

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.

The following measures, announced as part of the 2004-05 Budget, will take effect from 1 July 2005:

- an increase in the payroll tax exemption threshold from \$800 000 to \$1 million; and
- the abolition of debits tax from 1 July 2005.

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

- abolition of electronic debit transaction duty from 1 July 2005;
- an increase in the first home buyer stamp duty concession from the first \$125 000 to the first \$200 000 of the value of a home. This is an increase in the maximum concession from \$3640.60 to \$6800 and will apply from 3 May 2005;
- an increase in the payroll tax exemption threshold from \$1 million to \$1.25 million from 1 July 2006; and
- a number of other amendments to enhance the efficiency and effectiveness of the Territory's tax regimes.

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

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

As part of national tax reform initiatives contained in the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (the Intergovernmental Agreement), the Government will abolish:

- stamp duty on unquoted marketable securities from 1 July 2006;
- stamp duty on grants and renewals of leases and franchises from 1 July 2006;
- stamp duty on hiring arrangements from 1 July 2007; and
- stamp duty on non-residential conveyances, excluding land, from 1 July 2009.

Further details of national tax reform are provided in this chapter.

In addition, this chapter presents a statement of the Territory's forecast tax expenditures for 2005-06 through to 2008-09. 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 Commission's assessment of the 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 Commission assesses revenue capacity in its analysis of the relative fiscal needs of the states to determine goods and services tax (GST) revenue shares. The comparisons of the states' assessed revenue-raising capacity and effort contained in this chapter are made using 2003-04 data, as this is 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 2003-04 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: 2003-04 Revenue Effort by Jurisdiction – Total State Own-Source Revenue

NSW	Vic	Qld	WA	SA	Tas	ACT	NT
99.98	98.93	91.47	109.94	113.28	106.71	95.27	93.79

Note: 100 per cent represents national average.

Source: Commonwealth Grants Commission 2005 Update Report.

The assessment in Table 6.1 shows that the Territory has the second lowest state own-source revenue-raising effort of the states, with Queensland the lowest. This is an increase on the 2002-03 figures (89.97 per cent), where the Territory had the lowest own-source revenue raising effort. This result is due to an increased contribution by trading enterprises to own-source revenue in the Territory.

Table 6.2 provides a comparison of the Commission's assessment of total taxation-raising effort in 2003-04 for the states.

Table 6.2: 2003-04 Revenue Effort by Jurisdiction – Total Taxation

NSW	Vic	Qld	WA	SA	Tas	ACT	NT
99.39	105.40	86.93	103.66	118.19	95.78	108.60	90.58

Note: 100 per cent represents national average.

Source: Commonwealth Grants Commission 2005 Update Report.

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

The Territory's assessed effort increased marginally from 90.11 per cent in 2002-03 to 90.58 per cent, largely based on increased conveyance duty receipts, while Queensland's assessed effort increased from 85.77 per cent to 86.93 per cent on the basis of increased effort across most revenue streams.

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 and emergency services levies. Accordingly, the Territory's effort is assessed by the Commission as the lowest of all the states in relation to total taxation, mineral royalties and public safety charges (including fire and emergency service levies).

Table 6.3 details this comparison.

Table 6.3: 2003-04 Tax Effort of Significant Revenue Streams

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Payroll tax	109	95	85	97	109	96	132	93
Conveyance duty	97	118	75	126	120	98	112	115
Land tax	86	129	68	131	199	292	125	0
Gambling taxes	96	130	100	26	129	89	63	97
Vehicle registration fees ¹	134	66	111	79	87	84	132	56
Total Taxation²	99	105	87	104	118	96	109	91
Public safety charges	79	108	147	85	119	245	33	19
Mineral and petroleum royalties	79	75	100	109	92	136	0	70
Total Taxation, Royalties, and Public Safety and Emergency Services Charges³	98	105	89	104	117	100	107	87

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

The above figures are rounded to the nearest whole number.

1 Vehicle registration fees exclude heavy vehicles.

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 2005 Update Report.

As detailed in Table 6.3, on 2003-04 figures, the Territory's conveyance duty revenue-raising effort (115 per cent) is higher than the national average (100 per cent). However, the relatively high conveyance duty effort is offset by the Territory not applying a land tax or mortgage duty. The Territory also has a low revenue-raising effort in relation to vehicle registration fees and taxes.

The Territory's payroll tax revenue-raising effort (93 per cent) is lower than the national average and has dropped significantly from 2002-03 figures (111 per cent). This can be attributed in part to the reduction of the payroll tax rate to 6.2 per cent from 1 July 2003, and is also attributable to lower payroll tax revenue due to the early completion of several large construction projects and the issuing of a number of large payroll tax refunds.

