GST, HFE and Tasmania

A submission to the Legislative Council
inquiry into the impact of
horizontal fiscal equalisation
on Tasmania

Martyn Goddard
Public policy analyst
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Executive Summary

This submission concentrates on how horizontal fiscal equalisation works in three key areas of state government finances: health, public sector wages and taxation.

How HFE works

Horizontal fiscal equalisation, or HFE, is the process by which money from the Goods and Services Tax is distributed unequally between the states[1] in order to allow each jurisdiction to deliver an approximately equal level of government services. If this process was not in place, services in the poorer states, like Tasmania, would be massively worse than in richer states, like Western Australia and New South Wales.

Health

Tasmania has the nation's oldest, sickest and poorest population. As such, it has a greater relative need for publicly funded health services than any other jurisdiction with the exception of the Northern Territory. In recognition of this, over the five years from 2015-16 to 2019-20 the Grants Commission will have redistributed $1.439 billion to Tasmania from other states to allow this state's government to deliver a level and quality of service that is equal to the national average.

However, each state government has the right to spend GST money as it wishes. In Tasmania's case, none of the GST money it receives in recognition of this state's above-average health needs is actually being spent on health. Many of the problems with the state's health and hospital system can be traced to this policy.

Not only is the health-specific GST money not being spent on health: the government's per-capita health spend in 2016-17 was $176 million *less* even than the national average.

To achieve the level of health funding for Tasmania which is calculated by the Grants Commission to be needed in order to deliver a national standard of care to the state's population, we need to combine these two series of figures: the difference in state government health funding from the national average less and the amount of GST money redirected to this state to cope with its particular health needs. In 2016-17, the most recent year with complete funding data, this state's health budget was $438 million less than that. Over the seven years from 2010-11 to 2016-17, the health system was under-funded by $2.733 billion.

Public sector wages

Public sector employees with exactly comparable jobs and qualifications are often paid different amounts, depending on which state they live in. Therefore, those state governments which pay their employees less than the average have a budgetary advantage over other states whose wages bill is higher.

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1. In this submission, 'states' includes the Northern Territory and the Australian Capital Territory.

The Grants Commission negates that disparity by redistributing GST away from states with lower wage costs (such as Tasmania) and toward those paying higher wages. In 2019-20 Tasmania will lose an estimated $166 million from its GST share because the government pays such low wages to its employees.

The system, as is usual with the GST process, is not straightforward. In an attempt to nullify varying government wage policies (such as Tasmania's 2% cap on growth) the Commission bases its calculation on comparable workers in each state's private sector. It constructs a mirror-image of the state public sector, weighting its sample in ways that allow it to compare like with like.

But the vast majority of state employees work in three industries – public administration and safety, health and social support, and education and training – so the Commission's private-sector 'mirror' concentrates equally on these areas. In all states, and particularly in Tasmania, these industries are dominated by state employees. Wage rates and employment conditions for those entire industries are set by what happens in the public sector. Changes flow quickly and predictably flow on to private employees.

Therefore, any change to state government pay rates will quickly show up in the Grants Commission's calculation of government wage costs. If state employees were given the 3% rise they are currently demanding, the extra cost to the budget (according to the Treasurer, about $28 million a year)[2] would be temporary. If the amount being demanded by unions was granted early in 2019-20, the state's GST share could be expected to increase by about $9.33 million in 2021-22, $16.66 million in 2022-23 and the full $28 million in 2023-24.

Further increases to public sector wages would follow a similar pattern. There would be a temporary cost to the budget until a countervailing GST adjustment came into effect.

It is clear from these figures that granting a 3% annual wage increase to state public sector workers would not go very far toward achieving parity with national-average wage costs. The government has a great deal of room to move in this area without incurring any cost to the budget, except for the temporary delays inherent in the redistribution system.

While GST wage cost equalisation is revenue-neutral to the government's budget – the current wage cap does not produce any net saving – this money is being lost to the economy. If wages were increased to a national-average level, employees would either save that money or, more likely, spend it in local businesses, creating a significant stimulus to the private economy.

Taxation

States have varying capabilities to raise money through their own taxes and charges. Some, like New South Wales and Victoria, have strong service economies that produce above-average tax revenue. Others, like Western Australia and Queensland, have minerals industries that yield major streams of royalties. Other states, like South Australia and Tasmania, do not have these advantages.

GST revenue is therefore redistributed to compensate for these relative abilities and disabilities. But in its calculations the Commission follows the rule of 'policy neutrality' – that is, that individual tax-raising policies and rates in various states should not affect

2. Peter Gutwein, Treasurer, *Wage costs (media release)*, 23 August 2018.

outcomes. It therefore bases its redistribution on the average 'taxation effort' of all states. States with low rates of tax are not compensated for this, and those with high rates are not penalised.

In 2019-20, Tasmania will receive an estimated $731 in extra GST to make up for its below-average tax-raising capability. The main areas in which this is received are seen in this table:

Effect of GST redistribution in the tax category for Tasmania, 2019-20[3]

	Payroll	Land	Stamp	Insurance	Motor	Mining	Other	Total tax
$ million	199	106	242	23	-31	191	0	731

As we have seen, the Commission compensates low-revenue states only up to a national-average point. Overall, Tasmania's taxation effort is less than the average: HFE does not compensate the state for this policy difference. In 2016-17 Tasmania's below-average taxation effort cost the budget $132 million, even after GST redistribution.

