



# 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 were either announced in the 2005-06 Budget, to take effect in 2006-07, or announced subsequent to the 2005-06 Budget.

As a result of the Government's election commitments, stamp duty for home buyers in the Territory has been reduced, at an estimated annual cost of \$3 million, due to:

- the stamp duty first home owner concession being increased from the first \$200 000 of a home's value to the first \$225 000 (a maximum concession of \$8016); and
- the principal place of residence stamp duty rebate being increased from \$1500 to \$2500.

In addition, as part of the 2005-06 Budget and in the lead up to the June 2005 election, the Government committed to further payroll tax reductions and the abolition of a number of stamp duties under national tax reform. Some of these measures will commence from 1 July 2006.

The payroll tax reductions involve:

- increasing the payroll tax exemption threshold from \$1 million to \$1.25 million from 1 July 2006, at an estimated cost of \$3.6 million in 2006-07; and
- reducing the payroll tax rate from 6.2 per cent to 5.9 per cent during the Government's current term, at an estimated cost of \$6.2 million a year.

In addition to the above, the Territory has agreed to remove certain taxes as part of the national tax reform commitment. These are summarised in the table below, and discussed in more detail later in this chapter.

Table 6.1: National Tax Reform

	Date	Cost (\$M)
Leases and franchises	1 July 2006	1.4
Unquoted marketable securities	1 July 2006	0.6
Hiring arrangements	1 July 2007	5.3
Business property conveyances excluding land	1 July 2009	6.8

In addition to the above tax changes, there are increases to three Territory charges in the 2006-07 Budget. These are:

- CPI increase of 2.6 per cent for power, water and sewerage charges;
- the introduction of a charge to register business names, to offset the cost of enhanced management and systems for Consumer and Business Affairs; and
- increased court fees to reflect the effect of recent increases in demand.

Also announced in the 2006-07 Budget is the implementation of the *Revenue Units Act*, which was enacted in 2000 but never activated. This will involve representing a range of existing fees and charges imposed by Government agencies as a 'revenue unit', rather than the existing monetary amounts. This conversion process is expected to be completed by 1 September 2006.

Further details of these and other revenue measures are provided in Chapter 4.

This chapter provides an explanation of the Territory's own-source revenue regime, an analysis on how its major components compare with the other jurisdictions and the Territory's response to national tax reform. This comparison is based on independent assessments by the Commonwealth Grants Commission (the Commission) of state and territory revenue regimes.

This chapter includes an interjurisdictional comparison of a selection of household charges imposed by government-related entities.

In addition, this chapter presents a statement of the Territory's forecast tax expenditures for 2006-07 through to 2009-10. Tax expenditures are the revenues forgone by Government as a result of the provision of concessions and exemptions.

Details of the revenue measures announced in this Budget are provided in Chapter 4 of this Budget Paper.

### 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 is the potential revenue that could be raised if national average tax rates are applied to each jurisdiction's revenue base and is expressed as a ratio of the national average revenue capacity.

Revenue capacity is assessed by the Commission as the ratio of:

- the per capita revenue a state could raise by applying average rates (assessed revenue); to
- the Australian average per capita revenue (standard revenue).

Revenue effort compares actual collections with capacity. Average revenue effort is set at 100 per cent.

The most recent data used by the Commission to assess revenue capacity and effort is 2004-05 data.

Table 6.2 provides a comparison of the Commission's assessment of total state own-source revenue-raising effort in 2004-05 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 6.2: 2004-05 Revenue Effort by Jurisdiction – Total Own-Source Revenue

NSW	Vic	Qld	WA	SA	Tas	ACT	NT
101.26	99.16	89.49	109.24	110.07	106.45	102.01	103.38

Note: 100 per cent represents national average.

Source: Commonwealth Grants Commission 2006 Update Report.



The assessment in Table 6.2 shows that the Northern Territory has the fifth lowest own-source revenue-raising effort of all the states. This is an increase on the 2003-04 figures (93.79 per cent), due largely to a change in data used by the Commission to make its assessment for payroll tax and gambling taxes. This is explained in more detail below.

Table 6.3 provides a comparison of the Commission's assessment of total taxation effort in 2004-05.

Table 6.3: 2004-05 Revenue Effort by Jurisdiction – Total Taxation

NSW	Vic	Qld	WA	SA	Tas	ACT	NT
102.32	102.38	85.75	103.44	116.4	99.06	100.27	102.43

Note: 100 per cent represents national average.

Source: Commonwealth Grants Commission 2006 Update Report.

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. Arguably, a better comparative measure across jurisdictions is taxation combined with mining royalties and public safety user charges, which include emergency service levies. On this basis, the Territory's effort is assessed by the Commission as the second lowest of all the states, behind Queensland, as set out in Table 6.4.

Table 6.4: 2004-05 Tax Effort of Significant Revenue Streams

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Payroll tax	106	97	86	100	102	103	125	124
Conveyance duty	103	117	73	115	118	92	90	117
Land tax	99	104	66	120	199	324	112	0
Gambling taxes	97	126	102	32	126	85	58	113
Vehicle registration fees <sup>1</sup>	131	71	109	86	84	80	130	52
Total taxation <sup>2</sup>	102	102	86	103	116	99	100	102
Public safety charges	82	110	126	117	69	219	40	15
Mineral and petroleum royalties	80	58	100	111	99	93	0	71
<b>Total effort<sup>3</sup> – taxation, mining revenue and public safety user charges</b>	<b>101</b>	<b>102</b>	<b>88</b>	<b>106</b>	<b>114</b>	<b>103</b>	<b>99</b>	<b>96</b>

Note: 100 per cent represents a national average revenue effort. The above figures are rounded to the nearest whole number.

