3 Structure and limitations of Northern Territory revenue sources

- The Territory receives most of its revenue from the Commonwealth, more so than the other states and the Australian Capital Territory.
- Like other states and the Australian Capital Territory, the Territory has limited powers to impose only a narrow range of taxes and royalties.
- Changes to GST distribution, which provides half of the Territory's revenue, have a large impact on the Territory's Budget.

3.1 Northern Territory sources of revenue

The Territory's total revenue comprises 30 per cent own-source revenue and 70 per cent Commonwealth revenue. By contrast, the split for other jurisdictions is about 55 per cent own-source revenue and 45 per cent Commonwealth revenue.

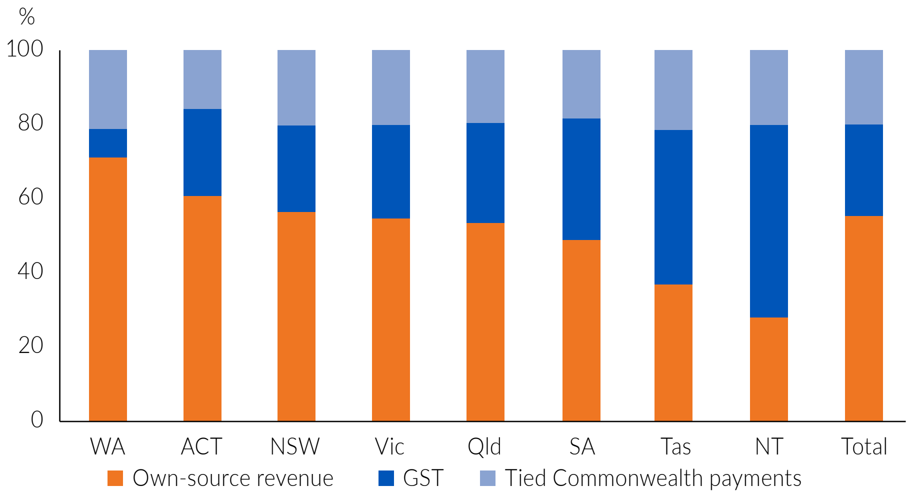
The Territory's own-source revenue primarily comprises taxes and royalties, but also includes fees and charges, rent and tenancy income, interest and dividend revenue, and profit and loss on the disposal of assets. Own-source revenue provides fiscal autonomy to tailor infrastructure and services to meet a jurisdiction's needs.

Commonwealth revenue provided to the Territory comprises:

- goods and services tax (GST), which accounts for about half of total Territory revenue
- tied payments, which account for about 20 per cent of total Territory revenue.

The difference in the importance of Commonwealth revenue to the Territory is demonstrated in Chart 3.1, which shows state and territory revenues by source.

Chart 3.1: State and Territory Revenues by Source, 2015-16



Source: Commonwealth 2015-16 Final Budget Outcome; state and territory 2015-16 annual financial reports or 2016-17 mid-year reports

3.2 Limitations on the Territory's taxation and royalty powers

The Territory, like the other states and the Australian Capital Territory, has limited powers to impose only a narrow range of taxes and royalties, whereas the Commonwealth has access to broad, stable growth taxes. However, states and territories have primary responsibility for delivering the majority of government services, such as health care, education, and law and order.

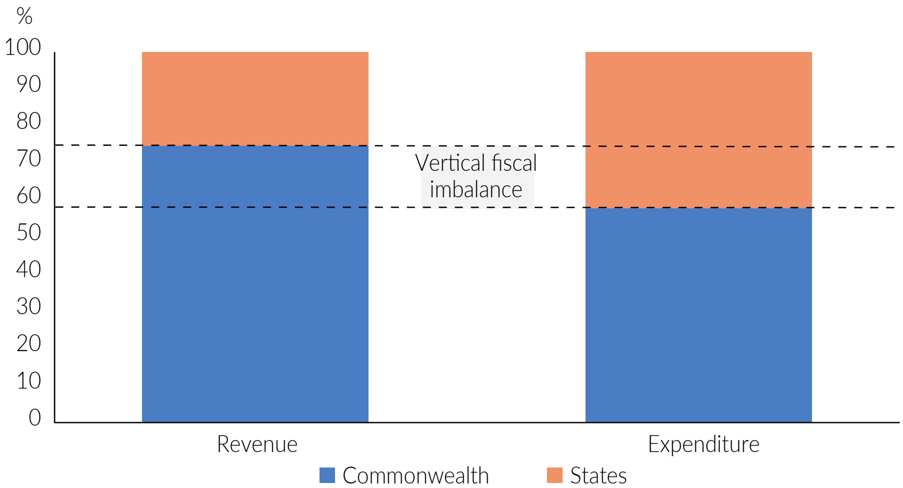
This mismatch between the revenue-raising powers of the Commonwealth and service delivery responsibilities of the states is referred to as vertical fiscal imbalance. It is the reason states and territories need to rely on Commonwealth revenue to deliver services.

Table 3.1: Limitations on Northern Territory taxing powers

Taxes the Territory can impose	Commonwealth taxes, which can't be imposed by the Territory Government
• Payroll tax	• Consumption taxes, for example, GST
• Stamp duties on property and insurance	• Company taxes
• Land tax	• Personal income taxes
• Gambling taxes	• Offshore petroleum royalties, for example, the Petroleum Resource Rent Tax that applies to the INPEX project
• Fees and charges, for example, motor vehicle registration fees	• Sales taxes
• Mining royalties (except on uranium)	• Customs and excise duties, for example, taxes on tobacco, alcohol and petrol
• Onshore petroleum royalties (but not on offshore production)	

As set out in Chart 3.2, this limitation on state and territory tax powers means states and territories are responsible for about 42 per cent of total government expenditure but only raise about 25 per cent of total revenue. By comparison, the Commonwealth raises about 75 per cent of total national revenue but its expenditure obligations amount to about 58 per cent of total expenditure.

