Victorian taxes and revenue

Volatility, trends and stability

Parliamentary Budget Office
Parliamentary Budget Office

We provide independent fiscal, economic and financial advice to all members of the Parliament of Victoria. Our objective is to inform policy development and public debate in parliament and the community.

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In brief

Maintaining a broad range of revenue sources or a few broad-based taxes are effective ways for governments to maintain fiscal stability. As different parts of the economy expand and contract, increases in some revenue sources offset decreases in others.

To fund services, governments make decisions about what taxes to levy, how much and on whom the tax burden lies. When setting tax policy, governments consider:

- the efficiency of a tax—the impact a tax has on economy activity
- the equity of a tax—how the impact is distributed across individuals
- compliance—how burdensome the tax is to administer by governments and for liable individuals.

We analysed short-term volatility and longer-term trends from the introduction of the GST to 2018-19, to determine how stable Victoria’s revenue sources are. We also considered the main drivers of each revenue source to inform choices about tax policy.

Sources of Victorian Government revenue

Most of Victorian state revenue is through grants, state taxes and revenue from the sales of goods and services.

Figure 1 – Victorian state revenue sources in 2018-19

Grants represent almost half of Victorian Government revenues, mainly through Australian Government GST distributions and payments for specific purposes, such as funding agreements for the state to deliver major projects or national reform. The Victorian Government collects the remaining revenue—mainly state taxes and from the sale of goods and services.

Victoria’s state tax revenue relies heavily on property taxes through land transfer duties on transactions and land tax on eligible properties. Combined with payroll tax, these make up over two thirds of state taxation. Most of the remainder of Victoria’s state tax revenue applies to a relatively narrow scope of household consumption and business expenditure—gambling, insurance and motor vehicles.
What drives Victorian revenues

Australian Government grants to Victoria are outside the Victorian Government’s control. Victoria’s share is linked to other state and territory shares, as well as the overall pool of funds available.

Victorian state taxes are structurally weighted towards property taxes and payroll tax. Property taxes accounted for around 14 per cent of total revenues in 2018-19, up from 9 per cent in 2001-02. Payroll tax was relatively stable from 2001-02, accounting for between 9 and 10 per cent of total revenues. Other states such as NSW are also similarly reliant on revenue from these taxes.

Land transfer duty is sensitive to changes in the property market as it reflects both the number of transactions and property prices. Land tax is sensitive to the number and value of land holdings. It is less sensitive to fluctuations in economic conditions than land transfer duty. However due to exemptions and concessions, the Victorian Government forgoes more land tax revenues than it collects. Payroll tax is sensitive to employment growth, wage growth and the tax-free threshold.

Volatility and trends

To assess longer-term trends in Victoria’s revenue sources, we analysed changes since the introduction of GST, as a share of the economy. This approach accounts for changes in prices, population, and economic growth and focuses on the other underlying drivers of change over time.

Figure 2 – Change in main sources of revenue as a share of the economy—2001-02 to 2018-19

Insights:

▪ Australian Government grants to Victoria grew the most, reflecting an increased share of GST distributions and growth in other grants.

▪ Property taxes also grew faster than the economy, due to increasing transactions and property values, in turn driven by monetary policy, interest rates, employment and household formation.

▪ Payroll tax remained relatively stable, reflecting employment growth, offset by policy changes to the tax rates, thresholds and exemptions.

▪ Gambling taxes grew slower than the economy due to changes in consumer taste and regulation.
To assess the short-term volatility of Victoria’s revenue sources, we analysed the yearly change in the major sources of revenue—Australian Government grants and Victorian state taxes.

**Figure 3 – Victoria’s main revenue sources as a share of the economy**

Note: This figure bases GST distributions and payments for special purposes on Australian Government Final Budget Outcomes, which are slightly different to Victorian state budget calculations.

Source: Parliamentary Budget Office.

Australian Government GST distribution grants to Victoria remained stable to 2014-15 and rose since then, despite a softening in the national GST pool. This is due to Victoria’s increased share of GST distribution, reflecting:

- strong population growth
- spending requirements for public infrastructure.

The COVID-19 pandemic is resulting in generalised weakening in economic activity at the state and national level. However, national GST revenue before the COVID-19 pandemic was already softening.

