4 Revenue

Features

- The COVID-19 pandemic and resulting economic impacts substantially reduced the state's revenues across 2019–20 and 2020–21 compared with pre-pandemic forecasts in the 2019–20 Mid-Year Fiscal and Economic Review. However, in line with the substantially improving economic conditions since mid-2020, revenue is expected to rebound strongly in 2021–22 and remain at relatively elevated levels over the forward estimates.
- Total key revenues of taxes, royalties and GST are expected to be $10.067 billion (29.4 per cent) higher in 2021–22 than they were in 2020–21.
- However, some key revenues are expected to be volatile over the forecast period. The substantial increases in royalties and transfer duty in 2021–22, due to high coal and oil prices and the housing boom respectively, are expected to unwind from 2022–23 onwards, as commodity prices and housing activity normalises.
- General Government Sector revenue is estimated to total $72.735 billion in 2021–22, up $10.003 billion (15.9 per cent) compared with 2020–21 and $9.071 billion (14.2 per cent) higher than estimated in the 2021–22 Queensland Budget. The substantial upward revision to 2021–22 revenue from the 2021–22 Budget estimates is largely driven by:
  - a $5.794 billion increase in royalties and land rents, reflecting the unprecedented surge in coal and oil prices across early 2022
  - a $2.101 billion increase in taxation revenue, reflecting much stronger than expected domestic activity, particularly the strength of residential property transactions.
- In 2022–23, General Government Sector revenue is estimated to total $73.886 billion, an increase of $1.151 billion (1.6 per cent) compared with 2021–22.
  - This moderate growth largely reflects an expected $1.302 billion decline in royalties and land rents, as the temporary surge in coal and oil prices begins to unwind and prices begin to return to levels consistent with medium-term expectations.
  - This is expected to be more than offset by an increase in GST revenue, reflecting an increase in the GST pool as the national economy continues to recover as well as Queensland receiving an increased share of the GST pool compared to 2021–22.
- Australian Government payments to Queensland in 2022–23 are expected to total $34.925 billion, an increase of $1.907 billion (5.8 per cent) compared with payments in 2021–22. This increase is primarily driven by the increase in GST revenue.
- Total revenues are expected to grow at an average annual rate of 1.8 per cent over the 4 years to 2025–26, or 4.5 per cent over the 5 years to 2025–26.
- A number of measures are being introduced in the 2022–23 Queensland Budget to provide sustainable funding for mental health and other key services, as well as the racing industry. These measures will also provide tax relief for small to medium employers and businesses that employ apprentices and trainees, as well as removing additional foreign acquirer duty for foreign retirement visa holders buying a principal place of residence.

- An increase in royalty rates at higher coal prices will provide a fairer return to Queenslanders from this resource, especially if very high prices continue.
- Importantly, Queensland is maintaining its competitive tax status, with per capita state tax estimated to be $647 below the average of other states and territories in 2020–21.

4.1 2021–22 estimated actual

General Government Sector revenue is estimated to be $72.735 billion in 2021–22, $9.071 billion (14.2 per cent) higher than forecast at the time of the 2021–22 Queensland Budget.

The substantial upward revision to 2021–22 revenue from the 2021–22 Budget estimates is largely driven by:

- a $5.794 billion increase in royalties and land rents, reflecting the unprecedented surge in coal and oil prices across early 2022
- a $2.101 billion increase in taxation revenue, reflecting much stronger than expected domestic activity, particularly the strength of residential property transactions.

The substantial increase in General Government Sector revenue expected in 2021–22 represents growth of 15.9 per cent compared with 2020–21. This is the strongest rate of growth in General Government Sector revenue since 2008–09, reflecting the combination of factors outlined above.

Total key revenues of taxation, GST, and royalties are estimated to be 29.4 per cent higher in 2021–22 compared to 2020–21.

However, there is expected to be volatility in some key revenues over the forecast period. In particular, the substantial increase in royalties and transfer duty in 2021–22, due to the exceptionally high coal and oil prices and the housing boom respectively, are both expected to unwind from 2022–23 onwards as key commodity prices and housing activity normalise.

