

# **FINANCIAL TRANSACTION TAXES — FAG RELATIVITIES**

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- 1 This working paper describes the revenue base for Financial Transaction Taxes adopted at the 2008 Update and the resultant assessed revenues for the FAG relativities. Issues to do with the assessment method are discussed in Volume 3 of the 2004 Review Working Papers.

## **DESCRIPTION OF THE CATEGORY**

- 2 For the FAG relativities, the Financial Transaction Taxes category comprised net taxes from stamp duties and taxes on financial transactions. It included:
- stamp duties on mortgages, bonds, covenants, debentures and other loan securities;
  - stamp duties on leases;
  - stamp duties on instalment purchase arrangements, credit transactions and rental or hiring agreements;
  - bank accounts debits (BAD) tax levied on withdrawals from accounts with cheque drawing facilities; and
  - miscellaneous taxes and duties, such as the debits duty charged by Tasmania, credit card transaction duty in Queensland, electronic banking duty in the Northern Territory, and taxes on deeds of settlements and so on.
- 3 The Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (the IGA) provided for the abolition or review of certain State taxes. Consistent with those provisions, States:
- abolished Financial Institutions Duty (FID) from 1 July 2001;
  - abolished bank accounts debits tax by 1 July 2005;

- reached agreement with the Australian Government for the phased abolition of certain other taxes on business, many of which were taxes on financial transactions<sup>1</sup>.
- 4 In general, the GST relativities calculated by the Commission reflect the policies in relation to these taxes that are expected to operate in the year the relativities are to be applied. Thus, for example, revenues from the BAD tax have been excluded from the assessments since the 2005 Update and revenues from financial transactions taxes and stamp duty on shares and marketable securities to be abolished in 2007-08 were excluded from the 2007 Update.
- 5 Table 1 shows the standard revenues for the last six financial years. In 2006-07, the average revenue of \$216.28 per capita was 6.33 per cent of total own-source revenues.

**Table 1 Financial transaction taxes, average revenues, 2001-02 to 2006-07**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Average revenues (\$pc)	168.71	182.69	193.93	192.86	204.01	216.28
% of total own-source revenues	6.73	6.87	6.84	6.56	6.42	6.33

## ASSESSMENT METHOD

### Revenue Base

- 6 The revenue base was total private expenditure, using data mainly from the Australian Bureau of Statistics (ABS), adjusted for:
- agreed exclusions from private gross capital formation for the Northern Territory to remove activity related to offshore oil and gas projects that occurred in the Commonwealth's jurisdiction;
  - a capital market factor, estimated by calculating the proportion of total State factor income relating to the finance and insurance, and property and business services sectors in each State; then dividing each State's proportion by the Australian proportion and discounting the resultant factor to 18 per cent; and
  - a centralised banking factor, estimated by calculating each State's per capita bank deposits; then dividing each State's figure by the Australian figure; and discounting the resultant factor to 20 per cent<sup>2</sup>.

<sup>1</sup> The taxes and timing of State taxes that have been abolished since the IGA has been signed are:  
 Lease and minor duties: Victoria abolished from April 2001, Western Australia abolished from January 2004, Tasmania abolished from July 2004, South Australia abolished from July 2004, Queensland from January 2006 and Northern Territory from 1 July 2006.

Rental/Hire duty: Tasmania abolished from July 2002, Victoria, Queensland and Western Australia abolished from 1 January 2007.

Mortgage duty: Victoria abolished from July 2004, South Australia partially abolished from July 2005, and Western Australia and Tasmania partially abolished from July 2006.

Cheques duty: Western Australia and South Australia abolished from 1 July 2004.

<sup>2</sup> The ABS has not published State bank deposit data since 2001-02. It is assumed that the ratio of bank deposits between the States continues at the 2001-02 levels.

## Calculating the revenue base

7 The following tables show the data and the calculation of the revenue base for the 2008 Update FAG relativities assessment.

