

2006 Update of State Revenue Sharing Relativities

New Developments Arising in the 2006 Update of Relativities - New South Wales' Comments

Abolition of State Taxes

The statement that “New South Wales has decided not to abolish any taxes” (paragraph 9, page 5) is misleading. NSW is in discussion with the Commonwealth, but has not yet agreed to abolish any of these taxes. The position should be clarified.

The abolition of the taxes reflects a significant change in Commonwealth-State arrangements. This change results from the IGA. The Commission’s standard practice is to backcast the average policies that will apply in the application year. This is the approach that has been adopted in the case of the abolition of the bank accounts debit tax in July 2005.

The Commission should continue to apply this policy in the case of these taxes and calculate relativities using backcast data.

It is not clear why this approach would be more complex than option (i). The historical data required would have been needed in the current calculations and would already be held by the Commission.

Policy consistency should be the key determinant for this decision. Materiality is not the relevant issue in this case.

Mining Revenue

The Productivity Commission¹ found that coal production was significantly less profitable in NSW on average than it was in Qld, due to differences in both cost structures and product values. This report found that the average long term profitability of coal mining in NSW was 75 percent of the Australian average, while Queensland’s profitability was 125 percent of the Australian average. This indicates a significantly lower relative capacity to collect coal royalties in NSW compared to Qld.

On this basis, the Commission decided in the 2004 Review to discount the NSW revenue base for underground and open-cut coal by 20 percent.

There is no basis for considering any change to this discount factor until data for 2004-05 becomes available and can be examined to determine whether NSW’ relative cost structure and profitability have improved compared to Qld.

In particular, NSW notes that the recent increase in coal prices is not sufficient justification of itself to consider removal of the discount:

- The increase in coal prices does not affect the lower profit margins and higher costs of NSW coal mines compared to the average; and

¹ Productivity Commission, “The Australian Black Coal industry inquiry report, 1999”.

- The recent price increases may not be sustained due to movements in either coal prices and/or the exchange rate.

Conveyances – Victoria’s Policy Change

NSW agrees with the change proposed to the treatment of Victoria due to the new provisions enacted which close the loophole that affected land rich provisions and the acquisition of shares or units in land-owning entities.

Victoria’s First Home Bonus

NSW agrees with the proposed treatment of the Victorian First Home Bonus (FHB).

This scheme does appear to operate as a substitute for stamp duty concessions. As such, the FHB should be added back to the duty collected in order to derive the non-policy adjusted value of conveyances duty.

NSW Vendor Transfer Duty

For the Commission’s information, NSW abolished vendor transfer duty for new contracts entered into on or after 2 August 2005.

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13 September 2005