<sup>1</sup> Vehicle registration fees exclude heavy vehicles.

<sup>2</sup> The total taxation figure is not the total for the taxes appearing in the table.

<sup>3</sup> The table does not list all revenue streams and, as such, this figure is not a total for the table.

Source: Commonwealth Grants Commission 2006 Update Report.

The Territory Government raised the payroll tax threshold from \$600 000 to \$800 000 from 1 July 2004, at a cost to revenue of \$4 million. Notwithstanding this change, the Territory's payroll tax effort is estimated to be significantly higher than the national average and increased appreciably from last year's assessed effort.

The Territory's assessed effort for gambling taxes increased in a similar fashion, from 97 per cent last year to 113 per cent this year.

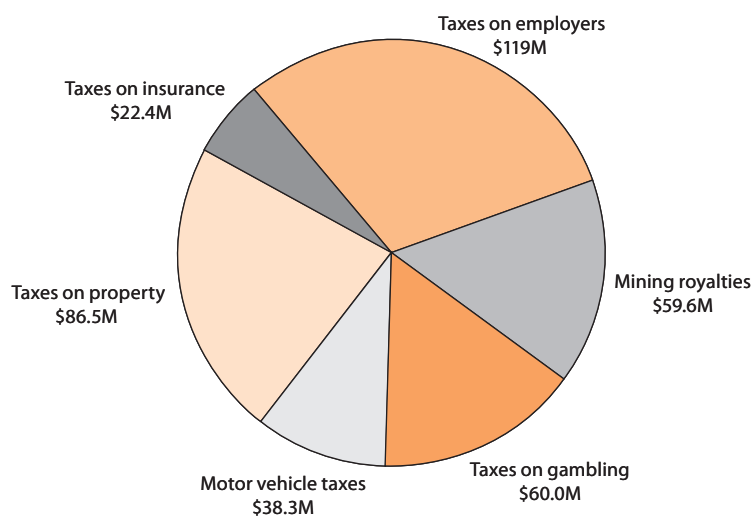
The increased effort for both payroll tax and gambling taxes was due to the Commission using Australian Bureau of Statistics data that differed significantly from data used in previous years to assess this effort. This demonstrates the effect that differing data sources can have on the Territory's assessments.

The Territory's conveyance duty effort is higher than the national average, but is offset by the Territory not applying a land tax or mortgage duty.

## Analysis of Territory Revenue

Chart 6.1 shows the Territory's major own-source revenues according to the classification used in the Uniform Presentation Framework adopted for the Territory's reporting requirements.

Chart 6.1: 2006-07 Main Own-Source Revenue Categories



Note: Excludes payroll tax collected from public sector entities.

Source: Northern Territory Treasury.

The projected revenue for 2006-07 from main own-source revenue totals \$385.8 million. As indicated in Chart 6.1, taxes on employers (payroll tax) comprise \$119 million, or 30.8 per cent, and taxes on property (stamp duties on financial and capital transactions) are estimated at \$86.5 million, or 22.4 per cent in 2006-07.

### 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 \$1.25 million (as from 1 July 2006).

The threshold is reduced if an employer:

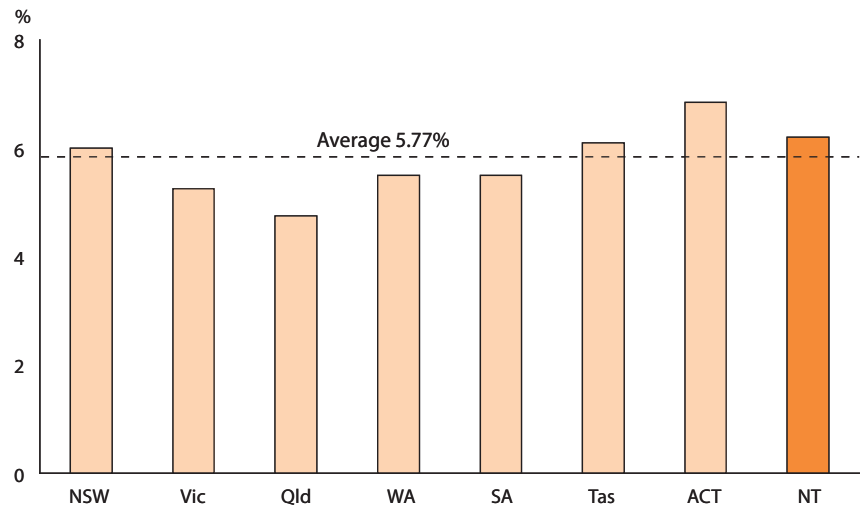
- pays wages in the Northern Territory and elsewhere in Australia. In this case, the threshold is reduced to reflect the level of wages paid outside the Territory. For example, if an employer pays 50 per cent of its wages in the Territory and 50 per cent interstate, the general exemption threshold is reduced by 50 per cent to \$625 000; 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 six months of the year, the general exemption threshold is reduced to \$625 000.



Revenue from payroll tax is forecast to be \$119 million in 2006-07 (excluding that raised from the general government sector) and continues to be the Territory's single most significant own-source tax revenue.