Chart 3.2: Vertical Fiscal Imbalance 2015-16



Source: Commonwealth 2015-16 Final Budget Outcome; state and territory 2015-16 annual financial reports or 2016-17 mid-year reports

Due to this imbalance between the two levels of governments there is a need for revenue to be transferred from the Commonwealth to the states to ensure government services can continue to be delivered, which takes the form of GST revenue and tied payments.

3.3 Constraints on Commonwealth revenue to the Territory

3.3.1 Constraints to the GST

GST is a consumption tax and, because it has a much broader base than most other taxes, is considered an economically efficient tax. However, the GST could provide greater revenue to states and territories.

Australia's GST rate is 10 per cent, one of the lowest among developed countries. The GST has significant exemptions for fresh food, health-related services, education, childcare and utilities services, which benefit consumers but reduce GST revenue and add complexity and costs to business.

Only 49 per cent of Australia's national consumption is subject to GST, compared to the OECD average consumption taxation ratio of 56 per cent, or 55 per cent in Germany, 71 per cent in Switzerland and 97 per cent in New Zealand.

Furthermore, since the introduction of GST in July 2000, there has been a notable shift in consumer spending patterns from items that attract GST to those that are GST-exempt, notably education and health-related services.

These exemptions and changed consumer habits have resulted in a moderation in the growth of GST collections. In the initial years of GST the average annual growth rate of collections was around 8.2 per cent. More recently, average annual growth has been around 3.9 per cent.

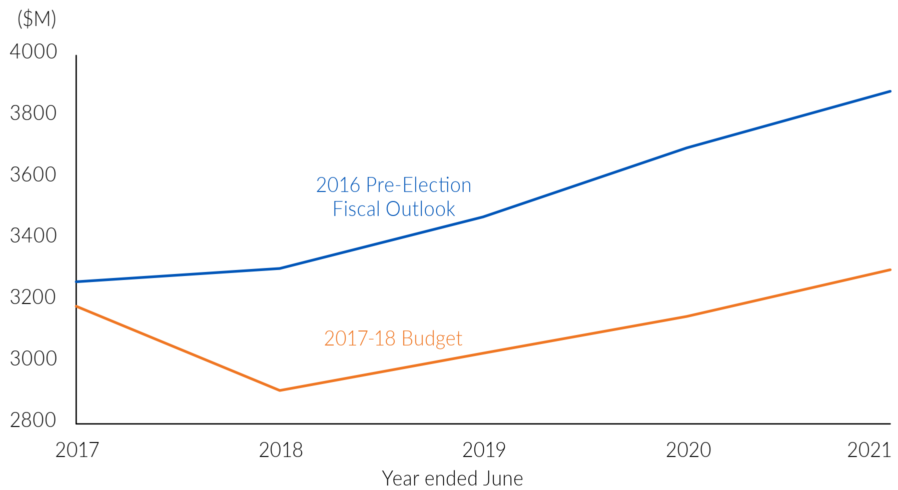
Regardless of whether changes to GST would be unanimously supported by states, the current Commonwealth Government has made it clear there will be no change to GST – base or rate – during this term of Government.

The Territory faces risks to its share of GST collections as a result of the factors taken into account in calculating states' shares.

Besides the growth in the amount of national GST collections, the other parameters that influence the amount of GST received by the Territory are GST relativities assessed by the Commonwealth Grants Commission and the Territory's share of the national population.

The challenges facing the Territory regarding population growth are addressed in Chapter 4. Combined with a decline in the Territory's share of national population, a significant reduction in the Territory's GST relativity in 2017 had the significant effect of reducing the Territory's expected GST receipts by $2 billion over the forward estimates, with GST revenue not expected to return to 2016-17 levels until 2020-21. This is set out in Chart 3.3 below.

Chart 3.3: Variations to GST revenue since August 2016 Pre-Election Fiscal Outlook



Source: Northern Territory 2017-18 Budget Paper No.2 Budget Strategy and Outlook

3.3.2 Constraints to tied Commonwealth payments

Tied Commonwealth payments are provided to support the achievement of outcomes in a particular sector, delivery of specified projects or to facilitate national reforms. They are generally subject to achieving defined milestones or performance benchmarks and are often time limited. As such, they cannot be relied on as a guaranteed ongoing source of revenue for the states.

In addition, tied payments are often provided to pursue Commonwealth Government priorities, which may not always align with the Territory's priorities.

There has been increasing uncertainty around Commonwealth funding in recent years with the Commonwealth preferring not to commit to funding for most National Partnership Agreements beyond one to two years; reducing or terminating National Partnerships; and introducing input controls and greater levels of prescription that impact states' autonomy to deliver services for which they are responsible.

Without sustainable Commonwealth payments, both tied and general revenue assistance, the Territory would need to apply a higher tax burden on its citizens or raise significant levels of debt in order to maintain existing service delivery levels. Alternatively, it would need to reduce the level of service delivery.

3.4 National tax reform

States and the Commonwealth continue to investigate a range of Commonwealth and state tax and revenue reform options, including proposals to share Commonwealth personal income tax revenue with the states. It is hoped this work will identify an appropriate measure that will:

- provide states with access to a broad revenue base that grows in line with the economy
- reduce the number of tied Commonwealth grants to the states, providing them with greater autonomy and reducing administrative burden
- create flexibility for states to meet their ongoing expenditure needs.