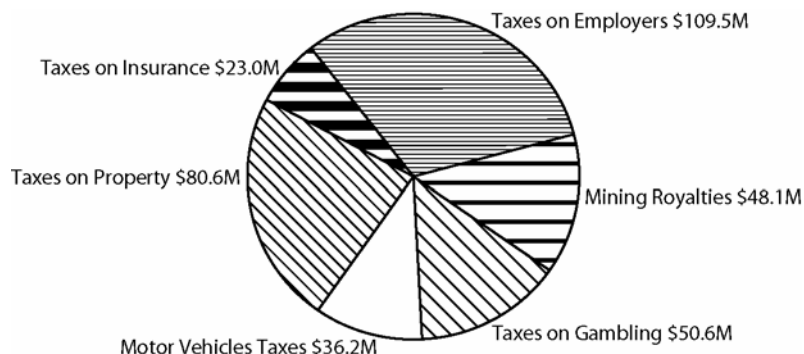
The Territory's remaining taxes during the assessment period were either less significant or on a par with the other jurisdictions.

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 estimates is provided in Chapter 9.

Chart 6.1: 2005-06 Main Own-Source Revenue Categories



Note: Excludes payroll tax collected from general government.

Source: Northern Territory Treasury.

The projected revenue for 2005-06 from these main own-source revenue categories totals \$348 million. As indicated in Chart 6.1, the most significant portion is derived from taxes on employers (payroll tax), which comprises \$109.5 million, or 31.5 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 \$80.6 million, or 23.2 per cent of the Territory's own-source tax and royalty revenue in 2005-06.

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

Payroll Tax

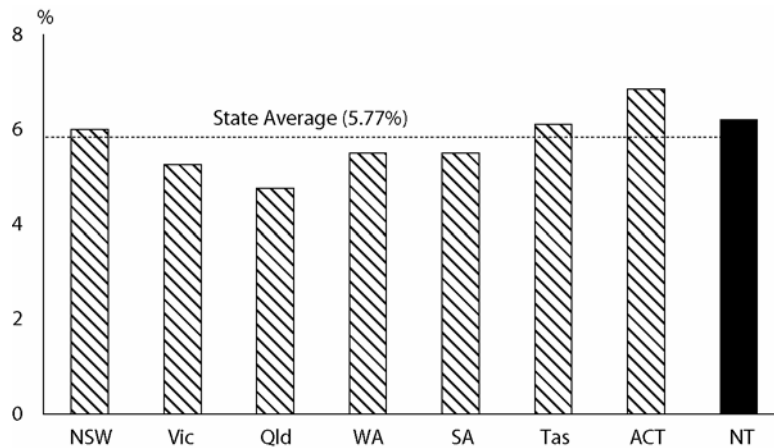
Payroll tax is payable at a rate of 6.2 per cent on the amount by which wages paid by employers exceed the general exemption threshold of \$1 million (from 1 July 2005).

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 \$700 000; 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 \$250 000.

Revenue from payroll tax is forecast to be \$109.5 million in 2005-06 (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 reduced from 6.5 per cent in 2001 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 January 2005.

Source: State legislation as at 22 April 2005.

Following the increases in the Territory's payroll tax exemption threshold announced in the 2004-05 Budget (from \$600 000 to \$800 000 on 1 July 2004, then from \$800 000 to \$1 million on 1 July 2005), the threshold where payroll tax commences in the Territory will be higher than the majority of states. Chart 6.3 shows that from 1 July 2005, the Territory will have a payroll tax threshold that is above average, and greater than all states other than Tasmania and the Australian Capital Territory.

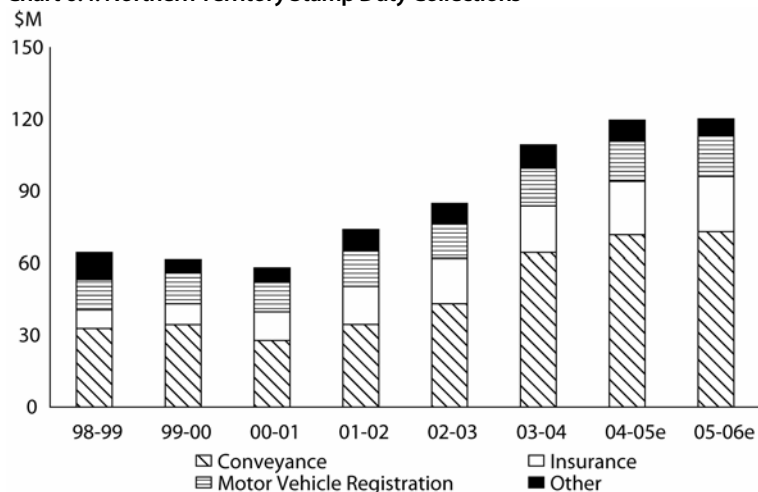
The Government has announced in the 2005-06 Budget that the payroll tax threshold will increase further to \$1.25 million from 1 July 2006, providing the Territory with the equal highest threshold in Australia, consistent with that in the Australian Capital Territory.

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

Source: State legislation as at 22 April 2005.

