

CHAPTER 3: GENERAL GOVERNMENT SECTOR REVENUES

- ◆ Tax changes included in the 2003-04 Budget will increase revenue by \$32 million in 2003-04, and \$80 million in 2004-05.
 - Provisions in the *Duties Act 1997* according special treatment to mortgages securing debenture issues will be removed, as an anti-avoidance measure, with effect from 24 June 2003.
 - The *Duties Act 1997* will be amended to protect the transfer duty revenue base from avoidance practices involving the transfer of property through company and trust structures.
 - From 1 July 2003 the payroll tax base will be broadened to include termination payments to non-executive directors and remuneration by way of share plans and share options.
 - From 1 January 2004 the new entrant trainee Payroll Tax Rebate Scheme will be replaced with a payroll tax exemption.
 - Club and hotel gaming machine duty rates will be changed, over seven years, beginning 1 September 2004 for clubs and 1 July 2004 for hotels.
 - The Electricity Distributors Levy, including the Transmission Operators Levy, will remain suspended.
 - From 1 July 2003, the parking space levy will be increased from \$800 to \$840 a year in the Sydney, North Sydney and Milsons Point business districts, and from \$400 to \$420 a year in the St Leonards, Chatswood, Parramatta and Bondi Junction business areas. From 2004-05, the levy will be indexed annually to the increase in the Sydney CPI.
- ◆ As a result of all tax changes implemented since 1999, tax revenue in 2003-04 will be \$1.4 billion lower than it would have been without those policy changes. In addition, State taxes are \$1.2 billion lower as a result of changes made under GST-related tax reform during the same period.
- ◆ Changed funding arrangements associated with GST-related taxation reform will not provide net financial benefits to New South Wales in 2003-04. Net financial benefits are not expected to accrue until 2009-10.

3.1 INTRODUCTION

Total general government sector revenue is estimated to increase by 2.1 percent in 2003-04 (see Table 3.1).

Table 3.1: Summary of Revenues

	2001-02	2002-03		2003-04	2004-05	2005-06	2006-07
	<i>Actual</i>	<i>Budget</i>	<i>Revised</i>	<i>Budget</i>	<i>Forward Estimates</i>		
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
State Revenues							
Taxation	13,216	12,862	13,919	14,198	14,892	15,753	16,673
Commonwealth Grants	15,033	15,053	15,236	15,497	15,785	16,563	16,814
Dividends and Tax							
Equivalents	1,228	1,215	1,192	1,496	1,421	1,634	1,726
Other	792	799	793	842	893	886	855
	30,269	29,929	31,140	32,033	32,991	34,836	36,068
Operating Revenues							
Sale of Goods and Services	2,502	2,479	2,555	2,656	2,708	2,788	2,857
Investment Income	282	589	354	637	747	877	1,011
Grants and Contributions	316	382	429	346	319	324	328
Other	382	256	721	264	272	302	322
	3,482	3,706	4,059	3,903	4,046	4,291	4,518
Total Revenues	33,752	33,635	35,199	35,936	37,037	39,127	40,586

General government sector revenue is divided into state revenue and operating revenue. State revenue comprises state tax receipts, Commonwealth Government grants, state enterprise dividends and tax equivalent payments, and revenue from licences, fees, fines, levies and royalties. Operating revenue is revenue earned by general government sector agencies in the normal course of their operations and mainly consists of user charges levied to recover the cost of providing goods and services.

State revenue should increase by 2.9 percent in 2003-04, reflecting growth in tax revenue (up \$279 million or 2.0 percent), Commonwealth grants (up \$261 million or 1.7 percent) and payments from State enterprises (up \$304 million, or 25.5 percent).

As a whole, operating revenues are estimated to fall by \$156 million, or 3.8 percent, in 2003-04. Investment income should grow more strongly in 2003-04 than in 2002-03 and revenue from sales of goods and services grow steadily, though both will be more than offset by falls in grants and contributions and other operating revenues.

The remainder of this chapter provides detailed information on the revenue estimates for the 2003-04 New South Wales Budget.

Section 3.2 details state taxation policy measures in this Budget as well as policy changes since the 2002-03 Budget. Section 3.3 provides details of the outlook for State revenue in 2003-04, and the latest estimates for 2002-03. Section 3.4 presents the outlook for operating revenue in 2003-04, as well as revised estimates for 2002-03.

3.2 TAXATION POLICY MEASURES

2003-04 BUDGET TAX MEASURES

Revenue measures in the 2003-04 Budget are directed to maintaining the integrity, consistency and equity of important revenue bases. The Government remains committed to sustaining a sound fiscal position over the course of an economic cycle, while at the same time avoiding fluctuations in levels of service delivery and protecting New South Wales' position as a competitive location for business investment and employment growth.

Tax changes in this Budget will increase revenue by \$32 million in 2003-04 and \$80 million in 2004-05. The measures are summarised in Table 3.2.

Table 3.2: Tax Measures in the 2003-04 Budget

<i>Initiative</i>	<i>Revenue Impact</i>	
	<i>2003-04 \$m</i>	<i>2004-05 \$m</i>
Remove concessional stamp duty provisions for mortgages securing debenture issues	6	6
Amend the <i>Duties Act 1997</i> to protect the transfer duty base, effective from the introduction of legislation	18	24
Broaden the payroll tax base from 1 July 2003 to include:		
- termination payments to non-executive directors; and	5	5
- share plans and share options	5	5
Replace the new entrant trainee Payroll Tax Rebate Scheme with a payroll tax exemption from 1 January 2004	(-) 4	(-) 9
Change club gaming device duty rates, phased over seven years, beginning from 1 September 2004	...	39
Change hotel gaming device duty rates, phased over seven years, beginning from 1 July 2004	...	7
Increase parking space levy from 1 July 2003 and thereafter index annually to the increase in the Sydney CPI	2	3
Total	32	80

Mortgage Duty – Remove Concession for Debenture Issues

Mortgage instruments are subject to duty under the *Duties Act 1997*. Mortgages that secure the repayment of money in respect of debentures, however, are subject to concessional treatment. Evidence is available to confirm that ordinary loans are being structured to appear as debenture issues to exploit the maximum concessional treatment.

As genuine mortgage backed debenture issues are now rare, the abuse is to be eliminated by removing the concession with effect from 24 June 2003.