The payroll tax rate in the Northern Territory has reduced from 6.5 per cent in 2001 to 6.2 per cent (see Chart 6.2). The Government has announced that it intends reducing the Territory's payroll rate to 5.9 per cent during its current term in government.

Chart 6.2: 2006-07 Payroll Tax Rates



Effective from 1 July 2006.

Source: State legislation and information available as at 24 April 2006

The payroll tax exemption threshold has been increased on two occasions, in 2004 and 2005, lifting it from \$600 000 to \$1 million. The threshold will increase further to \$1.25 million from 1 July 2006, providing the Northern Territory with the equal highest threshold in Australia, consistent with that in the Australian Capital Territory. Chart 6.3 shows that the payroll tax exemption threshold applying in the Northern Territory from 1 July 2006 is well above the average of the states.

Chart 6.3: 2006-07 Payroll Tax – Tax-Free Threshold



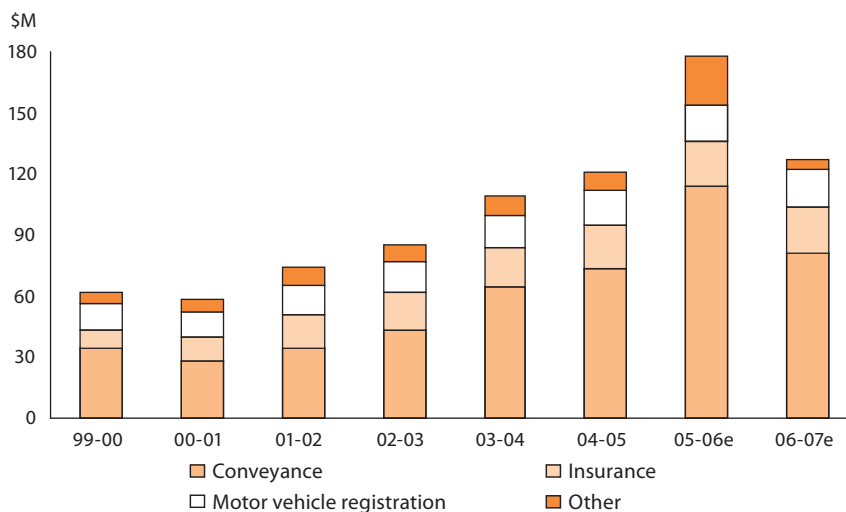
Effective from 1 July 2006.

Source: State legislation and information available as at 24 April 2006

## Stamp Duty

Total revenue from the Territory's stamp duties is forecast to be \$127.4 million in 2006-07. The main components are conveyance, insurance and motor vehicle transfer of registration duties, as shown in Chart 6.4.

Chart 6.4: Stamp Duty Collections



e: estimate.

Source: Northern Territory Treasury.

Stamp duty revenue in 2005-06 is projected to be \$177.7 million. This is significantly higher than the estimate of \$120.2 million originally forecast in the 2005-06 Budget. This is mostly attributable to large one-off transactions that were assessed for conveyance stamp duty during the year, contributing a total of \$50 million to 2005-06 collections. In addition, residential property sales remained strong during 2005-06 and property prices continued to increase, also contributing to increased stamp duty collections for the year.

The forecast stamp duty receipts for 2006-07 of \$127.4 million are considerably lower than 2005-06 due to the one-off receipt outlined above.

## Conveyance Duty

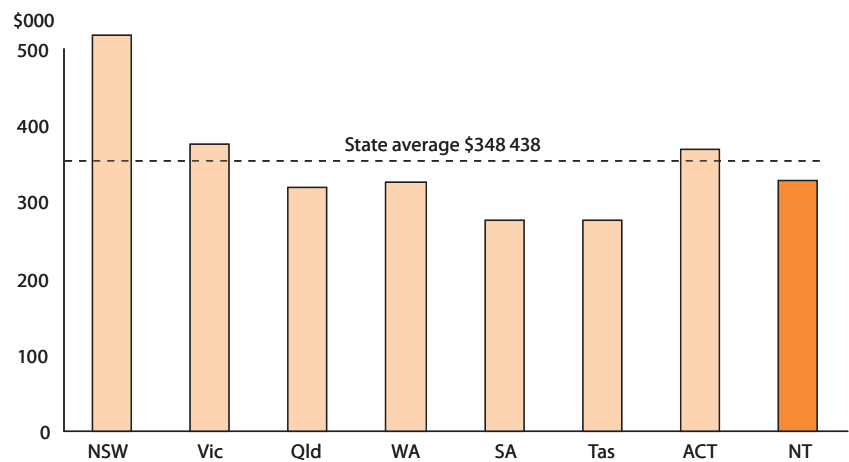
The Territory's conveyance duty is derived from conveyances of dutiable property in the Territory. Such property mainly comprises real estate and transfers of businesses.

The Commission assessed the Territory's revenue-raising effort in this category as the equal sixth lowest of the states and 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 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 2005 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.



