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State and Territory tax reform

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Abstract

The nature of Australia's federation, including its Constitution, means the Commonwealth controls the principal revenue-raising instruments, but large expenditure responsibilities are left to the states, with the consequent imbalance dealt with by fiscal transfers between governments. The states still raise around half of their own revenue, though, through various tax and non-tax sources, many of which suffer from poor design and have been eroded by interstate competition. This paper focuses on reviews that states, and the territories, have undertaken to improve the quality of their tax systems.

Keywords: tax, economic, public finance, government

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STATE AND TERRITORY TAX REFORM

Introduction

The nature of Australia's federation, including its Constitution, means the Commonwealth controls the principal revenue-raising instruments, but large expenditure responsibilities are left to the states, with the consequent imbalance dealt with by fiscal transfers between governments. The states still raise around half of their own revenue, though, through various tax and non-tax sources, many of which suffer from poor design and have been eroded by interstate competition. This paper focuses on reviews that states, and the territories, have undertaken to improve the quality of their tax systems.

Tax Reform Criteria

I will use the criteria set out in previous papers to evaluate these tax reviews:

- 1 The *terms-of-reference and panel* indicate the government's ambition – an open, searching inquiry as opposed to a narrow remit if particular recommendations are expected.
- 2 The extent of *gathering of evidence and calling of witnesses* indicate the panel's reliance on external experts as opposed to its own expertise/predetermined views.
- 3 *Timeliness and relevance* indicate likely influence – a quick, focused review for immediate implementation, but a more open one as a platform for subsequent reform exercises.
- 4 The *approach to analysis of issues* indicates the rigour of the public finance framework and its framing against standard tax policy criteria.
- 5 The *quality of tax policy outcomes* is the ultimate test of a reform exercise, although this is dependent on government actions.

The Federation

Australia's federation was formed in 1901 by an agreement between the six colonies and the UK Parliament to a Constitution which defined the new Commonwealth Government's powers. The Constitution conferred the key economic powers on the Commonwealth Government, powers that would be increasingly utilised as its national responsibilities grew.

At Federation, though, it is likely the states did not anticipate how dominant the Commonwealth would become. As Aitken and Orr have concluded, it was perhaps only subsequently, when the Commonwealth used its constitutional powers to levy additional taxes, that the extent of its ambitions and the states' financial dependence became apparent:

This dependence would have surprised many of those involved in drafting the Constitution. As we have seen, they intended to create a coordinated federal system with the Commonwealth and the States acting independently of each other, and with each level of government having access to tax revenue under its own control sufficient to fund its allotted sphere of activities.¹

To remove interstate duties and facilitate free trade across the nation, section 90 of the Constitution gave the Commonwealth exclusive power to levy customs and excise,² about three-quarters of the total tax revenue in the federation. The states retained the bulk of expenditure responsibilities, though, and for the first decade this fiscal imbalance was handled by a requirement that three-quarters of customs and excise revenue would be returned to the states: the Braddon Clause, named after the Tasmanian premier who proposed it.

As Table 1 shows, the states were left with a range of other taxes, including income tax, but at that stage none were significant revenue raisers. Non-tax revenues were also substantial, making up more than half of total federation revenue.³

Table 1: Taxes at Federation, 1901–02

Tax	Jurisdiction	Amount (£m)*	Proportion of Total (%)*
Customs and excise	Commonwealth	8.9	77
Income tax	States	0.7	6
Probate duties	States	0.6	5
Stamp duties	States	0.6	6
Land tax	States	0.5	5
Other taxes	States	0.2	2
Total		11.6	100

* Totals may not add due to rounding

Source: Commonwealth Bureau of Census and Statistics (CBCS)

The evolution of Australia's federation was shaped by the two world wars and the Great Depression, events that called for national responses and large revenues. World War I financing requirements prompted the Commonwealth to enter the income tax field, leaving taxpayers to grapple with the now overlapping income taxes. Faced with the even greater financing requirements of World War II, the Commonwealth then forced the states out of the income tax field, rendering them even more dependent on payments from the Commonwealth.

The post-war period in Australia saw the expansion of the welfare state, with the Commonwealth taking prime responsibility for this. Occurring parallel to this was the development of economic and social infrastructure, with the states taking prime responsibility in health, education and transport. This increase in the size and role of government necessitated an increasing tax burden, driven mainly by income tax at the Commonwealth level, and with a continuation of substantial grant payments to the states.

Commonwealth–State Finances

In a federation, there is a logic to the national government raising the main taxes to support efficiency, equity and simplicity at the federal level. There is also a logic, though, to the significant decentralisation of expenditure responsibilities with sub-national jurisdictions, to facilitate more responsive administration and variations in preferences for the level and type of public services – the subsidiarity principle. A degree of vertical fiscal imbalance (VFI),⁴ as well as transfers between governments, are then features of that federal arrangement.

Following the expiration of the Braddon Clause in 1910, the Commonwealth paid each state 25 shillings per capita, with additional payments to states that required it for their economic development. Under the *Financial Agreement Act 1928*, the per-capita payments were ceased, with the Commonwealth taking over state debt, but ad-hoc payments to the less populous states continued. With the 1942 Commonwealth takeover of income tax, substantial grant payments to all the states were resumed, with frequent ad-hoc variations through the post-war period.

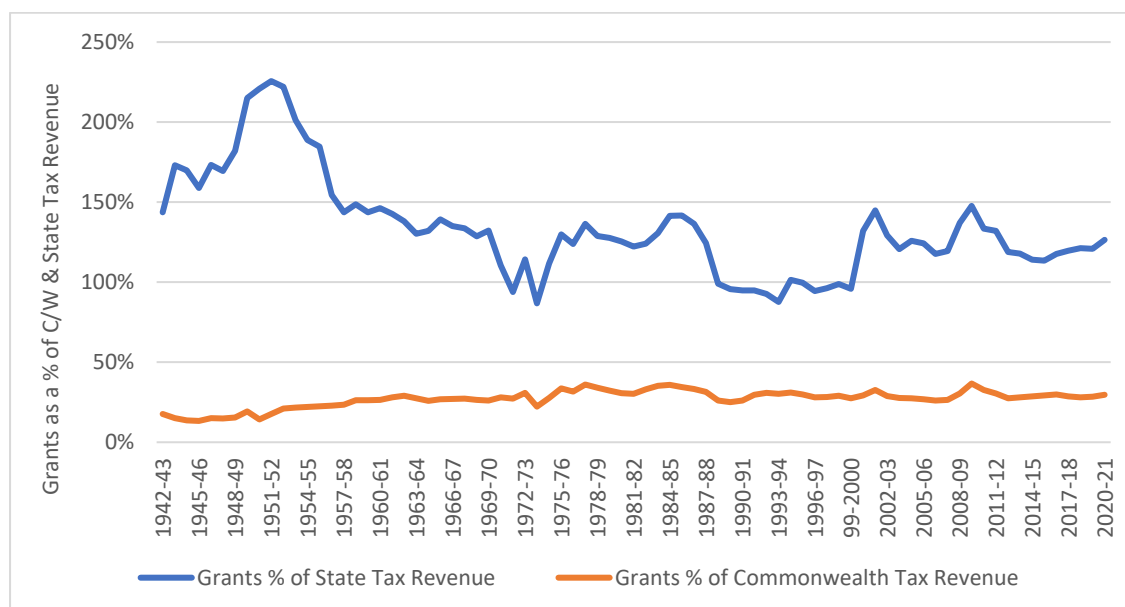
The Fraser government's 1976 new federalism policy replaced these grants with a tax-sharing arrangement, the first since 1910. The states' share was initially set at 33.6 per cent of the current year's net personal income tax collections,⁵ but from 1977–78 it was changed to 39.87 per cent of the previous year's net personal income tax, and from 1982–83 to 20.72 per cent of the previous year's total net Commonwealth tax collections. While this tax sharing gave the states a guaranteed share of Commonwealth tax, they were also subject to unilateral Commonwealth decisions, such as indexation, which might reduce the total amount of Commonwealth tax available to be shared. The 1976 new federalism reform also enabled the states to levy an income tax surcharge, although no state took that up.

Tax sharing was replaced in 1985–86 by Financial Assistance Grants – in the context of the Hawke government wanting slower growth in public sector spending⁶ – which in turn were replaced in 2000 by the Goods and Services Tax (GST).⁷ Interestingly, the current GST arrangements are effectively a reintroduction of tax sharing, but with the state share set at 100 per cent.

VFI thus remains a feature of the Australian federation. In 2018–19 (prior to COVID), the Commonwealth raised around \$490 billion in revenue and had own-expenditures of around \$370 billion⁸ (not including transfers to state and local governments of around \$120 billion). The states raised own-revenues of around \$160 billion (not including grants from the Commonwealth) and had expenditures of around \$280 billion. Grants from the Commonwealth to the states were split roughly evenly between untied general revenue assistance grants and tied grants.⁹

As Figure 1 shows, VFI has been a consistent feature of Australia’s federation since the 1942 Commonwealth income tax takeover. While states’ tax bases were bolstered by the Commonwealth vacating land tax in 1952 and payroll tax in 1971, Commonwealth grants have generally been greater than the states’ own tax revenues (noting that they also have substantial non-tax revenues). For the Commonwealth, about 30 per cent of tax revenue has been paid in grants since the 1970s.

Figure 1: Vertical Fiscal Imbalance



Sources: CGC (grants); and CBCS and ABS publications (revenue)

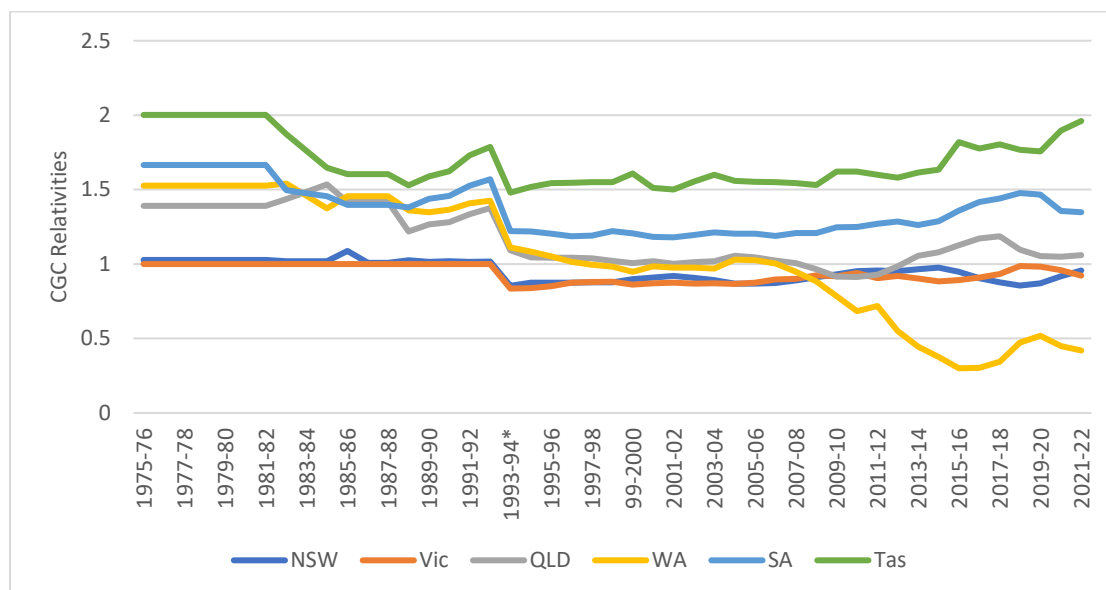
From the beginning of the federation, the Commonwealth made additional payments to the less populous states. The Commonwealth Grants Commission (CGC) was then established in 1933 to advise on the payment of grants to the states in a way that accounted for their fiscal differences.¹⁰ From this developed the formal horizontal fiscal equalisation (HFE) arrangements that sought to enable each state to function at a standard not appreciably below the others.

Figure 2 tracks the history of the HFE arrangements since the mid-1970s. Rather than distributing grants (now the GST) to states on a per-capita basis, HFE aims to allow the states and territories to provide similar standards of public services at a similar tax burden.¹¹ The CGC calculates relativities between the states, with a national average of 1.0, to give effect to this principle. Those states with a calculated relativity of less than 1.0 receive a less-than-per-capita share of the grants pool, while those with a relativity greater than 1.0 receive a greater-than-per-capita share.

HFE has generally resulted in the redistribution of revenues from the most populous states, namely New South Wales (NSW) and Victoria, to the others, although the resources boom has pushed Western Australia’s (WA) relativity factor to well below the others.¹² The Northern Territory’s (NT) relativity has been calculated since the late 1980s, averaging around 5.0, while the

Australian Capital Territory's (ACT) relativity has been calculated since the early 1990s, averaging 1.1.

Figure 2: Horizontal Fiscal Equalisation



* There was a methodology change in 1993–94, from setting Victoria to 1.0 to setting the national average to 1.0.

Sources: Budget papers

State and Local Government Responsibilities

While the Constitution has enabled the Commonwealth to control the main tax bases, it leaves large areas of law-making responsibility for expenditures and administration with the states.¹³ They have the main responsibility for health, education, law and order, urban and rural planning, land use, the environment, waste management and recreational facilities.

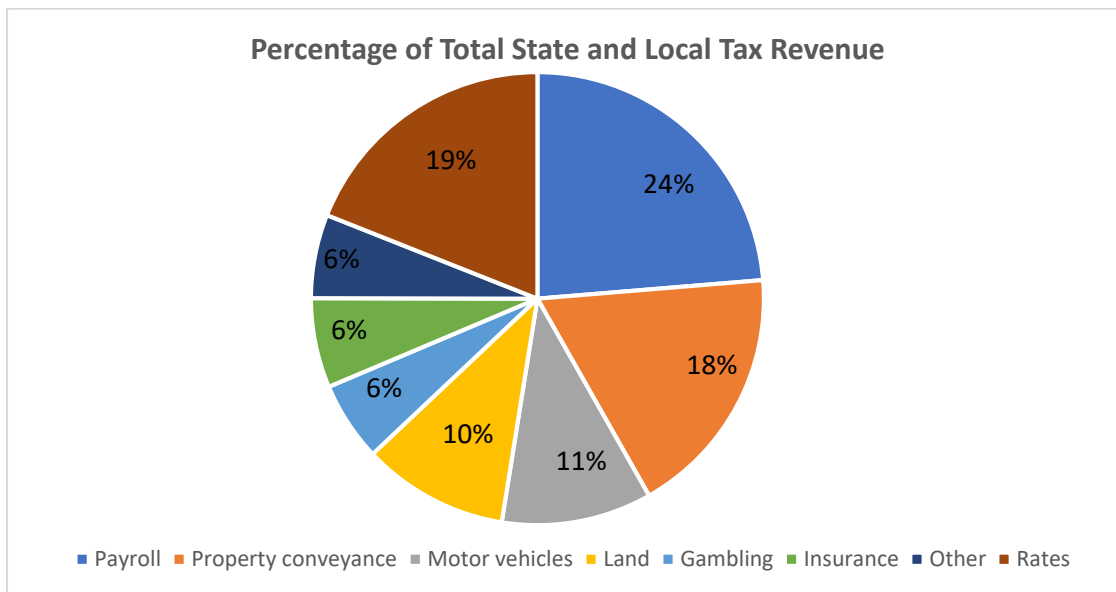
The schema of the Australian Constitution is that it specifies Commonwealth powers, with the states being responsible for everything else.¹⁴ The Commonwealth has in practice, however, extended its policymaking sphere into areas of state responsibility by providing conditional grants under section 96 – the basis of Commonwealth specific-purpose payments to the states and territories. Significant overlaps have consequently been a feature of Australia’s federation, with many only partly successful Commonwealth–state negotiations to rationalise them.¹⁵ The overlap and ambiguity in expenditure responsibilities have added to the difficulties in settling tax responsibilities.

Development of State Tax Systems

With the Commonwealth having exclusive constitutional access to customs and excise (which generally includes sales taxes) and having taken over income tax in 1942, the states have been left to develop an eclectic mix of other taxes. Income tax, estate duties, stamp duties and land tax continued as significant sources of state revenue post-Federation, motor vehicle taxes were developed in the 1920s and gambling taxes from the 1940s, and the Commonwealth passed payroll tax to the states in 1971. Throughout the post-World War II period, the states have continually sought to expand their tax options, including testing the constitutional limits on levying consumption taxes, but with the High Court taking a broad view of the section 90 excise definition.¹⁶ Their choices have been limited.¹⁷

As Figure 3 shows, payroll tax and property conveyance duties are now the largest state taxes, while for local government, property rates comprise their only tax revenue.

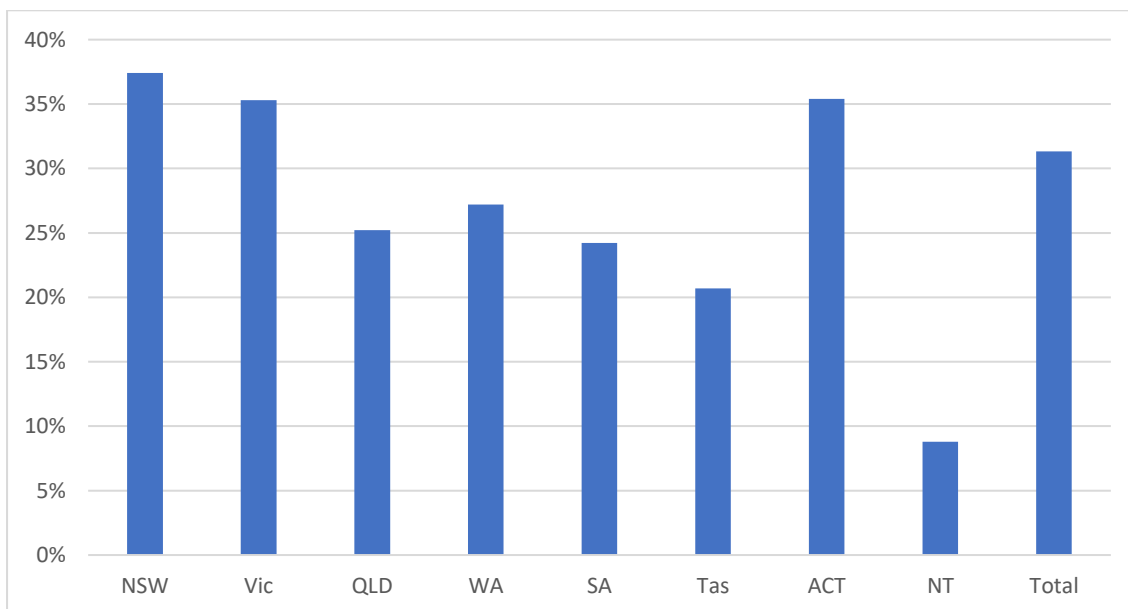
Figure 3: State and Local Government Taxes, 2019–20



Sources: ABS Government Finance Statistics (2019–20)

The states raise 31 per cent of their total revenue in own-taxes, with another 26 per cent coming from non-tax sources and 43 per cent from Commonwealth grants. As Figure 4 shows, the level of dependence of the states on tax revenue varies, with NSW, Victoria and the ACT raising over a third of their revenue in taxes, while the others generally raise less than a quarter, relying to a greater extent on grants from the Commonwealth and (non-tax) mining royalties. These proportions have remained fairly steady since the introduction of the GST, except for WA’s proportion which has varied with changes in royalty revenues.

