

## 4. REVENUE

- Estimated state revenue for 2021-22 has been revised upwards by \$2.5 billion (2.5 per cent) and by an additional \$25.7 billion (6.3 per cent) over the four years to 2025-26 since the 2021-22 Half-Yearly Review. The key drivers of the upwards revisions to estimated revenue, in order of magnitude, are: New South Wales' increased share of GST and upwards revisions to national consumption expenditure; higher commodity prices; growth in inflation and wages; greater strength in the property market in the first months of 2022; and stronger underlying economic conditions.
  - **GST:** New South Wales will receive a higher share of the national GST than expected at the 2021-22 Half-Yearly Review. Updated relativities for 2022-23 assessed by the Commonwealth Grants Commission will see NSW receiving overall GST payments slightly (1.4 per cent) above its population share in 2022-23.
  - **Inflation, wages and commodity prices:** Higher price and wages inflation has resulted in upwards revisions to forecast state revenues, especially via the GST pool and through payroll tax. Coal prices are at record high levels, driving significant upwards revisions to estimated coal royalties relative to estimates at the 2021-22 Half-Yearly Review.
  - **Property market:** The latter half of 2021-22 has seen higher transfer duty receipts than previously expected, due primarily to stronger than forecast property price growth. However, interest rate rises are expected to slow property price growth in the future.
- The Government will reform betting taxes to achieve competitively neutral tax rates across online and offline betting products, support a sustainable racing industry and enhance the funding of programs to address harms associated with online gambling activity.
- The Government will also introduce the option for eligible first home buyers to choose between transfer duty or an annual property tax when purchasing their home. This option would lower the upfront burden of paying transfer duty.
- Additional measures which the Government will implement include increasing the foreign investor land tax surcharge and offering grant payments and payroll tax exemptions to encourage businesses of future industries to establish or expand in New South Wales.

## 4.1 Revenue

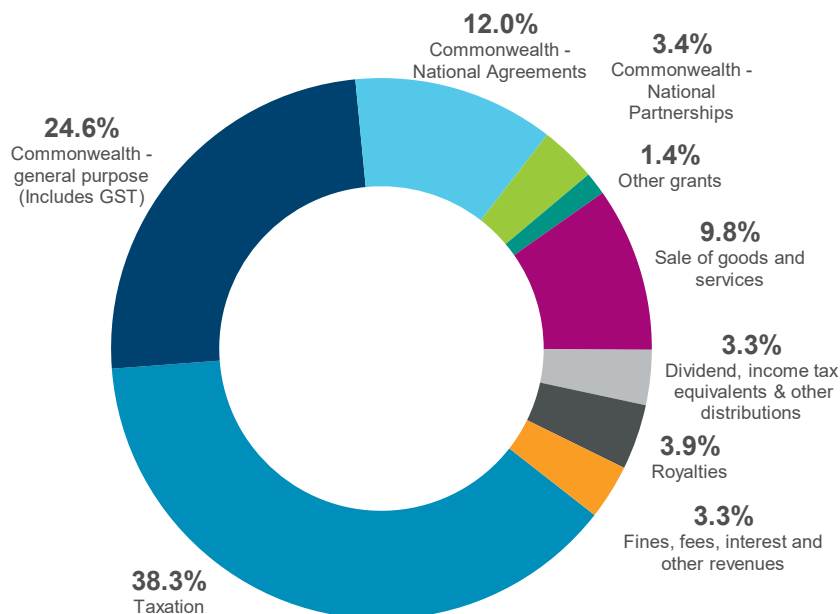
### The updated 2021-22 revenue position

General government sector revenue is projected to increase by 17.9 per cent in 2021-22 to be \$103.7 billion. This is \$2.5 billion (2.5 per cent) higher than forecast at the 2021-22 Half-Yearly Review.<sup>1</sup> The main components of the upwards revision since the 2021-22 Half-Yearly Review are an increase of \$1.2 billion in transfer duty, an increase of \$810.1 million in estimated royalties and a \$436.8 million increase in estimated payroll tax revenue.

### Revenue for the 2022-23 Budget year

General government sector revenue is estimated to total \$103.6 billion in 2022-23. As Chart 4.1 illustrates, the main sources are taxation revenue (38.3 per cent) and Commonwealth and other grants (41.4 per cent). The 2022-23 outlook for state revenue is \$4.1 billion (4.1 per cent) higher than previously forecast at the 2021-22 Half-Yearly Review.

Chart 4.1: Composition of total revenue, 2022-23



### Revenue across the four-year horizon to 2025-26

The State's revenue is expected to grow at a compound annual rate of 2.2 per cent over the four years to 2025-26 (Table 4.1). This is a stronger growth rate than previously projected (1.0 per cent). This is largely driven by taxation revenue, which is forecast to grow by 2.8 per cent per annum on average over the four years to 2025-26, and grant revenue (including GST), which is forecast to grow by an average 2.0 per cent over this period.

<sup>1</sup> All references to revenue within this chapter refer to General Government sector revenues. Unless stated otherwise, revisions are cited with reference to forecasts in the 2021-22 Half-Yearly Review.

Table 4.1: General government sector – summary of revenue and its components

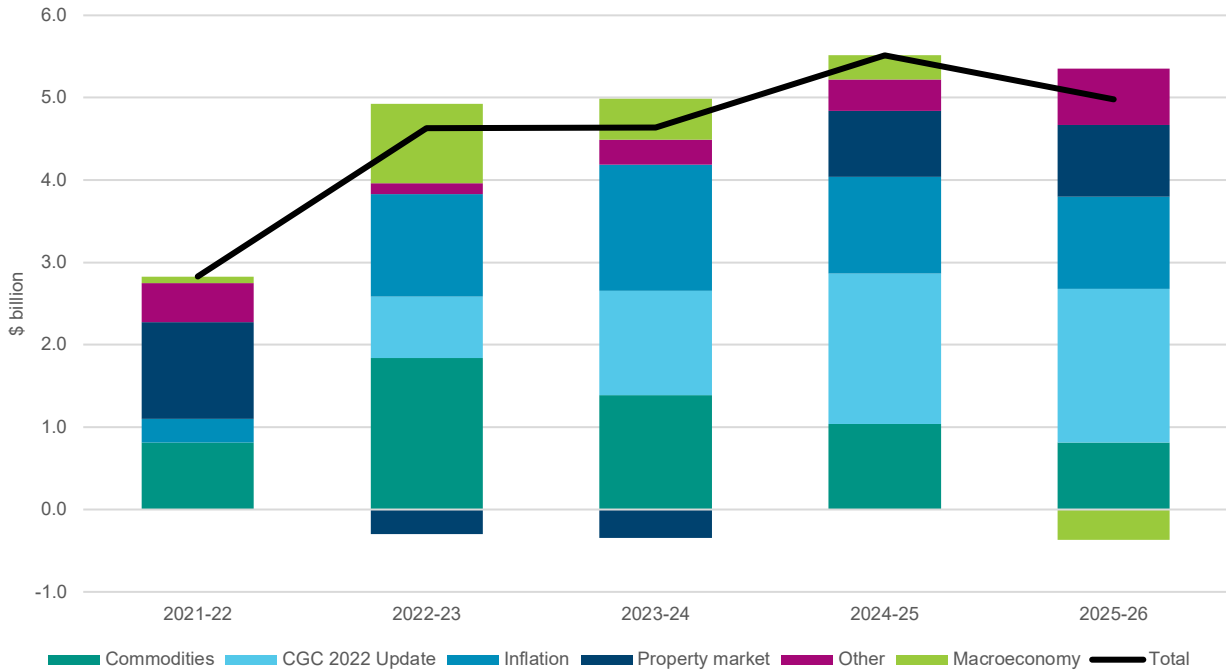
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	% Average growth p.a. 2021-22 to 2025-26
	Actual	Revised	Budget	Forward Estimates			
	\$m	\$m	\$m	\$m	\$m	\$m	
<b>Revenue from transactions</b>							
Taxation	34,407	39,240	39,637	39,683	41,732	43,753	2.8
Grant revenue (including GST)	35,646	44,924	42,928	46,024	47,891	48,625	2.0
Sale of goods and services	9,949	9,733	10,191	10,122	9,107	9,084	(1.7)
Interest income	307	268	372	409	436	480	15.7
Dividends and income tax equivalents from other sectors	1,077	542	726	1,036	1,340	1,699	33.1
Other dividends and distributions	2,570	2,323	2,684	3,636	4,179	4,288	16.6
Royalties	1,418	3,636	4,050	2,797	2,257	1,973	(14.2)
Fines, regulatory fees and other revenues	2,591	3,040	3,029	2,993	3,160	3,041	0.0
<b>Total revenue</b>	<b>87,965</b>	<b>103,706</b>	<b>103,617</b>	<b>106,701</b>	<b>110,101</b>	<b>112,944</b>	<b>2.2</b>
<i>Annual change</i>	8.1%	17.9%	-0.1%	3.0%	3.2%	2.6%	

Over the four years to 2025-26, revenue is forecast to be \$25.7 billion (6.3 per cent) higher than previously forecast (Table 4.2). Key components of the upwards revision include GST revenue (up \$11.5 billion), mineral royalties (up \$3.8 billion), payroll tax (up \$2.3 billion), and land tax (up \$2.2 billion). This is partly offset by a downgrade of \$1.3 billion in transfer duty, due to the First Home Buyer Property Tax Option (see Box 4.4) and the impact of rising interest rates.

