, and \$22 for a 1-year driver’s licence.¹⁹² The ACT government’s estimates for motor tax, to be raised during 2003-2004, are accordingly:

ACT: Motor Vehicle Registration and Transfers Duty 2003-2004¹⁹³

Motor Vehicle Registration and Transfers Duty	\$23 million
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Northern Territory

With a considerable amount of commercial activity in the territory, and with a population of around 200,000, the NT government is also able to raise a substantial amount of revenue from the ownership and utilisation of motor vehicles. In 2001-2002 the NT charged \$29 for the registration of a motor car, and \$20 for a 1 year driver’s licence.¹⁹⁴ The NT government estimates, for revenue from motor taxes during 2003-2004, are as follows:

Northern Territory: Motor Vehicle Tax 2003-2004¹⁹⁵

Estimated Motor Vehicle Tax	\$32 million
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7. ASSESSING THE CONSEQUENCES OF HORIZONTAL FISCAL EQUALISATION

(a) Objections of NSW and Victoria

The objections of the major states, to the use of HFE in assessing GST revenue apportionment, is that an individual state’s (or territory’s) deliberate decision to levy lower rates of internal taxation within its own boundaries – resulting in a self-inflicted incapacity to provide services to its own citizens at a level comparable to the national average – nevertheless results in the Commonwealth Grants Commission having to withdraw GST revenue from the major states, to give to the state or territory concerned: so that the particular state or territory concerned can nonetheless offer services at a standard comparable to the national average. Thus the New South Wales treasury, in its submission to the review of commonwealth-state funding, contended that the state,

has long argued for the reform of Australia’s system of horizontal fiscal equalisation. . .the HFE system generate incentives and opportunities for

¹⁹² NSW Treasury, *Interstate Comparison of Taxes 2001-2002*.

¹⁹³ Treasurer of the ACT, *Australian Capital Territory Budget 2003-2004*.

¹⁹⁴ NSW Treasury, *Interstate Comparison of Taxes 2001-2002*.

¹⁹⁵ Treasurer of the NT, *Northern Territory Budget 2003-2004*.

governments to influence their grants, by changing their expenditure/tax mix. . . In 2000-01, for example, NSW received \$956m less than an equal per capita share of GST revenue. . .¹⁹⁶

(b) The Contribution of the Federal Government to State and Territory Budgets

As outlined above, all state and territory budgets are supplemented by the federal government: some jurisdictions to a greater extent than others. A summary of section 4, of this paper, can be presented in tabular form as follows:

Contribution of the Federal Government to State and Territory Budgets: 2000-2001(approx.)

New South Wales	40%
Victoria	43%
Australian Capital Territory	44%
Western Australia	46%
Queensland	48%
South Australia	58%
Tasmania	60%
Northern Territory	75%

(c) Contrasting the Rates of Tax between the States and Territories

A review of the previous section of this paper would allow a comparative summary of the level of tax raised by the states and territories, as follows:¹⁹⁷

Payroll Tax (highest to lowest, in relation to national average)

NT	ACT	NSW	Tasmania	Victoria	WA	SA	QLD
1 st	2 nd	3 rd	4 th	5 th	6 th	7 th	8 th

Stamp Duty (from highest to lowest rates, amongst the states and territories)

Victoria	NT	SA	NSW	ACT	WA	QLD	Tasmania
1 st	2 nd	3 rd	4 th	5 th	6 th	7 th	8 th

¹⁹⁶ NSW Treasury, *Submission to the Review of Commonwealth-State Funding* (NSW Treasury, Sydney, 2002), pp.2,5,9.

¹⁹⁷ See also Treasurer of the Northern Territory, *Northern Territory Budget 2003-2004*, budget paper no.2, chapter 7, p.77 for interstate comparisons of state taxes.

Gambling Tax (from highest to lowest, on a basis of per capita gambling tax revenue)

Victoria	NSW	SA	NT	ACT	QLD	Tasmania	WA
1 st	2 nd	3 rd	4 th	5 th	6 th	7 th	8 th

Motor Vehicle Registration Fees (highest to lowest, in relation to national average)

NSW	QLD	ACT	SA	WA	NT	Victoria	Tasmania
1 st	2 nd	3 rd	4 th	5 th	6 th	7 th	8 th

(d) Expanding Business to Produce Greater Fiscal Resources

As mentioned above, one of the arguments of states with low taxes is that they need to expand business, within their boundaries, in order to have a substantial fiscal resource that can be made use of. One way to consider the worth of this proposition is to look at the growth in gross domestic product for the individual states and territories over a period of time. This has been attempted by Frank Neri, in the following table, examining real per capita GDP, amongst the states and territories, between 1915-1916 and 1991-1992:

*States and Territories: Real Per Capita GDP at Factor Cost from 1915-16 to 1991*¹⁹⁸