This is not spread evenly across all taxation categories. In 2016-17, the most recent year for which we have these figures, payroll, land and insurance taxes raised more than the national average; duties on property sales, vehicle registration and mining raised significantly less. The major category of low taxation effort – and therefore low revenue – was the 'other' category, which includes gambling revenue, fees and fines, and various user charges. This cost the budget $167 million in 2016-17.

The recent further decrease in payroll tax can be expected to bring Tasmania's tax effort down to about the point the Commission calculates as appropriate, given the state's relative disability.

On this basis, there is no obvious case for further overall reductions in the scope or rates of state taxation. Unless the budget is to be further depleted, any reduction in areas with above-average taxation yields (such as payroll, land or insurance taxes) should be balanced with increases in lower-yielding areas.

Gambling taxes are an exception to this rule. Tasmania derives much less than other states on a per-capita basis from gambling. Any attempt to increase gambling as an industry could have significant social impacts, many of which might have outcomes which show up as costs in other areas of the budget, such as health, welfare and criminal justice.

Nevertheless, the budget is affected significantly by the relatively lower income from this industry, compared to other states. If governments are to be able to provide national-level services, they need national-level income. There is a case, then, for examining how Tasmania's comparative inability to raise tax revenue from gambling can be offset.

3. CGC, 2019 Update, *Analysis of Relativities: Difference from equal per capita.*

Fiscal equalisation: an overview

Horizontal fiscal equalisation, or HFE, is the process by which money from the Goods and Services Tax is distributed unequally between the states[4] in order to allow each jurisdiction to deliver an approximately equal level of government services. If this process was not in place, services in the poorer states, like Tasmania, would be massively worse than in richer states, like Western Australia and New South Wales.

Without HFE it is doubtful that the federation would have much real meaning. It assumes that we are all Australians first and Tasmanians, Queenslanders or Victorians second; that we are a single nation, not a confederation of separate nation-states. This principle is the key feature of the Intergovernmental Agreement on Federal Financial Relationships, one of the two defining documents, along with the Constitution, of the Australian federation.[5]

The Commonwealth Grants Commission assesses the relative capacities of each jurisdiction to raise its own money, assuming an equal level of 'taxation effort'. Because of this, Tasmania will be given an estimated $731 million in 2019-20 to make up for its relative lack of capacity to raise its own money.

The Commission also assesses the relative need of each population for particular services, and the particular cost of delivering those services. For instance, Tasmania has an older, sicker and poorer population than the national average and so needs a higher level of health services. Because of this, an estimated $243 million in GST money will be redirected from other states to Tasmania in 2019-20.[6]

Another important, if confusing, principle is 'policy neutrality'. The Commission attempts to calculate what the relative needs of each state would be if they all had the same policies on, for instance, taxation or public sector wages.

Tasmania's budget revenue comes from three sources: its own-source revenue (estimated to be $1,215.2 million, in 2018-19); the GST ($2,487.7 million); and tied grants from the Commonwealth ($1,251.6 million).[7] So two-thirds of the state budget comes from those two Commonwealth sources, derived mostly from other states.

Commonwealth tied (or specific purpose) grants are required by the Intergovernmental Agreement to be distributed on a population basis: Tasmania is therefore entitled to about 2.1% of the total. Any variation on this is taken into account by the Grants Commission, which adjusts GST relativities accordingly.

If one state's share of Commonwealth specific-purpose funding is greater than its population share, that money is lost later on, and vice versa. Only grants deemed to be for state government purposes are covered by this process. The Commission assesses each payment individually: if it is for the sort of initiative that is normally within the state government's remit (such as a main road or a public hospital) and it has not been specifically exempted by the federal Treasurer in the Commission's annual Terms of Reference, that state's GST entitlement is adjusted up or down accordingly. But if it is for

4. In this submission, 'states' refers to the Northern Territory and the Australian Capital Territory as well as to the states.
5. Council on Federal Financial Relations, *Intergovernmental Agreement on Federal Financial Relations.*
6. Commonwealth Grants Commission, *2019 Update.*
7. Treasury of Tasmania, *Budget Paper 1, 2018-19.*

something within local government or non-government responsibility, such as works on minor council roads, it does not affect the state's GST relativity.

This is of particular relevance when considering the effect on a state of pre-election 'pork-barrelling' promises.

Each year's relativities are based on a three-year moving average, delayed by a year. Therefore the GST relativities for 2019-20 were based on an average of the years 2015-16, 2016-17 and 2017-18. This is intended to smooth out some of the volatility in state circumstances and to improve predictability but can also produce large temporary windfalls or shortfalls in state budgets. The clearest example of this can be found in Western Australia, where for several years at the beginning of the last mining boom the government benefited from both higher royalties and still-high GST relativities. The reverse happened when the boom ended, depriving the state of mining royalties but without, yet, compensation from the GST. If the WA government had saved the money from its windfall rather than spending it, the later - and entirely predictable - crunch would not have needed to concern it. As it is, agitation from WA resulted in the entire HFE process being watered down.