Land transfer duty has been volatile over the past 2 decades:

- reflecting the cyclical changes in property prices and property sales during and after the global financial crisis and between 2012 and 2019.
- surpassing payroll tax to become the largest state tax from 2015-16 to 2017-18, before revenues fell again below payroll tax in 2018-19.

Payroll tax and motor vehicle taxes were relatively stable and gambling taxes steadily declined.

**Conclusion**

Victoria’s revenue sources have generally outpaced the economy since the introduction of the GST, the last major tax reform impacting the state.

However, after nearly 3 decades of growth in the Victorian economy, the recent shock created by the COVID-19 pandemic will likely negatively impact the main drivers of Victoria’s revenue sources moving forward; its share of the GST pool, employment, property transactions and property values. Even prior to the pandemic, falls in land transfer duty revenue and slow wages growth were impacting Victoria’s revenue.

To maintain longer-term fiscal sustainability, it may be timely to consider options relating to:

- the suitability of the current tax mix
- strategies to maintain expenditure within a lower revenue profile
- Victoria’s reliance on Australian Government grants and property-based taxes
- broadening existing taxes and tax bases
- consequences for future debt levels.
Context

Why this advice matters

Recent weaker property market conditions created pressure on Victoria’s taxation revenue highlighting its reliance on narrow and volatile revenue sources. The economic impacts of COVID-19 will further expose vulnerabilities to the stability of taxation revenue and the resultant increase in debt will require strong fiscal management over the medium term to maintain fiscal sustainability.

Scope

This advice considers short-term volatility, drivers and longer-term trends to assess the stability of Victoria’s major sources of state revenue:

- Australian Government grants
- Property taxes
- Labour taxes
- Good and services taxes

Limitations

We used publicly available information and did not assess Victorian Government forecasts.

We prepared this advice on 14 July 2020.

Background

Sources of revenue

Victoria’s main sources of revenue are government grants and state taxes.

Figure 4 – Sources of Victorian Government revenue in 2018-19

Notes: This figure uses Victorian budget data, which is on a slightly different basis to Australian Government data. Grants includes funds from the Australian Government and other jurisdictions.

Source: Parliamentary Budget Office.
The Australian Government contributes to Victorian state revenue mainly through GST distributions—also known as general purpose grants—and payments for specific purposes, such as health care, education, disability, stimulus packages and major public infrastructure.

In addition to grants, the Victorian Government directly levies state taxes. Payroll tax, land transfer duty and land tax contribute the most.

Other state revenue sources are through the sale of goods and services, dividend and income tax equivalents from the public corporations, royalties and interest.

**Tax base**

A tax base is the transactions or asset values on which a tax applies to. The main state tax bases are property transactions and values, payrolls, and selected items of goods and services expenditure.

![Figure 5](image_url)  
**Figure 5 – Australian and Victorian Government tax bases**

Note: Labour and capital incomes includes payroll tax. Property taxes include the fire services property levy.

Source: Parliamentary Budget Office.

Victoria's tax revenue relies heavily on payrolls and property, mainly through payroll tax, land tax and land transfer duties. For comparison, Australian Government revenues rely mainly on taxing labour and capital incomes through personal and company income taxes. State governments face the limitation set by the Australian Constitution on what they can tax.

Unlike the Australian Government, which applies a broad tax on consumption by levying GST on final goods and services, Victoria’s taxes on goods and services are relatively narrow—gambling, insurance, and motor vehicles—and include both household consumption and business inputs.
### Australian Government grants

**In this section**

Government grants represented the largest source of Victorian state revenue in 2018-19 at 47.9 per cent. The main types were Australian Government GST distributions and payments for specific purposes. The remainder was primarily Australian Government grants for passing on to non-government schools and local governments, and grants from other states and territories.

This section assesses the main types of Australian Government grants, their trends, volatility and drivers.

