



COMMONWEALTH GRANTS COMMISSION

DRAFT ASSESSMENT PAPER CGC 2003/11

OTHER REVENUE

Prepared for the Commission's 2003 Conferences on Draft Assessments

AUGUST 2003

NOTE

Included in this paper are the results of preliminary calculations based on the methods proposed throughout the paper and using the data currently available. Those results are indicative only and should be seen as work in progress. Ongoing changes are being made to standards and factor calculations as new data come to hand. Moreover, the calculations have been done using a prototype assessment system and are subject to ongoing revision as checking processes proceed.

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INTRODUCTION

1. This paper presents a draft assessment for the Other Revenue (previously Other Taxes) category. Early in the Review, this category was designated as a no change category and a discussion paper was not released for it. This paper responds to comments in State submissions and at the 2002 conferences.

1999 REVIEW ASSESSMENT METHOD

Description of the category

2. In the 1999 Review, the Other Revenue (previously Other Taxes) category comprised taxes, stamp duties and fees not elsewhere classified. It included:

- (i) net collections from fees or charges relating to the regulatory role of the corporate affairs authorities, including those which are primarily revenue-raising rather than cost recovery measures;
- (ii) fees relating to the regulation of co-operative societies, friendly societies, credit unions and similar enterprises;
- (iii) bed taxes; and
- (iv) stamp duty not elsewhere classified.

Implications of tax reform

3. As part of the tax reforms associated with the introduction of the Goods and Service Tax (GST), the Australian and State Governments signed the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA)* in June 1999. Under the IGA, States agreed to abolish bed taxes from 1 July 2000. Under the transitional arrangements of the IGA, update terms of reference since the 1999 Review have asked for two sets of relativities:

- (i) a set to distribute a combined pool of GST revenue and health care grants — hereafter called *the GST relativities*; and
- (ii) a set to distribute a combined pool of Financial Assistance Grants (FAG) and health care grants (based on the assumption of a continuation of the Australian—State Government financial arrangements which applied in 1999-2000) — hereafter called *the FAG relativities*.

4. For GST relativities, the category excluded revenue from bed taxes, because States abolished them from 1 July 2000. The Commission backcast the abolition of bed taxes by excluding them from the category for years prior to 2000-01.

5. For FAG relativities, the category included revenue from bed taxes. An estimate had to be made of the revenue that would have been raised from bed taxes from 2000-01. So, the revenue standard for the FAG assessment was larger than the revenue standard for the GST assessment.

6. Table 1 shows the revenue standards for this category for both assessments. In 2001–02, Other Revenue totalled \$475.3 million (or \$24.25 per capita) for the GST relativities. This represented 1.24 per cent of State own source revenue in the 2003 Update. For the FAG relativities, Other Revenue totalled \$555.4 million (or \$28.34 per capita). This represented 1.14 per cent of State own source revenue in the 2003 Update.

Table 1 STANDARD REVENUE FOR OTHER REVENUE

		1997-98	1998-99	1999-2000	2000-01	2001-02
GST relativities						
Standard revenue	\$pc	11.18	31.01	25.86	17.33	24.25
Percentage of own source revenue	%	0.67	1.63	1.33	0.89	1.24
FAG relativities						
Standard revenue	\$pc	12.44	34.40	29.89	21.43	28.34
Percentage of own source revenue	%	0.60	1.46	1.23	0.88	1.14

Source: 2003 Update Working Papers, Volume 2, pages 19, 23, 251 and 259.

Assessment method

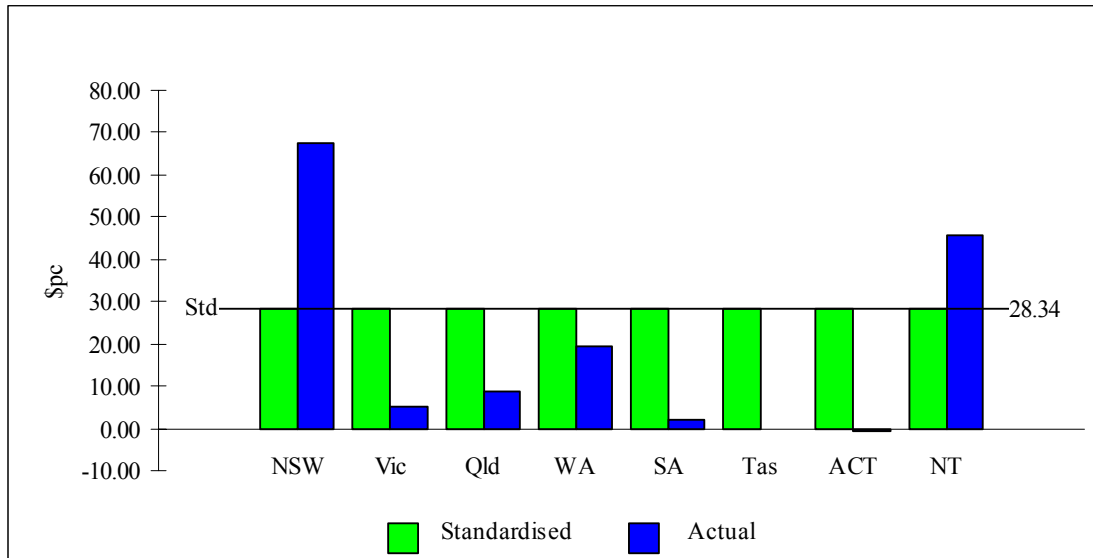
7. The assessment was made using the equal per capita (EPC) method. The equal per capita method was used because the category comprised a collection of disparate revenues which were largely influenced by State policy choice. The same method was used for both the GST and the FAG relativities.