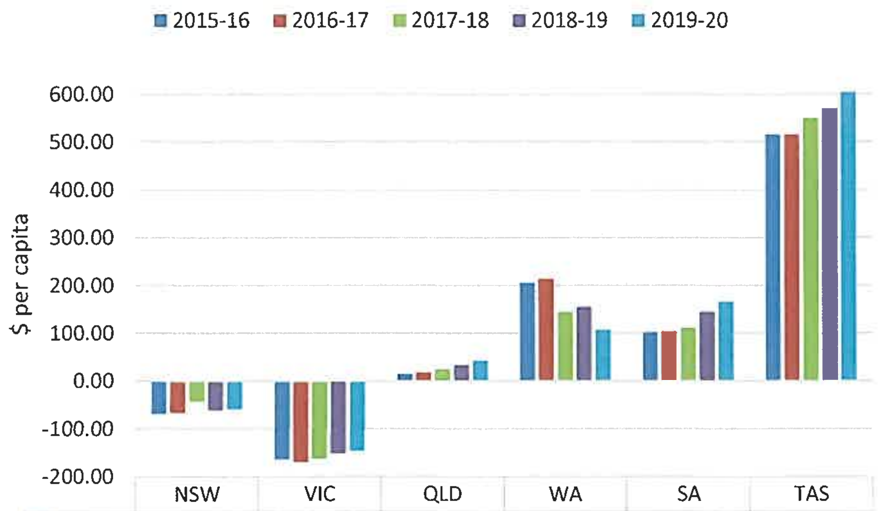
Health

In no other area of the Tasmanian government's operation does the system of horizontal fiscal equalisation deliver more potential for massive improvement than in health. And in no other area is that potential so blatantly squandered.

Tasmania has the nation's oldest, sickest and poorest population. As such, it has a greater relative need for publicly funded health services than any other jurisdiction with the exception of the Northern Territory. In recognition of this, the Grants Commission has over the five years from 2015-16 to 2019-20 will have redistributed $1.439 billion to Tasmania from other states to allow this state's government to deliver a level and quality of service that is equal to the national average. Because GST grants are classified as 'general purpose', neither the Commonwealth government nor the Grants Commission can direct a state on how to spend that money. In Tasmania's case, none of the GST money it receives in recognition of this state's above-average health needs is actually being spent on health.

The relative levels of GST health-category redistribution can be seen here:

Per capita amounts redistributed between states, health expense category, 2015-16 to 2019-20[8]



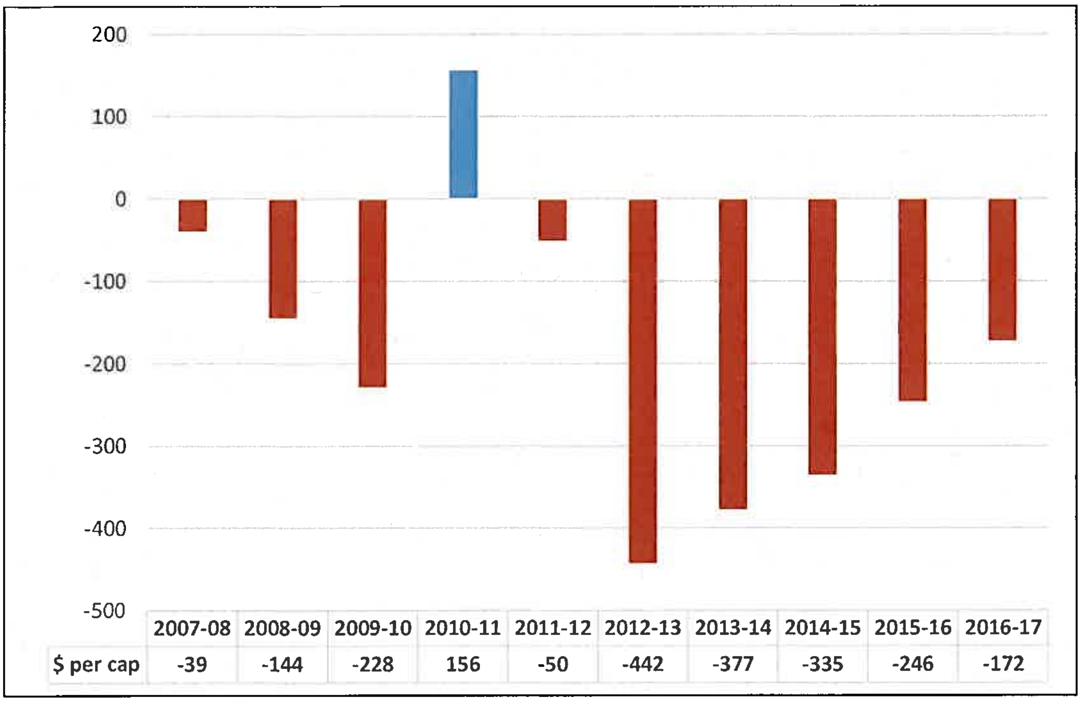
	NSW	VIC	QLD	WA	SA	TAS
2015-16	-69.10	-164.33	14.48	205.56	101.50	515.11
2016-17	-67	-169	18	213	103	515
2017-18	-42	-162	24	143	110	550
2018-19	-61	-151	33	155	145	570
2019-20	-59	-145	43	107	166	604

If this money was being used to fund health services, the per-capita amount being spent by the state government on this sector would be significantly above the national average.

8. Commonwealth Grants Commission, *2015 Review and 2016-2019 Updates.* The territories are left out of this chart because of their atypical situations: cross-border issues in the ACT and a large indigenous population in the NT.

In fact, it is lower, demonstrating a second element of under-funding. Over the decade to 2016-17, Tasmanian state government funding was less than the national average in every year but one.

Tasmanian government health funding, per capita variation from national average, 2007-08 to 2016-17[9]



Over the decade, Tasmania's state government health funding amounted to $1,277 per head of population less than the national average. This is of a similar order to an entire year's funding for this sector.

