

Territory Own-Source Revenue

Overview

Northern Territory own-source revenue comprises taxes, fees, charges, miscellaneous property income, interest received and profit or loss on disposal of assets. Full details of revenue collected from Territory sources are set out in *Budget Paper No. 3*.

Details of the key revenue measures announced in this Budget are detailed in Chapter 4. In summary, these measures include:

- an increase in the payroll tax exemption threshold from \$600 000 to \$800 000 from 1 July 2004, with a further increase to \$1 000 000 with effect from 1 July 2005;
- cessation of the HIH levy for workers' compensation insurance policies written or renewed on or after 18 May 2004;
- abolition of debits tax from 1 July 2005;
- creation of a taxation administrative appeals tribunal that can hear appeals relating to stamp duty, payroll tax and mineral royalties; and
- a number of anti-avoidance measures and other amendments to enhance the efficiency and effectiveness of the Territory's taxes and royalty regimes.

This chapter provides an explanation of the Territory's revenue regime and an analysis on how it compares with the other jurisdictions. This comparison is based on independent assessments by the Commonwealth Grants Commission of state and territory revenue regimes.

This analysis and the comparison of tax regimes confirm the Territory's revenue regime is the lowest of the states. The Northern Territory Fiscal Strategy commits the Territory to having a competitive tax regime.

This chapter also provides a brief summary on the status of the taxes set out in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the Intergovernmental Agreement) to be abolished or reviewed as part of national tax reform.

In addition, this chapter presents a statement of the Territory's forecast tax expenditures for 2004-05 through to 2007-08. Tax expenditures are the revenues forgone by Government as a result of the provision of concessions and exemptions.

Appended to this chapter is an interjurisdictional comparison of a selection of household charges imposed by Government-related entities.

Commonwealth Grants Commission Assessments of Effort and Capacity

The ability of the states to generate revenue from their own-sources is a result of the size of each jurisdiction's revenue base and the tax rates the Government applies.

The relative magnitude of each jurisdiction's revenue base is determined by economic activity and natural resource endowments. Revenue capacity represents potential revenue levels if national average tax rates are applied to each jurisdiction's revenue base. This is usually expressed as a ratio of the national average revenue capacity.

Revenue capacity is calculated as the ratio of:

- the Commonwealth Grants Commission assessment of per capita revenue a state could raise by applying average rates (standardised revenue per capita); to
- the Australian average per capita revenue actually raised (standard revenue per capita).

Revenue effort compares actual revenue collections with revenue capacity. Average revenue effort is set at 100 per cent. Above average revenue effort will be greater than 100 per cent and below average effort will be less than 100 per cent.

The Commonwealth Grants Commission (the Commission) assesses revenue capacity in its analysis of the relative fiscal needs of the states for Commonwealth financial assistance. The comparisons of the states' assessed revenue-raising capacity and effort contained in this chapter were made using 2002-03 data, as this was the most recent data used by the Commission.

Table 6.1 provides a comparison of the Commission's assessment of total state own-source revenue-raising effort in 2002-03 for the states. The Commission's assessment of total state own-source revenue includes taxation, mining revenue and contributions by trading enterprises, including government owned corporations.

Table 6.1: 2002-03 Revenue Effort by Jurisdiction – Total State Own-Source Revenue

NSW	Vic	Qld	WA	SA	Tas	ACT	NT
100.70	100.94	90.15	103.62	118.03	101.24	95.43	89.97

Note: 100 per cent represents national average

Source: Commonwealth Grants Commission 2004 Update Report

The assessment in Table 6.1 shows that the Territory has the lowest state own-source revenue-raising effort of the states.

Table 6.2 provides a comparison of the Commission's assessment of total taxation-raising effort in 2002-03 for the states.

Table 6.2: 2002-03 Revenue Effort by Jurisdiction – Total Taxation

NSW	Vic	Qld	WA	SA	Tas	ACT	NT
100.98	107.23	85.77	99.48	111.04	91.87	101.63	90.11

Note: 100 per cent represents national average

Source: Commonwealth Grants Commission 2004 Update Report

The assessment in Table 6.2 shows that the Territory has the second lowest taxation-raising effort of the states behind Queensland.

This is the most recent assessment by the Commission, but it relates to 2002-03, which covers a period before the removal of the \$90 Temporary Budget Improvement Levy from 1 July 2003 and the payroll tax rate reduction from 6.3 per cent to 6.2 per cent. It is expected that the removal of this levy and the payroll tax rate reduction will further reduce the Territory's assessed effort in the 2003-04 assessment.

Although the Commission has assessed the Territory's tax-raising effort as the second lowest of the states, total own-source revenue-raising effort has been assessed as the lowest of the states. However, there are various taxes, user charges and royalties assessed by the Commission where the Territory's rate of tax varies from the Australian average rate, or where the Territory does not impose tax at all, such as land tax, mortgage stamp duty and fire/emergency services levies. When total taxation, mineral royalties and public safety charges (including fire/emergency service levies) are taken into account, the Territory's effort is assessed by the Commission as the lowest of all the states.

Table 6.3 details this comparison.

Table 6.3: 2002-03 Tax Effort of Significant Revenue Streams

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Payroll tax	108	97	84	96	103	101	124	111
Conveyance duty	96	126	75	114	120	106	106	108
Land tax	91	125	65	112	190	280	118	0
Gambling taxes	102	131	90	31	116	82	62	92
Vehicle registration fees ¹	136	62	112	93	86	66	108	52
Total Taxation ²	101	107	86	99	111	92	102	90
Public safety charges	76	130	134	71	104	207	10	28
Mineral and petroleum royalties	88	73	98	107	96	67	0	76
Total Taxation, Royalties, and Public Safety and Emergency Services Charges ³	100	108	88	101	110	95	100	87

Note: 100 per cent represents a national average revenue effort.

Note: The above figures are rounded to the nearest whole number.

¹ Vehicle registration fees exclude heavy vehicles and includes the full impact of the Temporary Budget Improvement Levy, which ceased at the end of the CGC assessment period (30 June 2003).

² The total taxation figure is not the total for the taxes appearing in the table.

³ The total taxation, royalties, and public safety and emergency services charges figure is not a total for the table.

Source: Commonwealth Grants Commission 2004 Update Report

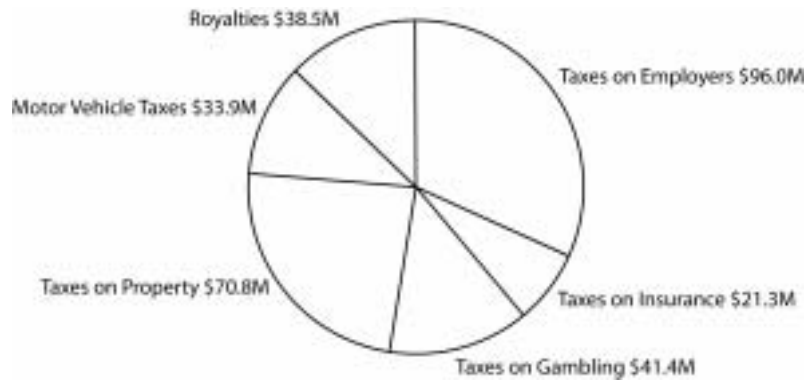
As detailed in Table 6.3, on 2002-03 figures, the Territory's payroll tax (111 per cent) and conveyance duty (108 per cent) revenue-raising efforts are higher than the national average (100 per cent). This would indicate that during 2002-03 the Territory's payroll tax and conveyance duty regimes drew relatively more tax than those of most other jurisdictions. The relatively high payroll tax and conveyance duty effort is offset by the Territory not applying a land tax and having a low revenue-raising effort in relation to vehicle registration fees and taxes in the assessment period. Raising the payroll tax exemption threshold on 1 July 2004 and again on 1 July 2005 will reduce the Territory's assessed payroll tax effort in the 2006 and 2007 assessments relative to other jurisdictions. In addition, the Northern Territory and the Australian Capital Territory are the only jurisdictions that did not raise stamp duty on mortgages during 2002-03. The Territory's remaining taxes during the assessment period were either less significant or on a par with the other jurisdictions.