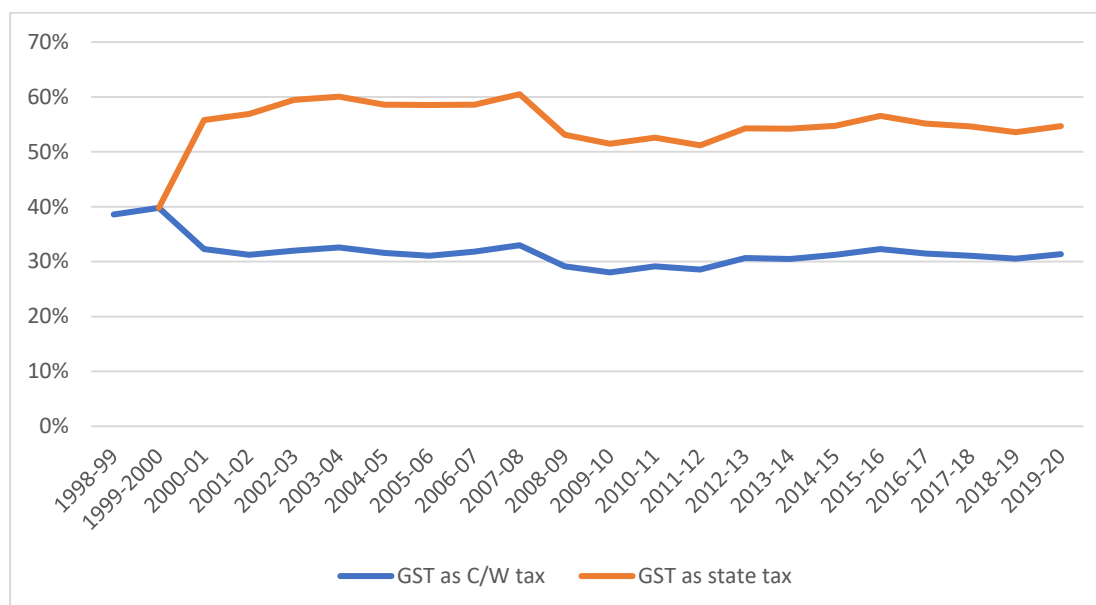
Figure 4: State Tax/Total Revenue Ratios, 2019–20



Source: ABS Government Finance Statistics (2019–20)

The most significant reform of state taxes in modern times was the *Not a New Tax, a New Tax System (ANTS)* package, where GST revenues replaced various more-inefficient taxes. As Figure 5 shows, this reform also changed the measured dependence of the states on tax revenues. Counting the GST as a Commonwealth tax, those reforms saw tax as a proportion of total revenue for the states fall from around 40 per cent to around 30 per cent. Conversely, if the GST was counted as a state tax, their tax as a proportion of total revenue would increase to around 55 per cent.

Figure 5: State Tax Revenue as a Share of Total State Revenue



Source: ABS Government Finance Statistics and Taxation Revenue (2019–20)

Apart from grants, state and local non-tax revenue includes sales of goods and services, interest, dividends, fines and royalties. This paper will focus on taxes but also include royalties, given their similarity and their importance to some states. Before examining the main state tax reviews, I will briefly describe each of the main state taxes. Appendix A provides a summary comparison of state and territory taxes.

Payroll Tax

Payroll tax was introduced by the Commonwealth in 1941 to help finance a National Welfare Fund for child endowment.¹⁸ The tax was initially levied at 2.5 per cent, payable by employers on all wages, but with a general exemption of £20 per week.¹⁹ The connection with child endowment was discontinued in 1952, and in the context of the states' limited tax powers, and their desire for a 'growth tax',²⁰ the Commonwealth passed payroll tax to them in 1971. The states, in unison, initially increased the rate to 3.5 per cent, then to 5 per cent by 1974.²¹

From the early 1980s, the uniformity between the states started to break down, with NSW and Victoria introducing surcharges on larger businesses. Over time, tax competition has driven further rates divergences and eroded the bases. While efforts have been made to harmonise some aspects, significant rate and base differences, in particular the size of the exemption for small businesses, remain.

In 2005, the states commenced a harmonisation process, and this was given further impetus by the 2006 *Rethinking Regulation* report.²² In 2007, state and territory treasurers agreed to harmonise legislative and administrative arrangements, and interstate committees have been established to maintain this harmonisation.

Stamp Duty

Stamp duties were developed by the colonies in the 19th century as fees for the validation of contracts and probate,²³ then extended to a broader range of transactions in the 20th century, including cheques and other financial documents. From 1982, the states introduced Financial Institutions Duty (FID) to replace several financial transaction stamp duties, and the Commonwealth introduced the Bank Accounts Debits (BAD) tax, which was passed to the states in 1992. As part of the ANTS reforms, most stamp duties on financial transactions, including FID and BAD, were abolished.

Stamp duties on property transfers, insurance contracts and motor vehicle sales remain significant revenue raisers, with rate structures and exemptions varying between states. Stamp duties on property conveyances have become the largest revenue source due to the long-term growth of property prices and progressive tax rate structures driving bracket creep.²⁴

To fund emergency services, most states have moved from insurance-based levies to property-based levies, to ensure all property owners contribute to the costs of the emergency services they potentially benefit from and to remove a disincentive to insure. NSW and Tasmania are now the only states that continue to levy an insurance-based levy, although for both states there have been reviews recommending a change to a property-based levy. The NT does not impose any specific charge to fund emergency services.

Land Tax

Land taxes were introduced by the colonies from the late 19th century. The Commonwealth also introduced land tax in 1910, with the stated aim of breaking up large landholdings, but it vacated this tax in favour of the states in 1952. The state land taxes are generally levied at progressive rates on unimproved land values, with exemptions for owner-occupied housing and primary production land.

Motor Vehicles

Motor vehicle taxes were introduced by the states from the 1920s and now consist mainly of registration fees and stamp duty on the transfer of vehicles. Other motoring charges include driver licences, road tolls and Commonwealth fuel excise. The rationale for motor vehicle taxes is a combination of benefit/cost recovery, externalities, efficient road use and revenue raising, with arrangements differing between states.

Gambling

Gambling taxes were introduced by the states from the 1940s as a form of 'sin' tax that became a significant revenue raiser. A range of tax designs, and claimed motives, exist.

Estate Duties

Estate duties were introduced by the colonies from the mid-19th century and by the Commonwealth in 1915. Along with property taxes, for a time they represented Australia's main form of wealth taxation. Estate duties were abolished by the states and the Commonwealth in the 1970s.

Business Franchise Fees

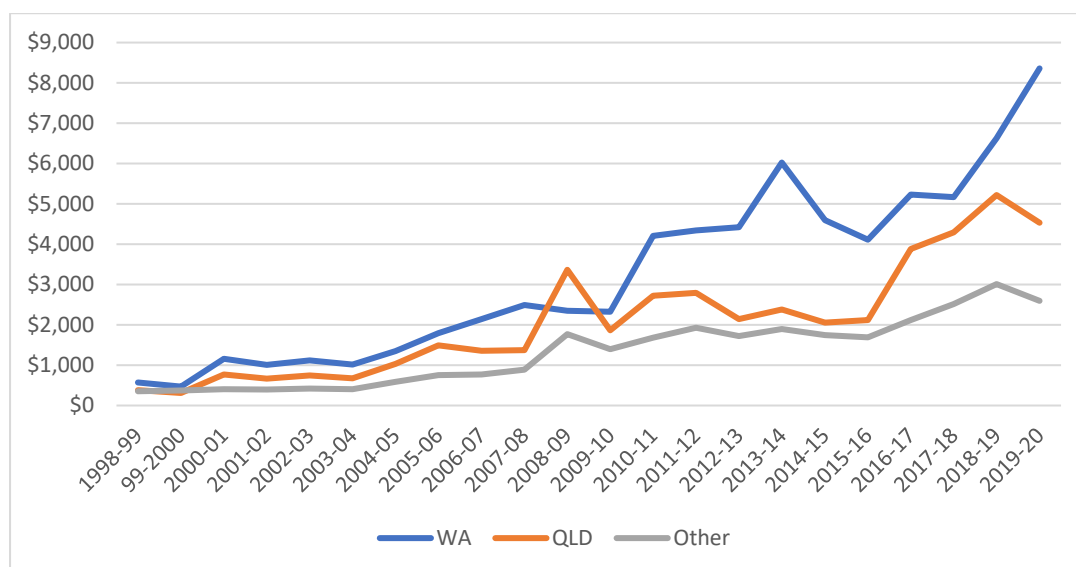
Business franchise fees (BFFs) were introduced by the states from the 1970s as licence fees for carrying on certain regulated businesses, such as tobacco, alcohol and petrol. With rates increasing over time, though, they were subject to constitutional challenge, culminating in the 1997 High Court ruling that the NSW tobacco BFF was an excise and therefore constitutionally invalid.²⁵ This ruling called into question all the state BFFs, worth around \$5 billion in total, and the Commonwealth agreed to use its constitutional powers to legislate for their collection.²⁶ This arrangement ceased under the ANTS reforms.

Royalties

Mining royalties are classified as a non-tax revenue, being the price paid for the extraction of non-renewable resources owned by the state. Royalties have been imposed by the states since the late 19th century, initially for gold and coal, but then for a broader range of mining since the mid-20th century, with iron ore dominating in recent decades. The Commonwealth also introduced a Petroleum Resource Rent Tax (PRRT) on certain offshore oil and gas deposits in the 1980s.

Royalties are levied either as a fixed rate per unit of production or as an ad-valorem percentage of sales revenue. Royalties currently raise over \$15 billion per annum, with more than half of this accruing to WA (see Figure 6).

Figure 6: Royalties, 1998–99 to 2019–20 (\$m)*



* Figures include all royalties (although predominantly from mining).

Sources: ABS Government Finance Statistics publications

Other

The states have levied other, more minor taxes over time. Entertainment taxes, including on cinema tickets, were levied during the world wars but largely abolished by the 1970s.²⁷ Specific racing taxes were levied in the 1930s but were subsumed in entertainment taxes. Licence fees to sell certain goods, such as liquor, were an early revenue source through to the introduction of BFFs. Bed taxes were once levied on hotel and motel accommodation but were abolished as part of the ANTS reforms.

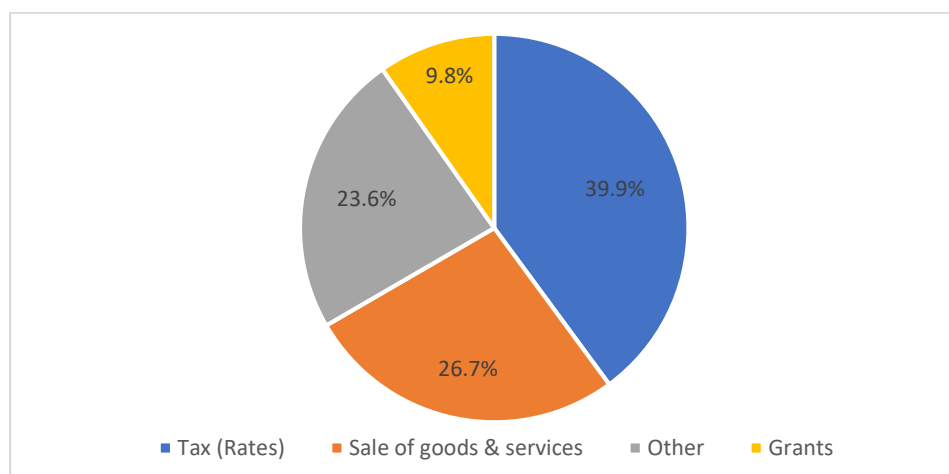
Local Government

Local governments in Australia are not specifically provided for in the Constitution but operate under the delegated authority of the state and NT governments to deliver certain community services, such as waste collection, local infrastructure, public recreation facilities and town planning. As such, the arrangements for local government differ between jurisdictions. The ACT is the one jurisdiction that does not have separate local governments.

The history of local governments in Australia is one of amorphous development in each of the colonies through a mix of aspirations of local citizens and legislative action by colonial governments.²⁸ The first local government was established in Adelaide in 1840, with municipal incorporations being formed in the six colonies by the 1850s.²⁹ There are now 537 local governments across the country.³⁰ Local governments are represented in federal discussions by the Australian Local Government Association (ALGA), which was founded in 1947 and operates as a federation of state and territory associations.

As Figure 7 shows, local government revenue derives from three main sources: taxation; fees and charges; and intergovernmental grants. User charges are applied where local governments provide specific services such as waste management, urban planning and some recreation facilities. Grants to local governments have traditionally been made by state governments, but from 1973 the Commonwealth has also provided grants to them.

Figure 7: Local Government Revenue Shares, 2019–20



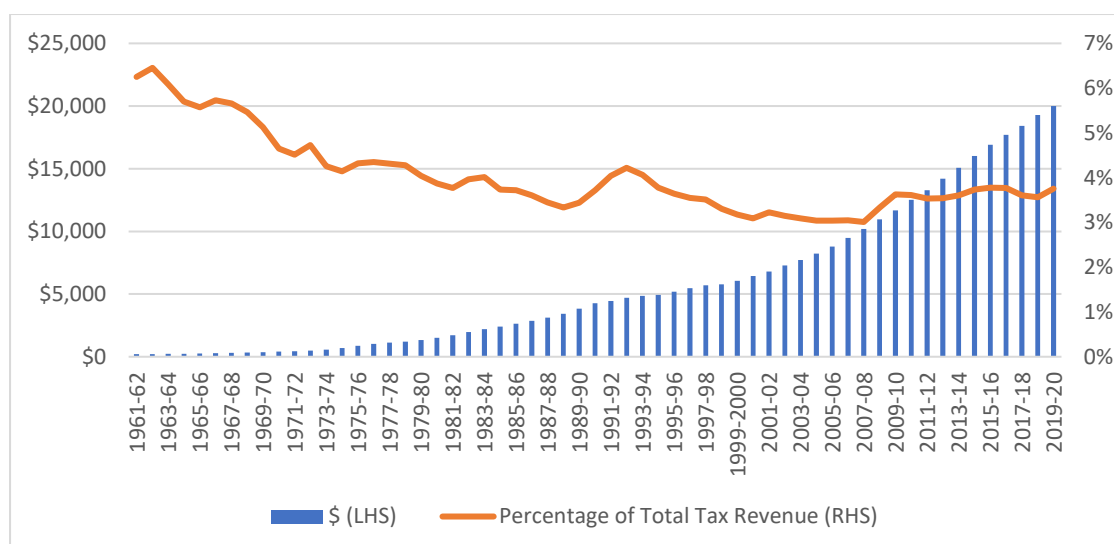
Sources: ABS Government Finance Statistics (2019–20)

Under the 1976 Fraser government’s new federalism revenue-sharing policies, 1.52 per cent of the Commonwealth’s previous year net personal income tax revenue was provided to local governments from 1976–77, which increased to 1.75 per cent in 1979–80 and to 2 per cent in 1980–81. The revenue-sharing arrangements ended in 1984–85, after which the level of grants was adjusted by the Consumer Price Index (CPI) plus a growth factor each year.³¹

Property Rates

Local governments’ sole tax is property rates,³² which is levied under delegated legislative powers of state governments. These rates raise around \$20 billion per annum, or 40 per cent of local government revenue, and they represent around 3.5 per cent of total tax revenue in Australia (see Figure 8). Property rates are set each year based on the expenditure budget of the relevant council, with the NSW and Victorian governments capping the allowed annual increases. Rates apply to both private and business properties and are generally calculated on unimproved land values, but some councils include capital improvements.³³

Figure 8: Property Rates, 1961–62 to 2019–20 (\$m)

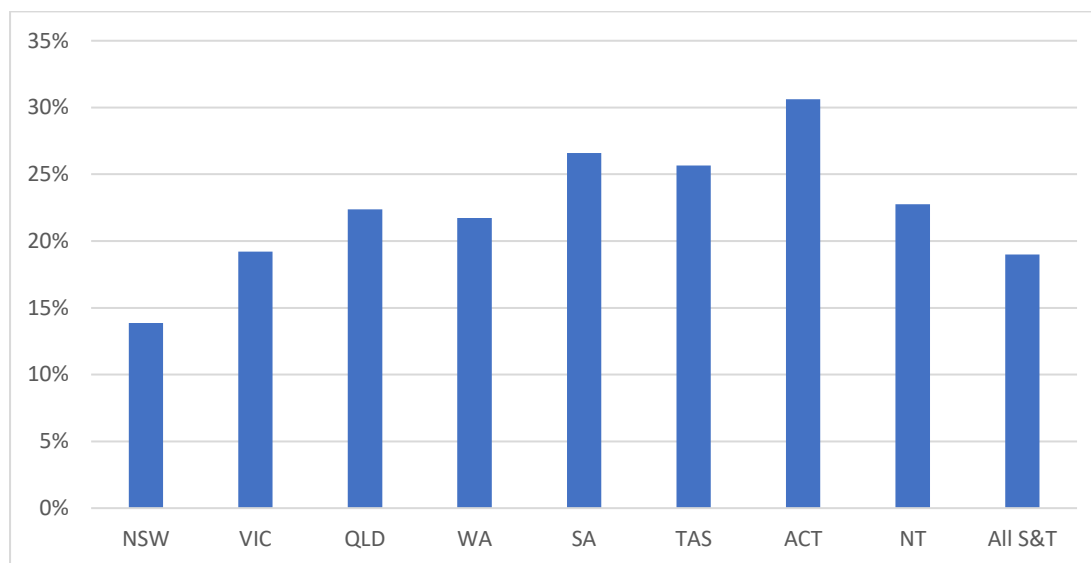


Sources: ABS Taxation Revenue publications

As Figure 9 shows, the level of rates revenue varies across jurisdictions. The less populous states and territories tend to have higher proportions of rates revenue in total state and local tax

revenue, partly reflecting the higher reliance of those states on Commonwealth grants and mining royalties (see Figure 4).

