

CHAPTER 4: GENERAL GOVERNMENT REVENUES

- ◆ The NSW Government has undertaken substantial tax reductions since August 2005, including the abolition of vendor duty, reduced club gaming machine duty rates and major changes to land tax.
- ◆ The NSW Government continues to reduce tax and improve tax competitiveness in this Budget.
- ◆ The payroll tax threshold will be indexed annually in line with the Consumer Price Index (CPI).
- ◆ The payroll tax rate will be cut from 6 per cent to 5.5 per cent:
 - The rate will be reduced to 5.75 per cent from 1 January 2009.
 - The rate will be further reduced to 5.65 per cent from 1 January 2010.
 - The rate will fall to 5.5 per cent from 1 January 2011.
- ◆ Transfer duty on non-land business assets will be abolished from 1 January 2011, 18 months ahead of the previous schedule.
- ◆ Tax changes in the 2008-09 Budget together with other measures taking effect in the forward estimates will reduce taxation revenue by \$344 million in 2008-09, rising to \$1.4 billion in 2011-12, with a cumulative cost over the forward estimates of \$3.6 billion.
- ◆ Revenue is expected to grow by 3.2 per cent in 2008-09, following growth of 3.7 per cent in 2007-08.

4.1 INTRODUCTION

Government revenue is essential to fund the delivery of services in New South Wales. At the same time, a competitive revenue and tax system is critical for the New South Wales economy.

Tax reductions in this and recent budgets have kept New South Wales competitive with other states. New tax policy measures in this Budget will improve the tax competitiveness of New South Wales.

Key influences on New South Wales tax revenue are employment and wage growth (payroll tax), volume and price growth in property sales (transfer duty), and land values (land tax). Commonwealth grant revenue is influenced by growth in the GST pool and by movements in the NSW share of the GST pool. These influences, and influences on other revenues, are discussed in detail in this chapter.

4.2 TAXATION POLICY MEASURES

There have already been substantial tax reductions since August 2005, including the abolition of vendor duty and mortgage duty for owner-occupiers and changes to land tax including a reduction in the land tax rate.

The NSW Government is committed to maintaining a competitive tax regime while meeting the service delivery needs of the people of New South Wales. The ability to enhance tax competitiveness is hampered by New South Wales receiving the second lowest GST revenue per capita of all the states and territories. This forces New South Wales to rely more heavily on tax revenue than most other states and territories.

Nonetheless, New South Wales has introduced a number of tax reductions and abolished a number of taxes over recent budgets in order to improve our tax competitiveness. When total revenue is assessed, New South Wales has one of the lowest ratios of total revenue per capita of all states.

This Budget introduces a number of measures which will further improve NSW interstate tax competitiveness.

- ◆ The payroll tax threshold will be indexed annually from 1 July 2008, in line with movements in the Sydney Consumer Price Index (CPI). The threshold from 1 July 2008 will be \$623,000.
- ◆ The payroll tax rate will be reduced to 5.75 per cent from 1 January 2009, with further reductions to 5.65 per cent from 1 January 2010 and to 5.5 per cent from 1 January 2011.
- ◆ Changes to payroll tax will exceed \$1.9 billion over the forward estimates period.
- ◆ The abolition of transfer duty on non-land business assets will be brought forward by 18 months from 1 July 2012 to 1 January 2011.

These measures will reduce taxation by \$148 million in 2008-09 increasing to \$948 million in 2011-12 and by a total of \$2.2 billion over the forward estimates period.

In total, including previously announced taxation measures, the 2008-09 Budget reduces taxation by \$344 million in 2008-09, increasing to \$1.4 billion in 2011-12 and by a total of \$3.6 billion over the forward estimates period.

The total value of taxation policy changes introduced since August 2005 over the four years to 2011-12 is \$9.2 billion.

Table 4.1: Tax reductions commencing in the 2008-09 Budget or the forward estimates period

<i>Measure</i>	<i>Revenue Impact</i> ^(a)			
	<i>2008-09</i> <i>\$m</i>	<i>2009-10</i> <i>\$m</i>	<i>2010-11</i> <i>\$m</i>	<i>2011-12</i> <i>\$m</i>
Index the payroll tax threshold from 1 July 2008	-34	-62	-91	-122
Reduce payroll tax rate from 6 per cent to 5.75 per cent from 1 January 2009	-114	-289	-305	-322
Reduce the payroll tax rate from 5.75 per cent to 5.65 per cent from 1 January 2010	...	-48	-122	-129
Reduce the payroll tax rate from 5.65 per cent to 5.5 per cent from 1 January 2011	...	...	-76	-193
Bring forward abolition of transfer duty on non-land business assets to 1 January 2011	...	...	-88	-182
Abolish unquoted marketable securities duty from 1 January 2009 ^(b)	-36	-77	-79	-80
Abolish mortgage duty on non-owner occupied residential property from 1 July 2008 ^(b)	-160	-174	-186	-198
Abolish mortgage duty completely from 1 July 2009 ^(b)	...	-120	-131	-139
Total	-344	-770	-1,078	-1,365

(a) Revenue impacts are expressed in nominal dollars. These figures show the part-year effect of the revenue measures where the change commences during the year.

(b) Announced previously.

2008-09 BUDGET MEASURES

Payroll tax threshold indexation

The Government will introduce annual indexation of the payroll tax threshold from 1 July 2008.

The payroll tax threshold will be indexed annually, from 1 July, based on the movement in the Sydney CPI over the year to the previous March quarter, which will be the most up to date information available.

The threshold applying from 1 July 2008 will be \$623,000.

New South Wales will be the only state to annually index the payroll tax threshold.

This measure will provide tax relief to businesses by allowing for the impact of inflation on their wages bill.

This measure will reduce payroll tax revenue by \$34 million in 2008-09 and by \$309 million over the four years to 2011-12.

Payroll tax rate reduction

The Government will reduce the payroll tax rate from 6 per cent to 5.5 per cent in three stages, starting from 1 January 2009.

The first reduction from 6 per cent to 5.75 per cent will occur from 1 January 2009, followed by a reduction to 5.65 per cent from 1 January 2010, and a further reduction to 5.5 per cent from 1 January 2011.