8. Figure 1 shows the FAG assessment for 2001–02.

Importance of the category

9. For the 2003 Update, the assessment of the Other Revenue category had no effect on State relativities or on the distribution of implied grants because it was assessed on an equal per capita basis.

Figure 1 OTHER REVENUE: STANDARDISED, ACTUAL AND STANDARD REVENUES PER CAPITA, 2001–02



MAJOR DEVELOPMENTS SINCE THE 1999 REVIEW

10. The major development has been the introduction of the IGA and the agreement to abolish bed taxes from 1 July 2001.

CATEGORY DEFINITION FOR THE 2004 REVIEW

11. No State commented on the category definition and the Commission has found no reason to change the definition. Other Revenue will continue to comprise taxes, stamp duties and fees not elsewhere classified.

12. *Draft Assessment Paper 2003/57: Debt Charges* says that Commission staff are investigating the treatment of interest earned on superannuation provisions. They are investigating whether these revenues should be included in this category or offset against the nominal interest paid on outstanding superannuation liabilities. For the draft assessments, these revenues have been included in this category.

ISSUES FOR THE 2004 REVIEW

Transparency of the category standard

13. ***Preliminary State views.*** Only *Victoria* commented on this issue.

14. *Victoria* said the revenue classified to this category should be more transparent. It said that, in the past, States were not required to provide a breakdown of the revenues they classify to this category. *Victoria* said this created an opportunity for States to relocate large amounts of revenues from other categories to the Other Revenue category because such a relocation would have favourable grant share effects for them.

15. ***Analysis and evaluation.*** The Commission does not use ABS Government Financial Statistics (GFS) data as the source of its revenue data because GFS data are not available for the last year of the assessment period. In the 2000 Update and the 2001 Update, the Commission obtained revenue data from State budget documents and it supplemented these data with data sourced from States.

16. In the 2002 Update, following some problems with the timing of State budget documents, the Commission sought estimates of actual revenue from the States. It did not ask States to provide a breakdown of the revenues included in the Other Revenue category. For the 2003 Update, the Commission again sought estimates of actual revenue from the States. It asked States to list the revenues they included as other revenue. The Commission also provided States with a breakdown of the revenues it had classified to the Other Revenue category in the 2002 Update.

17. Future revenue data requests will continue to ask States to list the revenues they include as other revenue. To enhance transparency, this information will be published in Commission working papers.

18. ***Commission decision.*** The Commission accepts that transparency would be improved if it more clearly stated the revenues it classified to the Other Revenue category. The Commission is satisfied that there is a strong argument for continuing to obtain its revenue data from States, asking them to list the revenues they include as other revenue and publishing this information in its working papers. Consequently, it has decided to:

- (i) ask States to provide a breakdown of the revenue they classify as other revenue in their revenue data returns; and
- (ii) publish that information in its working papers.

Measure of the revenue base

19. ***State views.*** Only *Tasmania* commented on the assessment method and it supported a continuation of the equal per capita assessment.

20. ***Analysis and evaluation.*** This category continues to comprise a collection of disparate revenues which have few common drivers in terms of revenue raising capacity. The revenues include one-off levies and levies/fees that are raised in some but not all States, suggesting that a large portion of the category reflects State policy choice.

21. The Commission concludes that differences in per capita revenues for this category are due largely to differences in State policy choices.

22. ***Commission decision.*** As States have not suggested any reason to change the assessment method for this category, the Commission has decided to continue to assess Other Revenue by the EPC method.

PROPOSED ASSESSMENT METHOD FOR THE 2004 REVIEW

23. The assessment method for the 2004 Review will be the same as that for the 1999 Review — the equal per capita method.

2004 REVIEW DRAFT CALCULATIONS

24. No results are shown for the draft assessment because there is no change to the equal per capita assessment. An equal per capita assessment also means this category has no impact on State relativities or their grant shares.

Updateability

25. For the 2004 Review and subsequent updates, the Commission will ask States to provide actual revenue data for the last year of the assessment period.