

**National Reform
Agenda:
The case for sharing
the gains**

**Victorian Department of
Treasury and Finance
Discussion Paper**

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Executive summary

Key Points

- It is generally accepted that population ageing and other pressures mean that Australia will need to implement a broad new reform agenda if relative living standards are to be maintained.
- The National Reform Agenda agreed in principle by the Council of Australian Governments represents a major, comprehensive reform effort requiring a cooperative and coordinated approach between the Commonwealth and the States and Territories. This agenda will require a major effort by the States, particularly in delivering improved education, health and regulatory outcomes. In some areas it will foster healthy competition between the States to improve their performance.
- The Commonwealth's broad tax base and the States' extensive service delivery obligations mean these reforms are expected to provide much larger fiscal gains to the Commonwealth than the States and Territories.
- COAG has agreed in principle to sharing the costs and benefits of reform. Given the Commonwealth's greater fiscal resources, a system of independently-assessed incentive payments to the States (through the proposed COAG Reform Council) is needed to support the reform agenda. Governments need to undertake the analytical work required to agree on the rules for these gain-sharing arrangements as a matter of urgency.

1. Projections undertaken by the Commonwealth and Victorian Treasuries indicate that, without a renewed program of economic reform to raise productivity and participation, the share of GDP devoted to government spending and taxation will have to rise significantly over the next thirty years to maintain services as the population ages.
2. Victoria, with the support of other States and Territories, has proposed a National Reform Agenda (NRA) through the Council of Australian Governments (COAG) aimed at achieving a level of growth in productivity and participation that will substantially offset these fiscal pressures. The Commonwealth has agreed in principle with this agenda, and to sharing the costs and benefits of reform, at the February 2006 COAG meeting.
3. This agenda requires comprehensive reform across the areas of human capital (health, education and work incentives), competition and regulation. It is simply inadequate to proceed with piecemeal reform. Reform across the broad range of this agenda is needed now.
4. The proposed National Reform Agenda involves a big reform effort by the States, for example, to improve education and health outcomes. Some of this will involve actions on their own, and some will require coordination and cooperation with the Commonwealth. By raising productivity and participation this will take the pressure off the projected rising fiscal burden, but will involve significant investment in the short run. Given the greater fiscal resources of the Commonwealth and the large fiscal dividends they stand to gain from the reform agenda, it is critical that these reforms are underpinned by the principle of incentive payments and gain-sharing.
5. Economy-wide modelling by the Victorian Treasury of the proposed National Reform Agenda suggests that the potential increase in GDP should be in the range of 3 to

5 per cent over the next ten years and 9 to 14 per cent over the next 25 years. After ten years, this would lead to a fiscal dividend to the Commonwealth Government of \$6 to \$10 billion, with only \$1.5 to \$3 billion to the States. After 25 years, the fiscal dividend for the Commonwealth could be as much as \$35 billion, compared with less than \$5 billion for the States.

6. The Commonwealth Government has a broad tax base and the State Governments have a narrow tax base. Even after allowing for the transfer of GST revenue from the Commonwealth to the States, the States receive only 28 per cent of total tax revenue in Australia.
7. Despite this, the States have the responsibility for the lion's share of service delivery, especially in the key areas of health and education, which requires funds well in excess of the revenue that their tax base can generate.
8. Contrary to recent statements by the Commonwealth Treasurer, the States have shown more restraint in their own recurrent spending in recent years than the Commonwealth. Federal spending rose by 8 per cent a year between 2000-01 and 2004-05 — much faster than the 6.7 per cent a year growth in national output. Against this, spending by the States and Territories rose by 6.3 per cent per year, or less than output growth, despite much of State expenditure being in sectors of high price inflation such as health.
9. In light of the success of National Competition Policy, the Productivity Commission has recommended the principle of incentive payments from the Commonwealth to the States to promote reform. Such incentive payments would be based on the principle of sharing the fiscal dividends of reform, since the Commonwealth will receive the majority of the fiscal dividends. This arrangement can be described as “gain-sharing”.
10. Victoria has proposed, and COAG has agreed, that to ensure the best use of resources under this incentive payment and gain-sharing arrangement, a COAG Reform Council should be established to examine the reform plans of governments and the performance of jurisdictions in achieving the desired outcomes that will, in turn, raise productivity and participation (e.g. increased school retention, increased literacy and numeracy, a more skilled workforce, lower chronic disease in the working age population, a more effective health system, etc). The transfer of funds from the Commonwealth to the States to support the reform agenda would be based on the independent assessment of the COAG Reform Council.
11. The Victorian Government calls upon the Commonwealth Government and other States and Territories to move forward with urgency in setting up the COAG Reform Council and need to undertake the analytical work required to agree on the rules under which these gain-sharing arrangements will operate.

Introduction

Vertical fiscal imbalance (VFI), where the central government raises more revenue than it spends, is a feature of most federations. Australia has one of the highest levels of VFI in the world, with the Commonwealth controlling the broad-based revenue taxes and the States retaining large service delivery responsibilities. This imbalance is addressed by transfers of revenue from the Commonwealth to the States, through a system that has a major influence on the incentives for the States and the Commonwealth to pursue economic reforms to address future challenges, such as those presented by an ageing population.

Under current arrangements, the States have a reduced incentive to pursue costly reforms and investments where the fiscal benefits are likely to flow largely to the Commonwealth in the form of higher tax revenues. Similarly, there is a strong incentive for the Commonwealth to “free ride” on the States’ reform efforts. National Competition Policy (NCP) payments were, in the past, a means of correcting some of these incentives. The Productivity Commission, in its review of NCP reforms, stated that “The provision of financial incentives to the States and Territories, allowing them to share directly in the fiscal dividend from meeting their agreed reform commitments, has also played a critical role in keeping the reform process on track” (Productivity Commission, 2005, p. XXIII).