	1915-1916	1933-1934	1953-1954	1976-1977	1991-1992
ACT	111.15	199.42	211.17	437.22	697.09
NSW	124.02	123.71	180.48	368.96	575.61
Victoria	126.59	135.82	184.02	368.56	568.28
SA	101.81	119.77	177.75	324.39	524.20
WA	113.69	131.26	185.57	351.07	510.29
NT	134.15	192.70	268.99	374.97	499.28
QLD	115.10	134.32	185.59	328.11	483.74
Tasmania	81.93	103.40	179.53	316.89	465.06

Over the following ten years, between 1991-1992 and 2000-2001, the position of some of the states and territories, however, appears to have significantly changed, as illustrated by the per capita gross state product figures for the latter date:

¹⁹⁸

Frank Neri, "The Economic Performance of the States and Territories of Australia: 1861-1992" in the *Economic Record*, vol.74, no.225, June 1998, p.107. Neri uses as a base the \$ equivalent of prices in 1910-1911.

*Australian States and Territories: Gross State Product per Capita 2000-2001*¹⁹⁹

Australian Capital Territory	\$41,904
Northern Territory	\$39,642
Western Australia	\$35,878
New South Wales	\$35,591
Victoria	\$34,256
Queensland	\$28,860
South Australia	\$27,743
Tasmania	\$23,972

(e) Capacity of States and Territories to Levy Further Revenue

The simple question that arises from the above survey of state tax is: can any individual state or territory levy more revenue that it already does? There are a number of measures that can be used to attempt to evaluate such a proposition and they can be presented as follows:

State Revenue as a Percentage of Gross State Product

*State Tax Revenue as a Proportion of GSP: 1999-2000(approx.)*²⁰⁰

State/Territory	State Revenue As a Percentage of Gross State Product	National Average
New South Wales	5.4%	4.2%
Victoria	4.8%	4.2%
South Australia	4.8%	4.2%
Tasmania	4.4%	4.2%
ACT	4.2%	4.2%
Queensland	4.1%	4.2%
Western Australia	3.8%	4.2%
Northern Territory	2.5%	4.2%

¹⁹⁹ ABS Catalogue 5220.0.

²⁰⁰ Australian Industry Group, *Submission to the Victorian Review of State Business Taxes* (Melbourne, 2000).

Household Disposable Income Per Capita/ Tax Revenue Per Capita

*State Household Disposable Income P/C v. State Tax Revenue P/C: 2000-2001
(estimated)²⁰¹*

State/Territory	Household Disposable Income P/C	State Tax Revenue P/C	National Average
NSW	\$25,000	\$2,009	\$1,530
Victoria	\$24,500	\$1,823	\$1,530
ACT	\$31,000	\$1,813	\$1,530
WA	\$23,000	\$1,549	\$1,530
SA	\$21,500	\$1,450	\$1,530
Queensland	\$21,000	\$1,326	\$1,530
NT	\$24,500	\$1,147	\$1,530
Tasmania	\$19,000	\$1,121	\$1,530

An examination of the above tables would appear to indicate the following with regard to the fiscal capacities of the non-major states and territories:

South Australia and Tasmania

Given the economic position of South Australia and Tasmania, and given their efforts to utilise their own fiscal resources, there would seem to be little objection to these two states gaining a larger than per capita share of GST revenue. The current level of business and investment, in both states, appears insufficient to generate a level of income from which could be extracted a level of revenue comparable to that in New South Wales and Victoria. The mean weekly earnings of employees in South Australia and Tasmania, in 1998, were the lowest in Australia: \$568 and \$554 respectively. The mean weekly disposable income of income units in SA and Tasmania, in 1998, was \$451 and \$460 respectively.²⁰²

Queensland

It seems clear from Frank Neri's table in the *Economic Record* that the Queensland economy, while currently producing the third highest level of output in Australia, has progressed relatively slowly (throughout the twentieth century) compared to New South Wales, Victoria and Western Australia. In 1998 the mean weekly earnings of employees in Queensland were \$588, and the mean weekly disposable income of income units (in the state) was \$529.²⁰³ An increase of around 1½%, on the per capita distribution of GST revenue, does not seem unreasonable in these circumstances.

²⁰¹ *Review of Commonwealth-State Funding*, p.84; figures for state tax revenue per capita are calculated from the totals of taxation per state and territory (given in ABS catalogue 5506, p.17) divided by the figures for state and territory population (given in ABS catalogue 3218).

²⁰² See ABS catalogues 4102.0 (Australian Social Trends) and 6306.0 (Employee Earnings and Hours).

