

Chapter 6 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 2008-09 Budget introduces three key measures that will provide significant ongoing benefits to all Territorians, including Territory businesses.

The first of these measures reforms the way in which stamp duty is imposed on property conveyances by reducing conveyance stamp duty rates on all transactions. The measure reduces the minimum rate to 1.5 per cent from 2.1 per cent and the maximum rate to 4.95 per cent from 5.4 per cent, and increases to \$525 000 the value at which the new maximum rate applies. This will assist all home buyers, and all property and business investors in the Territory. This measure will apply from 6 May 2008 and is estimated to save home buyers and investors \$12 million in 2008-09.

The second measure delivers the Government's 2005 election commitment to reduce payroll tax rates from 6.2 per cent to 5.9 per cent. This will benefit all businesses that pay payroll tax in the Territory and has an estimated cost to the budget of \$7.2 million in 2008-09. The payroll tax rate reduction will apply from 1 July 2008.

The third of the key measures is the introduction of the first component of the overhaul of payroll tax arrangements announced in 2007, by harmonising payroll tax laws with all states in eight agreed areas from 1 July 2008.

The Government has also committed to introducing payroll tax laws from 1 July 2009 that are consistent, as far as possible, with those adopted by New South Wales, Victoria, Queensland and Tasmania. States and territories will continue to determine rates and thresholds applicable in their jurisdictions.

The payroll tax harmonisation measures will provide significant compliance cost savings for businesses that pay payroll tax, particularly those that operate in a number of jurisdictions. In addition to the compliance cost savings, all the payroll tax harmonisation measures are estimated to save businesses about \$3 million a year in payroll tax.

The 2008-09 Budget also abolishes stamp duty on deeds, except for deeds relating to a trust, and includes a range of efficiency and equity taxation measures which are explained as part of the other Budget initiatives in Chapter 4.

This chapter provides an explanation of the Territory's own-source revenue regime, how it compares with the other jurisdictions, and the Territory's response to national tax reform.

It also includes a statement of the Territory's forecast tax expenditures as a result of concessions and exemptions for 2008-09 through to 2011-12, as required by the *Fiscal Integrity and Transparency Act*.

Assessments of Revenue 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 Commonwealth Grants Commission (the Commission) assesses each jurisdiction's revenue capacity and revenue effort when calculating goods and services tax (GST) shares. Revenue capacity is the per capita revenue a state could raise by applying national average rates to its own revenue base, whereas revenue effort is whether state taxes are applied at levels above or below the national average level.

Average revenue capacity and effort are assumed to be 100 per cent. If a state has an above average revenue effort or capacity it will score more than 100 per cent, while below average capacity or effort is less than 100 per cent.

The most recent data used by the Commission to assess revenue capacity and effort is 2006-07 data.

Table 6.1 compares own-source revenue capacity in all jurisdictions and shows that capacity varies significantly between jurisdictions, with the Territory's capacity below average but higher than four other jurisdictions.

Table 6.1: 2006-07 Revenue Capacity by Jurisdiction – Total Own-Source Revenue

NSW	Vic	Qld	WA	SA	Tas	ACT	NT
101	87	108	141	78	68	85	90

Source: Commonwealth Grants Commission 2008 Update

Table 6.2 provides a comparison of the Commission's assessment of own-source revenue-raising effort in 2006-07 and includes taxation, mining revenue and contributions by trading enterprises, including government owned corporations. Own-source revenue effort shows less divergence between jurisdictions than revenue capacity.

The assessment in Table 6.2 shows that the Northern Territory's own-source revenue-raising effort is below the national average and the second lowest of all the states.

Table 6.2: 2006-07 Revenue Effort by Jurisdiction – Total Own-Source Revenue

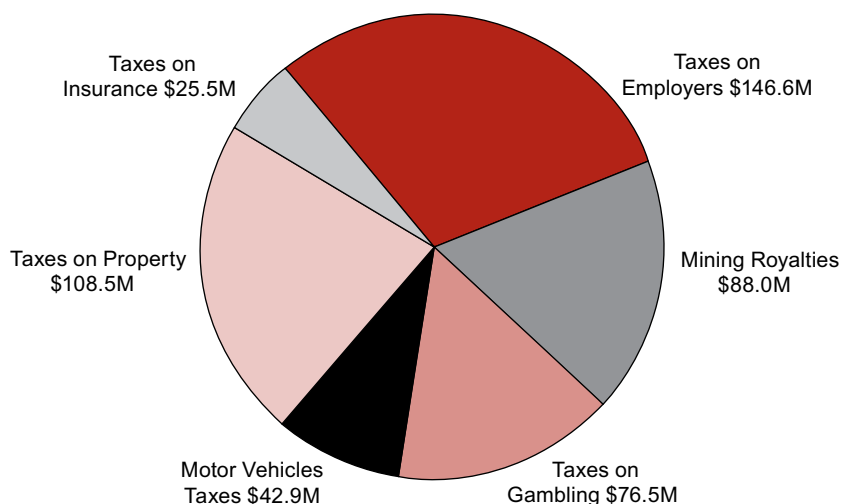
NSW	Vic	Qld	WA	SA	Tas	ACT	NT
104	103	85	105	111	101	110	96

Source: Commonwealth Grants Commission 2008 Update

Analysis of Territory Revenue

Chart 6.1: 2008-09 Main Own-Source Revenue Categories

Chart 6.1 shows the Territory's major own-source revenues in 2008-09 according to the classification used in the Uniform Presentation Framework, adopted for the Territory's reporting requirements.



