

STAMP DUTIES ON SHARES AND MARKETABLE SECURITIES — FAG RELATIVITIES

- 1 This working paper describes the calculation of the revenue base for Stamp Duties on Shares and Marketable Securities for the FAG relativities for the 2007 Update and the resultant assessed revenues. Issues to do with the assessment method are discussed in Volume 3 of the 2004 Review Working Papers.

DESCRIPTION OF THE CATEGORY

- 2 This category covered net collections from stamp duty on transfers of shares and marketable securities, both on and off market.
- 3 Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the IGA) and a subsequent agreement between the Australian Government and the States, all States abolished stamp duty on on-market marketable securities from 1 July 2001 and announced a timetable for the phased abolition of stamp duty on unlisted shares and marketable securities. That timetable is set out in Table 1.
- 4 The GST relativities are based on the average tax policies expected to apply in 2008-09. It has not been average policy to apply either duty since 2007-08. However, under the guarantee provisions of the IGA, the Commission is required to calculate a set of relativities (FAG relativities) that assume a continuation of pre-IGA arrangements. For these relativities the Commission includes estimates of the revenue the States have forgone since 1 July 2001 by abolishing these duties. Those estimates were based on data provided by the Australian Government.

Table 1 Timetable for the abolition of stamp duty on unlisted shares and marketable securities

New South Wales	To be abolished from 1 January 2009
Victoria	Abolished from 1 July 2002
Queensland	Abolished from 1 January 2007
Western Australia	Abolished from 1 January 2004
South Australia	Rates will be halved from 1 July 2009, with the duty to be abolished from 1 July 2010
Tasmania	Abolished from 1 July 2002
ACT	To be abolished from 1 July 2010
Northern Territory	Abolished from 1 July 2006

5 Table 2 shows the notional average per capita revenue for the last six financial years. In 2006-07, the average revenue of \$53.16 was 1.56 per cent of total own-source revenues.

Table 2 Stamp duties on shares and marketable securities, average revenues, 2001-02 to 2006-07

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Average revenues (\$pc)	40.29	44.20	44.77	47.70	47.95	53.16
% of total own-source revenues	1.61	1.66	1.58	1.62	1.51	1.56

ASSESSMENT METHOD

Revenue base

6 The revenue base was the notional actual revenues¹ because, with a few minor exceptions, State tax rates were the same.

- The States provided details of actual revenue raised from the transfer of unlisted shares and marketable securities.
- The Australian Treasury provided data on the notional amounts of revenue that States would have raised had they not abolished duty on transactions involving quoted marketable securities from 1 July 2001.
- The Australian Treasury also provided estimates of the revenue foregone by Victoria and Tasmania from 2002-03, Western Australia from 2003-04 and Northern Territory from 2006-07.

7 Table 3 shows revenue bases for the FAG assessment.

¹ A consequence of the revenue base being set equal to actual revenue was that the average effective tax rate (actual revenue/revenue base) was equal to 100% and that the assessed revenue for each State was equal to its actual revenue.

Table 3 Revenue base for Stamp duties on shares and marketable securities

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2001-02	435.3	230.6	37.2	36.8	16.6	1.2	28.2	1.2	787.1
2002-03	504.0	235.0	40.0	34.2	29.4	1.4	28.8	1.4	874.2
2003-04	498.8	250.2	36.9	41.3	22.2	1.6	43.0	2.6	896.5
2004-05	551.9	268.6	43.3	39.6	29.0	1.7	31.4	1.6	967.1
2005-06	559.2	285.7	42.6	41.9	24.7	1.8	28.2	1.7	985.8
2006-07	653.2	303.8	36.1	44.8	31.1	1.8	36.0	2.2	1108.9

