State government revenues
– a guide for housing activists

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THIS PAPER is an overview of where the NSW state government gets its revenue. It describes the main sources of revenue for the government, and gives examples for some social programs.

Why have we prepared this paper? Housing activists have argued (and still do) that addressing disadvantages in the market place for housing needs action or intervention by government to bring some balance to the picture. Inefficiencies in the way markets work and inequities in opportunities and outcomes provide the rationale for this: the case for government action is based on a public interest, not on a special pleading for particular sectors (even if that is how it appears), since markets work less effectively for those people who bring less ‘endowments’ with them. Government actions cost money, so we tend to focus on expenditure programs: spend money over here, you are not spending enough over there, etc. The other side of the equation, though, is ‘where’s the money coming from?’. This is a particular challenge for New South Wales, since government expenses have been increasing at a faster rate than government revenues in the early 2000s, and the NSW government has few options to increase revenue from its own sources. Governments can face deficits, although deficit budgeting – while it is popular with advocates who want more spent on their causes and services – is not popular with media commentators and it presents electoral risks.

So what is happening on the revenue side is critical for considering what might be possible on the expenditure side: is a government raising enough from taxes and other sources? Are those taxes (etc.) efficient and equitable? How do the choices made about government revenues affect the opportunities for appropriate expenditures on social programs? This paper dos not provide policy positions or answers to those questions, but it presents some background information that will inform thinking about them.

1. Background

The governmental system in Australia has 3 spheres. The national system of government is a federal one, resulting from a federation of 6 self-governing (but not then independent) British colonies in 1901. Those colonies (which became states under the new federal constitution) ceded responsibility for some matters to the new governmental structure: this ceding was either total or partial (i.e. the states retained some responsibility on a shared basis).

The colonies/states had already established local governments with delegated powers. All 3 spheres of government have the capacity to raise revenue for their general purposes. In the case of the state and Commonwealth governments that power derives from their constitutions, and in the case of the Commonwealth, those powers are ones given to it at federation or subsequently, in the founding constitution or amendments since 1901. Likewise the taxation powers of local government derive from the state, since local governments are constituted by an act of state parliament (the Constitution Act of 1902) in the case of New South Wales, and local governments are, in a sense, ‘arms-length’ delivery agents of state government.

The glossary on page 64 explains terms used in this resource.

2. Overview

Governments spend money and governments raise money, through taxes, primarily. They lend money and borrow money. They can be in the red or in the black, as a matter of policy or because of good fortune or misfortune. They budget for and produce an annual report on recurrent incoming and outgoings in the same way a nonprofit organization produces an income and expenditure statement and a for-profit business produces a profit and loss statement. This is called an operating statement.[1] The operating statement indicates the net operating balance, which is the differences between revenues and expenses. Like for-profit businesses, governments produce a yearly balance sheet, which is a statement of its financial position at a given point in time (such as the end of the financial year): this shows the government's net worth, which is the difference between assets and liabilities.

In the case of revenues, the most significant taxation powers given at federation to the new federal sphere of government ('the Commonwealth') were excise and customs duty.

The Commonwealth government also was given the power to make financial assistance grants to the states (under section 96 of the Constitution).

In 1942, another change in the two spheres' revenue sources happened when the Commonwealth government assumed a monopoly over income tax. The federal and state governments both had income-taxing powers from the end of the First World War until then but the Commonwealth government put a condition on grants in 1942 that the states no longer collect it.

In the early 1970s, the Commonwealth government made greater use of its power to make specific purpose payments to the states as a basis for incentivating states to co-deliver federally-initiated and/or controlled programs. This mechanism locked in states to federally-controlled programs, and created a dependence on the Commonwealth government for specific subsidies for programs that were in the states' jurisdiction. The centralist trend in the early 1970s has been repeated in the early 2000s. This trend contrasts with the situation in western Europe where the *subsidiarity* principle leads to a greater focus on devolution of powers. Specific purpose payments comprise about 15% of states' revenues and can, with requirements for matched expenditures, account for up to 33% of state spending.[2]

In 2000, the Commonwealth government introduced a value-added tax on goods and services (the Goods and Services Tax – GST), and dedicated the revenue (less administrative costs) from this tax to the states and territories as grants. The GST grant is 'untied', i.e. the states may spend this revenue as they wish. The GST was accompanied by an *Intergovernmental agreement on the reform of Commonwealth–*

state financial relations made in June 1999, which, as its says, governs Commonwealth–state fiscal relations.

These historical changes have produced a situation where a state government cannot rely on its own sources of revenue to fund all the various and broad areas of responsibility it has, and grants from the Commonwealth government are an essential source of revenue. This is referred to as *vertical fiscal imbalance*. It can be measured by the percentage difference between a government's revenue from its own sources (*own-source revenue)* and its expenses on matters that are its primary responsibility (*own-purpose expenses*).[3] The vertical fiscal imbalance is lower (i.e. less imbalanced) where a government's own-purpose revenues are a higher proportion of its own-source spending.

2.1 Fiscal federalism

Fiscal federalism is simply the term to describe the situation where a country has a federal system of government and the various spheres (national and subnational) have varying responsibilities for collecting revenue and spending money. Australia is not the only country with such arrangements: other Organization for Economic Cooperation and Development countries with fiscal federalism include Austria, Belgium, Canada, Germany, Mexico, Switzerland, and the USA.

The major sources of revenue for a government are:

- taxes
- fees for service
- fines
- returns from profits made by government-owned businesses
- grants and subsidies from other governments (or international agencies)

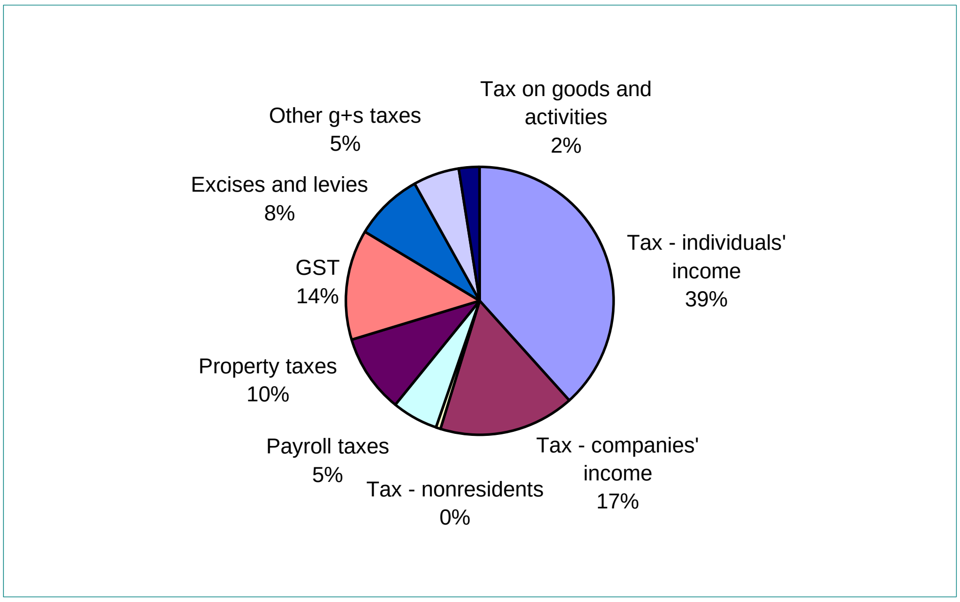
> A tax is a payment (transfer) made by an individual or business to the general government sector that is both compulsory and unrequited, 'unrequited' meaning that the benefits provided by government to a taxpayer are not necessarily in proportion to the taxpayer's contribution.

The major categories of tax in Australia are:

- income tax on individuals and businesses
- taxes on employers' payrolls
- taxes on property
- taxes on provision of goods and services
- taxes on the use of goods and the performance of activities

The category of tax that yields the biggest proportion of tax revenue in Australia is tax on individuals' income, which comprises 39% of total taxation revenue from all spheres of government in Australia.[4] The 2nd most important Australian tax is tax on companies' income, which comprises 17% total taxation revenue from all spheres of government. The 3rd most important tax is the GST, which comprises 14% total taxation revenue. See Figure 1. All 3 of these taxes are federal taxes.

FIGURE 1: TAX RECEIPTS MIX (%), AUSTRALIA, 2003-04



Source: Australian Bureau of Statistics, 'Taxation revenue, Australia (reissue), 2003-04', ABS cat. no. 5506.0, 19 April 2005.

The tax mix in Australia is similar to most Organization for Economic Cooperation and Development countries.[5] However, Australia has a very high level of vertical fiscal imbalance compared with other OECD countries that have fiscal federalism, and this situation is strikingly different from the situation in Canada, Switzerland and the USA.[6] While the Commonwealth government collects about 80% of Australian tax revenues, it is responsible for only about 54% of total expenses. In contrast, the states collect about 16% of Australian tax revenues but are responsible for about 40% of total expenditures.[7]

A government's revenue is affected by a combination of:

- cyclical factors, i.e. the impact on a tax of movements in the market on the activity that is being taxed; and
- structural factors, i.e. the impact of changes in institutional arrangements.

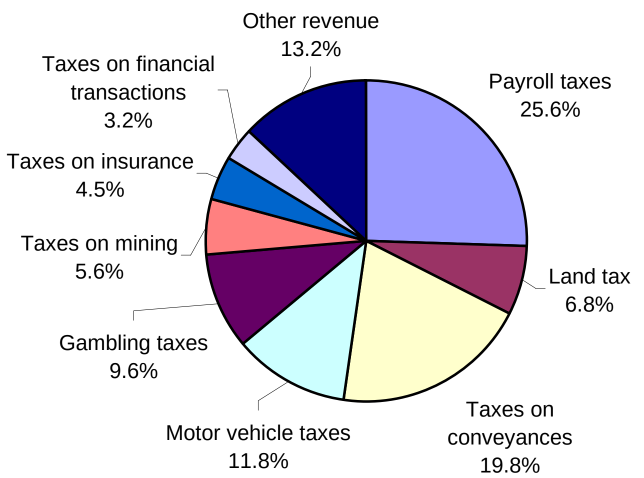
2.1.1 States' revenue sources

The sources of revenue for a state government are:

- taxes
- fees for service
- fines
- returns from profits made by government-owned businesses
- grants and subsidies from other governments, particularly the Commonwealth government

Figure 2 indicates the own-source revenue for the states and territories for the 5-year period 2000-01 to 2004-05 (i.e. revenue from their own sources, not including revenue from other sources such as grants from the Commonwealth government). It shows that property taxes – land tax and taxes on conveyances (transfer duty) – were the single biggest source of own-source revenue (26.6%), followed by payroll tax (25.6%).

FIGURE 2: TAX RECEIPTS MIX: STATE GOVERNMENTS' OWN-SOURCE REVENUE (%), 2001 TO 2005



Source: Commonwealth Grants Commission, *2006 relative fiscal capabilities of the states*, Canberra, 2006, p.11. Notes: The proportion of revenue from any particular source fluctuated from year to year in the 5-year period. 'Taxation on financial transactions' includes stamp duties on shares and marketable securities. 'Other revenue' includes miscellaneous taxes and revenue, and contributions by government trading enterprises.

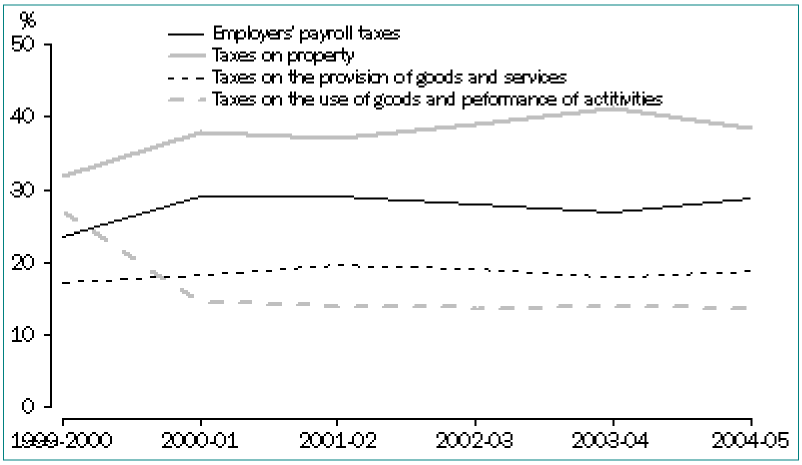
Taxes

It is obvious from Figure 2 that taxes generate more than 85% of state governments' own-source revenue. The main categories of tax revenue for a state government are:

- property taxes (transfer duty, and land tax) – the most important independent source of revenue for the states, these raised 41% of revenue from taxes for all state and territory governments in 2003-04[8];
- taxes on employers' payrolls – these raised 26% of tax revenue for all state and territory governments in 2003-04;
- taxes on provision and use of goods and services, e.g. on gambling and on insurance; and
- taxes on the use of goods and the performance of activities, e.g. motor vehicle taxes.

Since 2000, taxes on property have become a more important source of the states' and territories' tax revenue, at over 40% of total tax revenue. The tax base for these taxes is a volatile one, because of cyclical changes in housing markets. Taxes on employers' payrolls have plateaued at under 30%, taxes on provision and use of goods and services have been pretty level at just under 20%, and taxes on use of goods and performance of activities have fallen to about 8%.[9] See Figure 3. (Note that this figure differs from Figure 2 in showing revenue mix from taxes only, whereas Figure 2 shows the mix from all own-source revenue.)

FIGURE 3: TAX RECEIPTS MIX (%), STATES AND TERRITORIES, 1998 TO 2003



Source: Australian Bureau of Statistics, 'Taxation revenue, Australia (reissue), 2003-04', ABS cat. no. 5506.0, 19 April 2005.

The states and territories have a number of taxes that the Commonwealth government wants them to abolish. Those taxes are:[10]

- stamp duty on non-residential (i.e. business) conveyances;
- stamp duty on quotable marketable securities;
- stamp duty on commercial leases;
- stamp duties on mortgages, bonds, debentures, and other loan securities;
- stamp duties on credit arrangements, instalment purchase arrangements, and rental arrangements; and
- stamp duties on cheques, bills of exchange, and promissory notes.

All states have indicated they will abolish them by 2012.[11] The abolition of those taxes is part of the process of rationalizing indirect taxes that began with the introduction of the GST and other tax changes in 2000.

Warren, in a report for NSW Treasury, cited an OECD study that suggested that subnational governments should minimize the use of taxes with these characteristics:[12]

- They had a highly mobile tax bases (i.e. the taxpayers could easily move out of the taxable activity).
- They were redistributive (i.e. the tax sought to redistribute income from higher-income to lower-income earners/taxpayers).

- They were subject to sharp fluctuations in the market or economy.

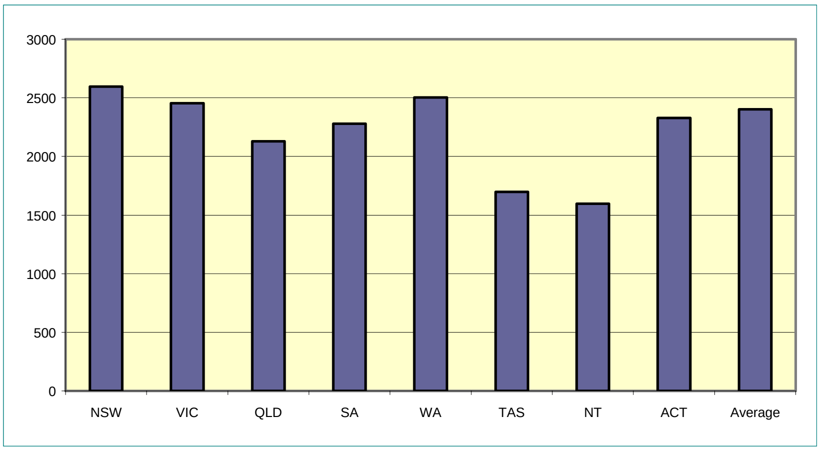
He suggested that land taxes and payroll tax were more economically efficient than other state taxes, like stamp duty.[13] The efficiency of payroll tax rests on its base – labor is a widely used means of production, and so the tax base is relatively broad. The efficiency of land tax rests on its base, land, which has a fixed supply, and taxes on it will not typically reduce the overall supply of land.

Property and transaction taxes comprise 3% of Gross Domestic Product in Australia, which is close to the average for OECD countries that are broadly similar to Australia in terms of their overall tax to Gross Domestic Product ratio and in terms of the role of the government sector in their economies.[14]

Payroll tax is particularly important for the states because it generates revenue on a more predictable basis than many other state taxes, since it tends to grow steadily with employment and wages growth.[15] Interestingly, the property industry, which wants property taxes to be reduced and phased out, suggests that payroll tax is a better tax for the states because it is the most broad-based, stable, and robust growth tax.[16]

Figure 4 shows the amount of taxation per head of resident population for each state and territory, that is collected by their state/territory and local governments. Of the 5 mainland states, New South Wales taxes the most and Queensland the least.

FIGURE 4: TAXATION PER CAPITA ($), STATES AND TERRITORIES, 2003-04



Source: Australian Bureau of Statistics, 'Taxation revenue, Australia (reissue), 2003-04', ABS cat. no. 5506.0, 19 April 2005. Note: Includes local governments' taxes.

One of the features of fiscal federalism is 'tax competition': different governments in the same sphere might not levy a tax or they can levy the same tax at a lower rate in return for some other advantage over other governments in the sphere. A low-taxing state will be seen by (most) businesses and individuals as a better place to work and live than a higher-taxing state.

So, for example, NSW business groups lobby for a lower rate of payroll tax by comparing the rates in Queensland or Victoria and predicting a flight of capital to those states.[17]

An increase in a tax can therefore have a perverse effect of adversely affecting its own tax base. A vendor transfer tax (applied as a stamp duty on sales or transfer of land-related property) which existed in New South Wales in the mid 2000s was said to have had a negative effect on investment in residential property[18], and to have caused a displacement of such investment from New South Wales to Queensland – indicating that the tax had a highly mobile tax base, and therefore was not a suitable tax on economic efficiency grounds for a subnational government, using Warren's criteria. The tax was introduced on 1 June 2004 (having been announced in a mini-Budget in May 2004) but was abolished in August 2005.

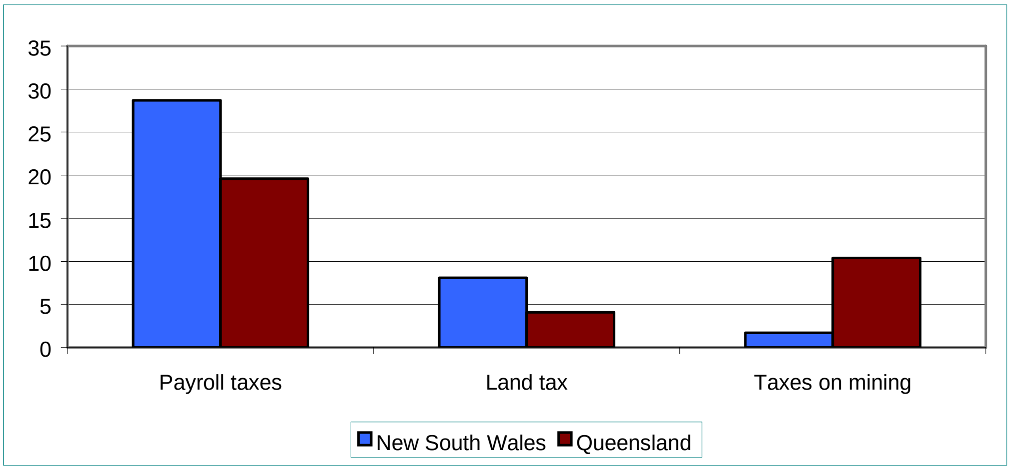
For Sydney, with the aspirations of business groups and governments for it to be regarded as a 'global city', the state government also has to consider the global positioning of certain city and state economies (Sydney; New South Wales): a state tax can be compared with a similar tax overseas, as well as interstate.