These lower rates will improve NSW payroll tax competitiveness. The 5.5 per cent rate will place New South Wales around the middle of the range of rates levied in the other states and territories and will improve NSW payroll tax competitiveness with the neighbouring states of Victoria and Queensland.

The reduction in the payroll tax rate is estimated to reduce payroll tax revenue by \$114 million in 2008-09, rising to \$644 million in 2011-12 when all three stages have been introduced.

Total cost to revenue over the four years 2008-09 to 2011-12 is \$1.6 billion.

Abolition of transfer duty on non-land business assets

In the 2006-07 Budget, the Government announced it would abolish transfer duty on non-land business assets from 1 July 2012. The Government will now abolish the duty from 1 January 2011, bringing forward the abolition by 18 months. These non-land assets include goodwill, patents, trademarks and other intellectual property (some assets, such as inventory and stock-in-trade, are not dutiable items).

Abolishing duty on non-land business assets will improve economic efficiency by removing this disincentive to move business capital to different ownership structures and investment opportunities.

The accelerated abolition of transfer duty on non-land business assets will reduce revenue by \$88 million in 2010-11 and by \$182 million in 2011-12.

Abolition of transfer duty on non-land business assets is the last of the taxes New South Wales decided to abolish following consideration of the taxes listed for review in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA). This tax is now being abolished 18 months ahead of schedule.

New South Wales has fulfilled all its obligations under the IGA.

Corporate reconstruction of property trusts

A specific exemption from stamp duty will be provided to allow property trusts to restructure. The Commonwealth has already provided relief from capital gains tax for these restructures and the stamp duty exemption will match this relief. These restructures are to align Australian property trusts with real estate investment trusts in other markets.

There is no revenue impact from this exemption because these restructures would not occur without stamp duty relief.

MEASURES ANNOUNCED SINCE THE 2007-08 BUDGET

Casino taxation agreement

In October 2007, the Government and Tabcorp Ltd announced a new taxation and exclusivity agreement for Star City Casino.

The Casino will pay higher duty rates under the agreement. From 1 July 2008, there will be a single rate scale applying to both table games and electronic gaming machines. Previously, table games and electronic gaming machines had separate tax scales.

Under the new arrangements tax will be calculated on a marginal rate scale related to gaming revenue. The new base rate will be 13.04 per cent in 2008-09, rising to 16.41 per cent from 2012-13. The new maximum marginal rate will be 38.04 per cent in 2008-09, rising to 38.91 per cent from 2009-10.

The agreement also provides for a \$100 million exclusivity payment. This is accrued at \$8.3 million a year under accounting rules.

Additional tax revenue is estimated to be \$65.9 million over the four years 2008-09 to 2011-12, and includes the \$8.3 million per year exclusivity payment. This tax estimate is based on current numbers of table games.

Keno extension to hotels

The NSW Government granted an extension of Keno into hotels from 11 September 2007. Previously, only registered clubs and the Casino could offer Keno in New South Wales. In other states, hotels offer Keno.

The marginal tax rates for Keno in hotels are 8.91 per cent and 14.91 per cent. The higher marginal tax rate of 14.91 per cent applies above annual player loss of \$37.7 million. This is a lower threshold than clubs, because of the lower anticipated size of the game in hotels.

This measure is estimated to generate \$1.8 million in 2008-09 and \$13 million over the forward estimates period.

4.3 REVENUE TRENDS AND COMPOSITION

Table 4.2: Summary of revenues

	2006-07	2007-08		2008-09	2009-10	2010-11	2011-12
	<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>
Revenue from Transactions							
Taxation	17,697	17,553	18,466	18,533	19,194	20,034	20,923
Grant revenue							
Commonwealth - general purpose	10,938	11,926	12,060	13,020	13,972	14,738	15,547
Commonwealth - specific purpose	6,815	6,854	7,540	7,249	7,875	8,195	8,346
Other grants and contributions	1,021	812	1,053	782	781	870	903
Sale of Goods and Services	3,303	3,423	3,474	3,620	3,739	3,852	3,953
Interest Income	1,239	720	162	706	742	781	818
Dividends and income tax equivalents from other sectors	1,925	1,766	1,820	1,796	1,957	2,002	2,121
Dividends from associates	29	...	...	...	58	70	81
Fines, regulatory fees and other revenues	1,760	1,591	1,821	2,176	2,347	2,681	2,494
Total Revenue	44,727	44,645	46,396	47,882	50,665	53,223	55,186
<i>Annual per cent change</i>	7.3%		3.7%	3.2%	5.8%	5.0%	3.7%

Total revenue is estimated to grow by 3.7 per cent in 2007-08 and by 3.2 per cent in 2008-09. It is forecast to grow by 4.4 per cent per annum on average over the four years to 2011-12.

Major factors affecting revenue in 2007-08 compared to budget forecasts were:

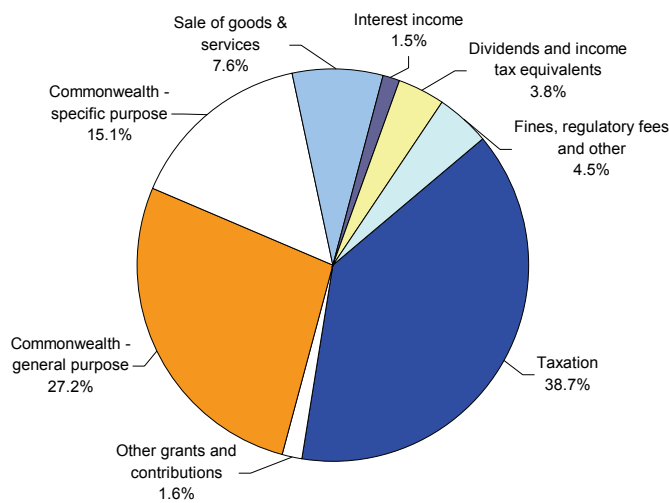
- ◆ an increase in Commonwealth grants reflecting an increase in Specific Purpose Payments (SPPs) such as drought assistance and health care grants
- ◆ actual investment income lower than trend following volatility in investment markets
- ◆ a significant, albeit temporary, increase in residential property prices and volumes, primarily in the premium property market, leading to higher than expected transfer duty receipts and
- ◆ stronger than expected economic growth leading to higher than expected employment growth which boosted payroll tax.