Chart 6.5: Median House Prices for Australian Capital Cities for the December 2005 Quarter



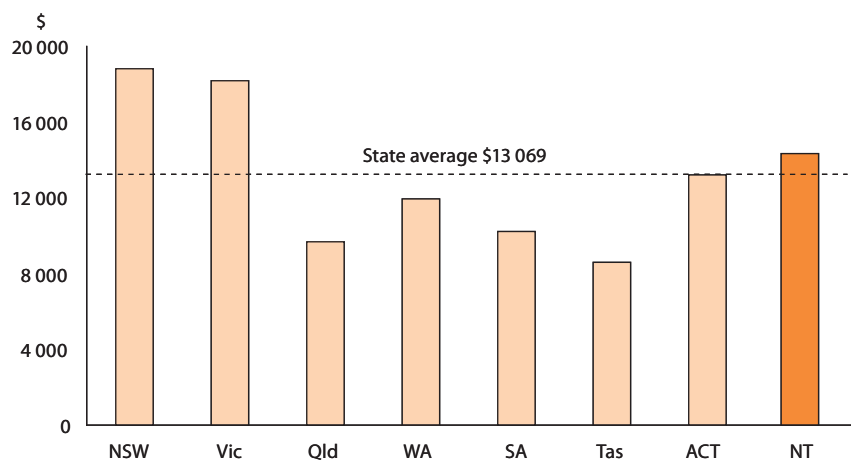
Note: Current as at 24 April 2006.

Source: Real Estate Institute of Australia.

The median house price in Darwin increased significantly during 2005, at a higher rate than most other capital cities. Despite this increase, Chart 6.5 shows that the median house price in Darwin is still below the average median house price of all capital cities and is similar to that of Brisbane and Perth.

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 the Purchase of a Median-Priced Residence in Capital Cities Based on Rates as at 1 July 2006



Source: Real Estate Institute of Australia, state legislation and information available as at 24 April 2006.

As shown in Chart 6.6, the Territory's conveyance duty on a median-priced residence in Darwin is slightly above the national average, reflecting the large increase in the median house price in Darwin during 2005 compared to other capital cities of Australia. However, when the Territory's principal place of residence rebate is taken into account, Chart 6.7 shows that the Territory's conveyance duty on a principal place of residence in Darwin is below the national average and the fourth lowest overall. The principal place of residence stamp duty rebate was increased from \$1500 to \$2500 from 20 June 2005. Although not reflected in Chart 6.7, Territory home buyers also benefit from not having to pay stamp duty on any mortgage security or, for investors, annual land tax.

Chart 6.7: Conveyance Duty Payable on Purchase of a Median-Priced Principal Place of Residence Based on Rates as at 1 July 2006



Source: Real Estate Institute of Australia, state legislation and information available as at 24 April 2006.

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. The stamp duty payable in the Territory by a first home owner on a median-priced home in Darwin remains below the national average and is the fourth lowest in Australia. Territory first home buyers now receive stamp duty relief on the first \$225 000 of their purchase. This concession was increased from \$125 000 to the first \$200 000 from 3 May 2005, and increased further to the current level of \$225 000 from 20 June 2005.

Chart 6.8: Conveyance Duty Payable on Purchase of a Median-Priced First Home Based on Rates as at 1 July 2006



Note: Victoria has a First Home Bonus for first home buyers who are eligible for the \$7000 First Home Owner Grant. The bonus reduced from \$5000 to \$3000 from 1 January 2006 and ceases on 1 July 2007. The bonus is only available where the consideration paid under the contract is no more than \$500 000.

Source: Real Estate Institute of Australia, state legislation and information available as at 24 April 2006.

### 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 \$22.4 million in 2006-07.

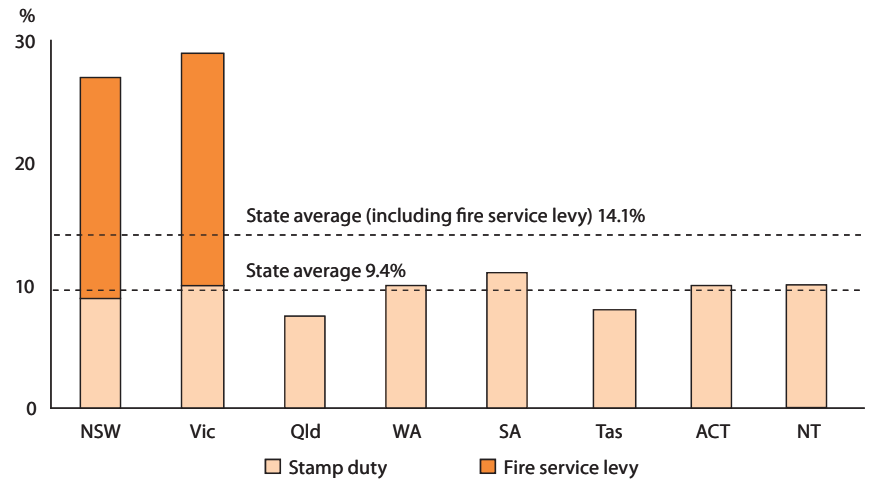
As shown in Chart 6.9, the total tax load on domestic insurance in New South Wales and Victoria is significantly above the national average when fire services levies are taken into account, with the Territory being one of the lower-taxing jurisdictions. These states collect their fire services levy as 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 levy charges for commercial fire alarm monitoring.