Note: Excludes payroll tax collected from general government entities.

Source: Northern Territory Treasury

The projected revenue for 2008-09 from main own-source revenue totals \$488 million. As indicated in Chart 6.1, taxes on employers (payroll tax) comprise \$146.6 million, or 30 per cent, and taxes on property (stamp duties on financial and capital transactions) are estimated at \$108.5 million, or 22.2 per cent in 2008-09.

Payroll Tax

Revenue from payroll tax is forecast to be \$146.6 million in 2008-09 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 5.9 per cent and the general exemption threshold has increased from \$600 000 in 2004 to \$1.25 million. The rate reduction from 6.2 per cent to 5.9 per cent in 2008-09 is a saving to business of \$7.2 million.

In all states and territories, the threshold is reduced if an employer pays wages in more than one state or territory. For example:

- if an employer pays wages in the Northern Territory and elsewhere in Australia, the threshold is reduced to reflect the level of wages paid outside the Territory. Therefore, 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
- if an employer only employs for part of a financial year, the threshold is reduced to reflect the period that the employer paid wages during the year. Therefore, if an employer only pays wages for six months of the year, the general exemption threshold is reduced to \$625 000.

Table 6.3 shows that the Northern Territory's payroll tax exemption threshold is the equal highest in Australia and that its payroll tax rate will be the fourth highest, from 1 July 2008.

Table 6.3: State and Territory Payroll Tax Rates and Exemption Thresholds

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
Threshold (\$M)	0.60	0.55	1.00 ¹	0.75	0.50	1.01	1.25	1.25	0.86
Rate (%)	6.00	5.00	4.75	5.50	5.00	6.10	6.85	5.90	5.64

¹ Queensland's threshold diminishes so that no exemption is provided for employers with wages over \$4 million.

Source: State legislation and information available as at 30 April 2008

However, this does not present an accurate comparison with other payroll tax regimes as the rate and the threshold exemption need to be taken into account to get an effective payroll tax rate. The effective rate, from 1 July 2008, is illustrated in Table 6.4.

Table 6.4: Effective State and Territory Payroll Tax Rates at Various Wage Levels

Wages	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
\$M	%	%	%	%	%	%	%	%
2	4.2	3.6	3.2	3.4	3.7	3.0	2.6	2.2
4	5.1	4.3	4.8	4.5	4.4	4.6	4.8	4.1
5	5.3	4.4	4.8	4.7	4.5	4.9	5.1	4.4
6	5.4	4.5	4.8	4.8	4.6	5.1	5.4	4.7
10	5.6	4.7	4.8	5.1	4.8	5.5	6.0	5.2
20	5.8	4.9	4.8	5.3	4.9	5.8	6.4	5.5

Source: Northern Territory Treasury and available information as at 30 April 2008

From 1 July 2008:

- the Territory's payroll tax regime is more favourable than all other jurisdictions for small to medium businesses with wages up to \$5 million a year; and
- the payroll tax burden for larger businesses in the Territory is more favourable than, or comparable with, New South Wales, Western Australia, Tasmania and the Australian Capital Territory.

Payroll tax legislation is similar in operation in most states, although it is not identical. The differences between state and territory payroll tax laws are generally minor in nature and lead to some differences in administration. Moreover, there are separate administrative arrangements in each state and territory for the collection and payment of the tax. These differences create a requirement for taxpayers that employ workers in more than one state or territory to return payroll tax in each of these states and territories. These arrangements add to the compliance cost for these taxpayers in paying payroll tax.

The majority of the Northern Territory's payroll tax is collected from taxpayers that employ in a number of states and territories. Accordingly, it follows that there would be compliance cost benefits for these taxpayers arising from the harmonisation of payroll tax legislation and administration.

In March 2007 the state and territory Treasurers issued a joint media release agreeing to:

- adopt common payroll tax provisions and definitions in eight agreed areas by 1 July 2008; and
- move towards adopting a range of payroll tax harmonisation measures agreed between New South Wales, Victoria and Tasmania.