The drivers of the upwards revisions to revenue over the four years to 2025-26 are broad-based (see Chart 4.2).

- Commodity prices – Russia’s invasion of Ukraine has led to a sharp rise in commodity prices, which has increased coal royalties.
- GST relativity – The Commonwealth Grants Commission (CGC) 2022 Update recommended relativity for New South Wales in 2022-23 was higher than previously anticipated. This was mainly due to the amount of spending on urban transport investment nationally exceeding expectations and the CGC’s assessment of relative wage costs in New South Wales being higher than projected. As a result, estimates for NSW’s GST relativity have been revised upwards over the four years to 2025-26.
- Inflation – Higher than previously forecast prices and wages growth has contributed to upwards revisions to GST revenue (through higher nominal consumption and dwelling investment growth) and payroll tax revenue.
- Property market – Strength in the property market in the early months of 2022 has increased forecast transfer duty in 2021-22, with land tax expected to be higher over the forward estimates due to higher land prices. This is partly offset by the anticipated impacts of rising mortgage interest rates.
- Stronger economy – Despite the impacts from the Omicron variant, underlying momentum in the New South Wales and national economy has been stronger than expected, leading to an increase in GST and payroll tax revenue.

Chart 4.2: Upwards revisions to state taxation, GST and mining royalties revenue

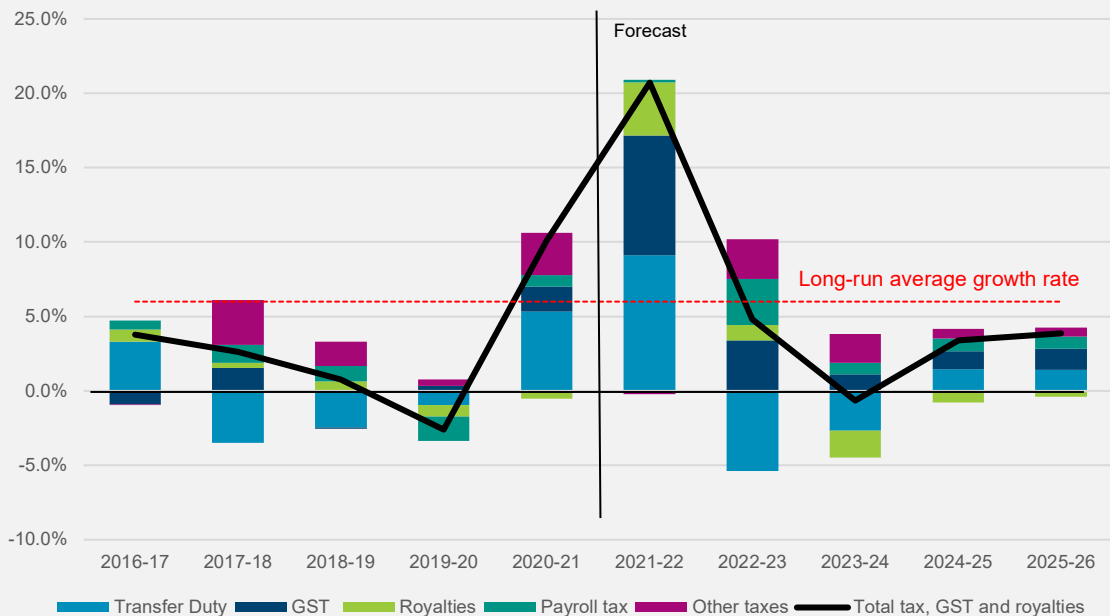


**Box 4.1: Revenue growth volatile in the short term, set to fall in the long term**

Stable revenue sources and sustainable revenue growth help states meet expenditure needs and achieve fiscal balance, both in the short term and the long term.

Since the onset of the pandemic, New South Wales’ tax revenue growth rates have seen unprecedented levels of volatility. While the long-run average growth rate over the 20 years to 2018-19 for state taxes sits at 6.0 per cent, tax revenue grew by 10.1 per cent in 2020-21 from the lower base set in the pandemic’s first year (2019-20). Total revenue growth is estimated to be 20.7 per cent in 2021-22, before dropping below the long-run average over the four years to 2025-26.

Chart 4.3: Contribution to revenue growth from state taxation, GST and mining royalties



### Box 4.2: Long-term revenue outlook

Over the long run, as outlined in the *2021-22 NSW Intergenerational Report (IGR)*, NSW revenues are expected to grow at a slower pace than they have historically. If this outcome is realised, there would be an increasing long-term 'fiscal gap', where revenue growth fails to keep pace with the growth in expenses. The IGR estimated this gap at 2.6 per cent of Gross State Product by 2060-61.

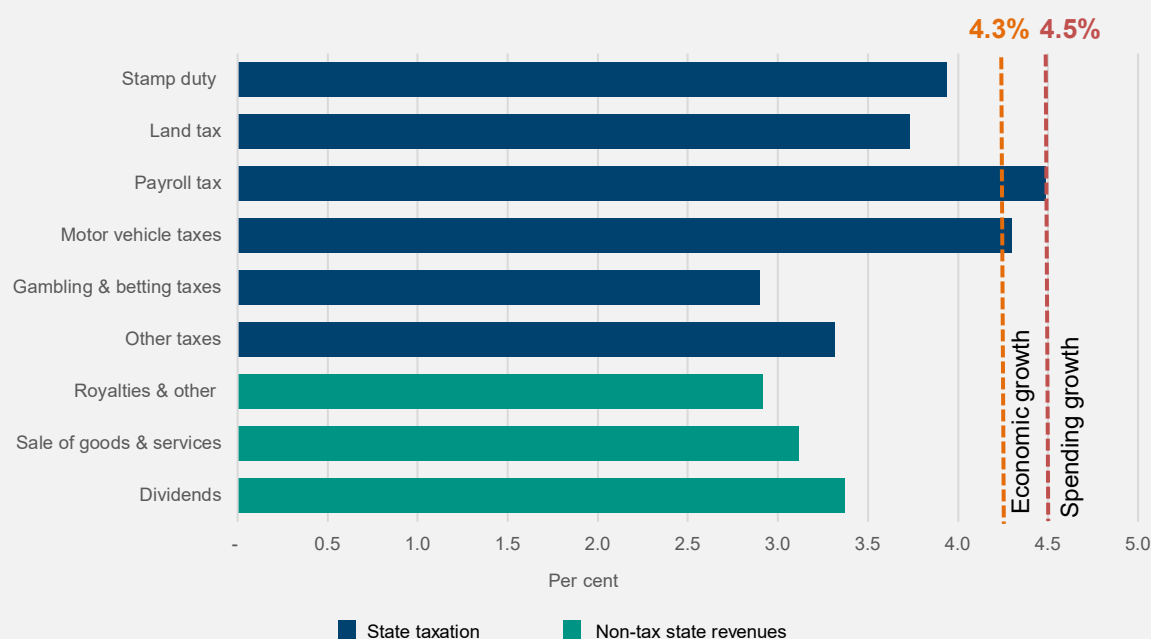
Over the longer term, revenue growth, and tax revenue growth in particular, is expected to ease due to:

- an ageing population, which will reduce the labour force in relative terms and increase the dependency ratio
- an easing in house price growth from the high rates achieved over the past two decades
- declining royalties revenue, in line with declining global demand for coal as the global economy transitions to net zero.