Factors which are expected to impact on changes in revenue between 2007-08 and 2008-09 include:

- ◆ an increase in the GST relativity and pool leading to an increase in GST grants
- ◆ a return to long run averages for investment income in 2008-09 and
- ◆ slower economic conditions as a result of the increase in interest rates leading to a weaker property market and lower transfer duty receipts.

The composition of revenue in 2008-09 is displayed in Chart 4.1.

Chart 4.1: Composition of total revenue, New South Wales, 2008-09



Revenue trends

Revenue growth is volatile on an annual basis, primarily reflecting the impact of economic conditions, particularly in the property market, on taxes, and changes in the share of Commonwealth grants.

Use of long run trend revenue growth, which smooths out the cyclical variability, provides a useful benchmark to analyse recent movements.

The long run average growth rate for total revenue (based on the last 20 years) is about 5 per cent. This long term growth has been below the rate of growth of the NSW economy, leading to a decline in the ratio of revenue to Gross State Product (GSP) over time.

Recent average revenue growth has been above this trend, at 5.4 per cent per annum over the last four years. This reflects the continuation of above trend growth in tax revenue (payroll tax and land tax) and average trend growth in Commonwealth general purpose payments.

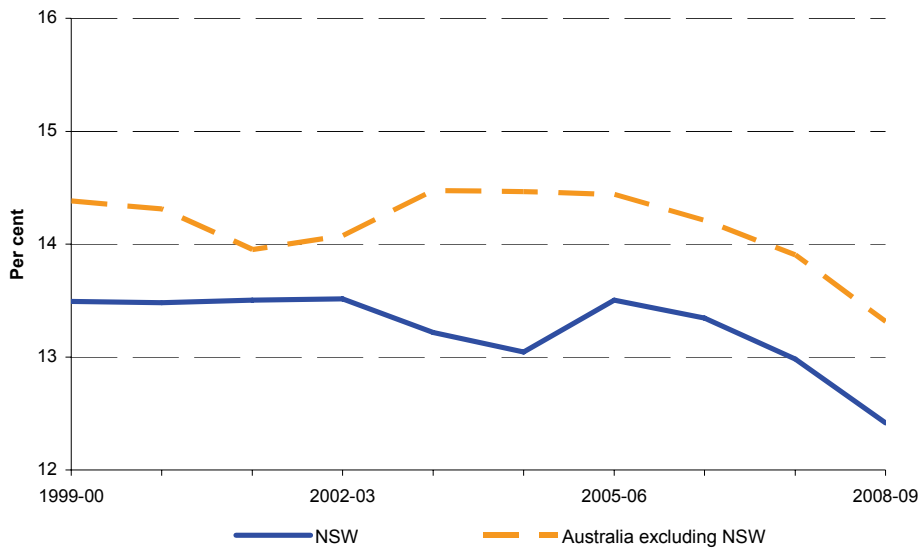
Revenue growth is forecast to be around 4.4 per cent per annum across the four years to 2011-12, reflecting weaker than trend growth in tax revenue and above trend growth in Commonwealth general purpose payments.

Taxation revenue is predicted to grow by an average of 3.2 per cent per annum over the four years to 2011-12. This is lower than the average over the past four years of 5.3 per cent per annum. The lower growth reflects moderate growth in the property market, a return to trend growth for wages and employment, reductions in the payroll tax rate and threshold and abolition of transfer duty on non-land business assets.

Commonwealth general purpose grants are expected to record average growth of around 6.6 per cent per annum over the four years to 2011-12 due to continued steady growth in the GST pool and an improved NSW GST relativity over the forward estimates period. This is stronger growth than over the past four year period of 5 per cent per annum.

Chart 4.2 shows how NSW total revenue has reduced as a share of GSP in recent years. Continuing tax restraint is expected to lead to a continuing decline in the revenue to GSP ratio. The NSW total revenue to GSP ratio remains below the average of the other states and territories.

Chart 4.2: Total revenue as a ratio to gross state product

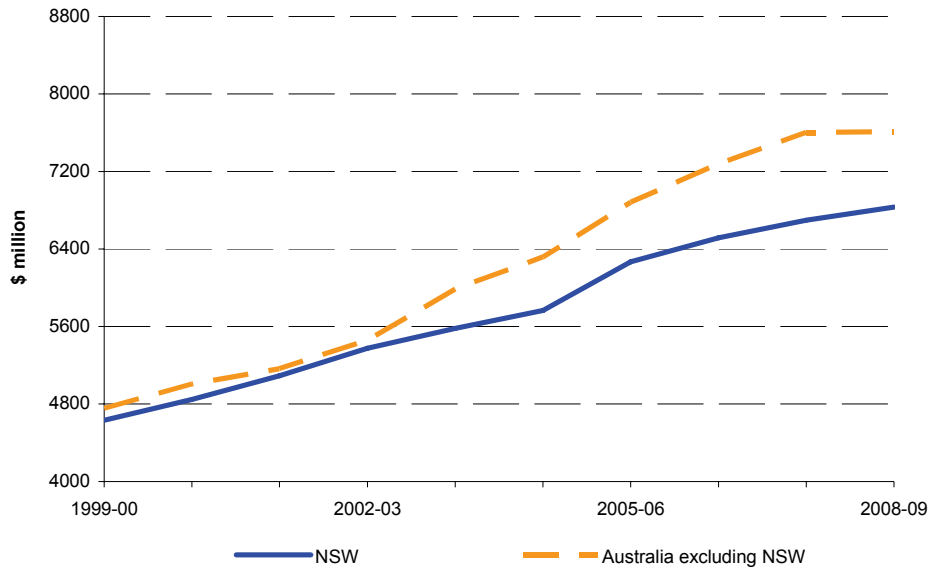


Sources: NSW total revenue 1999-2000 to 2008-09 is on a GFS-GAAP harmonised basis. Other states are ABS Government Finance Statistics Cat. 5512.0 and 2008-09 Budgets or 2007-08 Mid-Year Reviews less Commonwealth Grants for on-passing (payments 'through' the states).

ABS Gross state product: Cat. 5220.0 and NSW Treasury estimates.

Chart 4.3 shows New South Wales maintains lower revenue per capita than the average of the other states.