### GST distributions

**At a glance**

<table>
<thead>
<tr>
<th>What is it?</th>
<th>The GST is a broad-based consumption tax, levied at 10 per cent on goods and services sold or consumed in Australia, with exemptions for basic foods, water supply, education, childcare and health. The Australian Government collects GST and distributes it to states and territories. It introduced the GST on 1 July 2000, replacing financial assistance grants, sales taxes and some other state and territory taxes.</th>
</tr>
</thead>
</table>
| How significant is this revenue? | In 2018-19:  
- 24.0 per cent of Victorian Government revenue  
- 3.7 per cent of Victorian GSP. |
| What drives this revenue? | The size of the GST pool is driven by:  
- household incomes  
- consumer saving rates  
- the share of goods and services consumption that is subject to GST.  
Victoria’s share of the GST pool is driven by:  
- Victoria’s share of the national population  
- the expenditure required in Victoria to achieve a similar standard of public service delivery to other states and territories  
- Victoria’s capacity to raise state revenue  
- Australian Government payments for specific purposes to Victoria compared to other states and territories. |
| What is its longer-term trend? | Steady from 2001-02 to 2014-15  
Grew in recent years, reflecting an increase in Victoria’s share of the GST distribution, however the national GST pool is declining as a share of the Australian economy |
| How volatile is this revenue? | Generally steady year to year |

Source: Parliamentary Budget Office.
Drivers and stability

Figure 6 – GST distributions to Victoria as a share of the economy

Note: This figure uses data from the Australian Government’s Final Budget Outcomes.
Source: Parliamentary Budget Office.

Victoria's GST distributions remained relatively stable as a share of the state economy from 2001-02 to 2014-15 and have risen steadily since then. The increase reflects:

- Victoria’s strong population growth
- Increases in Victoria's spending requirements relative to other states and territories, partly reflecting its assessed infrastructure needs.

The main factors affecting future GST distributions to Victoria are the size of the GST pool and changes to Victoria’s share of it. Stability of this source of revenue may be affected by:

- Continuation of sluggish wages and consumption growth
- Increasing consumption of GST-exempt items as a share of total consumption, such as health, education, and some food
- General slowing of the economy, such as from the COVID-19 pandemic
- Slowing in population growth in Victoria relative to the other states and territories
- A reduction in Victoria’s needs relative to other states and territories
- An increase in Victoria’s ability to raise taxes, relative to the other states and territories.

Both the Australian Government’s 2019-20 budget and December 2019 mid-year economic and fiscal outlook revised down future GST collections due to a weaker outlook for consumption of goods and services subject to the GST. We expect falls in employment and wages associated with COVID-19 will place further downward pressure on consumption and the GST pool until the economy recovers.

The Commonwealth Grants Commission considers each state’s existing stock of infrastructure assets in its assessment of future infrastructure requirements. As Victoria’s infrastructure expansion program delivers, Victoria’s assessed infrastructure requirement may fall relative to other states.
Payments for specific purposes

At a glance

What is it? Payments for specific purposes are Australian Government payments for delivery of services within state and territory responsibilities, consisting of:

- ongoing funding agreements that are generally required to be spent in the relevant sector of the economy—the largest are the National Health Reform Agreement and the Quality Schools Package
- national partnership agreements to support major projects and reforms and made after the states and territories have achieved the outcomes or outputs specified in the relevant agreement.

How significant is this revenue? In 2018-19:

- 17.1 cent of Victorian Government revenue
- 2.6 per cent of GSP.

What drives this revenue? Australian and Victorian Government policy objectives

What is its longer-term trend? Slight increase since 2001-02

How volatile is this revenue? High volatility, reflecting the timing of policy measures including stimulus payments and major projects

Source: Parliamentary Budget Office.

Drivers and stability

In 2018-19, the largest payments for specific purposes were to education, health and community services, which together represented 77 per cent of total payments.

Figure 7 – Payments for specific purposes to Victoria by policy area in 2018-19

<table>
<thead>
<tr>
<th>Policy area (per cent)</th>
<th>Proportion of Victorian state revenue</th>
<th>Proportion of GSP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affordable housing</td>
<td>0.6</td>
<td>0.1</td>
</tr>
<tr>
<td>Community services</td>
<td>2.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Education</td>
<td>3.3</td>
<td>0.5</td>
</tr>
<tr>
<td>Environment</td>
<td>0.2</td>
<td>0.03</td>
</tr>
<tr>
<td>Health</td>
<td>7.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>0.9</td>
<td>0.1</td>
</tr>
<tr>
<td>Other</td>
<td>2.3</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>17.1</strong></td>
<td><strong>2.6</strong></td>
</tr>
</tbody>
</table>

Source: Department of Treasury and Finance.
Programs that support government policy objectives funded through this grant revenue include the:

- National Health Reform Agreement
- Quality Schools Package
- National Agreement for Skills and Workforce Development
- National Disability Agreement
- National Housing and Homelessness Agreement
- national partnerships—for major projects and reforms.

