

## **CHAPTER 9: DEPARTMENTAL INCOME / REVENUE INITIATIVES**

### **Key findings of the Committee:**

- 9.1** In relation to Victoria's general government sector, the government expects to receive revenue from transactions totalling \$37.8 billion in 2008-09.
- 9.2** The largest components of the estimated revenue pool for 2008-09, comprising around 80 per cent of the state's revenue, relate to revenue to be derived by way of Grants (\$17.6 billion or 46 per cent of all revenue sources) and Taxation (\$13.4 billion or 35 per cent).
- 9.3** The Committee noted that major movements in revenue categories between the revised estimates for 2007-08 and the budget for 2008-09 are expected to occur in relation to the receipt of GST grants from the Commonwealth (an increase of \$892.3 million or 9.5 per cent) and Land Tax (an increase of \$178.8 million or 20.5 per cent).
- 9.4** The expected increase in GST-related grants (\$892 million) reflects growth in the total GST pool and an increase in Victoria's share as determined by the Commonwealth Grants Commission.
- 9.5** The expected increase in land tax reflects the expected increase in land values for the two years to 2008-09, consistent with the strength in the property market, as well as the progressiveness in land tax scales.
- 9.6** The Committee noted that according to the revised estimates, revenue to be collected from land transfer duty in 2007-08 is predicted to be in the order of \$3.874 billion, approximately \$1 billion higher than the initial budget of \$2.854 billion for that year. According to the government, increases in the volume and average value of transactions were contributing factors to the expected growth in stamp duty in 2007-08. The government expects that there will be a re-alignment over the forward estimates period, whereby growth of property prices will re-align with economic fundamentals, and respond to the more recent interest rate rises and financial volatility. The government expects to collect \$3.737 billion from land transfer duty in 2008-09.
- 9.7** In 2008-09, payroll tax revenue is estimated to amount to \$3.963 billion, an increase of \$361.4 million over the initial budget for 2007-08 and an increase of \$139.1 million over the revised budget for 2007-08. This growth, according to the government, reflects moderate employment and wages growth.
- 9.8** Notwithstanding the growth in revenue estimates, the Committee observed that the 2008-09 Budget contained various revenue initiatives which included tax relief measures in the areas of Land Tax (\$488.7 million over the forward estimates to 2011-12, including \$122.3 million in 2008-09); Stamp Duty on Land Transfer Duty (\$421.6 million over the forward estimates to 2011-12, including \$149.5 million in 2008-09); and Payroll Tax (\$170.6 million over the forward estimates to 2011-12, including \$36.6 million in 2008-09).

**9.9 Revenue from electronic gaming machines is expected to increase in 2008-09 to \$1.0 billion. This will represent an estimated 2.7 per cent of total general government sector revenue. The proportion of the total taxation budget derived from taxes on electronic gaming machines is estimated to decline to 7.7 per cent in 2008-09 and remain close to this level over the forward estimates to 2011-12.**

## 9.1 Composition of general government sector's revenue estimates

In relation to Victoria's general government sector, the government expects to receive revenue from transactions totalling \$37.8 billion in 2008-09. Table 9.1 outlines the major revenue categories that comprise the revenue estimates for 2008-09 and the expected movement in revenue between the 2007-08 revised estimates and the 2008-09 Budget Estimates for each component. The Committee noted that the more significant increases in revenue are expected to occur in relation to GST grants (an increase of \$892.3 million or 9.5 per cent) and Land Tax (an increase of \$178.8 million or 20.5 per cent).