4.2 2022–23 Budget and outyears

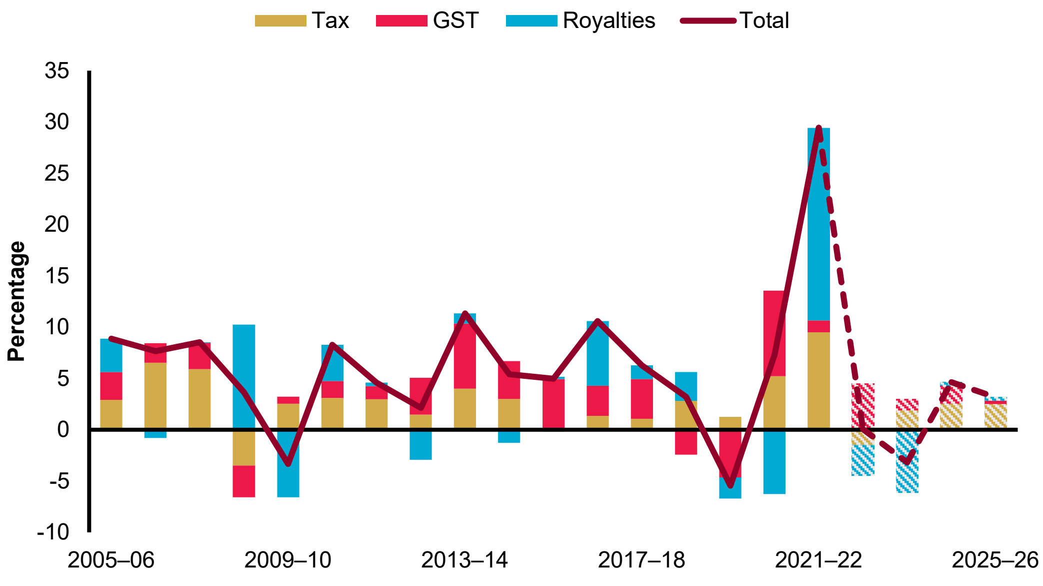
General Government Sector revenue is forecast to increase by $1.151 billion (1.6 per cent) in 2022–23, to be $73.886 billion, as outlined in Table 4.1. This modest revenue increase is due to:

- a $1.302 billion fall in royalties and land rents reflecting the expectation that the currently elevated prices for coal and oil return to levels more consistent with medium-term expectations
- this is more than offset by a $1.998 billion increase in GST revenue reflecting growth in the national GST pool and an increase in the share of the pool.

As a result, total key revenues (taxes, GST and royalties) are forecast to remain stable in 2022–23 (growing by less than 0.1 per cent), and then decline by 3.2 percent in 2023–24 as royalty revenue normalises.

Chart 4.1 examines the growth in revenue across the 3 key revenue streams and the share of growth attributable to each key revenue item.

Chart 4.1 Growth in key revenues[1]



Note:

1. Annual contribution to growth in key revenues. Total is the annual growth of the sum of the 3 categories.

While taxation revenue is forecast to be $658.2 million (3.4 per cent) lower in 2022–23 than in 2021–22, taxation revenue is forecast to grow by 6.2 per cent per annum on average over the period 2020–21 to 2025–26. This is slightly above the average growth of 4.5 per cent in the decade to 2019–20, reflecting in part the benefit of higher house prices on stamp duty in the recent housing cycle.

Royalties and land rents are expected to decline by 14.3 per cent in 2022–23, and then decline by a further 34.7 per cent in 2023–24. This reflects the expectation that coal and oil prices will return from recently elevated levels to reach more sustainable levels in 2023.

Royalties and land rents are then expected to grow by 2.7 per cent in 2024–25 and 2025–26, primarily reflecting an expected increase in coal export volumes over time.

Queensland's GST revenue is estimated to grow by 12.6 per cent in 2022–23 and is forecast to continue to grow on average by 5.0 per cent per annum over the 4 years ending 2025–26.