Stamp Duty

Total revenue from the Territory's stamp duties is forecast to be \$120.15 million in 2005-06. 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: Northern Territory Stamp Duty Collections

e=estimated figures.

Source: Northern Territory Treasury.

The 2004-05 estimate is characterised by a high number of residential property sales combined with higher property values. The conveyance stamp duty projection for 2004-05 is \$71.79 million, up from actual receipts in 2003-04 of \$64.47 million.

Conveyance duty revenue in 2004-05 is significantly higher than the estimate of \$55.24 million originally forecast in the Budget. It was anticipated that conveyance duty collections from residential property sales would decrease in 2004-05 as a result of an expected reduction in the high rate of residential property sales experienced in 2003-04. Instead, the market continued to perform strongly throughout 2004-05, resulting in increased duty from residential property sales.

In 2005-06, conveyance stamp duty collections are expected to be \$73.15 million on the basis of market indicators, such as finance approvals and building approvals, that suggest the residential property market will continue to experience buoyant conditions throughout the year.

Conveyance Duty

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.

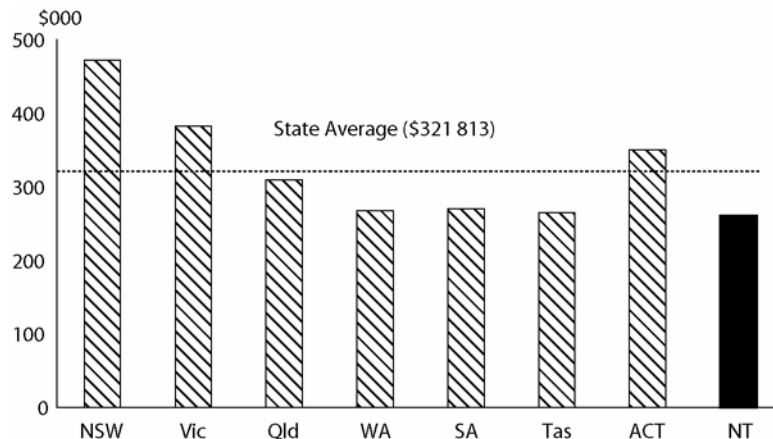
The Commission assessed the Territory's capacity to raise stamp duty on conveyances as the second lowest in Australia, behind Tasmania, and just over half the national average. This is primarily because the majority of transactions in the Territory were at the lower end of the value range. Previously, the Territory was assessed as having the lowest capacity to raise stamp duty on conveyances, but falls in the median prices of houses in New South Wales and Victoria lowered those states' capacities and increased the other states' capacities on a relative basis.

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 effect 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 2004 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 2004 Quarter

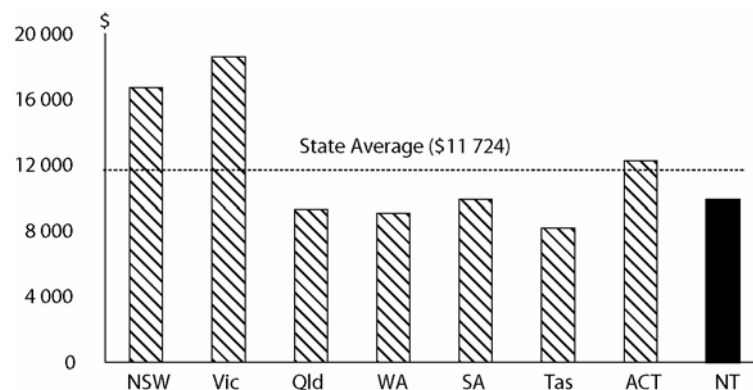


Source: Real Estate Institute of Australia.

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 2005

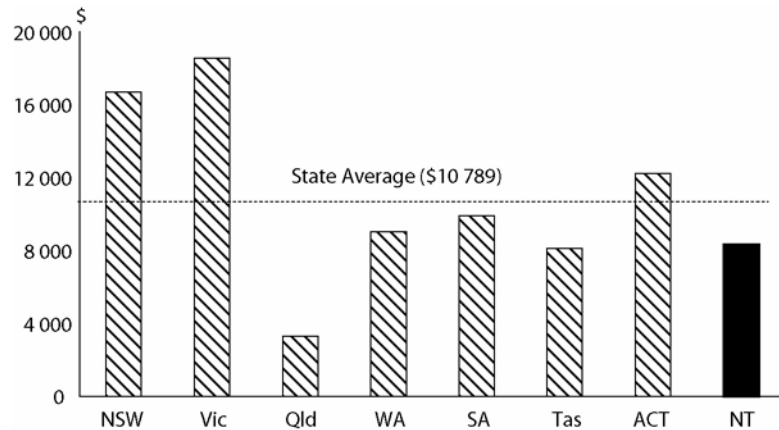


Source: Real Estate Institute of Australia and state legislation as at 22 April 2005.