RESULTS FOR 2006-07

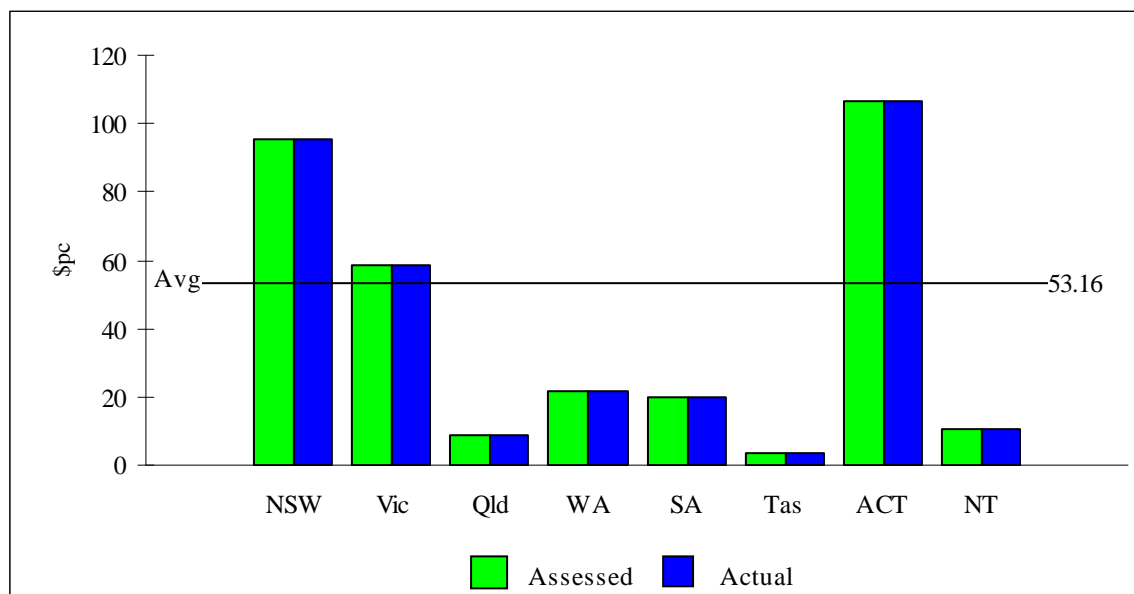
- 8 Table 4 shows the average, actual and assessed revenues for each State for all years of the 2008 Update.
- 9 Table 4 shows, for 2006-07, average, actual and assessed per capita revenues and the implied capacity and revenue effort ratios. Since the assessment is done on an actual per capita basis, assessed revenues equal actual revenues and effort ratios equal 100 per cent for all States.

Table 4 Stamp duties on shares and marketable securities, 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	95.27	58.79	8.73	21.50	19.74	3.66	106.78	10.34	53.16
Assessed revenues	95.27	58.79	8.73	21.50	19.74	3.66	106.78	10.34	53.16
	%	%	%	%	%	%	%	%	%
Assessed revenue raising capacity ratio	179.21	110.58	16.42	40.45	37.13	6.89	200.85	19.45	100.00
Revenue effort ratio	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

- 10 Figure 1 shows the assessed, actual and average revenues per capita.

Figure 1 Stamp duties on shares and marketable securities revenues per capita – assessed, actual, 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. The capacities for this category can change from one year to the next because of the volatility of share market transactions, in particular the effect of large one-off transactions in a given year.
- 12 In 2006-07, New South Wales, Victoria and the ACT were assessed to have above average capacities.

Revenue efforts

- 13 A State's revenue effort compares its actual revenue (which reflects both disabilities and policy choices) with its assessed revenue. Since the pre-IGA rates of duty imposed by the States were the same, their revenue efforts were the same (100 per cent).

CONTRIBUTION TO FAG REVENUE DISTRIBUTION

- 14 Table 5 shows that compared with an equal per capita assessment, the assessment of Stamp duties on shares and marketable securities distributed \$314.3 million of FAG revenue and health care grants (hereafter FAG revenue) from New South Wales, Victoria and the ACT to the other States in the 2008 Update.

Table 5 Stamp duties on shares and marketable securities, 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
-259.4	-34.7	169.1	62.1	50.8	23.4	-20.1	8.9	314.3

a All distributions were calculated using the 2007-08 FAG revenue pool and December 2007 population.
 Note: The Total redistributed is the sum of negatives or positives.

DIFFERENCES FROM AN EQUAL PER CAPITA ASSESSMENT

15 The differences arose because of interstate differences in the per capita value of off-market transactions, which are driven by the location of businesses, head offices and share registers rather than the location of people.