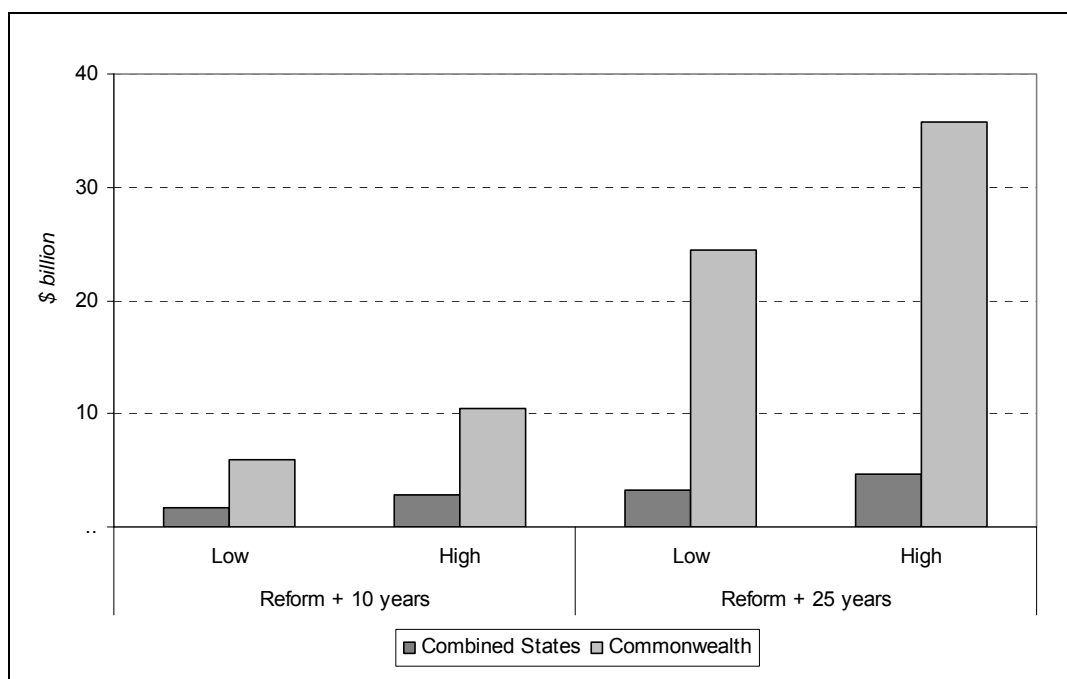
This paper discusses this issue, and makes the case for new financial arrangements to share the gains of the National Reform Agenda fairly between the States and the Commonwealth.

National Reform Agenda

At its February 2006 meeting, COAG agreed to undertake a comprehensive National Reform Agenda. This agenda represents a new wave of collaborative reform, building on the success of previous national economic and social policy reforms. The proposed agenda is broad-based, comprising three streams: human capital, competition and regulatory reform. These reforms are intended to provide a focus for achieving outcomes that will boost participation and productivity in the Australian economy in order to address the challenges from population ageing, technological change and global competition. The human capital reforms are intended to improve outcomes in health, education and training and workforce participation that are critical to future living standards.

Preliminary modelling of the economic and fiscal impacts of this agenda by the Victorian Treasury (Department of Treasury and Finance, 2006) suggests that it could increase the size of the national economy by between 3 and 5 per cent after ten years: even at the lower end, this is substantially more than the Productivity Commission has attributed to the National Competition Policy (NCP). This would lead to a fiscal dividend to the Commonwealth Government of \$6 to \$10 billion, and about \$1.5 to \$3 billion to the States. After 25 years, the economic impact could be between 9 and 14 per cent of GDP, which would return a fiscal dividend to the Commonwealth of as much as \$35 billion, compared with less than \$5 billion for the States (see Chart 1).

Chart 1: Distribution of net fiscal gains from National Reform Agenda



Source: Department of Treasury and Finance (2006)

The COAG communiqué of 10 February 2006 stated:

The key task for all governments is to now work together to translate the broad reform agenda agreed today into clear measurable outcomes and concrete actions.

The Commonwealth has indicated that it will provide funding to States and Territories on a case-by-case basis once specific implementation plans have been developed if funding is needed to ensure a fair sharing of the costs and the benefits of reform. Payments to the States and Territories, and where appropriate to local government, would be linked to achieving agreed actions or progress measures and to demonstrable economic benefits, and would take into account the relative costs and proportional financial benefits to the Commonwealth, the States and Territories and local government of specific reform proposals.

Any funding could take the form of Commonwealth and/or shared funding for specific initiatives, and/or payments from the Commonwealth linked to results.