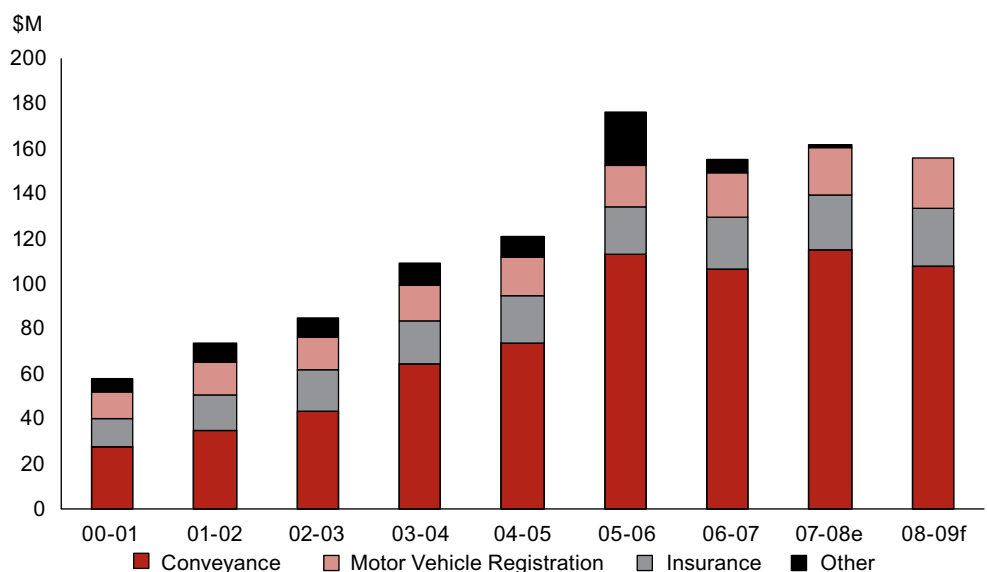
New South Wales and Victoria agreed to adopt almost identical payroll tax legislation from 1 July 2007 that encompasses more than the eight measures agreed by the states and territories.

As part of the 2008-09 Budget, the Northern Territory will harmonise its payroll tax legislation with the other states and territories in the eight agreed areas from 1 July 2008. Moreover, the Northern Territory has also committed to further harmonise its payroll tax legislation from 1 July 2009. Full harmonisation will provide significant compliance cost savings to businesses and will also provide payroll tax savings of \$3 million a year.

Stamp Duty

Total revenue from the Territory's stamp duties is forecast to be \$156 million in 2008-09. The main components are conveyance, insurance and motor vehicle transfer of registration duties, as shown in Chart 6.2.

Chart 6.2: Stamp Duty Collections



e: estimate; f: forecast

Source: Northern Territory Treasury

Stamp duty revenue in 2007-08 is projected to be \$161.8 million, higher than the estimate for 2008-09 due to the reduction in conveyance duty rates from 6 May 2008.

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 second highest 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 6.3 sets out the median house prices for the December 2007 quarter for Australian capital cities. These prices are used as the basis for the stamp duty comparisons in Charts 6.4 through to 6.8.

Chart 6.3: Median House Prices for Australian Capital Cities for the December 2007 Quarter



Note: Current as at 30 April 2008.

Source: Real Estate Institute of Australia

Growth in the median house price in Darwin slowed during 2007. For the December 2007 quarter, Darwin's median house price was the fourth lowest of Australia's capital cities and only slightly higher than Brisbane's. Chart 6.3 shows that the median house price in Darwin is below the average median house price of all capital cities.

In response to rising house prices in recent years, the Government has provided significant incentives to promote home ownership in the Territory, including the first home owner stamp duty concession and the principal place of residence stamp duty rebate. In addition, the HomeNorth scheme, the Territory's shared equity scheme, has been significantly remodelled to make it easier for low and middle income earners to own a home.

From 6 May 2008, the Government has provided further stamp duty assistance to home buyers and has also extended assistance to property investors and business property purchasers by reducing conveyance duty rates.

The Territory's conveyance stamp duty is calculated by a formula that determines a rate applicable to the value of dutiable property conveyed. The rates were determined on a linear scale between a minimum rate of 2.1 per cent and a maximum rate of 5.4 per cent that applied to dutiable property with a value of \$500 000 or more.

From 6 May 2008, the minimum conveyance stamp duty rate reduces to 1.5 per cent from 2.1 per cent and the maximum rate reduces to 4.95 per cent from 5.4 per cent. The property value at which the maximum conveyance stamp duty rate applies has also been increased from \$500 000 to \$525 000. This means that all rates that would apply to values between the minimum and maximum rate have also decreased.

The stamp duty savings that home buyers, property investors and business property purchasers can expect from the rate reductions at various property values are provided in Table 6.5.