Under projected conditions, New South Wales and other states will face a growing shortfall in revenues and will come to rely more on fiscal transfers from the Commonwealth.

The IGR showed that the most effective way of addressing the fiscal gap is by lifting revenue growth through reforms which grow the economy. The IGR showed that supporting women's economic opportunities would have the most significant impact on the fiscal gap, where women's workforce participation increases to be equal to that of men. This is a key driver of the package of reforms outlined in this Budget. The Report also showed that a slow and disorderly transition to renewable energy would increase the size of the fiscal gap, underlying the importance of the NSW Government's *Electricity Infrastructure Roadmap* for both the economic and fiscal outlook.

Chart 4.4: Average annual growth in state revenues 2018-19 to 2060-61



Source: Projections from the *2021-22 NSW Intergenerational Report*

Table 4.2: Revenue reconciliation

	2021-22	2022-23	2023-24	2024-25	2025-26	Four years to 2025-26
	Revised	Budget	Forward Estimates			
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Revenue - 2021-22 Budget</b>	<b>93,846</b>	<b>96,792</b>	<b>98,479</b>	<b>100,328</b>	<b>n.a.</b>	<b>n.a.</b>
<i>Policy measures</i>	3,905	(11)	(37)	(66)	n.a.	n.a.
<i>Parameter and other variations</i>	3,439	2,781	1,627	2,577	n.a.	n.a.
<b>Revenue - 2021-22 HYR</b>	<b>101,190</b>	<b>99,562</b>	<b>100,069</b>	<b>102,839</b>	<b>105,189</b>	<b>407,659</b>
<i>Policy changes since 2021-22 HYR</i>						
Revenue measures	...	259	395	437	423	<b>1,514</b>
Revenue related to expense and capital measures	1,292	(25)	838	1,349	146	<b>2,308</b>
<b>Total policy measures</b>	<b>1,292</b>	<b>234</b>	<b>1,233</b>	<b>1,786</b>	<b>569</b>	<b>3,821</b>
<i>Parameter changes since 2021-22 HYR</i>						
<b>Taxation</b>						
Payroll tax	437	519	611	649	539	<b>2,318</b>
Transfer duty	1,234	(512)	(624)	385	276	<b>-475</b>
Land tax	(61)	213	388	352	235	<b>1,187</b>
Motor vehicle stamp duty	68	36	47	61	90	<b>234</b>
Other taxes	100	182	164	184	233	<b>764</b>
<b>Grant revenue</b>						
GST	253	2,158	2,956	3,234	3,195	<b>11,542</b>
National Agreement payments	(385)	(87)	(120)	(139)	5	<b>-341</b>
Federation Funding Agreement payments	(73)	(856)	205	(11)	818	<b>157</b>
Other grant revenue	(65)	275	125	123	116	<b>638</b>
<b>Sale of goods and services</b>	<b>(842)</b>	<b>127</b>	<b>543</b>	<b>682</b>	<b>619</b>	<b>1,971</b>
<b>Interest income</b>	<b>41</b>	<b>134</b>	<b>151</b>	<b>151</b>	<b>175</b>	<b>611</b>
<b>Dividends and income tax equivalents</b>	<b>(106)</b>	<b>(159)</b>	<b>3</b>	<b>(274)</b>	<b>466</b>	<b>36</b>
<b>Other dividends and distributions</b>	<b>(124)</b>	<b>(54)</b>	<b>83</b>	<b>(504)</b>	<b>87</b>	<b>-389</b>
<b>Royalties</b>	<b>810</b>	<b>1,840</b>	<b>1,010</b>	<b>584</b>	<b>353</b>	<b>3,787</b>
<b>Fines, regulatory fees and other revenues</b>	<b>(64)</b>	<b>5</b>	<b>(143)</b>	<b>(0)</b>	<b>(20)</b>	<b>-159</b>
<b>Total parameter changes and other variations</b>	<b>1,224</b>	<b>3,822</b>	<b>5,398</b>	<b>5,476</b>	<b>7,187</b>	<b>21,883</b>
<b>Total changes since 2021-22 HYR</b>	<b>2,516</b>	<b>4,055</b>	<b>6,631</b>	<b>7,262</b>	<b>7,756</b>	<b>25,704</b>
<b>Revenue - 2022-23 Budget</b>	<b>103,706</b>	<b>103,617</b>	<b>106,701</b>	<b>110,101</b>	<b>112,944</b>	<b>433,363</b>

## 4.2 Revenue measures since 2021-22 Half-Yearly Review

Decisions made since the 2021-22 Half-Yearly Review (including those subject to Commonwealth agreements) are forecast to increase revenue by \$233.5 million in 2022-23 and by \$3.8 billion over the four years to 2025-26.

Revenue measures, which largely comprise measures introduced by the Government aimed at fiscal repair, are forecast to provide a net increase in revenue of \$1.5 billion over the four years to 2025-26. These fiscal repair measures include adjusting Point of Consumption and Betting tax rates to 15 per cent, reducing the land tax early payment discount to 0.5 per cent, increasing the foreign investor surcharge land tax to 4 per cent and investing in additional compliance at Revenue NSW.

The Government has also made expenditure and capital decisions that have an indirect impact on revenue. These measures are forecast to have a net positive impact of \$2.3 billion over the four years to 2025-26 and include revenue from Federation Funding Agreements such as the Disaster Recovery Funding Arrangements.

Key revenue decisions since the 2021-22 Half-Yearly Review are set out below.

### **Increase to the point of consumption (PoC) tax and changes to other betting taxes**

From 1 July 2022, the PoC tax rate will increase to 15 per cent and the effective betting tax rates (including totalizator and fixed odds bets) charged under the *Betting Tax Act 2001* will be adjusted to 15 per cent. These measures will generate an additional \$740.0 million of revenue over the four years to 2025-26.

The basis of PoC industry funding under the *Betting Tax Act 2001* will change from 2 per cent of net wagering revenue to 33 per cent of PoC tax revenue collected by the Government. Additionally, \$5 million will be allocated per year (increasing with inflation from 2023-24) to the Responsible Gambling Fund. Combined, these measures will increase expenses by \$285.8 million over the four years to 2025-26.

The Government will support Tabcorp in the transition to the new taxation arrangements. This will increase expenses by \$30 million over two years to 2023-24. For more information see Box 4.3.

### **Introduce the First Home Buyer Property Tax Option**

First home buyers purchasing a property up to \$1.5 million will be provided with an option to pay an annual property tax instead of transfer duty upfront. Over the four years to 2025-26, this measure is estimated to reduce revenue by \$663.6 million. This consists of lower transfer duty revenue of \$751.8 million and raising \$88.2 million of property tax revenue. For more information see Box 4.4.

### **Reduction in the discount available for early payment of land tax**

Land tax is payable annually (on a calendar year basis) either up front in full or over instalments. A discount of 1.5 per cent is available to taxpayers who pay their land tax in full within 30 days after their assessment has been issued. The land tax early payment discount will be lowered to 0.5 per cent from 1 January 2023. This will generate additional revenue of \$34.0 million in 2022-23, with a total budget impact of \$146.0 million over the four years to 2025-26.

### **Increase to the foreign investor surcharge land tax**

The foreign investor land tax surcharge of 2.0 per cent will increase to 4.0 per cent per annum from the 2023 land tax year, generating additional revenue of \$294.0 million over the four years to 2025-26.

### **Payroll tax exemptions under a subprogram of the Future Economy Fund**

A subprogram of the Future Economy Fund will offer grant payments and payroll tax exemptions to encourage businesses of future industries to establish or expand in New South Wales. Payroll tax exemptions under the subprogram are estimated to reduce revenue by \$51.0 million over the five years to 2026-27.

### **Additional compliance investment for land tax and transfer duty**

Building on previous investments in system upgrades and improved data management at Revenue NSW, additional compliance investments of \$60.0 million will increase land tax revenue by \$368.0 million and transfer duty revenue by \$200.0 million over the four years to 2025-26.

## Removal of tolling relief rebate for motor vehicle registrations

The NSW Government has introduced a new broad-based Toll Rebate Scheme which will ultimately replace the existing Registration Relief Scheme and provide a more generous toll relief to a greater portion of NSW motorists (for more information on the new Toll Rebate Scheme see Chapter 1 Budget Overview).

