



## All due revenue is collected

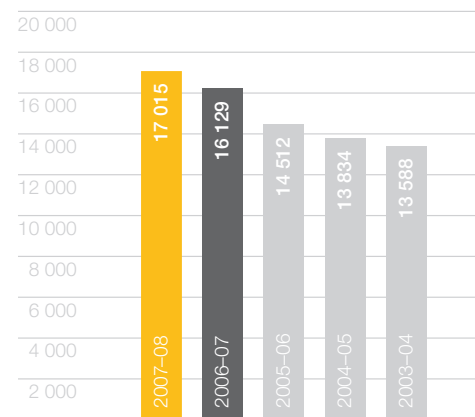
We are responsible for effective revenue administration, which includes compliance activities, to ensure all due revenue is collected. Our work enables the Government to fund a wide range of essential government services and to meet priority P5 – maintaining the State’s AAA credit rating set out in the NSW State Plan.

### Revenue performance

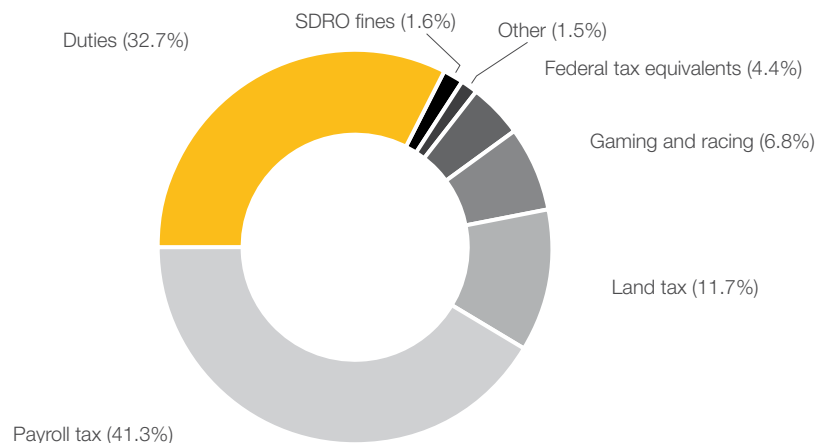
#### Crown revenue collected

Revenue type	2007–08	2006–07	2005–06	2004–05	2003–04
	\$m				
Duties	5 555	5 425	4 844	4 808	5 492
Payroll tax	7 027	6 400	5 888	5 500	5 067
Land tax	1 997	1 955	1 752	1 586	1 339
Gaming and racing	1 160	1 271	1 142	1 058	950
SDRO fines	277	226	216	247	168
Health insurance levy	125	119	108	102	98
Insurance protection tax	68	67	68	68	69
Federal tax equivalents	751	606	436	396	346
Parking space levy	51	48	45	46	47
Unclaimed money	3	11	11	22	9
Debits tax	0	–	–	0	1
Other revenue and taxes	1	1	2	1	1
<b>Total Crown revenue</b>	<b>17 015</b>	<b>16 129</b>	<b>14 512</b>	<b>13 834</b>	<b>13 587</b>

#### Total Crown revenue collected by financial year (\$m)



#### Crown revenue collected in 2007–08 (%)



## Duties collected

Category	Actual 07–08	Budget 07–08	Actual 06–07	Budget 06–07
	\$m			
Contracts and conveyances	3 953	3 695	3 663	3 250
Motor vehicle registrations	600	582	554	575
Insurance policies	611	616	598	609
Loan securities (mortgages)	280	243	350	348
Share transfers	66	74	108	57
Leases	40	51	78	72
Hire of goods	3	6	73	79
Vendor duty	2	–	1	–
Other stamp duties	–	2	–	2
<b>Total Duties</b>	<b>5 555</b>	<b>5 269</b>	<b>5 425</b>	<b>4 992</b>

We collected \$5555 million in duties in 2007–08, compared with \$5425 million in the previous financial year.