The Australian Government also recently committed to provide 50 per cent of the additional state and territory government health costs associated with COVID-19.

**Figure 8 – Payments for specific purposes as a share of the economy**

Note: Based on Australian Government Final Budget Outcomes, which are on a slightly different basis to Victorian budgets. Source: Parliamentary Budget Office.

Payments for specific purposes increased significantly as a share of GSP in 2008-09 and 2009-10, reflecting fiscal stimulus payments for education and housing initiatives. Payments have been more volatile since then, reflecting economic conditions, alignment of policy priorities between Australian and Victorian Governments, as well as the timing of project contributions.

Pressure on Australian Government revenues due to COVID-19 may constrain overall growth in payments for specific purposes.
Taxes and duties on property

In this section
State property taxes represent the second largest source of revenue for Victoria and were around 14 per cent of total revenue in 2018-19. Of this, land transfer duty made up 8.6 per cent and land tax made up 5.0 per cent. This section assesses the main types of property taxes, their trends, volatility, and drivers.

Land transfer duty

At a glance

What is it? Land transfer duty applies to the purchase or acquisition of properties. It is calculated on the dutiable value of the property, which is the greater of the transacted price or the market value on a sliding scale of:
- 1.4 per cent for properties valued up to $25,000
- rising to 5.5 per cent for values at or above $960,000.
Foreign property purchasers are levied a surcharge of 8 per cent in addition to the land transfer duty.

How significant is this revenue? In 2018-19:
- 8.6 per cent of Victorian Government revenue
- 1.3 per cent of GSP.

What drives this revenue? Property prices
- Property transaction volumes
- The number of properties subject to exemptions and concessions
- Progressive rate scale without adjustment resulting in bracket creep

What is its longer-term trend? Increased since 2001-02

How volatile is this revenue? The most volatile tax revenue source in the short to medium term
- Significant increase since 2012-13, then reduced in 2018-19 due to the property market correction since late 2017

Source: Parliamentary Budget Office.
Drivers and stability

Figure 9 – Land transfer duty as a share of the economy

Source: Parliamentary Budget Office.

Land transfer duty revenue increased rapidly from 2012-13, becoming Victoria’s largest state tax between 2015-16 and 2017-18, briefly surpassing payroll tax.

Victorian Government land transfer duty revenue is determined by property prices and the volume of property sale transactions.

Figure 10 – Annual growth in Melbourne residential property price and transfer volumes

Note: This figure uses Australian Bureau of Statistics data from 2004-05 as prior data is not sufficiently consistent for analysis.

Source: Parliamentary Budget Office.
Property prices grew at consistently high rates during the property boom between 2013-14 and 2016-17. The volume of property transactions generally moved with property prices but grew at lower rates than prices. The volume of transactions was also more volatile than prices. The slowdown in property prices and transaction volumes from late 2017 resulted in a significant decline in land transfer duty revenue in 2018-19.

Slower population growth represents a significant risk to stability of property tax revenue. Victoria’s population and employment growth were the highest amongst the states over the past decade. Both were beginning to slow prior to COVID-19.

Land transfer duty rates remained largely unchanged since 2008. Property price increases have pushed properties into higher tax rate brackets resulting in higher revenue—known as bracket creep. In the absence of future adjustments to thresholds, this will continue to support revenue growth.

We expect falls in employment and wages and reductions in net migration associated with the response to the COVID-19 pandemic, will also dampen the property market.

Changes in the number of exemptions and concessions applied to land transfer duty also affect revenue stability. Exemptions or concessions are available to:

- first home buyers, up to property value thresholds, who intend to use the property as principal place of residence
- eligible concession card holders, such as pensioners
- commercial and industrial property transactions in regional Victoria.

The largest exemption is for first home buyers who use their property as their principal place of residence. The Victorian Government introduced this exemption in 2017-18 as part of the Homes for Victorians Package. For these buyers, properties with a dutiable value of $600,000 are exempt, and properties with a dutiable value of $600,001 to $750,000 are eligible for a concessional rate.