Such tax competition works both ways. The ACT government does not give first homebuyers an exemption of transfer duty as the NSW does (see page 32): there has been a boom in homebuying in NSW settlements around the ACT, allegedly as a result.[19]

Different governments' capacities to use different tax types can be seen in Figure 5, which compares the proportional contributions of 3 taxes to total own-source revenue in New South Wales and Queensland over the 5-year period 2000-01 to 2004-05.

Ten percent of the Queensland government's own-source revenue came from taxes on mining, whereas these taxes provided only an average of 1.7% of the NSW government's total own-source revenue. Payroll taxes were much more important as own-source revenue for the NSW government, providing an average of 28% of own-source revenue; in contrast, payroll taxes comprised an average of 20% of the Queensland government's own-source revenue. Likewise, land taxes were more important as own-source revenue for the NSW government, providing an average of 8% of own-source revenue; in contrast, land taxes comprised an average of 4% of the Queensland government's own-source revenue.

FIGURE 5: SELECTED TAXES AS AVERAGE PERCENTAGE OF TOTAL OWN-SOURCE REVENUE, NEW SOUTH WALES AND QUEENSLAND, 2001 TO 2005



Source: Commonwealth Grants Commission, *2006 relative fiscal capabilities of the states*, Canberra, 2006, p.13. Note: The percentage of revenue from any particular tax source fluctuated from year to year in the 5-year period but the patterns were stable.

Grants from the Commonwealth

The states get 3 types of grant from the Commonwealth government:

- GST grants – these are untied grants from the amount collected by the Commonwealth government's GST; they replace the untied, general purpose payments that were given before 2000, and have been given at a generally higher level than the former general purpose payments because of the robust state of the Australian economy in the early 2000s;
- specific purpose payments in matters of state responsibility where the Commonwealth government has its own policy goals which it can implement through funding;
- National Reform Agenda grants – the state and territories were given Commonwealth government grants called National Competition Policy payments from the late 1990s, as incentives to remove anti-competitive regulations and taxes under a multilateral agreement on competition policy made in 1996: the last payment of those payments was in 2005-06; a National Reform Agenda agreed to by the Council of Australian Governments on 10 February 2006 succeeds it, but the Commonwealth government funding under this agreement will be ad hoc.[20]

States and territories have also been eligible for a Commonwealth grant known as 'budget balancing assistance' to ensure that they were not worse off because of having abolished certain state taxes following the introduction of the GST and during the transitional period of bedding it down. In the Commonwealth budget for 2006-07, the Commonwealth government extended this period to 30 June 2009.

2.1.2 The Commonwealth's revenue sources

The sources of revenue for the Commonwealth government are:
- taxes
- fees for service
- returns from profits made by government-owned businesses
- grants and subsidies from other governments, including any from international agencies

Revenue from taxation is much more important than revenue from non-taxation sources. Taxation revenue comprised 93% of the Commonwealth government's general government revenue in 2005-06.[21]

Taxes

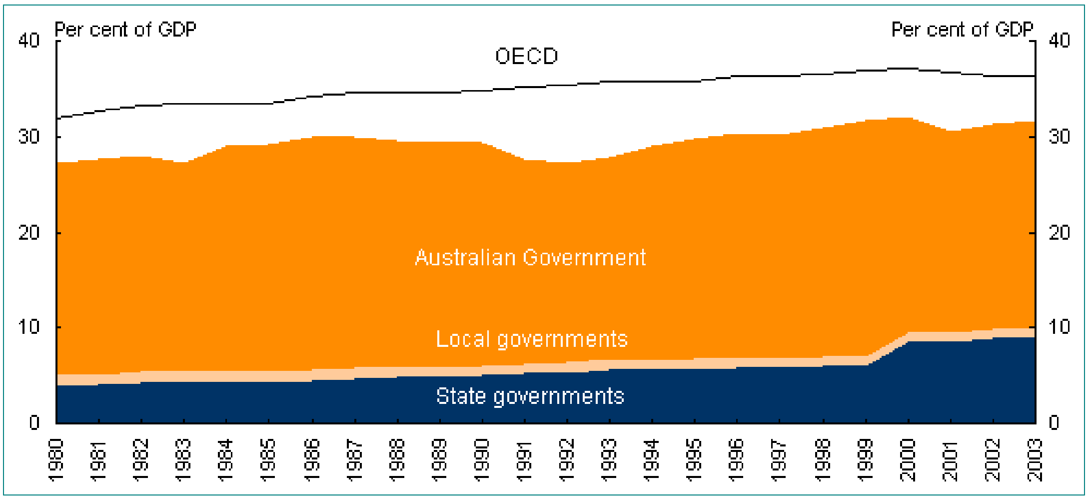
The Commonwealth's share of tax revenue from all spheres of government is 81.5%.[22] That is, just over 80% of tax revenue is collected by the Commonwealth.

The main Commonwealth government taxes are (in order):
- direct income tax on individuals – charged on a progressive basis;
- direct income tax on companies – charged as a flat rate; and
- the GST.

Because the Commonwealth government has committed the revenue raised by the GST to the states as a grant, it treats this tax as a state tax, not a federal tax – even though the tax was a Commonwealth government initiative and the states cannot alter the GST base and rate of tax, let alone abolish it. However, the system of Government Finance Statistics used by the Australian Bureau of Statistics treats the GST as a federal tax (not a state tax) and records GST revenue to the states as a grant from the Commonwealth government.[23]

This sleight-of-hand on the GST by the Commonwealth government yields incomplete reporting on federal taxes in Commonwealth government publications. For example, it has been used by the Commonwealth government to argue that the tax burden from federal taxes has gone down since 2000, when that government introduced the GST, while the tax burden of the states and territories has increased. See Figure 6 (which comes from a Commonwealth Treasury publication, *Pocket guide to the Australian tax system*, and is also contained in the Commonwealth government *2006-07 Budget paper no.1*). Moreover, the GST has increased the degree of vertical fiscal imbalance in Australia.[24]

FIGURE 6: AUSTRALIAN TAX BURDEN BY SPHERE OF GOVERNMENT

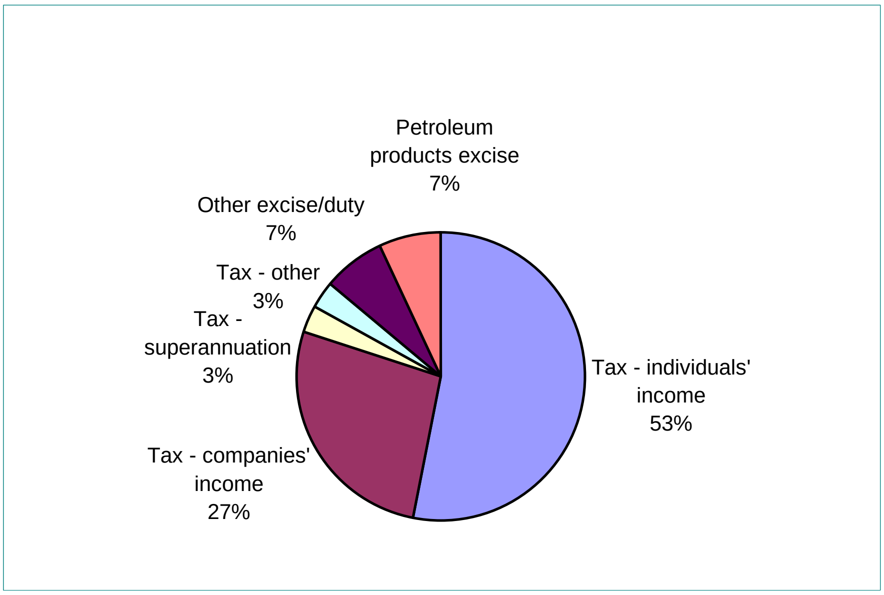


Source: The Treasury, 'Pocket brief to the Australian tax system', May 2006, p.2. Note: Tax burden is measured as total taxation revenue as a proportion of gross domestic product.

Other Commonwealth government indirect taxes (i.e. other than the GST) are becoming less important in the federal sphere.[25]

Figure 7 gives an indication of the mix of receipts from Commonwealth government taxes *apart from* the GST.

FIGURE 7: TAX RECEIPTS MIX NOT INCLUDING GST (%), COMMONWEALTH, 2005-06



Source: Australian Government, *2006-07 Budget paper no.1: budget strategy and outlook 2006-07*, May 2006, p.5-23.

Distribution of GST revenue to the states

Because the Commonwealth government collects the lion's share of tax revenue and makes grants to the states and territories for their expenses, a special arrangement has been set up to determine how much is distributed and how it is divided (i.e. how much to each state and territory).

This arrangement applies to financial assistance grants (FAGs) not connected by the Commonwealth government to any particular program or purpose, known as ('untied') general purpose grants. The total sum available for these is the amount collected from the GST, the revenue from which is made as grants to the states and territories.

This arrangement does not apply to financial assistance grants which are connected ('tied') to a particular purpose or program, known as specific purpose payments. These are financed from the Commonwealth's other revenue sources (i.e. other than the GST). The Commonwealth government's grants to the states and territories under multilateral agreements, like the Commonwealth State Housing Agreement (CSHA), Supported Accommodation Assistance Program (SAAP) Agreement, and Commonwealth–State–Territory Disability Agreement (CSTDA), fall within this category.

The mechanism for determining the proportion of GST grants that the Commonwealth government gives to the state and territories is an equalization formula. This formula is not worked out on the basis that the distribution is made on a direct proportional basis of how much you put in (e.g. if 40% of non-GST revenue is collected from NSW taxpayers then the NSW government gets 40% of the amount granted by the Commonwealth government for general purpose grants, or if 40% of GST revenue is collected from NSW taxpayers then the NSW government gets 40% of the amount granted by the Commonwealth government for GST grants). Rather, the formula calculates state governments' capacity to raise own-source revenue and their costs in providing goods and services, with an aim of ensuring that all Australians get a more-or-less equal level of servicing. This has meant, historically, that states with smaller populations, and hence a smaller contribution to the tax pool, have tended to get a proportion of the grant monies higher than the proportion they contributed to the pool. That is, the formula has involved cross-subsidization for purposes of horizontal equity. The principle here is *horizontal fiscal equalization*.

The formula is agreed to by the various Australian governments meeting under the egis of the Commonwealth Grants Commission (a Commonwealth government agency established in 1933, replacing previous, ad-hoc arrangements). The Commission makes a recommendation to the Commonwealth government treasurer, who makes the formal decision on the allocations.

In recent years, the formula used for allocating GST grants has come under criticism on the grounds that the historically smaller states (such as Queensland) are now in a better position to raise their own tax revenue (and so are in less need of cross-subsidization) and that, while the higher cost of providing government services in states with more people in rural and remote areas is factored in, the higher cost of providing services in states with more heated economies (i.e. New South Wales) is not factored in.

The Commission reported on a review of the sharing relativities in 2004, and concluded that the NSW government had an above-average relative capacity to raise own-source revenue and had below-average costs of providing services.[26] This led the NSW government to run a campaign complaining that it was getting back less in GST grants than what NSW taxpayers pay in GST and that NSW taxpayers are cross-subsidizing services in other states.[27] (See Table 1. These data were updated in the 2006-07 NSW Budget statement: see Table 2.) Such an outcome is, of course, an intended feature of the horizontal fiscal equalization where some states (like New South Wales and Victoria) have larger populations and economies.

TABLE 1: GST-GENERATED REVENUE AND GST GRANTS, 2005-06

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Generated $b	13.2	9.6	6.7	3.4	2.6	0.8	0.7	0.3
Grants $b	10.4	7.9	7.7	3.8	3.4	1.5	0.7	1.8
Cross-subsidy $b	-2.8	-1.7	1.0	0.4	0.8	0.7	…	1.5
Cross-subsidy $pc	-295	-267	103	58	408	1,254	394	7,173

Source: NSW Government, *Budget papers 2005-06: Budget paper no.2 – 2005-06 Budget statement*, 2005, pp.8-16–8-17. Note: pc = per capita

TABLE 2: GST-GENERATED REVENUE AND GST GRANTS, 2006-07

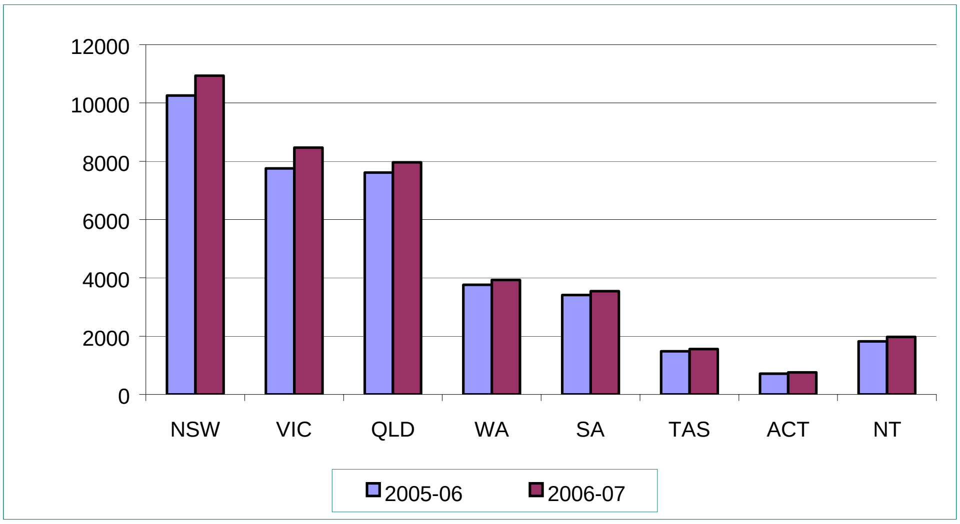
	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Generated $b	13.5	9.9	7.4	3.7	2.7	0.8	0.7	0.4
Grants $b	10.9	8.5	8.0	3.9	3.5	1.6	0.8	2.0
Cross-subsidy $b	-2.6	-1.4	0.6	0.2	0.8	0.8	…	1.6
Cross-subsidy $pc	-372	-283	138	114	515	1,552	89	7,735

Source: NSW Government, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, 2006, p.8-22. Note: pc = per capita

The NSW Government has proposed a system that involves:
- applying simplified relativities to South Australia, Tasmania and the Northern Territory, based on a narrow range of core economic functions; and
- an equal per capita distribution for all other jurisdictions.[28]

The Commonwealth and state governments agreed to a review of the methodology for fiscal equalization, and this will be finalized by 2010. In the meantime, the Commission updated the relativities in February 2006, reporting that Queensland and Western Australia had a greater capacity to raise own-source revenue. New South Wales will receive $680 million more in GST revenue in 2006-07, over 2005-06. (See Figure 8.) Nevertheless, the estimated NSW share of GST revenue will not change between this year and next: the share is estimated as 27.86% for 2005-06 and as 27.90% for 2006-07.[29]

FIGURE 8: DISTRIBUTION OF COMMONWEALTH GST REVENUE ($M), 2006 TO 2007



Source: Australian Government, *2006-07 Budget paper no.3: federal fiscal relations 2006-07*, May 2006, p.10.

The NSW Treasury commissioned Neil Warren, an economist at the University of NSW, to look at fiscal arrangements in a number of Organization for Economic Cooperation and Development countries. Warren's interim report questioned aspects of the Australian equalization formula, such as its complexity and its focus on cost disadvantage rather than revenue capacity.[30] In his final report, the criticism focused on complexity and lack of transparency.[31]

QUESTION 1: WHAT TAXES ARE MOST SUITED, OR NOT SUITED, TO STATE GOVERNMENT?

2.1.3 Local governments' revenue sources

The overall capacity of local governments to raise revenue is determined by the NSW parliament, since the NSW Constitution gives power to the parliament over 'the nature and extent of their powers, authorities, duties and functions'.[32] The actual means that a council may use to raise revenue are listed in the Local Government Act 1993 (section 491). The main own-source revenue for local governments is a property tax usually called the 'ordinary' or 'general' rate because the tax is used for the general purposes of the council. Councils may also levy special rates for special purposes.

Councils may levy developers towards the cost of providing public amenities and services (e.g. public open space), under sections 94 and 94A of the Environmental Planning and Assessment Act 1979. Under section 94, a council may require a contribution from a developer towards the cost of providing certain public or civic amenities or services where the proposed development 'will or is likely to require the provision of or increase the demand for public amenities and public services within the area'. Under section 94A (which may be used instead of, but not as well as, section 94), a council may impose a levy as a percentage of the proposed cost of carrying out the development, towards the provision, extension or augmentation of public amenities or public services. Section 94A was introduced into the Act in 2005. Section 94 has been in the Act for some time and has been used by councils to finance economic infrastructure and social infrastructure.

These levies are *hypothecated taxes* (see page 21), because the council uses the money collected to provide a service relevant to the needs of the residents of the development.

Section 94 was used as a model for a new section, section 94F, introduced in 2000. This enables councils to levy developers to make a contribution towards affordable housing where there is a loss of affordable housing or generation of a need for affordable housing because of a new residential development.[33] These levies are a hypothecated tax: the money raised (or in-kind contribution of dwellings) must be used for affordable housing.

3. Components of NSW state government revenues

What are the sources of revenue for the state government? There are 8. Which eight?

- taxes
- fees and fines
- distributions from government businesses
- grants from the Commonwealth government
- sale of goods and services
- investment income
- grants and contributions
- other operating revenues

Total government sector revenue comes from 2 types of sources: ‘state revenues’ and ‘operating revenues’. The first 4 revenue sources in the above dot-point list are ‘state revenues,’ and the second 4 sources in the list are called ‘operating revenues’. State revenues provide 87% of total government sector revenue, and operating revenues provide 13%.[34]

See Figure 9 for the relative contribution of various revenue sources to the total general government sector. It shows that Commonwealth grants are the single biggest source of revenue for the total general government sector, providing 42%, with state taxes the 2nd biggest source, at 37 %. No other source of revenue provides more than 10% of the total.

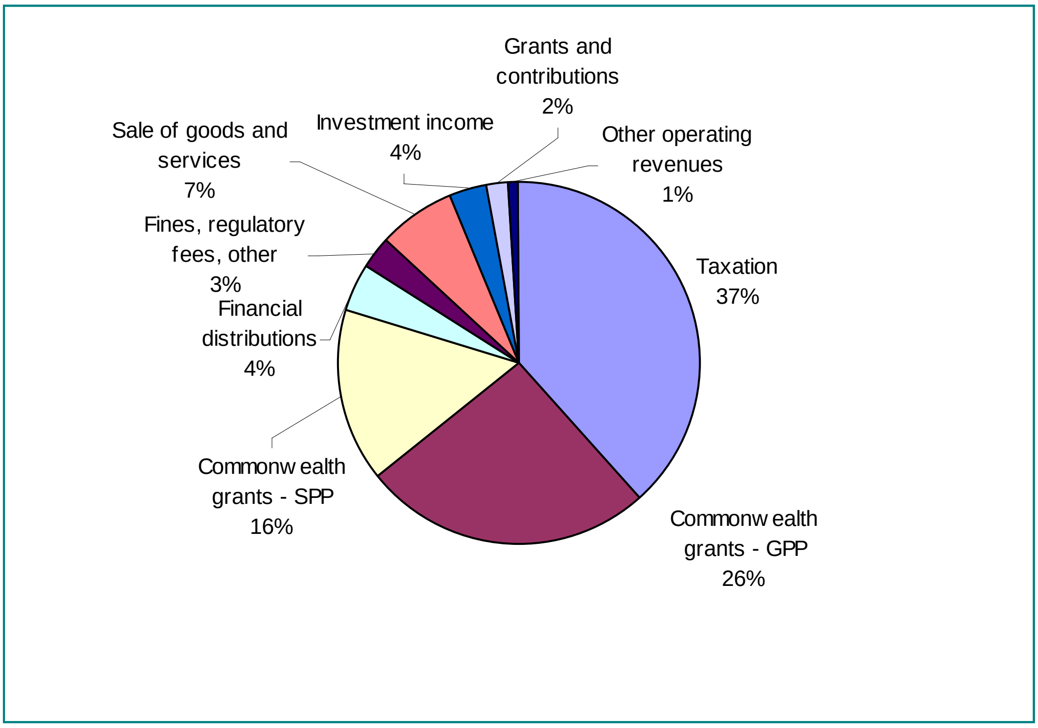
Figure 10 provides the same data but with the Commonwealth grants excluded: it shows the own-source revenue for the total general government sector.