The revenue from duties for 2007–08 was impacted by the abolition of hire of goods duty (effective 1 July 2007), mortgage duty on owner occupied housing (effective 1 September 2007) and lease duty (effective 1 January 2008). These duties were abolished as the result of the Intergovernmental Agreement, in which the NSW Government agreed to a program to abolish several duties. However, a very strong property market in the first six months of the financial year resulted in higher than expected contracts and conveyancing and mortgage receipts.

### Abolition of mortgage duty

We implemented the first two stages of the Government's program to abolish mortgage duty.

The first stage involved the abolition of mortgage duty for owner occupied housing which came into effect from 1 September 2007. Prior to this date, OSR officers held extensive consultation with financial institutions and ran an education program for duties clients to ensure a smooth implementation of these changes.

The second stage of the mortgage duty abolition program will involve the abolition of mortgage duty for investment housing from 1 July 2008.

### Abolition of lease duty

The Government abolished lease duty on leases first executed on or after 1 January 2008. Duty continues to be payable on premiums.

To facilitate the abolition of lease duty and ensure a smooth transition, we provided a targeted education program to clients about the changes.

A program to finalise all long-term leases, which had pending liabilities, was also implemented. This program was designed to reduce red tape for clients and resulted in nearly 75 per cent of the matters being completed.

### Duty relief for storm damaged vehicles

After a series of storms and floods across the State, the NSW Government announced a duty relief scheme available to NSW taxpayers registering vehicles purchased to replace vehicles written off in a declared natural disaster zone.



We believe the changes to counter services will provide a fairer and more efficient service for all of our clients and ensure our staff are efficiently deployed.



OSR was responsible for administering the scheme in which we processed over 4150 applications and refunded a total of \$1.5 million in duties for motor vehicle registration. On average the processing time for a refund application was 5.1 days.

Declared natural disaster zones in which the refund scheme operated were:

- Hunter-Central Coast – June 2007
- Lismore area – 9 October 2007
- Western Sydney – 9 December 2007
- Far Western NSW – 21-22 December 2007
- Northern NSW – January 2008

### **Changes to counter services**

The abolition of some types of duties and the growth of Electronic Duties Returns service has resulted in changes to how our offices process the stamping of duties transactions. Counter duties assessments are now only available to private individuals and not practitioners.

The changes were implemented at our Newcastle and Wollongong offices on 5 May 2008 and have been adopted in our Sydney and Parramatta offices from 4 August 2008.

We consulted extensively with all our key stakeholders, including the Sydney Office Customer Council, Law Society, settlement rooms, and Conveyancing Council, prior to the implementation of these changes.

We believe the changes will provide a fairer and more efficient service for all of our clients and ensure our staff are efficiently deployed.

### **Electronic Duties Returns**

Our Electronic Duties Returns (EDR) service enables our 1758 approved clients to self assess and endorse duties documents electronically.

Currently, 73.7 per cent of duties documents are processed electronically, consistent with the previous financial year. The growth in the use of electronic duties transactions has slowed this year with the abolition of mortgage duty – 92 per cent of mortgage duty was electronically processed.

However, there are encouraging signs of renewed interest in electronic processing of duties documents from our Newcastle, Wollongong and Parramatta offices, with recent figures showing up to 91 per cent of duties documents now being processed electronically.

We have made electronic processing more accessible to clients by expanding the number of document types that can be electronically processed on EDR.

We enhanced our EDR application interface to allow more efficient processing of electronic transactions and have significantly improved the stability of EDR systems.

We conducted 838 EDR audits during the year, covering 9085 EDR transactions. The audits demonstrated a high degree of compliance, with only 1.7 per cent of audited transactions revealing that additional duty needed to be paid. In such cases, we advised clients of the reasons for the incorrect assessments and directed them to the relevant legislation and rulings. Additional revenue identified by the audits amounted to \$616 000.

## **Duties cheque acceptance policy**

We introduced a revised cheque acceptance policy on 14 April 2008 to reduce the number of dishonoured personal cheques being presented. The new policy restricts the acceptance of personal cheques for amounts greater than \$50 for the payment of duties and electronic duties transactions.