As shown in Chart 6.6, the Territory's conveyance duty on a median-priced residence in a capital city is below the national average and the fourth lowest in Australia, behind Tasmania, Western Australia and Queensland.

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 \$1500 stamp duty principal place of residence rebate. 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 vendor stamp duty (which applies to investors who sell New South Wales real estate).

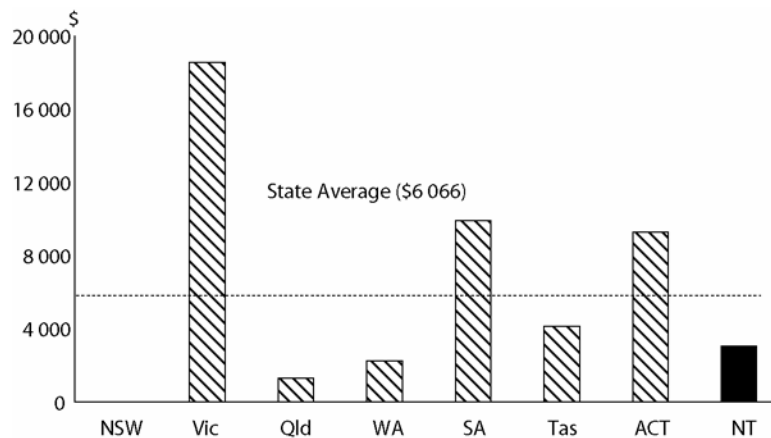
Chart 6.7: Conveyance Duty Payable on Purchase of a Median-Priced Principal Place of Residence Based on Rates as at 1 July 2005



Source: Real Estate Institute of Australia and state legislation as at 22 April 2005.

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 by a first home owner on a median-priced home in a capital city is well below the national average, and the fourth lowest in Australia. This is based on Territory first home buyers being given stamp duty relief on the first \$200 000 of their purchase from 3 May 2005 as announced as part of the 2005-06 Budget (the concession was previously on the first \$125 000 of the purchase).

Chart 6.8: Conveyance Duty Payable on Purchase of a Median-Priced First Home Based on Rates as at 1 July 2005



Note: Victoria has a \$5000 First Home Bonus for first home buyers who are eligible for the \$7000 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 9 July 2005, and where the consideration paid under the contract is no more than \$500 000.

Source: Real Estate Institute of Australia and state legislation as at 22 April 2005.

Insurance Duty

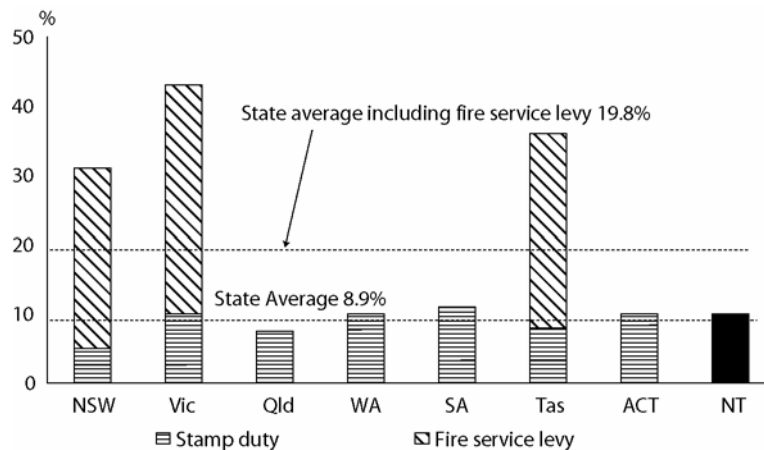
Insurance duty is imposed on general and life insurance policies, with general insurance comprising the majority of the revenue collected from this stamp duty. Revenue from insurance duty is forecast to be \$22.99 million in 2005-06.

Queensland is the only state to raise stamp duty on workers' compensation premiums. 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 has 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 22 April 2005



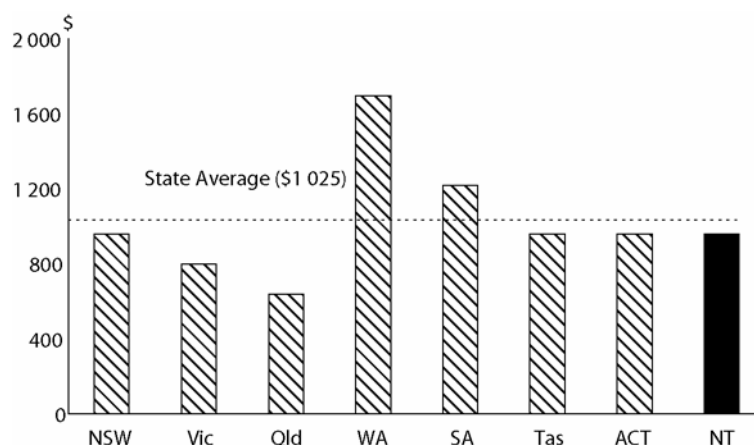
Source: State legislation as at 22 April 2005.