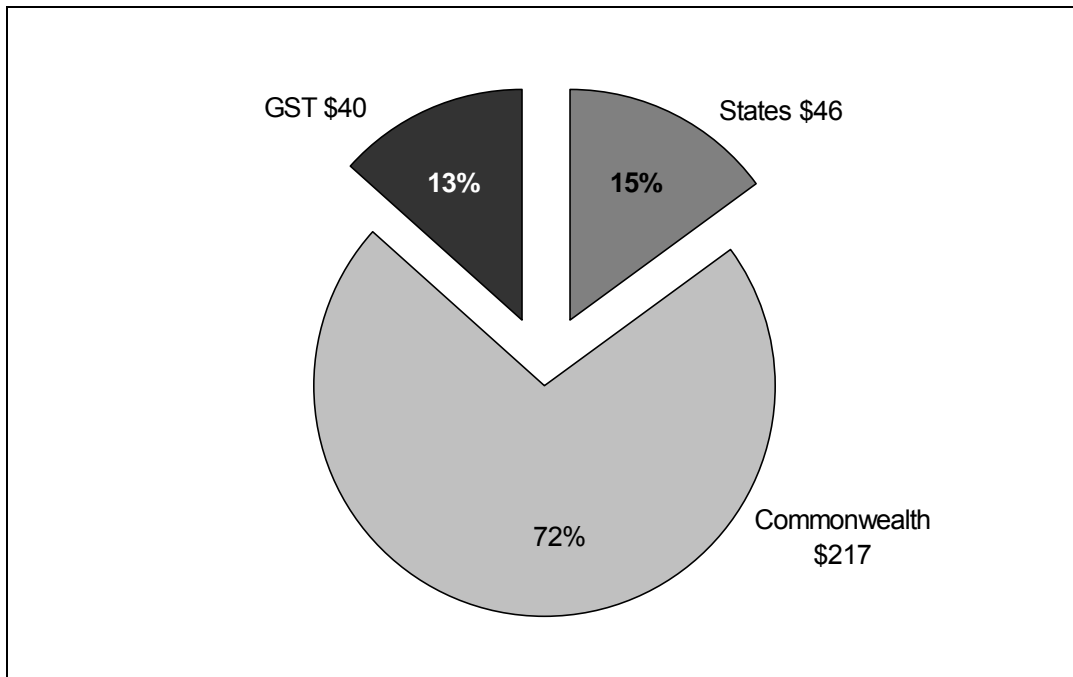
This paper provides an overview of the composition and recent history of State and Commonwealth finances, and discusses how the fiscal positions of respective governments change with economic growth. An understanding of the dynamics of government finances is essential for the design of funding arrangements that share the benefits of reform.

Commonwealth and State finances

Revenue

The revenue base of the Commonwealth is significantly greater than that of the States and Territories. General government taxation revenue (excluding local government, but including a small amount of intergovernmental taxes) in 2004-05 was \$270.8 billion. By convention, GST revenue of \$35.5 billion is classified as a Commonwealth tax. However, for the purposes of determining the sensitivity of available funding to the reform package, it can be reclassified to the States and Territories. After doing so, the taxation revenue of the Commonwealth in 2004-05 was \$193.7 billion, or 72 per cent of the total (See Appendix A). As Chart 2 shows, State taxes are forecast to make up only about 15 per cent of all tax revenue in the coming financial year.

Chart 2: Taxation (\$ billion), 2006-07 forecast



Source: *Commonwealth, State and Territory Budgets. 2006-07*

There are also significant qualitative differences between the taxation capabilities of the States and Commonwealth. In general, federal taxes are broadly based, generate large revenues, and have progressive tax scales, which imply that revenues grow faster than economic growth, due to “bracket creep”. In contrast, state and local taxes tend to be narrowly based and are mostly levied at flat rates. Therefore, state tax revenues, including the GST, tend to increase more closely in line with economic growth.

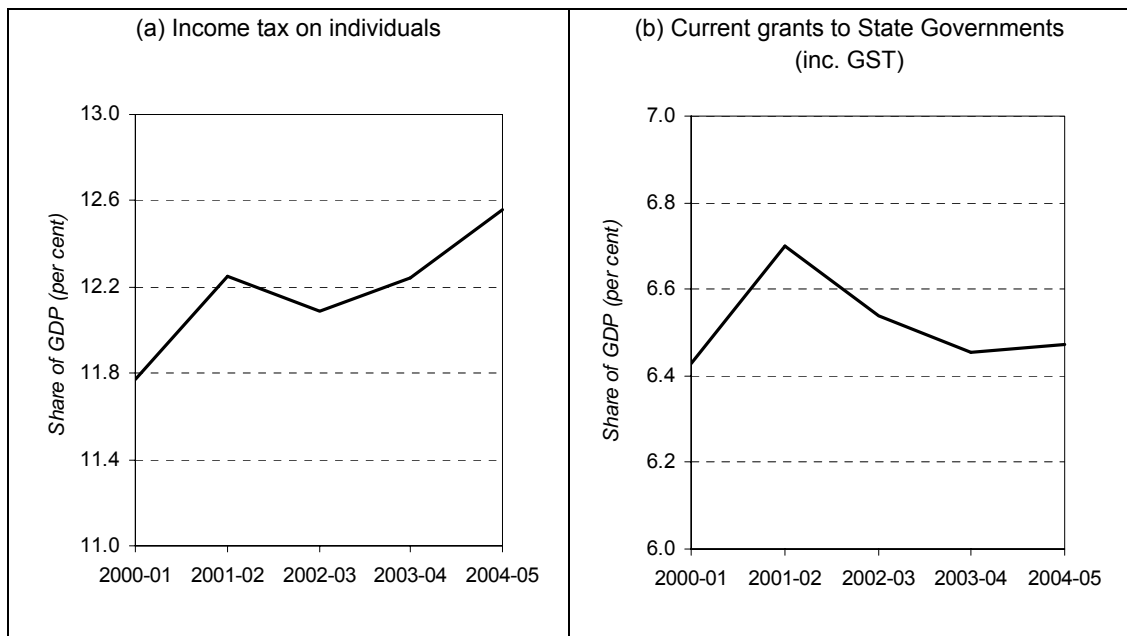
The progressive nature of the federal tax system implies that reductions in income tax rates should not necessarily be seen as “tax cuts” per se. For example, much of the Commonwealth’s recent income tax rate reductions simply return the tax revenue gains associated with bracket creep. In particular, “income tax cuts” have been announced in three successive Commonwealth Budgets, yet in each year the Commonwealth claimed that these “cuts” would ensure that 80 per cent of taxpayers would face a marginal tax rate of 30 per cent or less. Over the past four years, the ratio of income tax to GDP has

increased substantially despite some income tax cuts over the same period (see Chart 3(a)).