CHANGES SINCE THE 2007 UPDATE

Effect of assessment on FAG distribution

16 Table 6 shows the effect on FAG revenue distributions of the Stamp duties on shares and marketable securities assessments in the 2007 and 2008 Updates. It also shows the sources of changes. The changes 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 FAG 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.)

17 The 2008 Update assessment redistributed \$314.3 million, compared with \$301.5 million for the 2007 Update.

Table 6 Stamp duties on shares and marketable securities, effect of assessment on FAG revenue distributions, 2007 and 2008 Updates

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Redistribution from EPC resulting from the 2007 Update assessment (a)									
	-241.8	-39.1	160.4	58.8	50.8	22.8	-20.5	8.7	301.5
Effect of revising category averages and revenue bases for 2001-02 to 2005-06									
Category averages	0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.2
Revenue bases	-1.4	0.6	0.3	0.1	0.1	0.0	0.2	0.0	1.4
Interactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	-1.2	0.6	0.2	0.1	0.1	0.0	0.2	0.0	1.2
Effect of replacing 2001-02 category averages and revenue bases with those for 2006-07									
Category averages	-5.6	-1.3	3.8	1.3	1.4	0.6	-0.5	0.2	7.4
Revenue bases	-9.6	4.5	4.1	1.7	-1.3	0.0	0.6	-0.1	10.9
Interactions	-1.2	0.6	0.5	0.2	-0.2	0.0	0.1	0.0	1.4
Total	-16.4	3.8	8.4	3.3	-0.1	0.6	0.2	0.2	16.5
Redistribution from EPC resulting from the 2008 Update assessment (a)									
	-259.4	-34.7	169.1	62.1	50.8	23.4	-20.1	8.9	314.3
Total effect of revisions and updating (b)									
	-17.6	4.4	8.6	3.3	0.0	0.6	0.4	0.2	17.6

(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.

Changes due to revising category standards and revenue bases for 2001-02 to 2005-06

- 18 **Changes in average revenue.** There were minor amendments to the Australian Treasury data (see Table 7).
- 19 **Changes in revenue capacity.** The changes in actual revenue also directly affected changes in the revenue base. 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 these States were below the overall average percentage adjustments. In the absence of any other

changes to revenue base calculations, the population revisions increase the revenue raising capacity of New South Wales, Western Australia and Tasmania relative to other States.

- 20 Overall the impact on grants from these data revisions was small with FAG revenue shares to New South Wales decreasing by \$1.4 million.

Table 7 Stamp duties on shares and marketable securities, assessment data, average of 2001-02 to 2006-07, FAG relativities.

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Avg
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual revenues									
2007 Update	76.08	51.35	10.40	19.68	15.92	3.19	98.65	8.53	45.11
2008 Update	76.10	51.16	10.35	19.64	15.85	3.19	97.84	8.44	44.98
	%	%	%	%	%	%	%	%	%
Assessed revenue raising capacity ratios									
2007 Update	168.50	113.88	23.11	43.74	35.13	7.04	219.42	18.87	100.00
2008 Update	168.99	113.78	23.08	43.78	35.07	7.05	218.26	18.74	100.00

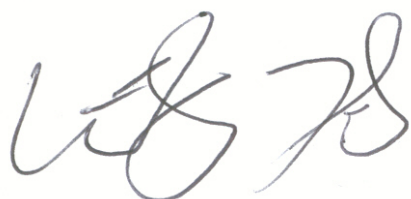
Changes in State circumstances- replacing 2001-02 with 2006-07 data

- 21 **Change in the importance of the category.** Notional average revenue per capita increased by about 31.9 per cent over the period, more than the 16.8 per cent growth in per capita FAG revenue. This increased the importance of the category and increased the FAG revenue redistributions away from those States that had above average capacity to raise revenues from marketable securities transactions in 2001-02 — New South Wales, Victoria and the ACT — by \$7.4 million.
- 22 **Changes in revenue capacity.** Table shows the category average and the implied revenue capacity 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.
- 23 It shows that the capacities of Victoria, Queensland, Western Australia and the ACT fell increasing their implied FAG revenue shares, while those of other States increased reducing their shares by \$10.9 million in total.