Since this measure was introduced, the number of dishonoured personal cheques being presented has fallen by 90 per cent as at 30 June 2008.

## **Review of Client Service Providers**

EDR-approved clients send information to OSR through a Client Service Provider (CSP), who acts as an information broker.

We engaged consultants Deloitte Touche Tohmatsu (Deloitte) to conduct a compliance audit of our eight CSPs to determine their level of compliance with the terms and conditions specified in their contracts.

The audit results were generally favourable, but identified some areas of compliance which require strengthening, including some amendments to our contractual agreements.

## **Payroll tax collected**

We collected \$7027 million in payroll tax this year, compared to \$6400 million last year. The increase in payroll tax revenue can be attributed to the strong demand for highly skilled workers in a tight labour market, low levels of unemployment and strong employment growth in a number of key industries.

However, recent economic indicators point to a slowing of the economy with decreased consumer demand expected to contribute to a reduction in the demand for labour. As a consequence, we expect to see more subdued growth in payroll tax collections in 2008–09.

## **Payroll tax harmonisation**

A major initiative undertaken by the NSW and Victorian revenue offices was the introduction of harmonised payroll tax legislation on 1 July 2007. The legislation is designed to simplify the administration of payroll tax for companies operating in both States and reduce red tape.

We also worked closely with other States by providing technical assistance with their proposed payroll tax harmonisation legislation to ensure greater national consistency.

Both the NSW and Victorian revenue offices are committed to the harmonisation of payroll tax and making it as easy as possible for businesses operating in both States to conduct their business. A protocol has been signed committing both parties to the harmonisation legislation and detailing the general principles for maintaining the legislation and administration supporting it.

Over the next two years, we will work with the Victorian Revenue Office on administrative harmonisation across 14 key areas, including interest and penalty, private rulings, website content and publications, client education programs and objections and appeals.

## Land tax collected

We collected \$1997 million in land tax revenue, a slight increase on the \$1955 million collected last financial year.

The rate for land tax was reduced from 1.7 per cent to 1.6 per cent for 2008, however, there were no significant legislative changes for land tax in 2008.

We commissioned management consultants KPMG to conduct an independent review of the administration of land tax to advise on how we can improve client service and reduce the cost to collect land tax. This report will be delivered early next financial year and its recommendations implemented over the next two financial years.

### Electronic land tax valuation and clearance certificates

Currently nearly 70 per cent of land tax valuation and clearance certificates are processed electronically. We are reviewing this process with the aim of increasing both the number of clients who apply electronically for a certificate and the number of electronic certificates issued.

The service is available through seven authorised Client Service Providers (CSPs) linked to our information systems.

## Federal tax equivalent collected

We collected \$751 million in revenue from agencies and subsidiaries liable to pay income tax equivalents under the National Tax Equivalent Regime (NTER) or the State Tax Equivalent Regime (STER).

The NTER agencies contributed \$732.1 million in revenue, with the balance coming from State TER agencies.

OSR monitors and audits the activities of State TER agencies in accordance with the Commercial Policy Framework.

## Gaming and racing revenue collected

Category	Actual 07–08	Budget 07–08	Actual 06–07	Budget 06–07
	\$m			
Hotel gaming	408	438	447	454
Club gaming	596	623	663	655
Totalizators	141	154	146	156
Keno	8	8	8	8
Fixed odds sportsbets	6	5	6	4
Footy TAB	1	1	1	1
Fixed odds futures	0	0	0	0
Racing and sports betting tax	–	–	–	–
<b>Total gaming and racing</b>	<b>1 160</b>	<b>1 229</b>	<b>1 271</b>	<b>1 278</b>

We collected \$1160 million in gaming and racing revenue on behalf of the NSW Office of Liquor, Gaming and Racing, a decrease from \$1271 million collected the previous year.

The reduction in collections was due in large part to the combined impacts of the equine influenza outbreak on racing revenues throughout the State and the introduction of smoking bans in clubs and hotels on gaming revenues.