Per capita state government recurrent health expenditure and national average, current prices, 2007-08 to 2016-17

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
2007-08	1 181	1 035	1 399	1 380	1 464	**1 216**	1 785	2 641	**1 255**
2008-09	1 192	1 070	1 544	1 489	1 618	**1 211**	2 040	2 955	**1 355**
2009-10	1 271	1 185	1 789	1 561	1 810	**1 283**	2 330	2 908	**1 511**
2010-11	1 317	1 266	1 826	1 828	1 858	**1 710**	2 556	3 722	**1 554**
2011-12	1 397	1 295	2 040	2 214	2 048	**1 648**	2 873	4 489	**1 698**
2012-13	1 528	1 276	2 037	2 157	1 986	**1 275**	2 852	4 456	**1 717**
2013-14	1 565	1 408	2 023	2 165	2 157	**1 389**	2 645	4 049	**1 766**
2014-15	1 590	1 431	2 016	2 152	2 069	**1 442**	2 751	4 470	**1 777**
2015-16	1 428	1 393	1 972	2 066	2 965	**1 448**	2 677	4 344	**1 694**
2016-17	1 458	1 427	2 011	2 173	2 026	**1 560**	2 757	4 642	**1 732**

9. Australian Institute of Health & Welfare, *Health Expenditure Australia.*

To achieve the level of health funding for Tasmania which is calculated by the Grants Commission to be needed in order to deliver a national standard of care to our population, we need to combine these two series of figures: the difference in state government health funding from the national average less and the amount of GST money redirected to this state to cope with its particular health needs.

Calculation of variation from the amount needed to provide a national standard of care, ($ millions), 2010-11 to 2016-17

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
GST[(a)]	106	133	154	172	170	266	266
State var from av[(b)]	+156	-50	-442	-377	-335	-246	-172
Total under/over[(c)]	+50	-183	-596	-549	-505	-512	-438

(a): Amount in health-specific GST redistribution received by Tasmania.
(b): Variation in state government health funding from the national average
(c): Total variation from the amount needed to provide national standard of care.

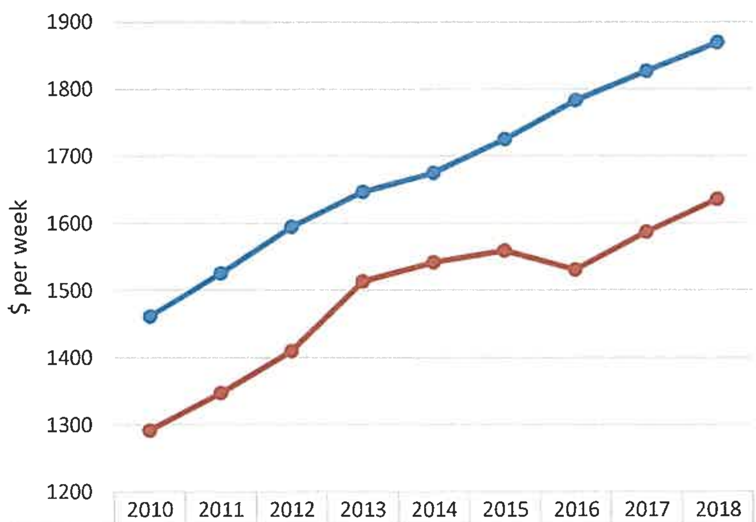
From the above table, we can see that in every year but one since the Commission's five-yearly review in 2010, state government health funding fell short of being able to provide a national standard of care by between $183 million and $596 million. Over the seven years, that total shortfall amounted to $2.733 billion.

Public sector wages

Public sector employees with exactly comparable jobs and qualifications are often paid different amounts, depending on which state they live in. Therefore, those state governments which pay their employees less than the average have a budgetary advantage over other states whose wages bill is higher.

In calculating the distribution of the Goods and Services Tax, the Commonwealth Grants Commission takes this potential imbalance into account and negates it. In doing this, it calculates a notional average for national wage market pay rates by using the private sector as a proxy. This removes the effect of particular states (such as Tasmania) having a policy of suppressing wage case outcomes, which would skew national results and make comparisons unfair.

Adult weekly ordinary time wages, public sector, current prices, Tasmania and Australia, November 2010-2017[10]



	2010	2011	2012	2013	2014	2015	2016	2017	2018
Australia	1462	1526	1595	1647	1675	1725	1784	1827	1870
Tasmania	1292	1347	1409	1514	1542	1559	1531	1587	1636

The Commission explains its process this way:

> We perform the assessment by estimating the additional costs relative to the national average wage each State government would have to pay for the 'average' employee. The difference is estimated using an econometric model of private sector employees, controlling for differences in education, industry, experience and other attributes known to affect wage levels. We have used private sector employee characteristics and wage levels as a policy-neutral benchmark, as public sector wages are heavily influenced by State policy.

10. ABS, 6302.0 - Average Weekly Earnings, Australia, February 2019.

The private-sector proxy, weighted as it is for industry, closely matches the public sector. In Tasmania the vast majority of state government employees work in three industries: public administration and safety, health and social support, and education and training. The state government, as an employer, is strongly dominant in all three industries, so private sector wages in these industries move in line with the public sector rather than vice-versa. When public sector wages change, there is an almost immediate and equal effect in the private sector.