Transfer Duty – Base Protection

A growing number of transactions and mechanisms involving companies and unlisted unit trusts are being used to avoid paying stamp duty on the acquisition of interests in land. Estimated revenue forgone is at least \$24 million annually.

The Treasury is developing more comprehensive measures to protect the revenue base. Relevant parties in the property industry are being consulted to ensure that provisions will not unnecessarily impede business activity.

The *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA) provides that the Ministerial Council will, by 2005 review the need for the retention of a range of stamp duties, including stamp duty on non-residential conveyances. However, until the future of non-residential conveyance duty is resolved, the revenue protection measures are warranted.

Payroll Tax – Base Broadening

From 1 July 2003, the Government will include termination payments to non-executive directors and remuneration by way of share plans and share options in the payroll tax base.

While remuneration paid to directors and termination payments to employees are part of the payroll tax base, termination payments to non-executive directors are not. All other jurisdictions except Victoria include termination payments to non-executive directors in the payroll tax base.

Remuneration provided in the form of shares will be included in the payroll tax base. Many employees, particularly senior executives and directors, now receive share options as part of their remuneration, or participate in employee share plans. In many cases the shares are provided free or at a discount as a substitute for additional salary (which would be subject to payroll tax). These benefits are subject to payroll tax in Western Australia and the Northern Territory.

These changes will more closely align the definition of employee remuneration in the payroll tax base with that in the Commonwealth income tax base.

Payroll Tax – Exemption for New Entrant Trainees

From 1 January 2004, the Government will replace the new entrant trainee Payroll Tax Rebate Scheme with a payroll tax exemption. Under the Payroll Tax Rebate Scheme, employers are eligible for a rebate of payroll tax paid in respect of new entrant trainees. From 1 July 2002, apprentices' wages have been totally exempt from payroll tax.

Exemptions for both apprentices' and new entrant trainees' wages from payroll tax will greatly simplify their payroll tax treatment, producing administrative benefits for employers and Government alike.

Club and Hotel Gaming Device Duty Changes

Club and hotel gaming duty rates will be changed from 2004-05, with reductions in some tax rates and increases in others. Details of the new tax rates, to be phased in over 7 years, are provided in Tables 3.3 and 3.4.

Current NSW club gaming rates are around half, and NSW hotel gaming rates around a third, lower than the average of the rest of Australia. Higher taxation is one way excess returns to gaming operators can be shared with the broader community. Both club and hotel gaming operators can earn substantial above-normal profits from gaming, since regulations that restrict the number and distribution of gaming machines have the side-effect of increasing returns per machine.

Table 3.3: Annual Club Gaming Machine Duty Rates ^(a)

	Annual Profit (\$)				
	Up to 200,000	200,001 to 1,000,000	1,000,001 to 5,000,000	5,000,001 to 10,000,000	Above 10,000,001
Current marginal rates (%)	0.00	10.91	17.16	17.16	17.16
Rates from 1 September (%):					
2004	0.0	10.8	18.3	19.7	20.4
2005	0.0	10.7	19.4	22.3	23.7
2006	0.0	10.5	20.5	24.8	26.9
2007	0.0	10.4	21.6	27.4	30.2
2008	0.0	10.3	22.8	29.9	33.5
2009	0.0	10.1	23.9	32.5	36.7
2010	0.0	10.0	25.0	35.0	40.0

(a) For profits higher than \$1 million, rates shown are before the 1.5 percentage point Community Development and Support Expenditure (CDSE) Scheme duty rate reduction. Under the CDSE, the top marginal duty rate for clubs is reduced by 1.5 percentage points if clubs contribute 1.5 percent of gaming revenues in excess of \$1 million to eligible community projects.

The new rates extend the progressive tax scale so that clubs and hotels with larger gaming operations contribute more tax revenue. The rate increases are largest for the most profitable clubs and hotels, and bring their taxation more into line with tax regimes applying in other states. The progressive rate structure recognises that profits earned on each machine increase as the number of machines in each establishment rises.

Table 3.4: Annual Hotel Gaming Machine Duty Rates

	<i>Annual Profit (\$)</i>					
	<i>Up to 25,000</i>	<i>25,001 to 200,000</i>	<i>200,001 to 400,000</i>	<i>400,001 to 1,000,000</i>	<i>1,000,001 to 5,000,000</i>	<i>Above 5,000,001</i>
Current marginal rates (%)	5.91	15.91	15.91	25.91	30.91	30.91
Rates from 1 July (%):						
2004	5.8	15.8	17.2	26.5	31.5	33.6
2005	5.7	15.7	18.5	27.1	32.1	36.4
2006	5.5	15.5	19.8	27.7	32.7	39.1
2007	5.4	15.4	21.1	28.2	33.2	41.8
2008	5.3	15.3	22.4	28.8	33.8	44.5
2009	5.1	15.1	23.7	29.4	34.4	47.3
2010	5.0	15.0	25.0	30.0	35.0	50.0

The changes will commence from 1 September 2004 for clubs and 1 July 2004 for hotels. Implementation has been delayed to the 2004-05 financial year to meet the Government's commitment, announced on 26 July 2001, that the current duty rates for club and hotel gaming would be maintained for three years. The changes will be phased in over a period of seven years to ensure manageable adjustment for the club and hotel industry.

Clubs with gaming profits of up to around \$1.1 million will pay less tax than previously, or continue to pay no tax, while hotels with annual profits of up to \$220,000 will pay less tax. It is estimated that around two thirds of clubs will pay less, or no more tax, than previously. Around 38 percent of hotels will pay less tax than previously.

Gambling and betting tax revenue contributed an estimated 9.1 percent of total tax revenue in New South Wales in 2002-03 – the second lowest proportion among jurisdictions that permit gaming machines outside casinos. By 2006-07, this percentage is estimated to be 9.8 percent and New South Wales will remain the second lowest state. Table 3.5 details estimated additions to revenue from the measures.

Table 3.5: Revenue Effect of Gaming Machine Duty Changes

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<i>Club gaming</i>	39	83	131	183	241	304	373
<i>Hotel gaming</i>	7	15	24	33	45	59	74
<i>Total</i>	46	98	155	216	286	363	447

Electricity Distributors Levy – Extension of Suspension

In the 2001-02 Budget, the electricity distributors levy, including the transmission operators levy, was suspended from 1 July 2001, reducing revenue by \$100 million a year. As announced then, the need for the levy has been reviewed in the 2003-04 Budget, and the Government has decided to continue the suspension of both levies.