## Gaming – Assistance for clubs experiencing hardship

The NSW Government announced an assistance package in May 2008 for clubs suffering financial hardship. Under the arrangements, clubs that have experienced a downturn in gaming machine revenue of 15 per cent or more can seek approval to pay their gaming machine tax in three equal monthly instalments without being charged interest.

Fifty-nine clubs with a total gaming machine liability of \$12.8 million received assistance and are paying the May quarter liability by monthly instalments.

The scheme will operate until May 2009.

## Parking Space Levy collected

We collected \$51 million in parking space levy on behalf of the NSW Ministry of Transport. This is an increase from \$48 million last year due largely to the annual CPI indexation of levy rates.

## Tax objections received 2007–08

Clients who are dissatisfied with their assessment or certain decisions of the Chief Commissioner of State Revenue can lodge an objection and have the assessment or decision reviewed.

The following table shows the number of tax objections received for the past four financial years from 2004–05 to 2007–08:

Revenue type	2007–08	2006–07	2005–06	2004–05
Land tax	3 520	3 598	5 593	4 677
Payroll tax	532	515	583	457
Duties	305	185	233	183
Parking space levy	21	89	120	54
<b>Total</b>	<b>4 378</b>	<b>4 387</b>	<b>6 529</b>	<b>5 371</b>

Number determined	2007–08		2006–07		2005–06		2004–05	
	Allowed/ Part allowed	Disallowed	Allowed/ Part allowed	Disallowed	Allowed/ Part allowed	Disallowed	Allowed/ Part allowed	Disallowed
Land tax	1 171	2 232	1 654	2 695	2 008	3 254	1 459	2 753
Payroll tax	76	503	128	535	120	291	122	329
Duties	46	130	65	138	60	149	41	129
Parking space levy	2	23	6	84	24	85	12	35
<b>Total</b>	<b>1 295</b>	<b>2 888</b>	<b>1 853</b>	<b>3 452</b>	<b>2 212</b>	<b>3 779</b>	<b>1 634</b>	<b>3 246</b>
<b>Percentage</b>	<b>31%</b>	<b>69%</b>	<b>35%</b>	<b>65%</b>	<b>37%</b>	<b>63%</b>	<b>33%</b>	<b>67%</b>

**Note:** The total number of objections determined may not add up to the number of tax objections received for that year, as some are determined the following year.

## Taxation Hardship Review Board

The Taxation Hardship Review Board considers applications from clients for relief from their liabilities, on the basis of financial hardship.

The Board members include delegates from the Auditor-General, the Secretary of the Treasury and the Chief Commissioner of State Revenue.

In 2007–08, the Board considered 27 applications for relief with a combined value of \$1 322 996.

Full relief was granted to one applicant owing a total of \$2276. Three applicants had their interest and penalty waived. In addition, one applicant had debts deferred.

Relief was declined in 22 cases.

## Administrative Decisions Tribunal

Clients who are dissatisfied with an objection decision can have the matter independently reviewed by the Administrative Decisions Tribunal (ADT).

### Administrative Decisions Tribunal deliberations

In 2007–08, 151 appeals against decisions of the Chief Commissioner were finalised. Twelve cases were upheld in favour of the appellant.

The following table shows the number of appeals received, finalised and upheld by the ADT from 2004–05 to 2007–08.

Revenue type	2007–08			2006–07			2005–06			2004–05		
	No. Rec'd	No. finalised	No. upheld	No. Rec'd	No. finalised	No. upheld	No. Rec'd	No. finalised	No. upheld	No. Rec'd	No. finalised	No. upheld
Land tax	56	41	4*	62	41	–	39	42	2	48	35	1
FHOGS	31	58	7	54	65	3	53	48	2	52	35	6
Duties	12	18	1	15	16	1	22	32	5	28	15	2
Payroll tax	16	26	–	37	13	–	8	9	1	11	21	1
Parking space levy	4	8	–	4	1	–	9	3	1	2	–	–
Others	–	–	–	2	1	–	3	4	–	3	2	–
<b>Total</b>	<b>119</b>	<b>151</b>	<b>12</b>	<b>174</b>	<b>137</b>	<b>4</b>	<b>134</b>	<b>138</b>	<b>11</b>	<b>144</b>	<b>108</b>	<b>10</b>

\* The Chief Commissioner has appealed two land tax decisions.