**Table 2 Total private expenditure, by State, 2001-02 to 2006-07**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
A. Household final consumption expenditure									
2001-02	156 003	111 201	73 789	39 706	31 596	8 791	8 445	4 119	433 650
2002-03	164 125	118 360	79 701	42 053	33 945	9 289	9 110	4 446	461 029
2003-04	173 050	125 633	88 577	45 183	35 833	10 047	9 509	4 850	492 682
2004-05	180 193	133 039	95 246	48 867	37 728	10 809	9 902	5 243	521 027
2005-06	187 228	138 766	102 150	52 254	39 395	11 279	10 657	5 728	547 457
2006-07	198 557	146 350	108 904	57 089	41 305	12 042	11 464	6 163	581 874
B. Private fixed capital formation									
2001-02	45 106	38 090	25 456	16 730	9 058	2 240	2 132	2 341	141 153
2002-03	51 796	43 649	31 484	20 026	11 011	2 348	2 701	2 577	165 592
2003-04	56 489	46 131	36 594	23 096	12 413	2 841	2 653	2 843	183 060
2004-05	60 281	49 497	40 350	24 937	13 216	3 288	2 732	3 082	197 383
2005-06	61 568	53 055	46 863	34 858	13 740	3 696	3 255	3 789	220 824
2006-07	59 960	55 000	54 667	43 396	14 417	3 466	3 746	3 858	238 510
C. Exclusions from private gross fixed capital formation									
2001-02	0	0	0	267	0	0	0	300	567
2002-03	0	0	0	459	0	0	0	400	859
2003-04	0	0	0	615	0	0	0	600	1 215
2004-05	0	0	0	1 303	0	0	0	300	1 603
2005-06	0	0	0	1 387	0	0	0	0	1 387
2006-07	0	0	0	1 811	0	0	0	0	1 811
D. Total private expenditure = A+B-C									
2001-02	201 109	149 291	99 245	56 169	40 654	11 031	10 577	6 160	574 236
2002-03	215 921	162 009	111 185	61 620	44 956	11 637	11 811	6 623	625 762
2003-04	229 539	171 764	125 171	67 664	48 246	12 888	12 162	7 093	674 527
2004-05	240 474	182 536	135 596	72 501	50 944	14 097	12 634	8 025	716 807
2005-06	248 796	191 821	149 013	85 725	53 135	14 975	13 912	9 517	766 894
2006-07	258 517	201 350	163 571	98 674	55 722	15 508	15 210	10 021	818 573

Source: Australian Bureau of Statistics, *Australian National Accounts, State Accounts, 2006-07, 5220.0*,

Tables 6, 8, 10,12,14,16,18,20,22 and State data returns.

**Table 3 Finance sector proportion, by State, 2001-02 to 2006-07**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
E. Factor income- finance and insurance									
2001-02	22 235	13 764	5 551	3 048	2 838	645	502	198	48 781
2002-03	23 493	14 263	5 835	3 300	2 852	665	486	207	51 101
2003-04	25 763	15 477	6 438	3 510	3 088	761	525	228	55 790
2004-05	27 781	17 163	7 377	3 701	3 267	863	631	267	61 050
2005-06	31 080	17 931	8 383	4 036	3 535	914	634	260	66 773
2006-07	32 250	20 214	9 542	5 144	3 699	1 024	691	423	72 987
F. Factor income- property and busines services									
2001-02	35 111	22 016	11 117	7 539	4 477	676	1 961	693	83 590
2002-03	37 330	23 814	12 213	8 617	4 864	726	2 131	736	90 431
2003-04	39 537	25 675	13 587	9 307	5 043	792	2 227	787	96 955
2004-05	41 723	26 925	14 761	9 973	5 495	855	2 341	864	102 937
2005-06	44 011	29 582	16 271	10 861	5 645	986	2 458	903	110 717
2006-07	48 954	31 722	19 353	14 069	6 316	1 099	2 485	1 081	125 079
G. Total finance sector factor income = E + F									
2001-02	57 346	35 780	16 668	10 587	7 315	1 321	2 463	891	132 371
2002-03	60 823	38 077	18 048	11 917	7 716	1 391	2 617	943	141 532
2003-04	65 300	41 152	20 025	12 817	8 131	1 553	2 752	1 015	152 745
2004-05	69 504	44 088	22 138	13 674	8 762	1 718	2 972	1 131	163 987
2005-06	75 091	47 513	24 654	14 897	9 180	1 900	3 092	1 163	177 490
2006-07	81 204	51 936	28 895	19 213	10 015	2 123	3 176	1 504	198 066
H. Total State factor income									
2001-02	226 686	163 322	108 385	73 885	45 370	11 547	13 689	8 632	651 516
2002-03	239 266	170 939	115 594	79 431	47 529	12 263	14 946	8 944	688 912
2003-04	254 847	185 465	127 544	85 083	50 385	13 709	16 148	9 382	742 563
2004-05	269 438	195 201	142 026	94 519	52 579	14 543	17 154	10 387	795 847
2005-06	282 829	206 058	159 154	110 462	55 962	15 708	18 216	11 605	859 994
2006-07	300 023	217 336	174 742	129 526	59 791	17 768	19 706	13 412	932 304
H. Finance Serctor proportion = G/H									
2001-02	0.25298	0.21908	0.15379	0.14329	0.16123	0.11440	0.17993	0.10322	0.20317
2002-03	0.25421	0.22275	0.15613	0.15003	0.16234	0.11343	0.17510	0.10543	0.20544
2003-04	0.25623	0.22189	0.15700	0.15064	0.16138	0.11328	0.17042	0.10819	0.20570
2004-05	0.25796	0.22586	0.15587	0.14467	0.16664	0.11813	0.17325	0.10889	0.20605
2005-06	0.26550	0.23058	0.15491	0.13486	0.16404	0.12096	0.16974	0.10022	0.20639
2006-07	0.27066	0.23897	0.16536	0.14833	0.16750	0.11948	0.16117	0.11214	0.21245