Parking Space Levy

From 1 July 2003, the parking space levy will increase from \$800 to \$840 a year per off-street, non-residential parking space in the Sydney, North Sydney and Milsons Point business districts; and from \$400 to \$420 a year in the business areas of St Leonards, Chatswood, Parramatta and Bondi Junction.

The *Parking Space Levy Act 1992* allows for indexation of the levy in line with increases in the Sydney CPI. The increases approximate indexation of the levy in line with the movement in the Sydney CPI since the last change in the levy, discounted by 2.5 percentage points for the effect on the CPI of the introduction of the GST. From 2004-05, the levy will be indexed annually to movements in the Sydney CPI over the year to the previous March quarter.

Levy revenue is used to provide new public transport infrastructure, such as rail, bus and ferry interchanges, commuter car parks and ferry wharves.

MEASURES INTRODUCED SINCE THE 2002-03 BUDGET**Fire Services Levy Review**

On 16 April 2003, the Treasurer announced the Government will consider alternative funding arrangements for fire fighting services. The Government will announce details of the review shortly.

Fire services currently are funded partially by an insurance-based levy, the Fire Services Levy (FSL), with other funding provided by local government and the State Budget. The levy will raise \$379 million in 2003-04. The FSL is recouped by insurance companies through premium charges.

TAX RESTRAINT

The *level* of tax revenue has been buoyant in recent years because of the strength of the economy and the property market in particular. However, consistent with Fiscal Principle No. 7 in the *General Government Debt Elimination Act*, tax policy changes, through adjustments to tax rates, thresholds and bases have reduced revenue considerably over recent years.

Table 3.6 calculates for 2003-04 and the forward years the cumulative revenue impact in each year of the 2003-04 Budget tax measures and tax policy changes since the 1999-2000 Budget.

Table 3.6: Tax Measures

Initiative	Revenue Impact ^(a)			
	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
2003-04 Budget Initiatives				
Remove concessional stamp duty provisions for mortgages securing debenture issues, from 24 June 2003	6	6	6	6
Amend <i>Duties Act 1997</i> to protect the transfer duty base, effective from introduction of legislation	18	24	24	24
Broaden the payroll tax base from 1 July 2003 to include:				
- termination payments to non-executive directors; and	5	5	5	6
- share plans and share options	5	5	5	6
Replace the new entrant trainee Payroll Tax Rebate Scheme with a payroll tax exemption from 1 January 2004	(-) 4	(-) 9	(-) 9	(-) 9
Change club gaming device duty rates from 1 September 2004	...	39	83	131
Change hotel gaming device duty from 1 July 2004	...	7	15	24
Increase parking space levy from 1 July 2003 with annual indexation of the levy thereafter	2	3	4	5
Total – 2003-04 Measures	32	80	133	193

Table 3.6 Tax Measures (cont)

<i>Initiative</i>	<i>Revenue Impact</i> ^(a)			
	<i>2003-04 \$m</i>	<i>2004-05 \$m</i>	<i>2005-06 \$m</i>	<i>2006-07 \$m</i>
<i>Measures Implemented since 1 July 1999</i>				
Introduce payroll tax concessions for non-group apprentices, from 1.7.99	(-) 5	(-) 5	(-) 5	(-) 6
Exempt apprentice wages from payroll tax, from 1.7.02	(-) 11	(-) 11	(-) 12	(-) 13
Broaden payroll tax base, from 1.7.02	121	127	131	138
Reduce payroll tax rate:				
From 6.85% to 6.7%, (1.7.99)	(-) 113	(-) 119	(-) 125	(-) 132
From 6.7% to 6.4%, (1.7.99)	(-) 225	(-) 238	(-) 252	(-) 267
From 6.4% to 6.2%, (1.1.01)	(-) 150	(-) 159	(-) 168	(-) 178
From 6.2% to 6.0%, (1.7.02)	(-) 150	(-) 159	(-) 168	(-) 178
Reduce land tax rate from 1.85% to 1.7%, from 31.12.99	(-) 88	(-) 91	(-) 95	(-) 99
Phase-out third-party motor vehicle registration levy, completed 1.7.00	(-) 112	(-) 112	(-) 112	(-) 112
Changes to parking space levy, from 1.7.00	26	27	27	27
Remove surcharge on motor vehicle registration fees and transfer fees, from 1.7.00	(-) 36	(-) 36	(-) 36	(-) 36
First Home Plus stamp duty concessions for first home buyers, from 1.7.00	(-) 67	(-) 69	(-) 74	(-) 80
Reduce general insurance stamp duty rate:				
From 11.5% to 10.0% (1.10.00)	(-) 42	(-) 44	(-) 47	(-) 49
From 10.0% to 5.0% (1.8.02)	(-) 189	(-) 200	(-) 211	(-) 223

Table 3.6 Tax Measures (cont)

<i>Initiative</i>	<i>Revenue Impact</i> ^(a)			
	<i>2003-04 \$m</i>	<i>2004-05 \$m</i>	<i>2005-06 \$m</i>	<i>2006-07 \$m</i>
Introduce insurance protection tax, from 1.7.01	69	69	69	69
Suspend electricity distributors levy, from 1.7.01	(-) 100	(-) 100	(-) 100	(-) 100
Increase lease duty exemption threshold, and abolish lease duty on franchise agreements, from 1.7.01	(-) 3	(-) 3	(-) 3	(-) 3
Increase hiring arrangements duty threshold, from 1.7.01	(-) 2	(-) 2	(-) 2	(-) 3
Abolish stamp duty on instruments relating to superannuation, from 1.7.01	(-) 1	(-) 1	(-) 1	(-) 1
Abolish debits tax, from 1.1.02	(-) 312	(-) 310	(-) 309	(-) 307
Increase miscellaneous Roads and Traffic Authority taxes, from 1.1.02	9	10	11	11
Abolish bookmaker's turnover tax, from 31.3.02 (net cost)	(-) 3	(-) 3	(-) 3	(-) 4
Total – previously implemented measures	(-) 1,384	(-) 1,429	(-) 1,485	(-) 1,546
Total – Tax changes since 1 July 1999	(-) 1,352	(-) 1,349	(-) 1,352	(-) 1,353

(a) Revenue impacts are expressed in nominal dollars.