Chart 4.3: Total revenue per capita



Sources: NSW total revenue 1999-2000 to 2008-09 is on a GFS-GAAP harmonised basis. Other states are ABS 2006-07 Government Finance Statistics Cat. 5512.0 and State and Territory 2008-09 Budgets or 2007-08 Mid-Year Reviews less Commonwealth Grants for on-passing (payments 'through' the states).

Table 4.3 shows that New South Wales has the second lowest total revenue per capita of all the states and territories. As a consequence of receiving the second lowest GST grants per capita, New South Wales has the third highest tax per capita of the eight states and territories.

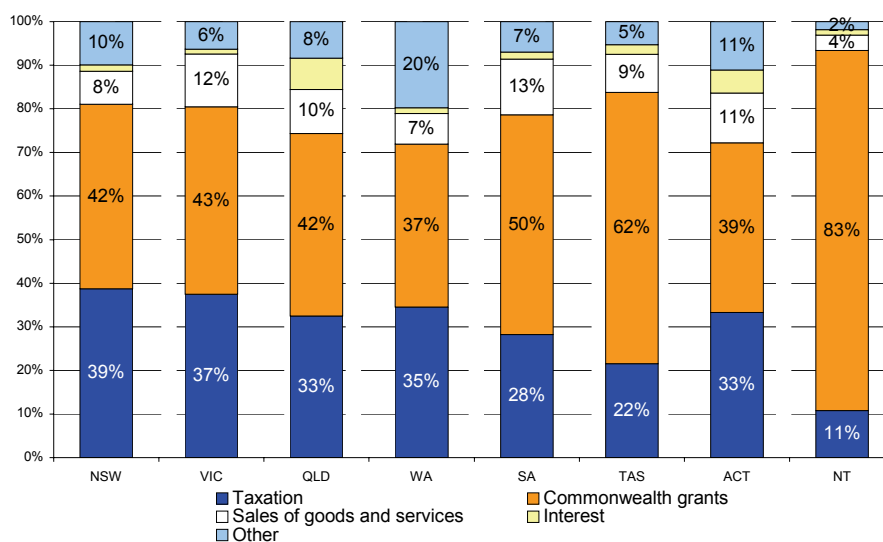
Table 4.3: Tax, GST and total revenue per capita, all states, 2008-09

	State tax revenue per capita	GST revenue grants per capita	Other revenue per capita	Total revenue per capita
	\$	\$	\$	\$
New South Wales	2,645	1,868	2,321	6,834
Victoria	2,512	1,924	2,272	6,709
Queensland	2,454	2,027	3,068	7,549
Western Australia	3,016	1,809	3,901	8,726
South Australia	2,157	2,591	2,904	7,651
Tasmania	1,706	3,483	2,740	7,929
Australian Capital Territory	3,016	2,630	3,416	9,062
Northern Territory	1,809	10,976	3,922	16,707

Source: Revenue estimates from State and Territory 2008-09 Budgets or 2007-08 Mid-Year Reviews less Commonwealth Grants for on-passing (payments 'through' the states) Based on GST estimates from Commonwealth 2008-09 Budget Paper No. 3, Table B.1, p. 93.

Reliance on taxation revenue must be higher than in other states because New South Wales receives a lower proportion of Commonwealth grants than most other states and territories. This is due to the manner in which the GST is distributed across the states and territories. It is estimated that in 2008-09 New South Wales will generate around \$15 billion in GST, yet get back \$13 billion from the Commonwealth.

Chart 4.4: Composition of total revenue, all states, 2008-09



Source: Derived from 2008-09 Budgets and 2007-08 Mid Year Reviews

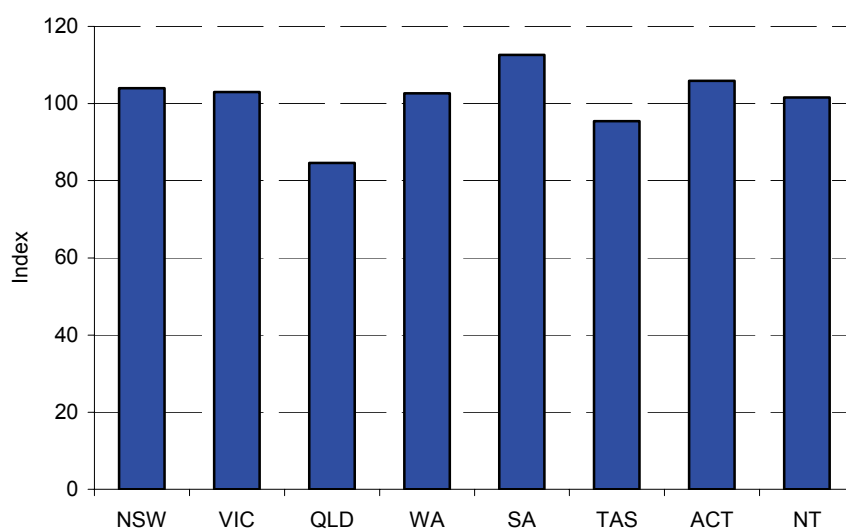
Tax effort

The Commonwealth Grants Commission (CGC) measures the tax effort of the states. This is a comparison of actual tax collections to estimated revenue if a state applied the all-state average tax rates. The CGC assesses that New South Wales' tax effort is just above the all-state average (Chart 4.5).

The relatively higher tax revenue per capita of New South Wales reflects higher wages and salaries contributing to payroll tax and higher property values contributing to higher land tax and transfer duty revenues. This means that for a given tax rate, New South Wales can raise relatively more revenue than other States.

This is a factor which leads to lower GST revenue grants for New South Wales.

Chart 4.5: CGC tax effort index 2006-07



Source: Commonwealth Grants Commission Relative Fiscal Capacities of the States 2008

Box 4.1: IPART review of taxation

In 2007, the Premier commissioned IPART to conduct a review of the State's tax system. The terms of reference are:

- ◆ Given the existing GST agreement, assess the impact of the current system of Commonwealth-State fiscal relations on NSW revenue mix and the ability of NSW to fund essential public services.
- ◆ Compare the efficiency of the taxes available to NSW and the Commonwealth.
- ◆ Review the existing NSW tax system according to standard taxation principles (that is, efficiency, equity, simplicity and transparency) and the interstate competitiveness of NSW taxes.
- ◆ Recommend options to improve the efficiency, equity, interstate competitiveness, simplicity and transparency of NSW tax system, given the taxes available to it.