The increase in New South Wales' revenue position from phasing out the Registration Relief Scheme (\$390.7 million over the four years to 2025-26) will be more than offset by the cost of the new Toll Rebate Scheme (\$520.0 million over the two years to 2024-25).

## NSW driver license for overseas visitors

Temporary overseas visitors with a valid driver license in their country of origin can currently drive comparable vehicles in New South Wales. Traffic infringements incurred by these drivers cannot be recorded against their driving record. From November 2022, drivers using an overseas driver license will need to pass a NSW driver license test to continue driving after three months. This measure is expected to generate \$71.0 million over the two years to 2023-24.

Table 4.3: *New revenue measures*

	2022-23	2023-24	2024-25	2025-26	Four years to 2025-26
	\$m	\$m	\$m	\$m	\$m
Increase to the point of consumption tax	156.0	177.0	195.0	212.0	<b>740.0</b>
Introduce the First Home Buyer Property Tax Option	(158.2)	(164.1)	(160.3)	(181.1)	<b>(663.6)</b>
Reduction in the discount available for early payment of land tax	34.0	37.0	38.0	37.0	<b>146.0</b>
Increase to the foreign investor surcharge land tax	74.0	88.0	75.0	57.0	<b>294.0</b>
Payroll tax exemptions under a subprogram of the Future Economy Fund	(0.7)	(5.3)	(10.6)	(15.8)	<b>(32.4)</b>
Additional compliance investment for land tax and transfer duty	100.0	125.0	170.0	173.0	<b>568.0</b>
Removal of tolling relief rebate for motor vehicle registrations	...	120.0	129.9	140.8	<b>390.7</b>
Removal of the exemption allowing temporary visa holders to use overseas licences	53.5	17.5	...	...	<b>71.0</b>
<b>Total - Revenue measures</b>	<b>258.7</b>	<b>395.1</b>	<b>437.0</b>	<b>422.9</b>	<b>1,513.7</b>

The remaining sections of this Chapter provide a breakdown of the State's forecast revenue over the next four years, ordered by the following three categories of state revenue:

- State taxation (38.0 per cent of total State revenue over the four years to 2025-26)
- grant revenue (42.8 per cent of total State revenue over the four years to 2025-26) – these are payments made to New South Wales, primarily from the Commonwealth Government
- non-taxation revenue (19.2 per cent of total State revenue over the four years to 2025-26) – this is revenue the State raises through other means, for example mineral royalties.



### **Box 4.3: Tax reform and support to online gambling harm minimisation**

This Budget announces reforms to betting taxes to achieve competitively neutral tax rates across online and offline betting products, support a sustainable racing industry and enhance the funding of harm minimisation programs associated with online gambling activity. The reform is estimated to raise revenues by \$740.0 million over the four years to 2025-26. These changes will align the tax rates for point of consumption (PoC) tax and betting taxes (including the totalizator and fixed odds under the *Betting Tax Act 2001*) at 15 per cent, alter the basis of racing industry support to 33 per cent of PoC tax collections and provide ongoing funding to the Responsible Gambling Fund to extend harm minimisation and counselling services.

On 1 January 2019, the NSW Government introduced the PoC tax — a 10 per cent tax on all wagers placed by NSW residents, regardless of the licence registration location of the wagering operator. This tax closed a loophole in wagering laws where most online bets were not taxed.

The Review of the PoC Tax concluded that the tax has achieved its intent by increasing the integrity of the wagering tax base. The tax has effectively closed a loophole in wagering tax laws by capturing tax on online bets placed in New South Wales. It also ensures that operators pay taxes on gambling activity where the associated harms occur.

#### **Equalising effective PoC and betting tax rates at 15 per cent will provide competitively neutral tax rates between betting products and operators**

Online gambling has experienced rapid growth in both Australia and New South Wales and has continued to grow strongly since the introduction of the PoC tax, particularly during the COVID-19 pandemic. Since 2019, the proportion of wagers being placed online grew from 43.6 per cent of the market to 73.7 per cent in 2021. PoC annual player loss has increased 123.3 per cent from 2019 to 2021.

Aligning the PoC tax and the betting tax (including effective fixed odds betting tax and totalizator betting tax) at 15 per cent will provide competitively neutral tax rates between betting products, regardless of the gambling operators or whether the betting activity is online or in person.

#### **Allocating ongoing funding to the Responsible Gambling Fund will reduce gambling harm associated with online betting**

With the introduction of the PoC tax, the NSW Government committed to provide \$5 million per annum from the PoC tax revenues to the Responsible Gambling Fund. This funding was committed for a period of five years to support programs and activities that seek to prevent and minimise the harm arising from online betting.

Online gambling has experienced rapid growth in New South Wales and a higher proportion of those who gamble online are reported to be problem gamblers than those who bet offline. Ongoing funding to the Responsible Gambling Fund of \$5 million per year (increasing with inflation) will support the continued provision of support programs to reduce associated harm experienced by NSW residents.

### **Racing industry funding as a share of revenue collected from the PoC tax maintains the proportion of funding over time**

When the PoC tax was introduced, the NSW Government agreed to provide additional support to the racing industry to ensure that they were not negatively impacted by the introduction of the tax. This funding was set at 2 per cent of taxable NSW net wagering revenue from all Australian licensed wagering operators (including TAB).

In 2020-21, 2 per cent of net wagering revenue was the equivalent of 33 per cent of PoC tax revenues collected by New South Wales.

Changing the racing industry funding from being 2 per cent of net wagering revenue to 33 per cent of collected PoC tax revenue maintains the proportion of funding to the racing industry over time.

### **Supporting the transition and reviewing the wagering tax regime, regulation and industry funding in the coming years**

To assist the transition to the new taxation arrangements, the Government will provide no worse off payments to Tabcorp. The payments to Tabcorp will assist over an 18-month period and will be up to \$22 million in 2022-23 and \$8 million in 2023-24.

#### **Box 4.4: Introducing the First Home Buyer Property Tax option**

This Budget announces the introduction of an option for eligible first home buyers to either pay the existing transfer duty or an annual property tax when purchasing their home. First home buyers purchasing a property up to \$1.5 million will be able to opt in to the property tax. This option would lower the up-front burden of paying transfer duty and enable these home buyers to enter their first home sooner. The revenue reduction from this measure is estimated to be \$663.6 million over the four years to 2025-26.

Over the past two years, the Government has consulted extensively on the Property Tax Proposal which received broad community support and resonated well with first home buyers. Key elements from the 2021 Property Tax Proposal have been incorporated into this measure – including ‘choice’, the property tax rates, indexation of tax rates and deferral in cases of hardship.

#### **Features of the First Home Buyer Property Tax Option**

Key features of the first home buyer property tax option are that:

- Eligible first home buyers purchasing a property for up to \$1.5 million will be given the option to pay an annual property tax instead of transfer duty up front.
- The property tax will be based on the property’s unimproved land value.
- Annual owner-occupier property tax rates will be set at \$400 plus 0.3 per cent of the property’s unimproved land value in 2022-23. These rates apply as long as the first home buyer remains an owner-occupier.
- First home buyers will be allowed to change the status of property from owner-occupied to residential investment property. Annual residential investor property tax rates will be set at \$1,500 plus 1.1 per cent of the property’s unimproved value in 2022-23.
- Affordability of the property tax will be preserved over time. Property tax rates, both owner-occupier and investor rates, will be indexed by Gross State Product per capita to ensure that average property tax payments grow in line with average incomes, rather than in line with land values.
- Properties will not be locked into the property tax for subsequent purchases. Transfer duty will apply to a subsequent purchase, unless the purchaser is a first home buyer who opts into the property tax. Non-first home buyers will remain liable to transfer duty and will not be given the choice to opt into the property tax.
- A deferral scheme will be in place to recognise that taxpayers’ financial situations can change over time and ensure that no one facing hardship will be required to sell their home to meet property tax liabilities.

The First Home Buyer Assistance Scheme remains in place. This scheme provides duty exemptions to first home buyers purchasing properties up to \$650,000 and concessional rates of duty for first home buyers purchasing properties between \$650,000 and \$800,000. All eligible first home buyers purchasing properties up to \$1.5 million will now have access to the property tax option, in addition to the scheme. Around 97 per cent of first home buyers in New South Wales are expected to be eligible for benefits under the new property tax option or the First Home Buyer Assistance Scheme.