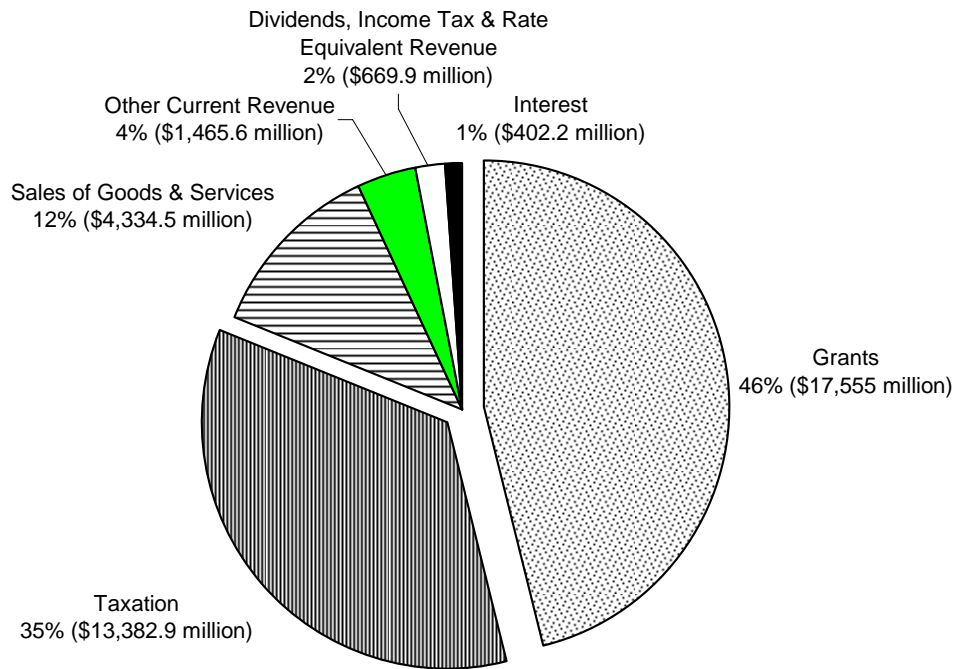
**Table 9.1: General Government Sector Revenue  
Expected movement in revenue categories  
between the 2007-08 revised estimates and the 2008-09 Budget estimates**

| Revenue categories                                       | 2007-08<br>Revised Estimate<br>(\$ million) | 2008-09<br>Budget<br>(\$ million) | Change<br>(%) |
|----------------------------------------------------------|---------------------------------------------|-----------------------------------|---------------|
| GST grants                                               | 9,389.1                                     | 10,281.4                          | 9.5           |
| Other grants                                             | 7,791.6                                     | 7,273.6                           | -6.7          |
| <b>Total grants</b>                                      | <b>17,180.7</b>                             | <b>17,555.0</b>                   | <b>2.2</b>    |
| Land tax                                                 | 871.0                                       | 1,049.8                           | 20.5          |
| Land transfer duty                                       | 3,874.5                                     | 3,736.9                           | -3.6          |
| Gambling taxes – Electronic gaming machines              | 992.3                                       | 1,025.0                           | 3.3           |
| Other taxation                                           | 7,259.6                                     | 7,571.2                           | 4.3           |
| <b>Total taxation</b>                                    | <b>12,997.4</b>                             | <b>13,382.9</b>                   | <b>3.0</b>    |
| <b>Sale of goods and services</b>                        | <b>4,121.6</b>                              | <b>4,334.5</b>                    | <b>5.2</b>    |
| <b>Dividends, income tax and rate equivalent revenue</b> | <b>679.8</b>                                | <b>669.9</b>                      | <b>-1.5</b>   |
| <b>Interest</b>                                          | <b>372.9</b>                                | <b>402.2</b>                      | <b>7.9</b>    |
| <b>Other current revenue</b>                             | <b>1,435.8</b>                              | <b>1,465.6</b>                    | <b>2.1</b>    |
| <b>Total revenue</b>                                     | <b>36,788.1</b>                             | <b>37,810.0</b>                   | <b>2.8</b>    |

Source: Budget Paper No.4, 2008-09 Statement of Finances, p.177-193

A breakdown of the proportion of the total estimated revenue for 2008-09 according to major revenue categories, prepared by the Committee, is shown in figure 9.2. The largest components of the estimated revenue pool for 2008-09, which comprise around 80 per cent of the state's revenue, relate to revenue to be derived from Grants (\$17,555.0 million or 46 per cent of all revenue sources) and Taxation (\$13,382.9 million or 35 per cent).

**Figure 9.2: Composition of estimated general government sector revenue 2008-09**



Source: Figure prepared by the Committee using information drawn from Budget Paper No.4, Statement of Finances 2008-09, p.177

## 9.2 Major variations in revenue items between revised estimates for 2007-08 and the budget for 2008-09

An analysis of movements between the revised estimates for 2007-08 and the budget for 2008-09 for revenue items within each major revenue category is shown in table 9.3. In terms of materiality, the largest movements occur in relation to Land Tax (an increase of 20.5 per cent), Fines (an increase of 14.5 per cent) and GST Grants (an increase of 9.5 per cent).