Chart 6.9: Total State and Territory Taxes on Domestic Insurance as at 24 April 2006



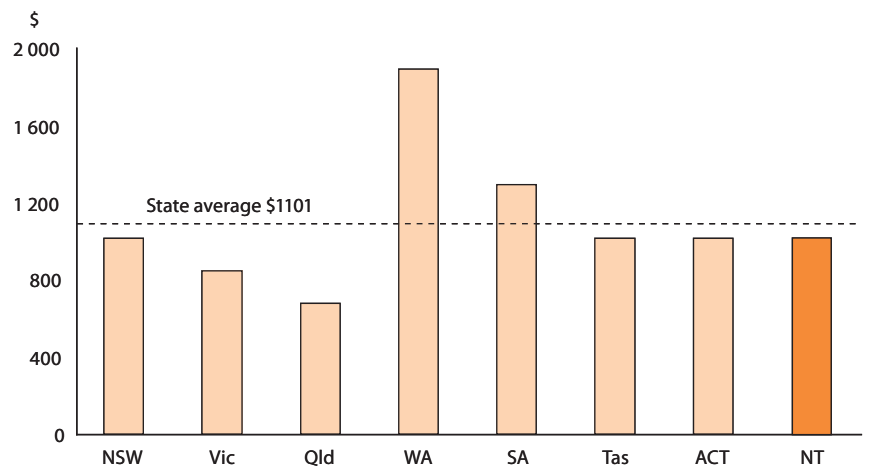
Source: State legislation and information available as at 24 April 2006.

## 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 2006-07 is forecast to be \$18.4 million.

The Territory rate of duty is slightly below the national average for a new vehicle valued at \$34 000 (see Chart 6.10). 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 \$34 000 as at 24 April 2006



Source: State legislation and information available as at 24 April 2006.

## 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, however, for the purposes of its 2006 assessment, the Commission has assessed a land tax capacity of approximately \$22.8 million based on an average of the other states' land tax regimes.

## 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 \$60 million in 2006-07.

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.

Table 6.5 provides a breakdown of the revenue that the Territory's gambling taxes are expected to raise in 2006-07.

Table 6.5: Estimated Revenue from Gambling Taxes for 2006-07

Tax/Duty	\$000
Wagering taxes	5 578
Internet gaming	604
Casino	10 321
Bookmakers – racing and sports betting	6 737
Community gaming machines	21 476
Lotteries	13 391
Community benefit levy	1 862
<b>Total</b>	<b>59 969</b>

Source: Northern Territory Treasury.

## Financial Taxes

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

The Northern Territory abolished both debits tax and stamp duty on electronic debits made to bank accounts (electronic debit transaction duty) from 1 July 2005 and it does not charge stamp duty on mortgages.

In addition, stamp duty on the grant and renewal of leases and franchises is to be abolished from 1 July 2006 and the Government intends to abolish stamp duty on hiring arrangements from 1 July 2007.



Table 6.6 sets out revenue that the Territory's financial taxes and duties are expected to raise in 2006-07. Of note is that although lease duty will be abolished from 1 July 2006, there will be some residual collection of duty arising in relation to leases and franchises executed in June 2006 that will not be collected until July 2006.

Table 6.6: Estimated Revenue from Financial Taxes and Duties for 2006-07

Tax/Duty	\$000
Debits Tax <sup>1</sup>	0
Lease Duty <sup>2</sup>	117
Mortgage Duty	0
Hiring Arrangement Duty	4 949
Electronic Debits Duty <sup>1</sup>	0
<b>Total</b>	<b>5 066</b>

<sup>1</sup> These taxes were abolished from 1 July 2005.

<sup>2</sup> Tax abolished from 1 July 2006, but revenue will be collected in July 2006 in relation to June 2006.

Source: Northern Territory Treasury.

## Mining and Petroleum Revenue

Mining revenue is obtained from royalties or rent equivalents levied on the recovery of mineral commodities from a mining tenement in the Northern Territory. Similarly, petroleum revenue accrues from royalties imposed on the production of petroleum in the Northern Territory. Both mineral and petroleum royalties are not a tax but a charge for resource usage, payable to the Government as the owner of the site or the mineral or petroleum rights over the site.

Mining and petroleum revenue is forecast to be \$59.6 million in 2006-07.

The Territory's mining royalty revenues are based on both profits-based and *ad valorem* regimes, whereas *ad valorem* regimes predominate in other jurisdictions. The Territory's petroleum royalty revenues are based on an *ad valorem* regime, which acknowledges post well head costs up to the point of sale.

The Territory's profits-based regime uses the net value of a mine's production to calculate royalty. In contrast, *ad valorem* regimes calculate royalty based on a mine's gross production value or tonnage of minerals extracted. The benefits of the Northern Territory's profits-based regime are that:

- both prices and mining costs are taken into account in royalty calculations. If production costs rise or fall, royalty may decline or increase accordingly;
- royalty will generally be payable in years when the ability to pay is the greatest; and
- mines operating in isolated locations or with high costs of extraction may pay less royalty than mines in good locations or with simple operations.

Mineral royalties are collected in the Northern Territory from mining and quarrying for gold, silver, bauxite, manganese, sand, gravel, laterite, vermiculite and lime. Royalties are not collected in respect of uranium mining in the Territory, as the Australian Government retains ownership of uranium in the Northern Territory.

## National Tax Reform

National tax reform began on 1 July 2000. Key to the new arrangements was the replacement of wholesale sales tax with a broad-based goods and services tax (GST), agreed removal of certain 'business' taxes and the review of other taxes. 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 Already Abolished

In accordance with the Intergovernmental Agreement, the Territory abolished tourism marketing duty from 1 July 2000, stamp duty on quoted marketable securities and financial institutions duty from 1 July 2001, and debits tax from 1 July 2005.

Further, following the Treasurers' Conference in March 2005, the Territory joined with five other jurisdictions in proposing a five year timetable for the abolition of other taxes, beginning from 1 July 2005. In accordance with that commitment, the Territory abolished electronic debit transaction duty from 1 July 2005.