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 2005-06 is forecast to be \$17.08 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 22 April 2005



Source: State legislation as at 22 April 2005.

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.

The Territory does not impose a land tax. For the purposes of its 2005 assessment, the Commission has assessed a notional land tax collection of approximately \$21.6 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 \$50.56 million in 2005-06.

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 Skycity casino has received a partial rebate of the casino tax that it is required to pay, in consideration for relinquishing the exclusive right to operate gaming machines.

The rebate for the Darwin Skycity 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 2005-06.

Table 6.4: Estimated Revenue from Gambling Taxes for 2005-06

Tax/Duty	\$000
Wagering Taxes	5 431
Internet Gaming	521
Casino	8 516
Bookmakers – Racing and Sports Betting	5 479
Community Gaming Machines	18 063
Lotteries	11 046
Community Benefit Levy	1 505
Total	50 561

Source: Northern Territory Treasury.

Financial Taxes

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. The Territory legislated in 2004 to abolish debits tax from 1 July 2005.

Although the Territory does not charge stamp duty on mortgages, it does apply stamp duty to the grant and renewal of leases and franchises, a broad hiring arrangement base, and a stamp duty on electronic debits made to bank accounts (electronic debit transaction duty). However, the Government has announced that electronic debit transaction duty is to be abolished from 1 July 2005, stamp duty on the grant and renewal of leases and franchises is to be abolished from 1 July 2006 and stamp duty on hiring arrangements is to be abolished from 1 July 2007.

Table 6.5 sets out the revenue that the Territory's financial taxes and duties are expected to raise in 2005-06. Although debits tax and electronic debit transaction duty will be abolished from 1 July 2005, there will be some residual collection of duty in relation to returns for the month of June 2005, that will not be collected until July 2005.

Table 6.5: Estimated Revenue from Financial Taxes and Duties for 2005-06

Tax/Duty	\$000
Debits Tax	520*
Lease Duty	1 296
Mortgage Duty	0
Hiring Arrangement Duty	4 582
Electronic Debits Duty	221*
Total	6 619

*These taxes are abolished from 1 July 2005, but revenue will be collected in July 2005 in relation to the June 2005 returns from financial institutions.

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 \$48.1 million in 2005-06.

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 GST, agreed removal of certain state taxes and the review of others. Although 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 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 sets out the abolition of debits tax by 2005, subject to review by the Treasurers' Conference.

As mentioned earlier in this chapter, the Australian Government, states and territories agreed to abolish debits tax from 1 July 2005 at the Treasurers' Conference meeting on 26 March 2004. The Territory passed legislation in June 2004 providing for the abolition of debits tax from 1 July 2005.

Other taxes subject to Treasurer's Conference review

Under the Intergovernmental Agreement, the Australian Government, states and territories agreed to the Treasurers' Conference reviewing, by 2005, the need to retain certain stamp duties. At the Treasurers' Conference in March 2005 no agreement was reached regarding a review timetable and related arrangements. However, the Territory has joined with five other jurisdictions in proposing a five year timetable for abolition from 2006-07. The Territory has announced it will commence its abolition timetable from 1 July 2005 as follows.

Electronic debit transaction duty to be abolished from 1 July 2005

The Territory Government has announced the abolition of electronic debit transaction duty from 1 July 2005, as part of the 2005-06 Budget. This was a duty imposed on electronic withdrawals from accounts kept with financial institutions in the Territory.

Stamp duty on unquoted marketable securities to be abolished from 1 July 2006

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, is to be abolished from 1 July 2006.

Stamp duty on grants and renewals of leases and franchises to be abolished from 1 July 2006

Stamp duty levied on the grant and renewal of non-residential tenancy agreements and franchise arrangements is to be abolished from 1 July 2006. However, the transfer of a lease or franchise arrangement will continue to be subject to conveyance duty until duty on non-residential conveyances is abolished.

Stamp duty on hiring arrangements to be abolished from 1 July 2007

Stamp duty levied on the rent paid in respect of the hire of goods, including consumer and producer goods and instalment purchase arrangements, is to be abolished from 1 July 2007.

Stamp Duty on non-residential conveyances, other than land, to be abolished from 1 July 2009

Stamp duty levied on the value of non-residential property conveyances, other than land, is to be abolished from 1 July 2009.

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 to 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 the 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 section 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 2005-06 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 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

	2005-06	2006-07	2007-08	2008-09
Tax expenditure (\$ million)	85.7	92.9	97.2	101.9

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 2005-06, being 6.2 per cent. The Government's revenue initiatives announced in the 2004-05 and 2005-06 Budgets to reduce payroll tax in 2005-06 and 2006-07 have been factored into the tax expenditure forecasts for payroll tax.