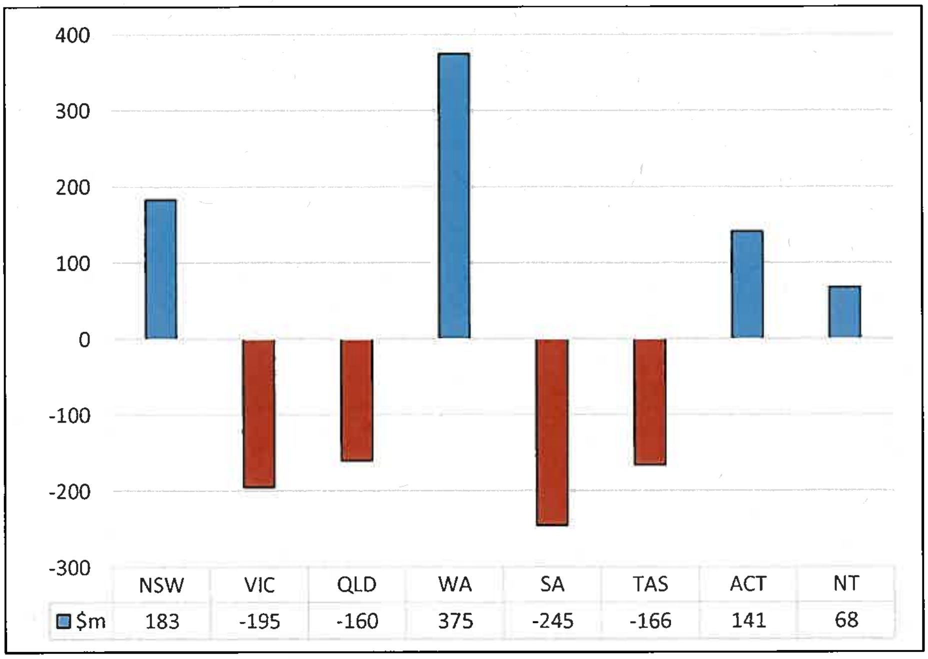
Despite the rise in the living costs of all Tasmanians, particularly due to accommodation prices, Tasmanian public employees earn substantially less than the national average. As the table below shows clearly, these wages in Tasmania started falling behind those in the rest of Australia just as living costs rose.

It is of note that the gap between Tasmanian and national rates increased sharply in 2014-15 in line with the Hodgman government's policy of restricting wages. That widened gap has persisted. In addition, the numbers of state employees was reduced, which does not show up in this graph and which is not taken into account by the Grants Commission, but which also affects the government's overall wages bill. The calculations are based on average ordinary time earnings, so the amount of overtime being worked by some employees – such as nurses – is not counted as part of the wages bill and does not therefore affect GST redistribution.

Because calculation of GST relativities is handled on a three-year moving average, there is a delay in a particular event – like the decline in relative wages seen above – affecting the GST and therefore having an impact on state budgets.

In 2019-20, Tasmania will therefore receive $166 million less than it would if it had paid national-average wages to state government employees and had average associated employment costs. That money is redistributed away from Tasmania (and other low-paying states) to those with higher wages bills:

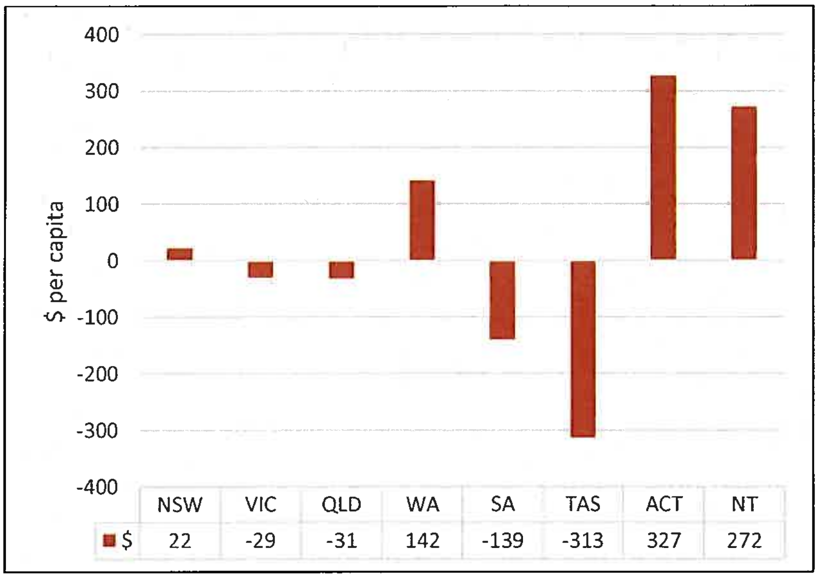
GST redistribution: impact of wage costs, 2019-20[11]



11. Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities, 2018 Update,* Table 1-8, p. 32.