**Table 9.3: General Government Sector Revenue  
Major variations in revenue items  
between the 2007-08 revised estimates and the 2008-09 Budget estimates**

| Revenue item                                                              | 2007-08<br>Revised Estimate<br>(\$ million) | 2008-09<br>Budget<br>(\$ million) | Change<br>(%) |
|---------------------------------------------------------------------------|---------------------------------------------|-----------------------------------|---------------|
| <b>Taxation</b>                                                           |                                             |                                   |               |
| Land tax (a)                                                              | 871.0                                       | 1,049.8                           | 20.5          |
| Financial accommodation levy                                              | 20.9                                        | 32.1                              | 53.2          |
| <b>Other taxes</b>                                                        |                                             |                                   |               |
| Transurban concession fees                                                | 20.1                                        | 7.2                               | -64.4         |
| <b>Dividends, income tax and rate equivalent revenue</b>                  |                                             |                                   |               |
| Dividends                                                                 | 358.5                                       | 421.1                             | 17.5          |
| Income tax equivalent revenue                                             | 319.1                                       | 246.5                             | -22.8         |
| <b>Other current revenue</b>                                              |                                             |                                   |               |
| Fair value of assets received free of charge or for nominal consideration | 85.5                                        | 21.8                              | -74.5         |
| Fines (b)                                                                 | 430.0                                       | 492.2                             | 14.5          |

**Table 9.3: General Government Sector Revenue  
Major variations in revenue items  
between the 2007-08 revised estimates and the 2008-09 Budget estimates  
(continued)**

| Revenue item                                                              | 2007-08<br>Revised Estimate<br>(\$ million) | 2008-09<br>Budget<br>(\$ million) | Change<br>(%) |
|---------------------------------------------------------------------------|---------------------------------------------|-----------------------------------|---------------|
| <b>Grants</b>                                                             |                                             |                                   |               |
| <b>Current grants</b>                                                     |                                             |                                   |               |
| GST grants (c)                                                            | 9,389.1                                     | 10,281.4                          | 9.5           |
| Special learning needs – English and a Second Language (ESL) new arrivals | 28.8                                        | 20.3                              | -29.6         |
| Australian Immunisation Agreement                                         | 133.5                                       | 64.1                              | -52.0         |
| Elective surgery waiting list reduction plan                              | 11.4                                        | 22.8                              | 100.0         |
| Exceptional Circumstances relief payments                                 | 112.5                                       | 36.0                              | -68.0         |
| National Action Plan – Salinity and Water Quality                         | 6.2                                         | 15.0                              | 141.5         |
| <b>Capital grants</b>                                                     |                                             |                                   |               |
| Specific purpose own use grants                                           | 920.2                                       | 376.5                             | -59.1         |
| Specific purpose grants for on-passing                                    | 170.7                                       | 150.4                             | -11.9         |

- Notes:
- (a) The expected increase in land tax reflects the expected increase in land values for the two years to 2008-09, consistent with the strength in the property market, as well as the progressiveness in land tax scales.
  - (b) The expected increase in fines revenue is principally due to an expected increase in traffic camera and on-the-spot speeding fines arising from the planned opening of the EastLink Tollway (which will begin to contribute fine revenue in early 2008-09) and the annual CPI indexation of fines. A downward revision of fine revenue has occurred since the 2007-08 Budget Update of approximately \$50 million a year as a result of improved driver behaviour.
  - (c) The expected increase in GST-related grants (\$892 million) reflects growth in the total GST pool and an increase in Victoria's share as determined by the Commonwealth Grants Commission.

Source: Budget Paper No.4, 2008-09 Statement of Finances, p.179-200 and Budget Paper No.2, Strategy and Outlook, 2008-09, p.43

### 9.3 Revenue initiatives contained in the 2008-09 Budget

The Committee noted that the 2008-09 Budget contained various revenue initiatives which included tax relief measures in the areas of Land Tax, Stamp Duty on Land Transfer Duty and Payroll Tax. Information outlining the estimated revenue collections for these items amounting to \$36.7 billion over the forward estimates period to 2011-12 together with the estimated tax relief over the same period totalling \$1,080.9 million is presented on a yearly basis in table 9.4.

**Table 9.4: Principal Budget Tax Initiatives  
Analysis of estimated revenue collections and tax relief over the forward estimates**