Commonwealth “income tax cuts” have largely amounted to de facto tax indexation, rather than changes to taxation policy, and represent “business as usual”. In assessing the fiscal impact of the NRA, the modelling results reported later in this paper assume that any gains to the Commonwealth from the effects of fiscal drag are eventually returned to taxpayers through adjustments to the income tax scales, in line with past practice.

Claims that the GST has provided a revenue windfall for the States and Territories are without foundation. The GST has replaced a number of state taxes, and because GST revenue grows broadly in line with household expenditure and is a flat rate tax, there is little prospect that it will reduce VFI. Taxation revenue (excluding the GST) has grown at similar rates for the Commonwealth and States in recent years. As Chart 3(b) demonstrates, total transfers to the States by the Commonwealth have not grown as a share of GDP over the last four years.

Chart 3: Income tax and transfers to the States



Source: Australian Bureau of Statistics, Cat. No. 5506.0, 5512.0, 5206.0

Since the Commonwealth’s major role is income redistribution rather than service provision, any revenue windfalls are likely to be returned as tax cuts or increases in income support. In contrast, the States’ responsibilities largely involve service provision in the areas of education, health, justice and infrastructure, so revenue windfalls tend to be shared with the community through either tax cuts or increases in the quantity and/or quality of these services.

To the extent that taxation revenue tends to increase in line with the size of the economy (whether through higher productivity or labour force participation), Chart 2 suggests that over 70 per cent of the additional taxation generated by the NRA will be gained by the Commonwealth.

Expenditure

The expenditure responsibilities of the Commonwealth and States are also quite different, and this affects the likely impact of the National Reform Agenda on the distribution of fiscal gains between the two levels of government.

The service delivery responsibilities of the States are reflected in the relatively larger share of employee expenses in their total expenses. In 2004-05, the state sector employed a total of 1.2 million workers compared to only 248,600 workers employed in the Commonwealth sector. The state sector payroll was \$59.7 billion (6.7% of GSP) compared to \$14.7 billion (1.6% of GSP) for the Commonwealth.

Commonwealth expenses, on the other hand, are dominated by transfer payments to the private sector and other levels of government. In 2004-05, these transfers amounted to over 60 per cent of Commonwealth expenses.

While state expenses are much more employment-intensive than those of the Commonwealth, claims of excessive wage and employment growth in the state public sector are unfounded. In the five years to 2004-05, the average annual employment growth rate in the state sector (1.8 per cent) was below the national employment growth rate of 2.1 per cent per year. In the five years to 2004-05, gross earnings per wage and salary earner in the combined state sector grew at an average annual rate of 4.1 per cent, which is broadly consistent with growth of gross earning per wage and salary earner in the Commonwealth sector.

Similarly, in the five years to 2004-05, the average annual growth rate of gross earnings in the State sector (6.0 per cent) was lower than the growth rate of nominal gross domestic product (6.7 per cent), implying that its share in GDP has fallen. In 2004-05, the average gross earnings per wage and salary earner in the combined state sector (\$50 868) was also lower than the average gross earning per wage and salary earner in the Commonwealth sector (\$58 952).

More generally, the States and Territories have demonstrated more restraint in their expenditure growth than the Commonwealth in recent years. From 2000-01 to 2004-05, total State & Territory gross operating expenditure grew at an average annual rate of 6.3 per cent. Over the same period, total revenue grew at an average annual rate of 6.9 per cent. The States and Territories in aggregate have maintained an operating surplus over this period, averaging more than \$4 billion per year.

Over the same period, Australia's nominal GDP grew at an average annual rate of 6.7 per cent, implying that the State & Territory Governments have merely maintained, if not reduced, their share of the national economy. In contrast, the Commonwealth Government increased its relative size over this period, with average annual growth in spending of 8 per cent (see Table 1).

Table 1: General government expenditure^(a)

	Average annual growth (per cent) 2000-01 to 2004-05 ^(b)	
	Gross operating expenditure ^(c)	Nominal GSP/GDP
Victoria	6.2	6.4
All States and Territories	6.3	6.7
Commonwealth	8.0	6.7