Figure 9: Rates as a Percentage of Total State and Local Tax Revenue, 2019–20

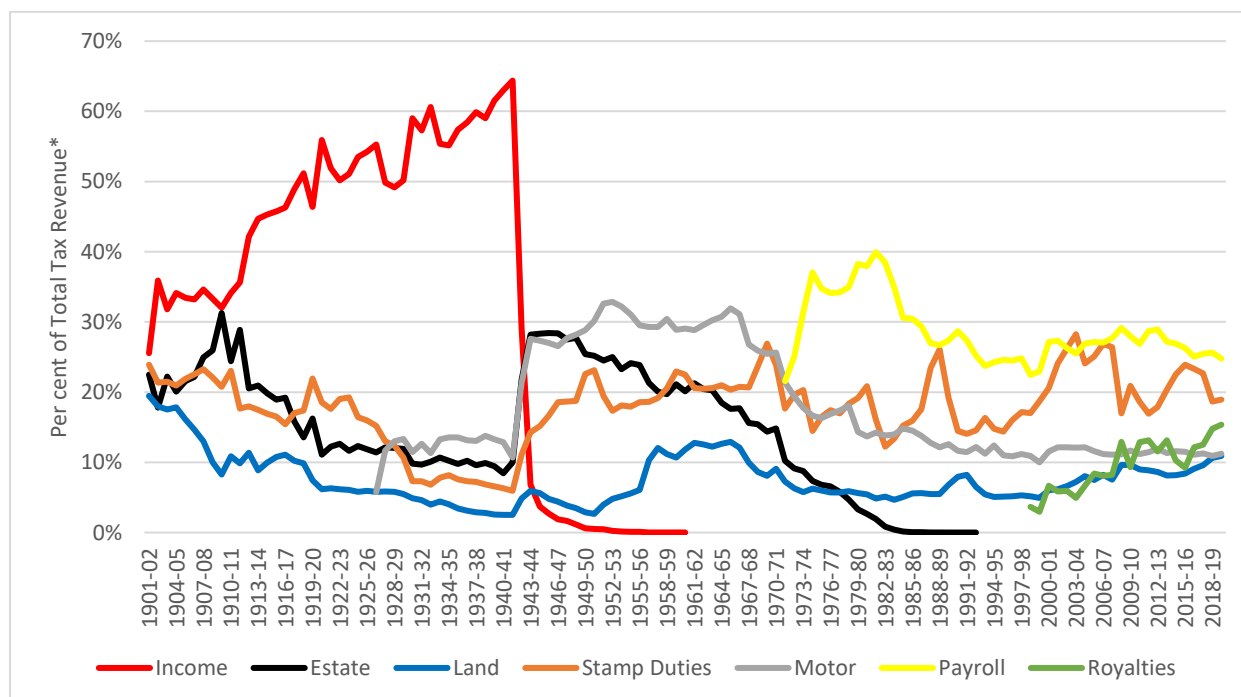


Sources: ABS Taxation Revenue (2019–20)

Tax Mix

The changing state tax mix since Federation is shown in Figure 10. The largest revenue raisers are now payroll tax, stamp duties (mainly property conveyance), motor duties and land tax. In addition, gambling taxes have averaged around 10 per cent of state tax revenues since the 1940s, while mining royalties (non-tax) have become important for some states in recent decades.

Figure 10: Main Tax Shares for All States and Territories, 1901–02 to 2019–20



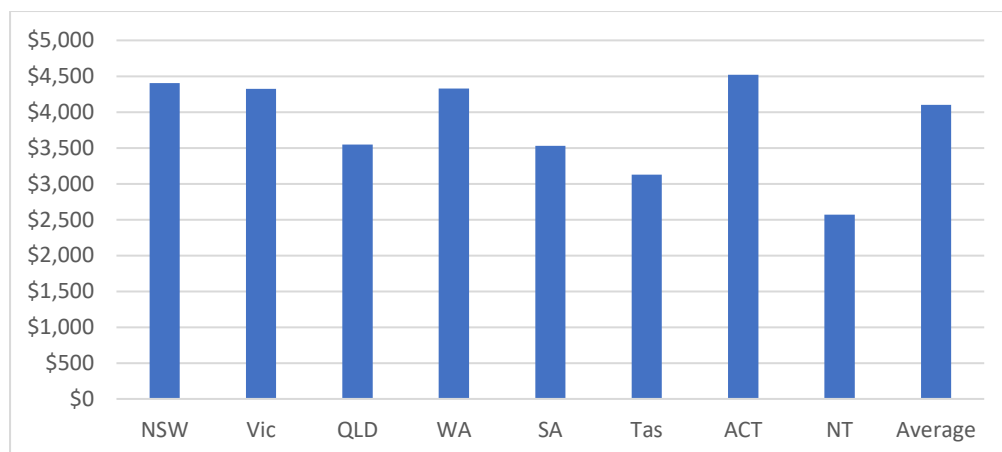
* Including royalties from 1998 (no data prior to that) which are technically non-tax revenue.

Sources: CBCS and ABS publications

Tax Burden

The states and territories have similar tax structures but some variation in their tax mix and overall tax burden (see figures 11 and 12). NSW, Victoria and the ACT are most reliant on their own tax revenues, while Commonwealth grants form a larger proportion of the revenues of the less populous states and the NT. Some jurisdictions, particularly WA and Queensland, also have substantial mining royalty revenue.

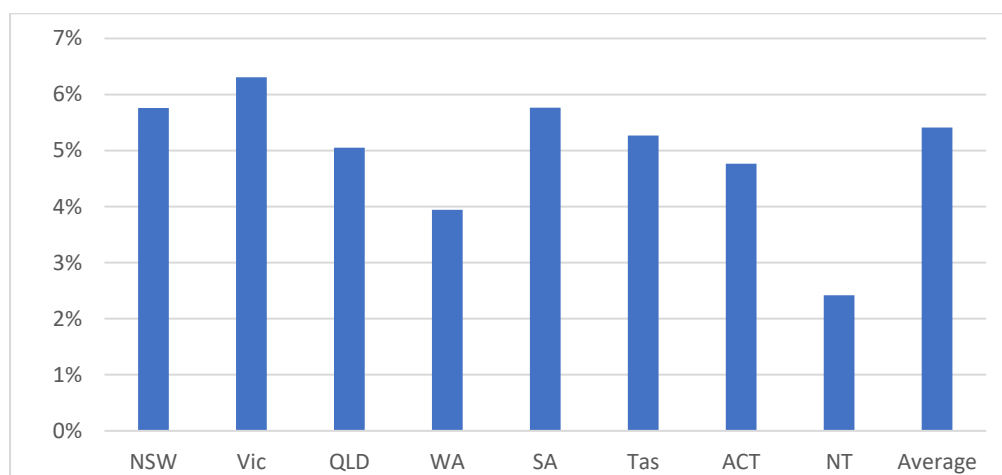
Figure 11: Taxation Per Capita, 2019–20*



* Does not include non-tax revenues such as royalties.

Sources: ABS Taxation Revenue (2019–20) and National State and Territory Population

Figure 12: Taxation as a Percentage of Gross State Product, 2019–20*



* Does not include non-tax revenues such as royalties.

Sources: ABS Taxation Revenue (2019–20) and Australian National Accounts

The Need for Reform

State governments' constant search for revenue has led them to develop many taxes, with those revenue needs often outweighing other tax policy considerations. Tax competition between the states, seeking to attract business or individuals, has compounded the problem, with the erosion of what may even be efficient taxes if levied on a broad base. These factors have contributed to many of the most inefficient taxes in Australia being levied at the state level and requiring reform.

National Reviews

There have been some attempts at the national level to address state tax reform. The early decades of the Australian federation were characterised by overlapping taxes as the Commonwealth's

revenue needs expanded. Royal commissions in 1923 and 1934 sought to at least rationalise the allocation of taxes between governments, ultimately leading to the Commonwealth taking over income tax in 1942 and vacating land tax in 1952. The Commonwealth also introduced sales tax in 1930 and payroll tax in 1941, but it passed the latter to the states in 1971. These developments gave the federation the broad tax-allocation shape that has since persisted, with the main income and consumption tax bases at the Commonwealth level, plus customs (tariffs) and excises, and the other substantive tax bases, generally at the state (or local) level.

In more recent times, the national tax review with the greatest focus on state tax issues was ANTS. It led to the introduction of the GST, with that revenue going to the states in return for the abolition of their most inefficient taxes. FID, BAD, stamp duties on marketable securities, and bed taxes were initially abolished, while stamp duties on mortgages, leases and business conveyances were removed over time.³⁴ BFFs were also abolished, providing full resolution of that issue. In addition, the Commonwealth abolished wholesale sales tax.

The Productivity Commission's (PC) 1998 review of state taxes argued that reforms offered the potential for significant economic improvements. Consistent with other reviews, it concluded that transaction taxes such as stamp duties are the most distorting of the state taxes, while land tax and payroll tax are potentially the most efficient.³⁵

The PC research paper considered reforms to existing state taxes and reforms to change the tax mix.³⁶ Reforms to existing state taxes might involve greater use of user charges, the harmonisation of tax bases, and replacing the plethora of financial taxes with a single broad-based financial tax. Reforms to change the tax mix might involve reducing or abolishing financial taxes and conveyance duties, and recovering that revenue by broadening the bases of land tax and payroll tax.

The report also presented options for the states to access broader tax bases, including expenditure taxes, such as on services, or income taxes, in cooperation with the Commonwealth Government to allow management of constitutional and administrative constraints.³⁷ As a research paper these options did not require a government response but were able to inform future reviews.

State and Territory Reviews

The states and territories have at times each conducted their own tax reform reviews, motivated by both the need to maintain adequate revenues and by standard public finance criteria such as efficiency, equity and simplicity. I will summarise the tax history for each state and territory and assess their main tax reviews. Appendix B provides a full list of these reviews.

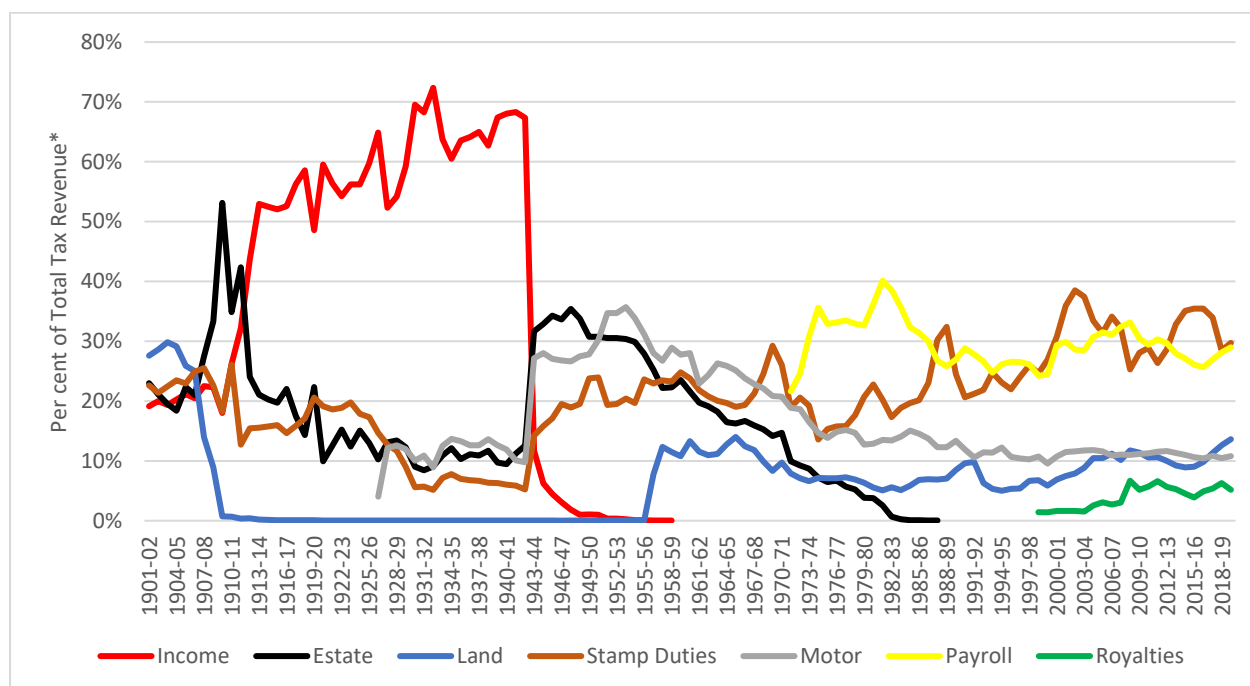
New South Wales

As the site of the original European settlement in Australia, NSW was formally established as a colony in 1788, with representative government created in 1842 and the original NSW Constitution enacted in 1855.³⁸ As such, it developed revenue-raising mechanisms relatively early, with Australia's first public treasury established in Sydney – the Colonial Treasury – in 1824. Initially, revenue other than customs duties was gathered by the Collector of Internal Revenue, which subsequently became the Revenue Branch of Treasury.³⁹

Wharfage fees and customs duties on imported spirits, wine and beer were introduced at the start of the 19th century and subsequently extended to tea, sugar, flour and grains. Estate duties were introduced in 1851, stamp duties developed from 1865 and income tax was announced in 1895. Land tax was also introduced in 1895, although the NSW Government vacated that field in favour of local government from 1906 to 1956.⁴⁰

As Figure 13 shows, after the 1942 Commonwealth takeover of income tax, NSW's largest taxes were estate taxes, motor vehicle taxes and stamp duties. In more modern times, payroll tax has generally been NSW's largest tax, while property conveyance duty has continued to be volatile.

Figure 13: NSW Tax Mix, 1901–02 to 2019–20



* Including royalties from 1998 (no data prior to that) which are technically non-tax revenue

Sources: ABS Taxation Revenue publications (and predecessors)

Committee of Inquiry into State Taxation (1976)

In October 1975, the Lewis Liberal government commissioned the *Committee of Inquiry into State Taxation*, chaired by accountant and businessperson Sir John Marks.⁴¹ Its terms-of-reference were broad, seeking advice on both the design and quantum of taxation for NSW (for a link to the inquiry, including its terms-of-reference, see Appendix C). The inquiry received 234 submissions and reported in March 1976.

The context for the inquiry involved constitutional limitations on the states levying customs and excise, and the Commonwealth takeover of income tax. It bemoaned that ‘States have no access to sources of revenue adequate for their responsibilities, and hence are forced to introduce inefficient, inequitable, inflationary and unpopular taxes’.⁴² The review was also informed by the 1975 Asprey report.⁴³

Death duties were supported as a relatively efficient and equitable revenue source. The report did not support calls for exemptions such as removal of the family home, but it did recommend that death duties should not be imposed where the estate passed to the surviving spouse.⁴⁴

Land tax was the subject of critical submissions to the inquiry. The report concurred that it was onerous and supported its repeal, or at least a raising of the exemption level and the exclusion of all residential properties.⁴⁵

Payroll tax was also criticised in some submissions as penalising labour-intensive firms. The report argued, though, that it was a relatively sound tax, being broadly based, simple and a growth tax. It recommended that it be retained in its existing form.⁴⁶

Stamp duties were applying to an expanding number of transactions in NSW and submissions raised many issues, generally seeking concessions. The committee did not reach conclusions of its own but rather recommended the government establish a separate dedicated review.⁴⁷ (See the discussion of the Valentine–Wallace review in the next section.)

The report raised concerns about the application of the Fire Brigade Levy to insurance companies and the inequity of not taxing those who were not insured.⁴⁸ It also concluded that mining royalties were a justifiable charge for the right to extract minerals.⁴⁹

Having surveyed NSW's existing taxes, the report considered options for additional revenue given the increasing demands on government. Imposition of an income tax surcharge was found to not be practical or appropriate given the perceived disincentive effects.⁵⁰ A range of other taxes, such as a gift tax, annual wealth tax, capital gains tax, betterment tax and entertainment tax, were also not supported for adoption by the state government.⁵¹ The report did, however, support consideration of a services expenditure tax, structured to avoid the constitutional restrictions related to excises.⁵²

The report also raised concerns that NSW was not receiving an appropriate share of grants from the Commonwealth, and that the preponderance of tied grants under section 96 of the Constitution meant the Commonwealth was encroaching on areas of state responsibility. A constitutional amendment was proposed to prevent the Commonwealth from attaching conditions beyond the areas of responsibility provided for it by section 51 of the Constitution.⁵³

Government Response

With the report coming just before a change of government in NSW with the May 1976 election of the Wran Labor government, it had only limited impact on policy. It also came in the context of the recent election of the Commonwealth Fraser government, with a revamping of federal financial relations, including income tax sharing, in train.

While the review was not specifically referred to, the 1976 Budget did include a measure specifying that death duties would not apply where the estate passed to the surviving spouse. This and the following budget also included measures to increase motor vehicle taxation and to counter death duty avoidance, as well as increases in payroll tax concessions.⁵⁴

Review of the State Tax System (1988)

In October 1987, the Unsworth Labor government appointed a *Review of the State Tax System*, which was re-established by the Greiner Liberal government after the March 1988 election. The review was chaired by economist associate professor David Collins and was asked to focus on the impact of state taxes on economic development, including the balance between stamp duties and other taxes (for a link to the review, including its terms-of-reference, see Appendix C). It reported in August 1988.

The report presented a comprehensive, and revenue-neutral, reform package that recommended reforms to individual taxes and a change in the tax mix, with less weight on payroll tax and stamp duties and more emphasis on land tax, business franchises and gambling.⁵⁵

It was argued that the main objective of a state tax system should be financing public expenditures and where necessary correcting market failures, with redistributive and macroeconomic stabilisation policies best left to the national government. The standard public finance criteria of equity, efficiency and simplicity were supplemented with revenue buoyancy and public acceptability.⁵⁶ The report placed particular emphasis on the simplification of the state tax system to support economic development.

Payroll tax was considered potentially efficient, with its incidence spread across consumer prices, employee wages and business profits. Exemptions, though, such as the threshold for small businesses, and gaps in the base, such as for fringe benefits and superannuation, were regarded as inefficient and inequitable.⁵⁷ The report acknowledged the challenges that removal of the general exemption would present for small businesses, but it recommended removing all other exemptions with one marginal tax rate above the general exemption, which would allow a rate of 5.5–6 per cent. Further, some reduction in payroll tax rates, financed by increases in other taxes, was favoured.

Land tax was considered a potentially efficient tax for a state government. The report recommended maintaining unimproved land value as the tax base, arguing that taxing improvements would create a disincentive to make best use of the land. The removal of most exemptions was recommended, although with some exceptions, such as an indexed threshold of \$500,000 for residential properties. A flat tax rate of 2 per cent would then apply, with the additional revenue used to fund reductions in other taxes.⁵⁸

Stamp duties had been considered by the 1985 Valentine–Wallace report, in particular their impact on financial markets. That report made detailed recommendations for reform, including the removal of several ‘nuisance’ stamp duties, and the introduction of a uniform federal tax on financial transactions, based on the existing state FID taxes, to replace that revenue.⁵⁹

The Collins report also recommended the abolition of a range of stamp duties, including on cheques, loan securities and hiring arrangements. The retention of property conveyance duty was supported, but with the progressive rate scale indexed. An increase in FID was also supported, to be done in consultation with other jurisdictions given the importance of harmonisation.⁶⁰

On other taxes, the report supported increasing BFFs where possible, recognising the constitutional and interstate competition constraints, and increasing taxes on gambling and motor taxes on heavy vehicles.⁶¹

A change in the tax mix was recommended to improve economic development in NSW, by increasing the weight of land tax, liquor tax, gambling taxes and franchise fees, and decreasing the weight of payroll tax and stamp duties.⁶²

The report also supported an income tax surcharge and an extension of BFFs to enable greater reductions in payroll tax.⁶³ In addition, it argued that a broad-based sales tax at the state level would be more efficient than the taxes it could replace, and recommended the government explore all avenues with the Commonwealth to remove the constitutional impediment to that.⁶⁴

Government Response

The initial government response to the report was provided in the 1989 Budget.⁶⁵ Ten nuisance stamp duties were abolished, including those associated with the ANTS reforms, and stamp duty on insurance policies was changed from a sum-insured basis to a premium basis, bringing it into line with other states.