| Revenue item     | Estimated revenue collections |                               |                               |                               |                                        | Estimated tax relief        |                               |                               |                               |                               |
|------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|----------------------------------------|-----------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|                  | 2008-09 Budget (\$ million)   | 2009-10 Estimate (\$ million) | 2010-11 Estimate (\$ million) | 2011-12 Estimate (\$ million) | Total revenue collections (\$ million) | 2008-09 Budget (\$ million) | 2009-10 Estimate (\$ million) | 2010-11 Estimate (\$ million) | 2011-12 Estimate (\$ million) | Total Tax Relief (\$ million) |
| Land Tax         | 1,049.8                       | 1,023.8                       | 1,076.2                       | 1,049.4                       | 4,199.2                                | 122.3                       | 119.1                         | 125.3                         | 122.0                         | 488.7                         |
| Land Trans. Duty | 3,736.9                       | 3,710.7                       | 3,865.6                       | 3,880.0                       | 15,193.2                               | 149.5                       | 87.9                          | 90.3                          | 93.9                          | 421.6                         |
| Payroll Tax      | 3,963.2                       | 4,200.1                       | 4,449.7                       | 4,710.6                       | 17,323.6                               | 36.6                        | 42.2                          | 44.6                          | 47.2                          | 170.6                         |
| <b>Total</b>     | <b>8,749.9</b>                | <b>8,934.6</b>                | <b>9,391.5</b>                | <b>9,640.0</b>                | <b>36,716.0</b>                        | <b>308.4</b>                | <b>249.2</b>                  | <b>260.2</b>                  | <b>263.1</b>                  | <b>1,080.9</b>                |

Note: Apart from revenue initiatives relating to the general government sector, the 2008-09 Budget also includes a five per cent reduction in average WorkCover premiums, which is estimated to save Victorian employers an additional \$88 million in 2008-09 (\$352 million over the next four years to 2011-12)

Sources: Budget Paper No.4, 2007-08 Statement of Finances, p. 135; Budget Paper No.2, 2008-09 Strategy and Outlook, pp.42-43; Budget Paper No.4, 2008-09 Statement of Finances, pp. 43 and 179; and Budget Paper No.3, 2008-09 Service Delivery, p.358

**Table 9.5: Principal Budget Tax Initiatives  
Comparison of 2008-09 Budget to the  
initial and revised budgets for 2007-08**

| Revenue. item    | Column 1          | Column 2                    | Column 3          | Column (3-1)   |
|------------------|-------------------|-----------------------------|-------------------|----------------|
|                  | 2007-08<br>Budget | 2007-08<br>Revised Estimate | 2008-09<br>Budget | Change         |
|                  | (\$ million)      | (\$ million)                | (\$ million)      | (\$ million)   |
| Land Tax         | 765.4             | 871.0                       | 1,049.8           | 284.4          |
| Land Trans. Duty | 2,854.3           | 3,874.5                     | 3,736.9           | 882.6          |
| Payroll Tax      | 3,601.8           | 3,824.1                     | 3,963.2           | 361.4          |
| <b>Total</b>     | <b>7,221.5</b>    | <b>8,569.6</b>              | <b>8,749.9</b>    | <b>1,528.4</b> |

Sources: *Budget Paper No.4, 2007-08 Statement of Finances, p.135 and Budget Paper No.4, 2008-09 Statement of Finances, p.179*

An analysis of the tax relief provided in the 2008-09 Budget compared to increased revenue collections is provided below.

### 9.3.1 Land Tax

As shown in table 9.4, the 2008-09 Budget provides land tax reforms that are estimated to provide \$122.3 million in tax relief in 2008-09 (\$488.7 million over the forward estimates to 2011-12). From the 2009 land tax year, there will be an upward adjustment to land tax thresholds of approximately 10 per cent and the top land tax rate will be further reduced from 2.5 per cent to 2.25 per cent. The budget also extends the exemptions for aged care facilities, supported residential care services and rooming houses, announced in the 2005-06 Budget, to include facilities which cater to groups such as young people with disabilities.<sup>174</sup> According to the government, the increase in the tax free threshold will remove around 19,000 taxpayers from the land tax net in 2009.<sup>175</sup>

Land tax revenue is expected to increase in 2008-09 compared to the initial budget for 2007-08 by \$284.4 million (see table 9.5) due to an expected increase in land values, consistent with the strength in the property market, as well as the progressiveness in land tax scales. This is partly offset by the changes announced in the budget in terms of the land tax reforms outlined in the budget (and mentioned above) and by the ongoing disaggregation of land holdings.<sup>176</sup>

### 9.3.2 Stamp Duty on Land Transfer

As shown in table 9.4, changes to the tax brackets for stamp duty on land transfer contained in the 2008-09 Budget are estimated to provide \$149.5 million in tax relief in 2008-09 (\$421.6 million over the forward estimates to 2011-12).

<sup>174</sup> Budget Paper No.4, 2008-09 Statement of Finances, p.181

<sup>175</sup> Department of Treasury and Finance, 2008-09 budget fact sheet, *Land tax cuts*, p.1

<sup>176</sup> Budget Paper No.4, 2008-09 Statement of Finances, p.181

The Committee noted that according to the revised estimates, revenue to be collected from land transfer duty in 2007-08 is predicted to be in the order of \$3,874.5 million, almost \$1 billion higher than the initial budget for that year (see table 9.5). The budget papers include various comments (see below) to explain the growth in stamp duty revenue during 2007-08, payable on any transaction that results in a change in beneficial ownership of land and associated real assets, and an expected re-alignment over the forward estimates period.