To further understand the Territory's position, a more detailed analysis of the major components of own-source revenue is provided later in this chapter.

Analysis of Territory Revenue

Chart 6.1 provides an overview of the Territory's major own-source revenues broken down by Uniform Presentation Framework categories. More detail on the Uniform Presentation Framework is provided in Chapter 9.

Chart 6.1: 2004-05 Main Own-Source Revenue Categories



Note: Excludes payroll tax collected from public sector entities.
Source: Northern Territory Treasury

The projected revenue for 2004-05 from these main own-source revenue categories totals \$302 million. As indicated in Chart 6.2, the most significant portion is derived from taxes on employers (payroll tax), which comprises \$96.1 million, or 32 per cent of these own-source revenue categories. Taxes on property (comprising stamp duties on financial and capital transactions as well as financial institutions' transaction taxes) are expected to comprise 23 per cent of the Territory's own-source tax and royalty revenue in 2004-05.

The following section provides an interjurisdictional comparison by selected revenue sources.

Payroll Tax

Payroll tax is payable at a rate of 6.2 per cent on the amount by which wages paid by employers exceed the general exemption threshold of \$800 000 (as from 1 July 2004).

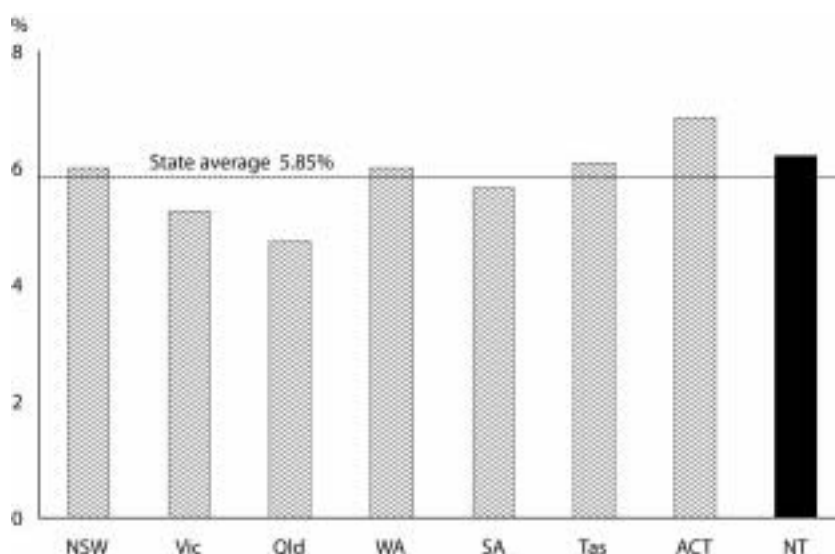
The threshold is reduced if an employer:

- pays wages in the Northern Territory and elsewhere in Australia. In this case, the threshold is reduced to reflect the level of wages paid outside the Territory. For example, if an employer pays 70 per cent of their wages in the Territory and 30 per cent interstate, the general exemption threshold is reduced by 30 per cent to \$560 000; or
- only employs for part of a financial year. In this case, the threshold is reduced to reflect the period that the employer paid wages during the year. For example, if an employer only pays wages for three months of the year, the general exemption threshold is reduced by 75 per cent to \$200 000.

Revenue from payroll tax is forecast to be \$96.1 million in 2004-05 (excluding that raised from the general government sector) and continues to be the Territory's single most significant own-source tax revenue.

The Territory's payroll tax rate has steadily reduced from 6.75 per cent in 1999 to its current 6.2 per cent rate. As shown in Chart 6.2, the Territory's payroll tax rate of 6.2 per cent is slightly higher than the states' average payroll tax rate.

Chart 6.2: 2003-04 Payroll Tax Maximum Rates

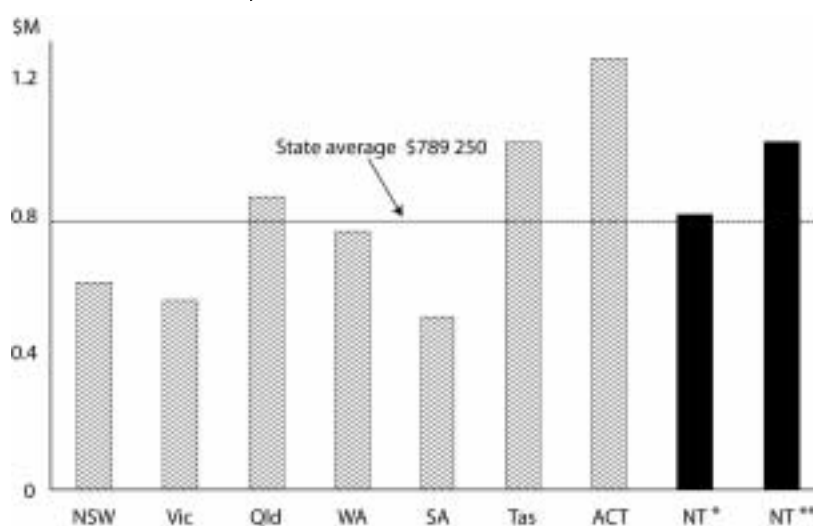


Note: As at 1 July 2004

Source: State legislation and Budget Papers available as at 18 May 2004

Following the increases in the Territory's payroll tax exemption threshold announced in the Budget (from \$600 000 to \$800 000 on 1 July 2004, then from \$800 000 to \$1 000 000 on 1 July 2005), the threshold where payroll tax commences in the Territory will be higher than the majority of states. The threshold has not altered since 1 July 1999. Chart 6.3 shows that from 1 July 2004, the Territory will have a payroll tax threshold that is above average, and greater than all states other than Queensland, Tasmania and the ACT. After 1 July 2005, the Territory payroll tax threshold will also be higher than that applying in Queensland. Furthermore, the threshold provided by Queensland diminishes such that employers with Australia-wide wages in excess of \$3.4 million receive no exemption.

Chart 6.3: 2004-05 Payroll Tax – Tax-Free Threshold



* Effective from 1 July 2004

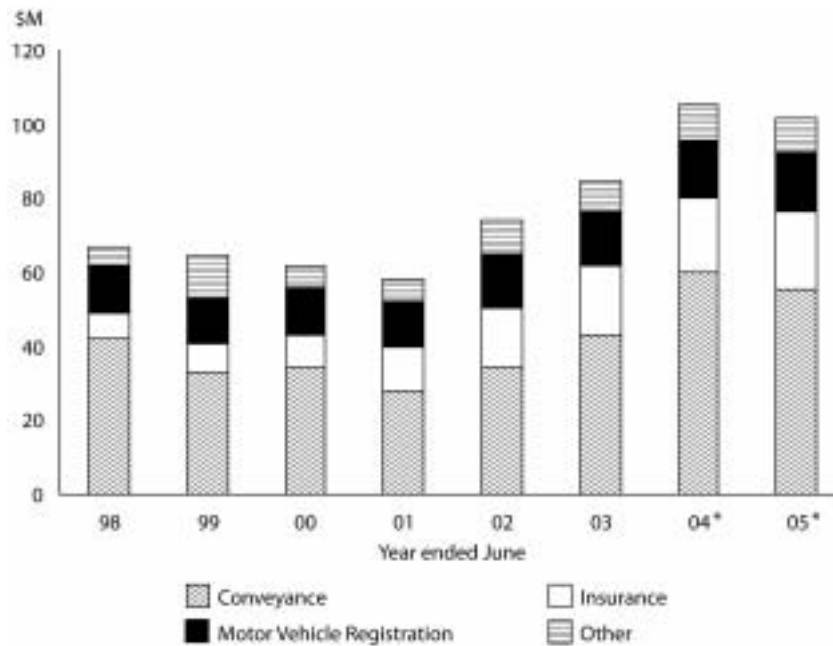
** Effective from 1 July 2005

Source: State legislation and Budget Papers available as at 18 May 2004.

Stamp Duty

Total revenue from the Territory's stamp duties is forecast to be \$101.6 million in 2004-05. The main components of stamp duty are conveyance, insurance and motor vehicle transfer of registration duties. These are shown in Chart 6.4.