Source: Australian Bureau of Statistics, *Australian National Accounts, State Accounts, 2006-07, 5220.0*, Tables 24 to 32

**Table 4 Capital market adjustment by State, 2001-02 to 2006-07**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
<b>J. Finance Sector proportion (=I from Table 3)</b>									
2001-02	0.25298	0.21908	0.15379	0.14329	0.16123	0.11440	0.17993	0.10322	0.20317
2002-03	0.25421	0.22275	0.15613	0.15003	0.16234	0.11343	0.17510	0.10543	0.20544
2003-04	0.25623	0.22189	0.15700	0.15064	0.16138	0.11328	0.17042	0.10819	0.20570
2004-05	0.25796	0.22586	0.15587	0.14467	0.16664	0.11813	0.17325	0.10889	0.20605
2005-06	0.26550	0.23058	0.15491	0.13486	0.16404	0.12096	0.16974	0.10022	0.20639
2006-07	0.27066	0.23897	0.16536	0.14833	0.16750	0.11948	0.16117	0.11214	0.21245
<b>K. Relativity of finance sector proportion - <math>J_{State}/J_{Aus}</math></b>									
2001-02	1.24512	1.07827	0.75691	0.70526	0.79356	0.56307	0.88557	0.50804	1.00000
2002-03	1.23736	1.08425	0.75998	0.73027	0.79021	0.55213	0.85229	0.51320	1.00000
2003-04	1.24566	1.07869	0.76327	0.73234	0.78453	0.55072	0.82851	0.52594	1.00000
2004-05	1.25190	1.09612	0.75647	0.70210	0.80874	0.57331	0.84082	0.52844	1.00000
2005-06	1.28643	1.11723	0.75057	0.65344	0.79482	0.58608	0.82245	0.48557	1.00000
2006-07	1.27400	1.12482	0.77835	0.69821	0.78843	0.56242	0.75863	0.52784	1.00000
<b>L. Relativity of finance sector proportion weighted by 18 per cent</b>									
2001-02	0.22412	0.19409	0.13624	0.12695	0.14284	0.10135	0.15940	0.09145	0.18000
2002-03	0.22272	0.19517	0.13680	0.13145	0.14224	0.09938	0.15341	0.09238	0.18000
2003-04	0.22422	0.19416	0.13739	0.13182	0.14122	0.09913	0.14913	0.09467	0.18000
2004-05	0.22534	0.19730	0.13616	0.12638	0.14557	0.10320	0.15135	0.09512	0.18000
2005-06	0.23156	0.20110	0.13510	0.11762	0.14307	0.10549	0.14804	0.08740	0.18000
2006-07	0.22932	0.20247	0.14010	0.12568	0.14192	0.10124	0.13655	0.09501	0.18000
<b>M. Equal per capita (EPC) factor weighted by 82 per cent</b>									
2001-02	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000
2002-03	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000
2003-04	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000
2004-05	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000
2005-06	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000
2006-07	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000	0.82000
<b>N. Capital market adjustment factor = weighted finance sector proportion + weighted EPC (=L+M)</b>									
2001-02	1.04412	1.01409	0.95624	0.94695	0.96284	0.92135	0.97940	0.91145	1.00000
2002-03	1.04272	1.01517	0.95680	0.95145	0.96224	0.91938	0.97341	0.91238	1.00000
2003-04	1.04422	1.01416	0.95739	0.95182	0.96122	0.91913	0.96913	0.91467	1.00000
2004-05	1.04534	1.01730	0.95616	0.94638	0.96557	0.92320	0.97135	0.91512	1.00000
2005-06	1.05156	1.02110	0.95510	0.93762	0.96307	0.92549	0.96804	0.90740	1.00000
2006-07	1.04932	1.02247	0.96010	0.94568	0.96192	0.92124	0.95655	0.91501	1.00000