Table 6.5: Stamp Duty Savings for Home Buyers, Property Investors and Business Property Purchasers at Certain Property Values from 6 May 2008

Property Value	Savings					
	Property and Business Investors		First Home Buyers ¹		Other Home Buyers	
	\$	%	\$	%	\$	%
100 000	593	22	-		250	100
200 000	1 171	17	-		1 171	27
300 000	1 736	14	-		1 736	18
400 000	2 286	12	2 489	71	2 286	14
412 000 ²	2 351	12	2 554	58	2 351	14
500 000	2 822	11	3 025	26	2 822	12
600 000	2 700	8	2 903	17	2 700	9
700 000	3 150	8	3 353	15	3 150	9
800 000	3 600	8	3 803	14	3 600	9
900 000	4 050	8	4 253	13	4 050	9
1 000 000	4 500	8	4 703	12	4 500	9

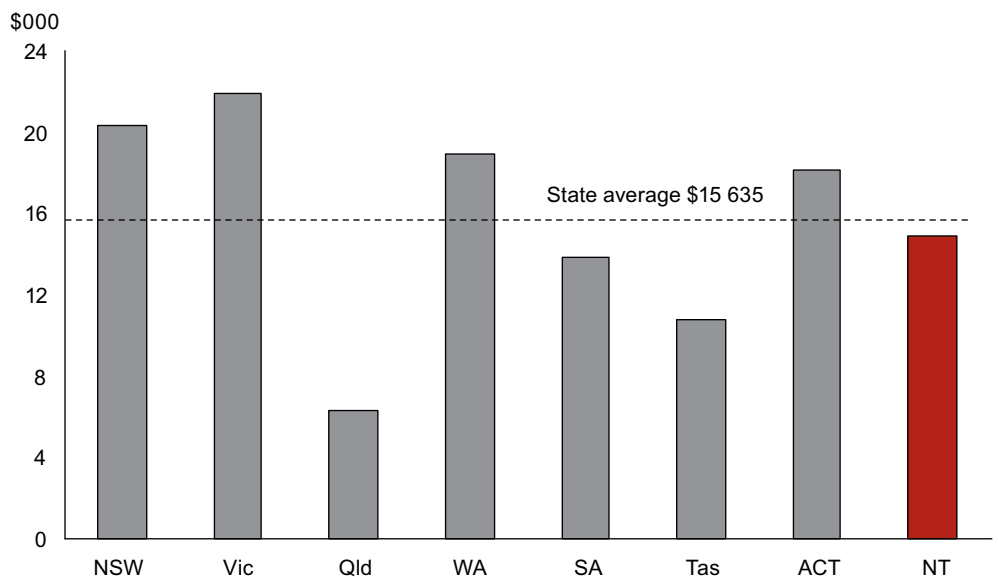
¹ No stamp duty paid until \$385 000.

² Median house price as at December 2007.

Source: Northern Territory Treasury

The benefit of the Territory's principal place of residence rebate of \$2500 is shown in Chart 6.4. This rebate has been maintained in the 2008-09 Budget and combined with the reduction in conveyance stamp duty rates means that home buyers, other than first home buyers, will pay no stamp duty on about the first \$111 850 of their home's value. The rebate reduces the Territory's conveyance duty on a principal place of residence in Darwin to below the national average and the fourth lowest of the jurisdictions. Although not reflected in Chart 6.4, Territory home buyers also benefit from paying no stamp duty on any mortgage security and, for investors, paying no annual land tax.

Chart 6.4: Conveyance Duty Payable on Purchase of a Median-Priced Principal Place of Residence from 6 May 2008



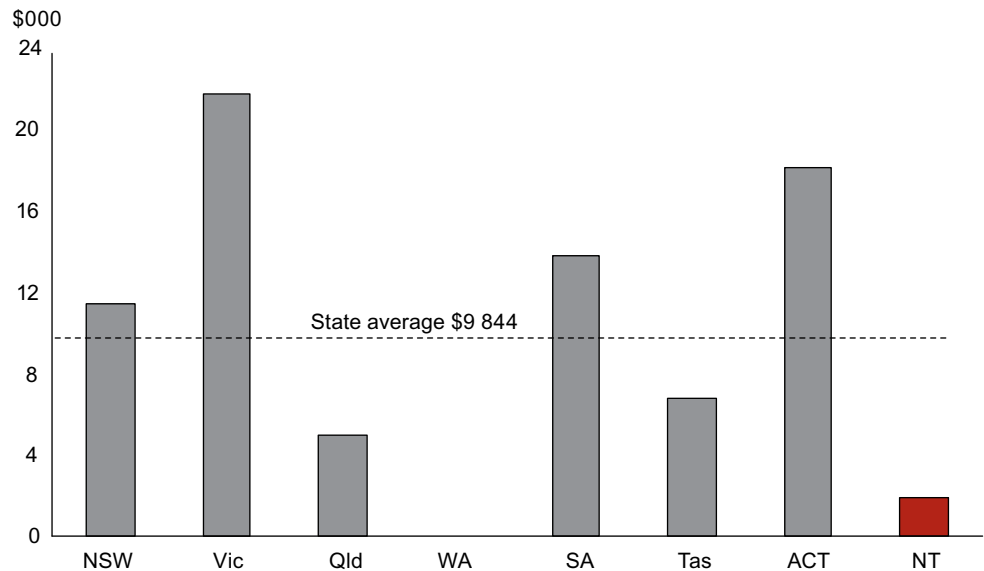
Note: Median prices as at December 2007

Source: Real Estate Institute of Australia, state legislation and information available as at 30 April 2008

As part of the reduction in conveyance stamp duty rates in the 2008-09 Budget, the first home owner stamp duty concession is increased to the first \$385 000 of a home's value (a stamp duty concession of up to \$15 515). As a result, Territory first home buyers will now pay no stamp duty on the first \$385 000 of their purchase.