Chart 6.4: Stamp Duty Collections



* Estimated figures

Source: Northern Territory Treasury

The 2003-04 estimate is characterised by a high number of residential property sales, which departs from the experience in previous years, where business-related property sales dominated this stamp duty category. The conveyance stamp duty projection for 2003-04 is \$59.78 million, up from actual receipts in 2002-03 of \$43.22 million.

In 2004-05, conveyance stamp duty collections are expected to be \$55.24 million, reflecting a return to a more normal level of duty from residential property sales.

Conveyance Duty

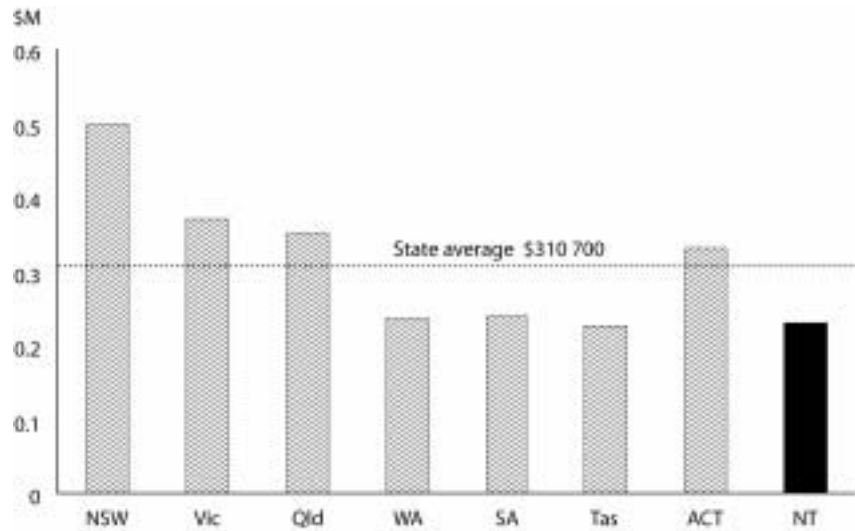
Conveyance duty remains the most significant component of stamp duty in all jurisdictions. The Territory's conveyance duty is derived from conveyances of dutiable property in the Territory. Such property mainly comprises real estate and transfers of businesses.

The Commission assessed the Territory's capacity to raise stamp duty on conveyances as the lowest in Australia, and less than half the national average. This is primarily because the majority of transactions in the Territory were at the lower end of the value range.

The Territory's revenue-raising effort in this category is the fourth highest between the states, and slightly above the national average. However, there are aspects of the Territory's conveyance stamp duty regime on which the duty load is comparatively less than other jurisdictions. In the main, this includes the Territory's home purchase stamp duty concessions.

A more practical comparison of the impact of state and territory conveyance stamp duty is obtained by comparing the conveyance stamp duty payable on the purchase of a median-priced home in each capital city. Chart 6.5 sets out the median house prices for the December 2003 quarter for Australian capital cities. These prices are used as the basis for the stamp duty comparisons in Charts 6.6, 6.7 and 6.8 below.

Chart 6.5: Median House Prices for Australian Capital Cities for the December 2003 Quarter

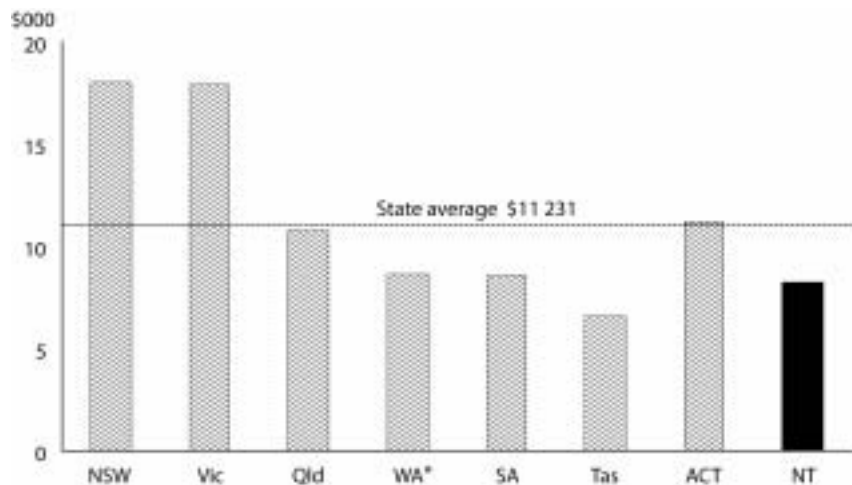


Source: Real Estate Institute of Australia

As can be seen from Chart 6.5, median house prices in Darwin are similar to those in Perth, Adelaide and Hobart, but significantly lower than in Sydney, Melbourne, Brisbane and Canberra.

As an example of the Territory's comparative effort, Chart 6.6 indicates the effect of the Territory's conveyance duty rate as applied to the purchase of a median-priced residence in Darwin without the benefit of the stamp duty principal place of residence rebate or first home owner concession.

Chart 6.6: Conveyance Duty Payable on Purchase of a Median-Priced Residence in Capital Cities Based on Rates as at 1 July 2004



* Effective from July 2004

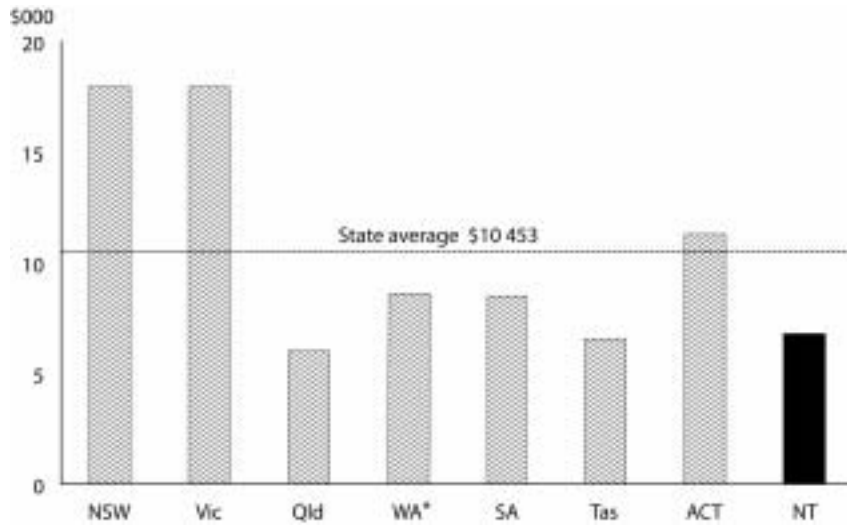
Source: Real Estate Institute of Australia and State legislation and Budget Papers available as at 18 May 2004

As shown in Chart 6.6, the Territory's conveyance duty on a median-priced residence in a capital city is lower than all states other than Tasmania.

Chart 6.7 shows that the Territory's conveyance duty on a principal place of residence in a capital city is below the national average, and lower than all states other than Queensland and Tasmania. This is partially the result of the introduction of the \$1 500 stamp duty principal place of residence rebate as part of the 2002-03 Budget. Although not reflected in Chart 6.7, Territory homebuyers also benefit from

not having to pay stamp duty on any mortgage security or, for investors, land tax (which is normally payable annually) or sales stamp duty (which will soon apply to investors who sell New South Wales real estate).