**Table 5 Centralised banking adjustment, by State, 2001-02 to 2006-07**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
O. Bank deposits(a) \$million									
2001-02	238 488	112 233	64 443	32 539	22 717	3 958	6 597	1 549	482 524
2002-03	238 488	112 233	64 443	32 539	22 717	3 958	6 597	1 549	482 524
2003-04	238 488	112 233	64 443	32 539	22 717	3 958	6 597	1 549	482 524
2004-05	238 488	112 233	64 443	32 539	22 717	3 958	6 597	1 549	482 524
2005-06	238 488	112 233	64 443	32 539	22 717	3 958	6 597	1 549	482 524
2006-07	238 488	112 233	64 443	32 539	22 717	3 958	6 597	1 549	482 524
P. Bank deposits \$ per capita									
2001-02	36 102	23 210	17 549	16 997	14 980	8 380	20 557	7 802	24 699
2002-03	35 847	22 926	17 105	16 786	14 883	8 332	20 352	7 767	24 395
2003-04	35 635	22 645	16 683	16 532	14 787	8 234	20 223	7 710	24 098
2004-05	35 422	22 360	16 288	16 270	14 688	8 164	20 080	7 583	23 802
2005-06	35 129	22 045	15 916	15 961	14 558	8 103	19 856	7 421	23 472
2006-07	34 786	21 719	15 582	15 628	14 408	8 050	19 594	7 279	23 133
Q. Relativity of State bank deposits per capita divided by Australian per capita									
2001-02	1.46169	0.93973	0.71051	0.68817	0.60649	0.33930	0.83231	0.31590	1.00000
2002-03	1.46941	0.93978	0.70116	0.68806	0.61009	0.34153	0.83424	0.31837	1.00000
2003-04	1.47877	0.93973	0.69232	0.68605	0.61363	0.34170	0.83922	0.31995	1.00000
2004-05	1.48823	0.93942	0.68434	0.68355	0.61710	0.34300	0.84364	0.31859	1.00000
2005-06	1.49661	0.93922	0.67810	0.68002	0.62021	0.34521	0.84595	0.31618	1.00000
2006-07	1.50376	0.93888	0.67360	0.67559	0.62286	0.34801	0.84700	0.31466	1.00000
R. Bank deposits relativity weighted by 20 per cent									
2001-02	0.29234	0.18795	0.14210	0.13763	0.12130	0.06786	0.16646	0.06318	0.20000
2002-03	0.29388	0.18796	0.14023	0.13761	0.12202	0.06831	0.16685	0.06367	0.20000
2003-04	0.29575	0.18795	0.13846	0.13721	0.12273	0.06834	0.16784	0.06399	0.20000
2004-05	0.29765	0.18788	0.13687	0.13671	0.12342	0.06860	0.16873	0.06372	0.20000
2005-06	0.29932	0.18784	0.13562	0.13600	0.12404	0.06904	0.16919	0.06324	0.20000
2006-07	0.30075	0.18778	0.13472	0.13512	0.12457	0.06960	0.16940	0.06293	0.20000
S. EPC factor weighted by 80 per cent									
2001-02	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000
2002-03	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000
2003-04	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000
2004-05	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000
2005-06	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000
2006-07	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000	0.80000

(a) .State banking statistics are no longer available from the ABS.

**Table 5 (continued) Centralised banking adjustment, by State, 2001-02 to 2006-07**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
T. Central bBanking adjustment factor (R +S)									
2001-02	1.09234	0.98795	0.94210	0.93763	0.92130	0.86786	0.96646	0.86318	1.00000
2002-03	1.09388	0.98796	0.94023	0.93761	0.92202	0.86831	0.96685	0.86367	1.00000
2003-04	1.09575	0.98795	0.93846	0.93721	0.92273	0.86834	0.96784	0.86399	1.00000
2004-05	1.09765	0.98788	0.93687	0.93671	0.92342	0.86860	0.96873	0.86372	1.00000
2005-06	1.09932	0.98784	0.93562	0.93600	0.92404	0.86904	0.96919	0.86324	1.00000
2006-07	1.10075	0.98778	0.93472	0.93512	0.92457	0.86960	0.96940	0.86293	1.00000