Chart 6.5 provides an interjurisdictional comparison of the stamp duty levied for a first home owner on the purchase of a median-priced house in a capital city. The stamp duty payable in the Territory by a first home owner on a median-priced house in Darwin is well below the national average and is the second lowest in Australia, behind only Western Australia.

Chart 6.5: Conveyance Duty Payable on Purchase of a Median-Priced First Home from 6 May 2008



Note: Victoria has a First Home Bonus for first home buyers who are eligible for the \$7000 First Home Owner Grant. The bonus is \$5000 to purchase or build a new home, or otherwise is \$3000, and ceases on 1 July 2009. The bonus is only available where the consideration paid under the contract is no more than \$500 000.

Median prices as at December 2007.

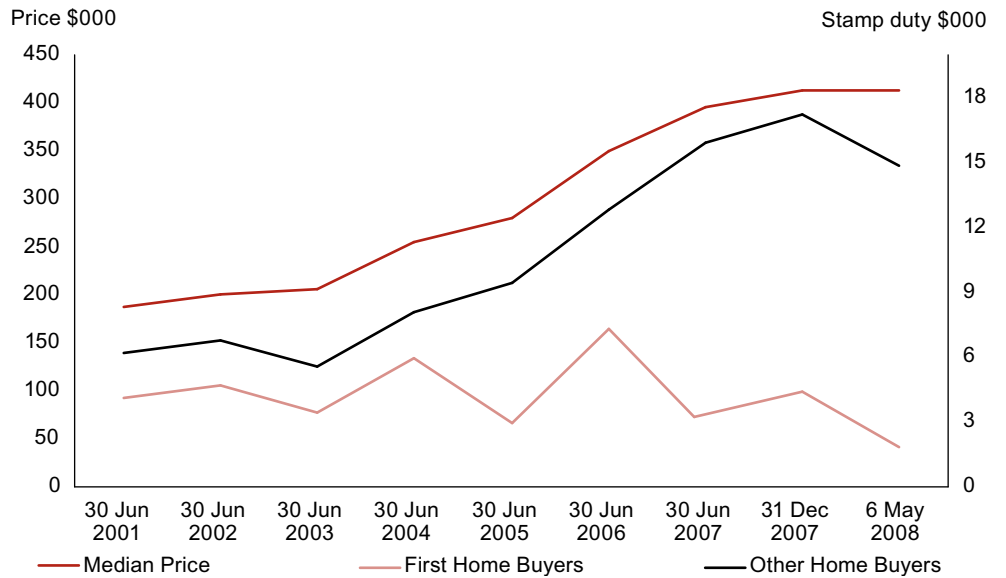
Source: Real Estate Institute of Australia, state legislation and information available as at 30 April 2008

The effect of the increases on the first home owner concession can be seen in Charts 6.6 and 6.7.

These charts show that, although house and unit prices have increased since 2001, the amount of stamp duty paid by first home buyers on the purchase of a median-priced house or unit in Darwin has decreased.

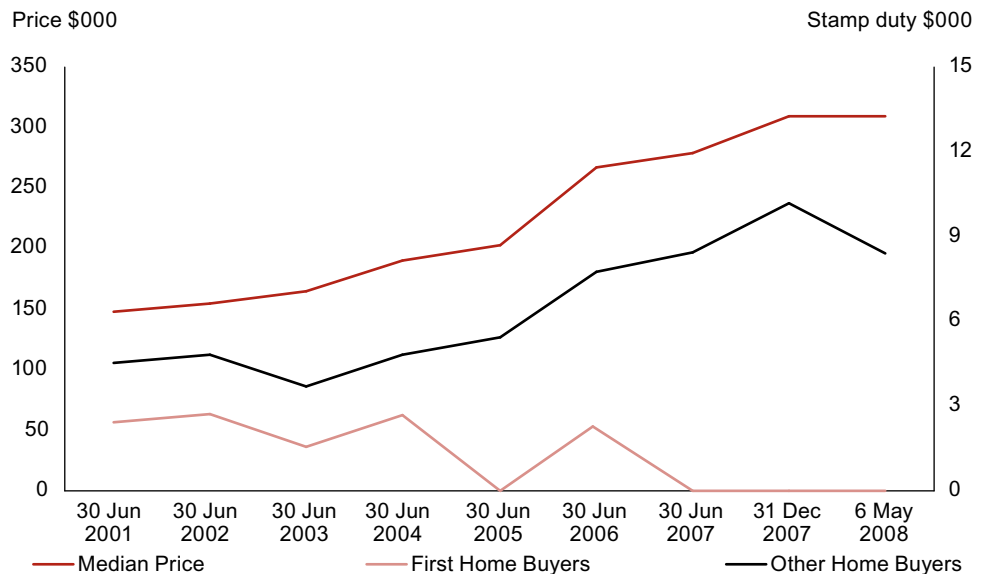
Similarly, the amount of stamp duty payable on the purchase of a median-priced house or unit in Darwin decreases from 6 May 2008 for other home buyers.