Details of the abolition schedule for the Territory's remaining business taxes specified in the Intergovernmental Agreement are set out below.

### Stamp duty on unquoted marketable securities

Stamp duty 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

Stamp duty on the rent paid for the grant and renewal of non-residential leases and franchise arrangements is to be abolished from 1 July 2006. However, conveyance stamp duty will continue to be payable on certain lease and franchise transactions, such as the transfer of a lease or franchise arrangement. This treatment is in line with that adopted by other states under the Intergovernmental Agreement.

### Stamp duty on hiring arrangements

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

Stamp duty levied on the value of conveyances 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 statement relate to the more important and material concessions applicable in the Northern Territory. 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 2006-07 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 2006-07). 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

	2006-07	2007-08	2008-09	2009-10
Tax expenditure (\$ million)	98.9	100.2	101.5	103.0

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 2006-07, being 6.2 per cent. The Government's revenue initiative announced in the 2005-06 Budget to reduce payroll tax in 2006-07 has 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 estimated tax expenditure reported above mainly comprises the following exemptions.

### Small Business Exemption

From 1 July 2006, the first \$1.25 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 \$1.25 million exemption reduces an employer's annual payroll tax liability by up to \$77 500.

### 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.

This 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.

### Stamp Duty on Conveyances

	2006-07	2007-08	2008-09	2009-10
Tax expenditure (\$ million)	26.3	26.9	27.6	28.3

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 2006-07.

The estimated tax expenditure reported above comprises the following items.

### 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 nationally agreed \$7000 First Home Owner Grant. In addition, the value of the concession was increased to the stamp duty payable up to the first \$125 000 of the home's value (that is, up to \$3640 in stamp duty).

The concession was increased from 3 May 2005, by increasing it to the stamp duty payable up to the first \$200 000 of a home's value (that is, up to \$6800 in stamp duty). The concession was increased again, from 20 June 2005, to the first \$225 000 of a home's value (up to \$8016 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 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 was introduced. This is equivalent to a rebate of the stamp duty on the first \$60 200 of a home's value. This concession is not available to first home buyers.

The rebate amount was increased to up to \$2500 from 20 June 2005, the equivalent to a rebate of the stamp duty on about the first \$92 500 of a home's value.

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 Exemptions

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 *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 these concessions 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

	2006-07	2007-08	2008-09	2009-10
Tax expenditure (\$ million)	13.9	13.9	14.2	14.4

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 2006-07, being 10 per cent of the premium.

The estimated tax expenditure reported above comprises the following items.

### 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.

## Motor Vehicle Registration Fees

	2006-07	2007-08	2008-09	2009-10
Tax expenditure (\$ million)	0.8	0.8	0.8	0.9

The estimated tax expenditure reported above comprises the following item.

### 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

	2006-07	2007-08	2008-09	2009-10
Tax expenditure (\$ million)	37.9	4.5	1.0	1.0

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 2006-07, being 18 per cent.

The estimated tax expenditure reported above comprises the following items.

### Eligible Exploration Expenditure

Royalty payers are able to reduce the amount of royalty that they pay in the Territory for eligible exploration expenditure (EEE) incurred for their mining operations in the Territory. In addition, they have been able to utilise exploration expenditure incurred by others, through acquiring exploration expenditure certificates (EECs), to also reduce the amount of royalty that they are required to pay. However, the amount by which royalty may be reduced through the use of EEE 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.



Moreover, EECs have not been issued since 1 July 2003, so the number and value of EECs available to reduce royalty has been diminishing since then. It is expected that the remaining stock of EECs will be exhausted during 2007-08, restricting royalty payers to claims for EEE expended on their own mining tenements.

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.

## 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 states and territories.

Therefore 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.

Government has approved a 2.6 per cent increase in tariffs, consistent with the Consumer Price Index (CPI), for non-contestable and tranche 4 electricity customers for 2006-07. For non-contestable customers (households and small businesses), this is the first tariff increase since 2000. The costs of electricity supply have increased significantly since that time and hence maintaining tariffs at current levels is becoming unsustainable. Despite the tariff increase, the Territory Government will provide \$46.5 million in 2006-07 to subsidise electricity tariffs for non-contestable and tranche 4 electricity customers.

**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. Full retail contestability is scheduled to be introduced in the Territory by 2010 subject to a public benefit assessment. Table 6.7 compares contestability thresholds of the jurisdictions.

Table 6.7: 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)	≥ 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.

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 customers in the Territory.

The 'standard tariff' available to non-contestable commercial customers in the Territory (using less than 750 mWh), effective from 1 July 2006, is a fixed charge of 44.26 cents per day plus a usage charge of 16.72 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 for 2005-06, was a fixed charge of 44.26 cents per day, plus a usage charge of 21.41 cents per kWh between 6am and 6pm and 12.05 cents per kWh for consumption between 6pm and 6am.