**Table 6 Financial transaction taxes revenue base by State, 2000-01 to 2005-06**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
U. Total private expenditure (D above) (\$m)									
2001-02	201 109	149 291	99 245	56 169	40 654	11 031	10 577	6 160	574 236
2002-03	215 921	162 009	111 185	61 620	44 956	11 637	11 811	6 623	625 762
2003-04	229 539	171 764	125 171	67 664	48 246	12 888	12 162	7 093	674 527
2004-05	240 474	182 536	135 596	72 501	50 944	14 097	12 634	8 025	716 807
2005-06	248 796	191 821	149 013	85 725	53 135	14 975	13 912	9 517	766 894
2006-07	258 517	201 350	163 571	98 674	55 722	15 508	15 210	10 021	818 573
V. Capital market adjustment factor (N above)									
2001-02	1.04412	1.01409	0.95624	0.94695	0.96284	0.92135	0.97940	0.91145	1.00000
2002-03	1.04272	1.01517	0.95680	0.95145	0.96224	0.91938	0.97341	0.91238	1.00000
2003-04	1.04422	1.01416	0.95739	0.95182	0.96122	0.91913	0.96913	0.91467	1.00000
2004-05	1.04534	1.01730	0.95616	0.94638	0.96557	0.92320	0.97135	0.91512	1.00000
2005-06	1.05156	1.02110	0.95510	0.93762	0.96307	0.92549	0.96804	0.90740	1.00000
2006-07	1.04932	1.02247	0.96010	0.94568	0.96192	0.92124	0.95655	0.91501	1.00000
W. Central banking adjustment factor (T above)									
2001-02	1.09234	0.98795	0.94210	0.93763	0.92130	0.86786	0.96646	0.86318	1.00000
2002-03	1.09388	0.98796	0.94023	0.93761	0.92202	0.86831	0.96685	0.86367	1.00000
2003-04	1.09575	0.98795	0.93846	0.93721	0.92273	0.86834	0.96784	0.86399	1.00000
2004-05	1.09765	0.98788	0.93687	0.93671	0.92342	0.86860	0.96873	0.86372	1.00000
2005-06	1.09932	0.98784	0.93562	0.93600	0.92404	0.86904	0.96919	0.86324	1.00000
2006-07	1.10075	0.98778	0.93472	0.93512	0.92457	0.86960	0.96940	0.86293	1.00000
X. Revenue Base = U*(V+W - 1) (\$m)									
2001-02	228 552	149 595	89 156	49 686	35 944	8 706	10 004	4 772	574 236
2002-03	245 417	162 515	99 736	54 784	39 753	9 166	11 105	5 140	625 762
2003-04	261 668	172 127	112 135	60 155	42 647	10 149	11 395	5 523	674 527
2004-05	274 859	183 483	121 091	64 025	45 289	11 162	11 877	6 250	716 807
2005-06	286 334	193 537	132 729	74 891	47 137	11 898	13 039	7 334	766 894
2006-07	297 313	203 413	146 367	86 912	49 397	12 264	14 084	7 796	818 573

**RESULTS FOR 2006-07**

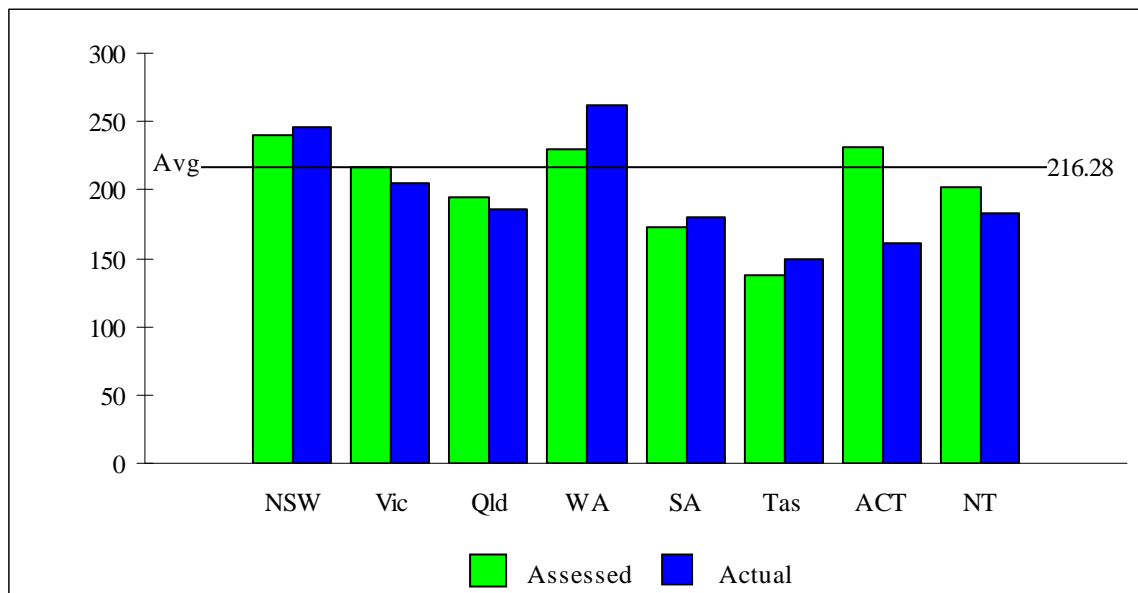
- 8 Table 12 at the end of the paper shows the average, actual and assessed revenues for each State for all years of the 2008 update.
- 9 Table 7 shows for 2006-07 average, actual and assessed per capita revenues and revenue capacity and effort ratios.