Tax changes implemented in 2003-04, together with those introduced in the preceding four years, result in annual tax revenue being around \$1.4 billion lower in 2003-04 than it would have been without those measures. Reducing the payroll tax rate – from 6.85 percent at 30 June 1999 to 6.0 percent at 1 July 2002 – accounts for \$638 million of this total. Other major measures include abolishing debits tax from 1 January 2002 (\$312 million) and more than halving the general insurance duty rate (\$231 million) – from 11.5 percent in September 2000 to 5.0 percent in August 2002.

Looking at tax restraint another way, Table 3.7 shows the discrete impact of new tax policy measures in any one year. It shows that over the five years from 1999-2000 to 2003-04, tax policy changes have reduced revenue by an average of around \$274 million each year.

Table 3.7: Impact of Tax Policy Changes ^(a)

Year	<i>Annual Contribution of New Policy Changes to Tax Collections (not including State taxes abolished with the GST) \$m</i> ^(b)
1988-89	50
1989-90	200
1990-91	310
1991-92	80
1992-93	240
1993-94	100
1994-95	(-) 40
1995-96	20
1996-97	180
1997-98	280
1998-99	(-) 110
1999-2000	(-)390
2000-01	(-) 220
2001-02	(-) 270
2002-03	(-) 440
2003-04	(-) 50
2004-05	20
2005-06	40
2006-07	50

(a) This table shows the effect of new policy on tax revenue in any one year only, and (unlike Table 3.6) does not include the cumulative impact of measures introduced in prior years. Where the tax change commenced during the year, and therefore had only a part year effect in that year, the balance is included in the following year. For example, if a policy has a part-year impact of \$50 million in the year it commences and a full year impact of \$100 million, the impact of the policy is measured as \$50 million in each year.

(b) Expressed in nominal dollars. Notes on specific years: (1) from 1999-2000 onwards, the annual indexation of the land tax threshold is treated as a discrete tax change; (2) 1996-97 to 1998-99 include the tax increases to fund Fiscal Contribution Payments to the Commonwealth; (3) 1997-98 excludes the one-off loss from abolishing business franchise fees and their replacement by Commonwealth safety net taxes.

The tax policy changes in Tables 3.6 and 3.7 are in addition to about \$1.2 billion per year worth of State taxes (accommodation levy, financial institutions duty, marketable securities duty on listed shares) abolished as part of the GST-related tax reform program agreed between the Commonwealth and States in 1999.

3.3 ESTIMATES OF STATE REVENUE

TAXATION

Table 3.8 provides detailed estimates of taxation revenue for the period to 2006-07. Payroll tax is the largest single source of taxation revenue, followed by transfer duty (formerly known as contracts and conveyances duty).

Table 3.8: Taxation Revenue

	2001-02	2002-03		2003-04	2004-05	2005-06	2006-07
	Actual \$m	Budget \$m	Revised \$m	Budget \$m	Forward Estimates \$m		
Stamp Duties							
Transfers	3,119	2,720	3,550	3,373	3,479	3,739	4,019
Insurance	487	385	445	435	458	481	505
Mortgages	294	278	360	372	397	434	475
Marketable Securities	47	31	72	45	45	45	45
Motor Vehicle Registration							
Certificates	497	528	528	548	576	605	635
Financial Institutions Duty	67	...	3	...	...	...	...
Hire of Goods	73	78	75	78	83	87	92
Leases	52	60	60	63	67	71	75
Adhesive Stamps	1	...	...	...	...	...	...
Other Stamp Duties	2	2	2	2	2	3	3
	4,639	4,082	5,095	4,916	5,107	5,464	5,849
Payroll Tax	4,021	4,246	4,128	4,389	4,663	4,943	5,242
Land Tax	1,001	1,047	1,134	1,251	1,330	1,391	1,452
Debits Tax	187	...	...	...	...	...	...
Taxes on Motor Vehicle Ownership and Operation							
Weight Tax	816	847	878	914	950	985	1,020
Vehicle Registration and Transfer Fees	208	217	223	231	246	254	264
Other Motor Vehicle Taxes	17	20	20	26	27	28	29
	1,041	1,083	1,122	1,171	1,222	1,267	1,313
Gambling and Betting							
Racing	142	139	145	151	155	160	164
Club Gaming Devices	404	437	415	429	486	549	616
Hotel Gaming Devices	319	342	340	362	389	418	449
Lotteries and Lotto	256	262	274	279	287	294	302
Casino	80	81	79	81	83	86	88
Other Gambling & Betting	8	9	8	8	8	8	8
	1,209	1,270	1,261	1,309	1,408	1,515	1,628

Table 3.8: Taxation Revenue (cont)

	2001-02	2002-03		2003-04	2004-05	2005-06	2006-07
	<i>Actual</i> \$m	<i>Budget</i> \$m	<i>Revised</i> \$m	<i>Budget</i> \$m	<i>Forward Estimates</i> \$m		
Other Revenues							
Health Insurance Levy	94	99	97	99	102	105	108
Insurance Protection Tax	65	69	69	69	69	69	69
Parking Space Levy	41	41	48	46	47	48	49
Fire Brigades Levy	264	286	283	287	287	287	285
Bush Fire Services Levy	83	89	89	92	91	92	94
Waste Disposal Levy	78	74	74	79	83	86	88
Electricity Distribution Levy	6	...	...	...	...	...	...
Government Guarantee of Debt	92	126	119	119	119	119	119
Private Transport Operators Levy	6	6	6	6	6	6	6
Pollution Control Licences	43	31	32	37	37	37	37
Other Taxes	345	315	363	330	322	322	335
	1,117	1,134	1,179	1,163	1,161	1,171	1,190
Total Tax Revenue	13,216	12,862	13,919	14,198	14,892	15,753	16,673

Total taxation revenue will be 5.3 percent higher in 2002-03 than 2001-02 and 8.2 percent above Budget-time forecasts.

