



Response to 2010 Review Draft Report

“Revenue” *(excluding Mining & Land Revenue)*

Department of Treasury and Finance

September 2009

Tasmanian Position

- Tasmania supports the top-down, clean-slate approach to simplification that has underpinned the 2010 Review.
- We have maintained, however, that the pursuit of simplification should not be a means to an end, in itself, and not to the detriment of a material deterioration in the equalisation outcome.
- Over the course of the Review, considerable resources (of both of the Commission and the states) have been devoted to reinventing the revenue assessments and pursuing proxy measures as a means of achieving simplification.
- This is despite the generally accepted view among the states that the current revenue assessment methods are robust, proven, transparent and not overly complex.
- Throughout the Review, Tasmania has argued that proposed simplification for some revenue categories merely reflects a presentational change, rather than any real and meaningful simplification, but that such change has GST distribution consequences for states. We maintain this view.
- This submission focuses on payroll tax, motor tax, conveyance duty, insurance tax and other revenue. Mining revenue and land revenue are the subject of separate submissions.
- In the main, Tasmania is supportive of the assessment methodology and data used by the Commission in its Draft Report assessment of the above-mentioned revenue categories that are the focus of this submission.

Payroll Tax

1. Tasmania supports the Commission's intention to continue to assess capacity for the 2010 Payroll Tax assessment using taxable compensation of employee (CoE) data, with the inclusion of a tax-free threshold.
2. We support annual updating of the threshold to reflect what states do.

Agriculture, Forestry and Fishing Industry Adjustment

3. Tasmania believes that the Commission has not satisfactorily explained its intention to discontinue the agriculture, forestry and fishing adjustment for the 2010 Payroll Tax assessment, on materiality grounds.

4. We consider the basis of this adjustment to be similar to the basis for the data adjustment proposed in the 2010 Motor Taxes assessment for diplomatic, consular and Australian Government vehicles. Tasmania's response to Commission Position Paper 2008/05 provides further detail in support of this view.
5. We raised this issue, more as a matter of principle, at our one-on-one discussion with Commission Staff on 28 July 2009. To that end, we continue to seek clarification of a data adjustment versus a disability adjustment and the appropriate materiality test.

Inclusion of Higher Education Institutions

6. The Draft Report notes the intention of the Commission to include remuneration of employees of higher education institutions above the average threshold in its payroll tax revenue base. Tasmania accepts the rationale for this given that higher education institutions are liable for payroll tax.
7. We have raised concern, however, with Commission Staff in relation to the supporting data in Table 2-3 of the Draft Report.
8. For confidentiality reasons, it is understood that the ABS has combined the higher education institution earnings of the three smallest states (being Tasmania, the Australian Capital Territory and the Northern Territory). In the Draft Report, Commission Staff have split this aggregated data on the basis of Tasmanian, ACT and NT shares of total education gross earnings.
9. At a conceptual level, Tasmania does not believe that a split based on state shares in total education gross earnings is appropriate. This is because it does not necessarily follow that total education gross earnings will bear any direct relationship to higher education institution earnings.
10. Total gross education earnings will be heavily influenced by pre-higher education earnings. These earnings will be influenced by factors such as those recognised by the Commission (for example, location, service delivery scale, socio-demographic composition). On the other hand, higher education is generally delivered in large population centres (and therefore not largely affected by location or service delivery scale factors) and the socio-demographic composition influences are likely to be very different to pre-higher education.
11. At a practical level, our data does not support this approach.
12. For similar confidentiality reasons, we are unable to provide specific data, however, we can confirm that the data shown in Table 2-3 of the Draft Report significantly overstates Tasmania's actual payroll tax received from our sole higher education institution.

13. Having regard to our concern, Commission Staff now propose splitting the ABS aggregated data for higher education institution earnings for the three smallest states using FTE staff numbers for higher education institutions. Tasmania supports this approach and, importantly, can confirm that the resultant split on this basis more closely reflects our actual payroll tax data.

Motor Tax

14. Tasmania accepts the Commission's proposal to assess motor taxes in a single revenue category, but recognise the different state treatment of registrations and stamp duty.
15. We are comfortable that the revenue bases for registration fees on light vehicles, heavy rigid trucks and articulated trucks are measured using the annual ABS Motor Vehicle Census.
16. Tasmania strongly supports the revenue base for stamp duty being measured using the value of vehicles sold. This is in accordance with what states do and will most appropriately reflect the revenue raising capacity of the states.
17. Tasmania is prepared to continue providing data for the value of vehicles liable for duty annually to support this approach.
18. Tasmania also considers that it is average policy to apply duty progressively and, therefore, conceptually there is a case to make a value distribution adjustment (subject to such an adjustment being material).

Conveyance Duty

19. Tasmania supports the use of actual tax base data provided by the states to assess the tax base for the 2010 Stamp Duty on Conveyances assessment.
20. We welcome an assessment that recognises the differing capacities of the states to raise duty according to the universal policy to use a progressive tax structure. However, Tasmania does not support a compression in the number of value ranges supporting a Value Distribution Adjustment (VDA) assessment (from eight to three).
21. We do not consider that any meaningful simplification is achieved by having fewer value ranges in a VDA assessment. The proposed simplification is merely a presentational change. Tasmania's response to Commission Position Paper 2008/07 provides specific detail in support of our view.

Insurance Tax

22. Tasmania supports the use of insurance premium data less premium revenue from employer's liability insurance, reinsurance premiums and fire and emergency services levies. This is, in effect, a direct and transparent measure of the actual tax base that states access.
23. We do not support a combined assessment of compulsory motor vehicle third party insurance (CTP) and life insurance. Tasmania's response to Commission Position Paper 2008/08 articulates our specific concern in this regard.
24. We maintain that the difference between a combined assessment and including a separate assessment for CTP insurance is one more of "conceptual" rather than "practical" simplicity.
25. A separate assessment of CTP insurance would better reflect what states do, given the average rate of tax on CTP insurance differs to the average rate of tax on general and life insurance.

Other Revenue

26. Tasmania accepts the Commission's proposal to assess other revenue and user charges equal per capita (EPC). Conceptually, user charges are generally set to recover costs and, therefore, an EPC approach is reasonable.

Fire and Emergency Services Levies

27. As the Commission is aware, we believe that there is a case for differentially assessing fire and emergency services levies. This is because these levies are set to take into account the capacity to pay and are material.
28. In Tasmania's response to Commission Position Paper 2008/11, we proposed a hybrid measure to support a material and differential assessment of fire and emergency services levies.
29. We discussed our proposed methodology at our one-on-one meeting with Commission Staff on 28 July 2009. From that discussion, we acknowledge the difficulty of the Commission in determining an average policy or an underlying revenue base, given the different ways that states apply the levies.