#### **Timeline for implementation**

From 16 January 2023, eligible first home buyers will be able to opt in and not pay transfer duty. For contracts exchanged in the period between the enactment of legislation and 15 January 2023, eligible first home buyers will be able to apply to opt in and receive a refund of transfer duty paid from 16 January 2023. The property tax will apply from the date of completion, also known as settlement.

### 4.3 Taxation revenue

Taxation revenue is expected to be \$39.6 billion in 2022-23 (see Table 4.4), which is \$693.2 million (1.8 per cent) higher than forecast at the 2021-22 Half-Yearly Review. Over the four years to 2025-26, taxation revenue has been revised upwards by \$5.8 billion (3.6 per cent).

Payroll tax is expected to overtake transfer duty as the largest source of taxation revenue from 2022-23 due to the weakness in the residential property market. Payroll tax is expected to account for 27.9 per cent of taxation revenue in 2022-23, while transfer duty is expected to account for 27.3 per cent.

Table 4.4: General government sector – summary of taxation revenue

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	% Average growth p.a. 2021-22 to 2025-26
	Actual	Revised	Budget	Forward Estimates			
	\$m	\$m	\$m	\$m	\$m	\$m	
<b>Stamp duties</b>							
Transfer duty	9,608	14,624	10,825	8,969	9,925	10,917	(7.0)
Insurance	1,167	1,299	1,375	1,453	1,535	1,622	5.7
Motor vehicles	969	934	938	935	939	980	1.2
Other	- 2	0	0	0	0	0	41.9
	<b>11,742</b>	<b>16,857</b>	<b>13,138</b>	<b>11,357</b>	<b>12,399</b>	<b>13,520</b>	<b>(5.4)</b>
<b>Payroll tax</b>	8,926	8,958	11,054	11,595	12,194	12,795	9.3
<b>Taxes on land</b>							
Land tax	4,875	4,850	5,657	6,146	6,350	6,228	6.4
Property tax	...	...	9	18	26	36	N/A
	<b>4,875</b>	<b>4,850</b>	<b>5,666</b>	<b>6,164</b>	<b>6,377</b>	<b>6,264</b>	<b>6.6</b>
<b>Taxes on motor vehicle ownership and operation</b>							
Weight tax	2,349	2,455	2,560	2,790	2,915	3,037	5.5
Vehicle transfer fees	58	52	55	59	62	66	6.5
Other motor vehicle taxes	44	37	39	41	42	44	4.4
	<b>2,451</b>	<b>2,544</b>	<b>2,654</b>	<b>2,889</b>	<b>3,019</b>	<b>3,147</b>	<b>5.5</b>
<b>Gambling and betting taxes</b>							
Racing	215	259	452	506	555	599	23.3
Club gaming devices	842	647	879	909	937	966	10.5
Hotel gaming devices	1,021	861	1,147	1,264	1,356	1,454	14.0
Lotteries and lotto	501	575	535	520	535	554	(0.9)
Casino	132	125	231	280	301	312	25.6
Other gambling & betting	16	12	19	20	22	23	18.7
	<b>2,727</b>	<b>2,479</b>	<b>3,262</b>	<b>3,499</b>	<b>3,706</b>	<b>3,907</b>	<b>12.0</b>
<b>Other taxes and levies</b>							
Health insurance levy	221	230	238	257	269	283	5.4
Parking space levy	103	103	107	118	122	126	5.1
Emergency services levy contributions	1,086	915	1,173	1,355	1,132	1,137	5.6
Emergency services council contributions	147	186	215	180	180	179	(0.9)
Waste and environment levy	762	761	783	832	832	832	2.2
Government guarantee fee	293	310	327	355	396	438	9.0
Private transport operators levy	54	33	56	56	56	56	14.6
Pollution control licences	26	26	27	18	18	18	(8.9)
Other taxes	994	987	938	1,009	1,032	1,051	1.6
	<b>3,686</b>	<b>3,551</b>	<b>3,863</b>	<b>4,179</b>	<b>4,037</b>	<b>4,119</b>	<b>3.8</b>
<b>Total taxation revenue</b>	<b>34,407</b>	<b>39,240</b>	<b>39,637</b>	<b>39,683</b>	<b>41,732</b>	<b>43,753</b>	<b>2.8</b>
<i>Annual change</i>		14.0%	1.0%	0.1%	5.2%	4.8%	

## Payroll tax

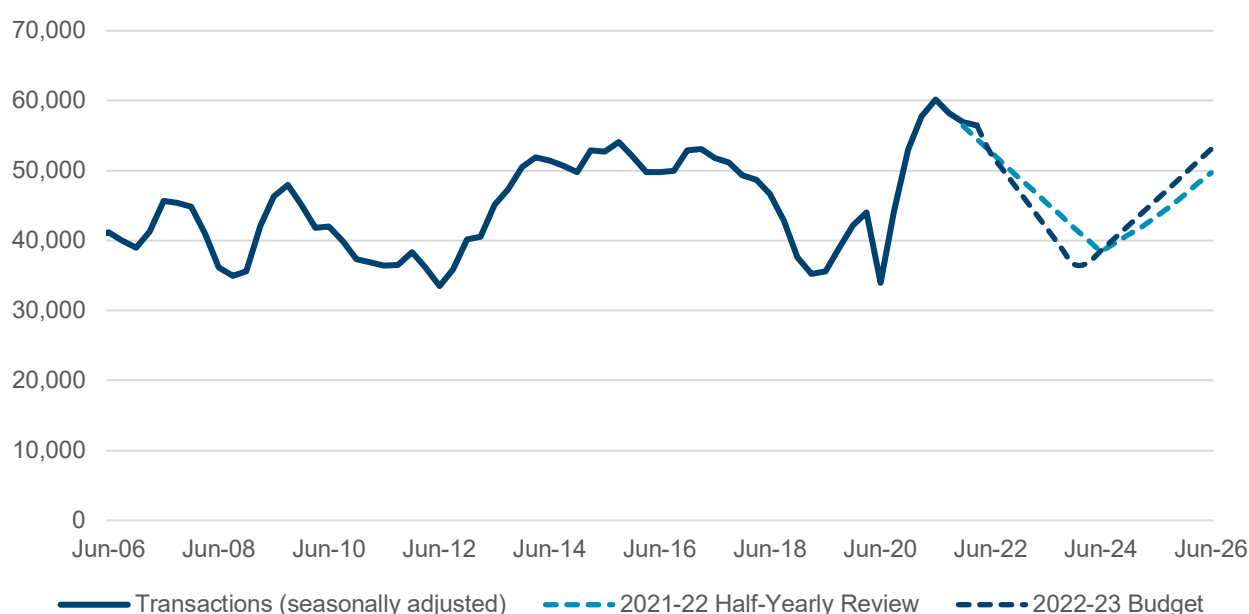
A strong rebound in employee compensation and employment levels since the 2021-22 Half-Yearly Review has led to higher expectations for payroll across the forward estimates. Accordingly, this Budget forecasts a significant upward revision in payroll tax revenue. Revenue has been revised up by \$436.8 million (5.1 per cent) for 2021-22 and by \$518.1 million (4.9 per cent) in 2022-23. In total, over the four years to 2025-26, this revenue source has been revised up by \$2.3 billion (5.0 per cent).

## Transfer duty

Transfer duty collections are a function of transaction volumes and sales prices. Transfer duty revenues have been revised up by \$1.2 billion (9.2 per cent) in 2021-22, reflecting stronger than expected growth in both transaction volumes and prices since the 2021-22 Half-Yearly Review. Transfer duty revenues have been revised down by \$1.3 billion (3.0 per cent) over the four years to 2025-26. This includes a downgrade of \$751.8 million over the four years to 2025-26 for the First Home Buyer Property Tax Option.

The outlook for residential property markets has weakened. Residential mortgage interest rates have risen sharply over the past six months and are now expected to be significantly higher in comparison to 2021-22 Half-Yearly Review forecasts. This is likely to further dampen transactional activity in 2022-23 and 2023-24. Historical experience suggests property owners will only defer the decision to transact for a short period and so transaction volumes are expected to recover in 2024-25 and beyond (see Chart 4.5). Residential property prices are expected to ease from 2022-23 through to 2025-26.