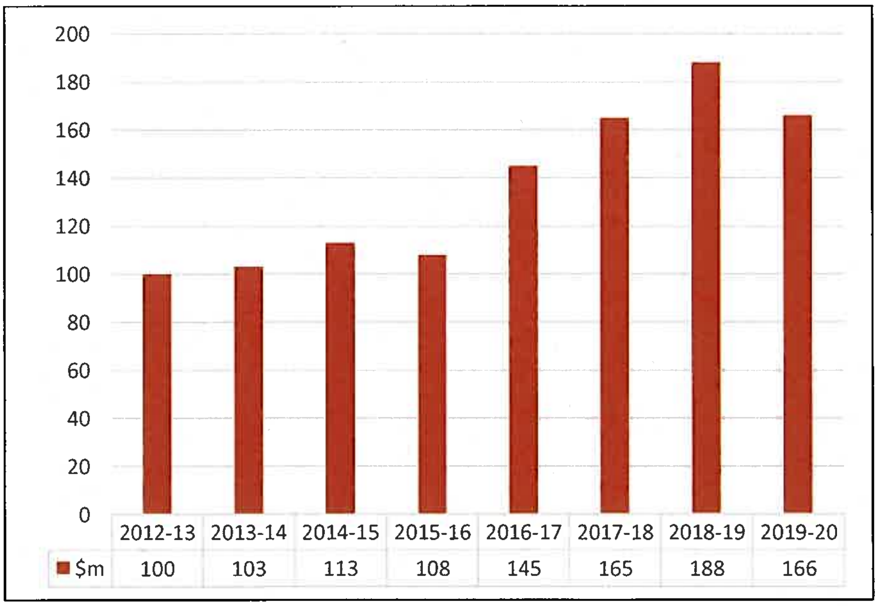
But $166 million is a much greater relative hit to the Tasmanian budget than $195 million is to Victoria's. When we look at per-capita redistribution, the situation is clearer:

Per capita redistribution of wage costs, 2019-20[12]



In its 2010 Review the Grants Commission began considering the effect of differing state government wages bills on the equalisation of GST allocations. It refined these calculations and reported these from 2012-13. We can see, by tracking the effect on Tasmania over that period, what the cumulative effect has been.

Amount ($ millions) redistributed away from Tasmania in recognition of lower-than-average public sector wages, 2011-12 to 2018-19



12. Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities, Reviews and Updates*, 2010 to 2019

Since coming to office in March 2014, the present Tasmanian government instituted a policy of restricting annual wage growth of its employees to no more than two per cent. It has, largely successfully, opposed union claims for increases greater than that amount. Between November 2015 and November 2016, adult average weekly ordinary time earnings for the public sector in Tasmania fell from $1,645.60 to $1,621.50.

Interestingly, the amount lost to Tasmania for low public sector wage costs is not due to lower numbers being employed. In fact, Tasmania employs a greater proportion of its population in the public service than any other state.

Percentage of population employed by public sector, February 2019[13]

	NSW	VIC	QLD	WA	SA	TAS	AVERAGE
Full time	4.97%	4.86%	6.21%	5.37%	5.21%	6.25%	5.28%
Part time	1.58%	2.19%	2.06%	2.20%	2.52%	2.83%	2.00%
Total	6.55%	2.19%	8.28%	7.58%	7.73%	9.08%	6.00%

Tasmania loses more money, relative to its size, from this situation than any other state. A hit to its budget of $166 million, or $313 for every man, woman and child, is substantial. It represents 3.2% of the 2017-18 budget and is equal to the entire amount spent on housing and community amenities.

But although this money is lost to the state's economy, it does not impact in net terms on the government budget. Because the government already has this money – in the form of lower wages to workers – the effect of this GST redistribution ends up being revenue-neutral. Overall, the apparent saving from low public sector wages delivers in the end no advantage to the budget. And if the state government paid national-average wages, the effect on the budget would also be nil. All that would happen is that the state would no longer be penalised in this element of GST redistribution, albeit with a delay caused by the time taken for public sector wages to affect comparable workers in the private sector and for the Grants Commission's three-year moving average to work its way through.

But from the point of view of public employees and the state's wider economy, the effect of the state government's relative parsimony is far from revenue-neutral. At 30 June 2018 there were 23,900 full-time equivalent state government employees in Tasmania. The $188 million redirected away from the state in this category for 2018-19 works out at $7,866 per FTE employee.[14]

If public sector wages were brought up to the national average level, Tasmania would no longer lose money to other states through this element of GST redistribution. Although there would be a delay, there would be no longer-term net change to the state budget. If, on the other hand, this state paid its workers more than the national average, it would be compensated for this with money being redirected from other states to Tasmania, rather than the other way around.

The Tasmanian economy is too small for a hit of this size not to have a significant effect on the whole state economy. If state employees were given a wage rise to bring them up to the national average, they could be expected to spend most of that money in the local economy, giving a significant boost to economic activity throughout the state. This in turn would create further employment in the private sector.

13. Australian Bureau of Statistics, *Demographic Statistics Australia, Labour Force Australia (detailed release).* The territories are excluded because of their higher proportions of Commonwealth employees.
14. Tasmanian State Service, *Annual Report 2017-18, p 33.*

Taxation

In its assessment of the capacity of each state to raise its own revenue through taxes and charges, the Grants Commission assumes all jurisdictions have an equal level of taxation effort: that tax rates are the same everywhere. This is in line with the principle of policy neutrality, which prevents state governments from gaming the system by skewing their own policies to achieve unfair advantage. So if a state has below-average tax rates it will not be compensated for this through GST redistribution.

The Commission recognised that Tasmania is unable to raise as much of its own revenue as other states. It therefore allocates GST money to this state in order to balance that disability. It does not compensate the state government for any rates and scope of tax that are below the national average. Nor does it penalise states which have higher-than-average rates of tax. This table shows the estimated amounts being redistributed to or from Tasmania in 2019-20 to compensate for its generally lower own-source tax raising capability.

Effect of GST redistribution on the tax category on Tasmania, 2019-20[15]

	Payroll	Land	Stamp	Insurance	Motor	Mining	Other	Total tax
$ million	199	106	242	23	-31	191	0	731

As we have seen, the Grants Commission calculates fiscal equalisation relativities on the basis of a three-year moving average. For the current 2019-20 update, those years are 2015-16, 2016-17 and 2018-19. For illustrative purposes, we will look here at the situation as it applies for 2016-17 alone.