Chart 6.6: Conveyance Duty Payable by Home Buyers on the Purchase of a Median-Priced House in Darwin



Source: Northern Territory Treasury

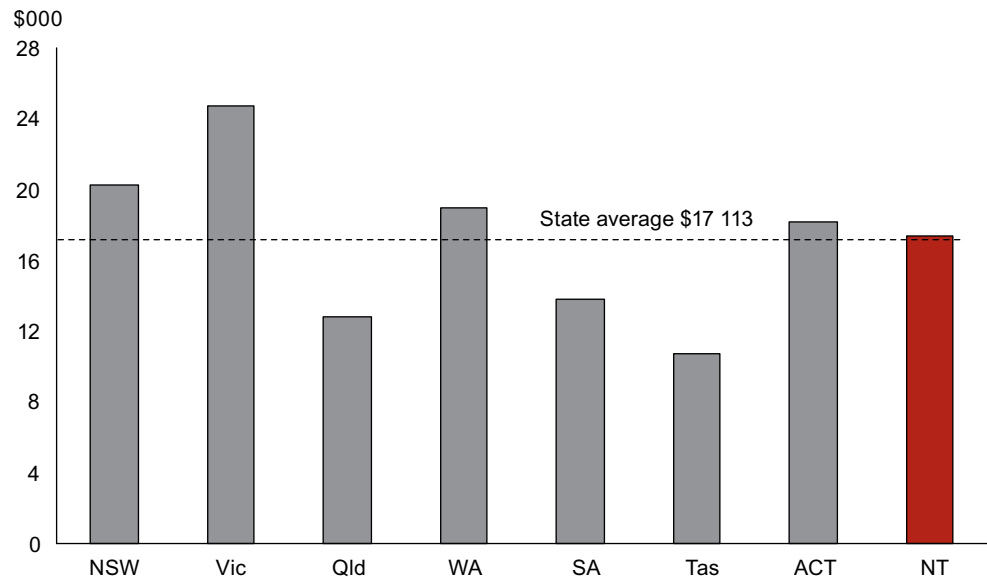
Chart 6.7: Conveyance Duty Payable by Home Buyers on the Purchase of a Median-Priced Unit in Darwin



Source: Northern Territory Treasury

Chart 6.8 provides an interjurisdictional comparison of the stamp duty levied for an investment property purchase of a median-priced house in a capital city. The comparison shows the stamp duty payable in the Territory is slightly above the national average and is fourth lowest in Australia.

Chart 6.8: Conveyance Duty Payable on Purchase of a Median-Priced Residential Investment Property from 6 May 2008



Note: Median prices as at December 2007

Source: Real Estate Institute of Australia, state legislation and information available as at 30 April 2008

Insurance Duty

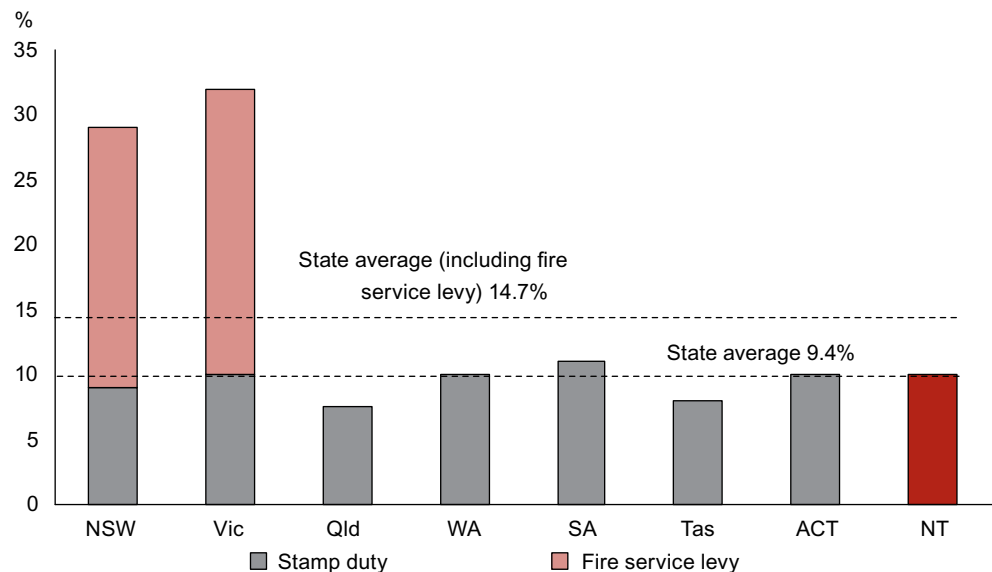
Insurance duty is imposed on general and life insurance policies, with general insurance comprising the majority of the revenue collected from this stamp duty. Revenue from insurance duty is forecast to be \$25.5 million in 2008-09.