**Figure 11 – Value of first home buyer duty exemption and concession**

![Graph showing the value of first home buyer duty exemption and concession from 2011-12 to 2018-19](image)

Source: Parliamentary Budget Office.

The amount of first home buyer exemptions and concessions increased significantly from 3.1 per cent in 2016-17 to 10.1 per cent in 2018-19.
## Land tax

### At a glance

**What is it?**

Land tax is levied on land holdings with an unimproved value over $250,000 for:

- investment properties, including residential rental properties
- commercial properties such as retail shops, office premises and factories
- holiday homes
- vacant land.

The government levies land tax at a progressive tax rate up to 2.25 per cent for taxable land holdings of $3 million or more, aggregated for individual holders. It assesses land values at 31 December in the preceding calendar year.

Residential property investors who are deemed to be absentee owners are levied an additional 2 per cent on the land tax rate.

**How significant is this revenue?**

In 2018-19:

- 5.0 per cent of Victorian Government revenue
- 0.8 per cent of GSP.

**What drives this revenue?**

- Unimproved land valuations
- Amount of taxable land
- The number of properties subject to exemptions and concessions
- The progressive rate scale

**What is its longer-term trend?**

- Steady increase from 2001-02 to 2015-16
- Rapid increase from 2015-16 reflecting the property boom

**How volatile is this revenue?**

- Minor volatility associated with cyclical nature of property values
- As land tax is not driven by property transactions, it is much less volatile than land transfer duty

**Sources:** Parliamentary Budget Office.
Drivers and stability

Figure 12 – Land tax revenue as a share of the economy

Land tax revenue is primarily driven by the value of taxable land which has shown sustained periods of growth until recently.

Figure 13 – Land tax revenue and the total value of taxable land

Land tax revenue increased steadily from around 0.3 per cent of GSP in 2001-02 to 0.8 per cent of GSP by 2018-19. It jumped significantly in 2016-17 and 2018-19 reflecting the timing of the Valuer-General’s two-yearly land revaluations and a strong property market. Since 2019, the Valuer-General prepares annual revaluations, making revenues more responsive to property market conditions.

The progressive land tax rate and thresholds have not changed since 2009. Similar to land transfer duty, bracket creep will continue to support revenue growth in the absence of rate adjustments.
Land tax is less sensitive to changes in the property market than land transfer duty because it is charged:

- on properties annually regardless of whether there is a change of ownership, so is not sensitive to the level of property market transactions
- on the assessed land value, which is less sensitive to cyclical changes in the property market than total property values, which includes land and buildings.

Changes in the number of exemptions and concessions applied to property tax also affect the stability of revenue. Exemptions or concessions are available for:

- principal places of residence
- primary production land
- land used for charitable purposes.

**Figure 14 – Value of land tax revenue exemptions and concessions**

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal place of residence</th>
<th>Primary production land</th>
<th>Charity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>500</td>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>2013-14</td>
<td>1,000</td>
<td>500</td>
<td>300</td>
</tr>
<tr>
<td>2014-15</td>
<td>1,500</td>
<td>700</td>
<td>400</td>
</tr>
<tr>
<td>2015-16</td>
<td>2,000</td>
<td>900</td>
<td>500</td>
</tr>
<tr>
<td>2016-17</td>
<td>2,500</td>
<td>1,100</td>
<td>600</td>
</tr>
<tr>
<td>2017-18</td>
<td>3,000</td>
<td>1,300</td>
<td>700</td>
</tr>
<tr>
<td>2018-19</td>
<td>3,500</td>
<td>1,500</td>
<td>800</td>
</tr>
</tbody>
</table>

Note: Figures for each year are from Victorian budget estimates.
Source: Department of Treasury and Finance.

The largest exemption is for a principal place of residence. The value of this exemption increased significantly in 2018-19 due to increases in land values.

Until recently, this exemption applied not only to land occupied by the landowners as their primary residence, but also adjacent land. The Victorian Budget 19/20 removed this exemption, but taxpayers can still consolidate titles to trigger the principal place of residence exemption.

The value of exemptions for primary production land and charities increased by more than $340 million between 2012-13 and 2018-19.

Overall, the value of land tax revenue exemptions and concessions are more than the land tax revenue the state collects.
Taxes on labour

In this section
This section considers the trend, volatility, and drivers of payroll tax, which accounted for 9.0 per cent of state revenue in 2018-19.