Overall, Tasmania was assessed to need a top-up of $509 million for 2016-17 to compensate for its relative inability to raise its own revenue. But this does not make up for Tasmania's lower-than-average tax rates. If its total taxation effort had been equal to the rest of the nation, the budget would have been $132 million better off in that year than it was.

This table shows the level of GST redistribution to or from Tasmania in the major categories, the amount the state actually raised, and the difference in the amount that would have gone into the budget if the state's taxation effort had been at the level of the national average.

Effects of HFE on tax revenue ($ millions), Tasmania, 2016-17

	Payroll	Land	Stamp	Insurance	Motor	Mining	Other	Total tax[e]
Top-up[a]	190	99	229	20	-28	172	0	509
Actual[b]	331	141	272	104	135	43	777	1 103
Assessed[c]	301	127	314	94	194	80	944	1 235
Result[d]	+20	+14	-42	+20	-59	-37	-167	-132

(a) The amount Tasmania is allocated in extra GST to compensate for its relative disability in each category.
(b) The actual amount raised in each taxation category from Tasmania's own effort.
(c) The amount Tasmania would have raised by itself with national-average taxation effort.
(d) The shortfall between what was actually raised and what would have been raised with a national-average taxation effort.
(e) Figures in the individual category columns do not add to the total in the final column due to commission methods.

15. CGC, 2019 Update, *Analysis of Relativities: Difference from equal per capita.*

Payroll tax

In 2017-18 payroll tax provided 31.7% of the government's own-source taxation revenue.[16] In that year the Commission assessed Tasmania as needing $190 million in extra GST to make up for the state's below-average wages and employment, which are reflected in payroll tax receipts. In 2016-17, Tasmania raised more payroll tax from its own efforts than it would have done with national-average rates and scope of this tax.

Since then the state government has flagged cuts to this tax, reducing the rate from 6.1% to 4% for payrolls up to $2 million which the Treasurer has said would save individual businesses up to $15,750. A Liberal Party pre-election brochure said this was expected to cost the budget around $8 million a year. This change can be expected to bring the average taxation effort in this category down towards the average level.

Successive governments have shifted the burden of payroll tax from smaller businesses to larger ones. In 2012 the previous government raised the threshold below which no payroll tax is required from $1.01 million to $1.25 million.

Commission documents show that in 2013, Tasmania had one of the nation's most generous thresholds but also its second-highest tax rate, at 6%.[17]

Payroll tax: comparative rates and thresholds, 30 June 2013

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Rate (%)	5.5	4.9	4.8	5.5	5.0	6.1	6.9	5.5
Threshold ($'000)	750	550	1 100	750	600	1 250	1 750	1 500

Land tax

There is a similar pattern in land taxes. In Tasmania, land taxes kick in at a much lower point than elsewhere in Australia but are then subject to a flat rate of 1.5% above $350,000. Between $25,000 and $350,000 the rate is 0.55%.[18] This lower-than-average rate for more expensive properties means Tasmania does not benefit as it might from the rising price of properties relative to other states.

Marginal rates of land tax, 2014[19]

	NSW	VIC	Qld	WA	SA	TAS	ACT
Threshold ($'000)	406	250	600	300	316	25	-
Rate at $0.5m (%)	1.6	0.2	-	0.1	0.5	1.5	1.8
Rate at $1m (%)	1.6	0.8	1.7	0.5	2.4	1.5	1.8
Rate at $2.5m (%)	2.0	2.3	1.7	1.2	3.7	1.5	1.8
Rate at $5.5m (%)	2.0	2.3	1.8	1.5	3.7	1.5	1.8
Over $11m (%)	2.0	2.3	1.8	2.2	3.7	1.5	1.8

NB: The Northern Territory does not levy land tax.

16. Department of the Treasury, Tasmania, *Budget Paper 1, 2018-19.*
17. CGC, *2015 Review.*
18. State Revenue Office of Tasmania. Rates and thresholds of land tax in Tasmania were last changed on 1 July 2010.
19. CGC, *2015 Review.*

In its *2019-20 Update*, the Commission allocated an extra $99 million to Tasmania for its lower capacity to raise money from land tax. But those calculations were made on the basis of an average of 2015-16 to 2017-18; since then, prices in Tasmania have risen relative to the rest of Australia. Although official land valuations are much lower than market prices, we can nevertheless therefore expect top-up money from the GST in this category to be somewhat reduced in future years.

The effect of Tasmania's land tax policies is to raise more than would be the case under national-average policies. In 2016-17 this amounted to an extra $14 million.

Stamp Duty

This term refers to duties levied on the transfer of ownership of various forms of property, mostly land and buildings, and vehicles.

Tasmania's rates are below the national average, particularly for higher-value property. In 2016-17 these policies delivered $42 million less to the Tasmanian budget than would have been the case with average rates.

Marginal rates of property duty, selected values, 2013-14[20]

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
$150 000	2.5	2.7	2.4	2.7	3.2	2.8	2.5	2.4
$300 000	3.0	4.4	3.0	3.4	3.8	3.3	3.5	2.8
$450 000	3.5	4.9	3.1	3.8	4.2	3.6	4.5	3.5
$600 000	3.7	5.2	3.3	4.1	4.5	3.7	5.0	3.9
$750 000	3.9	5.3	3.6	4.3	4.7	3.9	5.0	4.2
$1 000 000	4.0	5.5	3.8	4.5	4.9	4.0	5.0	4.8

For 2019-20 Tasmania will be allocated an extra $455 million in GST payments in recognition of its relative inability to raise money from these duties because of lower market valuations. But when these calculations were made Hobart was the nation's cheapest capital in which to buy a house or flat; median prices have now risen here and fallen elsewhere. Therefore the GST allocation in this category can be expected to reduce significantly over the next few years. Income from these duties in the future will also be affected by recent declines in the number of sales and various government policies to reduce duties, such as the 50% rebate for first home buyers.