A 'demand tariff' is also available to businesses using more than 160 mWh per annum, and benefits customers with a relatively constant electricity load. This tariff has 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 15 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 6.8: Northern Territory Demand Tariff (effective 1 July 2006)

Monthly Usage – kWh	Peak – cents/kWh	Off-peak – cents/kWh
First 10 000	11.08	10.12
Next 20 000	10.98	10.00
Next 50 000	10.78	9.89
Next 100 000	10.76	9.79
Next 200 000	10.65	9.68
Next 200 000	10.55	9.57
Balance	10.43	9.46
Plus		
Monthly Demand – kVa	Peak – \$/kVa	Off peak – \$/kVa
First 50	24.76	3.26
Next 100	22.60	2.99
Next 300	20.45	2.72
Next 500	18.30	2.44
Next 1000	16.15	2.29
Balance	15.06	2.18
Plus system charge	\$3.57 per day	

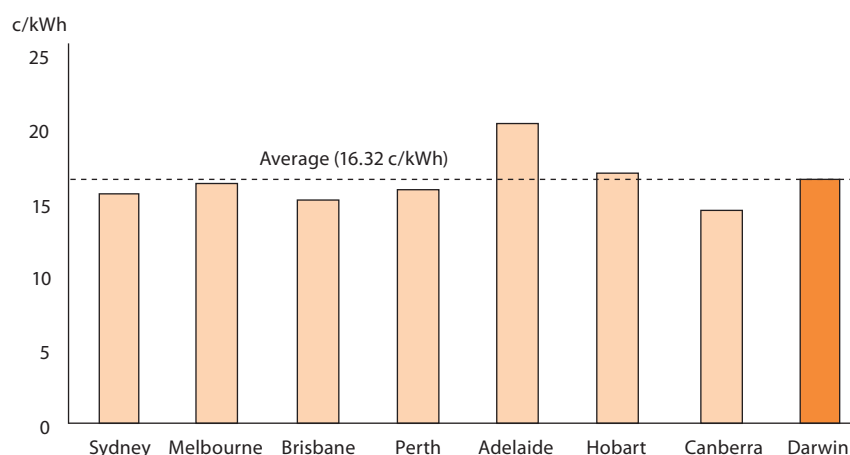
Source: Power and Water Corporation website.

**Domestic** From 1 July 2006, domestic electricity charges (generally applying to households) in the Territory will comprise a fixed daily charge of 28.34 cents and usage charge of 14.38 cents per kWh for a standard meter.

The average domestic electricity charge in the Territory is 16.45 cents per kWh, slightly higher than the national average of 16.32 cents per kWh.

Chart 6.11 provides a comparison of all jurisdictions.

Chart 6.11: Domestic Average Cents/kWh Charge (based on consumption of 5000kWh)



Note: Prices for 1 July 2006 are based on selected retailers' published tariffs for 2005-06 in each capital city and have been adjusted to allow for advised increases from 1 July 2006.

Average consumption rates for Canberra and Hobart have been weighted to account for differences in electricity supply arrangements.

Under the Government's uniform tariff policy, prices charged in Darwin apply across the Territory.

## Water and Sewerage Charges

**Water** Government has approved a CPI-based, 2.6 per cent increase in the tariffs and charges for water and waste water services for all domestic and business consumers. The tariff increase, to apply from 1 July 2006, is the first since 2003 and is necessary to reflect the increasing costs of providing water and waste water services. Despite the tariff increase, the Territory Government will provide \$5.0 million in 2006-07 to subsidise water and sewerage tariffs.

Water charges in the Territory are based on a fixed daily charge reflecting the size of the meter (Table 6.9) and a usage charge of 69.41 cents per kilolitre (kL).

Table 6.9: Water Meter Charges (effective 1 July 2006)

Meter Size	Daily Charge
Up to 25mm	29.98c
26 to 40mm	74.20c
41 to 50mm	\$1.1568
51 to 100mm	\$4.6378
101 to 150mm	\$10.4324
151 to 200mm	\$18.5511

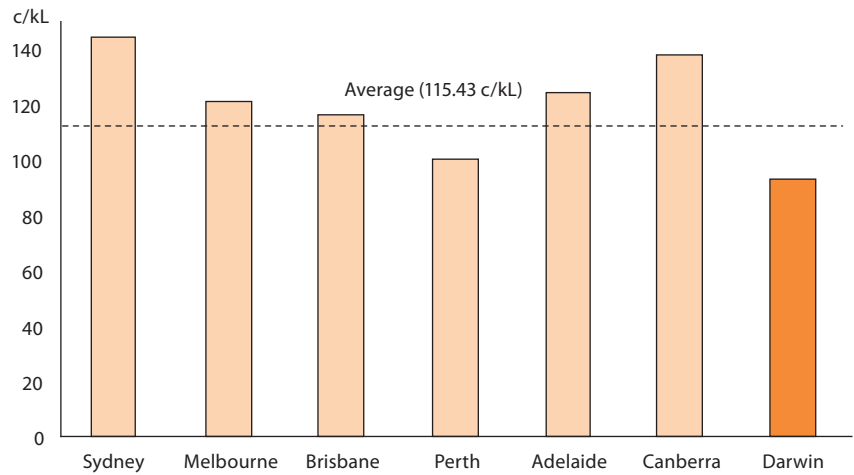
Source: Power and Water Corporation website.

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.



Darwin’s average water charge (which applies across the Territory), at 93 cents per kL, is the lowest of all jurisdictions and significantly lower than the national average of 115 cents per kL (Chart 6.12).