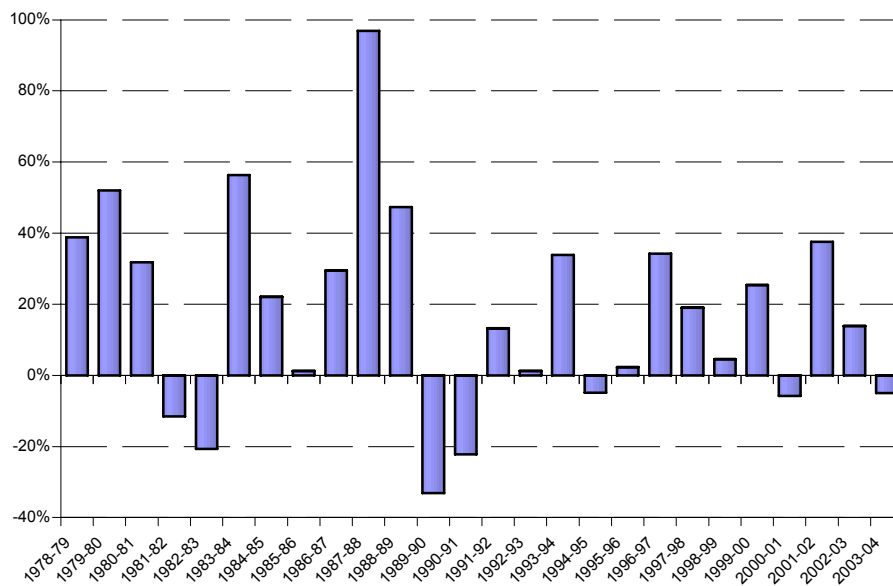
This is mainly because of stronger property market turnover and prices, which boosted transfer duty and mortgage duty revenues. These two stamp duties accounted for over 85 percent of the variance in taxation revenue from Budget. Payroll tax revenue was 2.8 percent lower than the Budget estimate.

In 2003-04 a 2.0 percent rise in total taxation revenue is forecast. The main reason for the slower growth is a fall of 3.5 percent in stamp duty collections, with transfer, insurance and marketable securities duty revenue all declining compared to 2002-03.

Transfer Duty

Stamp duty on property transfers is the largest single component of stamp duty revenue. It is the most volatile revenue source available to the State, with an average (absolute) percentage change of 26 percent for the period 1978-79 to 2002-03, and annual variations of up to 95 percent (see Chart 3.1).

Chart 3.1: Revenue from Transfer Duty - Annual Change ^(a)



(a) Estimate for 2002-03 and 2003-04

Reflecting strong property market performance, transfer duty revenue in 2002-03 will be 13.8 percent higher than in 2001-02.

At the time of last year’s Budget, a moderate decline in revenue was expected for 2002-03. Modest increases in interest rates and slackening investor demand as residential vacancy rates climbed were thought likely to cool the residential property market, and produce a weakening in revenue. In year average terms, revenue growth slowed in 2002-03 but did not decline as expected.

After two 0.25 percentage point official interest rate increases (in May and June 2002), further rises were put on hold as weakening confidence in corporate America and an uncertain international security situation shook world share markets and threatened global economic prospects. Continuing low interest rates, resilient domestic economic performance – notwithstanding the drought – and investor nervousness about the share market helped sustain residential property demand.

Available data indicate both the volume of transactions and prices in the residential property market rose strongly again in the first half of 2002-03. The total volume of residential (house and unit) sales in New South Wales in the first half of the financial year was 10 percent higher than in the same period of the previous year, according to the Real Estate Institute of New South Wales. ABS figures show average established Sydney house prices rose 12 percent between the June and December quarters 2002.

Residential property market activity seems to have subsided a little since late 2002. Revenue collections weakened, more noticeably than the usual seasonal pattern, in early 2003. Housing finance statistics, though volatile month to month, generally show an easing in the total value of commitments (excluding refinancing) for both owner-occupied housing and investor housing since peaks in the second half of 2002. Though little official or consolidated industry information on property market performance in 2003 is yet available, industry reports suggest the volume of transactions has fallen and the pace of price rises has moderated. ABS data shows average established Sydney house prices rose 3 percent in the March quarter 2003.

For 2003-04, transfer duty revenue is expected to decline by around 5.0 percent. This is consistent with milder price growth than over the last two years and volumes continuing at recent, more subdued levels.

A decline of this magnitude is modest compared with some in the past following extended periods of above average revenue growth. Although property markets may be pausing for breath, there is no indication of a sharp and sustained downturn. Interest rates are not expected to change significantly, employment growth will remain solid and the unemployment rate is expected to edge downward, general economic growth will remain around the long-term average, and immigration will remain at around 2002-03 levels.

As usual, there are risks that revenue in 2003-04 could be much higher or much lower than expected. The greatest uncertainty for transfer duty revenue is interest rates and overall confidence in the economic and employment outlook.

Other Stamp Duties

Other stamp duty revenue for 2002-03 will be \$25 million, or 1.6 percent, higher than in 2001-02 and \$183 million, or 13.4 percent, higher than forecast in the 2002-03 Budget. The increase between the original Budget and revised estimates for 2002-03 is due mainly to stronger revenues for insurance, mortgages and unlisted marketable securities duties.

- ◆ Insurance duty revenue in 2002-03 declined by 8.6 percent on 2001-02 with the cut in the general insurance duty rate from 10.0 percent to 5.0 percent from 1 August 2002. However, revenue was above original estimate due to the unexpected continuation of high premium increases. Insurance premiums have increased in recent years partly due to the collapse of HIH Insurance (which significantly reduced capacity in the insurance market), events related to international terrorism, and high claim payouts.
- ◆ The strong property market underpinned higher than anticipated mortgage duty revenue.
- ◆ Several abnormally large transactions resulted in revenue from unlisted marketable securities duty being substantially above expectations. (Stamp duty on listed marketable securities was abolished from 1 July 2001 as part of the GST-related tax reforms.)

For 2003-04, other stamp duty revenue should remain virtually the same as in 2002-03.

- ◆ Unlisted marketable securities duty revenue will be lower as transactions return to underlying levels.
- ◆ Insurance duty revenue should decline slightly, reflecting the full-year impact of the August 2002 cut in the general insurance duty rate. Additionally, premium increases are expected to be lower than in the last two years.
- ◆ Offsetting these declines, motor vehicle registration stamp duty should increase broadly in line with growth in new and used vehicle sales.

Payroll Tax

Payroll tax revenue in 2002-03 will grow only modestly on 2001-02, partly attributable to the cut in the payroll tax rate from 6.2 percent to 6.0 percent from 1 July 2002. After allowing for this, revenue growth has been weaker than expected, and looks likely to fall \$118 million, or 2.8 percent, below the 2002-03 Budget estimate.

Growth in the major macroeconomic variables that affect payroll tax revenue has been broadly in line with expectations, with stronger employment growth offsetting lower wages growth. However, contributions to employment growth have been large in some industries where there are relatively more employers below the payroll tax threshold.