Figure 11 indicates the mix of own-source revenue for the NSW government in the 5-year period 2000-01 to 2004-05, with the taxation category disaggregated into sub-types. It shows that revenue from property taxes – taxes on conveyances (transfer duty) and land tax – were the single biggest source of own-source revenue (29.8%), followed by payroll tax (28.7%).

There are 2 institutional factors that have an impact on the state government’s revenues[35]:

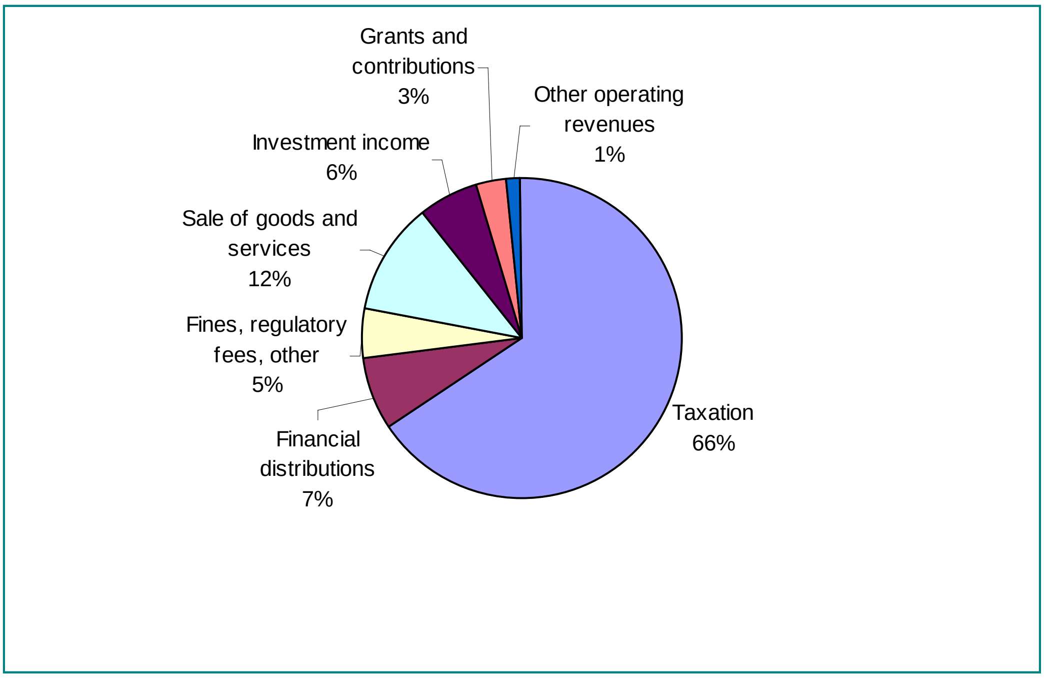
- the method of calculating the distribution of GST grants (see page 12); and
- the growth in specific purpose payments (see page 2) can be less than the growth in costs of providing the relevant services.[36]

FIGURE 9: SOURCES OF NSW TOTAL GENERAL GOVERNMENT SECTOR REVENUE (%), 2005-06



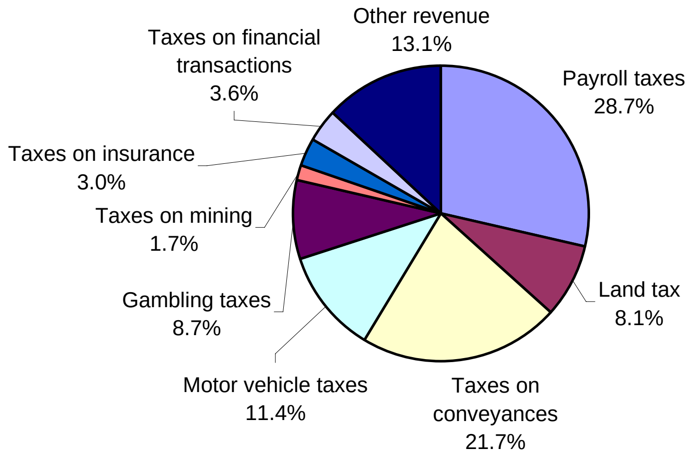
Source: NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, 2006, p.3-2. Notes: The 2005-06 figure is the revised budget estimate. SPP = special purpose payments; GPP = general purpose payments.

FIGURE 10: SOURCES OF NSW TOTAL GENERAL GOVERNMENT SECTOR OWN-SOURCE REVENUE (%), 2005-06



Source: NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, 2006, p.3-2. Notes: The 2005-06 figure is the revised budget estimate.

FIGURE 11: NSW OWN-SOURCE REVENUE: AVERAGE PERCENTAGE OF TOTAL REVENUE, 2001 TO 2005



Source: Commonwealth Grants Commission, *2006 relative fiscal capabilities of the states*, Canberra, 2006, p.13. Notes: The proportion of revenue from any particular source fluctuated from year to year in the 5-year period but the patterns were stable. 'Other revenue' includes miscellaneous taxes and revenue, and contributions by government trading enterprises.

3.1 Taxes

The NSW Constitution gives the NSW parliament power to make laws 'for the peace, welfare, and good government of New South Wales in all cases whatsoever', subject to the Commonwealth Constitution.[37] The only restriction on the parliament (apart from those contained in the Commonwealth Constitution) is a procedural one: a Bill to appropriate public revenue or to impose any new rate, tax or impost must originate in the Legislative Assembly.

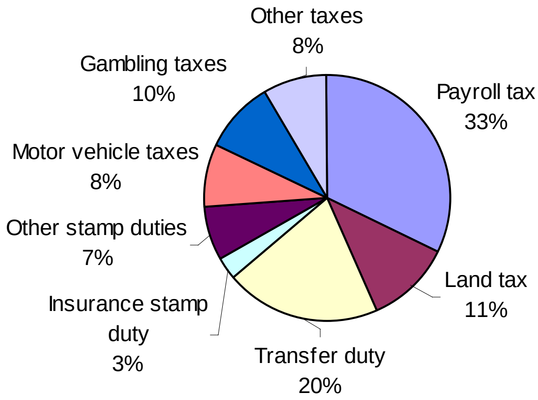
The NSW government's tax effort is at Australian levels, i.e. the extent of taxation by the NSW government is generally in keeping with practices Australia-wide.[38]

Figure 10 indicates that taxes generate more than 66% of the NSW state government's own-source revenue.

The most important taxes (in terms of revenue collected) for the NSW state government are (see Figure 12):

- payroll tax
- transfer duty
- land tax
- gambling taxes
- motor vehicle taxes

FIGURE 12: TAX RECEIPT MIX (%), NEW SOUTH WALES, 2005-06



Source: NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, 2006, p.3-14. Note: The 2005-06 figure is the revised budget estimate.

Payroll tax is the single most important of its taxes: this is an economically efficient tax (see page 7, above), but is disliked by business lobby groups (other than the property industry).

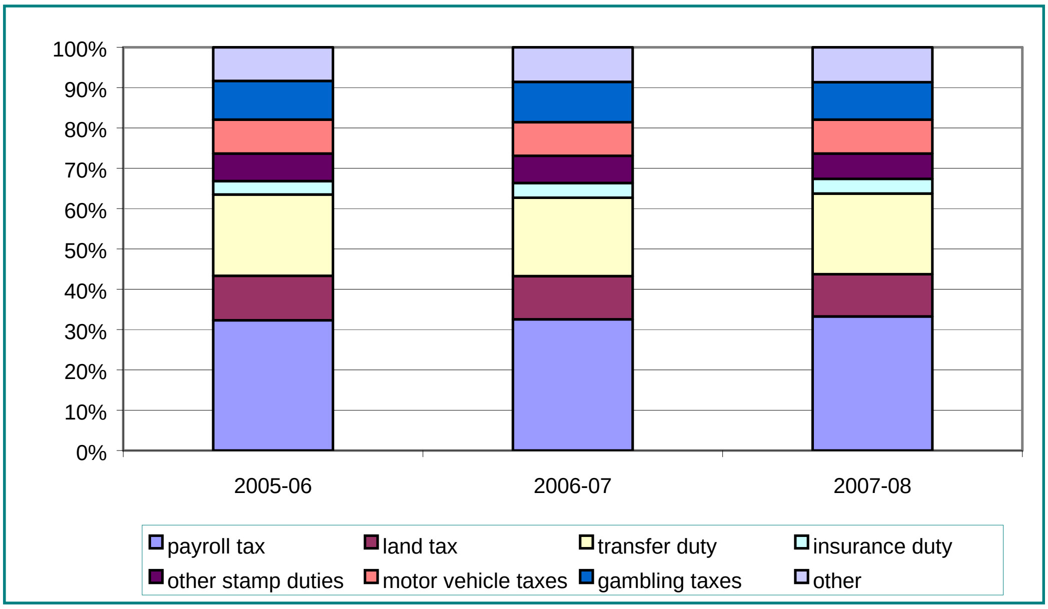
Transfer duty is the second most important tax. This tax along with land tax constitutes the property group of taxes: added together, the property taxes generate more revenue than payroll tax. The value and volatility of the state's housing market directly affects the revenue-capacity of the state government. Where the market is buoyant, with price inflation, the state government will generate more revenue in property taxes. The reverse can also happen. For example, following a downturn in the residential property market in 2004-05, revenue from purchaser transfer duty fell 26% from the previous year, 2003-04.

Perversely, a state housing market with higher price inflation and more tax revenue to the government will present greater barriers to home ownership for low-moderate income, aspiring first homebuyers.

There is not likely to be significant change in the proportional contribution of the main tax sources over the next 2 years: see Figure 13.

As indicated above (page 6), the states and territories have a number of taxes that the Commonwealth government wants them to abolish. The NSW government was reluctant to do so, arguing their abolition would put unacceptable strains in the state's budget, since they were expected to raise about $900 million in 2006-07 and a 2-year compensation offer by the Commonwealth fell short of this amount.[39] However, it has agreed to phase them out from 1 July 2007.

FIGURE 13: TAX RECEIPT MIX (%), NEW SOUTH WALES, 2006 TO 2008



Source: NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, 2006, p.3-14. Notes: The 2005-06 figure is the revised budget estimate. The 2006-07 figure is the budget estimate. The 2007-08 figure is the forward estimate.

There are a number of political factors limiting the state government's ability to increase revenues from more or higher taxes[40]:

- It may not levy income tax or excise duties.
- Tax competition from other states and countries limits the range and rates of taxes (because of 'negative' comparisons and the potential for flight of capital).
- Tax expenditures narrow the tax base.

The state government has committed itself to prudence in both revenue-raising and expenses. The Fiscal Responsibility Act 2005 (which superseded the General Government Debt Elimination Act 1995) provides for tax restraint as a fiscal principle for the government in managing the state's finances (section 20(1)):

> Fiscal principle No 10 is that any adjustments to legislated tax rates, thresholds and bases are to be made with the maximum possible restraint having regard to the effect of these adjustments on the overall effect on tax revenue, and policies should be pursued that are consistent with a reasonable degree of predictability and stability of tax rates, thresholds and bases for future years.

The 2006-07 Budget statement reports a net reduction in taxes (from all tax policy changes) of some $1 billion a year since 1999-00.[41]

Nevertheless, there is an underlying trend for annual growth in government revenues of 5%.[42]

QUESTION 2: WHERE IS THERE LIKELY TO BE GROWTH IN REVENUE FOR STATE GOVERNMENT?

3.1.1 Hypothecation

Where the revenue from a tax will be directed to a specified expenditure, the tax is called a *hypothecated* tax. Most taxes are not hypothecated.

The most famous (and apparently popular) of the hypothecated taxes is the Commonwealth government's Medicare levy, the revenue from which goes to help finance (part of) the public health systems of the states. Proposals for hypothecated taxes are occasionally put forward from lobby groups as a means of funding their particular cause or service, i.e. as a way of guaranteeing or quarantining funding for their cause rather than having to compete with other good, or not-so-good, causes for funding from the general pool. There is likely to be more public support for a hypothecated tax if the benefit from the expenditure will be universally shared (or potentially universally shared). Caused-based proposals for hypothecated taxes, like the environment movement's proposal (at times) for a special levy to finance desalination programs in the Murray-Darling basin, have not got support from key stakeholders.

Proposals for hypothecated taxes get raised from time to time among housing and welfare activists. Unlike the Medicare levy, the intended beneficiaries of such taxes would be a defined segment of the population, i.e. socioeconomically disadvantaged people, so such tax proposals have less appeal among the public/taxpayers/voters generally. There is another view common in the welfare sector that is hostile to the idea of hypothecation. That is because the needs of socioeconomically disadvantaged people (many categories of whom are stigmatized) would not get public support if there was competition between options: a hypothecated tax which would benefit everyone would win out against a hypothecated tax which would benefit a minority. Holders of this view point to the core feature of general taxation as something that is *unrequited*, i.e. there is no direct relationship between how much you pay and how much you get back in services – the general tax rate is progressive and the expenditure on services is redistributive. The NSW Council of Social Service made these comments in 1992 when the state government was considering approval of a casino in Sydney:[43]

> Hypothecated taxes present problems of both flexibility and equity. Current NSW bi-partisan support for, for instance, the dedication of new Casino revenue to build hospitals, can be used as an illustration. In terms of flexibility, obviously the more hypothecated taxes you have tying up portions of revenue, the less revenue there is to spend on other social programs. Because their use is universal, hospitals are an acceptable and non-controversial expenditure even from a conservative community viewpoint which makes it easy to gain approval for their tied financing. The same is not the case with, for instance, youth refuges or schemes for drug addicts, unemployed people or sole parents. Hypothecated taxes are a dangerous way to go in equity terms, unless thy are relatively small and are tied to worthwhile programs

which would be unlikely to be able to attract a proper share of general revenue against more popular programs.

The NSW government applies some special levies on developments in growth centers (new satellite suburbs) in greater Sydney.[44] The purpose of a levy on residential development, called the ‘spatial infrastructure contribution’, is to recoup from the property developers who will benefit from the new land released and rezoned for urban development most (75%) of the cost of providing public infrastructure to those places. The developer contribution is estimated to average $33,000 per lot. The development industry objects to such taxes (arguing for full government funding of urban services in new release areas) and warns that the taxes/costs costs are likely to be passed onto housing consumers (homebuyers) who buy land and houses in the new suburbs and who will be the beneficiaries (users) of the public infrastructure, adversely affecting housing affordability.[45]

There are 2 public interest arguments for using special levies in these circumstances. The first is ‘planning gain’, i.e. the land and property developers benefit from land releases and rezonings by government for urban development that enable them to get a ‘windfall’ benefit. (This benefit takes the form of the higher price that the landowner can get from selling the land they own: land rezoned for urban purposes at the edge of a sprawling city will have a higher resale value than the same land zoned for a rural use.) Passing on some of the cost of putting in the physical infrastructure to the developers recoups some of that windfall for the government. The 2nd is that approval of new housing developments will generate new demand on civic services by incoming residents, the cost of which is an externality not priced into the cost of the development. In this way there is a ‘user charge’ or ‘polluter pays’ element in the levy.

The Productivity Commission, in a 2004 report on affordability of home ownership, found that upfront charging of developers for infrastructure costs was unlikely to have any substantial effect on housing affordability.[46] That is because the increase in cost of serviced land or new dwellings (reflecting the charge) should lead to a matching reduction in ongoing housing costs: households will be no worse off over time.

The public interest case for spatial infrastructure levies in new suburbs in western Sydney also applies to levies that local governments are able to apply under sections 94, 94A, and 94F of the Environmental Planning and Assessment Act (see page 14).

QUESTION 3: IS THERE A GOOD CASE FOR HYPOTHECATED TAXES?

3.1.2 Tax expenditures

A tax expenditure is a government program that takes the form of foregoing a tax from a sub-group of taxpayers or for a particular activity, by providing a tax exemption, tax deduction, tax offset, or reduced rate. The term is counter-intuitive: the practice is an 'expenditure' only in the sense that the government could have given a grant for the same amount to the beneficiaries as an alternative method of subsidizing them. Tax-free thresholds and tapered taxation rates that apply to all taxpayers are not regarded as tax expenditures: they are a structural feature of the tax.

Warburton and Hendy identified a number of advantages and disadvantages of using tax expenditures rather than direct expenditure.[47]

The advantages include:

- Tax expenditures can influence private activity by affecting prices or income, leaving decisions on the extent of participation in the activity being taxed to private individuals and businesses.
- They can reduce the extent of direct government supervision required of a policy.

The disadvantages include:

- There is usually a lower level of public accountability for tax expenditures compared with direct expenditures, which tend to be scrutinized more closely through the annual budget process.
- There can be difficulties in setting the correct level of tax concession to affect prices in the market, and the concession might be ineffective in achieving specific objectives, including by under- or over-shooting the desired outcome or by offsetting the effect of other policy instruments.
- Tax expenditures might be difficult to contain and might lead to erosion of the tax base over time as different groups compete for concessions.
- Tax expenditures generally add to the complexity of the tax system.
- Tax expenditures make it more difficult to evaluate the size of government over time. For example, pursuing government policies through tax expenditures can reduce both tax collected and direct expenditures, making government look smaller than if the same policies were implemented through direct expenditures.

Vertigan and Stokes suggest that tax expenditures impede the equity, efficiency and simplicity of a state's tax system[48]:

- The social welfare purposes for which welfare-related tax expenditures exist might be more effectively addressed by other means, such as Commonwealth social security payments and income tax concessions.
- Tax expenditures narrow the tax base and lead to higher taxes for the taxpayers not eligible for the tax expenditure.
- The tax system is more complex by virtue of the extra layer of legislation and this adds to compliance costs.

Examples of tax expenditures in New South Wales are given in 'Section 4. Using the tax system for social equity ends '.

QUESTION 4: ARE GRANTS OR TAX EXPENDITURES A BETTER WAY TO PROMOTE SOCIAL EQUITY?

3.2 Distributions from government businesses

Some NSW public trading enterprises are heavily reliant on government subsidies; others make a surplus and are able to contribute ‘distributions’ to the government. Those distributions can take one of 2 forms: a dividend to the state government as shareholder/owner of the business, and a payment to the state government equivalent to the amount the business would have paid had it been a privately-owned business and therefore liable for Commonwealth income tax on companies (an *income tax equivalent*). The public trading enterprises that provide distributions to government are those that are better placed to do so because they are monopolistic or oligopolistic providers of economic services, such as water and electricity retail.