The government response accepted in principle the report’s recommendation for payroll tax to have just one marginal rate above an exemption level, but indicated that this would be implemented when budget circumstances permitted. The recommendation to place greater weight on land tax was also accepted, but not the proposal to remove the exemption for owner-occupied housing. The report’s recommendation for a state income tax surcharge was rejected.

The Collins Tax Taskforce report would continue to inform tax policy considerations, including changes made in consultation with other states to payroll tax and FID.⁶⁶

Review of State Taxation (2008)

In September 2007, the Lemna Labor government asked the Independent Pricing and Regulatory Tribunal (IPART) to conduct a *Review of State Taxation* (for a link to the review, including its terms-of-reference, see Appendix C). IPART reported in October 2008.

IPART assessed payroll tax and land tax as relatively efficient, and property transfer duty and insurance duty as relatively inefficient. Two sets of reforms were considered: those that NSW could undertake independently, and those that required cooperation in the federation.

The reforms that NSW could undertake independently included changing the tax mix to rely more heavily on the most efficient taxes and reforming individual taxes by reducing concessions.⁶⁷ With payroll tax, a reduction in the tax-free threshold and other exemptions, and a reduction in the tax rate, were recommended. With property taxes, increasing land taxes and property rates to fund

reductions in transfer duty and insurance taxes were recommended. Replacing the fire services insurance levy with a property-based levy was also recommended. A further recommendation, regarding motor taxes, was the replacement of registration transfer duties with an annual motor vehicle charge.

Reforms that could be pursued through cooperative federalism included the expansion of efficient Commonwealth taxes to fund the abolition of inefficient state taxes, and further harmonising of state taxes.⁶⁸ IPART also argued that the CGC's HFE process for allocating general revenue grants penalised individual states for implementing beneficial tax reforms.⁶⁹

Government Response

With the review reporting as the global financial crisis (GFC) was unfolding, there was little immediate action on its recommendations. The Commonwealth Government's Australia's Future Tax System (AFTS) review was also underway, and the NSW Government said that 'Many of IPART's recommendations are best pursued in the context of national tax reform as they need intergovernmental support'.⁷⁰

NSW Financial Audit (2011)

The incoming O'Farrell Liberal–National government, elected in March 2011, commissioned the acting secretary of NSW Treasury, Michael Lambert, to undertake a *NSW Financial Audit*, and as part of that address revenue-reform issues (for a link to the audit, including its terms-of-reference, see Appendix C). He reported in September 2011.

The report's revenue-reform objective was the achievement of an efficient, equitable and simple taxation system.⁷¹ It assessed the NSW tax system as volatile, reliant on narrow transaction taxes, and lacking strong growth characteristics. A multilateral reform approach by all states and the Commonwealth was the preferred approach, but a fallback was a NSW reform package that sought to replace inefficient taxes with efficient taxes in a revenue-neutral package.⁷²

The report provided an impressive list of recommendations that could be considered for tax reform, including: replacing the emergency services insurance levy with a property levy; the reform or abolition of insurance duties, possibly funded by lowering the payroll tax threshold; replacement of property transfer duty with a Stamp Duty Replacement Tax on land value; increased reliance on road pricing to reduce vehicle taxes, and in the longer term a state-wide system of road pricing; and consideration of constitutional reform to remove the prohibition on state excises.⁷³

The report proposed a consultation process to advance the reforms, including a green paper to set out the options, followed by a white paper detailing those favoured by government.

Government Response

The financial audit informed a range of government budget decisions, including on tax. NSW also participated in the Commonwealth Government's 2011 Tax Forum, where it was agreed the states would work together on state tax-reform options.

NSW also considered replacing the Emergency Services Levy on insurance policies with a property-based levy.⁷⁴ While this was legislated to commence in 2017, that was deferred, leaving NSW and Tasmania as the only states still taxing insurers to fund fire and emergency services.⁷⁵

Review of Federal Financial Relations (2020)

In August 2019, the Berejiklian Coalition government commissioned the *NSW Review of Federal Financial Relations*, chaired by businessperson David Thodey, with a remit to examine the state's tax system and its interaction with federal funding (for a link to the review, including its terms-of-reference, see Appendix C). The panel reported in August 2020.

The report criticised the way in which the Australian federation has developed, with a centralisation of power by the Commonwealth fostering a learned financial dependency by the states.⁷⁶ Further, with its base declining, the GST has not been the growth tax the states had hoped for, and the report considered options to broaden its base or increase its rate. Consideration of a revenue-neutral approach that increased GST revenues, to fund the removal of less efficient taxes, was recommended.⁷⁷

The report's central tax-reform proposal was the replacement of property transfer duties with a reformed land tax. It argued that transfer duties were inefficient and inequitable for people who need to move for work or family reasons, so shifting to a broad-based land tax could make the tax system more efficient and fairer. Some alternative models for making that transition, including a voluntary opt-in option, were outlined.⁷⁸ The report also assessed insurance taxes as inefficient and inequitable, and recommended they be replaced by a broad-based property levy.⁷⁹

The report argued that while payroll tax potentially has low economic costs, competitive federalism has hollowed it out and made it more complex. While some efforts have been made to harmonise aspects of states' payroll taxes, the tax-free thresholds distort economic activity, in favour of smaller firms, and they add complexity, particularly for firms operating across state boundaries. The report recommended a national approach to counter the hollowing out of the tax base, leaving states to set their own tax rates.⁸⁰

Government Response

The government released the review report in conjunction with the November 2020 Budget. The government's response agreed that stamp duty on property conveyances was outdated and inefficient, and acted as a disincentive for people to 'live where they want, when they want'.⁸¹ The existing land tax was also considered narrow based, with a high tax-free threshold and exemptions for owner-occupied housing and farms placing a large tax burden on a small number of taxpayers.⁸²

A consultation paper outlined a possible reform package, with a new annual property tax to replace both the stamp duty and the existing land tax.⁸³ The annual property tax would comprise a fixed dollar amount plus a rate applied to unimproved land value (like council rates) that would vary between owner-occupied, investment, primary production and commercial properties. Buyers could choose to opt into the new system at the time of purchase with that property, then remain permanently in the new system. Consultation on this reform package is continuing, with a progress paper issued in conjunction with the June 2021 Budget.⁸⁴

Lessons in Tax Reform

The NSW tax reviews I have considered have similar policy prescriptions. Overall, they found the state's taxes to be relatively inefficient and recommended reforms to both individual taxes and the tax mix. A central theme was the reform of property taxes, with a shift from transfer duties to a reformed annual land tax. I will assess the reviews against the five criteria set out at the start of this paper.

Terms-of-Reference and Panel

The terms-of-reference for the three external public inquiries – Marks, Collins and Thodey – were fairly broad, although with some focus on Commonwealth–state finances and economic development, allowing the reviews significant scope to identify reform priorities.

The panels for the Marks and Collins inquiries wielded substantial tax and economic expertise, enabling them to readily deal with technical tax issues. The Thodey inquiry had a broader remit, and its chair and the majority of panel members did not have tax expertise, although John Freebairn is a noted tax economist.

The secretariats for the Marks and Collins inquiries were drawn from outside NSW Treasury, which was still developing its tax policy expertise. The Thodey inquiry's secretariat was within NSW Treasury, with a group similar to that which had supported the Lambert review. IPART's economic expertise meant it was well placed to analyse tax policy issues.

Overall, these NSW reviews were given the opportunity to identify tax-reform priorities and had panels and secretariats that were capable of doing that.

Gathering of Evidence and Calling of Witnesses

The reviews had varying levels of public consultation and input. The Marks inquiry received 234 submissions, the Collins inquiry received some submissions but had access to a variety of consultants, while the Thodey inquiry had extensive consultation around a discussion paper as well as drawing on the work done for the Lambert review.

Overall, while the reviews had different mixes of public input, panel experts and use of consultants, they were each able to access a good range of relevant information to support their analysis.

Timeliness and Relevance

The three external inquiries were all done in quite a short space of time, and each reported to the government that commissioned it. The Marks and Collins inquiries were conducted relatively quickly for public inquiries, both in less than six months, while the Thodey inquiry was completed in a year. The IPART and Lambert reviews were completed within 12 and six months, respectively.

With the reviews being done in a fairly short amount of time and reporting to the governments that commissioned them, they were relevant and appeared to be moderately influential in government decision-making.

Approach to Analysis of Issues

The reviews each adopted a coherent policy framework for their reports, using standard public finance criteria such as efficiency, equity and simplicity. As such, their policy conclusions were generally consistent with each other and other reviews.

The Marks inquiry did favour the repeal of, or at least a reduction in, land tax on the basis that it did not conform to principles of equity and public acceptability, and that it penalised thrift, which is not consistent with the findings of most reviews that land tax is more efficient and equitable than most other taxes. The Collins inquiry, with its focus on economic development, favoured a reduction in payroll tax, which again is not consistent with most reviews that see a broad-based payroll tax as relatively efficient.

Quality of Tax Policy Outcomes

While some policy outcomes derived directly from the reviews, overall they have been modest. The Marks inquiry, coming just before a change of government, had little immediate impact, other than an exemption from death duties for the surviving spouse. The Collins inquiry, building on the Valentine–Wallace inquiry, set up the abolition of several nuisance stamp duties. The Thodey inquiry led to the most substantial policy announcement, with the proposed transition from property conveyance duty to a reformed land tax, although this policy is yet to be implemented.

Conclusion

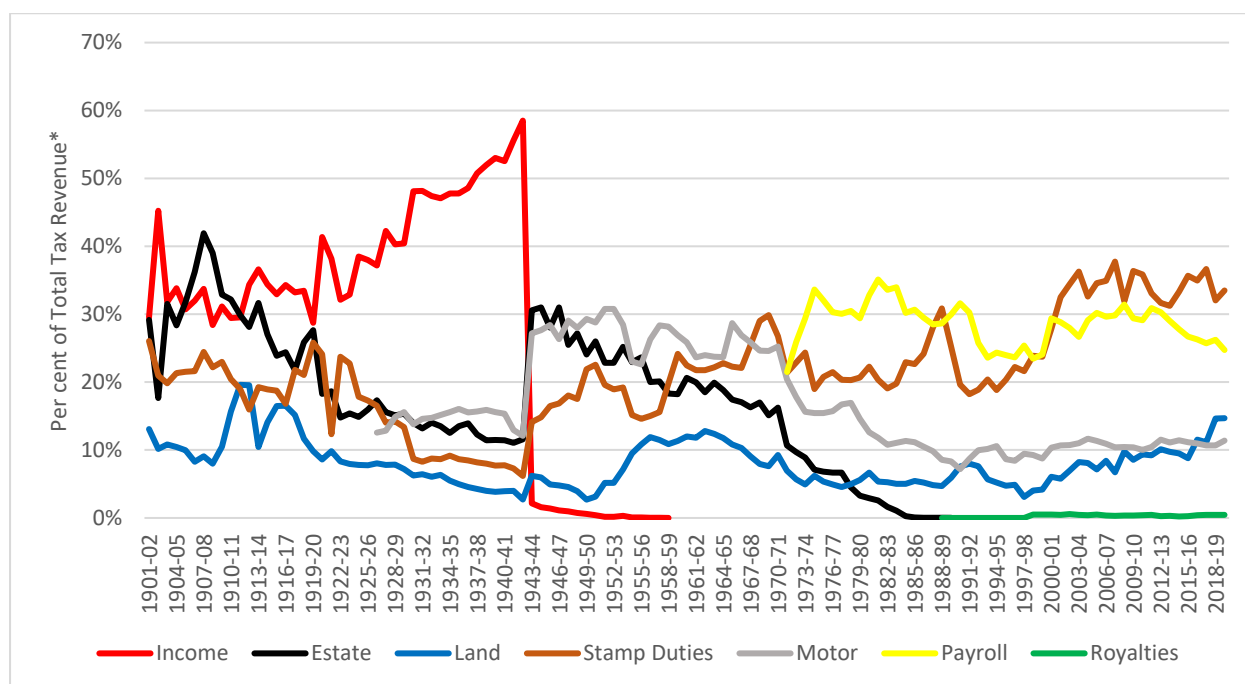
Overall, these five NSW tax reviews have had a positive impact on tax policy, although they have not resulted in reforms of the dimension that we have seen at times at the Commonwealth level, such as the 1985 and 1998 reform packages. They have, though, helped establish the ongoing case for state tax reform.

Victoria

The colony of Victoria was established in 1851 and the original Victorian Constitution was proclaimed in 1855. The Victorian Treasury was established at that time and an Income Tax Office was instituted in the Treasury in 1895. The new colony's initial source of revenue was customs duties, before the introduction of estate duties in 1870, land tax in 1877, stamp duties in 1879, income tax in 1895 and entertainment tax in 1929.

As Figure 14 shows, after the 1942 Commonwealth takeover of income tax, motor vehicle taxes and stamp duties were the main sources of tax revenue in the state. Payroll tax and property conveyance duty are now Victoria's main taxes.

Figure 14: Victorian Tax Mix, 1901–02 to 2019–20



* Including royalties from 1998 (no data prior to that) which are technically non-tax revenue.

Sources: ABS Taxation Revenue publications (and predecessors)

Committee of Inquiry into Revenue Raising (1983)

In June 1982, the new Cain Labor government commissioned the *Committee of Inquiry into Revenue Raising in Victoria*, chaired by economist John Nieuwenhuysen. The inquiry's terms-of-reference were broad, seeking a full examination of Victoria's revenue-raising system (for a link to the inquiry, including its terms-of-reference, see Appendix C). It reported in May 1983.

This was Victoria's first major tax inquiry, and its report was anchored by the standard public finance criteria of equity, efficiency and simplicity, plus revenue buoyancy capable of financing government expenditures.⁸⁵ The inquiry conducted a public consultation process, receiving 91 submissions, and was able to draw on academic experts who included economist professors Brian Reddaway and John Head, and constitutional lawyer Dr Cheryl Saunders.

The nature of Australia's federal arrangements provided context for the inquiry, in particular the constitutional limitations on state tax powers and the Commonwealth takeover of income tax. The states were also restrained by a practical requirement to have similar tax structures for interstate competitiveness reasons and to reduce opportunities for tax avoidance and evasion. The report accepted it was not practical for the states to reimpose income tax, but it did favour a constitutional amendment to allow them access to excise (but not customs duties).⁸⁶ A standing committee of state treasurers was recommended to advance state tax reform in the federation.⁸⁷

The report commissioned some original analysis of the incidence of Victorian taxes and conducted a detailed interstate comparison, especially using NSW as a comparator.⁸⁸ It then provided an extensive survey of Victoria's taxes, with recommendations on each.

In the context of high unemployment at the time, many submissions argued that payroll tax was an unhelpful tax on employment. However, the report argued that it was a relatively broad-based and non-discriminatory growth tax, with a reasonable degree of harmonisation between states. While a lack of studies on the incidence of payroll tax hindered a full analysis of its impact on employment, the report argued that it was likely spread across wages, profits and prices. The report noted that overseas payroll taxes, such as European social security contributions, were not considered to have a significant impact on capital labour substitution in the long run, although there might be some short-run impacts from a significant change in payroll tax.

Overall, the report considered payroll tax to be more efficient than the realistic alternatives. It also noted that a substantial change in Victoria would force similar changes in other states, undermining state tax systems generally. The report recommended that the small business exemption be phased out as part of a broader policy package for small business, and the surcharge on larger businesses be removed, in a revenue-neutral package that would have a payroll tax rate of 5.8 per cent. It also recommended other simplifications in the context of seeking greater harmonisation with the other states.

Land tax was imposed on unimproved property values, with general exemptions for primary production land and principal places of residence. While a broad-based land tax was considered relatively efficient and equitable, the exemptions compromised that. The report was also critical of an unwieldy valuation system that relied on valuations from different municipalities. It favoured a dismantling of the various exemptions and recommended a central valuation authority that would enable more consistent property valuations. The report also supported a windfall land tax on increments to land values resulting from advantageous planning decisions.

The report further argued that Victoria's hotchpotch of narrow-based stamp duties were volatile, regressive, distortionary and complex. Recognising that stamp duties on property transfers, insurance and motor vehicles were a substantial source of revenue, the report recommended simplifications in the short term and the replacement of most stamp duties with a broad-based tax in the long term.

Motor taxation comprises fixed charges such as transfer duties, registration fees and driver licences, as well as user charges such as franchise fees and fuel excise. The Victorian taxes were heavily weighted towards the fixed charges, and the report favoured a shift in weight to user charges via a Commonwealth-collected fuel levy applied across all states.

The report discussed options for a state income tax surcharge to replace some existing state taxes, arguing this would be simpler to administer and have greater vertical equity than the existing generally regressive state taxes. It would, though, potentially favour NSW and Victoria through the removal of some state taxes from the CGC's HFE processes.

The report also devoted considerable analysis to the avoidance and evasion of state taxes and made various recommendations,⁸⁹ which I have not attempted to summarise here.

Government Response

The government response to the report was limited, with the treasurer complimenting the report but suggesting that such radical proposals required further consideration and consultation.⁹⁰ The land tax indexation arrangements were changed to reflect movements in individual municipalities, and the general exemption threshold was increased.⁹¹ The only other measure to come directly from the report was the abolition of stamp duty on motorboats, but it was also used over time to support measures to combat tax evasion.

Review of State Business Taxes (2001)

In the May 2000 Budget, the new Bracks Labor government established the *Review of State Business Taxes*, chaired by ex-PWC partner John Harvey, to examine the impact of Victoria's tax system on businesses (for a link to the review, including its terms-of-reference, see Appendix C). The budget also provided for a \$200 million reduction in business taxes, to be settled in light of the review's findings.⁹²

The review's February 2001 report came in the context of the GST introduction and provided a significant discussion of tax-assignment problems in a federation. Like previous reviews, though, it concluded that further major changes to Commonwealth–state finances were unlikely and as such focused on improving Victoria's existing taxes.⁹³

While a flat-rate land tax on unimproved land value with no threshold was considered highly efficient, the Victorian land tax did not meet basic tax policy criteria: its base had been eroded over time, it had a high tax-free threshold, and its steeply progressive tax rates required aggregation provisions. The report favoured greater weight being placed on a reformed land tax with a flat rate of 2.89 per cent, with no threshold for business properties, together with the abolition of business stamp duties and the metropolitan improvement levy.⁹⁴

A flat-rate payroll tax with no exemptions was also seen as an efficient tax, with similar economic incidence to a consumption tax. The Victorian payroll tax, however, departed substantially from this ideal, with its high tax-free threshold. The report favoured a reduction in the weight of payroll tax, to be achieved by a cut in the tax rate. Complete abolition was proposed in the medium term, with that revenue to be made up by expected future growth in GST revenues.⁹⁵

Gambling is heavily regulated, including to protect problem gamblers, and gambling taxes are imposed in part to ensure the community, rather than the operators, receive the consequent monopoly rents. The report proposed a further levy of \$4000 on electronic gaming machines.⁹⁶

Victoria's motor vehicle taxes, consisting of stamp duty on purchases, an annual registration fee and a Transport Accident Commission compulsory insurance fee, were considered excessively complex. The report recommended their replacement with a \$285 per-annum vehicle-usage charge.⁹⁷

Conveyance duty was levied in Victoria at progressive tax rates on the transfer of both residential and business property. The report pointed to a range of adverse effects, including an impediment to efficient housing stock turnover and the inequity of penalising those who move more frequently. The reduction or abolition of stamp duty on residential conveyancing was proposed, although the report was cognisant of the significant revenue involved.⁹⁸

Fire services in Victoria were largely funded by a Fire Services Levy (FSL) on property insurance policies. The report argued that this discouraged people from insuring and was inequitable in effectively subsidising those who didn't. It proposed replacing the current levies with a separate charge on all rateable properties, one that incorporated a fire risk rating.⁹⁹

Government Response

The government responded to the committee report in its April 2001 publication *Better Business Taxes: Lower, Fewer, Simpler*. The changes included a reduction in the rate of payroll tax to 5.35 per cent, with the claim in the budget speech that this was significantly lower than 'our closest economic competitor New South Wales'.¹⁰⁰ They also included the abolition of stamp duties on non-residential leases, unquoted marketable securities and mortgages. There were also changes to simplify Victoria's tax administration.