Chart 6.7: Conveyance Duty Payable on Purchase of a Median-Priced Principal Place of Residence Based on Rates as at 1 July 2004

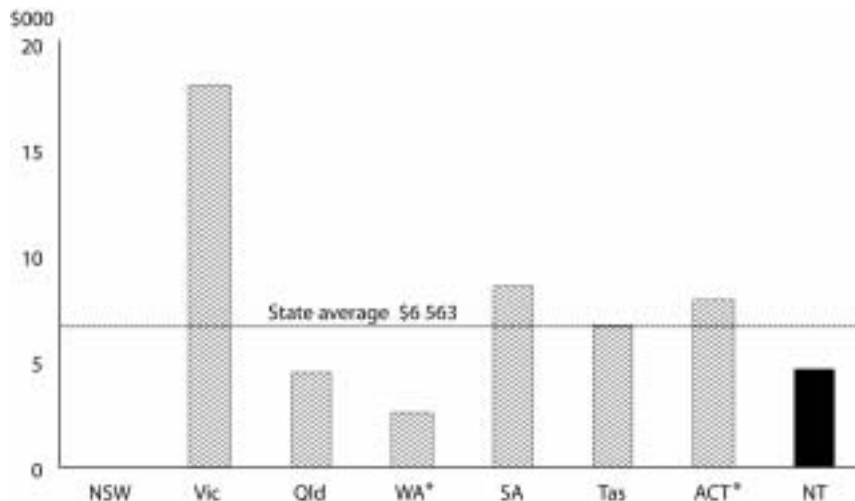


* Effective from July 2004

Source: Real Estate Institute of Australia and State legislation and Budget Papers available as at 18 May 2004

Chart 6.8 provides an interjurisdictional comparison of the stamp duty levied for a first home owner on the purchase of a median-priced home in a capital city. As indicated below, the stamp duty payable in the Territory on a median priced home in a capital city is well below the national average, and the fourth lowest in Australia. This is because Territory first homebuyers are given stamp duty relief on the first \$125 000 of their purchase.

Chart 6.8: Conveyance Duty Payable on Purchase of a Median-Priced First Home Based on Rates as at 1 July 2004



* Effective from 1 July 2004

Note: Victoria has introduced a \$5 000 First Home Bonus for first homebuyers who are eligible for the \$7 000 First Home Owner Grant. The bonus is available on contract to purchase Victorian properties where the contract is entered into on or after 1 May 2004 and before 1 July 2005, and where the consideration paid under the contract is no more than \$500 000.

Insurance Duty

Insurance duty is imposed on general and life insurance policies, with general insurance comprising the majority of the revenue collected from this stamp duty.

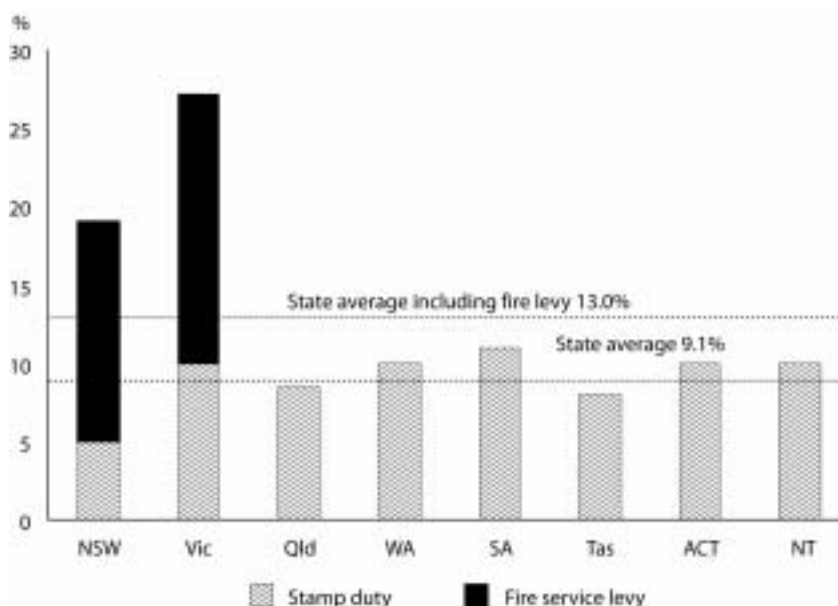
Queensland and Western Australia are the only states to raise stamp duty on workers' compensation premiums (although Western Australia will cease collecting stamp duty on these premiums from 1 July 2004).

As shown in Chart 6.9, the total tax load on *domestic* insurance in New South Wales and Victoria is significantly above the national average when fire services levies are taken into account, with the Territory being one of the lower taxing jurisdictions. These states collect their fire services levy as a rate applied to insurance premiums.

Rather than utilising the domestic insurance base, Tasmania, Queensland, South Australia and Western Australia each impose their emergency or fire services levies on property owners through local councils. Tasmania also raises the levy on certain types of non-domestic insurance, while Queensland recently introduced an ambulance levy on general public electricity accounts.

The Territory does not impose any emergency or fire service levies on the general public, although in line with the states it does impose some fines and charges for the provision of fire services in private towns and fire alarm monitoring.

Chart 6.9: Total State and Territory Taxes on Domestic Insurance as at 18 May 2004



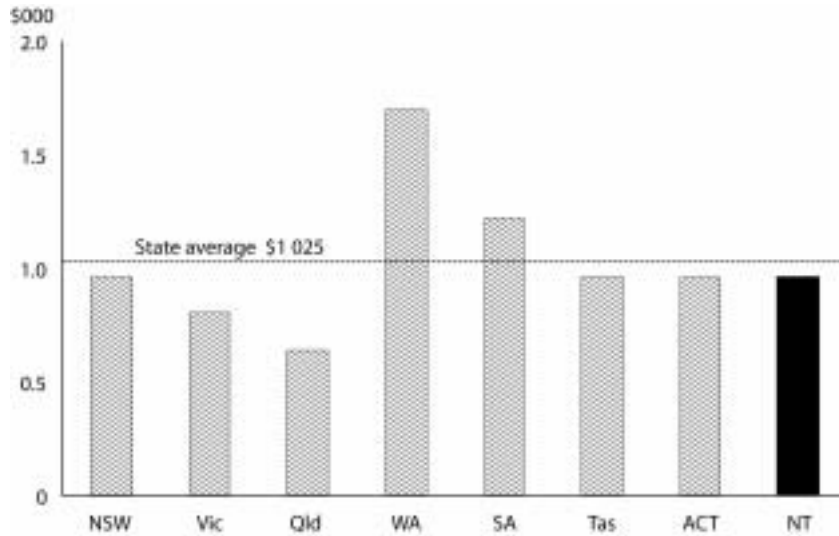
Source: State legislation and Budget Papers available as at 18 May 2004

Motor Vehicle Registration Duty

Stamp duty is levied on the transfer and initial registration of motor vehicles. Generally, the duty is levied on the purchase price of the vehicle. Revenue from this source in 2004-05 is forecast to be \$15.7 million.

The Territory rate of duty, as shown in Chart 6.10, is slightly below the national average for a new vehicle valued at \$32 000. Furthermore, unlike most jurisdictions, the Territory does not impose a higher rate of duty on luxury cars.

Chart 6.10: Motor Vehicle Registration Duty on a New Vehicle Valued at \$32 000 as at 18 May 2004



Source: State legislation and Budget Papers available as at 18 May 2004

Land Revenue

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

Land tax is generally levied on commercial land and investment residential property, although a general exclusion is provided for land used for primary production.

For the purposes of its 2004 assessment, the Commonwealth Grants Commission has assessed a notional land tax collection of approximately \$23 million based on an average of the other states' land tax regimes if the Territory collected a land tax.

Gambling Taxation

Gambling taxes constitute a significant proportion of state and territory revenues. Revenue from the Territory's gambling taxes (including the Community Benefit Levy) is forecast to be \$41.4 million in 2004-05.

The Territory raises gambling revenues from taxes levied on the value of bets placed with bookmakers, taxes levied on the value of investments in lotteries, taxes levied on the turnover of gaming machines in clubs and hotels and taxes levied on player losses at casinos. Similar taxes are raised in all other jurisdictions.

The Darwin MGM Grand casino receives a partial rebate of the casino tax that it is required to pay, in consideration for relinquishing exclusive rights to operate gaming machines.

The rebate for the Darwin MGM Grand casino ceases from 30 June 2005. Lasseters Casino in Alice Springs received a similar rebate. However, this ceased from 30 June 2003.

Table 6.4 provides a breakdown of the revenue that the Territory's gambling taxes are expected to raise in 2004-05.