Tax expenditure in relation to many payroll tax concessions is difficult to estimate, as data is not generally collected in relation to employers that do not have a payroll tax liability. Accordingly, the estimated tax expenditure reported above has been derived by using high-level Australian Taxation Office data about wages paid by employers in the Northern Territory and comparing this to wages information reported by employers registered for payroll tax in the Northern Territory. The difference between these two sets of data provides a reasonable estimate of wages that are not subject to payroll tax in the Northern Territory because of payroll tax concessions provided in the legislation.

The main exemptions that comprise estimated tax expenditure for payroll tax are outlined below.

Small Business Exemption

From 1 July 2005, the first \$1 million of an employer's wages are exempt from payroll tax in the Territory. Accordingly, employers with wages less than this amount 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 \$1 million exemption reduces an employer's annual payroll tax liability by up to \$62 000.

The Government has announced, as part of the 2005-06 Budget, that this exemption will be increased to \$1.25 million from 1 July 2006.

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.

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.

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 *Commonwealth Customs Act*;
- the substantial part of the business, in the opinion of the Trade Development Zone Authority, included or was intended to include a substantial amount of importing and exporting; or
- that the 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 held 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 former Trade Development Zone.

Stamp Duty On Conveyances

	2005-06	2006-07	2007-08	2008-09
Tax expenditure (\$ million)	22.7	23.3	23.9	24.5

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 2005-06.

The Government's revenue initiative announced in the 2005-06 Budget to increase the stamp duty concession available to first home buyers in the Northern Territory from 3 May 2005 has been factored into the tax expenditure forecasts for conveyance stamp duty.

The elements that contribute to the estimated tax expenditure are outlined below.

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 \$2096 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 \$7000 First Home Owner Grant, such that it is only available to true first home buyers. 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 \$3640.60 in stamp duty).

The concession has been further increased as part of the 2005-06 Budget, by increasing it to the stamp duty payable up to the first \$200 000 in value (that is, up to \$6800 in stamp duty).

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 \$1500 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 home buyers.

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 Australian Government'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

	2005-06	2006-07	2007-08	2008-09
Tax expenditure (\$ million)	13.3	13.6	14.1	14.6

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 2005-06, being 10 per cent of the premium payable for an insurance policy.

The estimated tax expenditure elements contributing to this are summarised below.

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 using total work health insurance policy premiums paid during past years and how these compare to total payroll data paid by employers in the Northern Territory.

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

	2005-06	2006-07	2007-08	2008-09
Tax expenditure (\$ million)	0.9	0	0	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 2005-06, being 50 cents per \$100 of total rent.

The reporting of tax expenditures on lease and franchises will not be necessary from 2006-07, with the abolition of stamp duty on the grant and renewal of leases and franchises from 1 July 2006.

The estimated tax expenditure reported above comprises 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 have 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.

Motor Vehicle Registration Fees

	2005-06	2006-07	2007-08	2008-09
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 Northern Territory Pensioner Concession Card is able to receive a flat \$104 concession on motor vehicle registration fees.

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

Mineral Royalties

	2005-06	2006-07	2007-08	2008-09
Tax expenditure (\$ million)	11.7	12.8	13.5	14.3

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 2005-06, 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 they pay in the Territory for eligible exploration expenditure (EEE) incurred 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 Tax

Casino Tax Concessions – Community Gaming Machine Allowance

The Darwin Skycity casino received a partial rebate of the casino tax that it was required to pay, in consideration for relinquishing exclusivity over gaming machines, however this rebate ceases from 30 June 2005. Lasseters Casino in Alice Springs received a similar rebate, however this ceased from 30 June 2003.

Conclusion

The Territory has substantially the same revenue-raising powers as the states, however constitutional and other arrangements limit the revenue-raising base available to all 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, motor vehicle registration and public transport charges. This appendix provides comparative data on these and other selected charges.

Electricity Charges

The Power and Water Corporation is the principal generator and retailer of electricity in the Territory. It became the Territory's first government owned corporation on 1 July 2002. The Power and Water 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 using more than 750 megawatt hours (mWh) of electricity per year are deemed 'contestable', and able to choose their electricity supplier. The threshold for contestability has been reduced gradually since the first electricity customers became contestable in April 2000. On 28 February 2003, the Treasurer announced that, due to the lack of competition to the Power and Water Corporation in the Territory's electricity market, the timetable for full retail contestability (originally by April 2005) would be deferred until 2010. Table 6.6 compares contestability thresholds of the jurisdictions.

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 non-contestable commercial customers in the Territory. These charges include the goods and services tax (GST) levied on electricity. The GST component of the charges is creditable and lowers the net cost for GST-registered customers.

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 July 2004 2000)	≥ 100 mWh
Western Australia (from 1 January 2005)	≥ 50 mWh
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, National Competition Council.

The 'standard tariff' is available to non-contestable commercial customers in the Territory (using less than 750 mWh) and comprises a fixed charge of 43.14 cents per day and a usage charge of 16.30 cents per kilowatt hour (kWh).