Payroll tax

At a glance

What is it? Payroll tax is levied on businesses that pay wages in Victoria. Businesses are liable if they pay wages in Victoria and their total Australian wage bill exceeds the payroll tax-free threshold. The threshold is $650,000 in 2019-20 and is scheduled to increase to $700,000 in 2022-23. The metropolitan tax rate is 4.85 per cent. Regional businesses pay a concessional payroll tax rate of 2.425 per cent. The Victorian Budget 19/20 included a staged reduction in the concessional rate to 1.2125 per cent by 2022-23. Liability is based on wages, salaries, commissions, bonuses, pre-tax superannuation concessions, fringe benefits, employment termination payments and accrued leave.

How significant is this revenue? In 2018-19:
- 9.0 per cent of Victorian Government revenue
- 1.4 per cent of GSP.

What drives this revenue? Employment growth
- Wage growth
- The tax-free threshold which, if not increased over time, results in additional growth from an increasing proportion of payrolls being subject to tax.

What is the longer-term trend? Steady as a proportion of GSP from 2001-02 to 2018-19
- Employment in the health and education sectors, which are largely exempt, has grown faster than other sectors

How volatile is this revenue? The least volatile major state tax

Source: Parliamentary Budget Office.
Drivers and stability

**Figure 15 – Victorian payroll tax as a share of the economy**

Payroll tax is driven by employment growth and wage growth and was relatively stable as a proportion of GSP between 2001-02 and 2018-19. Over this period, the Victorian Government:
- reduced the tax rate from 5.45 per cent to 4.85 per cent
- increased the tax-free threshold from $515,000 to $650,000.

**Figure 16 – Victorian payroll tax and compensation of employees as a share of the economy**

Note: Compensation of employees is the ABS measure of aggregate take-home pay for workers—total remuneration provided to employees, including fringe benefits and in-kind payments.

Source: Parliamentary Budget Office.
Changes in the number of exemptions and concessions applied to payroll tax also affect the stability of revenue. Exemptions or concessions are available to:

- healthcare service providers
- non-profit non-government schools
- non-profit organisations with a charitable purpose, and religious institutions
- local government.

In response to the COVID-19 pandemic:

- Businesses with a wage bill less than $3 million will receive a refund of 2019-20 payroll tax.
- Businesses with a wage bill less than $10 million can defer 2020-21 payroll tax for 6 months.

Exemptions and concessions in the health and education sector may impact the sustainability of payroll tax revenue over time as employment growth in these sectors has been higher than the rest of the economy. However, a significant proportion of the exempt wages are employees of the Victorian Government, such as health workers, lessening the overall impact of these exemptions to the budget.

**Figure 17 – Average annual employee growth rates in Victoria from 2009 to 2019**

<table>
<thead>
<tr>
<th>Per cent</th>
<th>Health</th>
<th>Education</th>
<th>Rest of economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average annual</td>
<td>4.0</td>
<td>3.5</td>
<td>2.5</td>
</tr>
<tr>
<td>employee growth</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Parliamentary Budget Office.

As a result of economic impacts from the COVID-19 pandemic, the public sector wages bill will likely increase as a share of the tax base for payroll tax, as the total state payroll is likely to decline due to higher unemployment.

Payroll tax revenues are likely to decline in the short term due to the:

- refund of 2019-20 payroll tax for businesses with a wages bill of less than $3 million
- broader impacts of COVID-19 on employment and wages.

The scheduled reduction in the concessional payroll tax rate for regional business will have only a small impact on revenue. The existing regional concessional rate of 2.425 per cent currently subtracts only around 2.4 per cent from total payroll tax revenue, and the further scheduled reduction to 1.2125 per cent by 2022-23 is expected to subtract around a further one per cent.
Taxes on goods and services

In this section

This section considers taxes on goods and services, which accounted for around 9 per cent of total revenue in 2018-19:

- Gambling taxes (2.9 per cent of revenue)
- Insurance taxes (2.0 per cent of revenue)
- Motor vehicle duty and fees (3.7 per cent of revenue)

These revenue categories are made up of several individual taxes and duties. We consider the trends, volatility, and drivers of the main taxes within each category.