Table 6.4: Estimated Revenue from Gambling Taxes for 2004-05

Tax/Duty	\$000
Wagering Taxes	5 345
Internet Gaming	625
Casino	2 694
Bookmakers – Racing and Sports Betting	4 434
Community Gaming Machines	16 475
Lotteries	10 439
Lottery Taxes – Agency Revenue (Community Benefit Levy)	1 383
Total	41 395

Source: Northern Territory Treasury

Financial Taxes

From 1 July 2001, financial taxes generally comprise debits tax and stamp duty on leases, mortgages, hiring arrangements and electronic debits.

Debits tax is imposed on debits to cheque accounts or accounts with cheque facilities. The rates vary according to the amount of the debit. Debits tax rates and thresholds are similar in all jurisdictions except New South Wales, where the tax has been abolished, and Tasmania, where the rates that apply per threshold are half of the other states.

In March 2004, all state and territory Treasurers confirmed that debits tax will be abolished by July 2005 as part of the national tax reform arrangements.

While the Territory does not charge stamp duty on mortgages, it does apply stamp duty to a broad hiring arrangement base, and a stamp duty on electronic debits made to bank accounts.

Table 6.5 sets out the revenue that the Territory's financial taxes and duties are expected to raise in 2004-05.

Table 6.5: Estimated revenue from financial taxes and duties for 2004-05

Tax/Duty	\$000
Debits Tax	6 273
Lease Duty	1 400
Mortgage Duty	0
Hiring Arrangement Duty	4 643
Electronic Debits Duty	2 434
Total	14 750

Source: Northern Territory Treasury

Mining Revenue

Mining revenue includes collections of royalties or rent equivalents levied on mining activity. Mining revenue is forecast to be \$38.5 million in 2004-05.

The Territory's mining royalty revenues are based on both profits-based and *ad valorem* regimes, whereas *ad valorem* regimes predominate in other jurisdictions.

National Tax reform

National tax reform commenced on 1 July 2000. Key to the new arrangements was the replacement of wholesale sales tax with a broad-based goods and services tax, agreed removal of certain state taxes and the review of others. While the original tax reform package provided sufficient capacity to remove a number of state taxes, the removal of food from the GST base meant that the final tax reform package had

limited capacity for removal of additional taxes beyond some financial taxes and tourism marketing duty.

Territory taxes that have already been abolished

In accordance with the Intergovernmental Agreement, the Territory has abolished tourism marketing duty from 1 July 2000 and stamp duty on quoted marketable securities and financial institutions duty from 1 July 2001.

Debits tax to be abolished from 1 July 2005

The Intergovernmental Agreement also set out that the abolition of debits tax by 2005 was to be reviewed by the Ministerial Council.

As mentioned earlier in this Chapter, the Commonwealth, states and territories agreed to abolish debits tax from 1 July 2005 at the Ministerial Council meeting on 26 March 2004.

Other Taxes subject to Ministerial Council review

Under the Intergovernmental Agreement, the Commonwealth, states and territories have agreed to the Ministerial Council reviewing, by 2005, the need to retain the stamp duties listed below.

Stamp Duty on Non-Residential Conveyances

Stamp duty levied on the value of conveyances other than residential property conveyances.

Stamp Duty on Non-Quotable Marketable Securities

Stamp duty levied on transfers of marketable securities in private companies and trusts, and in public companies and trusts where the securities are not quoted on the Australian Stock Exchange or another recognised stock exchange.

Stamp Duty on Leases

Stamp duty levied on the rental payable under tenancy agreements.

Stamp Duty on Mortgages, Bonds, Debentures and Other Loan Securities

Stamp duty levied on the value of a secured loan property. The Territory does not levy this form of stamp duty.

Stamp Duty on Credit Arrangements, Instalment Purchase Arrangements and Rental Arrangements

Stamp duty levied on the value of the loan under credit arrangements.

Stamp duty levied on credit business in respect of loans made, discount transactions and credit arrangements.

Stamp duty levied on the price of goods purchased under instalment purchase arrangements.

Stamp duty levied on the rent paid in respect of the hire of goods, including consumer and producer goods.

Stamp Duty on Cheques, Bills of Exchange and Promissory Notes

Stamp duty levied on cheques, bills of exchange, promissory notes, or other types of payment orders, promises to pay or acknowledgment of debts, including duty on electronic debits.

Tax Expenditures

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

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

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

The tax expenditures identified in this statement only relate to the more important concessions applicable in the Northern Territory and are not intended to be exhaustive. Tax expenditures in relation to exemptions or concessions provided to general government agencies are not included.

In accordance with the *Fiscal Integrity and Transparency Act*, the tax expenditure statement provides forecast information for 2004-05 and the three following financial years.

Methodology

Tax expenditures have been estimated by applying the benchmark rate of taxation to the forecast volume of activities or assets exempted by a particular concession. Only those future events that are certain, or highly likely, to impact on assumed tax bases or tax rates have been taken into consideration in estimating future tax expenditures (for example, the Government's commitment to reduce payroll tax in 2004-05 and 2005-06). Otherwise, the existing taxation arrangements have been assumed to apply for future years.

Measuring tax expenditures requires the identification of:

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

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

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

Payroll Tax

	2004-05	2005-06	2006-07	2007-08
Tax expenditure (\$ million)	72.4	77.4	78.6	79.8

The benchmark tax base for payroll tax is assumed to be all wages, salaries and supplements paid in the Northern Territory, as defined in the *Pay-roll Tax Act*. The benchmark tax rate is assumed to be the payroll tax rate that will apply in 2004-05, being 6.2 per cent. The Government's revenue initiatives announced in this Budget to reduce payroll tax in 2004-05 and 2005-06 has been factored into the tax expenditure forecasts for payroll tax.

The estimated tax expenditure reported above comprises of the following.

Small Business Exemption

From 1 July 2004, the first \$800 000 of an employer's wages are exempt from payroll tax in the Territory. This will increase to \$1 million from 1 July 2005. Accordingly,

employers with wages less than these amounts in the relevant years are not required to pay tax and employers with wages that exceed this amount only pay tax on the excess.

At the payroll tax rate of 6.2 per cent, the \$800 000 exemption reduces an employer's annual payroll tax liability by \$49 600. This increases to \$62 000 for an exemption of \$1 million.

Information about most employers whose wages do not exceed the exemption threshold is not collected for payroll tax purposes, as these employers are not generally required to register for payroll tax. Therefore, the cost of this concession has been estimated using a combination of data collected from the Australian Bureau of Statistics and the Australian Taxation Office for persons employed by small business.

Apprentices, Graduates and Others

An exemption applies for wages that are paid or payable to:

- apprentices within the meaning of the *Northern Territory Employment and Training Authority Act*;
- employees receiving wages funded under the Community Development Employment Projects program; or
- graduates of approved tertiary institutions employed under trainee arrangements approved by the Commissioner of Taxes.

The exemption replaced a rebate scheme that applied prior to 1 July 1999.

Actual wage data collected in past years from payroll tax registered employers in respect of these employees has been used as the basis of the estimate for this item.

Private Educational Institutions and Local Government

Payroll tax does not apply to wages paid or payable by the following organisations, to the extent that those wages are paid for an employee's services that relate directly to the purpose for which the organisation was established:

- private non-tertiary schools or colleges;
- local governing bodies; or
- religious institutions, public benevolent institutions or public hospitals.

Tax expenditures in relation to a number of these concessions cannot be estimated with a high level of confidence, since payroll tax data is not collected from exempt organisations. However, estimates have been made for local government, private educational institutions and some public benevolent institutions for which information is available. These groups would receive the majority of the payroll tax benefits provided under this exemption. Australian Bureau of Statistics and Australian Taxation Office information relating to wages paid by these industry groups has been used as the basis for this estimate.

Trade Development Zone Exemptions

Prior to 1 July 2003, a broad Territory tax exemption was available to all businesses that held a Trade Development Zone licence. To obtain a licence, a business must have operated in the Trade Development Zone and satisfied any of the following criteria:

- the whole or part of the business involved the operation of a bonded warehouse for the purposes of the *Customs Act* of the Commonwealth;

- the substantial part of the business that, in the opinion of the Trade Development Zone Authority, included or was intended to include a substantial amount of importing and exporting; or
- that a business, in the opinion of the Trade Development Zone Authority, provided or would provide goods or services necessary for, or ancillary to, the carrying on of another business that holds a Trade Development Zone licence.