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, Western Australia and the Australian Capital Territory 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 services levies on the general public, although, like the states, it does levy charges for commercial fire alarm monitoring.

Chart 6.9: Total State and Territory Taxes on Domestic Insurance



Source: State legislation and information available as at 30 April 2008

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 2008-09 is forecast to be \$22 million.

The Territory's rate of duty is similar to the national average for a new vehicle valued at \$35 000 (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 \$35 000



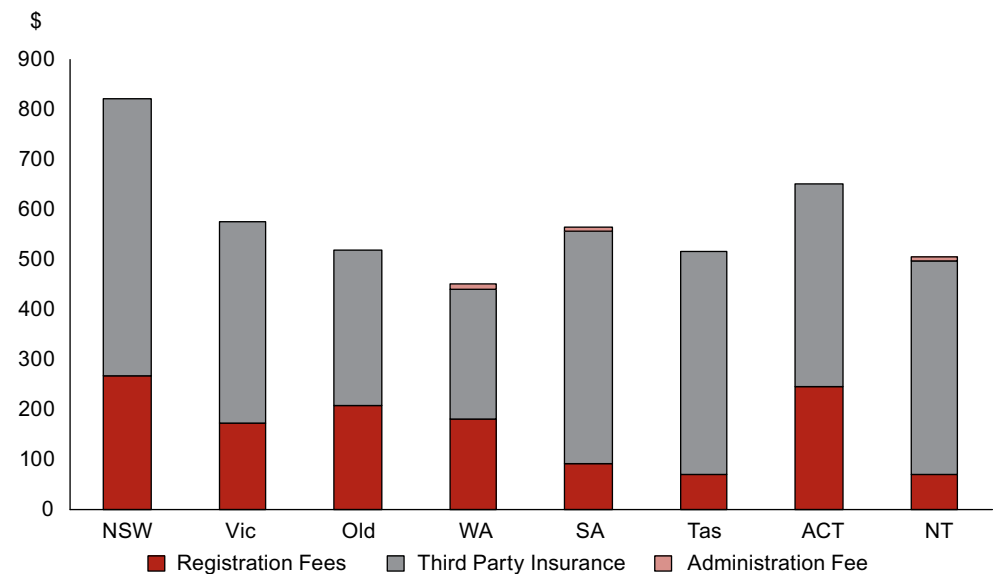
Source: State legislation and information available as at 30 April 2008

Motor Vehicle Registration

Vehicle registration fees and taxes vary significantly across the jurisdictions. At \$504.70, the Territory has the second lowest cost in Australia to register a medium-sized passenger vehicle (see Chart 6.11).

The Territory's registration fee, excluding third party insurance of \$70, is the lowest in Australia and well below the national average of \$163.79. Higher compulsory third party premiums in the Northern Territory (\$387.55) reflect inherently higher costs due to the small size of the Territory and relatively high road accident casualties.

Chart 6.11: Annual Registration Fees and Charges for a Medium-Sized Passenger Vehicle (March 2008)



Note: Prices are for capital cities, however, prices charged in Darwin apply across the Territory. Based on a 4 cylinder Toyota Camry Altise Sedan.

Source: Northern Territory Treasury

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, in its 2008 assessment, the Commission has assessed a land tax capacity of approximately \$23.6 million, being an approximation of the land tax that the Territory would receive, 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 is forecast to be \$76.5 million in 2008-09.

Table 6.6 provides a breakdown of the revenue that the Territory's gambling taxes are expected to raise in 2008-09.

Table 6.6: Estimated Revenue from Gambling Taxes in 2008-09

Tax/Duty	\$000
Community Gaming Machines	29 527
Lotteries	13 129
Casino	11 821
Bookmakers – Racing and Sports Betting	11 642
Wagering Taxes	7 502
Community Benefit Levy	2 823
Internet Gaming	103
Total	76 547

Source: Northern Territory Treasury

Community gaming machine tax is based on the gross profits (that is, net player losses) from gaming machines. The tax is imposed on clubs at marginal rates, ranging from 12.91 per cent to 42.91 per cent. Hotels pay tax at the flat rate of 42.91 per cent, plus a community gaming machine levy of 10 per cent.

The Territory collects lotteries taxes through a revenue sharing arrangement with the Victorian Government, under which taxes of 79.4 per cent of gross profit of lottery sales in the Territory are collected by the Victorian Government and returned to the Territory.

Casino taxes are based on gross profits derived from games played at the casinos. Tax rates vary depending on the type of gaming and net tax payable is calculated after GST is deducted. Internet gaming tax of 4 per cent of gross profit is paid on bets placed by overseas players.

Bookmaker's turnover tax is levied on the value of bets placed with a bookmaker. The tax on race betting is 0.33 per cent of turnover for all horse, greyhound and harness racing events. The tax on sports betting is 0.25 per cent of turnover for

internationally sourced bets. Domestically sourced bets do not incur tax because they are subject to GST.