There is a case, then, for a re-examination of property duties to examine the overall likely effect of these pressures on the state's budget and whether higher rates for more expensive properties is desirable and justified.

Insurance tax

This category includes insurance tax levied on the premiums of a range of insurance products and emergency service levies collected from policy holders by some states. In 2016-17 the Commission allocated an extra $20 million to Tasmania to compensate for a

20. CGC, *2015 Review.*

low number of taxable premiums. But higher-than-average insurance tax rates in Tasmania delivered a further $20 million to the budget.

Motor taxes

This mainly consists of registration charges. It does not include duties on vehicle sales, third party accident premiums or permit fees.

Tasmania is assessed by the Commission to have an above-average capacity to raise money in this category, assuming an equal taxation effort. For 2016-17 this was assessed to be $28 million, so this amount was redirected away from this state's GST share to those states with less capacity. Tasmania's actual fee structure is lower than in other states. This generosity to vehicle owners cost the budget $31 million, compared with national-average policies.

Mining revenue

States, like Tasmania, with below-average mining production are assessed to have below average revenue raising capacity. Their GST share is therefore increased to compensate. In 2019-20, Tasmania will receive $191 million in this category, redirected from Western Australia and Queensland.

State shares of value of production and mineral royalties, 2013-14

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Revenue
	%	%	%	%	%	%	%	%	$m
Iron ore	0.0	0.0	0.0	96.6	2.2	0.4	0.0	0.8	5 516
Coal	40.9	1.2	57.1	0.7	0.1	0.1	0.0	0.0	3 213
Gold	11.4	1.9	10.1	69.6	3.6	0.5	0.0	2.8	326
Copper	18.3	0.0	30.1	21.3	27.8	2.4	0.0	0.0	240
Bauxite	0.0	0.0	27.3	45.2	0.0	0.0	0.0	27.5	165
Nickel	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0	88
Other[a]	5.0	5.2	33.6	18.6	24.6	3.2	0.0	9.7	687

(a) Includes on-shore oil and gas.

Nevertheless, Tasmania's relatively lower-than-average royalty regime cost the budget $37 million in 2018-17.

Other taxes

This category includes gambling revenue, fees and fines, user charges (such as property titles user charges and public safety user charges) but not those associated with admitted patients, housing, contributions by government business enterprises, interest and dividend income. All are treated by the Commission on an 'equal per capita' basis, meaning that there is no GST redistribution between states in this category.

However, in the taxation (as opposed to overall revenue) elements of this category, Tasmania raises less money than the Commission calculates that it would with average policies. In 2016-17 the budget was $167 million poorer as a result of these policies.

This amount was more than made up by the higher-than-average contribution of government business enterprises. This relatively high revenue sourced from GBEs means the state's GST share is therefore lower than it would otherwise be.

The 'other taxes' category is dominated by gambling. There is no GST redistribution to make up for any state's disability in its capacity to raise money from gambling taxes because the Commission has been unable to find a valid way of calculating this. In both gaming (which includes poker machines, casinos and lotteries) Tasmania's tax revenue is substantially lower than the per-capita national average.

State per capita revenue by form of gaming, 2016-17[21]

	Casino gaming	Gaming machines, keno	Lotteries, pools, lotto	Total
	$pc	$pc	$pc	$pc
NSW	42.30	252.52	55.34	350.16
Vic	42.53	200.07	81.57	324.16
Qld	27.80	208.39	65.05	301.24
WA	31.28	-	134.12	(a)165.79
SA	12.93	195.82	55.54	264.29
Tas	46.12	74.84	70.93	191.89
ACT	8.72	105.73	44.71	159.16
NT	114.82	170.37	127.74	412.93
Average				**302.33**

(a) WA total includes minor gambling of $0.39 per capita.

As we can see from the following table, Tasmania's tax earnings from all forms of gambling are much lower than the average. In 2016-17 Tasmania's per-capita income from all gambling taxes was only 61.69% of the national average.

State per capita revenue by form of all gambling, 2016-17

	Gaming	Racing	Sports betting	Total
	$pc	$pc	$pc	$pc
NSW	350.16	15.88	1.71	367.74
Vic	324.16	7.14	2.95	334.25
Qld	301.24	2.68	0.05	303.97
WA	165.79	14.66	5.74	186.18
SA	264.29	- (a)	0.38	264.66
Tas	191.89	1.63	0.17	193.69
ACT	159.16	-	-	159.63
NT	412.93	37.97	-	450.90
Average	**302.33**	**9.39**	**1.95**	**313.67**

(a) SA abolished racing taxes from 1 July 2000 onward

In conclusion, there is no obvious case for further overall reductions in the scope or rates of state taxation. Unless the budget is to be further depleted, any reduction in areas with above-average taxation yields (such as payroll, land or insurance taxes) should be balanced with increased in lower-yielding areas. The effect of lower-than-average gambling taxes also needs to be examined.

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21. Queensland Government Statistician's Office, Queensland Treasury, *Australian Gambling Statistics, 24th edition*, September 2018.