Another option for non-contestable commercial customers is the 'time-of-use tariff'. This option is structured to suit businesses that consume a greater proportion of their power in off-peak periods, and 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.

Also, a 'demand tariff' is available to businesses using more than 160 mWh per annum, and benefits customers with a relatively constant electricity load. Under this tariff, customers are subject to five charge components.

- a Peak Energy Charge for each kWh consumed in the peak period;
- an Off-peak Energy Charge for each kWh consumed in the off-peak period;
- a Peak Maximum Demand Charge for the single highest recorded kVA (a measure of electrical demand that a user places on an electrical system over a fifteen minute period) for the month incurred during the daily peak period;
- an Off-peak Maximum Demand Charge for the single highest recorded kVA for the month incurred during the daily off-peak period; and
- a Daily Fixed Charge.

Table 6.7: Northern Territory 'Demand Tariff, Gazetted 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
Plus		
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
Plus System charge	\$3.48 per day	

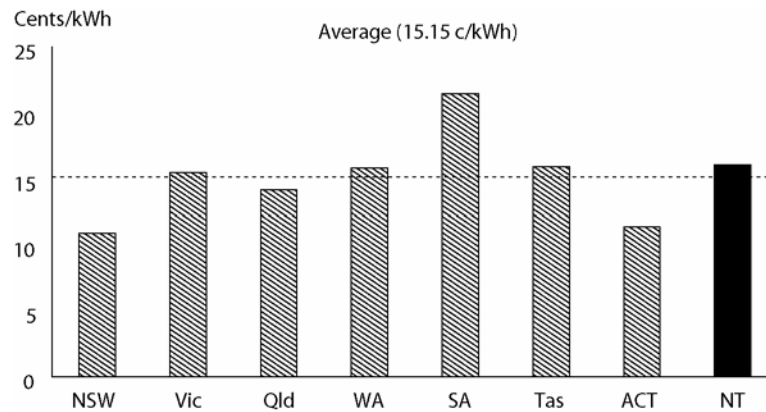
Source: Power and Water Corporation website.

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. Figure 6.11 provides a comparison of domestic charges based on national average consumption of 1.25 mWh per month.

The total average domestic electricity charge in the Territory is 16.04 cents per kWh, higher than the national average of 15.15 cents per kWh. Higher charges in the Territory are reflect cost and are influenced by the absence of cheaper fuel sources, economies of scale, and transport costs.

**Figure 6.11: Domestic Average Cents/kWh Charge, at June 2004
(based on consumption of 1.25 mWh per month)**



Note: Prices are for capital cities. However, under the Government's uniform tariff policy, prices charged in Darwin apply across the Territory.

Source: Power and Water Corporation Annual Report 2003-04.

Water and Sewerage Charges

Water

Water charges in the Territory are based on a fixed daily charge reflecting the size of the meter (as set out in Table 3) and a usage charge of 67.65 cents per kilolitre (kL).

Table 6.8: Water Meter Charges, effective January 2003

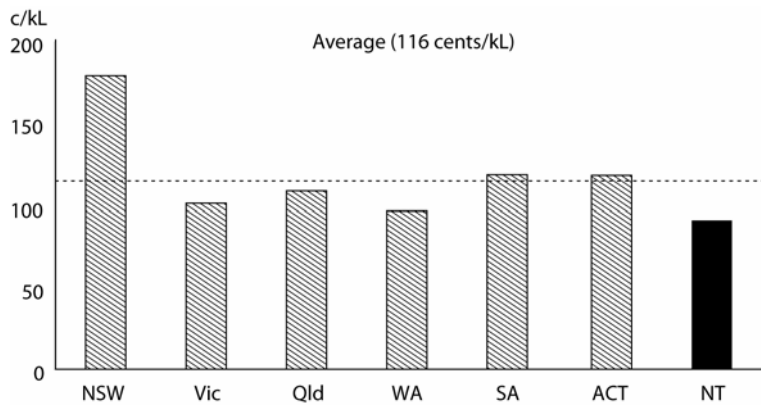
Meter Size	Daily Charge
Up to 25mm	28.25c
26 to 40mm	72.32c
41 to 50mm	\$1.1275
51 to 100mm	\$4.5203
101 to 150mm	\$10.1680
151 to 200mm	\$18.0810

Source: Power and Water Corporation website.

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

Figure 6.12 shows the average prices for each capital city apart from Hobart, which determines water and sewerage prices on a different basis to other jurisdictions. Darwin's average water charges (which apply across the Territory), at 91 cents per kilolitre, are the lowest of all jurisdictions and significantly lower than the national average of 116 cents per kilolitre.