The Trade Development Zone was established to attract manufacturing and high technology industries based on exports.

From 1 July 2003, the *Trade Development Zone Act* was repealed and these exemptions were removed. However, a transitional payroll tax concession will apply, such that the payroll tax (if applicable) of all Trade Development Zone licensees will be waived until such time as their current licences expire.

The cost of the payroll tax concession has been estimated, based on wage estimates of employees working for large employers based in the Trade Development Zone.

Stamp Duty on Conveyances

	2004-05	2005-06	2006-07	2007-08
Tax expenditure (\$ million)	10.6	10.7	10.9	11.2

The benchmark tax base is assumed to be sales of all dutiable property, including chattels that are part of a transaction that conveys other dutiable property. The benchmark tax scale is assumed to be the stamp duty scale that will apply in 2004-05.

The estimated tax expenditure reported above comprises of the following.

Corporate Reconstructions Exemption

An exemption for transfers of property between commonly-owned corporations was introduced from 10 October 2002. The exemption is to allow corporate groups to reorganise the ownership of assets into more efficient structures.

The estimated value of the concession is based on the actual amount of stamp duty forgone as a result of approved corporate reconstruction exemptions and how this relates to overall conveyance stamp duty collections.

First Home Owner Concession

Prior to 20 August 2002, a stamp duty concession equalling the stamp duty payable up to the first \$80 000 in value (that is, up to \$2 096 in stamp duty) applied to the purchase of a person's first home in the Northern Territory.

From 20 August 2002, the criteria for the concession was aligned with the \$7 000 First Home Owner Grant, such that it is only available to "true" first homebuyers. In addition, the value of the concession was increased to the stamp duty payable up to the first \$125 000 in value (that is, up to \$3 640.60 in stamp duty).

The overall effect of these changes is to reduce the tax expenditure for this concession. However, any notional savings have been channelled into the Principal Place of Residence Rebate (outlined below).

The estimated tax expenditure for this concession is based on actual historical data collected in relation to the concession and how this relates to overall conveyance stamp duty collections.

Principal Place of Residence Rebate

From 20 August 2002, a new stamp duty rebate of up to \$1 500 of the duty payable on the purchase of a person's principal place of residence in the Northern Territory is

available. This is equivalent to a rebate of the stamp duty on the first \$60 200 of a property's value. This concession is not available to first homebuyers.

The combination of the First Home Owner Concession and the Principal Place of Residence Rebate has had the effect of increasing tax expenditures when compared to the former First Home Owner Concession.

The estimated tax expenditure for this concession is based on actual historical data collected in relation to the rebate and how this relates to overall conveyance stamp duty collections.

Other Conveyance Stamp Duty Exemption

Several other conveyance stamp duty exemptions are provided that together result in significant revenue being forgone by the Territory, the largest of these being exemptions for:

- the transfer of a company's property, on its winding up, to a shareholder of the company entitled to the property on a distribution in kind;
- instruments made pursuant to a court order that alter the interests of the parties to a marriage. This exemption is provided under the Commonwealth's *Family Law Act*;
- the conveyance of property between partners of a de facto relationship on the breakdown of the relationship; and
- property transferred to public benevolent institutions, religious institutions, public hospitals and public education institutions for a purpose other than the carrying on of a commercial activity conducted by or on behalf of the entity.

The estimated tax expenditure for this concession is based on actual historical data collected in relation to the various exemptions that have been granted and how these relate to overall conveyance stamp duty collections.

Stamp Duty on General Insurance Policies

	2004-05	2005-06	2006-07	2007-08
Tax expenditure (\$ million)	12.8	13.3	13.6	14.0

The benchmark tax base is assumed to be all classes of general insurance policies. This does not include life insurance policies, which are treated differently for stamp duty purposes. The benchmark tax rate is assumed to be the stamp duty rate that will apply in 2004-05, being 10 per cent of the premium.

The estimated tax expenditure reported above comprises the following.

Workers' Compensation Insurance Exemption

An exemption is provided for workers' compensation insurance to help reduce labour oncosts.

This item of tax expenditure has been estimated, based on total work health insurance policy premiums paid during 2002-03.

Private Health Insurance Exemption

An exemption is provided for private health insurance to help reduce the cost of such insurance.

The estimated tax expenditure for this exemption is based on private health insurance premium data obtained from the Private Health Insurance Administration Council.

Stamp Duty on Leases

	2004-05	2005-06	2006-07	2007-08
Tax expenditure (\$ million)	0.9	1.0	1.0	1.0

The benchmark tax base is assumed to be any lease, agreement for a lease or franchise agreement. The benchmark tax rate is assumed to be the stamp duty rate that will apply in 2004-05, being 50 cents per \$100 of total rent.

The estimated tax expenditure reported above comprises of the following.

Residential Property Exemption

An exemption is provided for residential leases to reduce the cost of leased accommodation.

Information is not collected in relation to residential leases, as they are not subject to stamp duty. Therefore, Australian Bureau of Statistics data on occupied private dwellings has been utilised to estimate the value of this exemption.

Exemption for Commercial Leases with Annual Rent of \$30 000 or Less

From 1 July 2003, all commercial leases with annual rents of \$30 000 or less are not subject to stamp duty.

The estimated value of this concession is based on information collected for leases with an annual rent of \$30 000 or less in years to 1 July 2003.

Motor Vehicle Registration Fees

	2004-05	2005-06	2006-07	2007-08
Tax expenditure (\$ million)	0.7	0.7	0.7	0.7

The estimated tax expenditure reported above comprises the following.

Pensioner Vehicle Concession

The holder of a Pensioner Concession Card is able to receive a flat \$104 concession from motor vehicle registration fees.

Actual historical motor vehicle registration fee data has been used to estimate this item of tax expenditure.

Mineral Royalties

	2004-05	2005-06	2006-07	2007-08
Tax expenditure (\$ million)	10.9	10.6	11.4	8.8

The benchmark tax base is assumed to be all profitable mining operations in the Northern Territory. The benchmark tax rate is assumed to be the rate of royalty that will apply in 2004-05, being 18 per cent.

The estimated tax expenditure reported above comprises the following.

Eligible Exploration Expenditure

Royalty payers are able to reduce the amount of royalty that they pay in the Territory for eligible exploration expenditure (EEE) they incur for their mining operations in the Territory. However, the amount by which royalty may be reduced in this manner is limited to a maximum of 25 per cent of the amount that would otherwise be payable. Prior to 1 July 2003, EEE could be used to reduce royalty by up to 35 per cent.

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

Gambling Taxes

	2004-05	2005-06	2006-07	2007-08
Tax expenditure (\$ million)	14.1	8.1	8.5	8.9

The estimated tax expenditure reported above comprises the following.

Gaming Machines Concessions for Licensed Clubs

The benchmark tax base is assumed to be all gaming machines operated by licensed clubs and hotels in the Northern Territory. The benchmark tax rate is assumed to be the highest marginal tax rate that will apply in 2004-05 (including the 10 per cent Community Benefit Levy), being 52.91 per cent.

A concessional graduated tax scale applies to gaming machines operated by licensed clubs. The marginal tax rates are applied to the monthly gaming machine metered win revenue, with the top tax rate applying to the portion of such revenue that exceeds \$150 000 for any licensed club.

The cost of this concession is based on projected gaming machine revenue from licensed community gaming machine operators.

Casino Tax Concessions – Community Gaming Machine Allowance

The benchmark tax base is assumed to be all gaming machines operated by licensed clubs and hotels in the Northern Territory. The benchmark tax rate is assumed to be the rate of rebate that will apply in 2004-05, being 22 per cent.

The Darwin MGM Grand casino receives a partial rebate of the casino tax that it is required to pay, in consideration for relinquishing exclusivity over gaming machines. The amount of the rebate is 22 per cent of the monthly gaming machine metered win revenue of licensed community gaming machine operators. However, the rebate amount is capped, based on the revenue generated from 500 community gaming machines in the northern region of the Territory.