²⁰³ *ibid.*

Western Australia

Although WA receives just under the per capita median, in terms of GST revenue, the state has enjoyed the benefits of prosperity: to the point where in 1998 mean weekly earnings (\$586), and the mean weekly disposable income of income units (\$545), were higher than those of Queensland.²⁰⁴

Australian Capital Territory

It is clear from Neri's table, that the state or territory with the fastest growing gross state product/per capita is the ACT. Mean weekly earnings in the ACT in 1998 were \$734, and mean weekly disposable income was \$632. It is hard to avoid the conclusions of the Garnaut-Fitzgerald study of federal-state funding, in regard to the ACT:

The Australian Capital Territory chooses to tax payroll at lower effective rates than the . . . [large] states. It chooses to tax real estate sales at substantially lower rates than the large states. . . the possibilities for generating additional tax revenue from the exceptionally high incomes in the Australian Capital Territory are strong reasons for modifying the system that results in revenue being transferred from all Australians to Australians in the richest jurisdictions.²⁰⁵

Northern Territory

As shown in Frank Neri's table above, gross state product per capita in the NT fell behind that of other states and territories throughout the greater part of the twentieth century. However, as the current ABS statistics further indicate, the NT has actually gained the position of having the second-highest gross state product per capita, by the end of the 1990s. Although some taxes levied by the territory are relatively high, in relation to their impact, mean weekly earnings in the NT in 1998 were the second-highest amongst the states and territories (\$643), and the mean weekly disposable income of income units in the urban centres of the NT in 1998 was also the second-highest in the nation (\$628).²⁰⁶

Given the relative prosperity of the NT, the comparatively low amount of territory tax levied (\$1,147 per capita in 2000-2001 – only 2.5% of gross state product) plus the fact the NT has no land tax at all, would seem to indicate a possibility for the territory to raise more revenue than it already does. Even the treasurer of the Northern Territory, in delivering the NT's budget for 2003-2004, acknowledged that, while the territory had a "revenue-raising capacity" that was higher than that of Tasmania (a state with less economic fortune than the NT during the 1990s), its "revenue-raising" effort was lower.²⁰⁷

²⁰⁴ ibid.

²⁰⁵ *Review of Commonwealth-State Funding*, p.88.

²⁰⁶ ABS catalogues 4102.0 and 6306.0.

²⁰⁷ Treasurer of the Northern Territory, *NT Budget 2003-2004*, budget paper no.2, chapter 7.

A counter-argument by the chair and secretary of the Commonwealth Grants Commission (as mentioned above) is that in “the Northern Territory” there is a “population of. . .170,000 or so. . .distributed over an area of 1.35 million square kilometres. . .one-quarter of the territory’s population is indigenous Australian[s]. . .The costs of providing schools, medical and other services to Aboriginal settlements in remote, often semi-desert, areas are very high.” Against the CGC’s argument, however, is the fact that there are two other jurisdictions that cover very large areas and also have considerable numbers of indigenous inhabitants living in remote areas. This is indicated by the ABS figures for indigenous Australians on a state-by-state basis:

*Indigenous Australians in Remote-Very Remote Areas of States and Territories: 2001*²⁰⁸

State/Territory	Indigenous Population	Indigenous Population in Remote/Very Remote Areas
New South Wales	134,888	8,496
Queensland	125,910	30,389
Western Australia	65,931	29,751
Northern Territory	56,875	46,188
Victoria	27,846	70
South Australia	25,544	5,648
Tasmania	17,384	604
ACT	3,909	0

On this basis, it would appear possible to argue that the NT could greater utilise those fiscal resources available to it, to produce a greater amount of revenue than it already does - and consequently have less need for its current share of GST revenue.

CONCLUSION

Horizontal Fiscal Equalisation is an important issue because of the amount of money that might accrue to the major states if GST revenue was distributed on a per capita basis. Given that a per capita calculation can easily be made, by dividing the amount of GST revenue by the population of Australia, the employment of a differing approach has become a major issue amongst the Australian states and territories. The aim of this survey has to been to look at the attempts of the various jurisdictions to raise revenue, from the principal fiscal resources available to them, in light of the state of production in the states and territories. While the major states take issue with the conclusions of the Commonwealth Grants Commission, the CGC’s deliberations largely reflect the realities of production within the nation. The largest concentrations of wealth are in NSW and Victoria, and consequently these are the two jurisdictions with the greatest capacity to raise revenue within their own boundaries. Western Australia has also prospered in the last decades of the twentieth century. By comparison, Queensland has an economy with a greater proportion of low-paid workers, and South Australia and Tasmania have economies that have struggled in recent

²⁰⁸

ABS catalogue 2035.0 (“Population Growth and Distribution”).

years. The high level of disposable income in the Australian Capital Territory raises the question of whether the ACT could levy more revenue than it already does, and the absence of a land tax in the Northern Territory (coupled with the relatively high wage earnings in the NT) raises a similar question. A unique situation is claimed for the NT, because of a disproportionately high number of indigenous residents in remote communities, which does seem to be unique when contrasted against the situation of other jurisdictions with comparative numbers of indigenous residents also living in remote communities.