## Revenue collected from compliance activities

To ensure all revenue due is collected, we have a compliance program which is an integral component of our revenue administration. Our compliance activities enable the Government to fund a wide range of essential government services and to meet priority P5 of the NSW State Plan of maintaining the State's AAA credit rating.

### Compliance Program 2007–08

Our compliance activities focus on non-compliant areas identified as being of high risk. This year our compliance activities identified \$286 million in additional revenue, with a particular focus on:

- identifying and contacting individuals and businesses not currently registered within the tax system, but who are likely to have a liability
- identify clients who may have understated their liabilities through a program of desk and field audits
- identifying recipients of the First Home Owner Grant and First Home Plus schemes who do not satisfy the eligibility requirements
- prosecuting serious breaches of the legislation we administer.

We use data matching and data mining techniques incorporating data from third parties to select clients for reviews and audits. These techniques help reduce inconvenience to those clients who comply with their obligations and optimise allocation of our investigative resources.

During the year, we continued our focus on auditing registered payroll tax clients who may have understated their liabilities. We completed 2100 desk and field audits which resulted in the identification of an additional \$56.3

million in payroll tax revenue including \$10.1 million from a specific audit project that focused on the payroll tax grouping provisions. We plan to maintain our focus on compliance with grouping provisions during 2008–09.

We contacted over 4000 employers who were not registered for payroll tax but whom we believed may have had a payroll tax liability. Some 1640 employers were advised of their payroll tax obligations and registered for payroll tax. We issued assessments totalling \$50.3 million to these new clients.

We investigated over 25 000 properties that were either not assessed for land tax or we believed had an incorrect exemption applied. This resulted in over 10 741 land owners registering for land tax and the issuing of \$130.2 million in land tax assessments.

Investigations of dutiable transactions identified \$5.9 million in additional duties revenue. Our duties project also included a continuation of our data matching program with Land and Property Information to identify unstamped or incorrectly stamped transfers.

To assist clients to comply, we publish a range of information and tools to ensure clients understand their obligations and the benefits they are entitled to. Tax and duties calculators and online services for easy lodgement and payment are also available.

Tax update seminars are held in metropolitan and regional areas to inform businesses, solicitors, accountants and professional advisers of changes and issues relating to the legislation we administer. E-learning payroll tax modules also assist clients with their understanding and knowledge of this tax. Clients can also register to receive email alerts regarding changes to NSW tax and duties legislation.

For First Home Benefits compliance program see page 33.

## Overdue debt – tax and duties

In 2007–08, we achieved our target of the level of overdue debt being less than one per cent of annual tax and duties revenue. At 30 June 2008, overdue debt was \$159.5 million, which represents 0.97 per cent of annual tax and duties revenue. This is the first time since 2003–04 that our overdue debt at year end was less than one per cent of annual revenue.

Our improved debt management performance was due to a focus on payroll tax and land tax debts and effectively targeting larger debt cases. Our focus on payroll tax debt was particularly successful, with the level of overdue payroll tax debt decreasing by 26 per cent during 2007–08. Other effective debt management strategies included the instigation of legal proceedings where warranted and garnisheeing of mortgages to recover land tax debts.

## Write-offs

Tax and duties write-offs during the year totalled \$32.5 million, which equates to 0.2 per cent of annual tax and duties revenue. This was a significant increase over the previous year when \$13.8 million of tax and duties debt was written-off.

The increase in debts written-off in 2007–08 was mainly due to our focus on payroll tax debt and an associated review of insolvency matters, which resulted in us writing off debts where we had received confirmation that a dividend would not be paid to creditors. Payroll tax write-offs accounted for 72 per cent of the total debt written off in 2007–08.

We are constantly reviewing our debt management strategies in order to minimise the level of debt written off. We exhaust all avenues of debt recovery before the debt is deemed irrecoverable and written off.