There are 4 public trading enterprises in the housing area.[49] They are:[50]

- the Department of Housing[51], with physical assets valued at $28,322.43 million and revenues in 2004-05 of $1,113.4 million;
- City West Housing Pty Ltd, with physical assets valued at $152.6 million and revenues in 2004-05 of $12.6 million;
- the Teacher Housing Authority, with physical assets valued at $114 million and revenues in 2004-05 of $13.6 million;
- Landcom, with physical assets valued at $10.5 million and revenues in 2004-05 of $340.8 million.

Two of them, the Department of Housing and the Teacher Housing Authority, get subsidies from the State Budget (see page 40). The other 2, Landcom and City West Housing Pty Ltd, do not get a subsidy from the government through the State Budget.

Landcom is the only 1 of the 4 housing public trading enterprises that returns a dividend and income tax equivalents to the government. In 2004-05, it paid $45.3 million in dividends and $29.8 million in income tax equivalents.[52]

Fees or customer charges are important for public trading enterprises (whose non-Budget revenue is not indicated in the State Budget). In the case of public trading enterprises like the Department of Housing and City West Housing Pty Ltd, customer charges – in the form of rents for residential tenancies – are the most important single source of recurrent revenue: rent revenue comprised 50% of the Department of Housing’s operational revenue and 28% of City West Housing’s revenue in 2004-05.[53]

3.3 Grants from the Commonwealth government

Some 58% of the state government revenue is own-source revenue, but some 42% of the state government's total revenue for the general government sector comes from the Commonwealth government in the form of grants (subsidies). See Figure 9. The importance of Commonwealth grants has increased following the introduction of the GST: before then, the state government depended on only around 30% of its revenue from the Commonwealth (compared with the around 40% now).[54]

Table 3 indicates the estimated grant revenue that New South Wales will get from the Commonwealth government for 2005-06 and 2006-07.

TABLE 3: COMMONWEALTH GRANT PAYMENTS TO NEW SOUTH WALES, 2006 TO 2007

	2005-06 (estimated)		2006-07 (estimated)	
	$m	% of Australian total	$m	% of Australian total
GST revenue	10,258.2	27.8	10,941.4	27.8
Budget balancing assistance	43.8	100	0	n.a.
Compensation for GST deferral	36.6	28.8	5.0	29
Residual adjustment amounts	-13.9	n.a.	n.a.	n.a.
NCC payments	291.9	35.6	n.a.	n.a.
Specific purpose payments to state	6,250.8	32.2	6,591.6	32.2
	16,867.3	29.5	17,538	29.4

Source: Australian Government, *2006-07 Budget paper no.3: federal financial relations 2006-07*, May 2006, pp.5-6. Notes: n.a. = not applicable. NCC = National Competition Policy. This table does not include Commonwealth grants paid direct to NSW local governments or grants paid through the state government to NSW local governments and nongovernment schools.

There are more than 50 different specific purpose payment arrangements. Three of them have particular relevance to housing, each involving a multilateral agreement between the Commonwealth and the states and territories. Those are the:

- Commonwealth State Housing Agreement, which, among other things, indicates Commonwealth and state contributions to public housing, community housing, state-owned and managed Indigenous housing, rental assistance, and home purchase assistance[55];
- Supported Accommodation Assistance Program, which coordinates funding for services to people who are homeless or at risk of homelessness;
- Commonwealth–State–Territory Disability Agreement, which among other things, funds supported housing for people with disabilities.

The specific purpose payment for public housing is the 6th biggest. The specific purpose payment for assistance to people with a disability is the 7th biggest. The specific purpose payment for the Supported Accommodation Assistance Program is the 11th biggest (10th biggest from 2006-07). See Table 4.

TABLE 4: COMMONWEALTH SPECIFIC PURPOSE PAYMENTS TO NEW SOUTH WALES ($M), 2006 TO 2008

	2005-06	2006-07	2007-08
Australian Health Care grants	2,811	2,943	3,093
Schools	903	894	903
Auslink	494	695	779
Technical and further education	401	406	415
Home and community care	266	291	314
Public housing	243	247	250
Assistance to disabled	194	201	203
Highly specialized drugs	164	185	190
Debt redemption assistance	74	0	0
Pensioner concessions	69	70	72
SAAP	57	58	59
Other	734	689	533
	6,410	6,679	6,811

Source: NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, 2006, p.3-18. Notes: The 2005-06 figure is the revised budget estimate. The 2006-07 figure is the budget estimate. The 2007-08 figure is the forward estimate.

3.4 Operating revenues

General government sector agencies earn operating revenue during the normal course of their activity. Those revenue-generating activities generate 13% of total government sector revenues (see page 16). The activities are:

- sale of goods and services, i.e. user charges, such as hospital patient fees, court fees, rents and leases, and road tolls – these comprise 52% of this revenue source;
- investment income;
- grants and contributions, mainly from public trading enterprises;
- other, e.g. fees for leases taken out over state land.

3.5 Loans

The 2006-07 Budget statements indicate the Government will embark on a more ambitious exercise of borrowing to finance expenditure on physical infrastructure. This is a change from practice over the last decade when the Government was much more focused on reducing net debt and net financial liabilities, a policy which was expressed in legislative form by the General Government Debt Elimination Act 1995 (repealed in 2005) and the Fiscal Responsibility Act 2005 (current). While the 2006-07 Budget statements estimate a deficit in 2006-07, they estimate a return to a surplus in 2007-08. Independent advisers to the government have suggested[56]:

> The Government should build an operating surplus of at least $1 billion to fund the state's expanded capital works program. While an increase in the state's borrowing program is sustainable, over-reliance on borrowing for capital works will ultimately

> increase interest expense which will reduce the Government's ability to meet the targets for net debt and net financial liabilities in the *Fiscal Responsibility Act 2005*.

The NSW government's decision to borrow $17 billion (of which $5 billion will be borrowed in 2006-07) for a $41 billion capital works program over the next 4 years reflects similar practice in the other major states. Queensland will also be borrowing to finance health services and physical infrastructure, for the 1st time in 5 years.[57]

4. Using the tax system for social equity ends

This section describes 4 taxes that relate to property and therefore have particular significance for housing supply in New South Wales.

4.1 Land tax

Land tax is levied on the unimproved value or the site value of land that is not owned by the Commonwealth and state governments and on land that is not used for homeowner-occupation. From the 2007 land tax year, land value for land tax purposes will be calculated on the basis of an average of the last 3 years.[58] This is designed to minimize dramatic (especially upwards) movements of tax levied each year. Upward movements are, not surprisingly, unpopular with affected property-owners. Some of those affected property-owners/taxpayers are ‘asset-rich income-poor’ mum-and-dad investers who have bought a second residential property as a weekender or potential retirement accommodation.

The effect of averaging will mean that land tax revenue will lag behind land value prices during periods of inflation, but will move ahead of changes in land value prices in periods of deflation. However, the general, historical trend in land values is for them to rise.

The tax kicks in at land worth $330,000 (from the 2006 land tax year).[59] (A tax-free threshold had been abolished in the 2004-05 Budget, but it was reinstalled – following opposition from small investers – in the 2005-06 Budget with effect from the 2006 land tax year.) From the 2007 land tax year, this threshold will be indexed according to the average change in statewide land values over the preceding 3 years.

The benchmark tax rate is 1.7% and is applied to the combined value of all the taxable land the owner owns..

We have seen that land tax is a key own-source revenue for the state government (page 18), but that the property and development industry opposes all property taxes, with one of the reasons given for this opposition is the impact of those taxes on housing unaffordability (pages 7 and 21). That industry has argued for the use of taxes on other business activity (i.e. payroll taxes) instead, and it has argued for financing of infrastructure by debt-financing (i.e. borrowing).

From a public interest perspective, there is an ‘equity and efficiency trade-off’ between the benefits of property taxes in raising revenue and possible negative effects on housing markets. Part of the negative impacts could be related to which aspects of the housing/property market are taxed and how any taxed is designed. For example, Wood, Watson and Flatau argue that land tax applied on the basis of a tax-free threshold and then a progressive scale is a disincentive to the acquisition of additional rental properties by investers in residential housing, especially landlords who might buy properties for renting out at lower rents.[60]

Proponents of land tax as 'the only tax that is simple, efficient and equitable' suggest it be applied to all landowners (i.e. no exclusions or exemptions), with no tax-free threshold, and at a flat rate.[61] They suggest this would reduce speculation in the price of land, encourage investment in capital (rather than land), create predictability in revenue estimates, and enable other taxes to be reduced.

Stilwell and English argue that revenue from land tax should be increased as a proportion of state revenue, at the expense of purchaser transfer duty (i.e. as land tax goes up, the proportion of tax collected from transfer duty should go down). They argue that land tax has advantages over transfer duty as a revenue source in that it:[62]

- does not have a disincentive effect on mobility in the way transfer duty does, since it is an annual tax rather than an impost on buying and selling property;
- might encourage mobility among 'asset rich income poor' people to move to lower-valued property to reduce land tax commitments;
- tends to reduce house price inflation because it creams part of any potential capital gain;
- does not discriminate between movers and non-movers;
- does not have the lumpy characteristic of transfer duty;
- does not impact at times of particular financial stress, such as when moving house.

4.1.1 Taxation expenditures

The value of the tax expenditures given on land tax is nearly a third of the revenue collected by land tax. See Table 5.

TABLE 5: HOUSING-RELATED TAX EXPENDITURES, NEW SOUTH WALES, 2006 TO 2007

Tax	2005-06 $m	2005-06 % tax revenue	2006-07 $m	2006-07 % tax revenue
Land tax	523	30.1	543	30.3
Purchaser transfer duty	662	21.4	694	21.4
Mortgage duty	405	126.6	432	124.1
	1,590		1,669	

Source: NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, 2006, pp.7-5. Note: The figure for land tax is for the 2006 land tax year (not 2005-06) and 2007 land tax year (not 2006-07).

The tax base for land tax is defined so as not to include land used for homeowner-occupied residences. In this way the exclusion of that land can be presented as a structural feature of the tax and the exclusion is therefore not treated as a tax expenditure (see the definition of tax expenditure on page 23). For this reason, the value of the tax *not* collected on owner-occupied land is not reported in the Budget statements.[63] Sneaky, eh?

Yet, owner-occupied land was subject to 'premium' land tax from the 1998 to 2004 tax years. Such land became subject to land tax in 1998 if its value was more than

$1 million. Opposition from property-owners led to this threshold being indexed by 68% over 6 years.[64] The tax was abolished altogether in the 2004 mini-Budget, which also introduced the ill-fated vendor transfer duty. That is, a tax which had the basis for universal land taxation was abolished and a tax which penalized movers was brought in.

Sub-groups of taxpayers exempt from the tax include[65]:
- landowners who use their land for boarding houses for low-income persons;
- cooperatives;
- retirement villages;
- residential parks predominantly occupied by retired persons;
- providers of low-cost accommodation in inner Sydney; and
- Aboriginal land councils.

The exemption for boarding houses is available if:
(a) at least 80% of the accommodation that was actually occupied was occupied by long-term boarders (defined as a resident for more than 3 months in a calendar year); and
(b) at least 80% of the accommodation available to long-term boarders was either occupied or was available for occupation at rents within guidelines set by the Treasurer – this rent limit is revised annually.
See 'Attachment 3: Guidelines for land tax exemption for boarding houses' and 'Attachment 4: Application for land tax exemption for boarding houses'.

The exemption for 'low cost accommodation' is available if:
(a) the residential property is within 5 kilometers of the Sydney GPO; and
(b) the owner lets a room or rooms under a residential tenancy agreement; and
(c) the rent is within a limit set by the Treasurer – this rent limit is revised annually.
See 'Attachment 5: Guidelines for land tax exemption for low-cost accommodation' and 'Attachment 6: Application for land tax exemption for low-cost accommodation'.

Table 6 gives the value of the revenue foregone from land tax exemptions for some eligible sub-groups of land uses.

TABLE 6: VALUE OF LAND TAX EXEMPTIONS, NEW SOUTH WALES, 2005 TO 2007

	2004-05 $m	2005-06 $m	2006-07 $m
Boarding houses	4	3	3
Cooperatives	8	8	9
Retirement villages and residential parks	91	93	97
Low-cost housing within 5 km of Sydney GPO	<1	<1	<1
Aboriginal land councils	<1	<1	<1

Source: NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement,* 2006, Appendix B, pp.B-19–B-21.

The threshold and rate of the tax is relevant to investers in residential property, i.e. it affects the supply of rental housing for consumers who choose private rental for lifestyle reasons or because they cannot afford home ownership. Would an exemption for certain, specified, property-owners be justified where it might increase private investment in dwellings in the lower-priced segments of the rental housing market (for which we have 2 instances already in New South Wales, as see in Table 6)? Ownership of dwellings used for private rental housing is largely in the hands of 'mum and dad' investers, with three-quarters of that housing being owned by single owners; 90% of landlords own 1-2 properties. Only 10% of private landlords own 3 or more dwellings. These structural features of the private rental market make for churn. Should exemptions be targeted to holders of 3 or more investment properties to encourage a landlord sector that is less prone to churning its properties?

In the last couple of years a number of nongovernment organizations have put forward proposals to extend the tax expenditures for land tax with a view to encouraging private investment in rental housing.

In 2005 and 2006, the NSW Council of Social Service proposed exemption from land tax for investers who provide lower-cost private rental housing to accredited community housing organizations.[66]

In 2005, Shelter proposed extensions of the exemption from land tax for land used and occupied primarily for low-cost accommodation.[67] The first extension involved the expansion of the geographic extent of land eligible under the current exemption (which requires the land to be situated within a 5 kilometre radius of the Sydney GPO). The Shelter proposal recommended a modest extension of the geographic catchment to the local government areas in the eastern suburbs, lower north shore, and inner-western suburbs of Sydney, where high rents present the strongest barrier to availability of affordable private rental housing. It also recommended an increase in the maximum weekly tariffs which define eligibility for the exemption (i.e. property-owners are eligible for the land tax if they rent at low rents set by the maximum tariff in the Treasury guideline): those maximums do not reflect the levels of first-quartile rents (the lowest quarter of rents) for new tenancies for new bonds lodged with the Rental Bond Board, i.e. the maximums are too low to benefit many low-income renters.

The Government's response to the Shelter proposal on an extension of the catchment was to suggest that the reinstatement of a tax-free threshold (made in the 2005-06 Budget to start from the 2006 land tax year), of $330,000, would pick up lesser-value investment properties providing low-rent housing.[68] In response, we can see that such benefit would only likely be got by owners of one residential investment property rented to low-income earners, not to owners of 2 or more properties rented to low-income earners.

4.2 Transfer duty

Purchaser transfer duty, also known as contracts and conveyances duty, is levied on the transfer (sale) of real property. The tax is paid by the purchaser.

The tax rate is based on the sale price (or value, if higher) of the property:

- value up to $14,000 – 1.25% (minimum $2)
- value from $14,001 to $30,000 – $175 plus 1.5%
- value from $80,001 to $300,000 – $415 plus 1.75%
- value from $300,000 to $1 million – $1,290 plus 3.5%
- value from $1 million to $3 million – $8,990 plus 4.5%
- value over $3 million – $150,490 plus 7%

Transfer duty is a key own-source revenue for the state government (see page 18), but the property and development industry opposes all property taxes (see page 7). As with land tax, from a public interest perspective, there is an 'equity and efficiency trade-off' between the benefits of transfer duties in raising revenue and negative impacts on housing markets. Those negative impacts could affect home-purchasers and private renters. In relation to home purchase, Stilwell and English state that self-evidently transfer duty adds to the cost of buying a house and is a particular problem for first-homebuyers.[69] However, since its contribution to house prices is just a few percentage points 'the crux of the housing affordability crisis lies elsewhere'. In relation to private rental, Wood, Watson and Flatau argue that transfer duties are a disincentive to the acquisition of additional rental properties by investers in residential housing, especially landlords who might buy properties for renting out at lower rents.[70]

4.2.1 Taxation expenditures

The following sub-groups of taxpayers are exempt from transfer duty[71]:

- first homeowners and group self-help build schemes, with
  - a full exemption for dwellings valued up to $500,000 and a partial exemption on dwellings valued up to $600,000, i.e. 22.49% less $112,450; or
  - a full exemption for purchase of vacant land valued up to $300,000 and a partial exemption on land valued up to $450,000, i.e. 10.49% less $31,470;[72]
- spouses and de facto partners, if the property is jointly owned after the transfer;
- divorced people, if the transfer is consequent to a divorce;
- tenants of the Department of Housing, the community housing program administered by the Department of Housing, and the Aboriginal Housing Office, who are purchasing their principal place of residence;
- children and siblings of owners of family farms, in the case of rural land;
- individuals having a principal place of residence transferred to them by a corporation or a special trust, or having land transferred to them by a special trust, provided the land was owned by the corporation on 11 September 1990;
- charitable and benevolent institutions, where the property is to be used for approved purposes;
- corporate reconstructions, subject to certain criteria; and
- local governments or county councils having property transferred to them.

Purchaser transfer duty does not apply to approved equity release schemes for older homeowners, certain purchases of manufactured relocatable homes (caravans), and a number of other miscellaneous activities.[73]

Table 7 gives the value of the revenue foregone from purchaser transfer duty exemptions for some eligible sub-groups of taxpayers.

TABLE 7: VALUE OF TRANSFER DUTY EXEMPTIONS, NEW SOUTH WALES, 2005 TO 2007

	2004-05 $m	2005-06 $m	2006-07 $m
First homebuyers (‘First Home Plus’)	353	383	402
Transfer of residences between spouses	27	28	29
Transfers of property after divorce	75	77	80
Purchase of property by social housing tenants	1	<1	<1

Source: NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement,* 2006, Appendix B, pp.B-2–B-5.

In recent times there have been a number of proposals for extending the sub-groups eligible for exemption from transfer duty.

In the lead-up to the 2006-07 State Budget, the NSW Council of Social Service proposed an exemption for investers who provide the dwelling they purchase for ‘lower-cost private rental housing’ to accredited community housing organizations.[74]

In its response to the 2006-07 State Budget, the Opposition announced it would give a concession on transfer duty of $4,000 to buyers of dwellings for investment purposes where those dwellings were valued up to $500,000 and were let out to residential tenants for at least a 5-year period.[75] If the purchaser does not let the dwelling for the whole of the 5 years, or sells the dwelling before 5 years, they would have to pay back 20% of the concession amount for each year less than 5 that they did not let it or own it.

4.3 Mortgage duty

Mortgage duty is paid by a mortgager when they sign a mortgage document or when they make an advance on an amount previously borrowed. The benchmark rate is $5 up to $16,000 plus $4 per $1,000 or part thereof on the excess.[76] This tax will be abolished by 2011 (half on 1 January 2010 and half on 1 January 2011).

Wood, Watson and Flatau argue that this tax is a disincentive to the acquisition of additional rental properties by investers in residential housing, especially landlords who might buy properties for renting out at lower rents.[77]

4.3.1 Taxation expenditures

The sub-groups of taxpayers exempt from the tax include[78]:

- first homeowners, with a full exemption for dwellings valued up to $500,000 and a partial exemption on dwellings valued up to $600,000;
- divorced people or someone whose de facto relationship has broken up, who are refinancing a loan following the divorce/break-up;

- institutions for the relief of poverty and promotion of education;
- Aboriginal land councils;
- tenants of the Department of Housing, the community housing program administered by the Department of Housing, and the Aboriginal Housing Office, who purchase 25% or more of the ownership of land and intend to use the land as their principal place of residence; and
- nonprofit organizations in conjunction with a lease that is not subject to lease duty, where the purpose is to provide accommodation to an older person or to a person with a disability.