#### **Growth in stamp duty in 2007-08 – contributing factors**

- Increases in the volume of transactions (which may in part be attributable to changes by the Commonwealth Government to superannuation laws that appear to have generated extra buying and selling of properties); and
- Increases in the average value per transaction (which is consistent with the growth in property prices over the year).

#### **Expected re-alignment over the forward estimates period – contributing factors**

- Growth of property prices will re-align with economic fundamentals, as well as respond to the more recent interest rate rises and financial volatility;
- In particular, the increases in mortgage interest rates from August 2007, and the shock to financial wealth resulting from the decline in equity prices since November 2007, may relieve the upward pressure on property prices; and
- The revenue impact from changes to the thresholds result in an expected decline in stamp duty in 2008-09 of \$138 million compared to the revised estimate for 2007-08.<sup>177</sup>

### **9.3.3 Payroll Tax**

The reduction in the payroll tax rate to 4.95 per cent, effective 1 July 2008, that was announced in the 2008-09 Budget benefits more than 28,000 Victorian businesses by providing \$36.6 million in tax relief in 2008-09 (\$170.6 million over the forward estimates to 2011-12)<sup>178</sup> – refer to table 9.4 for details.

In 2008-09, payroll tax revenue is estimated to amount to \$3,963.2 million, an increase of \$361.4 million over the initial budget for 2007-08 and an increase of \$139.1 million over the revised budget for 2007-08 (see table 9.5). According to the government, this reflects moderate employment and wages growth, which is partly offset by the further reduction in the payroll tax rate from the previously announced fall to 5.0 per cent from 1 July 2008 to the new measure outlined in the budget which reduced the rate to 4.95 per cent as from that date.<sup>179</sup>

## **9.4 Trends in revenue from electronic gaming machines**

As can be seen from table 9.6, there was a decline in expected revenue from gaming machines in 2007-08 as compared with 2006-07. This seems to have occurred largely as a result of restrictive measures (e.g. on smoking). Revenue is expected to rise to \$1.025 billion in 2008-09. It should be noted from the table that the proportion of the total taxation budget derived from taxes on electronic gaming machines has declined from 9.2 per cent to 7.7 per cent over the past three years from 2006-07 to 2008-09 and then is estimated to remain at this level over the next three years of the forward estimates to 2011-12.

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<sup>177</sup> Budget Paper No.4, *2008-09 Statement of Finances*, pp.184-185

<sup>178</sup> Department of Treasury and Finance, *\$1.43 billion relief for home buyers and business*, 6 May 2008, accessed at [www.budget.vic.gov.au/](http://www.budget.vic.gov.au/), 18 July 2008, p.3

<sup>179</sup> Budget Paper No.4, *2008-09 Statement of Finances*, pp.180-181



**Table 9.6: Electronic gaming machine budgeted revenue as a proportion of total tax revenue budget 2006-07 to 2008-09**

| Revenue item               | 2006-07<br>Budget<br>(\$ million) | 2007-08<br>Budget<br>(\$ million) | 2008-09<br>Budget<br>(\$ million) | 2009-10<br>Estimate<br>(\$ million) | 2010-11<br>Estimate<br>(\$ million) | 2011-12<br>Estimate<br>(\$ million) |
|----------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| <b>Gambling taxes</b>      |                                   |                                   |                                   |                                     |                                     |                                     |
| Electronic gaming machines | 1,006.4                           | 941.4                             | 1,025.0                           | 1,074.0                             | 1,126.4                             | 1,180.8                             |
| Total taxation             | 10,971.0                          | 11,589.0                          | 13,382.9                          | 13,795.9                            | 14,504.2                            | 14,977.2                            |
| <b>Per cent</b>            | <b>9.2</b>                        | <b>8.1</b>                        | <b>7.7</b>                        | <b>7.8</b>                          | <b>7.8</b>                          | <b>7.9</b>                          |

Sources: *Budget Paper No.4, 2007-08 Statement of Finances, p.135 and Budget Paper No.4, 2008-09 Statement of Finances, pp.43 and 179*

The Committee also noted that revenue from gaming machines in 2008-09 is estimated at 2.7 per cent of general government sector revenue.<sup>180</sup>

<sup>180</sup> Budget Paper No.4, 2008-09 Statement of Finances, pp.177, 179