Victorian Bushfires Royal Commission (2010)

The *Victorian Bushfires Royal Commission* was appointed in the wake of the devastating February 2009 fires in Victoria that caused the deaths of 173 people as well as enormous damage to flora,

fauna and buildings. The commission's 2010 report made extensive recommendations across fire and emergency management. It also raised concerns about non-insurance and recommended that Victoria replace its insurance-based FSL on insurance products with a property-based levy.¹⁰¹ The government implemented this in the 2013 Budget.¹⁰²

Inquiry into State Government Taxation and Debt (2010)

In July 2009, the Victorian Legislative Council (VLC) commissioned the Economic Development and Infrastructure Committee to conduct an *Inquiry into State Government Taxation and Debt* (for a link to the inquiry, including its terms-of-reference, see Appendix C). The committee reported in September 2010.

The report identified land transfer duty as a significant but volatile source of revenue, arguing that annual land taxes are a more sustainable and efficient tax base.¹⁰³ It considered that it would be in Victoria's interests to replace a range of transaction taxes with a broad-based land tax.¹⁰⁴

Payroll tax was seen as a potentially stable and efficient source of revenue for state governments, but tax-free thresholds and exemptions compromise that. The report proposed that the government consider enhancing the contribution that payroll tax could make to state revenue.¹⁰⁵

The report also argued that stamp duties on insurance were inefficient and recommended their reduction or abolition over the long term. It supported the government's proposal to replace the FSL with a property-based levy, and it also proposed a levy on motor vehicles to cover the proportion of fire services expenditures related to motor vehicle incidents.¹⁰⁶

With the report not having been commissioned by the government, there wasn't a formal government response. It did, though, contribute to the tax debate and presumably helped parliamentarians and the public to better understand the issues.

Lessons in Tax Reform

The three Victorian tax reviews I have looked at have broadly similar policy prescriptions, except on payroll tax. In assessing them against the five criteria set out at the start of this paper, I will focus mainly on the government-commissioned Nieuwenhuysen and Harvey inquiries.

Terms-of-Reference and Panel

The Nieuwenhuysen inquiry's terms-of-reference were broad, with a new government seeking advice on ways to improve the equity and efficiency of the tax system, and which set up a wide-ranging and high-quality review. The Harvey inquiry was asked to focus on the impact of taxes on businesses, including how best to provide tax cuts to them.

The chosen panels suited the terms-of-reference. The Nieuwenhuysen panel was chaired by an academic economist, with other panellists brought in from employer and union groups plus government. The Harvey panel was chaired by a businessperson, with others also from business plus a tax economist and the head of the State Revenue Office.

Overall, these two public inquiries were given effective terms-of-reference and good panels that were suited to their tasks.

Gathering of Evidence and Calling of Witnesses

Both inquiries conducted significant consultations. The Nieuwenhuysen inquiry received 91 submissions and drew on economic and legal academic input in its comprehensive assessment of the Victorian tax system. The Harvey inquiry was more focused on the business community and issued fact sheets and a brochure inviting input. The panels were also able to utilise strong secretariats drawn from the Victorian Treasury and elsewhere in the Victorian Public Service.

Timeliness and Relevance

The inquiries were each appointed in the first year of a new government and completed in under a year: Nieuwenhuysen in 11 months and Harvey in nine months. They consequently reported to the government that appointed them, which afforded them the opportunity to be highly relevant.

The VLC review produced a sound report, but not being appointed by the government, it was less influential. The *Bushfires Royal Commission* was highly influential more broadly and its tax recommendation was accepted.

Approach to Analysis of Issues

The inquiries each adopted a strong public finance framework that upheld the standard tax policy criteria of equity, efficiency and simplicity, as well as additional state-relevant criteria such as revenue buoyancy and economic development. The reviews were also set in the context of Australia's federal financial relations.

The Nieuwenhuysen inquiry produced something of an 'Asprey report' at the state level, with a general policy thrust to broaden tax bases. Its chair, John Nieuwenhuysen, later wrote that a government-sponsored independent inquiry had advantages over purely internal reviews, with the combination of a strong committee working with a high-quality research staff, commissioned work and external experts enabling a report that would have a substantial and lasting impact.¹⁰⁷ The Harvey inquiry had a specific remit to advise on a reduction in business taxes to enhance state economic growth, and its conclusions were skewed accordingly.

Quality of Tax Policy Outcomes

The tax-reform outcomes deriving directly from the reviews were limited. The Nieuwenhuysen inquiry supported measures to combat tax evasion. The Harvey inquiry led to the abolition of several stamp duties, consistent with the advice of all state tax reviews and partly associated with the ANTS reforms, but also a reduction in payroll tax, which is not consistent with the advice of most reviews.

Victoria, however, has not taken steps to improve the efficiency of its tax system by changing the tax mix, in particular a switch from transaction taxes such as stamp duties on property conveyance and insurance to more broadly based taxes including land tax.

Conclusion

Overall, the three Victorian tax reviews I have considered were each high-quality reviews with broadly consistent policy prescriptions. The two government-commissioned reviews had some positive influence on tax policy outcomes. The Nieuwenhuysen review provided a blueprint for the Victorian tax system, allowing it to act as a foundational review for ongoing tax policy considerations. The Harvey review was able to shape the government's business tax cuts.

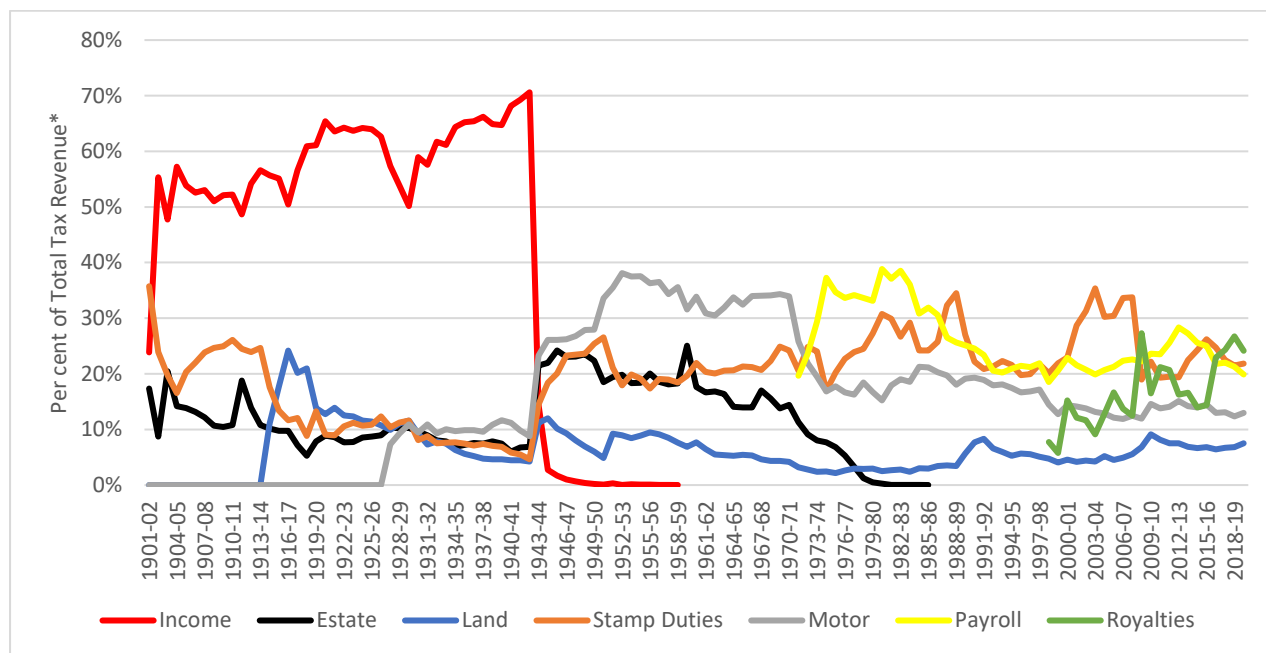
Together with tax reviews in other states, these Victorian tax reviews have helped establish a hierarchy of reform priorities which can support future tax policymaking.

Queensland

The colony of Queensland was established in 1859 and its original constitution dates from 1867. Customs and excise duties were the new colony's initial revenue source, estate duties were introduced in 1886, the taxation of dividends in 1897, income tax in 1902, and land tax relatively late in 1915. More recently, in 1977, Queensland abolished estate duties, precipitating a chain of the other states and the Commonwealth doing likewise.

As Figure 15 shows, after the 1942 Commonwealth takeover of income tax, motor vehicle taxes were Queensland's largest revenue raiser. Payroll tax and property transfer duty are now Queensland's largest taxes, with substantial revenue also coming from mining royalties.

Figure 15: Queensland Tax Mix, 1901–02 to 2019–20



* Including royalties from 1998 (no data prior to that) which are technically non-tax revenue.

Sources: ABS Taxation Revenue publications (and predecessors)

I am not aware of any significant tax review in Queensland. Perhaps consequently there has been limited tax reform.

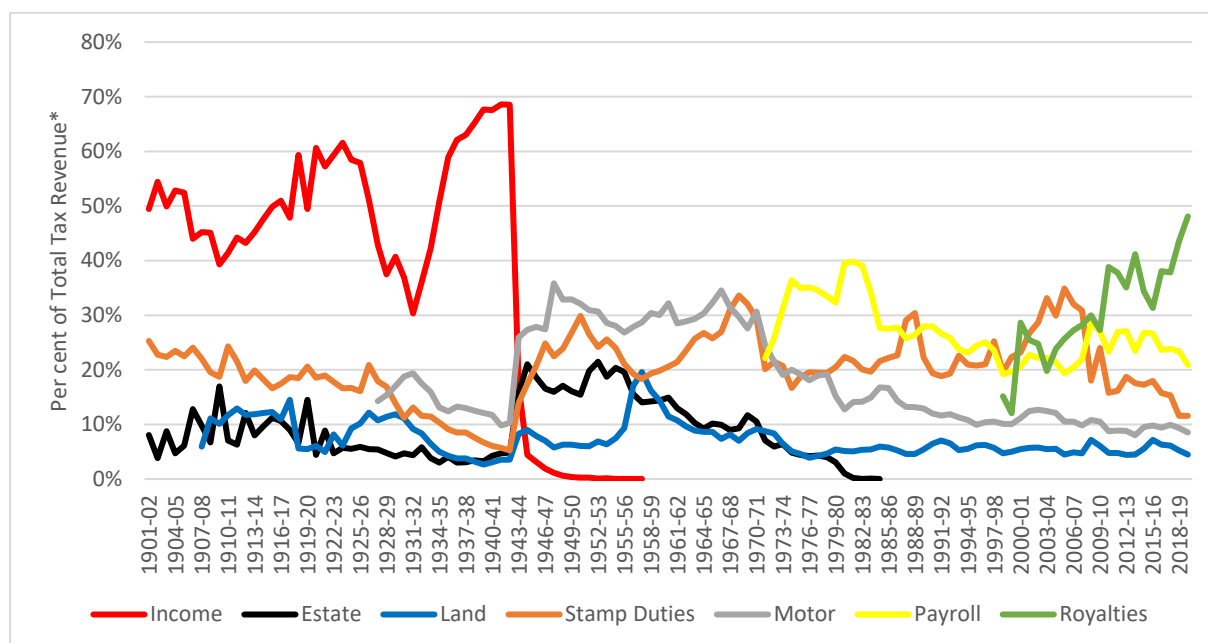
There was, however, a review of Queensland’s royalties regime, which led to the introduction of a two-tier royalty rate structure for coal and a revision of the royalty rates applying to other minerals in the 2008 Budget.¹⁰⁸

Western Australia

WA became a self-governing colony, with its own constitution, in 1890 – it was the last of the colonies to achieve that status. It was also the most reluctant of the colonies to join the federation and was allowed to continue levying a ‘special tariff’ until 1906.

WA’s initial revenue came from customs and excise, while death duties were introduced in 1895, dividend tax in 1899, income tax in 1907 and land tax in 1907. Originally reliant on wool and wheat, then a gold boom in the late 19th century, the WA economy – and its revenues – has from the 1960s been shaped by the discovery of large deposits of minerals. As Figure 16 shows, after the 1942 Commonwealth takeover of income tax, motor vehicle taxes and stamp duties provided WA’s main tax revenues. Over the last two decades, mining royalties have been WA’s largest single revenue source, while payroll tax has generally been the largest tax revenue.

Figure 16: Western Australia Tax Mix, 1901–02 to 2019–20



* Including royalties from 1998 (no data prior to that) which are technically non-tax revenue.

Sources: ABS Taxation Revenue publications (and predecessors)

Business Tax Review (2002)

In the September 2001 Budget, the new Gallop Labor government commissioned a *Business Tax Review*, to be conducted by the WA Department of Treasury and Finance but with an independent reference committee chaired by Jonathan Ilbery (partner, Jackson McDonald). The review was asked to make revenue-neutral recommendations on how to improve the efficiency, equity and simplicity of the state’s tax system (for a link to the review, including its terms-of-reference, see Appendix C). It reported in February 2002.

With the review being internal to government, the treasurer invited 28 industry, taxpayer and community groups to make submissions, and Treasury held workshops with the industry groups.¹⁰⁹ The objective was to design a package that reduced the number of taxes and streamlined taxpayer compliance costs to improve the state’s competitive position.

The review proposed the abolition of several nuisance taxes, such as stamp duty on cheques, leases, listed marketable securities, life insurance and workers compensation insurance, as well as bank account debits tax. A broadening of the base of the state’s largest taxes – conveyance duty, payroll tax and land tax – was also proposed. With payroll tax, a restructuring of the rate scale was recommended, with a single marginal tax rate of 6 per cent above a higher threshold. With land tax, a reduction in the number of rates from 10 to six was recommended.¹¹⁰

Government Response

With the review being internal, the government accepted its recommendations in a June 2002 white paper, and the legislated changes were outlined in a December 2003 statement.¹¹¹ This included a single payroll tax rate of 6 per cent above an exemption threshold of \$750,000, a simplification of the land tax rate scale, and the abolition of several minor stamp duties associated with the ANTS reforms. The package also included the streamlining of compliance and administration processes under a banner of ‘fewer, fairer and simpler taxes’.¹¹²

State Tax Review (2007)

In the May 2005 Budget, the recently returned Gallop government commissioned a further *State Tax Review*, with the wider aim of addressing the tax concerns of all Western Australians.¹¹³ The review was again conducted by the Department of Treasury and Finance, with Jonathan Ilbery again chairing the external reference group. Its objective was to enhance the competitiveness, equity and efficiency of the state tax system.¹¹⁴ (For a link to the review, including its terms-of-reference, see Appendix C.) An interim report was provided in June 2006 and the final report was released in May 2007. A total of 136 public submissions to the interim report were received, as well as 29 public responses.¹¹⁵

With the resources boom occurring, the review was asked to consider options for tax relief 'as an investment in the State's future'.¹¹⁶ The report argued that consideration of WA's tax system couldn't be disentangled from Australia's unique federation system, including the constitutional constraints on state taxes and the CGC arrangements for allocating GST revenues that effectively redistributed WA's wealth to the other states.¹¹⁷ In considering specific tax issues, the report adopted the tax principles of competitiveness, equity, efficiency, simplicity and revenue stability.

The highest-priority tax reform was cutting stamp duty on property conveyances to unlock the full productive potential of property for WA's capital-intensive industries. The report recommended moving to a landholder model that removed differing stamp duty treatments across entity types, with any additional revenue raised being used to fund a reduction in conveyance duty rates.¹¹⁸ The report also assessed insurance stamp duty as economically damaging and proposed reducing it by adopting a GST-exclusive base. Reducing stamp duty for light vehicles was also a priority, with WA rates uncompetitive with other states.

The report assessed reducing payroll tax as a relatively low priority, with the economic benefits smaller than equivalent dollar cuts in other state taxes. As a counter to the claim that it was a tax on employment, the report argued that its final incidence was similar to a consumption tax.¹¹⁹ This assessment was qualified, though, by the past narrowing of the payroll tax base, and if there were to be reductions, a rate cut was preferred over an increase in the exemption level, to avoid further narrowing the base.¹²⁰

The report assessed land tax to be less economically damaging than taxes on property transactions, but it argued that the progressive rate scale caused problems with bracket creep and aggregation provisions. While a move to a single rate with a nil threshold would solve those problems, this would likely involve an unacceptable redistribution of the tax burden, and so a more incremental shift to a flatter rate scale was favoured.¹²¹

The report's overall priority ranking for tax reform/relief was: reducing property conveyance duty; reforming the land tax rate scale; reducing insurance duty; reducing motor vehicle duty for light vehicles; and reducing the payroll tax rate.

Government Response

In response to the interim report, in its 2006 Budget the WA Government announced the abolition of stamp duties on mortgages, hire of goods and non-real property transfers.¹²² The abolition of non-real property transfers, however, was subsequently deferred indefinitely.¹²³ In response to the final report, in the 2007 Budget the threshold for stamp duty on property conveyances for first-home buyers was doubled to \$500,000, making it the most generous in the country, while the land tax exemption was increased to \$250,000 and there was a reduction in motor vehicle stamp duty.¹²⁴

Lessons in Tax Reform

These two WA tax reviews took place against a backdrop of the emerging resources boom, with increasing royalty revenues enabling significant tax cuts, particularly in the 2007 state tax review. I will assess them against the five criteria set out at the start of this paper.

Terms-of-Reference and Panel

The formal terms-of-reference for both reviews were fairly open, seeking advice on tax reforms to enhance the efficiency, equity and simplicity of the WA tax system, with the state tax review also being asked to consider competitiveness in shaping a tax-cut package. That said, as internal reviews, other riding instructions may have been issued to the Treasury review team. Mining royalties and the GST were not covered.