Payroll tax revenue growth in 2003-04 should rise in line with – but, as in the last two years, not fully match – employment and wages growth.

Land Tax

Land tax is assessed on a calendar year basis. Notices of assessments are mainly issued in February, and are based on land values assessed by the Valuer-General as at 1 July in the preceding year. Thus, land tax revenue accrued in a financial year depends on the issue date of assessments and land values at the beginning of the financial year.

Land tax revenue in 2002-03 should be \$133 million, or 13.3 percent, higher than in 2001-02 and \$87 million, or 8.3 percent, higher than the 2002-03 Budget estimate. The revised estimate reflects higher increases in land values than anticipated at Budget-time. However, indexation of the land tax and premium property thresholds by nearly 19 percent for the 2003 land tax year reduced the impact of rising land values on revenue by \$76 million.

Continued land value growth over the year to 1 July 2003 will boost tax revenue in 2003-04, although indexation of the thresholds will again limit the impact.

Taxes on Motor Vehicle Ownership and Operation

Motor vehicle weight tax and vehicle registration fees are the largest two components of this category, representing around 95 percent of revenue in 2002-03. Also included are motor vehicle registration transfer fees and miscellaneous taxes.

Collections in 2002-03 should be slightly higher than estimated in the 2002-03 Budget. Most of the increase comes from weight tax revenue, reflecting higher than anticipated vehicle stock growth as well as the increasing significance of heavier vehicles.

Continued growth in motor vehicle stock and indexation of fees are responsible for moderate revenue growth in 2003-04 and following years.

Gambling and Betting Taxes

Revenue from gambling taxes in 2002-03 in aggregate will be close to the 2002-03 Budget estimate. However, within this category, club gaming machine revenue will be below estimate (down \$22 million, or 5.0 percent) offset by higher than anticipated revenue from racing and lotteries taxation.

Gambling tax revenue growth in 2003-04 and following years chiefly reflects forecast movements in household disposable income and the changes in gaming machine duty rates announced in this Budget.

COMMONWEALTH GRANTS

Table 3.9 provides estimates of Commonwealth payments to New South Wales for the period to 2006-07.

General Purpose Grants

General purpose grants are dominated by payments under the new Commonwealth-State financial arrangements associated with GST-related tax reform. As outlined in Chapter 7, under these tax reforms the States receive GST revenue grants from the Commonwealth and transitional assistance, termed Budget Balancing Assistance (BBA), to compensate for the revenue forgone by the States.

Table 3.9: Commonwealth Grants

	2001-02	2002-03		2003-04	2004-05	2005-06	2006-07
	Actual \$m	Budget \$m	Revised \$m	Budget \$m	Forward Estimates \$m		
General Revenue Grants ^(a)	243	249	252	257	262	269	275
Budget Balancing Assistance							
Payments	1,577	910	603	548	379	437	238
GST Revenue Grants	8,132	8,718	9,076	9,234	9,639	10,159	10,632
Total General Purpose Payments	9,952	9,877	9,931	10,039	10,281	10,864	11,144
Specific Purpose Payments							
Companies Regulation	49	50	50	52	53	55	56
Technical and Further Education	348	350	361	382	393	397	396
Schools	745	618	685	685	704	732	763
Highly Specialised Drugs	102	111	121	134	138	142	146
Australian Health Care Grants	2,241	2,379	2,412	2,542	2,655	2,813	2,980
Home and Community Care	190	205	210	233	253	273	295
Supported Accommodation							
Assistance	52	53	53	54	54	54	54
Assistance to Disabled	166	167	167	191	187	193	199
Pensioner Concessions	59	59	62	64	66	69	69
Debt Redemption Assistance	10	10	10	10	10	74	...
Blood Transfusion Services	23	26	29	...	...	...	...
National Land Care	46	51	35	32	31	31	31
Public Housing	269	266	267	241	244	247	250
Australian Land Transport							
Development	339	414	387	411	366	310	117
Housing	37	37	37	37	38	38	38
Supplementary FHOS Grant	80	8	16	...	...	...	...
Other	326	372	404	390	313	272	275
Total Specific Purpose Payments	5,081	5,176	5,305	5,459	5,504	5,699	5,670
Total Grants	15,033	15,053	15,236	15,497	15,785	16,563	16,814

(a) National Competition Policy payments.

GST revenue grants and BBA sum to New South Wales' Guaranteed Minimum Amount (GMA). The GMA is the estimated revenue New South Wales would have received under the former national tax and Commonwealth-State financial relations arrangements, and is calculated (for all States and Territories) to meet the Commonwealth's guarantee that no State will be worse off under the new arrangements following the Commonwealth's introduction of the GST.

Commonwealth grants for general purposes are estimated to be marginally lower, by \$21 million or 0.2 percent, in 2002-03 than 2001-02. This slight decrease is mostly due to lower First Home Owners Scheme (FHOS) grants which feed into New South Wales' GMA.

However, the composition of general purpose grants has changed significantly from that expected at 2002-03 Budget-time, with higher GST revenue grants resulting in offsetting reductions in BBA payments. Following higher than expected GST revenue collections in 2002-03, the Commonwealth has increased its estimate of 2002-03 GST revenue payments to the States by around \$1 billion, with commensurate adjustments to its payments of BBA to the States.

Higher GST revenue grants to New South Wales in 2002-03 of \$358 million are matched by a fall in BBA payments to New South Wales. Increased GST revenue in 2002-03 has therefore improved the Commonwealth's budget result (net lending basis) rather than that of New South Wales.

BBA is advanced by the Commonwealth to the States quarterly throughout the year based on projections of the annual amounts the Commonwealth will need to pay to fulfil its budget guarantee to the States. Before the upward revision of GST revenue estimates, the Commonwealth already had paid New South Wales \$811 million in BBA for 2002-03, producing a \$208 million cash over-payment of BBA. Under Commonwealth legislation this is required to be offset against grants paid to New South Wales in 2003-04. However, as a known liability, this amount has been accrued in 2002-03 in the New South Wales account, mirroring the treatment in the Commonwealth's Budget.

In 2003-04, Commonwealth general purpose payments to New South Wales will increase by 1.1 percent, due principally to an increase in GMA resulting from growth in revenue forgone and spending required under the GST-related arrangements. New South Wales will still require BBA payments in 2003-04, as GST revenue grants are not expected to rise sufficiently to offset GMA growth.