Chart 6.12: Annual Domestic Water Charge (based on consumption of 450 kL, 1 July 2006)



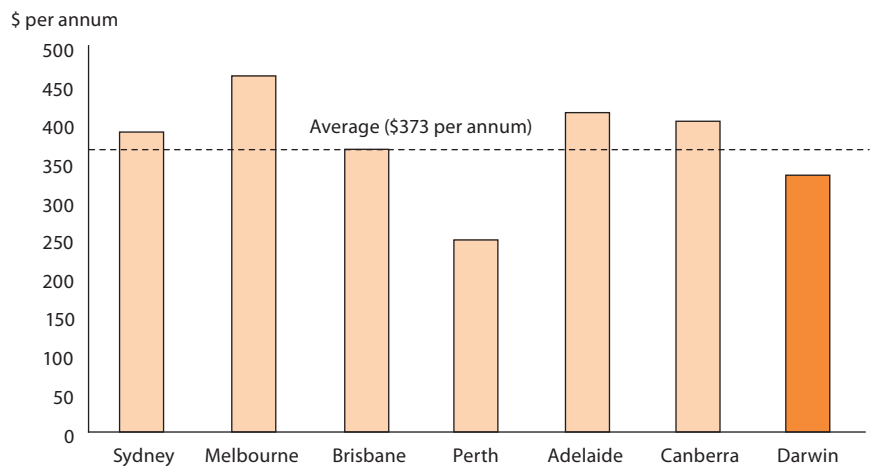
Note: Prices for 1 July 2006 are based on published tariffs for selected water and waste water providers for 2005-06 in each capital city and have been adjusted to allow for advised increases from 1 July 2006.

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.

## Sewerage

The Territory’s average domestic sewerage charge, at \$332 per annum, is below the national average, and is the second lowest of all jurisdictions (Chart 6.13).

Chart 6.13: Annual Household Sewerage Charge (1 July 2006)



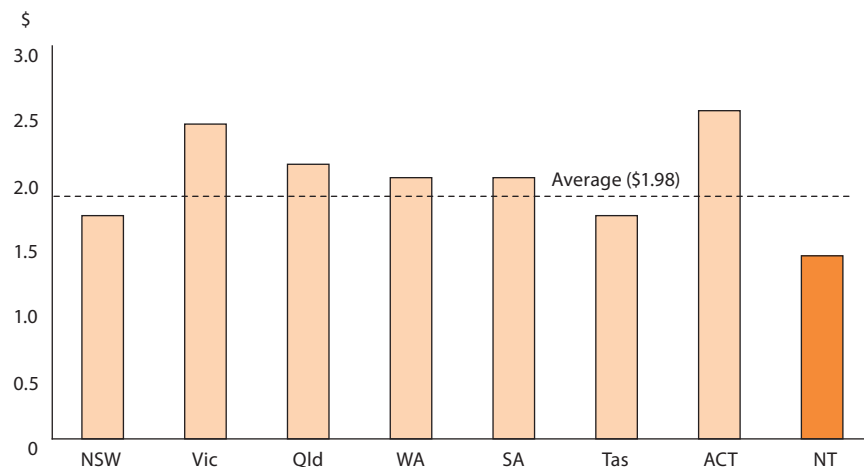
Note: Prices for 1 July 2006 are based on published tariffs for selected water and waste water providers for 2005-06 in each capital city and have been adjusted to allow for advised increases from 1 July 2006.

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.

## Bus Fares

The Territory's standard adult bus fare for travelling one zone is the lowest in Australia, at \$1.40 (Chart 6.14).

Chart 6.14: One Zone Adult Bus Fare Travelling (March 2006)



Note: Prices are for capital cities.

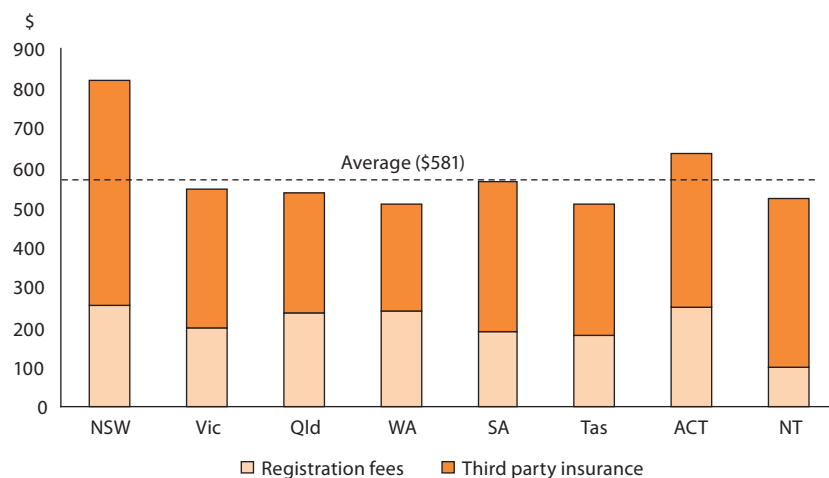
Source: Department of Planning and Infrastructure.

## Motor Vehicle Registration

The schedule of vehicle registration fees and taxes varies significantly among jurisdictions. Based on a medium-sized passenger vehicle, the Territory has the third lowest cost for annual registration renewal and third party insurance in Australia (Chart 6.15).

The Territory's registration renewal fees, excluding third party insurance, are the lowest in Australia and well below the national average. Higher compulsory third party premiums in the Territory reflect inherently higher costs and risks including potentially expensive common law claims available to non-resident drivers and passengers. Third party premium revenue is used to support the scheme and is not returned to Government.

Chart 6.15: Annual Registration Fees and Charges for a Medium-Sized Passenger Vehicle (March 2006)



\* Based on a 4 cylinder Toyota Camry CSI Sedan.

Note: Prices are for capital cities, however, prices charged in Darwin apply across the Territory.

Source: Department of Planning and Infrastructure.



## 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.

