

SOUTH AUSTRALIAN COMMENTS ON NEW DEVELOPMENTS FOR THE 2006 UPDATE

South Australia has the following comments on issues raised in the Attachment to the Secretary's letter of 29 July.

Specific purpose payments

South Australia agrees with the proposed treatment of new SPPs.

Abolition of State taxes

The two options presented by the Commission represent the two extremes of how to deal with the scheduled abolition of selected business taxes by six States by the year 2010-11.

Option (i) can be called the 'normal' approach adopted by the Commission when faced with the abolition of a tax by an individual State. Through the operation of the standard revenue calculation, the effects of the abolition flow naturally to the needs calculations and hence the relativities.

Option (ii) can be characterised as the extreme opposite treatment adopted when all States abolish a tax, either through a mandated agreement or by happenstance.

In the circumstances faced now, whereby six States have agreed to abolish some taxes (albeit using very different timetables for abolition) and two States have not agreed to their abolition, we would oppose the use of Option (ii). The essential difference between the present circumstances and those applying when the Commission has dealt with past changes in Commonwealth-State arrangements is that not all States are abolishing the taxes. If all States agreed to the tax changes, this treatment would be appropriate but that is not the case.

We note also the Commission's comment that this option is more complex.

We therefore favour Option (i) as it better reflects the actual circumstances of different States choosing different tax policies. However, the Commission's paper is unclear as to whether any backcasting will be used under this option. Paragraph 17 seems to imply that it will not, resulting in a tax that is abolished (by all States) continuing to affect the relativities.

To prevent this scenario, even though we note its effect is likely to be small, as part of Option (i) we would support the backcasting of a tax's abolition where it is abolished by a majority of States and the abolition applies to a majority of the national tax base.

Mining revenue

We think there is a strong case to reduce or abandon the 20% adjustment to New South Wales's revenue base for coal, as foreshadowed in the 2004 Review report. The SA Department of Primary Industries and Resources advises that there was a strong recovery in the coal industry in 2003-04 and it questions the need for a continuing adjustment to the NSW base. The NSW response that 'changes to coal prices were not relevant' is not a tenable position.

The change in the royalty regime in NSW to an ad valorem basis reinforces the view that there is no need for the Commission to treat States differently.

Conveyances – Victoria’s policy change

The discontinuation of the unit trusts adjustment for Victoria from 2004-05 is supported.

Another adjustment made to Victoria’s base is the goodwill policy adjustment, by which Victoria’s revenue base is increased by 3% because goodwill is not taxed in that State. It is understood that this percentage was based on judgement.

The Commission will be aware that, as part of the tax adjustments proposed following the IGA review of business taxes, non-realty conveyances duty is to be abolished by five States by 2010-11 (Victoria has never imposed this duty). Under this heading, conveyance duty is imposed on the following non-real business assets:

- (a) Goodwill;
- (b) A statutory business licence used for carrying on a business;
- (c) A right to use a statutory business licence used for carrying on a business;
- (d) The business name used for carrying on a business;
- (e) A right under a franchise agreement used for carrying on a business;
- (f) A debt of a business if the debtor resides in the State;
- (g) A supply right of a business;
- (h) Intellectual property used for carrying on a business; and
- (i) Personal property in the State of a business.

For SA, revenue from this source in 2004-05 is estimated at \$33 million or 6.9% of total conveyances revenue. We believe this to be typical for all States. Information is available from other States (with the exception of Victoria which has zero revenue). Estimates for all States for all years of the assessment period have been developed in the context of States considering abolishing this component of conveyances duty.

It is suggested that the Commission should collect these data and vary the current adjustment to the Victorian base accordingly.

Victoria’s first home bonus

We agree with the proposed treatment of this payment. As a related point, we reiterate below the issue raised in our comments to the Data Working Party.

There is a possible problem with the data used by the Commission for the First Home Owners Scheme (FHOS) expense assessment that, given it is an actual per capita assessment, may be having a material impact on standardised expenditure and hence grant shares.

In general the FHOS data used by the Commission equates reasonably closely with that published in the Commonwealth and State Budget Outcome documents. However, the Commission’s 2002-03 FHOS number for Victoria is approximately \$45 million higher than the equivalent FHOS number published in the Commonwealth Final Budget Outcome.

The Commission should investigate this discrepancy to ensure that it is accurately reflecting FHOS expenditure, and hence expenditure needs in the FHOS assessment.

South Australian Department of Treasury and Finance
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