The external reference group was a good addition to an internal review that provided a sounding board and enabled some independent advice to help assess competing interests.

Gathering of Evidence and Calling of Witnesses

Both reviews received substantial community input, with public submissions and meetings with industry and community groups. The chair of the external reference group also made a separate report to the treasurer. The formal consultation processes were a good support to an internal review process that was able to utilise the resources of the WA Department of Treasury and Finance and the external panel.

Timeliness and Relevance

The business tax review was commissioned in the first year of a newly elected government and was completed in five months. The state tax review was commissioned in the first year of the re-elected government and conducted over two stages, taking two years in total. With the two reviews conducted internally and reporting to the government that commissioned them, they were presumably relevant to government. The consultation processes would have assisted public understanding and acceptability of the tax packages derived from internal reviews.

Approach to Analysis of Issues

The reviews each adopted a standard public finance framework, with the efficiency, equity and simplicity of the WA tax system as their central criteria. The state tax review had the luxury of not having a revenue-neutral constraint, enabling it to prioritise inefficient taxes for abolition or reduction. Overall, the two reports are high-quality documents with well-argued tax policy prescriptions. The state tax review in particular is a substantive document that deals with the issues in depth and provides an ongoing blueprint for reform of the WA tax system.

Quality of Tax Policy Outcomes

With the resources boom underway, the WA Government was able to implement tax reforms that were budget-negative. This enabled the reduction or abolition of various stamp duties, in line with the priorities identified by the reviews and the ANTS reforms. It also enabled the simplification of payroll tax and land tax, although the increase in the land tax exemption threshold narrowed its base.

Conclusion

Overall, these two WA tax reviews were influential in helping the government achieve some good tax reforms, albeit in the context of an emerging resources boom that facilitated tax cuts. The reports' recommendations were well argued, and the consultation process would have helped public acceptability of the tax changes that were made. The model of an internal review with an external reference panel appeared to work well in the circumstances of newly elected governments with genuine reform agendas.

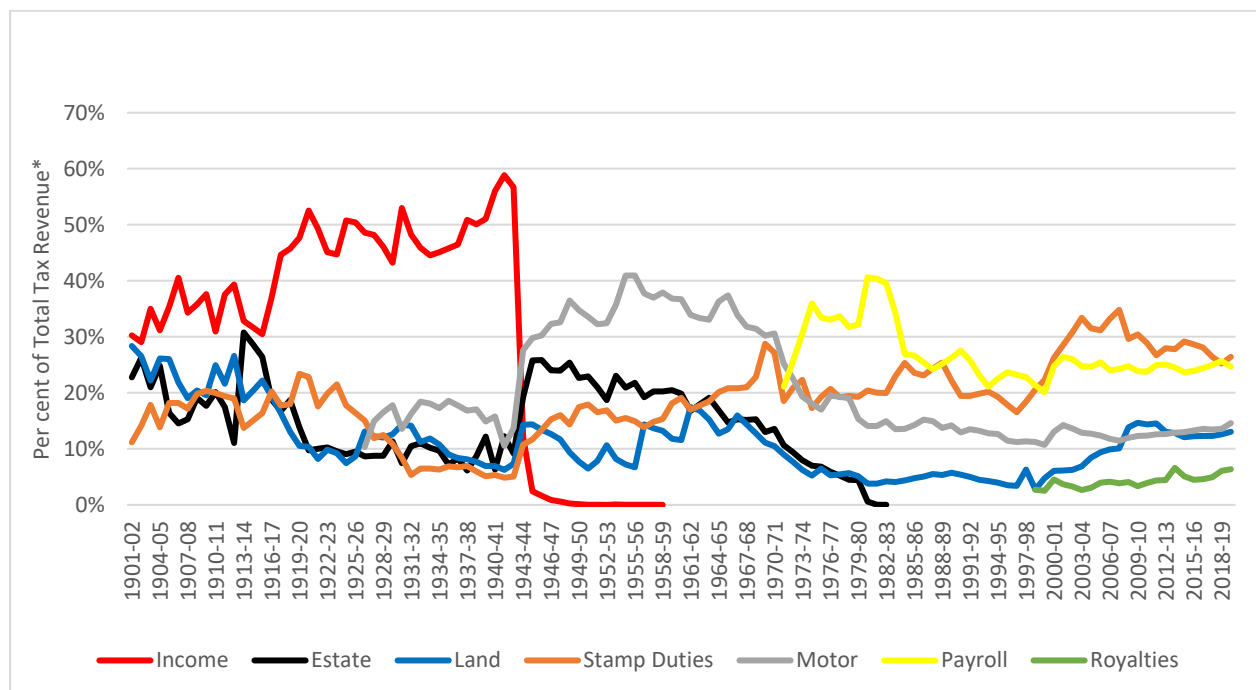
South Australia

The province of South Australia (SA) was established in 1836 by free settlers and achieved full self-governing colony status, with its own constitution, in 1856. Initial government revenue was sourced from land sales to the early settlers. Customs duties were introduced in 1841, stamp duties in the second half of the century, estate duties in 1876, and land tax and income tax in 1884.

The SA economy has historically been dominated by agriculture, manufacturing and mining, but it has undergone significant change in modern times with a reduction in manufacturing and increases across other sectors such as health care and social assistance. With its large area and small population, SA has historically been supported by additional Commonwealth grants and as a recipient state under the CGC's HFE processes.

As Figure 17 shows, after the 1942 Commonwealth takeover of income tax, motor vehicle taxes and estate duties were SA's largest taxes. In more modern times, payroll tax and stamp duties on property conveyance and insurance have provided SA's largest tax revenue.

Figure 17: South Australia Tax Mix, 1901–02 to 2019–20



* Including royalties from 1998 (no data prior to that) which are technically non-tax revenue.

Sources: ABS Taxation Revenue publications (and predecessors)

State Tax Review (2015)

The Weatherill Labor government commenced a *State Tax Review* in 2015 to assess the tax system's capacity to keep pace with the changing structure of the economy and to reliably fund government services. A discussion paper was issued in February 2015 as the basis for public forums and received over 80 submissions.¹²⁵ The review was internal to government, with no external panel. (For a link to the review, including its terms-of-reference, see Appendix C.)

The government stated that VFI was an inevitable aspect of a federation, and that it was a strong supporter of the HFE arrangements.¹²⁶ In that context, the discussion paper was framed by the Commonwealth's Federation White Paper (FWP) and Tax White Paper (TWP) processes at the time, and it also drew on the 2009 AFTS report. The review's tax-reform objectives were adequacy, support for business, fairness, efficiency and stability. Reform options needed to balance the promotion of economic growth with ensuring adequate revenues to fund community services.

The paper noted the negative impact of past tax competition between the states, with increased reliance on inefficient tax bases. It found that SA had a relatively heavy reliance on property conveyance duty, land tax and insurance tax, and relatively low reliance on payroll tax.¹²⁷ Options for the reform of individual taxes and changes in the tax mix were canvassed.

Payroll tax was assessed as relatively efficient and stable, and there had been some harmonisation across jurisdictions. The tax-free threshold and other exemptions, though, were a cause of complexity and inefficiency. A reform option to withdraw the tax-free threshold for larger businesses was discussed, with the additional revenue to be used to reduce less efficient taxes.¹²⁸

Property conveyance duty was assessed as relatively inefficient and volatile, but a significant revenue raiser. Land tax was assessed as relatively efficient, although the exemptions and progressive rate structure compromised that. Land tax reform options included moving to a flat tax rate to avoid aggregation issues, and a per-square-metre approach. Options to replace conveyancing duty with a broad-based annual property tax for housing or business purchases were also discussed, but the paper raised concerns about the impact on revenue and how the transition might be handled.

Various other taxes were considered. With gambling, to provide greater neutrality between online and traditional gambling operators, an option to tax online gambling based on place of consumption rather than place of supply was flagged.¹²⁹ Insurances taxes were assessed as inefficient, but finding an alternative revenue source was problematic. It was argued that motor vehicle taxation and road-user charging were best considered in a national context. With mining taxation, a possible rent tax to replace mining royalties was flagged.

Government Response

The outcome of the *State Tax Review* was announced in the June 2015 Budget with a package that sought to stimulate business investment by abolishing or reducing several stamp duties and other taxes. The main measure was the phase-out of stamp duty on non-residential real property transfers.¹³⁰ A process to change the basis for the taxation of online gambling from place of supply to place of consumption was also commenced,¹³¹ which other jurisdictions have since followed. The package was costed at \$670 million over four years but contained no measures to fund that.

The main tax reforms raised in the discussion paper, such as shifting the tax mix to more efficient taxes and reforming payroll tax, were not actioned.

Lessons in Tax Reform

The SA *State Tax Review* consisted of a good discussion paper, framed by AFTS and the concurrent Commonwealth TWP and FWP processes, then the modest tax package announced in the 2015 Budget. I will assess it against the five criteria set out at the start of this paper.

Terms-of-Reference and Panel

The review's terms-of-reference were fairly standard, nominating the tax-reform objectives of fairness, efficiency and stability, and seeking advice on tax options that would produce adequate revenue while encouraging business activity in SA. The review was fully internal to government.

Gathering of Evidence and Calling of Witnesses

The stated objective of the discussion paper was to facilitate an informed debate on tax reform and assist those who wished to make a submission. This objective was achieved, with a significant level of public involvement in the debate through the public forums and submissions.

Timeliness and Relevance

The discussion paper was issued in February 2015 and the budget announcement made in June 2015. The fully internal process would have facilitated this short review time frame. Any public discussion would have been relevant to the budget deliberations.

Approach to Analysis of Issues

The discussion paper provided a good synthesis of the challenges facing the SA tax system and strong analysis of the reform options, framed with standard public finance principles and the AFTS work. The budget package, though, was presented as tax cuts to stimulate business activity, with little of the tax-reform narrative carried through from the discussion paper.

Quality of Tax Policy Outcomes

The 2015 Budget package consisted of a series of tax reductions designed to stimulate business activity. The phase-out of stamp duty on non-residential property was a notable reform. However, there was no reform theme making individual taxes more efficient, or making the overall tax system more efficient by shifting the mix from inefficient to efficient taxes. A revenue-neutral constraint may have forced more of such a reform theme. There was no discussion of how the package would be funded.

Conclusion

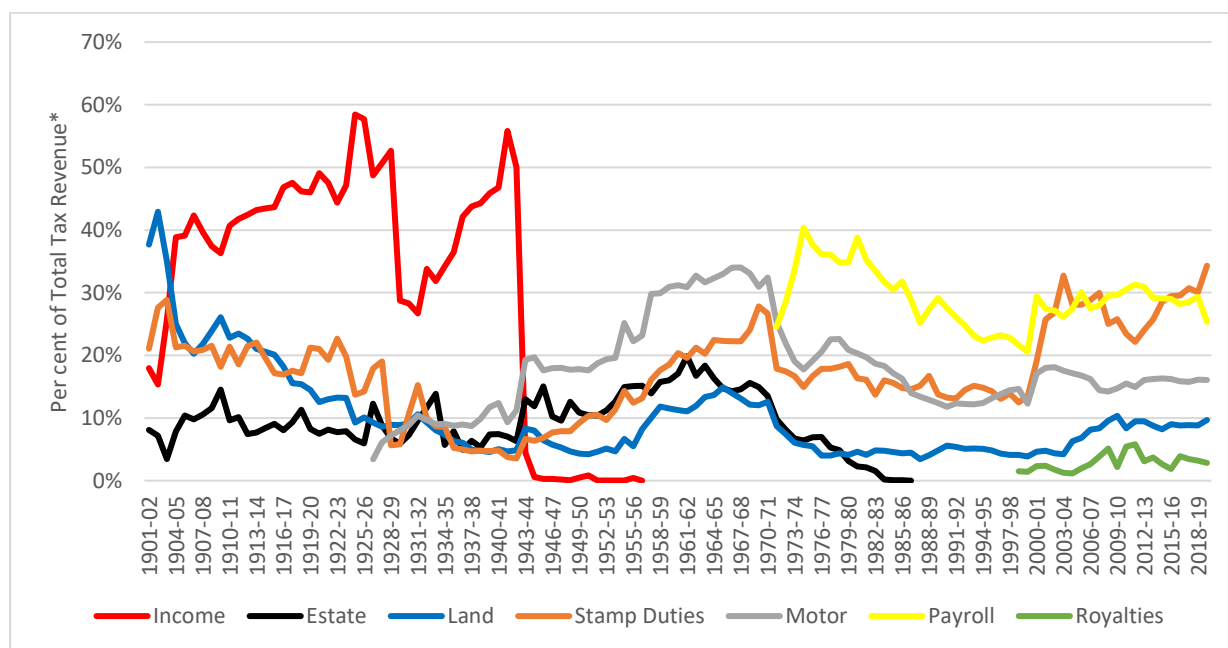
Overall, the SA state tax review process was a mixed bag. An excellent discussion paper identified the challenges facing the state tax system and provided good analysis of the reform options. The budget package then included a significant reform with the abolition of stamp duties on non-residential real property transfers. Beyond that, it was a lost opportunity to see the tax-reform narrative through.

Tasmania

Tasmania's first European settlement was founded in 1803, with its establishment as a separate colony coming in 1825 and its original constitution enacted in 1855. The early Tasmanian economy was based around agriculture and mining, with the tourism and hydroelectricity sectors developing more recently. With its limited economy, Tasmania has historically been supported by additional Commonwealth grants and as a recipient state under the CGC's HFE processes.

The colony's revenue initially derived from customs, with stamp duties developed in the second half of the century, death tax introduced in 1865, land tax in 1880, a withholding tax on the distributed income of companies in 1880, and income tax more broadly in 1894. As Figure 18 shows, after the 1942 Commonwealth takeover of income tax, motor vehicle taxes provided Tasmania's largest tax revenue. In more recent times, payroll tax and property conveyance duty have become Tasmania's largest taxes.

Figure 18: Tasmania Tax Mix, 1901–02 to 2019–20



* Including royalties from 1998 (no data prior to that) which are technically non-tax revenue.

Sources: ABS Taxation Revenue publications (and predecessors)

State Tax Review (2010)

The Bartlett Labor government announced a *State Tax Review* in the June 2010 Budget.¹³² It was conducted by an across-party panel of parliamentarians chaired by deputy premier Lara Giddings and supported by the Department of Treasury and Finance. The review was asked to consider the appropriateness of the state tax mix against the criteria of fairness, cost of living, efficiency, compliance costs and sustainability. A discussion paper was issued in December 2010 (for a link to the discussion paper, including its terms-of-reference, see Appendix C).

At the time of the review, Tasmania was facing significant fiscal and economic challenges, with an ageing population, and low productivity and participation rates driving budget pressures. The tax system needed to both provide the required funding to support government activities and maintain a competitive location for investment and employment. Commonwealth–state finances provided important context for the review. With Tasmania being a beneficiary state in the distribution of GST revenues, it argued that HFE reflected an egalitarian principle – that all Australians should have access to a similar standard of services. The review was also informed by the recently released AFTS report.

The discussion paper assessed Tasmania’s primary taxes against the standard taxation principles of equity, efficiency, simplicity and sustainability.¹³³ It assessed property stamp duties and insurance duties as relatively inefficient and land tax as relatively efficient, with payroll tax lying somewhere in-between. A series of consultation questions were posed.

The paper argued that, as a transaction tax, property transfer stamp duty likely distorts household and business location decisions, but noted it was a significant source of revenue, with the bulk of that collected from duty on residential properties.¹³⁴ A consultation question tested support for replacing property transfer duty with a broad-based tax. Insurance duty is also a transaction tax and hence distorting, but likewise raises substantial revenue, mainly from general insurance. A consultation question tested support for replacing insurance duty with alternative taxes.¹³⁵

Land tax was assessed as relatively efficient, particularly if it is broadly based, due to its immobility, and the paper questioned whether it was being fully utilised. A consultation question tested support for broadening the land tax base, including to the principal place of residence.¹³⁶

Payroll tax was assessed as potentially efficient, with the paper positing that the claim it was a tax on jobs lacked merit.¹³⁷ Tasmania had joined other states in 2008 in harmonising aspects of payroll tax legislation. Tasmania's tax-free threshold, however, was the highest of all the states, and the tax rate was also among the highest. A consultation question tested support for lowering the tax-free threshold, accompanied by a lowering of the tax rate.¹³⁸

Government Response

The 2011 Budget, presented by Giddings as treasurer, indicated that there had been a significant deterioration in the state's financial position associated with the ongoing impacts of the GFC.¹³⁹ In that context, the response to the *State Tax Review* was limited.

While there were no significant tax policy reforms, several specific concessions were withdrawn. The First Home Owners Duty Concession was removed, land tax concessions for pensioners were limited to principal place of residence, the land tax exemption on holiday properties was removed, the Tasmanian Trainee and Apprentice payroll scheme was taken away, and the cider subsidy was removed.

The government has since received Mike Blake's October 2020 report on the *Fire Services Act*, which recommends replacing the current mix of fire services funding from local councils and insurers with a property-based levy,¹⁴⁰ but it has not yet taken up that recommendation.

Lessons in Tax Reform

The Tasmanian *State Tax Review* produced a good discussion paper, but that did not translate into significant tax reform. I will assess it against the five criteria set out at the start of this paper.

Terms-of-Reference and Panel

The review's terms-of-reference were specifically set in the context of AFTS, giving it a strong conceptual foundation. A revenue-neutral constraint helped focus the discussion paper on reforms that could assist in raising the state's tax revenue in a more efficient and equitable way.

The panel had an interesting composition of across-party parliamentarians, with support provided by the Department of Treasury and Finance. This grouping produced a good discussion paper and would have helped get the different political parties on the same page.

Gathering of Evidence and Calling of Witnesses

The review sought submissions on the discussion paper and held roundtables with industry and community groups, as well as public forums.

Timeliness and Relevance

The nominated timetable for the review following the December 2010 discussion paper was for draft recommendations to be released in September 2011 and a final report in December 2011. This was pre-empted, though, by the government response in the June 2011 Budget, which effectively shut down any substantive tax reform.

Approach to Analysis of Issues

The discussion paper provided a good description of the Tasmanian tax system and analysis against standard public finance criteria. It was also able to draw on the AFTS report to provide a strong conceptual framework.

Quality of Tax Policy Outcomes

The policy outcomes from the review were disappointing. Indeed, on that front, the review had got off to a bad start. In the 2010 Budget that commissioned the review, the government announced ‘the biggest cuts to land tax ever in Tasmania’.¹⁴¹ This was a step in the wrong direction given the review’s analysis that land tax was the state’s most efficient tax base.

The 2011 Budget outcomes were minor in the context of the issues raised in the discussion paper. There was no follow-through on the tax mix issues raised in the review’s terms-of-reference, and no progress in reducing inefficient taxes such as property transfer duty and raising efficient taxes such as land tax. The 2012 Budget then announced increases in stamp duties on property conveyances and insurance.