**Table 7 Financial Transactions Taxes, Assessment Results, 2006-07, FAG Relativities**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Avg
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual revenues	246.42	204.86	185.66	262.35	179.28	149.14	161.30	183.60	216.28
Assessed revenues	239.31	217.22	195.30	230.35	172.89	137.65	230.83	202.16	216.28
	%	%	%	%	%	%	%	%	%
Assessed revenue raising capacity ratio	110.65	100.43	90.30	106.50	79.94	63.65	106.72	93.47	100.00
Revenue effort ratio	102.97	94.31	95.06	113.89	103.69	108.35	69.88	90.82	100.00

- 10 Figure 1 shows graphically the average, actual and assessed per capita revenues for Financial transaction taxes for 2006-07.

**Figure 1 Financial transaction taxes revenues per capita – assessed, actual and average, 2006-07, FAG Relativities**



**REVENUE CAPACITIES**

- 11 A State’s revenue capacity compares its assessed revenue, which reflects its revenue raising advantages or disadvantages, with average revenue.

- 12 New South Wales had the highest capacity in 2006-07 because it had above average private expenditure per capita and above average levels of capital market and central banking activity. Victoria, Western Australia and the ACT were also assessed as having above average capacity. Victoria had above average private expenditure per capita and above average capital market activity, but the level of its central banking activity was below the national average. Western Australia and the ACT also had above average private expenditure per capita, but their levels of capital market activity and central banking activity were below the national average.
- 13 The other States, especially Tasmania, had below average capacities because of either below average private expenditure, or below average capital market and central banking activity.

### REVENUE EFFORTS

- 14 A State's revenue effort compares its notional 'actual' revenue (which reflects both disabilities and policy choices) with its assessed revenue<sup>3</sup>.
- 15 Victoria, Queensland, the ACT and the Northern Territory had below average revenue efforts in 2006-07. Victoria had abolished a number of the smaller financial transaction taxes prior to 2000-01. Unlike other States, Queensland had not imposed FID taxes. Similarly, the actual revenues of the ACT and the Northern Territory were relatively low because they had not imposed or had abolished stamp duty on mortgages and loan security duty prior to 2000-01.

### CONTRIBUTIONS TO FAG REVENUE DISTRIBUTION

- 16 Table 8 shows that compared with an equal per capita assessment, the assessment of Financial Transaction Taxes would have distributed \$246.1 million of FAG revenue and health care grants (hereafter described as FAG revenue) from New South Wales, Victoria and the ACT — the States with consistently above average capacity — to the other States in the 2008 update.

**Table 8** Financial transaction taxes, effect of assessment on FAG revenue distribution, 2008 Update

NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redistributed
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
-211.8	-30.4	117.6	21.7	62.3	38.6	-3.8	5.8	245.9

<sup>3</sup> 'Actual' revenues include estimated amounts of revenue collections from the FID, BAD and other State business taxes that would have been raised had these taxes not been abolished as part of the IGA.

**Differences from an equal per capita assessment**

- 17 States capacities to raise revenue differed from EPC assessments because of differences between States in the levels and types of flows of taxable financial transactions, for which private expenditure (household consumption plus investment) was a proxy. New South Wales, Victoria and the ACT had consistently above average levels of private expenditure per capita. New South Wales and Victoria also have relatively larger capital market activities than the other States.

**CHANGES SINCE THE 2007 UPDATE**

**Effect of assessment on FAG revenue distribution**

- 18 Table 9 shows the effect on FAG revenue distribution of the Financial Transaction Taxes assessment in the 2007 and 2008 updates and the reasons for change.
- 19 Changes in the distribution of FAG revenue between the 2007 and 2008 Updates arose because the Commission:
- used revised financial data in the category averages and other revised data in revenue base calculations for the years 2001-02 to 2005-06; and
  - replaced 2001-02 category averages and revenue bases with those of 2006-07 to move forward the five-year average on which the relativities were based. (Moving the five-year average forward in this way ensures the assessments reflect recent trends in State priorities on the revenues raised and recent trends in State demographic, and economic circumstances on the relative capacity to raise those revenues.)