Gambling taxes

At a glance

<table>
<thead>
<tr>
<th>What is it?</th>
<th>Gambling taxes are levied on net gambling expenditure or player losses—the amount gambled less prizes or refunds to players. Individual taxes within this category vary rates and thresholds depending on the type of gambling.</th>
</tr>
</thead>
</table>
| How significant is this revenue? | In 2018-19:  
  - 2.9 per cent of Victorian Government revenue  
  - 0.4 per cent of GSP. |
| What drives this revenue? | Household disposable income and consumer taste for gambling |
| What is the longer-term trend? | Gambling taxes steadily declined since 2001-02 |
| How volatile is this revenue? | Displays little short-term volatility |

Source: Parliamentary Budget Office.
Drivers and stability

Figure 18 – Components of gambling tax revenue

Note: This figure sources tax revenue from ABS data, which has a slightly different classification to the Victorian budget for some gambling taxes. The increase in taxes on public lotteries in 2018-19 was due to a higher number of large jackpots.

Source: Parliamentary Budget Office.

The steady decline in gambling taxes revenue as a proportion of GSP since 2001-02 has been mainly from decreases in electronic gaming machine tax, lottery tax and race betting tax. This is largely due to the fall in gambling expenditure as a proportion of household consumption. This fall is likely as a result of changes in consumer tastes and government regulation, such as limits on the number of gaming machines. The consumer shift towards online gambling also contributed to this decline, leading the government to introduce the point of consumption tax in 2019.

Figure 19 – Victorian expenditure on gambling as a proportion of household consumption

Source: Parliamentary Budget Office.

Gambling expenditure declined as a proportion of total Victorian household consumption from 4.1 to 2.4 per cent since 2001-02. The decline is broadly similar across states and territories.
Insurance taxes

At a glance

What is it? Insurance tax is 10 per cent on general insurance premiums for:
- motor vehicles and third party
- property and property contents in Victoria
- other risks, contingencies or events that may occur within Victoria.

Life insurance duty was abolished on 1 July 2014.

How significant is this revenue? In 2018-19:
- 2.0 per cent of Victorian Government revenue
- 0.3 per cent of GSP.

What drives this revenue? • The price of general insurance policies
- The number of general insurance policies

What is the longer-term trend? • Broadly steady as a proportion of GSP since 2001-02

How volatile is this revenue? • Considerable short-term volatility

Source: Parliamentary Budget Office.

Drivers and stability

Figure 20 – Victorian insurance taxes as a share of the economy

Note: To provide a consistent analysis over time, we excluded the former fire services levy—an insurance tax—which was replaced with the fire services property levy in 2013.

Source: Parliamentary Budget Office.
Insurance tax revenue is driven by spending on general insurance premiums, which is related to drivers such as household income, household formation and the levels of business activity and income.

**Figure 21 – Annual growth in general insurance premiums and total insurance tax revenue**

![Graph showing annual growth in general insurance premiums and total insurance tax revenue from 2004-05 to 2018-19.](image)

Notes: This figure is based on Australian Prudential Regulation Authority data for gross written premiums. To provide a consistent analysis over time, we excluded the former fire services levy—an insurance tax—which was replaced with the fire services property levy in 2013.

Source: Parliamentary Budget Office.

Insurance tax revenue growth has been relatively volatile, broadly reflecting growth in expenditure on general insurance premiums.

**Figure 22 – Share of insurance products in Victoria by value in 2019**

![Bar chart showing the percentage of total insurance premium value for different insurance products in 2019.](image)

Source: Parliamentary Budget Office.

Domestic motor vehicle and housing-related insurance products accounted for more than 50 per cent of total insurance product premiums.
Softening economic conditions could contribute to slower growth in housing-related insurance, such as building, home contents and mortgage insurance.

Slower growth in the number of domestic motor vehicles, reflecting stagnant wage growth and weaker economic conditions, may contribute to slower growth in motor vehicle insurance tax revenues.