Conclusion

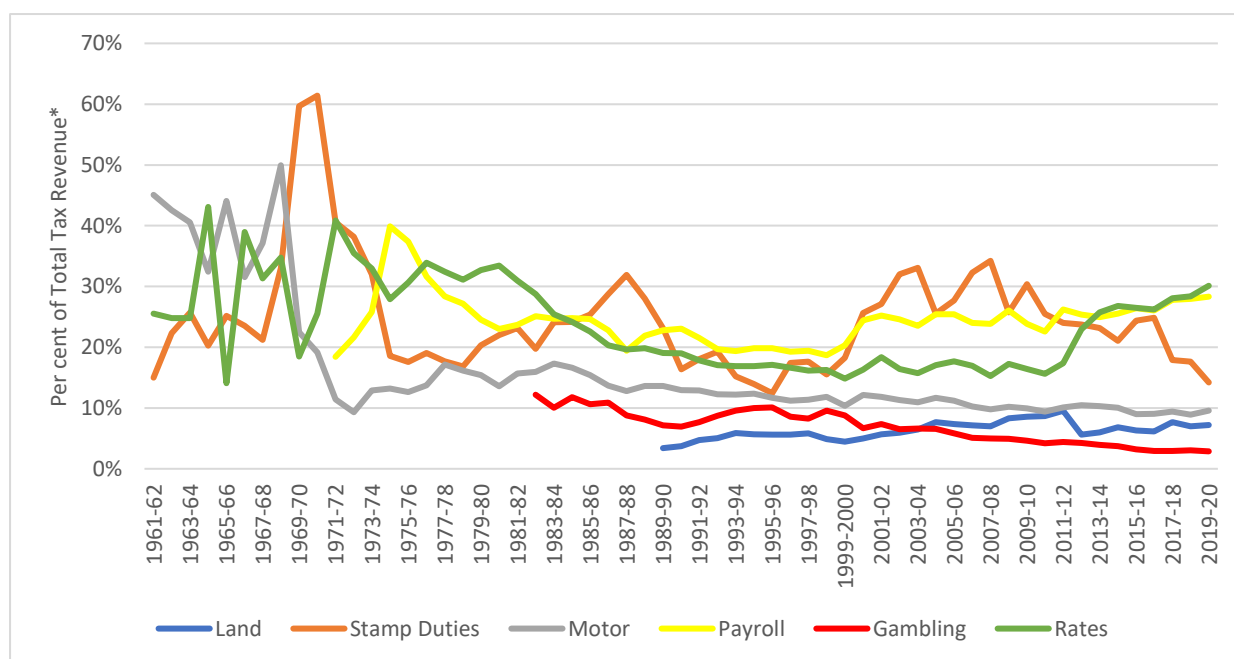
Overall, the Tasmanian state tax review produced a good discussion paper, but in a tight budget environment the government was not able to deliver on actual substantive tax reform. Indeed, there was a decrease in the most efficient tax – land tax – and increases in the most inefficient taxes, being property conveyance duty and insurance stamp duty.

Australian Capital Territory

The Australian Capital Territory, which has been self-governing since 1988, consists of one level of government covering both the state and local responsibilities of other jurisdictions. The territories, predominantly the ACT and the NT, do not have their own constitutions. Rather, the Australian Constitution empowers the Commonwealth to make laws and confer self-government on them.¹⁴² The ACT economy is relatively dependent on its status as the centre of the Commonwealth Government in Australia, with 30 per cent of employment being in the public sector. The ACT Treasury and Revenue Office were established at the time of self-government.

As Figure 19 shows, following self-government, payroll tax and stamp duties were the ACT’s main taxes, but in more recent times, property rates revenues have increased and property conveyance duties have decreased in significance.

Figure 19: ACT Tax Mix, 1961–62 to 2019–20



* Including royalties from 1998 (no data prior to that) which are technically non-tax revenue. For the ACT, also includes rates.

Sources: ABS Taxation Revenue publications (and predecessors)

ACT Taxation Review (2012)

In August 2010, the Stanhope Labor government commissioned the *ACT Taxation Review* to assess the efficiency and sustainability of the ACT tax system. It was chaired by former ACT treasurer Ted Quinlan and reported in May 2012 (for a link to the review, including its terms-of-reference, see Appendix C). The review received 15 submissions and conducted nine stakeholder meetings.¹⁴³

The Commonwealth's 2009 AFTS review was cited as specific context for the review, with the ACT tax system to be assessed against the principles of efficiency, equity, simplicity and stability. The report assessed the ACT tax base as inadequate, volatile and inefficient, compounded by an erosion of the GST base.¹⁴⁴ The ACT's main taxes were all considered to have serious design issues.

Duty on property conveyances was seen as unstable and inequitable, applying to less than 9 per cent of households. Payroll tax was considered relatively inefficient on account of its narrower base than other jurisdictions.¹⁴⁵ Land tax discriminated based on housing tenure. The report argued that the conceptual case for state and territory tax reform was well established, including by AFTS, so the task was assessing the feasibility of implementing such reform.

The report's central recommendation was to replace property conveyance duties and the existing land tax with a reformed broad-based land tax based on the existing property rates framework.¹⁴⁶ The new broad-based land tax would be levied in two parts, with one part covering the cost of basic city services and the other contributing to general revenue replacement. A 10–20-year transition was recommended.¹⁴⁷

The report also proposed the abolition of general and life insurance duties, with that revenue also made up by the new broad-based land tax. Maintenance of payroll tax was supported, but conditional on efforts to achieve greater harmonisation with other jurisdictions. The retention of motor vehicle duties was supported, with a road-user charge pursued through a national agreement.

The report also raised concerns that the CGC's HFE approach could adversely affect a jurisdiction undertaking tax reform, and noted that the GST Distribution Review was considering those issues.¹⁴⁸

Government Response

The initial government response to the review report in May 2012 accepted the main recommendations in principle and flagged a period of further consultation.¹⁴⁹ The June 2012 Budget then announced a major tax-reform package with a long-term plan to replace stamp duties on property conveyance and insurance with a broad-based land tax.

With property conveyance duties, there was an initial phase-down of over five years, as part of a 20-year plan for abolition, plus reductions in land tax. To replace the forgone revenue, the general property rates would be restructured, with a two-part charge consisting of a fixed amount of \$555 and a series of progressive marginal tax rates. It was estimated that the tax mix change would reduce the excess economic burden of taxes by \$169 million over five years.¹⁵⁰ Insurance taxes were abolished over five years, with that revenue also replaced by the new broad-based land tax.

The government also raised the payroll tax threshold from \$1.5 million to \$1.75 million, and subsequently \$2 million, giving the ACT Australia's highest payroll tax threshold.¹⁵¹ This continued the interstate competition on payroll tax, making it more inefficient, and it was inconsistent with the review's recommendation to work towards the harmonisation of payroll tax systems.

Lessons in Tax Reform

The 2012 *ACT Taxation Review* is the only review of the ACT's tax system that has occurred since self-government. I will assess it against the five criteria set out at the start of this paper.

Terms-of-Reference and Panel

The review's terms-of-reference were broad, allowing scope for the panel to consider all ACT taxes. The AFTS report was nominated as specific context, with the ACT review effectively assessing the feasibility of those reform proposals in the ACT.

The panel was a hybrid of external and internal, with an independent chair but with ACT under treasurer Megan Smithies also on the panel. This version of a hybrid panel probably worked better than the AFTS model, where the internal, Ken Henry, was chair.

Gathering of Evidence and Calling of Witnesses

In the review's consultations with stakeholders, business groups favoured reduced business taxes and community groups stressed revenue adequacy. A key evidence base for the review was AFTS, demonstrating the value of that as a foundational tax review.

Timeliness and Relevance

The review was given a 12-month time frame, but it reported three months early and to the government that appointed it, making it highly relevant. It hence provided the government with a strong basis to pursue reform – in particular the transition from conveyance duty to general property rates, which the government successfully took to the next election, providing a mandate to proceed with the reform.

Approach to Analysis of Issues

The review report made it clear that it was informed by the AFTS report,¹⁵² and it built on that using the standard tax policy criteria of efficiency, equity, simplicity and stability. The quality of the analysis in the report is strong, providing a sound basis for its recommendations and the government's subsequent policy actions.

Quality of Tax Policy Outcomes

The ACT property tax reform, with the phased replacement of conveyance duties by a broad-based land tax, is a key change that has been recommended by a series of tax reviews as the most obvious reform to improve the efficiency and equity of state and territory tax systems. That 20-year transition is now about halfway through.

The payroll tax change, however, adds to its inefficiency and further contributes to harmful interstate competition.

Conclusion

Overall, the *ACT Taxation Review* provided a good report to government that gave it the basis from which to pursue the most obvious of state tax reforms. The ACT transition from property conveyance duty and insurance duty to a reformed property rates regime has set an example that other jurisdictions can follow.

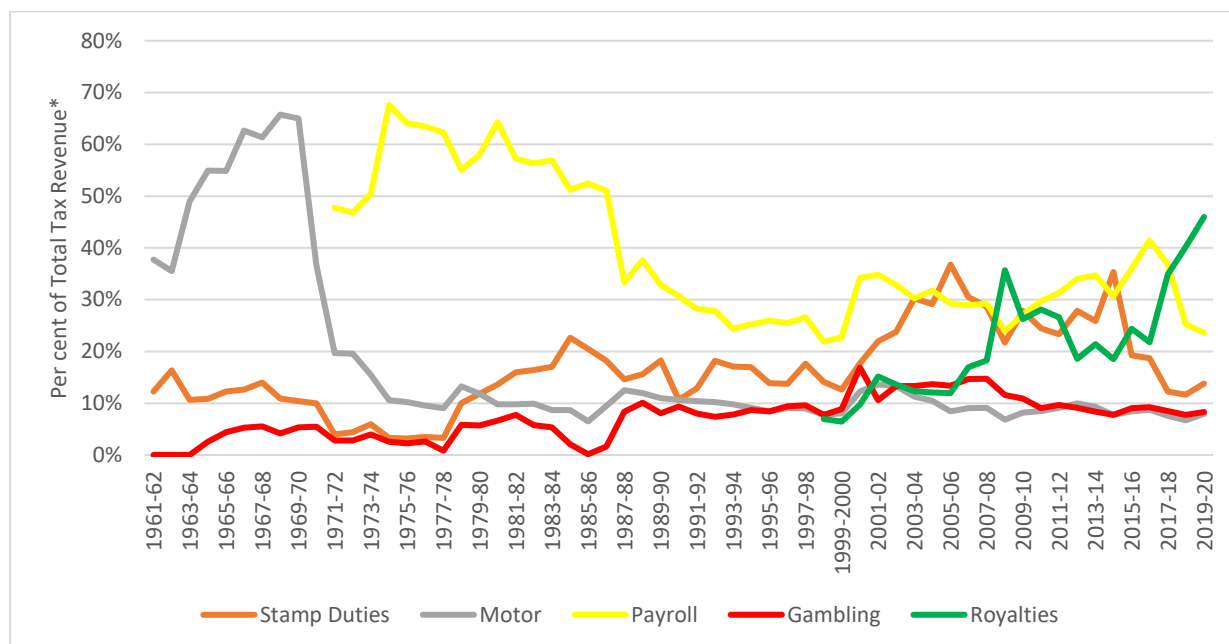
Northern Territory

The NT was part of colonial NSW until 1863, then part of SA until 1911, when it was transferred to Commonwealth control (along with the ACT) before being granted self-government in 1978. The NT economy is largely based on mining, agriculture and tourism. With its large area and small population, the NT is a substantial recipient jurisdiction under the CGC's HFE processes.

The NT has a lower level of tax per capita than other jurisdictions, being relatively dependent on Commonwealth grants. As Figure 20 shows, payroll tax has generally been the largest

revenue raiser, with mining royalties also becoming significant over the past few decades. The NT does not levy land tax.

Figure 20: NT Tax Mix, 1961–62 to 2019–20



* Including royalties from 1998 (no data prior to that) which are technically non-tax revenue.

Sources: ABS Taxation Revenue publications (and predecessors)

Northern Territory Revenue (2017)

In November 2017, the Gunner Labor government released a *Northern Territory Revenue* discussion paper to seek community views on tax and royalty reform options as part of the budget processes (for a link to the discussion paper, see Appendix C). Public submissions and consultations with industry and peak bodies on the discussion paper occurred over late 2017 and early 2018.

The identified principles for the tax system were that it: bring sufficient revenue to deliver government services; be as efficient and fair as possible; be as simple as possible; be as stable and predictable as possible; and support job creation and not act as a barrier to investment.¹⁵³

Payroll tax in the NT has a relatively high rate, but also a high tax-free threshold such that most local NT businesses don't pay it. The paper posed the question of whether this provided the right balance for the NT, including whether it effectively encouraged businesses to employ local rather than fly-in fly-out (FIFO) workers.¹⁵⁴

The NT has no annual land tax but higher-than-average property transfer stamp duty. The paper canvassed options for an annual property tax to fund reductions in the stamp duty.¹⁵⁵ The NT has relatively low motor vehicle transfer stamp duties and annual registration fees, and the paper posed the question of whether they should be increased.¹⁵⁶ Insurance stamp duties were considered potentially inefficient but raised significant revenue, so without broader reform it was considered difficult to alter them.¹⁵⁷

The NT imposes profit-based mining royalties which recognise the up-front capital costs of establishing a mine, as opposed to the value-based royalties mainly used in other jurisdictions. Profit-based royalties are more responsive to increases in mineral prices and mean that mines generally pay little in royalties early on but more as the mine matures. However, some mines pay no royalties if they close before making a taxable profit. The paper posed the question of whether a value-based scheme or a minimum royalty amount should be considered.¹⁵⁸

Government Response

The May 2018 Budget provided the outcome of the NT Government's discussion paper. On land tax, it said: 'Territorians have told us loud and clear they did not want a land tax, and we have listened – there will be no land tax and we will retain our competitive advantage over the rest of Australia.'¹⁵⁹

The budget did change mining royalties to ensure all companies paid something for the extraction of non-renewable resources, with the introduction of a hybrid scheme whereby mining companies would pay a minimum value-based royalty in addition to the profit-based royalties. To encourage the employment of locals over FIFO workers, there was also a royalty deduction for the cost of providing accommodation for Territorians, and a temporary payroll tax rebate for the employment of Territorians.

Lessons in Tax Reform

The discussion paper procedure was designed to inform the first-term Gunner government's budget process, including testing whether the NT should introduce a land tax. I will assess it against the five criteria set out at the start of this paper.

Terms-of-Reference and Panel

There were no formal terms-of-reference, with the discussion paper simply stating that its objective was to canvas views about NT taxes and royalties to assist the government's budget process.¹⁶⁰

Gathering of Evidence and Calling of Witnesses

Consultations with industry and peak bodies, and with the public, led the government to conclude that the introduction of a land tax was not supported.

Timeliness and Relevance

The discussion paper and consultation processes informed the 2018 Budget and hence was relevant to government decision-making.

Approach to Analysis of Issues

The discussion paper was brief and lacked a strong public finance framework, with issues presented in a factual but non-analytical way.

Quality of Tax Policy Outcomes

The central outcome of the process was the decision not to introduce a land tax, leaving the NT out of line with other jurisdictions and without a tax that is generally assessed as the most efficient available to states and territories. The budget also included additional payroll tax and mining royalty concessions for the employment of locals.

Conclusion

Overall, the discussion paper process informed the NT Government's tax policy decisions, even if that resulted in a decision not to introduce a land tax, which would be expected to add to the overall efficiency of the NT tax system.

Local Government Reviews

There has been a limited number of reviews of local government tax issues. In addition to some specific jurisdictional reviews (discussed below), the issues have been picked up in some broader reviews.

The 2008 Productivity Commission research report *Assessing Local Government Revenue Raising Capacity* found that, while many remote and rural councils have limited capacity to raise their own revenues and so will remain dependent on government grants, urban councils tend to have unused fiscal capacity and so could increase their own-revenues (rates, fees and charges) if constituents wished to.¹⁶¹

AFTS assessed property rates as both efficient and an appropriate tax base for local governments, given the immobility of land. It recommended that state governments should allow local governments substantial autonomy to set tax rates that suit their circumstances, and that state land tax and local government property rates should be more integrated.¹⁶²

Re:think modelling of the marginal excess burden of taxes also found that broad-based land taxes such as municipal rates have low economic costs. A negative marginal excess burden was in fact estimated because land taxes paid by foreign landowners are effectively redistributed to domestic households.¹⁶³

Joint Study into Local Government Finances (1975)

In April 1975, the Australian and New Zealand governments commissioned a joint study to establish a frame of reference for consideration of local government finances. A steering group of relevant heads of departments was established to prepare a report on the financial needs of local government and alternative proposals to ease their financial problems. (For a link to the study, including its terms-of-reference, see Appendix C.)

The resulting 1976 report noted that local governments had grappled with financial problems from their 19th-century beginnings. It assessed property rates as a good tax base overall and supported that remaining local government's main tax revenue, arguing that substantial unused capacity remained.¹⁶⁴ General revenue sharing by other levels of government and fiscal equalisation in the payment of grants were seen as the appropriate next steps in the financing of local governments.¹⁶⁵ The report also considered other tax options for local governments and favoured those governments being given the power to raise accommodation taxes.¹⁶⁶

Jurisdictional Reviews

Each jurisdiction has undertaken local government reviews. I will briefly summarise the main ones as they relate to tax issues.

The 1967 NSW *Royal Commission of Inquiry into Rating, Valuation and Local Government Finance* was asked to consider whether a rate on land was the most appropriate method of financing councils. It concluded that rates were the most appropriate taxing method and, indeed, that they had not reached saturation point.¹⁶⁷ The commission also argued, though, that councils should be empowered to impose other taxes, such as a poll tax of up to \$20, development or betterment charges, and tourist and entertainment taxes.¹⁶⁸

The 1972 *Board of Inquiry into Local Government Finance in Victoria* was asked to consider the financial disabilities faced by municipalities in funding services, and what options may exist to supplement their existing revenue. The inquiry supported the supplementation of local government revenue-raising options with a betterment tax on land made available for development and an accommodation tax. It also proposed that the state government widen its entertainment tax, with that additional revenue to be provided to local government.¹⁶⁹

The 1975 WA *Committee of Inquiry into Rates and Taxes Attached to Land Valuation* was asked to consider land-valuation options for rates purposes. The committee proposed the establishment of a central valuation authority and the consolidation of the various statutes into one. It also recommended that rural land be valued on an unimproved basis (site value), while other municipal land be valued on an improved basis (annual rental value).¹⁷⁰

The 1970 *Local Government Act Revision Committee on Powers, Responsibilities and Organisation of Local Government in South Australia* was asked to review the *Local Government Act*.

It favoured local government continuing to derive its tax revenue primarily from property rates, but argued that this should be supplemented with access to a betterment tax, a tax on advertisements, an entertainment tax and a tourist/accommodation tax.¹⁷¹

The 1974 *Municipal Commission of Tasmania Report on Matters Relating to Local Government* was asked to consider whether the financial resources available to local governments were sufficient and whether any changes to the municipal rating system were desirable. The commission supported rates continuing to be based on assessed annual land value, but with an option to use unimproved value. It did not support providing municipalities with additional forms of taxation.¹⁷²

Conclusions

This survey of local government reviews shows some broadly consistent tax policy themes. Overall, property rates are considered an appropriate form of tax revenue for local government, being relatively efficient, broadly equitable and amenable to administration by local government. They provide a reasonable proxy for the ability to pay and to an extent the benefit principle of taxation. While there was a view that there may be further capacity to raise additional rates revenue, the reviews also generally supported additional tax powers for local government, to supplement rates and more fully reflect the benefit principle.