**Table 9** Financial transaction taxes, effect of assessment on FAG revenue distributions, 2007 Update to 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Redistribution from EPC resulting from the 2007 Update assessment (a)</b>									
	-219.6	-44.3	130.9	32.2	61.2	38.0	-4.0	5.6	267.9
<b>Effect of revising category averages and revenue bases for 2001-02 to 2005-06</b>									
Category averages	2.1	0.5	-1.3	-0.4	-0.5	-0.3	0.0	-0.1	2.6
Revenue bases	-10.8	3.6	-0.6	5.9	-0.1	0.4	0.4	1.2	11.5
Interactions	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Total	-8.6	4.0	-1.8	5.5	-0.7	0.0	0.4	1.1	11.1
<b>Effect of replacing 2001-02 category averages and revenue bases with those for 2006-07</b>									
Category averages	-4.7	-1.1	2.9	1.0	1.2	0.7	-0.1	0.2	5.9
Revenue bases	19.3	10.0	-13.0	-15.5	0.5	-0.2	-0.1	-1.0	29.7
Interactions	1.9	1.0	-1.3	-1.5	0.0	0.0	0.0	-0.1	2.9
Total	16.4	9.9	-11.4	-16.0	1.7	0.5	-0.2	-1.0	28.5
<b>Redistribution from EPC resulting from the 2008 Update assessment (a)</b>									
	-211.8	-30.4	117.6	21.7	62.3	38.6	-3.8	5.8	245.9
<b>Total effect of revisions and updating (b)</b>									
	7.8	13.9	-13.2	-10.5	1.0	0.6	0.2	0.2	23.7

(a) All distributions are calculated using the 2007-08 FAG revenue pool and December 2007 population.

(b) This row shows the change in the amount redistributed among the States between the 2007 Update and the 2008 Update. The Australian total is the sum of negatives or positives.

20 The main reasons for the changes in FAG revenue distribution were as follows.

#### **CHANGES DUE TO REVISING CATEGORY STANDARDS AND REVENUE BASES FOR 2001-2002 TO 2005-06**

21 **Changes in average revenue.** Revised Australian Treasury data were obtained on revenue forgone from taxes abolished under the IGA, including those being phased out under the recent agreed timetable. There was an overall increase in actual revenues resulting in an increased distribution of around \$2.6 million to the three States — New South Wales, Victoria and the ACT — that had consistently above average capacity.

- 22 **Changes in revenue capacity.** There were small changes to some of the ABS data used to calculate the State revenue bases. The ABS also made small adjustments to the yearly populations, with small increases in the populations in all States except New South Wales. While populations for Western Australia and Tasmania were revised upwards, the percentage increases in the population in these States were below the overall average percentage adjustments. In the absence of any other changes to revenue base calculations, the population revisions act to increase the revenue raising capacity of New South Wales, Western Australia and Tasmania relative to other States.
- 23 These revisions to ABS data for the common years resulted in a redistribution of \$11.5 million of FAG revenues, coming largely from New South Wales (\$10.8 million) and Queensland (\$0.6 million).
- 24 Table 10 shows the average per capita revenue and the revenue capacity ratio on average for the years common to the 2007 and 2008 Updates.

**Table 10 Financial transaction taxes, assessment data, average of 2001-02 to 2005-06, FAG relativities**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Avg
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual revenues									
2007 Update	226.99	194.20	137.07	210.94	159.59	134.18	134.22	153.98	190.43
2008 Update	225.21	193.50	131.67	210.32	159.19	133.82	133.06	154.81	188.44
	%	%	%	%	%	%	%	%	%
Assessed revenue raising capacity ratios									
2007 Update	114.79	103.80	85.12	92.59	81.61	63.57	105.40	87.52	100.00
2008 Update	115.54	103.50	85.20	91.29	81.66	63.23	104.88	84.94	100.00

#### CHANGES IN STATE CIRCUMSTANCES — REPLACING 2001-2002 WITH 2006-07 DATA

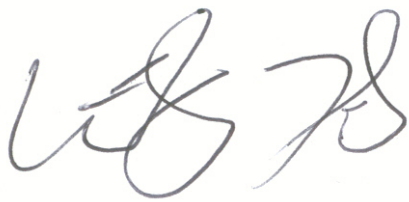
- 25 **Change in importance of the category.** Notional average revenue collection per capita increased by 28.2 per cent between 2001-02 and 2006-07, more than the increase in the per capita FAG pool of 16.8 per cent. This led to a redistribution of \$5.9 million away from the States with above average capacity, New South Wales, Victoria and the ACT.
- 26 **Changes in revenue capacity.** Replacement of assessment data for 2001-02 with data for 2006-07 redistributed about \$29.6 million. Private expenditure as reported by the Australian Bureau of Statistics grew at different rates in each State between 2001-02 and 2006-07. For New South Wales and Victoria, private expenditure grew at a below average rate, so their relative revenue capacities were lower in 2006-07, which increased their FAG revenue shares.

- 27 Private expenditure grew faster than the Australian average rate in the resource rich States of Queensland, Western Australia and the Northern Territory. So their revenue raising capacities were higher in 2006-07, and their FAG revenue shares lower.
- 28 Table 11 shows the notional actual revenues and the implied capacities for 2001-02 (the year that drops out of the assessment period) and 2006-07 (the year that comes in) for the 2008 Update assessment.