Source: Australian Bureau of Statistics, Commonwealth and State Budgets

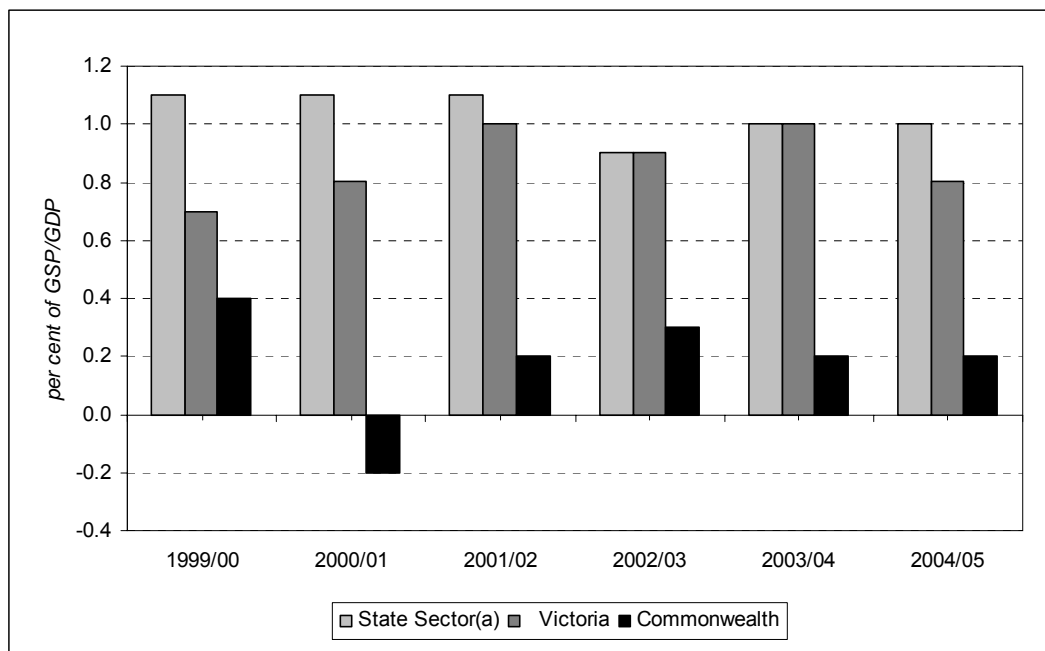
Notes: (a) ABS Government Financial Statistics basis.

(b) Latest data available.

(c) Gross operating expenditure is total expenditure less interest payments and transfers. It is a measure of recurrent spending and is equivalent to government consumption in the national accounts.

The operating surpluses of the States have been partly used to fund investment in essential infrastructure to a much greater extent than the Commonwealth. In the six years to 2004-05, state sector investment was ten times higher than that of the Commonwealth sector as a proportion of GDP (see Chart 4). This again emphasises the quite different expenditure obligations of the Commonwealth and the States.

Chart 4: Government investment



Source: State and Commonwealth Budget Papers

Note: (a) States refers to all States and Territories general government sector

The impact of reform

Influences on fiscal shares

Reform measures that increase productivity and real wages and encourage increased labour force participation and employment can be expected to contribute to increased revenue for both levels of government. There will also be induced effects on the expenses of governments, arising from increases in income and the demand for services and effects on transfer payments between governments and households. These will be independent of the costs associated with implementing the reforms.

Considering the effect of VFI, the Commonwealth would be expected to capture over 70 per cent of the additional taxation revenue from the NRA. However, there are reasons for believing that the Commonwealth share of the overall fiscal gains from the NRA will be even larger than this:

- Increased productivity resulting from the NRA will mean increased wages throughout the economy, including for government employees. Increased incomes will mean higher demand for goods and services, including government services. The States and Territories will incur more of the expenses associated with the NRA because their expenses are much more employee-intensive than those of the Commonwealth, reflecting their service delivery orientation.
- A considerable part of the non-taxation revenue of the States and Territories is likely to be less sensitive to the economic impact of the NRA. These are the so-called "Specific Purpose Payments" (SPPs) to the States and Territories, which are dominated by health and education funding. In general, these payments are related to movements in population and the consumer price index, neither of which is likely to be affected by the NRA without a change in existing policy. There is evidence that SPPs have been declining as a share of the total economy. This also means that a large part of Commonwealth expense is not sensitive to the NRA.
- The NRA is intended to encourage increased labour force participation, partly by reducing dependence on government transfers (age pensions, disability support, and unemployment benefits). These are predominantly an expense of the Commonwealth.

The first two items alone are expected to raise the Commonwealth share of the total fiscal gains to around 80 per cent, according to preliminary modelling previously published by the Victorian Treasury (Department of Treasury and Finance, 2006).

Modelling assumptions

The modelling made a series of assumptions about the reform sensitivity of Commonwealth and State/Territory revenue and expenses. These assumptions are set out in Appendix B.

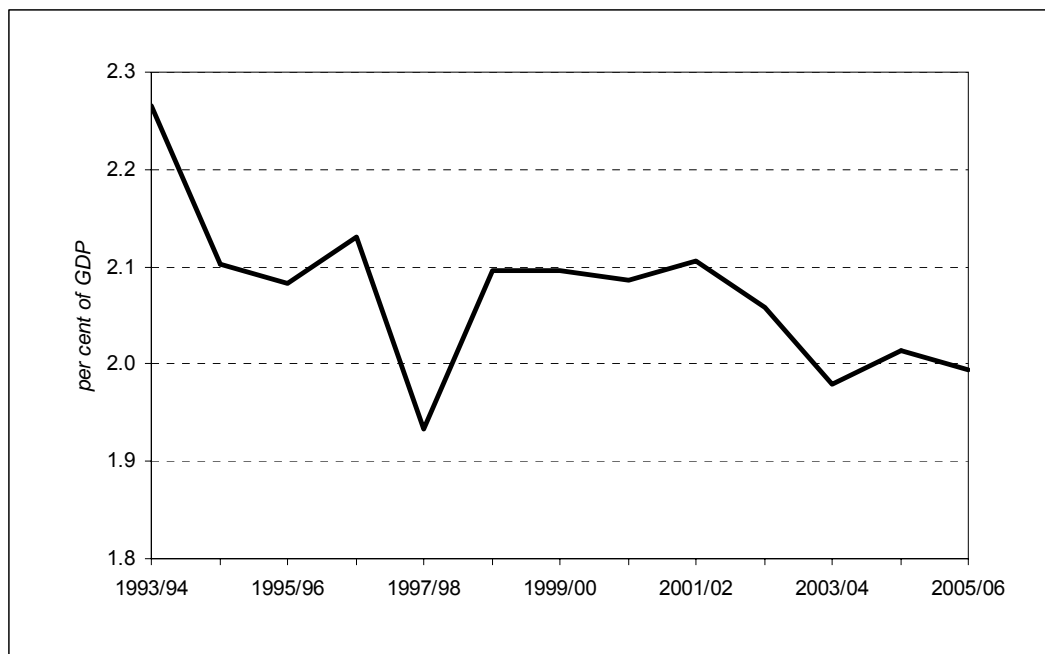
Clearly, Commonwealth and State/Territory taxation revenue will be influenced by the economic impacts of reform.