Table 8 Stamp duties on shares and marketable securities, 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	65.90	47.68	10.14	19.22	10.96	2.47	87.94	6.22	40.29
2006-07	95.27	58.79	8.73	21.50	19.74	3.66	106.78	10.34	53.16
Assessed revenues									
2001-02	65.90	47.68	10.14	19.22	10.96	2.47	87.94	6.22	40.29
2006-07	95.27	58.79	8.73	21.50	19.74	3.66	106.78	10.34	53.16
Assessed revenue raising capacity ratios									
	%	%	%	%	%	%	%	%	%
2001-02	163.55	118.34	25.16	47.71	27.21	6.12	218.25	15.44	100.00
2006-07	179.21	110.58	16.42	40.45	37.13	6.89	200.85	19.45	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.



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Table 9 Assessment of revenues, Stamp duty on shares and marketable securities, 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	\$
Average Revenue		44.20		44.77		47.70		47.95		53.16
New South Wales										
Assessed difference	- 209.931	- 31.55	- 199.105	- 29.75	- 230.681	- 34.26	- 233.632	- 34.41	- 288.703	- 42.11
Revenue - Assessed	503.987	75.75	498.754	74.52	551.855	81.97	559.187	82.37	653.184	95.27
Actual	503.987	75.75	498.754	74.52	551.855	81.97	559.187	82.37	653.184	95.27
Victoria										
Assessed difference	- 18.609	- 3.80	- 28.325	- 5.72	- 29.156	- 5.81	- 41.569	- 8.17	- 29.075	- 5.63
Revenue - Assessed	234.982	48.00	250.226	50.49	268.600	53.51	285.700	56.12	303.800	58.79
Actual	234.982	48.00	250.226	50.49	268.600	53.51	285.700	56.12	303.800	58.79
Queensland										
Assessed difference	126.538	33.59	136.000	35.21	145.449	36.76	151.592	37.44	183.765	44.43
Revenue - Assessed	39.981	10.61	36.947	9.57	43.286	10.94	42.565	10.51	36.100	8.73
Actual	39.981	10.61	36.947	9.57	43.286	10.94	42.565	10.51	36.100	8.73
Western Australia										
Assessed difference	51.455	26.54	46.819	23.79	55.807	27.90	55.858	27.40	65.916	31.66
Revenue - Assessed	34.226	17.66	41.305	20.99	39.600	19.80	41.900	20.55	44.773	21.50
Actual	34.226	17.66	41.305	20.99	39.600	19.80	41.900	20.55	44.773	21.50
South Australia										
Assessed difference	38.029	24.92	46.611	30.34	44.813	28.97	50.119	32.12	52.696	33.42
Revenue - Assessed	29.434	19.28	22.174	14.43	28.967	18.73	24.711	15.84	31.124	19.74
Actual	29.434	19.28	22.174	14.43	28.967	18.73	24.711	15.84	31.124	19.74
Tasmania										
Assessed difference	19.597	41.25	19.922	41.44	21.427	44.20	21.624	44.27	24.338	49.50
Revenue - Assessed	1.400	2.95	1.600	3.33	1.700	3.51	1.800	3.68	1.800	3.66
Actual	1.400	2.95	1.600	3.33	1.700	3.51	1.800	3.68	1.800	3.66
Australian Capital Territory										
Assessed difference	- 14.504	- 44.74	- 28.353	- 86.92	- 15.770	- 48.00	- 12.281	- 36.96	- 18.051	- 53.61
Revenue - Assessed	28.831	88.94	42.959	131.69	31.442	95.70	28.213	84.92	35.951	106.78
Actual	28.831	88.94	42.959	131.69	31.442	95.70	28.213	84.92	35.951	106.78
Northern Territory										
Assessed difference	7.424	37.22	6.431	32.01	8.110	39.70	8.289	39.71	9.113	42.83
Revenue - Assessed	1.391	6.97	2.564	12.76	1.635	8.00	1.720	8.24	2.200	10.34
Actual	1.391	6.97	2.564	12.76	1.635	8.00	1.720	8.24	2.200	10.34