**Table 11 Financial transaction taxes, assessment data, 2001-02 and 2006-07**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Avg
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual revenues									
2001-02	203.27	178.31	110.30	183.13	138.88	122.25	122.95	138.89	168.71
2006-07	246.42	204.86	185.66	262.35	179.28	149.14	161.30	183.60	216.28
Assessed revenues									
2001-02	197.84	176.90	138.83	148.41	135.53	105.40	178.26	137.44	168.71
2006-07	239.31	217.22	195.30	230.35	172.89	137.65	230.83	202.16	216.28
Assessed revenue raising capacity ratios									
2001-02	117.26	104.85	82.29	87.97	80.33	62.48	105.66	81.46	100.00
2006-07	110.65	100.43	90.30	106.50	79.94	63.65	106.72	93.47	100.00

This chapter was prepared by the Revenue section of the Commonwealth Grants Commission. If you have any questions about its content please contact Lintong Feng on (02) 6229 8833 or [Lintong.feng@cgc.gov.au](mailto:Lintong.feng@cgc.gov.au).



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**Table 12 Assessment of revenues, Financial transactions taxes, FAG Relativities**

	2002-03		2003-04		2004-05		2005-06		2006-07	
	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita
	\$m	\$	\$m	\$	\$m	\$	\$m	\$	\$m	\$
<b>Average Revenue</b>		182.69		193.93		192.86		204.01		216.28
New South Wales										
Assessed difference	- 197.551	- 29.69	- 205.673	- 30.73	- 198.178	- 29.44	- 180.838	- 26.64	- 157.846	- 23.02
Revenue - Assessed	1 412.958	212.38	1 503.531	224.66	1 496.647	222.30	1 565.840	230.64	1 640.653	239.31
Actual	1 502.407	225.83	1 582.058	236.39	1 546.737	229.74	1 567.234	230.85	1 689.403	246.42
Victoria										
Assessed difference	- 41.333	- 8.44	- 27.915	- 5.63	- 31.045	- 6.18	- 19.773	- 3.88	- 4.830	- 0.93
Revenue - Assessed	935.657	191.13	989.030	199.56	999.089	199.05	1 058.372	207.89	1 122.485	217.22
Actual	937.170	191.44	982.594	198.26	999.977	199.22	1 019.665	200.29	1 058.630	204.86
Queensland										
Assessed difference	114.047	30.27	104.757	27.12	103.673	26.20	100.157	24.74	86.778	20.98
Revenue - Assessed	574.218	152.42	644.321	166.81	659.360	166.66	725.839	179.27	807.693	195.30
Actual	435.937	115.71	514.823	133.28	510.870	129.12	687.978	169.92	767.816	185.66
Western Australia										
Assessed difference	38.729	19.98	36.039	18.31	37.095	18.55	6.342	3.11	- 29.288	- 14.07
Revenue - Assessed	315.412	162.71	345.649	175.62	348.624	174.31	409.549	200.90	479.602	230.35
Actual	379.107	195.57	404.014	205.27	444.287	222.15	500.496	245.51	546.225	262.35
South Australia										
Assessed difference	49.973	32.74	52.880	34.42	51.680	33.41	60.579	38.82	68.419	43.40
Revenue - Assessed	228.870	149.95	245.045	159.51	246.605	159.45	257.770	165.19	272.585	172.89
Actual	229.344	150.26	261.661	170.32	261.725	169.22	261.028	167.27	282.654	179.28
Tasmania										
Assessed difference	34.011	71.60	34.902	72.61	32.722	67.49	34.585	70.80	38.658	78.63
Revenue - Assessed	52.774	111.09	58.315	121.32	60.778	125.37	65.066	133.20	67.678	137.65
Actual	60.315	126.97	65.683	136.64	69.521	143.40	68.311	139.85	73.326	149.14
Australian Capital Territory										
Assessed difference	- 4.720	- 14.56	- 2.217	- 6.80	- 1.310	- 3.99	- 3.524	- 10.61	- 4.897	- 14.54
Revenue - Assessed	63.938	197.25	65.478	200.72	64.671	196.85	71.303	214.62	77.718	230.83
Actual	39.928	123.18	41.495	127.20	44.077	134.16	52.436	157.83	54.309	161.30
Northern Territory										
Assessed difference	6.843	34.31	7.226	35.97	5.363	26.25	2.473	11.85	3.007	14.13
Revenue - Assessed	29.592	148.37	31.735	157.96	34.033	166.61	40.107	192.16	43.019	202.16
Actual	29.210	146.46	30.777	153.19	32.614	159.66	36.699	175.83	39.070	183.60