Property rates have continued as the sole tax power provided by state governments to local governments, consistently raising 35–40 per cent of local government revenue (although there are significant differences between jurisdictions within that). They continue to be considered one of Australia’s most efficient taxes.¹⁷³

Overarching Lessons

The state tax reviews I have surveyed have some substantial features in common, but also some differences. I will summarise the reviews themselves, then look at the policy outcomes.

The Reviews

Table 2 summarises the policy proposals of the main state tax reviews. The reviews have been broadly consistent in their state tax-reform prescriptions, with the partial exception of payroll tax.

Table 2: Tax Reviews Summary

	Payroll Tax	Land Tax	Stamp Duty	Insurance	Emergency Services	Other
NSW (Marks)	Retain	Decrease	Decrease/abolish		Concern	Services expenditure tax
NSW (Collins)	Reform, decrease	Increase	Decrease/abolish			Income tax surcharge
NSW (IPART)	Broaden base, lower rate	Increase	Decrease/abolish	Decrease	Replace with property levy	
NSW (Lambert)	Increase	Increase	Decrease/abolish	Decrease	Replace with property levy	Constitutional change to allow excise

NSW (Thodey)	Reform (national)	Increase	Decrease/abolish	Decrease		Reform and increase GST
Victoria (Nieuwenhuysen)	Reform	Windfall tax	Replace with broad-based tax			Constitutional change to allow excise
Victoria (Harvey)	Decrease	Reform and increase	Decrease		Replace with property levy	Increase gambling tax
Victoria (Legislative Council)	Consider increasing			Consider decreasing	Replace with property levy	
WA (Business Tax Review)	Broaden, simplify	Broaden, simplify	Decrease			
WA (State Tax Review)	Maintain, harmonise	Maintain, simplify	Decrease and reform	Decrease		
SA (Discussion Paper)	Increase	Reform	Decrease			
Tasmania (Giddings)	Reform	Increase				
ACT (Quinlan)	Harmonise	Increase	Decrease	Abolish		
NT (Discussion Paper)		Consider increasing	Consider decreasing			
	Payroll Tax	Land Tax	Stamp Duty	Insurance	Emergency Service	Other

The most consistent policy prescription across the reviews has been to move the tax mix away from transaction taxes, such as stamp duties, to more efficient taxes, such as broad-based land taxes. The reviews have also consistently argued for greater harmonisation across jurisdictions of taxes, such as payroll tax, to ease compliance costs for businesses.

The nature of Australia's federation is a consistent context in these reviews, with potential state tax reforms inevitably constrained by developments in other jurisdictions and Commonwealth-state financial arrangements. The CGC's HFE processes are a vexed aspect of that, with claims they create a disincentive to reform state tax. If a tax reform impacted on the size of the tax base – for example, lower conveyance duty leading to increased property sales – then that state would be assessed as having a stronger fiscal capacity and hence a lower GST requirement.¹⁷⁴ Any such effects, however, are likely to be small and gradual. In addition, the CGC has stated that 'If the reform policies of an individual State were having a material effect on its GST share then, under its policy neutrality principle, the Commission could seek to mitigate such effects'.¹⁷⁵

The Outcomes

The policy outcomes from the reviews have been mixed. There have been some effective reforms, such as the removal of various stamp duties, the ACT's transition from conveyance duties to

property-based taxes, and changes in the funding of emergency services from insurance-based levies to property-based levies. There has also been some significant progress on the harmonisation of aspects of payroll taxes across jurisdictions.

Mostly, though, the policy outcomes from these state tax reviews have been disappointing, with the appetite of successive state governments to enact the recommended tax reforms being limited. The propensity of governments has been to denote the provision of tax cuts to favoured constituent groups as tax reform, and to compete aggressively with other jurisdictions in base-narrowing tax cuts. As a result, potentially good tax bases, such as death duties, land tax and payroll tax, have been lost or severely compromised.

The reality for the states has been that they are consistently under fiscal pressure and rarely get the chance to undertake major revenue-negative reforms. While tax reform by Commonwealth governments has also been mixed, they have at times been better placed to use bracket creep and growth in broad-based taxes to obscure ‘losers’ in an overall reform package.

Conclusions

This survey of state and territory tax-reform exercises has shown that, for each jurisdiction, the reform intent has at times been there. Governments have at times been prepared to commission tax reviews, and those reviews have established broadly consistent reform directions, most centrally the move away from transaction taxes such as conveyance duties to property-based taxes. Actual tax reforms, however, have been limited, with the politics of implementing such reforms proving extremely challenging, perhaps even more so than at the Commonwealth level.

In reality, much of the tax policy changes made by state governments has been to competitively narrow their tax bases. In an increasingly national and international economy, therefore, there are strong arguments for having the main income and consumption tax bases at the Commonwealth level. Australia’s federation arrangements then sit somewhat awkwardly with that and imply the maintenance of a significant level of VFI.

The short-term prospects for major state tax reform do not look good, with governments existing in uncertain political times. The post-COVID budget situation of governments will also be parlous and likely not facilitate revenue-negative tax reforms.

To be optimistic, we now have a significant set of tax reviews that have created a blueprint for state tax reform, which future reformist governments will be able to call on. The foundations have at least been laid for future, more determinative tax-review processes.

Appendix A

Significant Australian State Taxes and Royalties, 2021–22

		NSW	Vic	Qld	SA	WA	Tas	ACT	NT
Payroll Tax	Exemption Threshold (\$)	1,200,000	700,000	1,300,000	1,500,000	1,000,000	1,250,000	2,000,000	1,500,000
	Max Rate (%)	4.85	4.85	4.95	4.95	6.50	6.10	6.85	5.50
Land Tax	Min Threshold (\$)	755,001	250,000	600,000	482,001	300,001	50,000	–	N/A

	Max Threshold (\$m)	4.616	3.0	10.0	1.35	11.0	0.4	2.0	
	Min Rate (%)	1.6	0.2	1.0	0.5	0.25	0.55	0.54	
	Max Rate (%)	2.0	2.25	2.25	2.4	2.67	1.5	1.14	
Property Transfer Duty	Min Threshold (\$)	–	–	5,000	–	–	–	–	–
	Max Threshold (\$)	1,064,001	2,000,001	1,000,001	500,001	500,001	725,001	1,600,001	5,000,000
	Min Rate (%)	1.25	1.40	1.50	1.00	1.90	1.75	–	1.50
	Max Rate (%)	5.50	6.50	5.75	5.50	5.15	4.50	5.0	5.95
Insurance Duty (% Premium)	General (%)	9	10	9	11	10	10	–	10
	Compulsory Third Party (%)	–	10	10c per policy	11	10	–	–	10
	Workers Comp. (%)	–	–	5	General Rate	–	–	–	–
	Life Insurance (%)	\$1 for first \$2,000 and 20c per \$200 over \$2,000	–	0.05% up to \$2,000 and 0.1% over \$2,000	1.5%	–	10c per \$200 up to \$2,000 and 20c per \$200 over \$2,000	–	–
Motor Vehicles Duty (Standard New PMV)	Rate	\$3 per \$100	\$8.40 per \$200	\$3 per \$100	\$60 + \$4 per \$100	2.75–6.5%	\$3 per \$100	\$3 per \$100	\$3 per \$100
	Max Threshold (\$)	45,000	69,152	–	–	–	–	–	–
Royalties*	Iron Ore Royalty Rate	4.0% of the examine value (value less allowable	2.75% of net market value	\$1.25 per tonne plus 2.5% of value above	5.0% of net market value	5–7%	1.9% on net sales plus profit royalty up to	N/A	Greater of 20% of net value (less than \$10,000

		deductions)		\$100 per tonne			maximum of 5.35% of net sales) or 1–2.5% of gross revenue
	Iron Ore Royalty System	Ad Valorem	Ad Valorem	Hybrid	Ad Valorem	Ad Valorem	Hybrid		Hybrid
		NSW	Vic	Qld	WA	SA	Tas	ACT	NT

* Non-tax revenue

Source: This table is drawn from 'Overview of State Taxes and Royalties 2021–22', produced by the Department of Treasury for the Government of Western Australia, https://www.wa.gov.au/system/files/2021-12/overview-of-state-taxes-and-royalties-2021-22_0.pdf (viewed March 2022)

Appendix B

State Tax Reviews by Duration and Type

Jurisdiction	Review	Duration	Type
NSW	<i>Committee of Inquiry into State Taxation</i> (1976) (Marks)	5 months	Public Inquiry
NSW	<i>Review of the State Tax System</i> (1988) (Collins)	5 months	Public Inquiry
NSW	<i>Review of State Taxation</i> (2008) (IPART)	13 months	Government Body
NSW	<i>NSW Financial Audit</i> (2011) (Lambert)	6 months	Internal
NSW	<i>Review of Federal Financial Relations</i> (2020) (Thodey)	12 months	Public Inquiry
Victoria	<i>Committee of Inquiry into Revenue Raising</i> (1983) (Nieuwenhuysen)	11 months	Public Inquiry
Victoria	<i>Review of State Business Taxes</i> (2001) (Harvey)	9 months	Public Inquiry
Victoria	<i>Inquiry into State Government Taxation and Debt</i> (2010)	14 months	Parliamentary (Legislative Council)
Queensland	<i>Royalties Review</i> (2008)	–	–
WA	<i>Business Tax Review</i> (2002) (Treasury)	5 months	Internal Review
WA	<i>State Tax Review</i> (2007) (Treasury)	24 months	Internal Review
SA	<i>State Tax Review</i> (2015)	4 months	Internal Review
Tasmania	<i>State Tax Review</i> (2010) (Giddings)	12 months	Parliamentary (Cross-party)

ACT	<i>ACT Taxation Review (2012)</i> (Quinlan)	9 months	Public Inquiry
NT	<i>Northern Territory Revenue (2017)</i>	6 months	Internal Review

Appendix C

Review Terms-of-Reference

New South Wales

Committee of Inquiry into State Taxation (1976)

https://www.changingfortunes.info/_files/ugd/5b0511_815b8d3f56394836bf21413a1a86830d.pdf

Panel: John Marks (accountant), A. H. Pollard (economic statistician), J. M. Greenwood (accountant)

Review of the State Tax System (1988)

https://www.changingfortunes.info/_files/ugd/5b0511_81beecceb4f74ccda3109cb12d32e5f7.pdf

Panel: David Collins (economist), Lyall Gardner, Peter Hunt, Patrick Lanigan (former public servant), John Nevile (economist), Bob Sendt (subsequently NSW auditor-general), Bill Thomas, John Tolley

Review of State Taxation (2008)

https://www.ipart.nsw.gov.au/Home/Industries/Special-Reviews/Reviews/Taxation/Review-of-State-Taxation/20-Sep-2007-Terms-of-Reference-September-2007/Terms-of-Reference-Review-of-State-Taxation?timeline_id=6834

NSW Financial Audit (2011)

https://www.treasury.nsw.gov.au/sites/default/files/2017-03/NSW_Financial_Audit_Report_Part_2011-_Full_.pdf

Review of Federal Financial Relations (2020)

<https://www.treasury.nsw.gov.au/four-pillars/federal-financial-relations-review/terms-reference>

Panel: David Thodey (businessperson), Jane Halton (former public servant), Bill English (former NZ politician), John Anderson (former politician), Anne Twomey (constitutional law academic), John Freebairn (tax economist)

Victoria

Committee of Inquiry into Revenue Raising (1983)

https://www.changingfortunes.info/_files/ugd/5b0511_cc3b6e3e19624129af4b47552966a087.pdf

Panel: John Nieuwenhuysen (academic economist), A. Jolley (Victorian Chamber of Commerce), S. Jones (Victorian Trades Hall), B. Nicholls (Department of Management and Budget), S. Viney (Comptroller of Stamps)

Review of State Business Taxes (2001)

<https://sanjeev.sabhlokcity.com/Misc/TEN.303.001.0050.pdf>

Panel: John Harvey (businessperson), Nicole Feely (Victorian Employers' Chamber of Commerce and Industry), John Freebairn (academic economist), David Pollard (State Revenue Office), Kathleen Townsend (businessperson)

Inquiry into State Government Taxation and Debt (2010)

<https://www.parliament.vic.gov.au/57th-parliament/edic/article/137>

Western Australia

Business Tax Review (2002)

<https://www.wa.gov.au/system/files/2020-02/business-tax-review-december-2003.pdf>

State Tax Review (2007)

https://www.aph.gov.au/~media/wopapub/senate/committee/sgfm_ctte/submissions/__/add_info/Perth_CICWA_State_tax_review_FinalReport_pdf.ashx

South Australia

State Tax Review (2015)

http://ysa-v2-katalyst-com-au.s3.amazonaws.com/production/2015/03/11/23_42_46_998_State_Tax_Review_Discussion_Paper.pdf

Tasmania

State Tax Review (2010)

https://stors.tas.gov.au/download/AU-7-0098-00316_1

Panel: Lara Giddings (Labor), Peter Gutwein (Liberal), Tim Morris (Greens), Ruth Forrest (Independent)

Australian Capital Territory

ACT Taxation Review (2012)

https://apps.treasury.act.gov.au/__data/assets/pdf_file/0004/423409/tax-review-may2012.pdf

Panel: Ted Quinlan (ex-treasurer), Megan Smithies (ACT under treasurer), Ann Harding (University of Canberra)

Northern Territory

Northern Territory Revenue (2017)

https://revenuepaper.nt.gov.au/__data/assets/pdf_file/0009/457749/Overview.pdf

Local Government

Joint Study into Local Government Finances (1975)

https://www.changingfortunes.info/_files/ugd/5b0511_cc3b6e3e19624129af4b47552966a087.pdf

Steering Committee: I. McPhail (executive officer), R. Lansdown (Department of Environment, Housing and Community Development Canberra), J. Alder and G. Pentland (Department of Local Government Victoria), K. Hockridge (Local Government Office South Australia), H. Jacobs (Department of Local Government Queensland), W. Morrisby (Local Government Office Tasmania), R. Paust (Local Government Office Western Australia), F. Pogson (Department of Local Government New South Wales), P. O’Dea (Department of Internal Affairs New Zealand), N. Miles (Australian Council of Local Government Associations), T. McKewen (New Zealand Counties Association)

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Interviews/Comments

Chris Barrett (Vic)

David Christmas (WA)

Danny Huynh (SA)

Stephen Miners (ACT)

Matt Pinnegar (ALGA)

Jonathan Rollings (CGC)

Greg Smith

Michael Warlters (NSW)

Notes

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- ¹ Aitken and Orr, p. 68.
- ² Section 90 of the Australian Constitution provides the Commonwealth with exclusive power to levy customs and excise, while section 92 requires that trade between the states be free.
- ³ 1901 Budget, Sources of revenue 1899–1900, p. 9.
- ⁴ VFI in the Australian federation refers to the situation whereby the Commonwealth raises more revenue than it spends, while the states raise less revenue than they spend.
- ⁵ 1976 Budget, Budget paper no. 7, p. 15.
- ⁶ 1985 Budget, Budget paper no. 7, p. 16.
- ⁷ See chronology table at Commonwealth Grants Commission, 2008, pp. 133–6.
- ⁸ Elevated by around \$80 billion due to COVID-related measures.
- ⁹ Untied general revenue assistance grants are provided free of restrictions on how they are spent. Tied grants are provided for specific purposes, such as health, education or infrastructure.
- ¹⁰ Commonwealth Grants Commission, 1995.
- ¹¹ Commonwealth Grants Commission website, ‘About GST Distribution’ <https://www.cgc.gov.au/about-gst-distribution> (viewed 2 March 2022).
- ¹² In 2018, new equalisation arrangements were legislated which will establish a relativity floor of 0.75 for determining a state’s GST share. Commonwealth top-ups to the GST pool are also being provided.
- ¹³ Aitken and Orr, p. 74.
- ¹⁴ The states have their own constitutions, but section 109 of the Australian Constitution specifies that where a state law is inconsistent with a Commonwealth law, the later shall prevail.
- ¹⁵ While the states each have their own constitution, which purports to give their parliaments the power to make laws on any subject of relevance to the state in question (Aitken and Orr, p. 56), they are subordinate to the Australian Constitution where there is an inconsistency (section 109, Constitution).
- ¹⁶ In the 1970 *Chamberlain Industries* case (*Western Australia v Chamberlain Industries Pty Ltd* (1970) 121 CLR 1), the High Court ruled that ‘excise’ included taxes on distribution and sale, as well as production, thereby invalidating several state taxes and necessitating Commonwealth compensating grants.
- ¹⁷ Aitken and Orr, p. 71.
- ¹⁸ Larry Anthony, Second reading speech, Pay-Roll Tax Assessment Bill 1941, *Hansard*, 27 March 1941, pp. 342–6.
- ¹⁹ With an average wage of around £4 per week, this typically exempted businesses with less than five employees.
- ²⁰ A tax that grows in line with the broad economy.
- ²¹ Smith, p. 93.
- ²² Banks et al., p. 123.
- ²³ Initially evidenced by a stamp.
- ²⁴ Carling, 2006, p. 14.
- ²⁵ *Ha v New South Wales* (1997) 189 CLR 465.
- ²⁶ Costello, 1997.
- ²⁷ The Commonwealth also introduced an entertainment tax in 1916 but abolished it in 1953.
- ²⁸ Grant and Drew, p. 26.
- ²⁹ *Ibid.* p. 17.
- ³⁰ Australian Local Government Association website (viewed 16 November 2021).
- ³¹ 1985 Budget, Budget paper no. 7, p. 100.
- ³² So called because the rate in the dollar is calculated by dividing required expenditure into the value of rateable properties: Neutze, p. 307.
- ³³ Freebairn, Stewart and Liu, p. 16.
- ³⁴ Carling, 2008, p. 3.
- ³⁵ Gabbitas and Eldridge, pp. 52–4.
- ³⁶ *Ibid.*, pp. 55–62.
- ³⁷ *Ibid.*, pp. 62–64.
- ³⁸ Grant and Drew, p. 17.
- ³⁹ NSW Treasury, p. 6.
- ⁴⁰ NSW Parliamentary Library Research Service, p. 2.
- ⁴¹ Bain.
- ⁴² Marks, Pollard and Greenwood, p. 18.
- ⁴³ Taxation Review Committee.

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- ⁴⁴ Ibid., p. 24.
- ⁴⁵ Ibid., p. 28.
- ⁴⁶ Ibid., p. 29.
- ⁴⁷ Ibid., p. 98.
- ⁴⁸ Ibid., p. 56.
- ⁴⁹ Ibid., p. 59.
- ⁵⁰ Ibid., pp. 67–8.
- ⁵¹ Ibid., p. 102.
- ⁵² Ibid., p. 87.
- ⁵³ Ibid., p. 92.
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