- Higher real incomes per capita (from increased real wages and gross operating surplus) and increased employment (reflecting higher labour force participation with unchanged unemployment rates) should contribute to increases in taxation for both the Commonwealth (for example, through income tax) and the States and Territories (for example, through payroll tax).

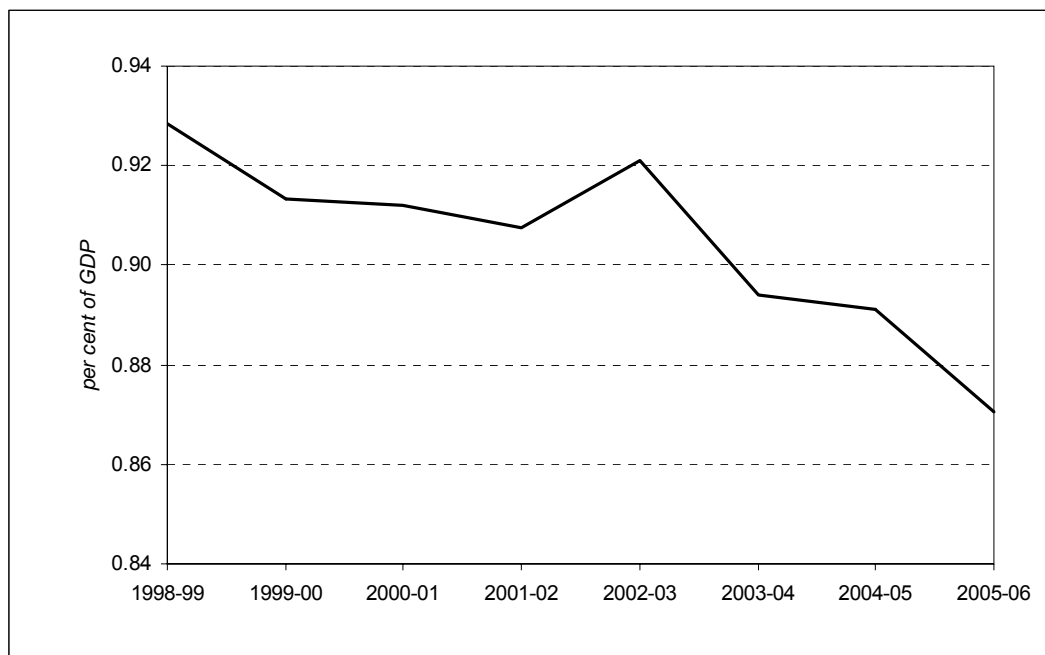
- Higher real consumer spending per capita should also lead to increased taxation, including goods and services tax (GST) ultimately received by States and Territories, as well as Commonwealth excise and State and Territory transactions taxes.

The growth of Specific Purpose Payments (SPPs) by the Commonwealth to the State/Territories is a Commonwealth policy decision. SPPs generally involve agreements that maintain them in real per capita terms. Consequently, if this approach is maintained, they may not be reform-sensitive in the sense that they do not respond to increases in the size of the economy. Historically, SPPs in aggregate have tended to decline as a share of GDP (see Chart 5), and this is also evident for a specific program such as the Australian Health Care Agreement (see Chart 6). The alternative assumption is that there will be a policy change by the Commonwealth, with the level of SPPs increased to allow for the increasing size of the economy. The most appropriate assumption is that current policy is maintained, particularly in light of the historical data.

Chart 5: Specific Purpose Payments to the States and Territories



Source: Commonwealth Treasury, *Final Budget Outcome*, various years

Chart 6: Australian Health Care Agreement payments to the States/Territories^(a)

Source: Department of Human Services, Victoria

Note: (a) Includes National Health Development Fund payments under first agreement and Pathways Home payments under second agreement. Data for GDP and population estimated for 2005-06. Population based on year-average data.

There are strong reasons to expect government wage expenses to increase in response to the reform agenda:

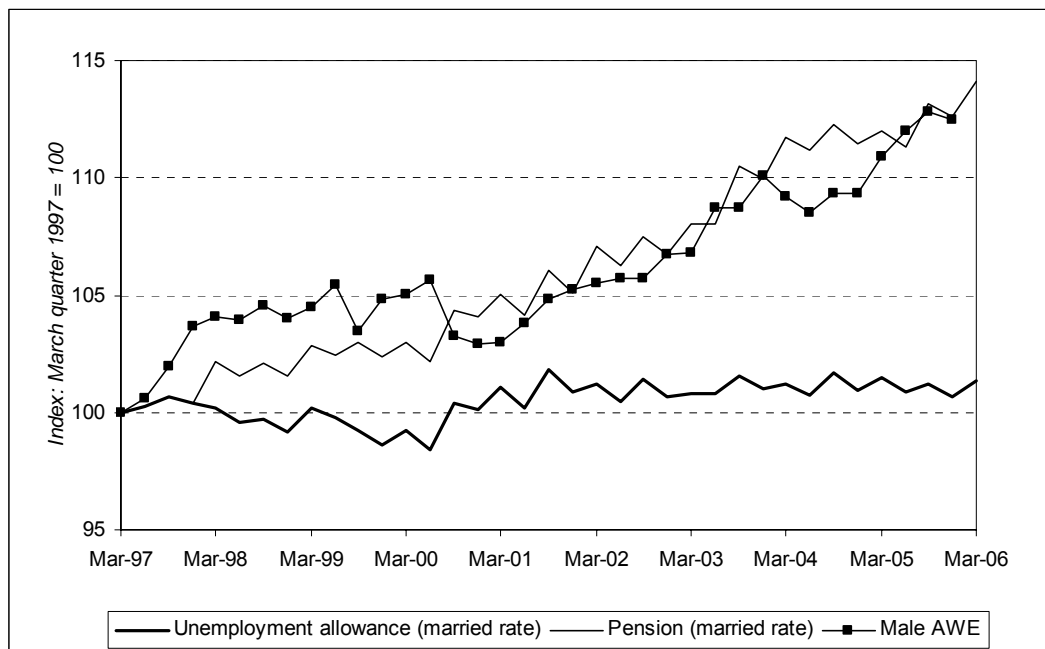
- First, higher real wages from technical efficiency improvements in the market sector will need to be matched by the government sector.
- Second, a long-run increase in the size of the market sector from the combined effects of higher productivity and participation will contribute to higher real per capita incomes and an increase in the demand for government services (unless there is a deliberate policy for the private sector to supply these additional services).
- Third, efficiency improvements within government operations (such as through more efficient service delivery) will tend to reduce the share of government employment in total employment only if they exceed productivity improvements in the private sector. However, this is unlikely. For example, the reform agenda is expected to achieve improved outcomes in both public and private health and education.

Increases in other operating expenses (such as purchases of materials and depreciation) are likely to be less sensitive to the reform package because they will not be affected by the real wage gains associated with higher productivity, although it is possible there may be an impact from an expansion in the size of the economy. On the one hand, the real cost of technology may decline, but on the other hand the demand for better technologies may increase. The modelling assumes that operating expenses are related to movements in the CPI.

The impact of reforms on transfer payments from governments to households is also dependent on policy decisions by the Commonwealth. Again, a no policy change assumption is appropriate. First, Commonwealth pensions (for example, age, veterans and disability) are effectively institutionally indexed to male wage rates at present. Allowances,

such as those for unemployment beneficiaries, are indexed to the CPI. Chart 7 compares indexes of the unemployment allowance and the pension rate for married people and male average weekly earnings (AWE), all deflated by the CPI, over the past ten years. While the real pension rate has grown in line with real male AWE, the unemployment allowance has remained broadly unchanged in real terms. Since the introduction of the GST, there has been practically no change in unemployment allowance rates relative the CPI, despite a substantial increase in the real wage. Second, as one of the principal objectives of the NRA is to raise labour force participation by strengthening work incentives and improving health and education outcomes, the reform agenda will reduce transfers to households.

Chart 7: Unemployment allowance, pension rates and male AWE, deflated by CPI



Sources: ABS, <http://www.facs.gov.au/guide/sssguide/52210.htm#5.2.2.10M>

The modelling assumes that there are no induced impacts on Commonwealth transfers to households, and does not allow for any impacts from reductions in the take-up rates of Commonwealth pensions and allowances.

Modelling results

The estimated impacts of the NRA on Commonwealth and State “net available funding” is shown in Chart 1, for the combined States and Territories and the Commonwealth. The modelling indicates that after ten years, almost 80 per cent of the fiscal gains accrue to the Commonwealth.

Conclusion

The preliminary modelling work previously conducted by the Victorian Treasury suggests that the fiscal dividend to the Commonwealth may be as much as \$6 to \$10 billion after ten years, compared with only about \$1.5 to \$3 billion to the States. This reflects the relative shares of reform-sensitive funding available to each level of government, as shown in Appendix A. Over the longer term, the benefits of reform will shift further in favour of the Commonwealth, assuming no change in policy with respect to SPPs. After 25 years, the fiscal dividend for the Commonwealth could be as much as \$35 billion compared with less than \$5 billion for the States (see Table 2).

Table 2: Net impact of the NRA (\$ billion, 2005-06 prices)

	2015-16	2030-31
Commonwealth	6.0 – 10.4	24.5 – 35.7
(share in total)	(78%)	(88%)
Combined States and Territories	1.7 - 2.9	3.3 – 4.7
(share in total)	(22%)	(12%)
Total	7.7 – 13.3	27.8 – 40.4

Source: Department of Treasury and Finance (2006)

These results demonstrate two simple propositions. Firstly, that the fiscal position of the Commonwealth is likely to improve disproportionately to that of the States as the economy expands, even after allowing for income tax “bracket creep” to be returned as tax cuts. Secondly, that this imbalance is likely to worsen over time.

The NRA will require a major effort by the States in areas such as education and health outcomes. Some of this will involve actions on their own, and some will require coordination and cooperation with the Commonwealth. By raising productivity and participation this will take the pressure off the projected rising fiscal burden but will involve significant investment in the short run. Given the greater fiscal resources of the Commonwealth and the large fiscal dividends they stand to gain from the reform agenda, it is critical to invoke the principle of incentive payments and gain-sharing.