The terms of reference require IPART to provide a draft and final report. The Government will assess the IPART recommendations following receipt of the final report, expected in August.

The Prime Minister announced on 21 April 2008 that the Commonwealth would consider 'root-and-branch' reform of the Australian taxation system. He indicated the review would be a top-down approach encompassing Commonwealth and state taxes. A review of this nature could address the persistent problems of the states' revenue base including vertical fiscal imbalance and the states' narrow tax bases. The IPART report will cover these issues.

New South Wales welcomes a broad inquiry into the interaction between Commonwealth and state tax systems. New South Wales will participate in any substantial review of the total Australian tax system.

TAX RESTRAINT

In 2007-08, tax measures introduced since August 2005 reduced tax revenue by more than \$900 million, or 4.8 per cent. This is a reduction of over \$130 in tax revenue per capita, and a reduction of 0.3 per cent in tax as a share of GSP.

Tax reductions commencing in this budget will save taxpayers \$344 million in 2008-09.

The *Fiscal Responsibility Act 2005*, Fiscal principle No. 10 requires:

that any adjustments to legislated tax rates, thresholds and bases are to be made with the maximum possible restraint having regard to the effect of these adjustments on the overall level of tax revenue, and policies should be pursued that are consistent with a reasonable degree of predictability and stability of tax rates, thresholds and bases for future years.

Some taxes have in-built restraint. For example, the land tax threshold is both indexed and averaged: this restrains land tax growth to the average growth in land values over the longer run.

Table 4.4 shows the effect of tax changes from new policy for each budget year from 1988-89 to 2011-12.

Table 4.4: Impact of revenue policy changes^(a)

Year	Annual Contribution of New Policy Changes to Revenue Collections ^(b) \$m
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	(-) 310
2001-02	(-) 340
2002-03	(-) 420
2003-04	(-) 140
2004-05	230
2005-06	(-) 10
2006-07	(-) 10
2007-08	(-)330
2008-09	(-)440
2009-10	(-)410
2010-11	(-)280
2011-12	(-)250

(a) This table shows the effect of new policy on revenue in any one year only. Where the revenue change commenced during the year, and therefore had only a part year effect in that year, the balance is included in the following year.

(b) Expressed in nominal dollars. Notes on specific years: (1) from 1999-2000 to 2003-04, and from 2006-07, annual indexation of the land tax threshold is treated as a discrete tax change, from 2004-05 annual indexation of the parking space levy is treated as a discrete tax change and from 2008-09 annual indexation of the payroll 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; (4) 2000-01 to 2005-06 excludes those State taxes abolished with the introduction of the GST where the revenue loss from abolishing those taxes was compensated by the Commonwealth through Budget Balancing Assistance.

4.4 TAXATION REVENUE

The three largest state taxes are payroll tax, transfer duty and land tax. Payroll tax has been the most stable of the larger taxes, followed by land tax. Transfer duty can vary significantly from year to year, as it is affected by fluctuations in the volume of property transfers and variations in prices.

Table 4.5 provides estimates of each tax for the six year period to 2011-12.

Chart 4.6: Composition of tax revenue, 2008-09

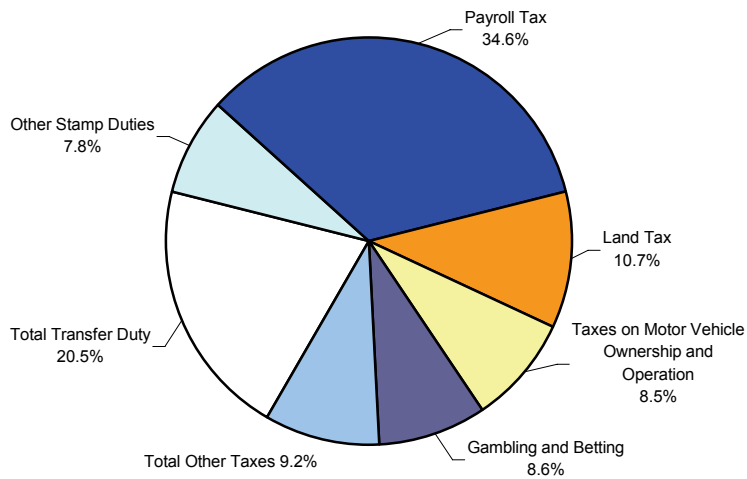


Table 4.5: Taxation revenue

	2006-07	2007-08		2008-09	2009-10	2010-11	2011-12
	Actual	Budget	Revised	Budget	Forward estimates		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Stamp Duties							
Transfer Duty							
Purchaser Transfer Duty	4,163	3,695	4,100	3,800	4,070	4,307	4,563
Vendor Transfer Duty	3	...	...	...	...	...	...
Total Transfer Duty	4,166	3,695	4,100	3,800	4,070	4,307	4,563
Other Stamp Duties							
Insurance	598	616	608	633	661	690	721
Mortgages	355	243	277	117	2	...	...
Marketable Securities	108	74	74	40	...	...	...
Motor Vehicle Registration							
Certificates	554	582	605	660	704	752	802
Hire of Goods	73	6	3	...	...	...	...
Leases	95	51	40	...	...	...	...
Other	...	2	...	...	...	...	...
	5,949	5,269	5,707	5,250	5,437	5,749	6,086
Payroll Tax	5,661	5,960	6,150	6,410	6,528	6,703	6,903
Land Tax	2,036	1,750	1,968	1,983	2,068	2,152	2,277
Taxes on Motor Vehicle Ownership and Operation							
Weight Tax	1,114	1,176	1,195	1,254	1,316	1,383	1,450
Vehicle Registration and Transfer Fees	267	280	284	295	313	326	344
Other Motor Vehicle Taxes	29	30	31	32	34	36	37
	1,410	1,486	1,510	1,581	1,663	1,745	1,831
Gambling and Betting							
Racing	153	160	146	164	170	175	181
Club Gaming Devices	661	623	595	606	635	664	695
Hotel Gaming Devices	448	438	411	420	458	501	539
Lotteries and Lotto	284	293	287	295	303	310	318
Casino	99	86	94	106	111	119	153
Other Gambling & Betting	8	9	8	11	13	14	15
	1,653	1,609	1,541	1,602	1,690	1,783	1,901