In fact, on current estimates of GMA and GST revenue growth, New South Wales is not expected to benefit financially from the new Commonwealth-State financial arrangements until 2009-10 (see Chapter 7).

National Competition Policy (NCP) payments are \$3 million higher in 2002-03 than anticipated at Budget-time. The Commonwealth makes NCP grants to the States so that the States, which are mainly responsible for implementing competition policy reforms, share tangibly in the rewards to government of such reform – rewards which mainly flow to the Commonwealth in higher income and company tax revenue.

In its 2003-04 Budget the Commonwealth quantified NCP payments up to 2005-06 and indicated that payments beyond that year would be subject to negotiations with the States. NCP estimates included in the New South Wales Budget for 2003-04 and following years are based on New South Wales' entitlements under the current Commonwealth-State agreement. The Commonwealth's total payments to all States and Territories are based on an amount of \$600 million in 2001-02 indexed to national CPI increases and distributed among the States based on population.

Specific Purpose Payments

Specific purpose payments in 2002-03 will be 4.4 percent above 2001-02 levels and 2.5 percent higher than expected in the 2002-03 Budget. Most of the amount above budget is attributable to payments for schools increasing by \$67 million, partly due to increases in indigenous education funding, growth funds from the Australian National Training Authority and Enrolment Benchmark Adjustment funding that was not included in the Budget. Offsetting some of the increase was a decline of \$27 million in Australian Land Transport Development grants due to decreases in funding of national highways and the deferment of funding from the Federation Fund till 2003-04.

Specific purpose payments will grow by \$154 million, or 2.9 percent in 2003-04. Growth in Health Care grants and Land Transport Development grants (recouping funds deferred from 2002-03) is offset by a \$26 million decline in Public Housing grants and the cessation of the supplementary FHOS grant. The \$16 million paid for FHOS in 2002-03 represents lagged payments following the grant's termination from 30 June 2002.

From 2003-04 Commonwealth funding to New South Wales for Blood Transfusion Services will cease. Funding for the Red Cross Service will no longer be provided through the State but directly to the newly formed National Blood Authority. Under the new arrangements the State/Commonwealth cost share will be 37:63 with the National Blood Authority being the statutory body responsible for acting on behalf of all State/Territory and Commonwealth governments for all aspects of contracting for the full range of blood and blood products to meet the requirements of blood products on a national basis.

The large increase of Debt Redemption Assistance grants in 2005-06, followed by no receipts in 2006-07, reflects the cessation of these grants from 15 July 2005. In April 1991, the Commonwealth and the States agreed to replace maturing Commonwealth debt issued on behalf of the States with State issued debt. New South Wales is compensated by the Commonwealth for the increased borrowing costs of the directly State-issued debt. The Commonwealth also contributes to the retirement of remaining debt issued on behalf of the States.

As the last Commonwealth loan issued on the States' behalf matures on 15 July 2005, remaining compensation will be discounted to a lump sum payable in 2005-06.

DIVIDENDS AND TAX EQUIVALENTS

Dividends paid by government business enterprises represent a return on equity invested by taxpayers in the enterprises. Income tax equivalent payments by government business enterprises are intended to mirror as closely as possible company tax liabilities that would be incurred if the entities concerned were owned by the private sector. Table 3.10 provides estimates of dividends and tax equivalents for the period to 2006-07.

In 2002-03, dividends and tax equivalents are expected to be \$36 million, or 2.9 percent, lower than in 2001-02 and \$23 million lower than the 2002-03 Budget estimate. The latter mainly reflects lower than anticipated income tax equivalents from the Water and Waste Services sector associated with poor superannuation fund performance and the write-down of Sydney Water's customer information and billing system. Partially offsetting these shortfalls were higher payments from the property and resources sector following strong price growth and record clearance rates in the property sector.

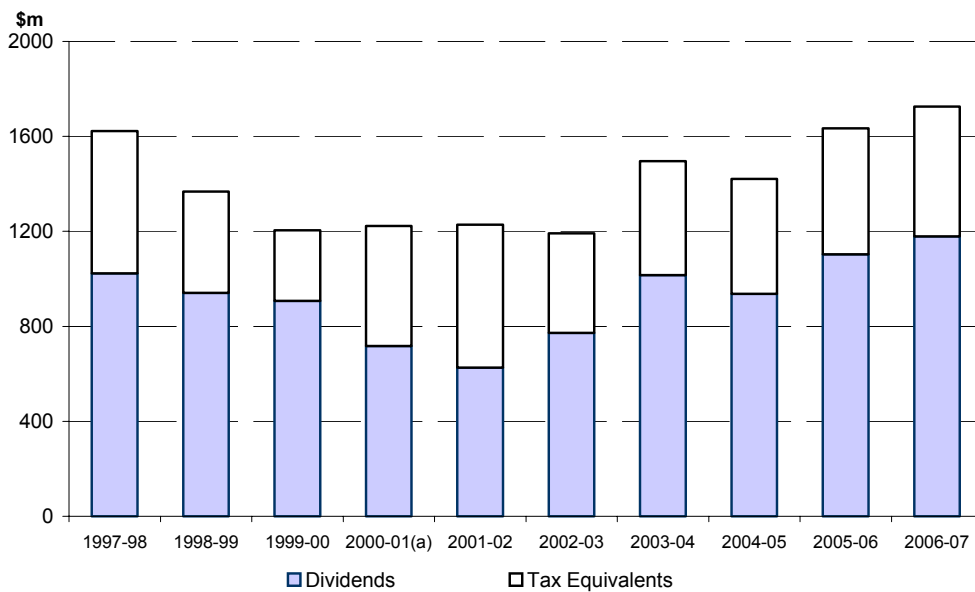
Table 3.10: Dividends and Tax Equivalents from Public Trading and Financial Enterprises

	2001-02	2002-03		2003-04	2004-05	2005-06	2006-07
	<i>Actual</i>	<i>Budget</i>	<i>Revised</i>	<i>Budget</i>	<i>Forward Estimates</i>		
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Dividends							
Electricity	322	535	447	645	559	678	749
Water and Waste Services	172	168	175	172	178	178	189
Property and Resources	53	46	81	76	105	128	112
Financial Services	18	18	22	17	18	18	18
Ports	21	23	18	19	20	20	21
Transport	...	...	...	...	...	...	...
Other	40	52	28	86	58	83	89
	626	842	772	1,015	937	1,104	1,178
Income Tax Equivalents							
Electricity	281	166	246	276	263	286	308
Water and Waste Services	184	144	97	133	141	148	134
Property and Resources	39	29	36	35	43	59	68
Financial Services	6	6	8	6	6	6	6
Ports	18	18	20	17	18	17	19
Transport	62	...	...	...	...	...	...
Other	11	9	13	13	13	13	13
	602	373	420	481	484	530	548
Total	1,228	1,215	1,192	1,496	1,421	1,634	1,726

For 2003-04, dividends and tax equivalents are expected to increase by \$304 million, or 25.5 percent. This is largely a result of increased returns from the electricity sector with expected improved market conditions. Payments from the Water and Waste Services sector will return to underlying levels.