The rebate for the Darwin MGM Grand casino ceases from 30 June 2005. Lasseters Casino in Alice Springs received a similar rebate. However, this ceased from 30 June 2003.

The cost of this concession is based on projected gaming machine revenue from licensed community gaming machine operators.

Conclusion

The Territory has substantially the same revenue-raising powers as the states. However, constitutional and other arrangements limit the revenue-raising base that is available to all the states and territories.

Thus, while the Territory, like the states, has limited discretion on the range of taxes that can be applied, it has discretion over the rates of these taxes.

National tax reform has given the states and territories access to a more robust and growing revenue base but it has also further reduced the range of taxes directly available to the states and territories. This has meant states and territories are paying greater attention to the efficiency and comparability of their remaining taxes.

Appendix

Comparison of Selected State and Territory Charges

As is the case for all jurisdictions, the Territory Government levies user charges for some of the services it provides. These include electricity, water, sewerage and motor vehicle registration charges. This appendix provides comparative data on these and other selected charges.

Electricity Charges

PowerWater became the Territory's first government owned corporation on 1 July 2002. The PowerWater Board is responsible for making recommendations about tariffs to the shareholding Minister.

The Government has committed to maintain current electricity charges for domestic users during its first term in office.

Commercial

Commercial customers who use more than 750 mWh per year are able to choose their electricity supplier. On 28 February 2003, the Treasurer announced that due to the lack of competition to PowerWater in the Territory's electricity market, the timetable for full retail contestability (originally by April 2005) has been deferred until 2010.

Contestability refers to the ability of customers to choose their electricity supplier in a competitive market.

Table 6.6 compares contestability (choice of supplier) thresholds between the jurisdictions.

Table 6.6: Threshold for Choice of Supplier

New South Wales (from 1 January 2002)	Fully Contestable
Victoria (from 1 January 2002)	Fully Contestable
Queensland (from 1 January 2000)	≥ 200 mWh
Western Australia (from 1 January 2003)	34 kWh
South Australia (from 1 January 2003)	Fully Contestable
Australian Capital Territory (from 1 July 2003)	Fully Contestable
Northern Territory (from 1 April 2002)	750 mWh

Source: Electricity Supply Association of Australia Limited

Tariffs for commercial customers in the contestable market are commercial in confidence and as such cannot be readily compared between states. The following electricity charging options are available to all non-contestable commercial customers in the Territory.

The standard tariff for non-contestable commercial customers in the Territory (using less than 750 mWh) comprises a fixed charge of 43.14 cents per day and a usage charge of 16.30 cents per kWh. The GST component of the charge is creditable and lowers the net cost for GST-registered customers.

Another option is the commercial time-of-use tariff. It comprises a fixed charge of 43.14 cents per day, and usage charges of 20.87 cents per kWh for consumption between 6am and 6pm, and 11.74 cents per kWh for consumption between 6pm and 6am.

Standard demand tariffs are also available to customers with 24 hour operations or both day and night-time usage. Table 6.7 provides further details of the standard demand tariff regime.

Table 6.7: Standard demand tariffs as gazetted in January 2003

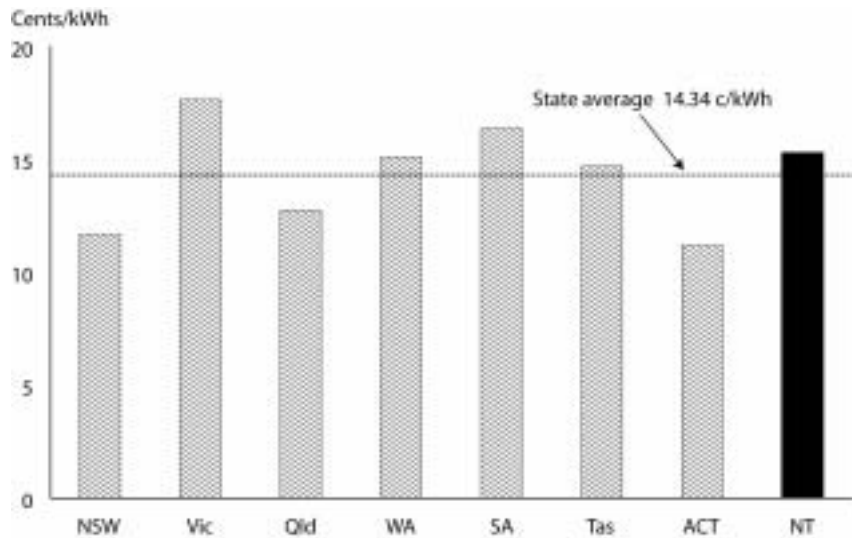
Monthly Usage kWh	Peak cents/kWh	Off peak cents/kWh
First 10 000	10.8	9.86
Next 20 000	10.7	9.75
Next 50 000	10.6	9.64
Next 100 000	10.49	9.54
Next 200 000	10.38	9.43
Next 200 000	10.28	9.33
Balance	10.17	9.22
<i>plus</i>		
Monthly Demand kVa	Peak \$/kVa	Off peak \$/kVa
First 50	24.13	3.18
Next 100	22.03	2.91
Next 300	19.93	2.65
Next 500	17.84	2.38
Next 1000	15.74	2.23
Balance	14.68	2.12
<i>plus</i>		
System charge		\$3.48 per day

Source: PowerWater website – Power Tariffs

Domestic

Domestic electricity charges (generally applying to households) in the Territory comprise a fixed daily charge of 27.62 cents and usage charge of 14.02 cents per kWh for a standard meter. Chart 6.11 provides a comparison of domestic charges for the consumption of 2 000 kWh per quarter. Based on Chart 6.11, the average domestic electricity charge in the Territory is 15.28 cents per kWh. This is higher than the national average of 14.34 cents per kWh. Higher charges in the Territory are cost reflective and influenced by the absence of cheaper fuel sources and economies of scale. The bulk of fuel costs in the Territory are fixed costs associated with financing the Amadeus Basin to Darwin gas pipeline.

Chart 6.11: Domestic Average cents/kWh Charges for 2 000 kWh per Quarter as at 30 June 2003



Source: PowerWater Annual Report 2002-03

Water and Sewerage Charges

Water

Water is charged in the Territory at 67.65 cents per kilolitre (kL), as well as a fixed daily charge based on the size of the meter (as set out in Table 6.8).

Table 6.8: Water Meter Charges Effective January 2003

Meter Size	Daily Charge
Up to 25mm	28.25c
26 to 40mm	72.32c
41 to 50mm	\$1.1275
51 to 100mm	\$4.5203
101 to 150mm	\$10.1680
151 to 200mm	\$18.0810

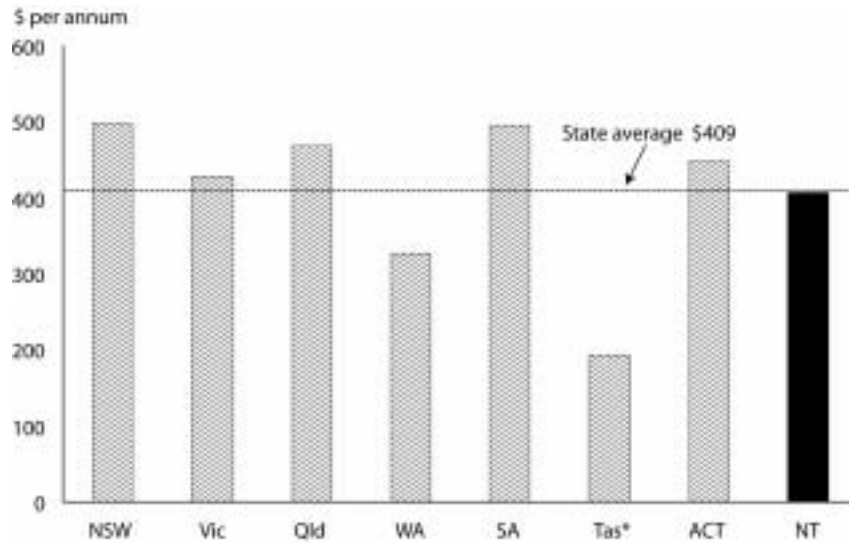
Source: PowerWater Annual Report 2002-03

The charge is proportional to the meter size for meters greater than 200mm. In most instances, meters up to 25mm are used for domestic customers.