Table 4.5 Taxation revenue (cont)

	2006-07	2007-08		2008-09	2009-10	2010-11	2011-12
	Actual	Budget	Revised	Budget	Forward estimates		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Other Tax Revenues							
Health Insurance Levy	119	123	124	131	138	145	152
Insurance Protection Tax	67	69	69	69	69	69	69
Parking Space Levy	50	51	51	53	54	55	57
Fire Brigades Levy	355	363	367	383	382	382	380
Bush Fire Services Levy	124	146	146	148	150	153	141
Waste and Environment Levy	147	214	225	260	303	339	340
Government Guarantee of Debt	97	130	118	138	173	204	227
Private Transport Operators Levy	16	12	13	14	14	14	14
Pollution Control Licences	43	48	48	48	49	52	53
Other Taxes	(30)	323	429	463	476	489	492
	988	1,479	1,590	1,707	1,808	1,902	1,925
Total Tax Revenue	17,697	17,553	18,466	18,533	19,194	20,034	20,923
<i>Annual per cent change</i>	11.2%		4.3%	0.4%	3.6%	4.4%	4.4%

Total tax revenue is estimated to increase by 0.4 per cent in 2008-09. This follows growth of 4.3 per cent in 2007-08. Without the measures announced in this budget, tax revenue would have increased by an estimated 2.2 per cent in 2008-09. Tax revenue is forecast to grow by an average of 3.2 per cent per annum over the four years to 2011-12.

PAYROLL TAX

Payroll tax collections for 2007-08 are expected to be 3.2 per cent (or \$190 million) higher than forecast at budget time. The higher revenue mainly reflects stronger wage and employment growth than expected at budget time last year, due to a stronger NSW economy.

Payroll tax revenue growth is expected to be 4.2 per cent in 2008-09, following growth of 8.6 per cent in 2007-08, reflecting the policy changes introduced in this budget.

New South Wales and Victoria enacted harmonised payroll tax legislative and administrative arrangements from 1 July 2007. Queensland and Tasmania have announced their intention to harmonise payroll tax arrangements with New South Wales and Victoria from 1 July 2008. Other states will also harmonise aspects of their payroll tax regimes with the New South Wales-Victorian agreement from 1 July 2008.

This project aims to support business investment, improve competitiveness and increase productivity by simplifying administration and reducing red tape and compliance costs for businesses that operate in multiple states. The payroll tax harmonisation project is a key example demonstrating the Government's commitment to cutting red tape, which is a Government priority in the State Plan.

TRANSFER DUTY

Transfer duty is the largest component of stamp duty revenue. It is also the most volatile component because it is affected by both volume and price fluctuations in property transfers. Annual changes in transfer duty have ranged from minus 30 per cent to plus 97 per cent in the last 20 years.

Purchaser transfer duty in 2007-08 is estimated to be \$405 million, or 11 per cent, higher than expected at budget time last year. Revenue from residential and small commercial property transfers has been 5.1 per cent higher than expected, mainly due to a marked increase in the volume of higher-price residential purchases in the second half of 2007.

Revenue from large commercial transfers (where duty exceeds \$1 million) has also been much stronger than expected. In total, more than \$600 million in large transaction revenue is expected to be received in 2007-08 compared to an average of \$325 million over the past five years (excluding one very large, unique transaction in 2006-07). Activity in the large transactions sector is expected to be closer to average historical levels in 2008-09.

Purchaser duty revenue is expected to decline by 7.3 per cent in 2008-09. Revenue from residential and small commercial property sales has slowed considerably since March 2008 as the recent interest rate increases have started to take effect. This slowing is expected to persist through 2008-09, with transfer duty growth returning to trend levels in 2009-10.

Forecasts for the forward estimates period reflect moderate growth in the property market.

LAND TAX

Land tax is assessed on a calendar year basis and is based on the three year average of unimproved land values as at 1 July each year, as determined by the NSW Valuer General. Notices of assessment are issued throughout the year, with most issued in either January or February.

Over the past three years the NSW Government has undertaken significant changes to land tax, including:

- ◆ increasing the land tax free threshold from \$330,000 to \$352,000 in 2006
- ◆ indexing the threshold to movements in state-wide average land values from 2006
- ◆ introducing three-year averaging of land values in 2007 and
- ◆ cutting the land tax rate from 1.7 per cent to 1.6 per cent in 2008.

These changes are estimated to save land tax payers around \$300 million in 2008-09.

Land tax revenue accrued in a financial year depends on the issue date of assessments and land values. For the 2008-09 financial year, land tax revenue accrued will include some residual assessments relating to the 2008 land tax year as well as the assessments relating to the 2009 land tax year.

Land tax is projected to be \$218 million higher than budget in 2007-08, although this is still \$68 million, or 3.3 per cent, less than in 2006-07. This reflects a combination of the processing of a higher than expected number of assessments related to the 2007 land tax year, faster than expected land value growth, particularly for high value properties, and additional compliance and administrative activity.

Policy decisions taken by the NSW Government reduced land tax in 2007-08 by around \$230 million.

Land tax, after excluding revenue from the additional compliance and administrative activity in 2007-08, is estimated to grow by 5.7 per cent in 2008-09. Average land value is forecast to grow by 4.6 per cent for the year to 1 July 2008.

MOTOR VEHICLE TAXES

Motor vehicle weight tax and vehicle registration and transfer fees are the largest components of this category. Together, they represent 98 per cent of motor vehicle tax revenue in 2007-08. Revenue from motor vehicle registration and transfer fees is estimated to be 1.4 per cent above forecast for 2007-08, while weight tax is estimated to be 1.6 per cent above forecast.

Motor vehicle taxes are estimated to increase by 4.7 per cent in 2008-09.

GAMBLING AND BETTING TAXES

The decline in club and hotel gaming revenue in 2007-08 was larger than expected, with revenue estimated to be 5.2 per cent below forecast for the year. Club and hotel gaming revenue estimates for 2008-09 reflect the full year effect of the smoking ban, and slower growth in disposable income.