Chart 3.2 shows dividends and tax equivalents falling slightly in 2004-05 and increasing in 2005-06 and 2006-07. This parallels expected developments in the electricity sector, as the dividend percentage declines in 2004-05 and power demand increases in 2005-06 and 2006-07.

Chart 3.2: Dividends and Tax Equivalents from Public Trading and Financial Enterprises



(a) Excludes \$2.46 billion in capital restructure proceeds in 2000-01.

OTHER STATE REVENUES

Licences

Over 80 percent of revenue in this item comes from drivers' and riders' licences. Revenue can be volatile (see Table 3.11) because it is heavily influenced by the renewal pattern of three and five year drivers' licences.

Fees

The majority of fees are renewed annually, providing a constant underlying level of revenue. The increase in fee revenue in 2003-04 is due to the normal renewal pattern for some longer term licences, and revised fees for security industry and firearm licences.

Fines

The main item – over 90 percent – in this category relates to motor traffic fines. The Police Service collects most fines through on-the-spot infringement notices. Some are also collected through Local Courts for more serious offences and through the Roads and Traffic Authority, which has authority to cancel motor vehicle registrations or drivers' licences unless infringement notices are paid. When fine debts become overdue government agencies pass them for collection to the State Debt Recovery Office.

Table 3.11: Other State Revenues

	2001-02	2002-03		2003-04	2004-05	2005-06	2006-07
	<i>Actual</i> \$m	<i>Budget</i> \$m	<i>Revised</i> \$m	<i>Budget</i> \$m	<i>Forward Estimates</i> \$m		
Licences	82	80	80	116	173	158	114
Fees	114	107	108	114	107	108	110
Fines	236	250	234	238	231	230	232
Royalties	216	225	225	232	239	247	254
Fire Brigades Levy on							
Local Government	44	48	47	48	48	48	48
Other State Revenues	100	89	99	94	95	96	97
Total Other Revenue	792	799	793	842	893	886	855

Royalties

Forecasts for royalties are predominantly associated with the anticipated volume of coal production.

3.4 ESTIMATES OF OPERATING REVENUES

Operating revenues are earned by general government agencies in the normal course of their operations. The primary source is user charges levied to recover the costs of providing goods or services. Table 3.12 provides estimates of operating revenues for the period to 2006-07.

SALES OF GOODS AND SERVICES

Sales of goods and services include revenue from the use of government assets as well as revenue generated by agencies in their normal trading activities.

In 2002-03, revenues are expected to exceed 2001-02 by \$53 million and the 2002-03 Budget estimate by \$76 million. The higher result is mainly due to \$36 million under the Department of Veterans' Affairs Deed of Agreement for the treatment of veterans and war widows in public hospitals due to a 4.5 percent increase in the level of charges and growth in demand, and \$37 million from various other hospital related charges. For 2003-04, total revenue from sales of goods and services is expected to increase by 4.0 percent.

INVESTMENT INCOME

Revenue from investment income includes interest on advances to public trading enterprises, interest on NSW Treasury Corporation deposits and interest on private sector deposits. In 2002-03, revenues are expected to be \$72 million higher than the previous year but \$235 million below the Budget estimate, mainly reflecting weaker than expected equity market returns. In 2003-04 and the forward years investment income is expected to return to more normal levels on growing balances.

Table 3.12: Operating Revenues

	2001-02		2002-03		2003-04	2004-05	2005-06	2006-07
	<i>Actual</i>	<i>Budget</i>	<i>Revised</i>	<i>Budget</i>		<i>Forward Estimates</i>		
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>		<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Sales of Goods and Services								
Rents and leases	129	106	110	109	111	115	119	
Fees for Service	87	90	97	99	101	106	107	
Entry Fees	17	18	19	18	19	19	20	
Patient Fees	532	542	579	595	608	622	636	
Department of Veterans Affairs								
- Concord Hospital	246	235	271	279	285	291	298	
Court Fees	128	118	124	122	121	127	130	
Road Tolls	66	77	77	78	78	79	80	
Office of Government Business and Office of Government Procurement	76	107	107	96	98	101	104	
Other Sales of Goods and Services	1,221	1,186	1,172	1,260	1,287	1,328	1,363	
	2,502	2,479	2,555	2,656	2,708	2,788	2,857	
Investment Income	282	589	354	637	747	877	1,011	
Grants and Contributions	316	382	429	346	319	324	328	
Other Operating Revenues	382	256	721	264	272	302	322	
Total Operating Revenue	3,482	3,706	4,059	3,903	4,046	4,291	4,518	

GRANTS AND CONTRIBUTIONS

This item mainly consists of contributions from public trading enterprises and the private sector. Revenue in 2002-03 was \$47 million higher than estimated in the 2002-03 Budget. The variation was mainly attributable to a \$21 million increase in grants and contributions to the public health system, a \$12 million increase to the Department of Transport (primarily from the State Rail Authority to fund car park constructions managed by the Department of Transport), and a \$9 million increase to the National Parks and Wildlife Service for Snowy rehabilitation and land purchases.

In 2003-04, grants and contributions revenue should decline to more normal levels. Revenue in 2002-03 was boosted by a one-off provision of \$109 million from BHP for remediation of former BHP lands at Newcastle.

OTHER OPERATING REVENUE

Other operating revenue in 2002-03 is expected to exceed the 2002-03 Budget estimate by \$465 million, and decline by \$457 million in 2003-04. The increase in other revenues in 2002-03 is mainly due to \$290 million received by the Roads and Traffic Authority following the letting of contracts for the construction of toll roads. The payments reimbursed the Roads and Traffic Authority for costs associated with letting the contracts and will fund related essential connecting works.