4.4 Lease duty

Lease duty is paid on leases of real property with a total rental cost of more than $20,000. The benchmark rate is 35 cents per $100, or part thereof, of the total cost of the lease.[79] This tax will be abolished by 1 January 2008.

4.4.1 Taxation expenditures

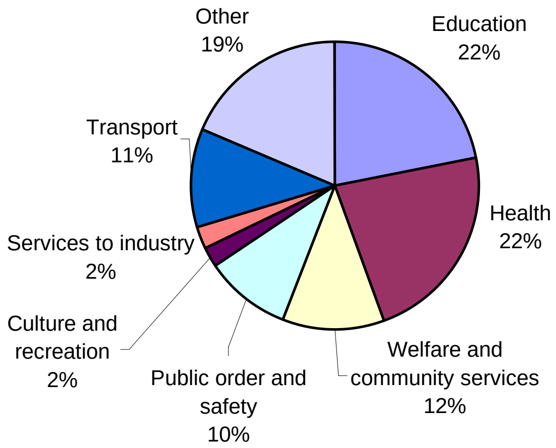
The sub-groups of taxpayers exempt from the tax include[80]:

- lessees taking out residential leases where the lessee has a right to occupy premises as a place of residence for up to 5 years;
- lessees taking out leases on a site in a residential park where the site is used or intended to be used as a place of residence for up to 5 years;
- Aboriginal land councils; and
- lessees of residential accommodation for retired people and people with a disability.

5. Tax transfers for low-income housing

Revenue collected by government is, of course, important for the programs and services government provides. The provision of the service represents a 'transfer' of the revenue collected from the taxpayers (etc.) to the users of the service. Figure 14 indicates the types of service financed in this way.

FIGURE 14: NSW GOVERNMENT EXPENSES BY TYPE OF SERVICE: ANNUAL AVERAGE PROPORTION OF TOTAL EXPENSES, 2001 TO 2005



Source: Commonwealth Grants Commission, *2006 relative fiscal capabilities of the states*, Canberra, 2006, p.10. Notes: The pattern over this 5-year period is representative of the situation in each year. 'Welfare and community services' includes social welfare, housing, the First Home Owners Grants scheme, and services to Indigenous communities. 'Other' includes concessions and other payments, GST administration costs, general public services, superannuation, debt charges, and superannuation.

The NSW Treasury classifies government agencies in two ways: whether they are general government services or public trading/financial enterprises, and whether they are Budget-dependent or non-Budget-dependent.[81]

There are 3 general government sector agencies providing housing services that are categorized as Budget-dependent – the Department of Community Services, Department of Aging, Disability and Home Care, and Department of Aboriginal Affairs.[82]

There is 1 general government sector agency providing housing services that is categorized as non-Budget-dependent – the Aboriginal Housing Office. Dwellings owned by the Aboriginal Housing Office are managed by the Department of Housing: since the Office does not have a major commercial element, it is not classified as a public trading enterprise.

The 4 public trading enterprises that provide housing services (Landcom, Department of Housing, Teacher Housing Authority, and City West Housing Pty Ltd) are categorized as non-Budget-dependent.

This section summarizes the revenue sources for various housing services that take the form of a 'tax transfer'.

5.1 Home purchase assistance

The main program to assist people into owner-occupation is the First Home Owner Grant scheme (FHOGS). A person can get a $7,000 grant for use to buy a dwelling (not vacant land). The grant is not means-tested and is not taxable.

This scheme was initiated by the Commonwealth government in 2000 to help offset the effect of the GST. It was (and is) administered by the state governments, in New South Wales through the Office of State Revenue in NSW Treasury. The Australian Government guarantees the funding for the scheme through GST arrangements.

In March 2001, the Commonwealth government provided for an additional grant of $7,000 for first homebuyers building or purchasing new dwellings before 31 December 2001. It paid for this additional grant scheme through a specific purpose payment to the states. It then extended this scheme, but at a rate of $3,000, for new dwellings built or purchased between 1 January and 30 June 2002.

This scheme has been criticized by academics and welfare organizations, like the Australian Council of Social Service and National Shelter, for not being targeted to low-income homebuyers and for driving up house prices. The Productivity Commission, in a report on home ownership, agreed with criticism about the untargeted nature of the scheme, and made a more general point that there was not a strong public policy case for further direct assistance specifically aimed at increasing home ownership.[83]

In its response to the 2006-07 State Budget, the Opposition announced it would top up the scheme's grant by $3,000 to first homebuyers buying a dwelling valued up to $500,000 (i.e. for people eligible for the 'First Home Plus' exemption from purchaser transfer duty).[84] Their proposal to tie in eligibility for this $3,000 top-up to eligibility for First Home Plus introduces an element of targeting, in that homebuyers who can afford dwellings of more than $500,000 would not be eligible for the top-up. This grant scheme would operate for two years, 2007-08 and 2008-09[85], and would cost $90 million. It would be financed from the state's own-sources revenue.

An alternative approach that has not been apparently considered by the state government or Opposition is a no-interest or low-interest loans scheme that would enable eligible first homebuyers meeting the First Home Plus criteria to borrow a proportion of a deposit. Such a scheme would meet the social objective of assisting first homebuyers who want to buy houses at the lower end of the market but have problems with the deposit constraint. (The median purchase price for a new dwelling in inner-ring Sydney was $520,000, middle-ring Sydney $450,000, outer ring Sydney $378,000 and in the rest of the greater metropolitan area $315,000, in the December quarter 2005.[86]) Yet it would not have the same inflationary effect that the scheme might, and moreover, would not have a negative impact on state government revenue.

The 2nd program to assist people into owner-occupation is the mortgage assistance and homebuyer information provided by the Department of Housing. The homebuyer information role has been or is being absorbed into the Department's customer call center. The Mortgage Assistance Scheme provides loans to homeowners experiencing temporary difficulties in meeting mortgage repayments. The estimated expenditure in 2006-07 will be $1 million as a rolling fund. These are 'CSHA programs', part of the Department of Housing's Housing Policy and Assistance Program (which includes housing assistance for public housing tenants, community housing tenants, people in housing crisis needing crisis accommodation, private renters, and home purchasers). That is, the program is financed from a mix of Commonwealth and state revenues.

The 3rd program for owner-occupiers is the Home Purchase Assistance Fund. This Fund is part of the mopping-up after the collapse of HomeFund, a home purchase assistance scheme operated by the state government in the 1980s. The Fund is estimated to spend $14 million in 2006-07, a 41% decrease from 2005-06.

5.2 Private rental

The Department of Housing has 3 programs designed to assist affordability in the private rental market.

It has a subsidy program to owners of boarding houses to assist them to meet fire safety standards. There is a public health dimension to this, but it also can assist the owners of the dwellings to stay in a housing submarket that has low or no profit margins and therefore delay decline in supply of this type of market-supplied affordable housing. The 2006-07 Budget allocation is $200,000.

Secondly, it has a subsidy program for low-income people wishing to enter the private rental market or re-establish a tenancy in that market. Called RentStart, the program provides subsidies for individual private renters who are eligible for housing assistance when they are establishing a new tenancy with a private landlord. An eligible renter may get assistance to meet part (75%) of the costs of a bond or key money (RentStart–Standard) or to meet 2 weeks rent in advance (RentStart–Plus), or pay rental arrears for up to 4 weeks (RentStart–Tenancy Assistance). The subsidy takes the form of payment direct to the landlord. This is a 'CSHA program', i.e. it is financed from a mix of Commonwealth and state revenues. The 2006-07 Budget allocation is $24.9 million, and some 34,000 households are expected to benefit.

Thirdly, it has a subsidy program for private renters who have HIV/AIDS or a disability, the Special Assistance Subsidy. A person with HIV/AIDS or a person with a disability who is eligible for priority housing assistance from the Department of Housing and who wishes to live in private rental housing, rather than public housing, gets a subsidy towards the cost of their rent. This subsidy is paid direct to the private landlord: the tenant pays only the difference to the landlord from their own income. This is a 'CSHA program', i.e. it is financed from a mix of Commonwealth and state revenues. The 2006-07 Budget allocation is $10.4 million, and some 1,300 households are expected to benefit.

5.3 Supported housing for homeless people

Financing of homeless services is underpinned by the multilateral Supported Accommodation Assistance Program, though financing of many of the dwellings used for housing by SAAP services comes through the CSHA's Crisis Accommodation Program (see page 42) – 80% or more of Crisis Accommodation Program funds have been allocated to SAAP services over time.[87]

Services in this sector are not always fully funded by government, so the Commonwealth and State budget outlays do not give a full picture of the revenue side of the homelessness sector's budgets. The larger homelessness services in the major cities are provided by high-profile charitable organizations that are able to attract independent revenue from public fundraising appeals. As well, SAAP services, to varying degrees, charge clients fees for crisis accommodation[88]; this practise is particularly important for large homeless hostels and for medium-term transitional housing (where the client fee is akin to a rent paid by someone in the mainstream private rental market and boarding/lodging house market).[89] That is, homeless people themselves contribute to the revenue of many SAAP services.

It is not possible to identify the Consolidated Fund contribution to this sector from the Budget papers. That is because the program is not separately identified. The Budget papers indicate an appropriation for crisis support services in the Department of Community Services' budget, but this item also includes funding of refuges for intoxicated persons under an alcohol and other drugs program.[90] Fortunately, briefing notes prepared by the Department for briefing nongovernment stakeholders identify the Budget subsidy for the SAAP alone. It was $112.2 million in 2005-06 and is estimated to be $113.7 million in 2006-07.[91]

The Commonwealth Budget papers do indicate the specific purpose payment for the SAAP to New South Wales. In 2005-06 it was $57.5 million and is estimated to be $58.773 million in 2006-07 – a $1.265 million increase as a 2.2% indexation.[92] That means the NSW contribution to the $113.7 million in 2006-07 would be $54.927 million; thus, the share of the 2006-07 State Budget subsidy to the SAAP from Commonwealth sources is 51% and from NSW government own-sources 49%. This is similar to the ratio indicated in the SAAP V multilateral agreement, which envisages a Commonwealth share of 49.8% and a NSW share of 50.2%.[93] These ratios have been fairly constant since the mid 1990s, except in 2000-01 and 2001-02 when the NSW share dropped to 44%.[94] The NSW government own-source funding to the program compares more than favorably with the own-source finding to the program in the other jurisdictions, most of whom contributed less than 45% of government funding to it over the 9-year period from 1995-96 to 2003-04.[95]

The Department of Community Services' annual report does not provide specific information on the revenues for this program.[96]

5.4 Supported housing for people with disabilities

Funding for supported housing for people with disabilities comes through 2 programs: 1 through the Department of Housing, and the other through the Department of Aging, Disability and Home Care.

The Housing Policy and Assistance Program of the Department of Housing enables provision of a number of social housing tenancies for people with mental health issues in partnership with the Department of Health – the Housing and Support Initiative.[97] The dwellings are managed by community housing associations in most cases, but also by the Department of Housing. The accommodation support role is provided by 3 nonprofit welfare organizations.

The housing provision component is funded by the Department of Housing. The Budget papers and supplementary Departmental budget commentary do not provide specific information on the Department of Housing's revenues or expenditures for this program. The accommodation support component is funded by the Department of Health. The 2006-07 State Budget provided funding to the Department of Health for an additional 234 support packages for clients, on top of the 736 places already provided. [98] The Budget papers do not provide specific information on the Department of Health's revenues or expenditures for this program.

The Department of Aging, Disability and Home Care subsidizes group homes and large residential centers for people with disabilities. These housing types are variously owned and managed by government and nongovernment organizations, with the group homes sector largely managed by nongovernment organizations (about 60%) and residential centers largely managed by the Department (about 66%). The Department operates 296 group homes and 13 large residential centers.[99] Most nongovernment managers of group homes rely on the Department of Housing for their dwellings. The Department of Aging, Disability and Home Care will also be developing 'new approaches' for supported housing for people with disabilities (i.e. other than group homes) under the *Stronger together* plan released by the Government in May this year.[100]

Funding of this supported housing, and other programs for people with disabilities and their carers, is financed through the Commonwealth–State–Territory Disability Agreement. The Commonwealth government contribution to disability services in New South Wales represented less than 20% of the cost over the 4-year period to 2005-06.[101]

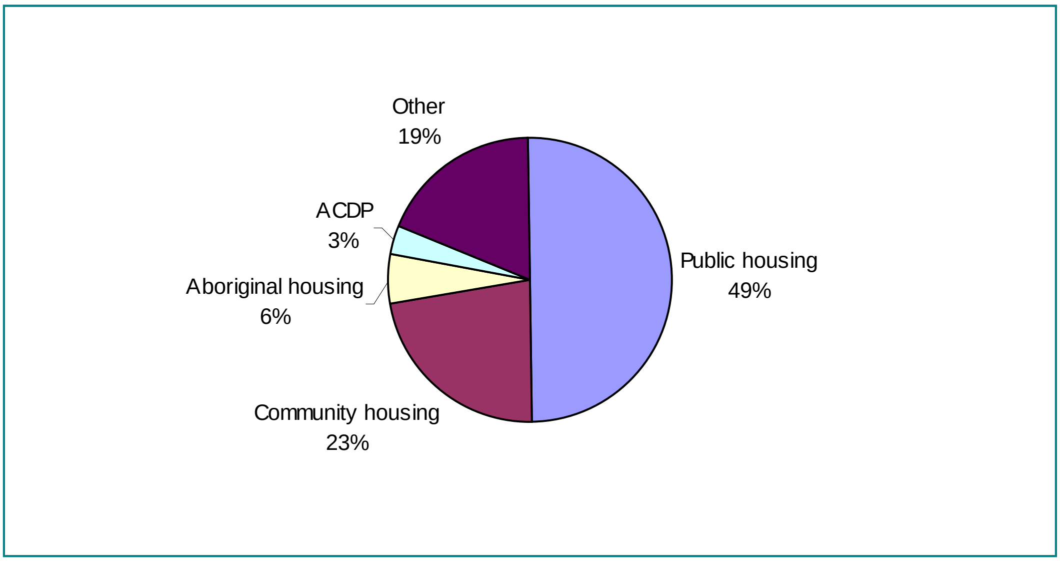
The NSW Budget estimates for 2006-07 indicated an estimated expenditure of $946.15 million on supported accommodation for people with disabilities in 2006-07.[102] The number of supported accommodation places in 2006-07 will be 5,600, up from 5,314 in 2005-06. This amount of $946.15 million, while reported by the Budget papers under a heading 'Supported accommodation', includes items other than housing. The 'program' description indicates it includes intensive personal care services (i.e. certain non-housing services) for people with disabilities and frail older people, as well, and the list of operational expenses includes a Disability Services Program, grants to nongovernment organizations, grants to Home and Community Care services, child support and departmental residential care. In 2003-04, 80% of NSW users of Commonwealth–State–Territory Disability Agreement-funded accommodation support services were in supported housing[103], but this proportion does not necessarily mean that 80% of the state budget allocation to 'supported accommodation' goes to supported housing. The Department of Aging, Disability and Home Care's annual report does not provide specific information on the revenues or expenditures for supported accommodation for people with disabilities.

5.5 Social housing

The Budget allocations for social housing go to 2 agencies, the Department of Housing and the Aboriginal Housing Office.

The biggest proportion of the Budget subsidy for the Department of Housing goes to expenses to do with supply and management of social housing, with 80% of its Budget subsidy going to social housing in 2006-07. See Figure 15.

FIGURE 15: DISTRIBUTION OF BUDGET SUBSIDY TO DEPARTMENT OF HOUSING, 2006-07

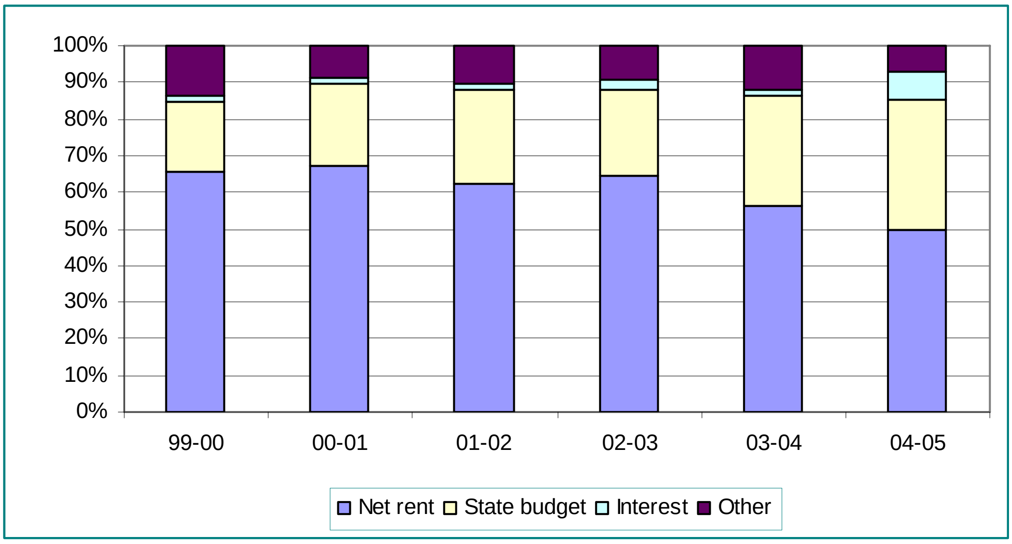


Source: NSW Treasury, *Budget papers 2006-2007: Budget paper no.3 – 2006-07 Budget estimates*, 2006, p.11-12. Note: ACDP = Aboriginal Communities Development Program.

Because the Budget statements only report on the allocation from consolidated revenues (the Consolidated Fund[104]), they do not give a complete picture of either where the Department gets its money or where it spends it. That information is reported in the Department's annual reports. (Likewise with the Aboriginal Housing Office.)

The Department is classified as a public trading enterprise precisely because of the significant revenue it gets from its customers: public housing tenants' and (some) Aboriginal housing tenants' rents contributed from 66% to 50% of the Department's revenues in the early 2000s. See Figure 16, which indicates the proportional contribution of rents, Consolidated Fund subsidies, and other revenue to the Department's operating revenue over the 6-year period from 1999-00 to 2004-05. But, as NSW Treasury has noted, revenue growth from public housing has been low because of higher proportions of customers with low incomes.[105] You can see from Figure 16 that there appears to be a correlation between a declining proportion of revenue from rents and a rising proportion of revenue from Budget subsidies.

FIGURE 16: REVENUE SOURCES FOR THE DEPARTMENT OF HOUSING (%), 2000 TO 2005



Source: Department of Housing annual reports.

The Commonwealth government specific purpose payment to New South Wales under the CSHA represents 16% of the Department of Housing's total revenues (for all programs, not just social housing).[106]

The NSW Government expects that demand and expenditure for social housing will remain constant into the future.[107] In the lead up to the 2005-06 State Budget there was concern about the fiscal sustainability of the Department, but it appears that problem might have been dealt with by a settlement made between Treasury and the Department of Housing, which included a 4-year working capital enhancement to the department. The 2nd tranche of that enhancement came through in the 2006-07 State Budget, which also saw a 5% net increase in Budget funding to the department. Note that the expected constancy in demand for public housing is being effected by a demand management strategy that includes no liberalization of income eligibility criteria despite bracket creep over the 1990s and will include an assessment of an applicant for 'unresolved housing need' (including complex needs) from 10 July 2006.[108]

Table 8 gives the revenue sources for the Department of Housing's Housing Policy and Assistance Program, which includes its social housing programs, private rental assistance programs, and some home ownership assistance programs.