Chart 4.5: Residential property transactions (seasonally adjusted; quarterly)



Transfer duty revenue on commercial property transactions has been revised up by \$506.2 million in 2021-22, largely due to an increase in large transaction volumes. Revenue from commercial property transactions has been revised down by \$507.7 million over the four years to 2025-26 due to the impact of higher interest rates.

## Land tax

Land tax revenue is expected to be \$5.7 billion in 2022-23, \$439.0 million (8.4 per cent) above previous expectations. Land tax is forecast to grow by 6.4 per cent on average over the four years to 2025-26, \$2.2 billion (10.1 per cent) higher than expected at the 2021-22 Half-Yearly Review. This uplift is due to expectations for higher average land values than previously forecast as well as the new policy decisions described in section 4.2, such as the increase to the foreign investor surcharge land tax.

## Gambling and betting taxes

Gambling tax revenue is expected to be \$2.5 billion in 2021-22, an upward revision of \$51.3 million (2.1 per cent). Over the four years to 2025-26, forecast gambling receipts have been revised up by \$1.1 billion (8.1 per cent).

The main driver of the upgrade is the decision by the NSW Government to increase the point of consumption (PoC) tax rate and make subsequent changes to other betting taxes. These changes are forecast to increase revenue by \$740.0 million over this period (see section 4.2). Without this policy change, wagering revenue would have been revised downwards by \$204.9 million, due to softer-than-expected activity following the easing of COVID-19 related restrictions.

Tax revenue from club and hotel gaming machine activity has been revised up by \$423.1 million over the four years to 2025-26, driven by a recovery in gaming activity in early 2022 and expectations for household disposable income.

## Taxes on motor vehicle ownership and operation

Motor vehicle taxes are expected to be \$2.7 billion in 2022-23, \$4.2 million (0.2 per cent) higher than at the 2021-22 Half-Yearly Review. Forecast motor vehicle taxes have increased by \$373.9 million (3.3 per cent) over the four years to 2025-26, driven by two factors. Firstly, as noted in section 4.2, revenue will increase due to the phasing out of the Registration Relief Scheme (though this will be more than offset by the cost of the new Toll Rebate Scheme). Secondly, inflation forecasts are higher.

## Other stamp duties

This category incorporates insurance duty and motor vehicle registration duty. Revenue is forecast to reach \$2.3 billion in 2022-23 and has been revised upwards by \$451.2 million (4.8 per cent) over the four years to 2025-26.

Motor vehicle registration duty has been revised upwards by \$234.0 million (6.6 per cent) over the four years to 2025-26 due to stronger than expected vehicle prices.

Insurance duty revenue has been revised upwards by \$217.2 million (3.8 per cent) over the four years to 2025-26 due to higher than expected collections in recent months and the expectation that insurance premiums are likely to increase.

## Other taxes and levies

Other taxes and levies are expected to provide \$3.9 billion in 2022-23, growing at an average annual rate of 4.0 per cent in the four years to 2025-26.

Revenue from the Emergency Services Levy (ESL), including insurer and council contributions, is forecast to be \$1.4 billion in 2022-23 and \$5.5 billion over the four years to 2025-26. This is \$519.7 million (10.3 per cent) higher over the four years to 2025-26 compared to the 2021-22 Half-Yearly Review. This upgrade reflects increased expenditure on emergency services, largely associated with new and continued measures to implement recommendations from the 2020 NSW Bushfire Inquiry and measures in response to the 2021 and 2022 flooding events.

Revenue from the Health Insurance Levy is also forecast to be \$80.5 million higher over the four years to 2025-26 than expected at the 2021-22 Half-Yearly Review, reflecting a sustained increase in health insurance membership since mid-2020 as well as higher inflation expectations.

## 4.4 Grant revenue

Most of the State's grant revenue is from the Commonwealth, primarily consisting of:

- general purpose grants (including GST)
- specific purpose payments, in the form of National Agreements and Federation Funding Agreements (formerly National Partnerships and Project Agreements).

Grant revenue is expected to decrease by \$2.0 billion in 2022-23 to \$42.9 billion before reaching \$48.6 billion in 2025-26.

Table 4.5: Grant revenue

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	% Average growth p.a. 2021-22 to 2025-26
	Actual \$m	Revised \$m	Budget \$m	Forward Estimates \$m			
Commonwealth - general purpose	18,897	23,299	25,538	26,304	27,134	28,148	4.8
GST revenue (including "no worse off" payments)	18,892	23,297	25,505	26,296	27,134	28,148	4.8
Other general purpose grants	5	2	33	8	-	-	(100.0)
Commonwealth - National Agreements	11,999	13,209	12,476	12,969	13,622	14,317	2.0
Commonwealth - Federation Funding Agreements	3,618	7,108	3,502	5,354	5,802	4,784	(9.4)
Other Commonwealth payments	451	524	586	611	703	733	8.8
<b>Total Commonwealth grants</b>	<b>34,965</b>	<b>44,141</b>	<b>42,102</b>	<b>45,238</b>	<b>47,261</b>	<b>47,982</b>	<b>2.1</b>
<i>Annual change in Commonwealth grants</i>	3.8%	26.2%	-4.6%	7.4%	4.5%	1.5%	
Other grants	681	783	826	786	630	643	(4.8)
<b>Total grant revenue</b>	<b>35,646</b>	<b>44,924</b>	<b>42,928</b>	<b>46,024</b>	<b>47,891</b>	<b>48,625</b>	<b>2.0</b>

## General purpose grants

New South Wales will receive \$23.3 billion in GST revenue in 2021-22, which is \$253.0 million (1.1 per cent) higher than forecast at the 2021-22 Half-Yearly Review. The increase reflects an upgrade in the Commonwealth's forecasts for the national GST pool at the 2022-23 Budget, reflecting stronger than expected nominal consumption.

Over the four years to 2025-26, GST revenue is forecast to grow by an average of 4.8 per cent per year, resulting in an additional \$11.5 billion (12.1 per cent) over the same period than expected at the 2021-22 Half-Yearly Review. This reflects substantial increases in both the size of the national GST pool and New South Wales' GST share. The national GST pool is expected to be \$12.1 billion higher over the four years to 2025-26 compared to the forecast at the 2021-22 Half-Yearly Review, largely driven by expectations for higher prices, which will boost nominal consumption and dwelling investment. Improvements in the labour market will also support GST collections by allowing consumers to absorb higher prices and continue to increase consumption volumes.

NSW's relativity is also expected to be considerably higher over the forecast period. The Commonwealth Grants Commission's most recent recommendation for the State's relativity in 2022-23 was higher than expected at the 2021-22 Half-Yearly Review. This has resulted in upwards revisions in projections for the NSW GST relativity over the four years to 2025-26. Higher than expected iron ore prices in 2021-22 will also support NSW's relativity from 2023-24.

Table 4.6: GST (including "no worse off") revenues to New South Wales – reconciliation statement<sup>(a)</sup>

	2021-22 Revised	2022-23 Budget	2023-24	2024-25	2025-26	Four years to 2025-26
	Forward Estimates					
	\$m	\$m	\$m	\$m		\$m
<b>2021-22 Budget</b>	<b>21,784</b>	<b>22,274</b>	<b>22,263</b>	<b>22,432</b>	<b>23,000</b>	<b>89,969</b>
Change due to:						
Change in population	50	49	49	50	53	201
Change in pool	1,210	592	587	665	1,092	2,935
Change in relativities	...	518	459	618	430	2,025
'No worse off' payments	3	(85)	(18)	135	378	410
<b>2021-22 Half-Yearly Review</b>	<b>23,044</b>	<b>23,347</b>	<b>23,340</b>	<b>23,900</b>	<b>24,953</b>	<b>95,540</b>
Change due to:						
Change in population	36	30	35	45	55	165
Change in pool	217	1,401	1,222	667	139	3,430
Change in relativities	...	537	1,259	1,949	2,421	6,167
'No worse off' payments	(1)	190	440	573	579	1,782
<b>2022-23 Budget</b>	<b>23,297</b>	<b>25,505</b>	<b>26,296</b>	<b>27,134</b>	<b>28,148</b>	<b>107,083</b>
<b>Change since 2021-22 Half-Yearly Review</b>	<b>253</b>	<b>2,158</b>	<b>2,956</b>	<b>3,234</b>	<b>3,195</b>	<b>11,543</b>

(a) The Commonwealth Government will provide separate untied grants in the form of "no worse off" payments from 2021-22 to 2026-27 so that states and territories are not adversely affected by changes to horizontal fiscal equalisation. These payments are not part of the GST pool, are counted as other general purpose grant revenue and are not assessed by the Commonwealth Grants Commission.