The average Darwin domestic consumption is 437 kL per annum compared to the national average of 450 kL per annum.

Based on 450 kL consumption per annum, Territory water charges of \$407 are marginally lower than the national average of \$409, and less than those of all jurisdictions other than Tasmania and Western Australia (Chart 6.12).

Chart 6.12 Domestic Water Charges Based on Annual Consumption of 450 kL as at June 2003

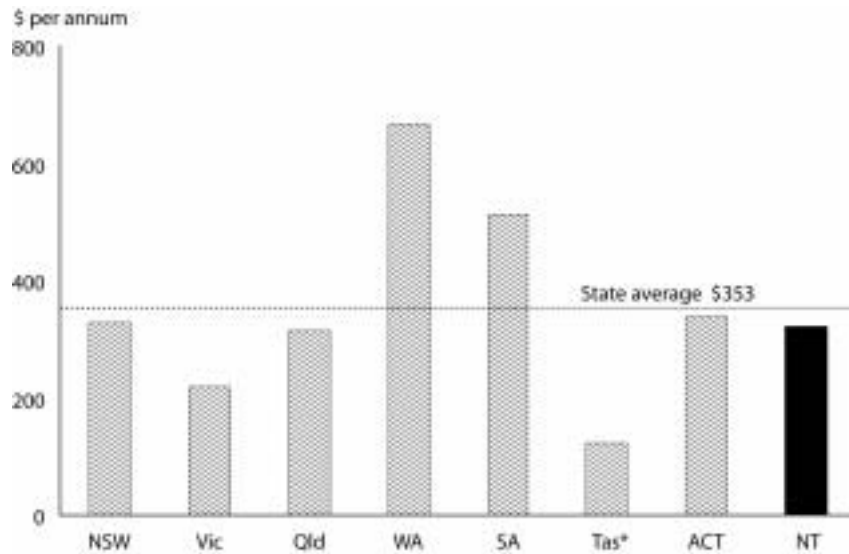


* Comparatively low due to water charges being based on property value.
Source: PowerWater Annual Report 2002-03 and website

Sewerage

Chart 6.13 shows the Territory's domestic sewerage charge, at \$322 per annum, is below the national average, and third lowest of the jurisdictions.

Chart 6.13: Annual Sewerage Charges for a Home as at June 2003

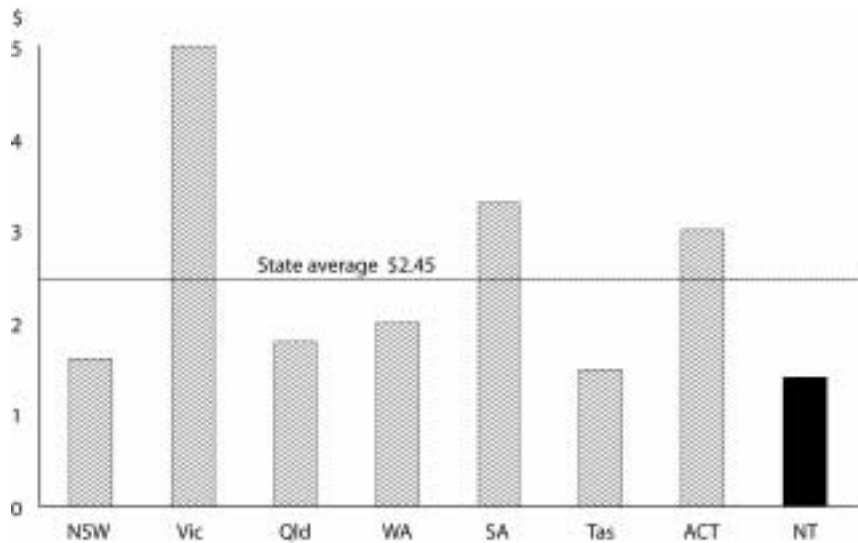


* Heavy cross-subsidy of domestic by commercial customers
Source: PowerWater Annual Report 2002-03

Bus Fares

Chart 6.14 shows the Territory's standard adult bus fare for travelling one "zone" at 1 March 2004 (\$1.40) is the lowest in Australia.

Chart 6.14: Adult Bus Fare for Travelling One Zone as at 1 March 2004



Source: Department of Infrastructure, Planning and Environment

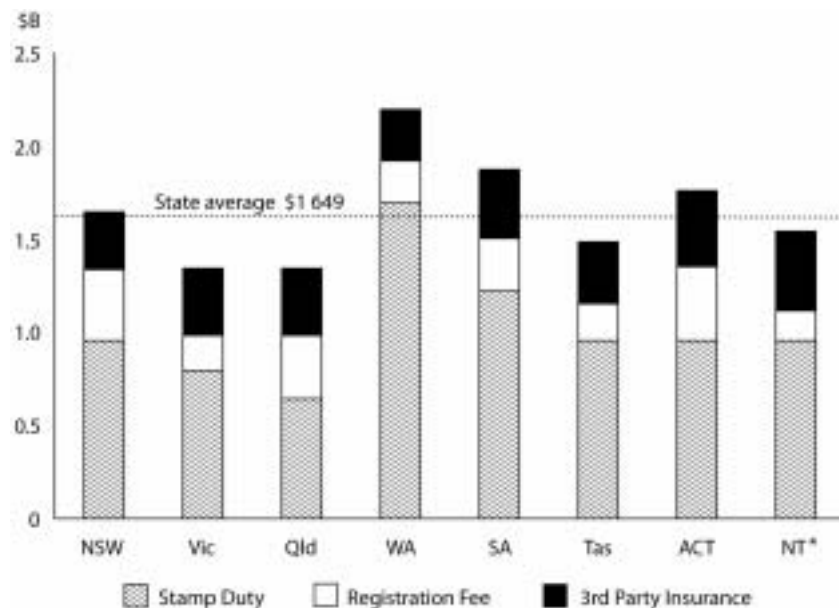
Vehicle Registration Fees

Vehicle registration fees and taxes comprise revenue collections from motor vehicle number plate and registration fees and surcharges on all vehicles other than heavy vehicles.

This includes privately-registered passenger vehicles, caravans, trailers, motorcycles, trucks and commercial vehicles.

Chart 6.15 below shows that as at 1 July 2004, the Territory's on-road costs for a medium \$32 000 passenger vehicle are below the national average.

Chart 6.15: On-Road Costs for Medium \$32 000 Passenger Vehicle



* Third Party Insurance will increase by \$24.15 from 1 July 2004

Source: Department of Infrastructure, Planning and Environment, based upon information available as at 18 May 2004

The Territory's registration fees (excluding third party insurance) are the lowest in Australia and well below the Australian average.

Third party insurance is not a Government-imposed tax. The Territory's compulsory third party premiums are greater than the national average and reflect the higher costs and risks inherent in third party insurance arrangements in the Territory, including potentially expensive common law claims available to non-resident drivers and passengers.

The Territory's stamp duty cost payable on the purchase of such a vehicle is the equal third lowest in Australia and below the Australian average.

Public Safety and Emergency Services

Public safety and emergency services charges consist of fire insurance or emergency service levies and other charges.

The Northern Territory and the Australian Capital Territory are the only jurisdictions that do not tax residents and businesses by imposing a general fire or emergency services levy. These charges are imposed in a variety of ways among the states, including through recurrent levies based on insurance premiums and land ownership.

However, the Territory does impose user charges on the monitoring of smoke alarms under its NTFAST scheme and for the provision of fire services in private towns.

Conclusion

The Territory's household user charges are, in total, competitive with the average of the states. All of the Territory's selected household charges are less than the average of the states, with the exception of domestic electricity charges.

The Territory's higher domestic electricity charges reflect the higher costs of production and are influenced by the absence of cheaper fuel sources and economies of scale.