TABLE 8: REVENUE SOURCES FOR THE DEPARTMENT OF HOUSING'S HOUSING POLICY AND ASSISTANCE PROGRAM, 2006-07

Sphere of government	$ million
State	
Commonwealth State Housing Agreement	120.848
Stamp duty/land tax assistance	2.876
Enhancement funding	73.156
Aboriginal Communities Development Program	18.000
GST compensation, SACS Award funding and indexation of state funding	22.141
Agency internal funds (including forward funds from previous year)	45.513
Asset sales	108.097
Subtotal	**390.631**
Commonwealth	
Commonwealth State Housing Agreement	301.392
Subsidy for Social Housing Subsidy Program	1.995
Healthy Indigenous Housing Initiative	4.800
Aboriginal Community Housing Infrastructure Program	13.250
Subtotal	**321.437**
Total	**712.068**

Source: NSW Department of Housing, '2006/07 New South Wales Budget commentary on the housing policy and assistance program', June 2006, p.3. Notes: Does not included borrowing for the Maintenance Reform Program for the Department's social housing stock. SACS = Social and community services. The amount for the Healthy Indigenous Housing Initiative represents 2 years of funding (2005-06 funds carried forward, and 2006-07 funds).

The Budget allocation to the Department of Housing includes the Department's community housing program – the operations of the Office of Community Housing, subsidies to community housing providers through the Community Housing Asset Program and the Crisis Accommodation Program, and some smaller activities.

The Community Housing Asset Program will be financed from 2 sources in 2006-07: grants from Consolidated Revenue which are pass-throughs of tied Commonwealth funding to New South Wales under the CSHA, and asset sales (2 dwellings). The State Budget allocation to the Department of Housing's community housing programs is only part of the picture of how this sector is financed: rental housing associations and rental housing cooperatives collect rents from their tenants (who are also eligible for Commonwealth rent assistance), but that revenue, going as is does to independent organizations, is not relevant to the state government's budget and nor is it reported in the Department of Housing's annual report.

The Crisis Accommodation Program will be financed from 3 sources in 2006-07: grants from Consolidated Revenue which are pass-throughs of tied Commonwealth funding to New South Wales under the CSHA, asset sales (2 dwellings), and moneys carried forward from 2005-06.

The Aboriginal housing sector has 3 sub-sectors:

- the state-owned and managed Aboriginal housing sector, which is overseen by the Aboriginal Housing Office (AHO), with the properties and tenancies managed for the Office by the Department of Housing;
- the Aboriginal community housing sector comprised of independent Aboriginal community housing providers which own and manage their own properties, which is resourced by the Office through the Housing for Aboriginal Communities Program (supply) and Aboriginal Communities Development Program (sector resourcing and other activities); and
- the housing on Aboriginal land owned by land councils.

The 1st sub-sector has 47% of the dwellings and the 2nd sub-sector has 19%.[109], and the 3rd sub-sector 33% of the dwellings.

The State Budget allocation to the Aboriginal Housing Office includes revenue from mainly Commonwealth government sources. See Table 9. That Budget allocation does not (obviously – as with mainstream (i.e. nonIndigenous) community housing) include rent revenues collected by the independent Aboriginal community housing providers.

TABLE 9: REVENUE SOURCES FOR THE ABORIGINAL HOUSING OFFICE, 2006-07

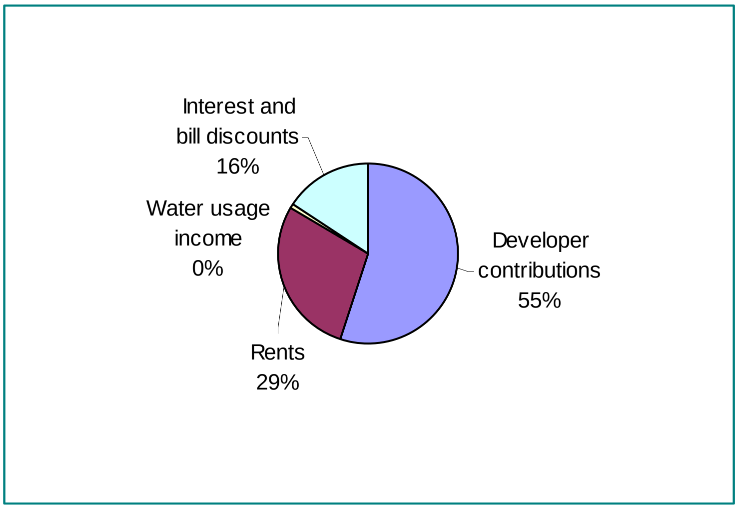
Sphere of government	$ million
State	
State grant – Aboriginal Communities Development Program	18.000
Other (includes asset sales, net rental income, interest income)	7.871
State/Commonwealth shared	
CSHA – other (untied and matched CSHA funds)	18.487
Commonwealth	
CSHA – Aboriginal Rental Housing Program (tied CSHA funds)	12.177
Communities Housing Infrastructure Program	13.250
Healthy Indigenous Housing Initiative	4.800
Total	**74.585**

Source: Adapted from Russel Taylor, 'NSW Aboriginal Housing Office budget 2006/2007', slide presentation, 6 June 2007. Note: The amount for the Healthy Indigenous Housing Initiative represents 2 years of funding (2005-06 funds carried forward and 2006-07).

5.6 Other submarket rental housing

City West Housing Pty Ltd is a public trading enterprise that provides affordable rental housing in two areas of inner Sydney where there has been and is major urban regeneration activities. At June 2005 it had 365 tenanted housing units in the suburbs of Ultimo-Pyrmont and 16 tenanted housing units in the suburb of Victoria Park (Green Square precinct). In both areas, development contributions for affordable housing (see page 14) have been (and are) a key source of the company's revenue.[110] See Figure 17.

FIGURE 17: REVENUE SOURCES FOR CITY WEST HOUSING (%), 2004-05

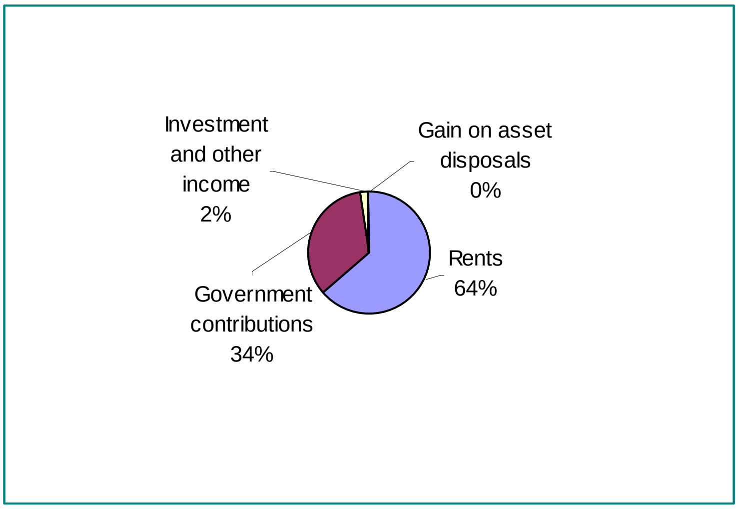


Source: City West Housing Pty Limited, *Annual report for the year ended 30 June 2005*, p.19.
Note: Water usage income was 0.3% of total revenue.

The Teacher Housing Authority, established in 1975, provides the longest-running rental housing program for 'key workers' in New South Wales. Its dwellings are located in rural areas, particularly where the private rental market is assessed as not providing affordable or suitable housing for its customers, who are teachers employed in government schools. It has 1,499 dwellings across the state, 281 of which are school residences (as at June 2005).[111] While the Authority charges market rents, tenants are eligible for a rent subsidy of 70% or 90% according to zones; this rent subsidy is funded by the Department of Education and Training but administered by the Authority.

The Authority's annual revenues include two types of subsidies from the State Budget. One is for recurrent costs and one is for capital payments for dwellings owned by the Department of Education and Training where the Authority manages those dwellings. See Figure 18.

FIGURE 18: REVENUE SOURCES FOR TEACHER HOUSING AUTHORITY (%), 2004-05



Source: Teacher Housing Authority of New South Wales, *Annual report for2004-05*, p.11.
Notes: Gain on asset disposals was 0.02% of total revenue. The government contributions figure is for recurrent costs of Authority-owned dwellings, not for capital payments for Education Department owned dwellings which the Authority manages for the Department.

6. Questions

Question 1: What taxes are most suited, or not suited, to state government? 14
Question 2: Where is there likely to be growth in revenue for state government? 21
Question 3: Is there a good case for hypothecated taxes? 22
Question 4: Are grants or tax expenditures a better way to promote social equity? 24

Attachments

Attachment 1: Benchmarks to evaluate federal financial relations

Expenditure responsibilities	
Benchmark 1	Subsidiarity: Subnational governments should, subject to efficiency considerations, be responsible for this services whose benefits are confined primarily to their geographic area and for which residents should have a choice over both the quantity and quality of service.
Benchmark 2	Transparency of shared expenditure responsibilities: When expenditure responsibilities are shared among jurisdictions, responsibilities for each tier of government should be clear and appropriate coordination mechanisms should be established.
Tax assignment	
Benchmark 3	Tax assignment should follow expenditure responsibilities.
Benchmark 4	Economic efficiency of tax assignment: Subnational governments should avoid taxes on mobile factors and tax less mobile factors.
Benchmark 5	Fiscal need: Tax revenues should be able to expand in line with expenditure needs.
Intergovernmental transfers	
Benchmark 6	Equity of intergovernmental transfers: Subnational governments with equal fiscal needs should be treated equally.
Benchmark 7	Neutrality: Subnational governments should not be able to influence the grant that they receive by manipulating their expenditure or tax decisions.
Benchmark 8	Predictability and flexibility: Subnational governments need to be able to budget and plan for the future but, at the same time, have the flexibility to respond to changing circumstances.
Benchmark 9	Simplicity and transparency: The transfer mechanism or allocation formula should be readily understandable (transparent) and easy to administer (simple).
Benchmark 10	Autonomy: Subnational governments should have the independence to set priorities and manage services to respond to local needs.
Benchmark 11	Incentive for sound management: The transfer mechanism should not penalize subnational governments for sound economic management.
Benchmark 12	Accountability: The transfer system should enhance the accountability of subnational governments to their citizens.
Dynamic federalism	
Benchmark 13	Dynamic: The federal financial system should be open to comprehensive review and capable of structural change.

Source: Neil Warren, *Benchmarking Australia's intergovernmental fiscal arrangements: final report*, NSW Treasury, 2006, p.13.

Attachment 2: Land Tax Management Act 1956 (excerpts)

(1) Land is exempted from taxation under this Act leviable or payable in respect of the year commencing on 1 January 1995 or any succeeding year if:
(a) the land is used and occupied primarily for low cost accommodation, and
(b) application for the exemption is made in accordance with this section, and
(c) the Chief Commissioner is satisfied that the land is so used and occupied in accordance with guidelines approved by the Treasurer for the purposes of this section.
(2) The guidelines may include provisions with respect to the following:
(a) the circumstances in which accommodation is taken to be low cost accommodation,
(b) the types and location of premises in which low cost accommodation may be provided,
(c) the number and types of persons for whom the accommodation must be provided,
(d) the circumstances in which, and the arrangements under which, the accommodation is provided,
(e) maximum tariffs for the accommodation,
(f) periods within which tariffs may not be increased,
(g) the circumstances in which the applicant is required to give an undertaking to pass on the benefit of the exemption from taxation (or, if subsection (4) applies, the reduction in taxation) to the persons for whom the accommodation is provided in the form of lower tariffs.
(3) A guideline may:
(a) apply generally or be limited in its application by reference to specified exceptions or factors, or
(b) apply differently according to different factors of a specified kind,
or both.
(4) If the Chief Commissioner is satisfied that part only of land or premises is used and occupied primarily for low cost accommodation in accordance with the Treasurer's guidelines, the land value of the land is to be reduced for the purposes of land tax in accordance with the principles in section 10R (3)–(3C).
(5) This section does not apply to an owner of land in respect of a tax year unless:
(a) the owner applies to the Chief Commissioner for the exemption or reduction, in the form approved by the Chief Commissioner, and
(b) the owner furnishes the Chief Commissioner with such evidence as the Chief Commissioner may request for the purpose of enabling the Chief Commissioner to determine whether there is an entitlement to the exemption or reduction.
(6) Without limiting the other ways in which this section may cease to apply to a person, it ceases to apply to a person if the person breaches an undertaking given as referred to in subsection (2) (g).

Attachment 3: Guidelines for land tax exemption for boarding houses

REVENUE RULING LT 76
Exemption – Land Used and Occupied Primarily for a Boarding House
– 2006 Tax Year
(Section 10Q Land Tax Management Act, 1956)

Preamble

1. Where land is used and occupied primarily as a boarding house, an exemption from land tax or a reduction in the land value of the land is available if guidelines approved by the Treasurer are met.

2. The purpose of this ruling is to outline the approved guidelines applying to the 2006 tax year, to explain the conditions that entitle the owner to claim an exemption or a reduction in the land value and to provide a statutory declaration to be completed by owners who claim the concession.

Guidelines Approved by the Treasurer

3. The approved guidelines for the 2006 tax year are as follows:

(i) land that is used as the site of a boarding-house will be entitled to an exemption from land tax for the 2006 tax year where, during the year ended 31 December 2005, in respect of at least 80% of the accommodation available to boarding house residents:

> (a) occupation was by long term residents (a long term resident is considered to be a person who resided at a boarding-house for 3 consecutive months or for any periods totalling 3 months); and
> (b) where full board and lodging was provided, the maximum tariff charged was no more than*:
> $257 per week for single accommodation or
> $429 per week for married or shared accommodation
>
> or where less than full board and lodging was provided, was no more than*:
> $172 per week for single accommodation or
> $286 per week for married or shared accommodation

(ii) where the requirements of paragraph 3(i)(a) above could not be met, land used and occupied primarily for a boarding house may still qualify for exemption provided:

> (a) at least 80% of the accommodation that was actually occupied was occupied by long term residents; and
> (b) at least 80% of the accommodation available to boarding-house residents was either occupied or was available for occupation at tariffs within the limits shown in paragraph 3(i)

(iii) where less than 80% of the accommodation available to boarding house residents was occupied by long term residents, owners seeking an exemption must provide an explanation of the reasons that this requirement was not met and such circumstances will be considered on a case-by-case basis;

(iv) The owner must provide a statutory declaration stating that, in respect of at least 80% of the accommodation available to boarding house residents, the tariff for full board and lodging during the whole of 2006, will not exceed*;

$264 per week for single accommodation or
$494 per week for family or shared accommodation

or where less than full board and lodging is provided, the tariff will not exceed*:

$170 per week for single accommodation or
$283 per week for family or shared accommodation.

{*The tariff rates indicated above do not include GST. Any GST collected on the rent should be accounted separately}

4. For the purposes of these guidelines, "boarding house" is considered to mean premises which:
(i) are used in the course of conducting a business of letting rooms to boarders or lodgers; and
(ii) are used and occupied by at least three (3) long term residents who:
(a) are not members of the family of the owner or manager; or
(b) are not directors or shareholders or members of the family of a director or a shareholder of a company if the company is the owner; and
(iii) are not premises which are licensed under the Liquor Act 1982; and
(iv) are not used and occupied by persons who are subject to a Residential Tenancy Agreement under the Residential Tenancies Act 1987.

5. For the purposes of paragraph 4(ii) above, a member of the family of the owner or manager or a member of the family of a shareholder means a person who could in any circumstances possibly be entitled in terms of the Wills Probate and Administration Act 1898 to an inheritance should the owner, manager or shareholder die intestate.

Ruling

6. If only part of the land or only part of the premises were used for a boarding-house, a pro rata reduction in the land value of the land will be calculated by the Chief Commissioner if the Chief Commissioner is not satisfied that a reduction claimed by an owner is fair and reasonable. Otherwise, the calculation will be made on a floor area basis.

7. Owners must apply for exemption by completing part A and either part B or C of the standard statutory declaration. The application should be lodged as soon as possible but within 30 days of the serving of an assessment which contains the land, by posting to the Chief Commissioner at the following address:-

Office Of State Revenue, Client Services Division
GPO Box 4042, Sydney NSW 2001

or alternatively, the application may be lodged at any branch of the Office of State Revenue from where additional copies of all forms are available.

8. Records of owners who claim concessions are regularly audited by the Office of State Revenue. Documentary evidence supporting the information in parts A, B or C of the statutory declaration must be retained and produced for inspection, if requested.

T Newbury
Chief Commissioner of State Revenue
13 January 2006

Attachment 4: Application for land tax exemption for boarding houses

The form on the following 5 pages was downloaded from the Office of State Revenue website at <http://www.osr.nsw.gov.au/portal/page?_pageid=33,63032&_dad=portal&_schema=OSRPTLT#landtax>.

Office of State Revenue
NSW TREASURY
ABN: 77 456 270 638

Land Tax Management Act 1956 – Section 10Q OLT 005 – 01/06
Application for Exemption – Boarding Houses Tax Year 2006

NOTE:
- You must complete Part A of this form. Complete either Part B or Part C – follow the instructions in clause 2 below
- This application must be completed and signed by a person 16 years of age and over
- Print clearly in the boxed spaces and tick the appropriate boxes

Client ID (if known)*

* *If you are already registered with OSR for this or any other tax or duty, please enter the client number previously supplied in the box above.*

Contact name	Daytime phone no. ( )

Part A

I (Full name)
of (Address)
apply for exemption from land tax under the provisions of the above Act for the land at
Street no. Street name
Suburb/Town Postcode
being described as Lot no. Plan no.

I do hereby solemnly and sincerely declare that as at 31 December 2005:

1 ☐ All ☐ Part only of the above **land** was used and occupied for a boarding house and

☐ All ☐ Part only of the **premises** on the land was so used

NOTE: Where part only of the land or premises was used, it will be necessary to claim a fair and reasonable proportion of the land value used for a boarding house and to supply information supporting the claim ➢ *Complete the details on page 2*

2a ☐ At least 80% of the total accommodation available to boarding house residents was occupied by long-term residents* during the year ended 31 December 2005 ➢ *Complete **Part B** on page 3*

OR

2b ☐ At least 80% of the total accommodation that was actually occupied was **not** occupied by long-term residents* (as defined) during the year ended 31 December 2005 and a statement of the reasons for this has been made ➢ *Complete **Part C** on page 4,* **and**

☐ At least 80% of the accommodation available to boarding house residents was either occupied or **was available for occupation** at tariffs within the limits shown in paragraph 3 below
➢ *Complete **Part C** on page 4*

* A long term resident is considered to be a person who resided at a boarding house for three consecutive months or for any periods totalling three months

3 The maximum tariff charged for at least 80% of the accommodation available to boarding house residents where:

☐ **full board and lodging** was provided, was no more than:
$257 per week for single accommodation or
$429 per week for family or shared accommodation, or

☐ **less than full board and lodging** was provided, was no more than:
$172 per week for single accommodation or
$286 per week for family or shared accommodation

4 During the whole of 2006, for at least 80% of the accommodation available to boarding house residents, the tariff for:

☐ **full board and lodging will not exceed:**
$264 per week for single accommodation or
$440 per week for family or shared accommodation, or

☐ **less than full board and lodging will not exceed:**
$177 per week for single accommodation or
$294 per week for family or shared accommodation

NOTE: The tariff rates shown above do not include GST. Do not include any GST collected when ticking the box at 4

5 I have read and understood OSR's *Revenue Ruling LT 76* and declare the information and contents of this application are to the best of my knowledge true and correct

Declaration

I/We make this solemn declaration, including the information shown in Parts B or C, conscientiously believing the same to be true and by virtue of the provisions of the *Oaths Act 1900*

Signed			
Made and subscribed at			
on the	(Day)	(Month)	(Year)
Before me (Signed)			

(Justice of the Peace or person authorised under the *Oaths Act 1900*)

Please provide details where **part only** of the land or premises was used and occupied for a boarding house to claim a **fair and reasonable reduction in land and value**: ➢ *see clause 1 on front page*

PRIVACY STATEMENT

The information in this form is required by the Office of State Revenue (OSR) to determine whether or not you meet the criteria for an exemption/concession from land tax for land used primarily for a boarding house. The information may be disclosed to third parties with your consent or as required or permitted by law.