The totalisator (racing) revenue estimate for 2008-09 unwinds the one-off decrease in revenue in the second half of 2007 from equine influenza.

The relatively strong growth in other gambling and betting revenue in 2008-09 reflects the gradual introduction of Keno in hotels (offered from September 2007).

OTHER TAXES

The small negative result for 2006-07 is the result of a \$292 million downward adjustment for the Electricity Tariff Equalisation Fund. Large outflows from the Fund were caused by high electricity spot prices in June 2007, after the 2007-08 Budget was finalised.

Box 4.2: Review of revenue forecasting

Econtech economic consultants reviewed Treasury's forecasting methods for the major taxes and GST revenue grants.

The review found that the models used to obtain the forecasts were logically sound and include the main economic drivers in taxation calculations. Forecasts generally have relatively low forecasting errors and compare well relative to the performance of other states and territories.

The review also found that internal governance appeared robust with sound clearance processes, and that there was consultation with outside bodies to obtain and discuss the most up to date information to determine the forecasts.

Econtech suggested some further improvements to fine-tune the forecasting models, including establishing the relationship between land values and gross state product for land tax forecasts and using historical data to develop a growth rate forecast for motor vehicle transfers.

Treasury will investigate these suggestions and introduce those that improve forecast accuracy.

4.5 GRANT REVENUE

COMMONWEALTH GENERAL PURPOSE PAYMENTS

General purpose grants from the Commonwealth in 2007-08 are estimated to be \$12.1 billion, \$134 million above the budget forecast, mostly due to a larger than expected increase in the GST pool size, which more than offsets a slight decrease in NSW population share.

General purpose grants for 2008-09 are estimated to increase by around \$960 million, or 8 per cent.

The NSW share of the GST pool increased from 27.7 per cent in 2006-07 to 28.2 per cent in 2007-08 and will increase to 28.9 per cent in 2008-09. Further details are in Chapter 8.

Table 4.6: Grant revenue

	2006-07	2007-08		2008-09	2009-10	2010-11	2011-12
	Actual	Budget	Revised	Budget	Forward Estimates		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Commonwealth - general purpose	10,938	11,926	12,060	13,020	13,972	14,738	15,547
Commonwealth - specific purpose	6,815	6,854	7,540	7,249	7,875	8,195	8,346
Total Commonwealth grants	17,753	18,780	19,600	20,269	21,847	22,933	23,893
<i>Annual per cent change in Commonwealth Grants</i>	3.9%		10.4%	3.4%	7.8%	5.0%	4.2%
Other grants and contributions	1,021	812	1,053	782	781	870	903
Total grant revenue	18,774	19,592	20,653	21,051	22,628	23,803	24,796

Source: NSW Treasury estimate for GST Revenue and Commonwealth Treasury SPP estimates

COMMONWEALTH SPECIFIC PURPOSE PAYMENTS

Specific purpose payments for 2007-08 are estimated to be \$686 million above the budget forecast. Increases include \$205 million in rural (drought) assistance, \$167.5 million in Australian Health Care Grants, \$129 million in water and environmental programs and \$49 million for equine influenza response.

Specific purpose payments are estimated to fall by \$291 million, or 3.9 per cent, in 2008-09. A number of 2007-08 specific purpose payments, such as drought assistance, do not carry through to 2008-09.

The Council of Australian Governments has agreed to significant changes to specific purpose payment arrangements. Details are set out in Chapter 8.

OTHER GRANTS AND CONTRIBUTIONS

Other grants and contributions includes donations and bequests to general government entities such as schools, gardens (e.g. the Botanic Gardens and Domain Trust), museums and art galleries, as well as cash contributions from public trading enterprises and industry associations to various joint projects. These wide sources for grants mean this revenue has significant fluctuations.

The revised estimate for 2007-08 includes the Tugun Bypass. The bypass was completed and transferred to New South Wales in 2007-08, rather than 2008-09 as expected. The value of the grant recognised as revenue in each of 2006-07 and 2007-08 reflects the project construction costs.

Other grants and contributions are expected to fall from \$1.1 billion in 2007-08 to \$782 million in 2008-09, a fall of 25.7 per cent.

4.6 OTHER REVENUES

SALE OF GOODS AND SERVICES

Sale of goods and services revenue arises from the use of government assets as well as from revenue generated by agencies in their normal trading activities. From 2006-07, the fees for service item includes payments for the supply of employee services from general government agencies to certain public trading enterprises.

Hospital inpatient fees in 2007-08 grew significantly over budget estimates with higher patient numbers. These fees are paid for private patients in public hospitals.

Revenue from sale of goods and services is expected to grow by 4.2 per cent in 2008-09.

Table 4.7: Sale of goods and services

	2006-07	2007-08		2008-09	2009-10	2010-11	2011-12
	<i>Actual</i>	<i>Budget</i>	<i>Revised</i>	<i>Budget</i>	<i>Forward estimates</i>		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Sale of Goods and Services							
Rents and leases	154	155	153	156	161	167	173
Fees for Service	285	295	336	344	358	366	372
Entry Fees	28	27	29	30	31	33	34
Patient Fees and Other Hospital Charges	740	805	827	866	887	909	935
Department of Veterans' Affairs	316	307	307	314	322	330	338
Court Fees	173	175	186	194	199	204	209
Road Tolls	84	89	89	95	100	107	113
Other Sales of Goods and Services	1,523	1,570	1,547	1,621	1,681	1,736	1,779
Sale of Goods and Services	3,303	3,423	3,474	3,620	3,739	3,852	3,953

INTEREST INCOME

Interest income comprises returns on general government agencies' investments with NSW Treasury Corporation (managed investments and bonds), interest on advances to public trading enterprises and interest on general government agencies' bank accounts.

Global equity markets fell sharply in early 2008, and were unusually volatile. Investment income for 2007-08 is estimated to be \$558 million lower than the original budget estimate.

Investment returns in 2008-09 are forecast based on long run average returns.

Table 4.8: Interest income

	2006-07	2007-08		2008-09	2009-10	2010-11	2011-12
	<i>Actual</i>	<i>Budget</i>	<i>Revised</i>	<i>Budget</i>	<i>Forward estimates</i>		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Interest income	1,239	720	162	706	742	781	818
Total interest income	1,239	720	162	706	742	781	818

DIVIDENDS AND TAX EQUIVALENTS

All commercial public trading enterprises are required to make dividend and tax equivalent payments under the Government's *Commercial Policy Framework* to encourage government businesses to make commercial operational and investment decisions.