Wagering tax is imposed on both on-course and off-course totalisators at the rate of 40 per cent of the licensee's commission. Tax of 20 per cent of the licensee's commission is paid for races other than thoroughbred, harness and greyhound races and Australian sports. Tax at the rate of 10 per cent of the licensee's commission is paid for international sports.

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 does not charge stamp duty on mortgages and has already abolished all the other taxes in this category.

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 Territory. 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 \$88 million in 2008-09.

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, after allowing post wellhead 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. Other royalty schemes calculate royalty on the tonnage of minerals extracted. The Northern Territory's profits-based regime is less likely to impact on investment decisions as it is a fixed share of the returns derived from a mining venture. This means that:

- both prices and mining costs are taken into account in royalty calculations. If commodity prices or production costs rise or fall, royalty may decline or increase accordingly; 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. This is contrasted with an ad valorem royalty scheme which tends to increase the royalty share of returns for less profitable mines and reduce the royalty share of returns for more profitable mines.

Mineral royalties are collected in the Northern Territory from mining and quarrying for gold, silver, bauxite, manganese, lead, zinc, sand, gravel, laterite, vermiculite and lime. Royalties are not collected in respect of uranium mining in the Territory, as the Commonwealth retains ownership of uranium in the Territory. A grant in lieu of uranium royalty is paid by the Commonwealth to the 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 GST, agreed removal of certain 'business' taxes and the review of other taxes.

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.

Following the Treasurers' Conference in March 2005, the Territory joined 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;
- stamp duty on the transfer of non-quoted marketable securities from 1 July 2006;
- stamp duty on the rent paid for the grant and renewal of non-residential leases and franchise arrangements from 1 July 2006; and
- stamp duty on the rent paid for the hire of goods, including consumer and producer goods and instalment purchase arrangements, from 1 July 2007.

The one remaining business tax specified in the Intergovernmental Agreement that the Territory has agreed to abolish is stamp duty levied on the value of non-residential property conveyances, other than land. This 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 contributes by way of taxation concessions 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. In accordance with the *Fiscal Integrity and Transparency Act*, the tax expenditure statement provides forecast information for 2008-09 and the following three 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. 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

	2008-09	2009-10	2010-11	2011-12
Tax Expenditure (\$M)	124.7	131.3	136.0	143.3

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 2008-09, being 5.9 per cent.

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 Territory and comparing this to wages information reported by employers registered for payroll tax in the Territory. The difference between these two sets of data provides a reasonable estimate of wages that are not subject to payroll tax in the Territory because of payroll tax concessions provided in the legislation.

The estimated tax expenditure reported above mainly comprises the following exemptions.

Small Business Exemption

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 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 5.9 per cent, the \$1.25 million exemption reduces an employer's annual payroll tax liability by up to \$73 750.

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 (this exemption will remain but will have less impact over time with the phasing-out of CDEP in the Territory); or
- graduates of approved tertiary institutions employed under trainee arrangements approved by the Commissioner of Territory Revenue.

Private Educational Institutions and Local Governments

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

	2008-09	2009-10	2010-11	2011-12
Tax Expenditure (\$M)	39.8	37.8	38.8	39.8

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 2008-09.

The estimated tax expenditure reported above comprises the items 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

A stamp duty concession is available for the purchase of a person's first home in the Northern Territory.

From 6 May 2008, the concession exempts from stamp duty the first \$385 000 of a home's value (that is, up to \$15 515 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

A stamp duty rebate of up to \$2500 of the duty payable on the purchase of a person's principal place of residence in the Northern Territory is available.

With the reduction in conveyance stamp duty rates from 6 May 2008, this equates to a rebate of the stamp duty on about the first \$111 850 of a home's value. This concession is not available to first home buyers.

The estimated tax expenditure for this concession is based on actual historical data collected for this rebate and how it 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 Commonwealth's *Family Law Act*;

- the conveyance of property between partners of a de facto relationship on the breakdown of the relationship; and
- property transferred to public benevolent institutions, religious institutions, public hospitals and public education institutions for a purpose other than the carrying on of a commercial activity conducted by or on behalf of the entity.

The estimated tax expenditure for 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

	2008-09	2009-10	2010-11	2011-12
Tax Expenditure (\$M)	15.0	15.5	15.9	16.4

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 2008-09, 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 on-costs. 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 of 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

	2008-09	2009-10	2010-11	2011-12
Tax Expenditure (\$M)	0.8	0.9	0.9	0.9

The holder of a Pensioner Vehicle Concession Card is able to receive a flat \$104 concession from motor vehicle registration fees. This is the estimated tax expenditure reported above.

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

Mineral Royalties

	2008-09	2009-10	2010-11	2011-12
Tax Expenditure (\$M)	0.5	0.5	0.5	0.5

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 2008-09, being 18 per cent.

The estimated tax expenditure reported above comprises the following item.

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.

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 believed that there is minimal stock of EECs available to royalty payers, so royalty payers will be increasingly restricted to 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. This is evident in the 2008-09 Budget revenue initiatives which include conveyance stamp duty and payroll tax rate reductions and the harmonisation of payroll tax legislation.