An individual may review and update personal information held by OSR by contacting the Office.

Contact details
Phone: 1300 139 816 (Monday – Friday, 8.30am – 5.00pm)
Internet: www.osr.nsw.gov.au

OFFICE (Monday – Friday, 8.30am – 4.30pm)

Parramatta – GPO Box 4042, Sydney NSW 2001 – DX 456 Sydney – Fax (02) 9761 9389

Help in community languages is available.

Part B

NOTE: Please complete this section **only where at least 80%** of the accommodation available to boarding house residents was occupied by **long-term residents**, as defined

Boarding house tenancy details for the year ended 31 December 2005

There were rooms occupied by long-term residents out of the total of rooms

Enter no. Enter no.

available to boarding house residents

Details of long-term residencies

Room no.	Dates of occupation ➢ *Please see note 2*	No. of persons occupying this room	Full board and lodging (Tick)	Weekly tariff paid per person	Weekly tariff paid per family
			☐ Yes ☐ No		
			☐ Yes ☐ No		
			☐ Yes ☐ No		
			☐ Yes ☐ No		
			☐ Yes ☐ No		
			☐ Yes ☐ No		
			☐ Yes ☐ No		
			☐ Yes ☐ No		
			☐ Yes ☐ No		
			☐ Yes ☐ No		
			☐ Yes ☐ No		
			☐ Yes ☐ No		
			☐ Yes ☐ No		
			☐ Yes ☐ No		
			☐ Yes ☐ No		

NOTE: 1 If insufficient space, please attach additional pages. Each additional page must be signed by the declarant(s)

2 Please write '**full year'** if occupied all year. If any room was not continuously occupied by the same person(s) for the full year during the year ended 31 December 2005, the dates of occupation by each person(s) **must** be entered.

Declarant's signature

Part C

NOTE: Please complete this section only where less than 80% of the accommodation available to boarding house residents was occupied by long-term residents, as defined ➢*You must also complete the statement at the bottom of this page*

Boarding house tenancy details for the year ended 31 December 2005

There were __ rooms in the boarding house available to boarding house residents

Enter no

Following are the details of **all** rooms in the boarding house available to boarding house residents

Room no.	Dates of occupation ➢*Please see note 2*	No. of persons occupying this room	Full board and lodging (Tick)	Weekly tariff paid per person	Weekly tariff paid per family
			☐ Yes ☐ No		
			☐ Yes ☐ No		
			☐ Yes ☐ No		
			☐ Yes ☐ No		
			☐ Yes ☐ No		
			☐ Yes ☐ No		
			☐ Yes ☐ No		
			☐ Yes ☐ No		
			☐ Yes ☐ No		
			☐ Yes ☐ No		

NOTE: 1 If insufficient space, please attach additional pages. Each additional page must be signed by the declarant(s)

2 Please write '**vacant'** if vacant all year or '**full year'** if occupied all year. If any room was partly occupied during the year ended 31 December 2005, please write the dates of occupation by each person(s) occupying the room

Declarant's signature

Please state the reasons why long-term residents occupied less than 80% of accommodation available to boarding house residents.

Attachment 5: Guidelines for land tax exemption for low-cost accommodation

REVENUE RULING LT 77
Exemption – Land Used And Occupied Primarily for Low Cost Accommodation – 2006 Tax Year
(*Section 10Q Land Tax Management Act 1956*)

Preamble

1. Where land situated within certain boundaries is used and occupied primarily for low-cost accommodation (other than as a boarding house) an exemption from land tax is available if guidelines approved by the Treasurer are met. Where only part of the land or premises are used to provide the accommodation, an exemption is not available but the owner is entitled to claim a reduction in the land value of the land.

2. The purpose of this ruling is to outline the approved guidelines applying to the 2006 tax year, to explain the conditions that entitle the owner to claim an exemption or a reduction in the land value and to provide a statutory declaration to be completed by owners who claim the concession. An explanation of the guidelines approved by the Treasurer for the 2006 tax year for boarding-houses is contained in Land Tax Revenue Ruling LT 76.

Guidelines approved by the Treasurer

3. The approved guidelines for the 2006 tax year are as follows:

(i) Owners of land who provide low cost accommodation (that accommodation not being licensed premises or a boarding-house) will be entitled to claim exemption from land tax or a reduction in the land value of the land if the land is situated within a 5 kilometre radius of the Sydney GPO and on condition that:

> (a) each tenancy was subject to a Residential Tenancy Agreement under the Residential Tenancies Act 1987; and
>
> (b) the maximum weekly tariff paid in terms of a Residential Tenancy Agreement during the 6 months ended 31 December 2005 was no more than:
> $172 for one bedroom accommodation; or
> $229 for two bedroom accommodation; or
> $286 for three or more bedroom accommodation; and
>
> (c) a tenant used and occupied the premises or part of the premises for residential purposes and no other purpose for the 6 months immediately preceding 31 December 2005.
>
> (d) the owner gives an undertaking to pass on a benefit to the tenant(s) broadly equivalent to the land tax exemption. The benefit could, for example, be one or more of the following:

(A) reducing the tariff; or
(B) foregoing any increase in tariff that would otherwise have occurred under the terms of the Agreement; or
(C) carrying out improvements or renovations to the premises which are not required to be made under the terms of the Agreement e.g. by complying with a Council regulation, fire safety regulation etc.

(ii) An exemption or a reduction in the land value is not applicable where the use and occupation of the land was by any member of the family of the owner or where the land is owned by a company, by a member of the family of a director or a shareholder of that company;

(iii) The concession applies if the Chief Commissioner of State Revenue is satisfied that the circumstances preventing the term of the tenancy being for less than 6 months prior to the taxing date were beyond the owner's control; and

(iv) For the purposes of paragraph 3(ii) above, a member of the family of the owner or the member of the family of a shareholder means a person who could in any circumstances possibly be entitled in terms of the Wills, Probate and Administration Act 1898 to an inheritance should the owner or shareholder die intestate.

Ruling

4. If only part of the land or premises were used for low cost accommodation, a pro rata reduction in the land value of the land will be calculated by the Chief Commissioner if the Chief Commissioner is not satisfied that the reduction claimed is fair and reasonable. Otherwise, the calculation will be made on a floor area basis.

5. Owners must apply for exemption by completing the standard statutory declaration which should be lodged as soon as possible but within 30 days of the serving of a notice of assessment if the assessment contains the land. The declaration may be posted to the Chief Commissioner at the following address:

Office Of State Revenue, Client Services Division
GPO Box 4042, Sydney NSW 2001

or alternatively may be lodged at any branch of the Office of State Revenue from where additional copies of the declaration are available.

6. Records of owners who claim concessions are regularly audited by the Office of State Revenue. Documentary evidence supporting the information in the statutory declaration must be retained and produced for inspection, if requested.

T Newbury
Chief Commissioner of State Revenue
13 January 2006

Attachment 6: Application for land tax exemption for low-cost accommodation

The form on the following 3 pages was downloaded from the Office of State Revenue website at <http://www.osr.nsw.gov.au/portal/page?_pageid=33,63032&_dad=portal&_schema=OSRPTLT#landtax>.

Office of State Revenue
NSW TREASURY
ABN: 77 456 270 638

Land Tax Management Act 1956 – Section 10Q OLT 006 – 01/06
Application for Exemption – Land Used for Low Cost Accommodation Tax Year 2006

NOTE:

- This form must be completed and signed by a person 16 years of age and over
- Print clearly in the boxed spaces and tick the appropriate boxes

Client number (if known)*

* *If you are already registered with OSR for this or any other tax or duty, please enter the client number previously supplied in the box above.*

Contact name	Daytime phone no. ( )

I (Full name)
of (Address)
apply for exemption from land tax under the provisions of the above Act for the land at
Street no. Street name
Suburb/Town Postcode
being described as Lot no. Plan no.

I do hereby solemnly and sincerely declare that as at 31 December 2005 the above land was used for low cost accommodation and that:

1 The premises on the land consist of: ☐ house ☐ unit ☐ flat ☐ other

➢ *Provide details below*

NOTE: Owners of land who provide low cost accommodation (that accommodation not being licensed premises or a boarding house) will be entitled to claim exemption from land tax or a reduction in the land value of the land if the land is situated within a five-kilometre radius of the Sydney GPO

2 The premises on the land were subject to a Residential Tenancy Agreement(s) under the *Residential Tenancies Act 1987* and that the Agreement(s) was for the lease of:

☐ the whole of the premises* ☐ part of the premises*

and the number of bedrooms tenanted was:

☐ one bedroom ☐ two bedrooms ☐ three or more bedrooms

* Premises includes house, unit or flat

3 The maximum rent paid under a Residential Tenancy Agreement did not exceed:

$172 for one bedroom accommodation; or
$229 for two bedroom accommodation; or
$286 for three or more bedroom accommodation.

4 The premises was not used as a boarding house nor as licensed premises

5 ☐ All ☐ Part only

of all the above land or premises on the land was used and occupied for low cost accommodation

NOTE: Where part only of the land or premises was used, it will be necessary to claim a fair and reasonable proportion of the land value of the land used for low cost accommodation and to supply information supporting the claim ➢ *Complete the details on the back page*

6 No tenant was:

- a member of the family of the owner of the land; or
- if the land was owned by a company, a member of the family of a shareholder in that company

NOTE: A member of the family means a person who would be entitled to an inheritance should the owner or shareholder die intestate

7 I will pass on the benefit received from this exemption to the tenants either in the form of foregoing an increase in rent or making improvements to the premises

8 I have read and understand OSR's *Revenue Ruling LT 77* and declare the information and contents of this application are to the best of my knowledge true and correct

I make this solemn declaration, conscientiously believing the same to be true, and by virtue of the provisions of the *Oaths Act 1900*

Signed			
Made and subscribed at			
on the	(Day)	(Month)	(Year)
Before me (Signed)			

(Justice of the Peace or person authorised under the *Oaths Act 1900*)

Please provide details where part only of the land or premises was used and occupied for low cost accommodation to claim a fair and reasonable reduction in land and value: ➢ *see clause 5 on front page*

Details of tenancies during the six months ended 31 December 2005

Please provide a copy of each Residential Tenancy Agreement and indicate below the nature of the premises tenanted:

☐ the whole of the premises* ☐ part of the premises*

and the number of bedrooms tenanted was:

☐ one bedroom ☐ two bedrooms ☐ three or more bedrooms

* Premises includes house, unit or flat

If any Agreement is for a term which began after 1 July 2005, please also show below the reason the premises (or part of the premises) was not tenanted at that date

Tenancy 1	
Tenancy 2	
Tenancy 3	
Tenancy 4	
Tenancy 5	
Tenancy 6	
Tenancy 7	
Tenancy 8	

PRIVACY STATEMENT

The information in this form is required by the Office of State Revenue (OSR) to determine whether or not you meet the criteria for an exemption/concession from land tax for land used primarily for low cost accommodation.

The information may be disclosed to third parties with your consent or as required or permitted by law.

An individual may review and update personal information held by OSR by contacting the Office.

Contact details

Phone: 1300 139 816 (Monday – Friday, 8.30am – 5.00pm)

Internet: www.osr.nsw.gov.au

OFFICE (Monday – Friday, 8.30am – 4.30pm)

Parramatta – GPO Box 4042, Sydney NSW 2001 – DX 456 Sydney – Fax (02) 9761 9389

Help in community languages is available.

Glossary

ABS – Australian Bureau of Statistics
AHO – Aboriginal Housing Office
balance sheet – a financial statement indicating a government's financial position at a specific point of time (such as the end of the financial year), showing the assets, liabilities, and net worth
Commonwealth State Housing Agreement (CSHA) – a multilateral agreement between the Commonwealth, state and territory governments that indicates mutual responsibilities and funding commitments to housing assistance for socially-disadvantaged housing consumers
Commonwealth–State–Territory Disability Agreement (CSTDA) – a multilateral agreement between the Commonwealth, state and territory governments that indicates mutual responsibilities and funding commitments to disability services
community service obligation – a service required by government of a public trading enterprise that the enterprise might not do on ordinary commercial grounds and the cost of which is subsidized by the government (on a purchaser–provider model)
Consolidated Fund – the state government's main banking account comprised of revenue from taxes, fees, fines, grants from the Commonwealth government, contributions from public trading enterprises and public financial enterprises, and the money given to agencies for recurrent and capital purposes
Council of Australian Governments (COAG) – a forum comprised of the prime minister of the Commonwealth, premiers of the states, chief ministers of the two major territories, and president of the Australian Local Government Association; the successor body to Premiers Conferences
deposit constraint – the requirements on a potential home-purchaser that they have cash assets equal to a certain proportion of the price of the dwelling they want to buy and that they commit those moneys to purchase of a dwelling, as a condition for getting a loan from a mortgage lender; the difference between the cash required as a proportion of the dwelling price and how much the home-purchaser has is the 'deposit gap'
direct tax – a tax imposed directly on the taxpayer
duty – a levy paid on a commercial transaction
excise – a tax on a commodity
FAG – financial assistance grant
fee – a charge imposed for provision of a particular service
financial assistance grant – a grant of money from the Commonwealth government to the states and territories
fine – a payment made as a penalty for an offence
First Home Owner Grant Scheme (FHOGS) – a Commonwealth government scheme to assist first homeowners, administered by the states
First Home Plus – the state government's scheme for exemptions from purchaser transfer duty and mortgage duty to first homebuyers; while not means-tested, the exemptions apply to properties (dwellings or land) under specified values
fiscal drag – the process whereby a taxpayer finds themself in a higher band of a progressive tax scale as a result of inflation; also known as bracket creep

fiscal equalization – a process of distributing revenue on an equitable basis; see *horizontal fiscal equalization*
fiscal imbalance – the situation where there is an imbalance in the capacity of different governments to raise and spend money; see *vertical fiscal imbalance*
fiscal sustainability – the ability of a government to continue to provide current services at current standards over the longer term without increasing taxes
fiscal transfer – a transfer of money, e.g. a grant from the Commonwealth government to the states
general government sector – government agencies that provide goods and services largely free to consumers, or provide income support to individual citizens, or regulate economic or civil behavior
general purpose payment – a grant to the states and territories from the Commonwealth that they may use as they wish (i.e. for their general purposes) without any direction (ties) from the Commonwealth government on what it is to be spent on, etc.; it includes GST grants and National Competition Policy grants
GFS – government finance statistics
Gross Domestic Product (GDP) – an estimate of the total value of the goods and services produced in a country
group home – a dwelling with a shared household of up to 6 people with disabilities, generally staffed 24 hours a day
GST – Goods and Services Tax, a Commonwealth government tax imposed on transfers of goods and services between suppliers and a customer
horizontal equity – the principle that people in similar situations should be treated the same way, for example, a horizontally equitable tax should have the same impact on people in the same income bracket
horizontal fiscal equalization – a process of ensuring that spheres of government are able to deliver services at a similar level as other governments in the same sphere notwithstanding different capacities for own-source revenue
horizontal fiscal imbalance – the situation where a sphere of government is unable to provide the same level of service as other governments in the same sphere even though it imposes a similar level of own-source revenue
hypothecation – earmarking revenue from a particular tax for a particular purpose
indexation – a process of changing a standard (e.g. marginal tax bands for progressive income tax, level of funding of a service) in line with inflation
indirect tax – a tax that is not applied direct to the taxpayer’s income; see *duty*, *GST*
jurisdiction – the territory over which (usually, governmental) authority is exercised
large residential center – a dwelling with a congregate household of 20 or more people with disabilities, staffed 24 hours a day
market service – a function of a government that is financed primarily from customer charges; it can be subsidized by government from taxation revenue
National Competition Policy (NCC) – a multilateral agreement made in 1996 to promote a more competitive Australian economy, comprising (among things) reviews of regulatory instruments and other barriers to an efficient national market in goods and services; the state and territories were given Commonwealth government grants as incentives to remove anti-competitive regulations and taxes during this process
National Reform Agenda – a multilateral agreement made in 2006 to continue some of the elements of the National Competition Policy, but on a smaller scale and

without embedded Commonwealth government grants (in contrast with the National Competition Policy implementation process)

NCOSS – NSW Council of Social Service

net operating balance – the differences between a government’s revenues and expenses

net worth – the financial value of the difference between a government’s assets and its liabilities at a given point in time

non-market service – a function of a government that is financed primarily from taxation

non-taxation revenue – a government’s revenue from sources other than taxation, i.e. fees for service, fines, distributions from government-owned businesses, grants

Office of State Revenue (SR) – the division of NSW Treasury responsible for collecting the state government’s revenue

oligopoly – a market that only has a small number of providers

operating revenue – revenue earned in the period (e.g. financial year), even if it has not been received yet; *also*: the revenues to state government from sale of goods and services, investment income, and grants and contributions

Organization for Economic Cooperation and Development (OECD) – an association of countries with capitalist economies formed as an economic counterpart to the North Atlantic Treaty Organisation (NATO) in the middle of the 20th century; its members are largely from north America and western Europe, but also include, from Oceania and Asia, Australia, New Zealand, South Korea, Japan and Turkey

own-purpose expenses – the expenses a sphere of government incurs on matters that are its primary responsibility

own-source revenue – the revenue a sphere of government gets from its own sources

poll tax – a tax that is levied on the basis of a fixed amount applied to each taxpayer without any progressivity

progressivity – the extent to which a tax is progressive, i.e. the rate of tax increases as the base increases (e.g. you pay a higher rate of tax as your income increases: you pay a higher proportion of your income in tax as your income increases)

public–private partnership – a project in which there is joint and interdependent government sector and private sector participation

public financial enterprise – a government-owned and managed business that trades in finance markets, e.g. as a central bank, as a recipient of savings deposits, or it acquires financial assets and incurs liabilities in the market on its own; also known as public financial corporation

public trading enterprise – a government-owned and managed business that provides goods and services which are predominantly of a commercial nature (but are not financial services) and that charges for the services it provides, with consumer charges recouping most or all of their delivery costs; also known as government trading enterprise, government business enterprise or public non-financial corporation

redistributive tax – a tax that seeks to redistribute income from higher-income to lower-income earners/taxpayers

regulatory tax – a tax whose purpose is to regulate the consumption of the good or service on which the tax is imposed, for non-economic reasons