Motor vehicle duty and fees

At a glance

<table>
<thead>
<tr>
<th>What is it?</th>
<th>Motor vehicle owners pay registration fees to use vehicles on roads. Motor vehicle buyers pay duty when they register a vehicle in Victoria, based on the higher of the market value or purchase price:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>▪ The duty rate varies by type and value of vehicle.</td>
</tr>
<tr>
<td></td>
<td>▪ Higher rates for vehicles valued over $100,000 apply from 2019-20.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>How significant is this revenue?</th>
<th>In 2018-19:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>▪ 3.7 per cent of Victorian Government revenue</td>
</tr>
<tr>
<td></td>
<td>▪ 0.6 per cent of GSP.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>What drives this revenue?</th>
<th>Registration fee revenue is driven by the:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>▪ number of motor vehicles registered in Victoria</td>
</tr>
<tr>
<td></td>
<td>▪ level of fees charged on each type of vehicle.</td>
</tr>
<tr>
<td></td>
<td>Motor vehicle duty revenue is driven by:</td>
</tr>
<tr>
<td></td>
<td>▪ the number of new and second-hand vehicle transactions in Victoria</td>
</tr>
<tr>
<td></td>
<td>▪ prices of new and second-hand vehicles.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>What is the longer-term trend?</th>
<th>Slight increase since 2001-02</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>How volatile is this revenue?</th>
<th>Displays little volatility</th>
</tr>
</thead>
</table>

Source: Parliamentary Budget Office.
Drivers and stability

Figure 23 – Motor vehicle registration fees and duty revenue

Source: Parliamentary Budget Office.

Total motor vehicle tax revenue increased by 0.06 per cent of GSP from 2001-02 to 2018-19, reflecting revenue from:

- vehicle registration fees increasing by 0.1 per cent
- duty on vehicle registration decreasing by 0.04 per cent.

Registration fee revenue applies to the number of vehicles and has increased as a proportion of GSP due to registration fee indexation and fee increases in 2004, 2012 and 2014. By contrast, motor vehicle duty revenue is linked to motor vehicle sales transactions which has declined, reflecting a relatively stable motor vehicle duty rate and weakening sales.

Stalling population growth and consumer spending associated with COVID-19 may reduce the level of motor vehicle duty revenue and dampen growth in registration fee revenues in the short term. New car sales across Australia were down almost 50 per cent in April 2020 compared to April 2019 but recovered significantly in May and June.

New vehicle sales were already weak prior to the impact of COVID-19, reflecting continuing weak wages and consumption growth, and declines in property values making households less likely to purchase discretionary items such as new cars.

The Victorian Budget 19/20 estimates that the increase in the duty rate for vehicles with value above $100,000 will provide around $60 million additional revenue each year.

The impact of increasing hybrid and electric vehicle purchases on the overall registration revenue will be marginal in the short to medium term, reflecting the small size of the discount offered for these vehicles and slow market penetration.
## Appendix A — Terms used in this advice

We use the following terms throughout this report.

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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</thead>
<tbody>
<tr>
<td>ABS</td>
<td>Australian Bureau of Statistics</td>
</tr>
<tr>
<td>Goods and services tax (GST)</td>
<td>A broad-based consumption tax, levied at 10 per cent on most goods, services and other items sold or consumed in Australia, with exemptions for basic foods, water supply, education, and health. The Australian Government collects GST and distributes it to states and territories.</td>
</tr>
<tr>
<td>GST pool</td>
<td>The amount of GST revenue collected by the Australian Government that is available for distribution to states and territories.</td>
</tr>
<tr>
<td>Gross state product (GSP)</td>
<td>A measure of the state’s economic output. Nominal GSP measures the value of Victorian goods and services in the dollars of the year in question and is used in this report to scale changes in Victorian Government revenue sources over time for the effects of prices, population, and economic growth. Real GSP measures nominal GSP after removing average price changes, providing an index of economic output over time.</td>
</tr>
<tr>
<td>Indexation</td>
<td>An adjustment to the value of a payment or fee to growth in a price index over time (for example, the consumer price index, which measures changes in the weighted average prices of goods and services).</td>
</tr>
<tr>
<td>Payments for specific purposes</td>
<td>Australian Government payments to state and territory governments under a range of funding agreements, generally tied to expenditure in specific areas of state government responsibility or on specific projects.</td>
</tr>
<tr>
<td>State tax</td>
<td>A tax that an Australian state raises itself, as opposed to the GST which the Australian Government raises on behalf of the states and territories.</td>
</tr>
<tr>
<td>Volatility</td>
<td>The size of short-term changes in the value of a tax revenue stream.</td>
</tr>
</tbody>
</table>
Appendix B — Data sources