Victoria has proposed, and COAG has agreed, that to ensure the best use of resources under this incentive payment and gain-sharing arrangement, a COAG Reform Council should be established to examine the reform plans of governments and the performance of jurisdictions in achieving the desired outcomes that will, in turn, raise productivity and participation (e.g. increased school retention, increased literacy and numeracy, a more skilled workforce, lower chronic disease in the working age population, a more effective health system, etc). The transfer of funds from the Commonwealth to the States to support the reform agenda would be based on the independent assessment of the COAG Reform Council.

References

Department of Treasury and Finance (2006), The Economic and Fiscal Dividends of a New National Reform Agenda, Working Paper, January 2006

Productivity Commission (2005), Review of National Competition Policy Reforms, Report no. 33, Canberra.

Appendix A: Revenue shares

Table A1: Inter-government allocation of net available funding base levels in 2004-05

	Commonwealth		States/Territories		Total
	(\$billion)				
Taxation revenue (GFS basis)	229.1	(85%)	41.6	(15%)	270.8
Reclassify GST to States/Territories	-35.5		35.5		0.0
Taxation revenue	193.7	(72%)	77.1	(28%)	270.8
Other revenue excluding grants	12.8		30.6		43.4
Total revenue	206.4	(66%)	107.7	(34%)	314.1
Reform sensitive expenditures^(a)	17.1		54.9		72.0
Reform-sensitive net funding	189.4	(78%)	52.8	(22%)	242.2

Source: ABS, *Taxation Revenue 2004-05* (Cat. No. 5506.0) and *Government Finance Statistics, 2004-05* (Cat. No. 5512.0).

Note: (a) Employee expenses.

Appendix B: Projected revenue and expenses by level of government

Table B1: Commonwealth revenue - 2015-16

Revenue source	% of revenue	Economic driver (% change in)
Taxes on income	48.1%	Employment plus nominal wage
Company income tax	16.4%	Nominal gross operating surplus
Other taxes on enterprise	2.5%	Average of above
Total income taxes	67.1%	
Fringe benefits tax	1.9%	Employment plus nominal wage
Superannuation guarantee charge	0.1%	Employment plus nominal wage
Taxes on property	0.0%	Nominal GDP
Sales taxes	0.5%	Nominal consumption
Goods and Services Tax	14.7%	Weighted average of nominal consumption & nominal dwelling investment
Excise duties on petroleum	6.5%	Real consumption
Other excise duties	0.3%	Nominal consumption
Total excise duties	6.8%	
Customs duty on imports	3.5%	Nominal imports
Total taxes on goods and services	25.4%	
Other taxes	0.4%	Nominal GDP
Total tax revenue	94.8%	
Total non-tax revenue	5.2%	Nominal GDP
Total Commonwealth Budget revenue	100.0%	

Source: DTF-Access Economics long-term budget model

Table B2: Combined States and Territories revenue - 2015-16

Revenue source	% of revenue	Economic driver (% change in)
Payroll taxes	10.2%	Employment plus nominal wage
Land taxes	2.5%	Nominal GDP
Stamp duties on financial and capital transactions	6.6%	Weighted average of nominal dwelling and business investment
Financial institutions' transactions taxes		No impact because abolished
Taxes on gambling	4.0%	Nominal consumption
Taxes on insurance	3.0%	Nominal GDP
Motor vehicle taxes	4.2%	Nominal GDP
Other taxes	0.8%	Nominal GDP
Total taxes	31.4%	
Total grants and subsidies	44.4%	
<i>of which:</i>		
GST	28.0%	Weighted average of nominal consumption & nominal dwelling investment
Other grants and subsidies	16.3%	Population plus CPI
Sales of goods and services	10.7%	Nominal consumption
Interest income	2.0%	Nominal GDP
Dividend income	2.5%	Gross operating surplus
Income tax equivalent income	1.1%	Gross operating surplus
All other revenue	7.9%	Nominal GDP
Total non-tax revenue	24.2%	
Total States Budget revenue	100.0%	

Source: DTF-Access Economics long-term budget model

Table B3: Commonwealth expenses - 2015-16

Expense	% of revenue	Economic driver (% change in)
Total depreciation	0.7%	Public nominal capital stock
Total employee expenses	7.0%	Employment & nom wage growth
Other operating expenses	21.0%	CPI
Gross operating expenses	28.6%	
Superannation interest	1.5%	No response
Other interest expenses	0.7%	nominal GDP
GST grants	14.5%	Goods and services tax
Other grants	14.7%	CPI
Total grant expenses	29.2%	
Subsidy expenses	2.5%	CPI
Other current transfers	36.0%	CPI
<i>Of which (estimate):</i>		
Sickness and disability benefits	7.1%	
Old Age Benefits	12.3%	
Unemployment Benefits	4.4%	
Family and Child Benefits	8.4%	
Other social security	0.2%	
Other transfers	3.8%	
Capital transfers	1.4%	CPI
Total expenses	100.0%	

Source: DTF-Access Economics long-term budget model

Table B4: Combined States and Territories expenses - 2015-16

Expense	% of revenue	Economic driver (% change in)
Total depreciation	4.3%	Public nominal capital stock
Total employee expenses	43.0%	Employment & nom wage growth
Other operating expenses	26.5%	CPI
Superannuation interest	1.6%	No response
Other interest expenses	4.8%	Nominal GDP
Grant expenses	11.8%	CPI
Subsidy expenses	4.3%	CPI
Other current transfers	1.0%	CPI
Capital transfers	2.6%	CPI
Total expenses	100.0%	

Source: DTF-Access Economics long-term budget model