SAAP – Supported Accommodation Assistance Program social program – a government program that primarily has a social purpose (rather than economic management and development or environmental management and protection); it includes a *community service obligation*

specific purpose payment (SPP) – a grant from the Commonwealth government to the states and territories that is tied to spending on a specified program or service; see *tied grant*

state revenues – the revenue to state government from state taxes, fees, fines, distributions from government businesses, and grants from the Commonwealth government

state-owned corporation – a public trading enterprise that has been set up with a structure similar to a publicly-listed private company; see *public trading enterprise*

subnational government – the sphere of government below the national sphere in a federal system, usually called a state, region, or province

subsidiarity – the principle that a lower or local authority has a degree of independence from a higher or central authority, and a relative autonomy within its own sphere, based on the sharing of powers between several levels of authority

tax – a payment (transfer) made by an individual or business to the general government sector that is compulsory and unrequited, 'unrequited' meaning that the benefits provided by government to a taxpayer are not necessarily in proportion to the taxpayer's contribution

tax burden – the degree to which a government taxes its population; a typical measure for international comparisons is total taxation revenue as a proportion of Gross Domestic Product

tax competition – competition between governments in the same sphere to tax less, by having less taxes, lower tax rates, or more tax expenditures

tax credit – a claim a taxpayer can make against their tax liability by getting a reduction of tax liability to the extent indicated by the maximum amount of credit allowed – the payment for the item is treated as a pre-payment for tax liability, e.g. nonprofit organizations and for-profit businesses may (from 1 July 2006) claim a credit in their GST returns for the Commonwealth fuel tax that is included in the fuel they buy for their motor vehicles as part of their business

tax expenditure – a foregoing of taxation revenue from a sub-group of taxpayers or a particular activity, in the form of a tax exemption, tax deduction, tax offset, or reduced rate; it does not include tax-free thresholds and tapered taxation rates that apply to all taxpayers

tax mix – the composition of the total tax system by types of tax used

tax sovereignty – the ability of a government to decide which taxes it has and raises and how it implements them

tax transfer – see *transfer payment*

T-Corp – the Treasury Corporation; see *public financial enterprise*

tied grant – a grant that is tied to spending on a specified program or service; see *specific purpose payment*

total government sector – the combination of the general government sector, the public trading enterprise sector, and the public financial enterprise sector; also known as total public sector or *total state sector*

total government revenue – state revenue plus operating revenue total state sector – the combination of the general government sector, the public trading enterprise sector, and the public financial enterprise sector; also known as total public sector or *total government sector*

transfer duty – a tax (in the form of stamp duty) on conveyances

transfer payment – a government expenditure made for purposes other than acquiring goods or services for government itself; a government payment received by an individual that is not made because the individual supplied a good or service to the government (e.g. it could be made for a welfare purpose)

turnover – total revenue

value-added tax (VAT) – a tax on the inputs added at each stage of the circulation of goods or services, from distribution to retail; see *GST*

vertical equity – the impact of a tax between taxpayers in different income brackets: a vertically equitable tax should have a bigger impact on people in higher income brackets; see *progressivity*

vertical fiscal imbalance – the situation where there is an imbalance in the capacity of higher and lower spheres of governments to raise and spend money, e.g. if the higher sphere of government raises more revenue than it spends and the lower sphere of government raises less revenue than it spends

Endnotes

[1] The operating statement includes revenues, expenses, and the net acquisition of nonfinancial assets for the period. Net acquisition of nonfinancial assets equals gross fixed capital formation, less depreciation, plus changes in inventories, plus other transactions in nonfinancial assets.
[2] Neil Warren, *Benchmarking Australia's intergovernmental fiscal arrangements: final report*, NSW Treasury, Sydney, May 2006, p.107.
[3] Neil Warren, *Benchmarking Australia's intergovernmental fiscal arrangements: interim report*, report commissioned by New South Wales Treasury, March 2006, p.13.
[4] Australian Bureau of Statistics, 'Taxation revenue, Australia (reissue), 2003-04', ABS cat. no. 5506.0, 19 April 2005.
[5] Australian Government, *2006-07 Budget Paper no.1: budget strategy and outlook 2006-07*, May 2006, p.5-20.
[6] Warren, *Benchmarking Australia's intergovernmental fiscal arrangements: interim report*, p.13.
[7] Warren, *Benchmarking Australia's intergovernmental fiscal arrangements: final report*, p.51.
[8] Australian Bureau of Statistics, 'Taxation revenue, Australia (reissue), 2003-04', ABS cat. no. 5506.0, 19 April 2005.
[9] Australian Bureau of Statistics, 'Taxation revenue, Australia (reissue), 2003-04'.
[10] Richard Webb, 'Developments in Commonwealth–state financial relations since 2000-01', *Parliament of Australia Parliamentary Library Research Brief*, no.11 2005-06, 15 March 2006, p.5.
[11] The schedule for the abolition of 5 contested stamp duties in New South Wales is: abolition of stamp duty on hire of goods from 1 July 2007; stamp duty on leases from 1 January 2008; stamp duty on unlisted marketable securities from 1 January 2009; stamp duty on mortgages and loan securities, half from 1 January 2010 and half from 1 January 2011; stamp duty on transfer of business assets other than land from 1 July 2012. See NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, 2006, p.3-6.
[12] Warren, *Benchmarking Australia's intergovernmental fiscal arrangements: interim report*, p.13.
[13] Warren, *Benchmarking Australia's intergovernmental fiscal arrangements: final report*, p.63.
[14] R F E Warburton and P W Hendy, 'International comparison of Australia's taxes', Commonwealth of Australia, 3 April 2006, p.278. Warburton and Hendy constructed a group of 10 OECD countries (which they called the OECD-10) for comparative purposes with Australia, using those criteria. The countries were Britain, Canada, Ireland, Japan, Netherlands, New Zealand, Spain, Switzerland, and the USA (and Australia).
[15] Neil Warren, *Benchmarking Australia's intergovernmental fiscal arrangements: final report*, p.61, 63.
[16] Real Estate Institute of Australia, 'Taxation', n.d., <http://www.reiaustralia.com.au/government/taxation.asp>, viewed 14 June 2006; Access Economics, 'The economic impact of reducing state taxes on property', report prepared for the Real Estate Institute of Australia, Canberra, February 2000. The NSW Treasury case for payroll tax is found in *The case for payroll tax*, Office of Financial Management Research and Information Paper TRP99-3, September 1999.
[17] This tax competition is reflected in media commentary on state government finances: see, for example, Matt Wade, 'What a state: NSW proves the weakest link', *Sydney Morning Herald*, 1 June 2006, p.1, 6, and Steve Burrell, 'Cards are all on the table and the premier state can't take a trick', *Sydney Morning Herald*, 8 June 2006.
[18] The Government's Budget statement for 2005-06 showed $500 million less revenue raised from transfer duties and mortgage duty in 2004-05 than what had been estimated for 2004-05 because of a 'weaker than expected property market' (NSW Treasury, *2005-06 Budget papers: Budget paper no.2 – Budget statement 2005-06*, 2005, p.D-1).
[19] Glenn Milne, 'The ACT hero who became a villain', *Sunday Telegraph*, 18 June 2006, p.83.
[20] Australian Government, *2006-07 Budget Paper no.3: federal financial relations 2006-07*, May 2006, p.3.
[21] Australian Government, *2006-07 Budget Paper no.1: budget strategy and outlook 2006-07*, p.5-3; estimates for 2005-06.

[22] Australian Bureau of Statistics, 'Taxation revenue, Australia (reissue), 2003-04'.
[23] Australian Bureau of Statistics, 'Taxation revenue, Australia (reissue), 2003-04'.
[24] Warren, *Benchmarking Australia's intergovernmental fiscal arrangements: interim report*, p.13.
[25] Australian Government, *2006-07 Budget Paper no.1: budget strategy and outlook 2006-07*, p.5-24.
[26] The Commission recognized that New South Wales had influences that increased the relative cost of providing government services (such as above-average wage levels, the complex urban environment of Sydney, an above-average proportion of the population aged 65 or over, and above-average proportion of the population with low English fluency), but regarded this as more than countered by influences that reduced the relative cost of providing services (such as economies of scale).
[27] See the untitled and undated (c. 2006) 5-page document whose first heading is 'Historical background of the Commission', downloadable from the NSW government website at <www.fairshare.nsw.gov.au/grants.pdf>.
[28] NSW Treasury, 'GST: the way ahead: a New South Wales Government proposal', July 2005, p.8, online at <http://www.treasury.nsw.gov.au/int_gov/gst-way-ahead.pdf> , viewed 19 June 2006
[29] Australian Government, *2006-07 Budget Paper no.3: federal fiscal relations 2006-07*, p.10.
[30] Warren, *Benchmarking Australia's intergovernmental fiscal arrangements: interim report*, pp.15-18.
[31] Warren, *Benchmarking Australia's intergovernmental fiscal arrangements: final report*, pp.100-104.
[32] Constitution Act 1902 (NSW), s.51.
[33] There are conditions and political circumstances around the use of section 94F which limit its application: see Craig Johnston, 'Levying developers for affordable housing', Shelter Brief 23, v.3.2, Shelter NSW, Sydney, 2006.
[34] NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, p.3-2.
[35] NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, p.1-25.
[36] However, SPPs are expected to increase by 4.2% in 2006-07 over the 2005-06 revised estimate (NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, p.1-26).
[37] Constitution Act 1902 (NSW), s.5.
[38] Commonwealth Grants Commission, *2006 relative fiscal capabilities of the states*, Canberra, 2006, p.8.
[39] Webb, p.5.
[40] Michael Vertigan and Nigel Stokes, 'New South Wales audit of expenditure and assets report', Sydney, February 2006, p.14.
[41] NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006–07 Budget statement*, p.1-19.
[42] Vertigan and Stokes, p.14.
[43] Council of Social Service of New South Wales, *Social and economic priorities for the 1992/93 NSW Budget: NCOSS pre-Budget submission to the NSW Government*, the Council, Surry Hills, 1992, p.11. The Star City casino at Pyrmont opened in 1995.
[44] Growth Centres Commission, 'First stage of Sydney growth centres unveiled', media release – Minister's office, Sydney, 29 June 2006, online at <http://www.planning.nsw.gov.au/mediarelplan/fs20060629_373.html>, viewed 30 June 2006.
[45] Today's disputes about the spatial infrastructure contribution echo those around a land value increment levy introduced by the then Liberal-Country party government in 1970 to finance public works in outer areas of Sydney, which sought to capture the betterment from rezoning rural land for urban uses. The scheme lasted only 3 years, after controversy over its alleged negative impact on housing land prices. See Phil Day, 'Incentives and disincentives: the potential of property taxes to support public policy objectives', Urban Policy Program Issues Paper 4, Griffith University, January 2005, pp.7-8.
[46] Productivity Commission, *First home ownership*, Productivity Commission Inquiry Report no.28, Melbourne, 31 March 2004, p.165.
[47] Warburton and Hendy, p.398.
[48] Vertigan and Stokes, p.68.

[49] Following the 'NSW government plan to reshape public housing' announced in April 2004, Department of Housing spokesperson have sought to indicate that the client-targeting and fiscal aspects of the plan have changed the Department of Housing from a public trading enterprise to a human services agency. (See Ben Keneally, 'Reshaping public housing in NSW', paper to National Housing Conference, Perth, 26-28 October 2005.) But the Department was a human services agency even before the plan was announced: the term 'human service' distinguishes the Department by the nature of its products, as different from economic, environmental and political-legal services. The classification 'public trading enterprise' is a statistical one used under the all-Australian Government Financial Statistical framework (which itself derives from international practice), and distinguishes agencies which generate significant revenue from customers from those who generate no or little revenue from customers. The 2006-07 Budget papers do not reclassify the Department of Housing or Land and Housing Corporation from a public trading enterprise to a general government sector agency.
[50] The value of the enterprises' physical assets (total property, plant and equipment) is at 30 June 2005 and comes from NSW Treasury, *Budget papers 2006-2007: Budget paper no.4 – Infrastructure statement 2006-07*, 2006, p.58; data on revenues comes from the enterprises' 2004-05 annual reports.
[51] The Housing Act 2001 establishes a Land and Housing Corporation as a statutory body separate from the Department of Housing. The Corporation may exercise any of its functions in the name of the Department of Housing. The Corporation and the Department are required to act in a complementary manner to the maximum extent possible. This means that, in practice, it is very difficult for outsiders to work out which of the two bodies is doing what.
[52] Landcom, *Annual report 2005*, Parramatta, [2005], p.52, 36.
[53] Department of Housing, *Annual report 2004-05*, Ashfield, 2005, p.11; City West Housing Pty Ltd, *Annual report 2004-05*, Ultimo, 2005, p.19: this figure of 28% represents rental income from the company's properties in Ultimo–Pyrmont as a proportion of operating revenue.
[54] NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, p.8-1.
[55] It does not include rent assistance paid to certain social security recipients, delivered through the Commonwealth agency, Centrelink, or the First Home Owners Grant scheme, administered by the state treasuries.
[56] Vertigan and Stokes, p.8.
[57] Burrell.
[58] NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, p.3-4.
[59] A land tax year is the calendar year.
[60] Gavin Wood, Richard Watson and Paul Flatau, *A microsimulation model of the Australian housing market with applications to Commonwealth and state policy initiatives*, final report, Australian Housing and Urban Research Institute, Melbourne, March 2003, pp.56-57. For a more comprehensive discussion of taxation issues relevant to supply of private rental housing see Robert Mowbray, 'Private rental: can it deliver affordable housing to low-income tenants?', Shelter Brief 28, Shelter NSW, Sydney, 2006.
[61] See, for example, Neil Gilchrist, 'Land value taxation', online at <http://www.taxreform.com.au/essays/lvt.htm>, viewed 2 February 2006.
[62] Frank Stilwell and Jennifer English, 'Housing affordability, stamp duty and land tax', School of Economics and Political Science Working Papers ECOP2004-2, University of Sydney, April 2004, p.10.
[63] NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, Appendix B, pp.B-18–B-21.
[64] Stilwell and English, p.9.
[65] NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, Appendix B, pp.B-19–B-22.
[66] NSW Council of Social Service, 'Land tax gift is poor policy', media release, 25 January 2006.
[67] Shelter NSW, letter to Andrew Refshauge MP, Deputy Premier and Treasurer, 9 June 2005.
[68] Parliamentary Secretary, Minister for Finance, letter to Shelter NSW, 23 September 2005.
[69] Stilwell and English, pp.5-7.
[70] Wood, Watson and Flatau, pp.56-57.

[71] NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, pp.B-1–B-2.
[72] This tax expenditure and a similar one on mortgage duty (see page 33) are packaged as First Home Plus.
[73] NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, p.B-5.
[74] NSW Council of Social Service, 'Land tax gift is poor policy'; Council of Social Service of New South Wales, *Closing the gap: social and economic priorities for a fair and sustainable community – 2006-07 State Budget*, NCOSS, Surry Hills, 2005, p.26.
[75] Andrew Clennell, 'Carrot for first home buyers', *Sydney Morning Herald*, 8 June 2006.
[76] NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, p.B-9.
[77] Wood, Watson and Flatau, p.56.
[78] NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, pp.B-9–B-11.
[79] NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, p.B-15.
[80] NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, pp.B-15–B-16.
[81] NSW Treasury, *Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement*, pp.C-2–C-5.
[82] There is a housing component in the Department of Aboriginal Affairs's Aboriginal Communities Development Program, which is targeted to priority Aboriginal settlements in rural New South Wales. The Budget allocation for this component ($18 million in 2005-06) goes to the Aboriginal Housing Office, though the program is administered by the Department of Aboriginal Affairs.
[83] Productivity Commission, p.207, 216, 220.
[84] Clennell; Anne Davies, 'Boost for housing and nurses to pep up sluggish economy', *Sydney Morning Herald*, 8 June 2006.
[85] The next NSW state election will be in March 2007. If the Liberal and National parties win the election, the scheme could be implemented in their government's 1st budget (for 2007-08).
[86] NSW Department of Housing, *Rent and Sales Report*, no.75, p.10.
[87] Andy Butlin (Amity Management Consulting Group), 'Crisis Accommodation Program review – 2004: final report', July 2004, p.11.
[88] While client fees are a typical revenue source for SAAP agencies, there are no data across the more than 300 such agencies in New South Wales on their revenue sources in general or their client fee revenue in particular. On the basis of an extremely limited sample of SAAP agencies in 1997, Johnston suggested there was an inverse relationship between the proportion of agency revenue from SAAP grant and the proportion form client fees (Craig Johnston, 'Client fees in the Supported Accommodation Assistance Program and Crisis Accommodation Program New South Wales: a report to the NSW Department of Community Services and Office of Community Housing', Johnston Policy Futures, Darlinghurst, December 1997, pp.34-35).
[89] Johnston, pp.36-41.
[90] NSW Treasury, *Budget papers 2006-2007: Budget paper no.3 – Budget estimates*, p.6-18.
[91] NSW Department of Community Services, '2006/07 Budget', PowerPoint presentation slides, 6 June 2006.
[92] Australian Government, *2006-07 Budget Paper no.3: federal financial relations 2006-07*, May 2006, p.66.
[93] 'SAAP V multilateral agreement', 2005, p.47.
[94] Erebus Consulting Partners, *National evaluation of the Supported Accommodation Assistance Program (SAAP IV): final report*, May 2004, p.174.
[95] Erebus Consulting Partners, p.175.
[96] It does provide specific information on the grants to each nongovernment provider (NSW Department of Community Services, *Annual report 2004/05*, Ashfield, [2005], pp.171-177).
[97] Social Policy Research Centre, *Housing and Accommodation Support Initiative: report 1 – summary*, University of NSW, August 2005.
[98] NSW Treasury, *Budget papers 2006-2007: Budget paper no.3 – Budget estimates*, 2006, p.10-9.
[99] NSW Department of Ageing, Disability and Home Care, *Annual report 2004-05*, Sydney, 2005, p.14.

[100] Department of Aging, Disability and Home Care, *Stronger together: a new direction for disability services in NSW 2006-2016*, Sydney, May 2006, pp.21-22.
[101] NSW Treasury, *NSW long-term fiscal pressures report 2006-07*, p.ix.
[102] NSW Treasury, *Budget papers 2006-2007: Budget paper no.3 – Budget estimates*, 2006, p.5-43.
[103] Australian Institute of Health and Welfare, *Disability support services 2003-04: national data on services provided under the Commonwealth State/Territory Disability Agreement*, AIHW cat. no. DIS40, The Institute, Canberra, August 2005, p.18.
[104] The Consolidated Fund is set up by the NSW Constitution (s.39).
[105] NSW Treasury, *Budget papers 2006-2007: Budget paper no.6 – NSW long-term fiscal pressures report 2006-07*, 2006, p.3-7.
[106] This figure comes from an analysis of financial statements in the Department of Housing's annual reports for the last 5 years (to 2004-05).
[107] NSW Treasury, *Budget papers 2006-2007: Budget paper no.6 – NSW long-term fiscal pressures report 2006-07*, p.3-8.
[108] The sources for the information in this paragraph are NSW Department of Housing, '2005/06 New South Wales Budget commentary on the housing policy and assistance program', May 2005, and NSW Department of Housing, '2006/07 New South Wales Budget commentary on the housing policy and assistance program', June 2006; and see Craig Johnston, 'Treading water, not drowning, not swimming: the NSW housing budget 2005-06', *Around the House*, June 2005, pp.1-2; Shelter NSW, 'Comments on changes to tenancy arrangements for public housing in New South Wales announced 27 April 2005', 14 June 2005; Shelter NSW, 'The supply and allocation of social housing in New South Wales: submission to the Public Bodies Review Committee Legislative Assembly Parliament of New South Wales', February 2006.
[109] The Department of Housing estimates that there will be 5,990 Aboriginal housing dwellings in New South Wales by June 2007, comprised of 4,277 dwellings managed by the Department on behalf of the AHO and 1,713 managed by Aboriginal community organizations (NSW Department of Housing, '2006/07 New South Wales Budget commentary on the housing policy and assistance program', p.14).
[110] The developer contribution schemes operate differently in the two areas: that in Ultimo-Pyrmont operates under a Regional Environmental Planning Policy introduced by the state government and the affordable housing scheme takes the form of a policy document prepared by the Department of Planning; that in the Green Square precinct operates under a Local Environmental Plan introduced by a local council and the affordable housing scheme takes the form of a development control plan; the principles and dynamics of the schemes are essentially the same.
[111] Teacher Housing Authority of New South Wales, *Annual report 2004-05*, Sydney, [2005], p.7.