#### **Box 4.5: Horizontal Fiscal Equalisation and natural disasters**

The GST is distributed between the states and territories (states) in line with the principle of horizontal fiscal equalisation (HFE). The primary purpose of HFE is to account for factors that are outside states' control and ensure they each have the capacity to deliver services of a comparable standard while levying a similar tax burden. Historically, HFE has also served as a type of risk pooling or insurance mechanism that has helped states to meet the cost of responding to different types of natural disasters, such as bushfires and floods. This means the burden of responding to the 2019-20 Black Summer bushfires was shared across states.

The Commonwealth Government's changes to HFE in 2018 mean that states no longer share the cost of natural disasters in the same way. The Commonwealth has legislated a relativity floor that guarantees Western Australia receives 70 per cent of its population share of GST. The relativity floor commences in 2022-23 and rises to 75 per cent from 2024-25.

The relativity floor effectively exempts Western Australia from contributing to the cost of natural disaster recovery under the principle of HFE. The floor is also expected to deliver a windfall of \$2.7 billion to Western Australia in 2022-23, bolstering a budget bottom line that is already benefiting from record iron ore royalties.

The Commonwealth Government's changes mean that Western Australia is treated differently from all other states, including New South Wales. This signals to all Australians that the Commonwealth considers Western Australian residents to be entitled to greater access to better quality services while bearing a lower tax burden compared to anyone else. New South Wales is temporarily protected from the consequences of the Commonwealth Government's 2018 changes through a no worse off guarantee. However, this guarantee expires at the end of 2026-27 and, in the meantime, adds tens of billions to already high Commonwealth debt levels.

### **National Agreements**

This category comprises payments for specific purposes from the Commonwealth to the states and territories under the:

- National Health Reform Agreement
- National School Reform Agreement
- National Housing and Homelessness Agreement
- National Agreement for Skills and Workforce Development.

Revenue from National Agreements is forecast to total \$12.5 billion in 2022-23, a decrease of \$733.1 million (-5.6 per cent) on 2021-22 levels. This reduction is mainly due to lower forecast National Health Reform Agreement (NHRA) payments under the COVID-19 Response National Partnership in 2022-23 compared to 2021-22. National Agreement revenues are expected to grow at an average annual rate of 2.0 per cent over the four years to 2025-26. Table 4.7 summarises National Agreement payments by key service delivery area. Since the 2021-22 Half-Yearly Review, revenue from National Agreements increased by \$576.5 million (4.6 per cent) in 2021-22 primarily due to a \$572.7 million increase in expected COVID-19 Response National Partnership payments. The projected additional revenue supports critical elements of the pandemic response, including vaccine distribution.

National Agreement projected revenue is expected to decrease by \$199.7 million over the four years to 2025-26 relative to the 2021-22 Half-Yearly Review, mainly due to \$394.2 million in reduced payments under the National School Reform Agreement (NSRA), though partially offset by \$141.2 million in increased COVID-19 Response National Partnership payments. The reduction in payments under the NSRA is largely due to downward revisions to the Commonwealth's forecasts of government school enrolments in New South Wales.

Table 4.7: National Agreement payments to New South Wales

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	% Average growth p.a. 2021-22 to 2025-26
	Actual	Revised	Budget	Forward Estimates			
	\$m	\$m	\$m	\$m	\$m	\$m	
Health	8,206	9,203	8,348	8,698	9,219	9,770	1.5
Education	2,810	3,010	3,118	3,258	3,375	3,505	3.9
Skills and workforce development	494	501	508	514	522	529	1.4
Affordable housing	489	495	502	499	506	513	0.9
<b>Total National Agreements</b>	<b>11,999</b>	<b>13,209</b>	<b>12,476</b>	<b>12,969</b>	<b>13,622</b>	<b>14,317</b>	<b>2.0</b>

## Federation Funding Agreements

The Commonwealth provides payments to support specified projects, ongoing service delivery or service delivery improvements. For example, the Preschool Reform Agreement provides a framework for collaboration between the Commonwealth and states to improve preschool participation and outcomes. It includes Commonwealth funding over four years as well as performance milestones and reporting requirements. This category also includes schedules under the five new sector-based Federation Funding Agreements.

NSW Government revenue from Federation Funding Agreements is expected to be \$3.5 billion in 2022-23, a decrease of \$1.1 billion (-24.4 per cent) compared to the 2021-22 Half-Yearly Review. This reduction is mainly due to:

- \$715.2 million downward revision due to the deferral of planned capital expenditure beyond the forward estimates
- \$646.3 million downward revision to natural disaster funding revenues in 2022-23 which is now forecast to be received over the three years to 2025-26
- \$218.4 million in additional revenue under water infrastructure funding agreements.

Revenue from Federation Funding Agreements is expected to decrease at an average annual rate of 9.4 per cent over the four years to 2025-26. This reflects the expiry of COVID-19 related agreements and declining levels of natural disasters payments from the Commonwealth over the forward estimates (see Table 4.8). Since the 2021-22 Half-Yearly Review, revenue from Federation Funding Agreements is expected to increase by \$137.3 million (2.0 per cent) in 2021-22. This is mainly due to additional projected revenue of \$95.6 million for the JobTrainer Fund and \$78.8 million under the Accelerated Funding New South Wales Supply and Constraints projects agreement.

Over the four years to 2025-26, revenues are projected to increase by \$2.2 billion since the 2021-22 Half-Yearly Review. This is primarily driven by:

- \$1.9 billion in forecast Commonwealth contributions over the four years from 2022-23 under the Natural Disaster Relief Arrangements
- \$276.3 million in increased funding under the Implementing Water Reform Murray Darling Basin and National Water Infrastructure Development Fund Agreements
- \$128.7 million in increased transport infrastructure payments from the Commonwealth under the National Partnership on Land Transport Infrastructure Projects.

Table 4.8: Federation Funding Agreement payments to New South Wales

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	% Average growth p.a. 2021-22 to 2025-26
	Actual	Revised	Budget	Forward estimates			
	\$m	\$m	\$m	\$m	\$m	\$m	
Transport	2,159	1,836	2,166	3,366	4,397	4,126	22.4
Education and skills	311	381	208	146	140	100	(28.4)
Disability	618	630	350	362	...	...	(100.0)
Health	99	80	115	80	151	6	(46.8)
Housing	128	231	58	...	...	...	
Environment	59	206	171	64	28	7	(57.3)
Other	243	3,745	433	1,336	1,087	544	(38.3)
<b>Total Federation Funding Agreement payments</b>	<b>3,618</b>	<b>7,108</b>	<b>3,502</b>	<b>5,354</b>	<b>5,802</b>	<b>4,784</b>	<b>(9.4)</b>

## Other Commonwealth payments

Other Commonwealth payments are expected to provide \$586.2 million in 2022-23, an increase of \$61.9 million (11.8 per cent) on 2021-22 levels. Since the 2021-22 Half-Yearly Review, revenue in 2021-22 has fallen by \$223.6 million (-29.9 per cent), mainly due to \$174.2 million in reduced Commonwealth payments to the Department of Regional NSW and an \$82.8 million reduction in payments to the NSW Ministry of Health. Revenue from other Commonwealth grants is expected to increase by 8.8 per cent per annum on average over the four years to 2025-26.

## Other grants

Other grants are expected to provide \$782.9 million in 2021-22 and decline by 4.8 per cent per annum on average over the four years to 2025-26.

## 4.5 Non-tax revenues

The NSW Government collects revenue through a number of sources beyond taxation. This section outlines current forecasts for these categories.

### Sale of goods and services

Sales of goods and services revenue is expected to be \$9.7 billion in 2021-22, \$841.5 million (8.0 per cent) lower than forecast at the 2021-22 Half-Yearly Review. Over the four years to 2025-26, revenue is forecast to decrease by 1.7 per cent on average, a much smaller decline than the 4.1 per cent decline forecast at the 2021-22 Half-Yearly Review.