**Figure 6.12: Annual Domestic Water Charge, at June 2004
(based on consumption of 450 kL)**

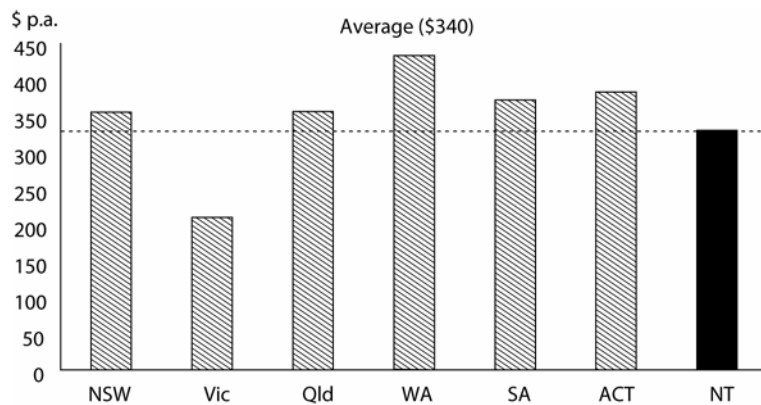


Note: Prices are for capital cities. However, under the Government's uniform tariff policy, prices charged in Darwin apply across the Territory. Tasmania has been excluded due to an inconsistent pricing scheme.
Source: Power and Water Corporation Annual Report 2003-04.

Sewerage

Figure 6.13 shows the Territory's average domestic sewerage charge, at \$322 per annum, is slightly above the national average, but is the third lowest of the jurisdictions.

Figure 6.13: Annual Household Sewerage Charge, at June 2004

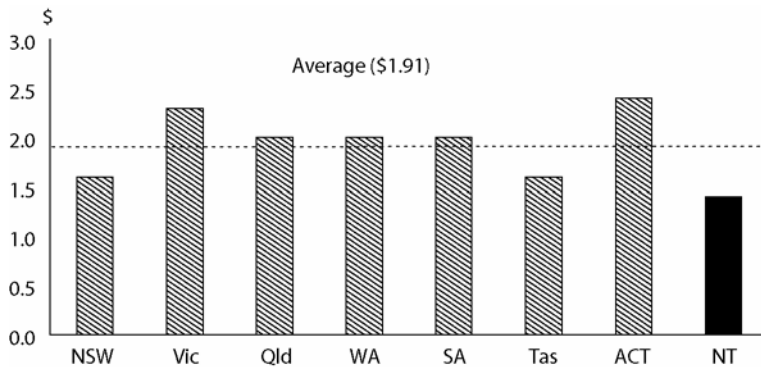


Note: Prices are for capital cities. However, under the Government's uniform tariff policy, prices charged in Darwin apply across the Territory. Tasmania has been excluded due to an inconsistent pricing scheme.
Source: Power and Water Corporation Annual Report 2003-04.

Bus Fares

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

Figure 6.14: Adult, One Zone Bus Fare Travelling, at March 2005



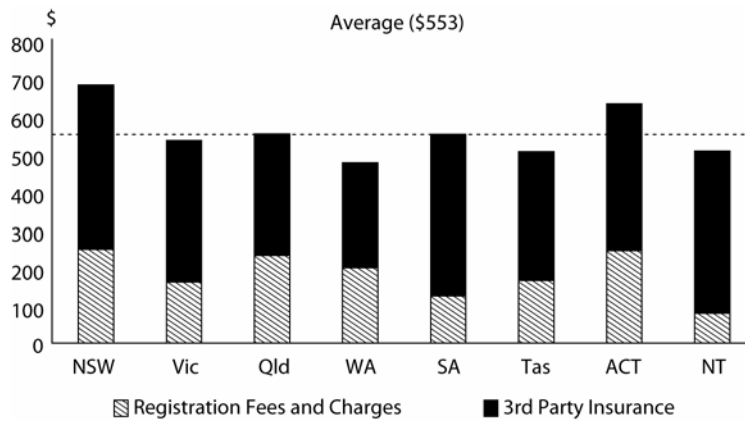
Note: Prices are for capital cities. However, under the Government's uniform tariff policy, prices charged in Darwin apply across the Territory.
Source: Department of Infrastructure, Planning and Environment.

Motor Vehicle Registration

All states and territories collect vehicle registration fees and taxes of some kind.

Figure 6.15 shows that, for a medium sized passenger vehicle for 12 months, the Territory has the third lowest cost for renewing registration and third party insurance in Australia.

Figure 6.15: Annual Registration Fees and Charges for a Medium Sized Passenger Vehicle*, at March 2005



*Based on a 4 cylinder Toyota Camry CSI Sedan.

Note: Prices are for capital cities. However, under the Government's uniform tariff policy, prices charged in Darwin apply across the Territory.

Source: Department of Infrastructure, Planning and Environment.

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

The Territory's compulsory third party premiums 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. Premium revenue is used to support the scheme and is not returned to government.

Fire 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 states' average. Charges in the Territory for electricity and sewerage services marginally exceed the national average, while charges for domestic water and bus fares are well below the national average.