Dividends provide the Government with a return on its investment in each business. Dividends are determined individually for each business, taking account of operational requirements and investment programs. The payment of income tax equivalents ensures competitive neutrality with private sector companies.

Total dividend and tax equivalent revenue in 2007-08 is forecast to be \$54 million, or 3.1 per cent, above the 2007-08 Budget estimate.

Table 4.9: Dividend and tax equivalent revenue

	2006-07	2007-08		2008-09	2009-10	2010-11	2011-12
	Actual \$m	Budget \$m	Revised \$m	Budget \$m	Forward estimates \$m		
Dividends							
Electricity							
Generation	426	411	406	375	328	293	317
Distribution & Transmission	392	330	363	317	381	427	450
Water, Property and Resources	275	306	302	331	375	420	441
Financial Services	34	36	31	36	38	40	40
Ports	33	26	34	35	33	34	48
Other	35	36	35	34	39	42	43
	1,195	1,145	1,171	1,128	1,195	1,256	1,339
Income tax equivalents							
Electricity							
Generation	190	195	185	163	144	130	139
Distribution & Transmission	313	215	244	205	274	305	321
Water, Property and Resources	161	144	168	227	270	240	246
Financial Services	12	13	9	13	13	14	14
Ports	39	39	26	45	45	41	45
Other	15	15	17	15	16	16	17
	730	621	649	668	762	746	782
Dividends and income tax equivalent revenue from other sectors	1,925	1,766	1,820	1,796	1,957	2,002	2,121
Dividends from associates	29	...	...	...	58	70	81
Total Dividends and income tax equivalent revenue	1,954	1,766	1,820	1,796	2,015	2,072	2,202

Note: Income tax revenue for 2006-07 excludes taxes accrued on superannuation actuarial gains and losses, as these are treated as 'other economic flows' in GFS-GAAP harmonised reports.

For 2008-09, higher dividends and tax equivalents are forecast from the water sector, due to an easing of water restrictions and higher regulated water prices from July 2008. Tax equivalents will also increase in the port sector, driven by growing trade volumes. Dividends from the ports sector in 2008-09 will not increase as much because a greater proportion of profits will be retained by these businesses to fund major capital expenditure.

Despite these increases, overall dividend and tax revenue for 2008-09 is expected to decrease by about 1.3 per cent from 2007-08. This is because the higher payments from the ports and water sector will largely be offset by lower payments from the electricity sector. Dividend and tax equivalent payments are made by both generators and network businesses. Recent increases in interest rates are likely to significantly increase borrowing costs and reduce profits in the electricity network sector.

Over the forward estimates period, dividend and tax equivalent revenue is expected to rise significantly in 2009-10, and then grow at an average rate of 4.5 per cent a year. These forecasts do not include an estimate of the fiscal impact of proceeding with the government's electricity plans. Sufficient funds realised from the reforms will be invested in the Community Infrastructure (Intergenerational) Fund to provide an income stream equal to the budgeted long-run returns (dividends and tax equivalents) forgone from the retail and generation sectors. Dividends and tax equivalents will continue to be received from the network sector as these will continue to be operated by government.

Contributing factors to the growth in dividends include an increase in earnings growth in the electricity sector resulting from an expected increase in the regulated price for electricity network businesses, increased profits on the sale of land developments and increased port activity.

FINES, REGULATORY FEES AND OTHER REVENUE

Fines

The largest share of fine revenue – over 90 per cent – comes from motor traffic fines.

The State Debt Recovery Office improved its business processes to recover an additional \$36 million above forecast in outstanding fines in 2007-08. Increased road surveillance from speed cameras also increased revenue by \$20 million in 2007-08.

Regulatory Fees

Fee revenue for 2007-08 is estimated to be \$8 million, or 4.7 per cent, above the 2007-08 budget estimate. Fee revenue is expected to fall by \$22 million, or 12.3 per cent, in 2008-09. These variations in fee revenue are mainly due to the renewal pattern of three year home building licences. A significant proportion of these licences were renewed in 2007-08, so revenue will be lower in 2008-09 and 2009-10.

Licences

Licence revenue for 2007-08 is estimated to be \$7 million above the 2007-08 budget estimate, and to grow by \$26 million, or 23.4 per cent, in 2008-09. Licence revenue varies with the renewal pattern of three and five year drivers' licences.

Table 4.10: Fines, regulatory fees and other revenue

	2006-07	2007-08		2008-09	2009-10	2010-11	2011-12
	<i>Actual</i>	<i>Budget</i>	<i>Revised</i>	<i>Budget</i>	<i>Forward estimates</i>		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Fines	251	244	300	293	301	314	325
Regulatory fees	143	171	179	157	155	191	142
Licences	116	104	111	137	179	189	141
Royalties	489	480	520	920	1,066	1,336	1,215
Fire Brigades Levy on							
Local Government	59	61	61	64	64	64	63
Other State Revenues	137	129	132	119	121	129	128
Other operating revenues	565	402	518	486	461	458	480
Total fines, regulatory fees and other revenues	1,760	1,591	1,821	2,176	2,347	2,681	2,494

Royalties

Royalty revenue increased moderately in 2007-08 and will increase considerably from 2008-09 to 2010-11 because of a significant increase in coal prices. Increases in coal export prices are expected to exceed 100 per cent for thermal coal and 200 per cent for coking coal as existing contracts are renewed in 2007-08 and 2008-09. Based on this information it is expected that coal royalties will be \$840 million for 2008-09.

In April 2007, the NSW Government approved plans for a new coal export terminal and expansion of the Kooragang coal terminal. These facilities are expected to increase port capacity for coal export by almost 40 per cent during 2009 to 2011. In addition, considerable work is being undertaken to reduce rail bottlenecks between mines and the ports.

The forward estimates for 2009-10 to 2011-12 are based on a volume increase of almost 40 per cent, coupled with average exchange rate and coal price assumptions. An improving exchange rate and lower coal prices would result in a lower forecast, while the combination of lower exchange rate and higher coal prices would increase royalty revenue.