The most significant drivers of the downwards revision in this revenue category for 2021-22 are as follows:

- Transport for NSW downwards revision of \$309.9 million, which is mainly due to two drivers: reduction in personnel service revenue as a result of the \$140 million wind down of the State Transit Authority (section 9.1 of Budget Paper 4); and a decrease in fees for service revenue, due to a change in capital delivery expenditure profiles across financial years.
- Ministry of Health downwards revision of \$154.1 million, due to reduced activity from the pauses in elective surgery associated with the Omicron outbreak.
- Local Land Services downwards revision of \$54.3 million, mainly due to reclassification of sales of goods and services revenue as a grant from other government agencies.

Over the four years to 2025-26, revenue in this category has been revised upwards by \$2.1 billion (5.8 per cent), compared to the 2021-22 Half-Yearly Review. The most significant drivers of the upwards revision for this period are as follows:

- Transport for NSW upwards revision of \$960.7 million due to a capital project recovery carry forward of \$310 million from 2021-22 to the forward estimates, and \$600 million in cost recovery associated with corporate functions transferred from Sydney Trains and the Transport Asset Holding Entity (TAHE).
- Department of Planning & Environment upwards revision of \$419.8 million due to several drivers, including: transfer of revenue budget from Property NSW for service level agreements; reclassification between revenue categories; and increase in personnel service revenue from Land and Housing Corporation.
- Department of Regional NSW upwards revision of \$246.2 million, primarily due to a machinery of government change, which saw the administrative transfer of the Soil Conservation Service from Local Land Services.
- NSW Self Insurance Corporation upwards revision of \$165.5 million, due to revisions in expected insurance premiums, reinsurance and other recoveries.
- Infrastructure NSW upwards revision of \$81.0 million, primarily stemming from a change in accounting treatment for estate levy revenues (previously booked under 'Other revenue') on advice of the Audit Office of New South Wales.
- Department of Education upwards revision of \$78.2 million, owing to higher expected nominal revenues (for instance from school fees and international student fees) due to higher inflation forecasts.

These upgrades are partially offset by downwards revisions in:

- Local Land Services downwards revision of \$160.9 million, primarily due to a machinery of government change, which saw the administrative transfer of the Soil Conservation Service to the Department of Regional NSW.
- Department of Customer Service downwards revision of \$159.4 million, primarily due to the loss of liquor licensing fees, associated with the transfer out of the Liquor and Gaming Authority to the Department of Enterprise, Investment and Trade.
- Property NSW downwards revision of \$90.5 million, due to transfer of the revenue budget for service level agreements to the Department of Planning & Environment.

Table 4.9: Sales of goods and services revenue

	2020-21 Actual	2021-22 Revised	2022-23 Budget	2023-24	2024-25	2025-26	% Average growth p.a. 2021-22 to 2025-26
	\$m	\$m	\$m	\$m	Forward Estimates \$m		
Rents and leases	304	240	257	261	313	341	9.2
Fee for service	3,062	3,050	3,180	2,848	1,689	1,337	(18.6)
Entry fees	53	30	55	68	78	80	27.5
Patient fees and hospital charges	1,216	1,196	1,150	1,162	1,206	1,251	1.1
Department of Veterans' Affairs	143	122	138	156	147	138	3.1
Court fees	125	119	152	156	161	165	8.7
Road tolls	134	133	164	173	177	227	14.3
Other sales of goods and services	4,912	4,844	5,096	5,299	5,336	5,545	3.4
<b>Sale of goods and services</b>	<b>9,949</b>	<b>9,733</b>	<b>10,191</b>	<b>10,122</b>	<b>9,107</b>	<b>9,084</b>	<b>(1.7)</b>

## Interest income

Interest income includes returns on managed bond investments, including investments made by TCorp, and interest earned on bank deposits and funding facilities. Interest revenue is expected to be \$371.6 million in 2022-23, \$133.8 million (56.3 per cent) higher than previously expected. Forecast interest revenue is expected to be \$611.2 million (56.3 per cent) higher over the four years to 2025-26. This largely reflects higher interest rate expectations.

## Dividends and income tax equivalents

State Owned Corporations and public financial corporations pay dividends that provide a commercially appropriate return on government investment.

Dividends and income tax equivalents are estimated to be \$542.2 million in 2021-22, \$106.2 million (16.4 per cent) lower than estimated at the 2021-22 Half-Yearly Review. This is mainly due to the reduction of dividends from Sydney Water, which is required to help maintain Sydney Water's investment grade credit metrics, in light of the water system augmentation. This was identified as a requirement in the Greater Sydney Water Strategy.

Revenue in this category is estimated to be \$463.6 million (8.8 per cent) lower over the four years to 2025-26 relative to the 2021-22 Half-Yearly Review. Over this period, the two most significant drivers of reduction in expected revenue are:

- \$211.8 million lower returns from Sydney Water, mainly due to the Sydney Water dividend issue discussed above
- \$468.5 million lower returns from Landcom, as a result of the reclassification of Landcom's dividends as 'Other economic flows', rather than as 'Revenue from transactions'.

Downward revisions are partially offset by TAHE's \$587.9 million revenue increase over the period (see Chapter 7 Commercial Performance in the Broader Public Sector).

## Other dividends and distributions

Other dividends and distributions are received from entities other than State-owned corporations, as well as from the State's equity investment in associates such as Ausgrid and Endeavour Energy. These revenues are expected to be \$2.7 billion in total in 2022-23, \$54.1 million (2.0 per cent) lower than forecast at the 2021-22 Half-Yearly Review. Over the four years to 2025-26, other dividends and distributions have been downgraded by \$388.7 million (down 2.6 per cent).

The downward revision reflects lower expected investment returns, which have been revised down following the impacts of tightening monetary policy globally on financial markets and fund returns since the start of 2022. These impacts have been exacerbated by Russia's invasion of Ukraine. Over the forward estimates, fund distributions are anticipated to rise in line with an expected recovery in financial markets more broadly.

## Fines, regulatory fees and other revenue (excluding royalties)

Total revenue from fines, regulatory fees, and other revenue is forecast to be \$3.0 billion in 2021-22 and is forecast to remain the same over the four years to 2025-26.

Fines revenue forecast for 2021-22 has been revised downwards by \$29.8 million due to the impact of COVID-19 lockdowns on vehicle travel and impacts associated with severe flooding in large parts of New South Wales. The Government's policy change to reintroduce mobile speed camera warning signage and the revised implementation schedule for key Road Safety programs have also contributed to the downward revision in the current year. These are also the main drivers of the \$209.0 million reduction in forecast revenue over the four years to 2025-26 compared to the 2021-22 Half-Yearly Review.

Regulatory fees have been revised downwards by \$111.6 million over the four years to 2025-26. This is due to reduced fine volumes, driven by the reintroduction of mobile speed camera warning signage, and increased customer uptake of Fairer Fines payment options, which allows for customers to enter into payment plans and in some cases seek a fine reduction. Other revenues have been upgraded by \$283.5 million over the four years to 2025-26, largely due to increased revenue for the right of user access for the NorthConnex and new M8 motorways.

Table 4.10: Fines, regulatory fees and other revenues

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	% Average growth p.a. 2021-22 to 2025-26
	Actual	Revised	Budget	Forward Estimates			
	\$m	\$m	\$m	\$m	\$m	\$m	
Fines	675	775	820	819	837	852	2.4
Regulatory fees	93	144	142	144	131	144	0.0
Other revenues	1,823	2,120	2,067	2,030	2,192	2,045	(0.9)
<b>Total fines, regulatory fees and other revenues</b>	<b>2,591</b>	<b>3,040</b>	<b>3,029</b>	<b>2,993</b>	<b>3,160</b>	<b>3,041</b>	<b>0.0</b>

## Royalties

Mining royalties are forecast to be \$810.1 million higher in 2021-22 and \$3.8 billion (or 51.9 per cent) higher over the four years to 2025-26, relative to expectations at the 2021-22 Half-Yearly Review.

Thermal coal prices began rising very quickly in late 2021 and into 2022. Global coal supplies were temporarily curtailed by self-imposed restrictions on Indonesian exports (the largest thermal coal producer) and severe weather events across some of Australia's major thermal coal producing regions. Russia's invasion of Ukraine has created significant and long-lasting energy supply shortages and uncertainty for global commodity markets. Chart 4.6 shows that thermal coal prices peaked at more than four times their long-run average in May 2022. Thermal coal prices are now expected to be materially higher over the four years to 2025-26, relative to 2021-22 Half-Yearly Review forecasts.

Chart 4.6: Newcastle thermal coal spot price (\$US per tonne)