This increase in expected GST revenue is largely driven by growth in the national GST pool. The 2022–23 Federal Budget forecast the GST pool to grow by 9.1 per cent in 2022–23 and around 4.5 per cent per annum on average over the 3 years ending 2025–26, reflecting the expected ongoing growth in taxable consumption. However, growth in Queensland's estimated GST share is estimated to be somewhat lower than this due to the impacts in later years of the recent higher Queensland royalties revenue on Queensland's future GST share.

Reflecting this combination of factors and changes in key revenues, total General Government revenue growth is expected to average 4.5 per cent per annum over the 5 years to 2025–26.

The more-steady growth in overall revenue forecast in 2023–24 and beyond reflects the expected return to more normal economic conditions and activity levels over the forecast period.

Table 4.1 details Queensland's total General Government Sector revenue by component across the forward estimates period.

Table 4.1 General Government Sector revenue[1]

	2020–21 Actual $ million	2021–22 Budget $ million	2021–22 Est. Act $ million	2022–23 Budget $ million	2023–24 Projection $ million	2024–25 Projection $ million	2025–26 Projection $ million
Taxation revenue	16,249	17,399	19,500	18,842	19,700	20,785	21,905
Sales of goods and services	6,063	6,062	6,032	6,181	6,521	6,253	6,316
Interest income	1,948	2,537	2,561	2,847	2,910	2,984	3,037
Grants revenue							
GST revenue	15,419	15,616	15,813	17,811	18,270	19,039	19,200
Australian government and other grants and contributions	14,147	13,749	14,903	14,561	15,633	15,936	16,403
Australian Government capital grants, other grants and contributions	3,447	2,571	2,661	2,870	3,877	3,300	3,115
Dividend and income tax equivalent income							
Dividends	831	659	193	928	973	718	729
Income tax equivalent income	480	482	479	572	599	514	466
Other revenue							
Royalties and land rents	2,662	3,341	9,135	7,832	5,112	5,251	5,392
Other	1,485	1,248	1,459	1,442	1,440	1,948	1,455
Total revenue	**62,732**	**63,664**	**72,735**	**73,886**	**75,034**	**76,728**	**78,019**

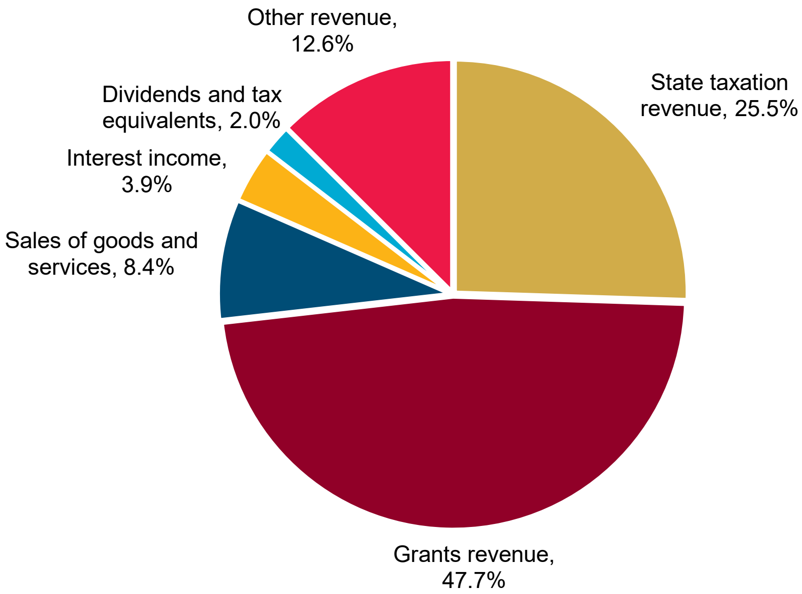
Note:

1. Numbers may not add due to rounding.

The major sources of total General Government Sector revenue in 2022–23 are grants revenue, which includes GST revenue and Australian Government Grants and other grants and contributions (47.7 per cent), and taxation revenue (25.5 per cent).

Chart 4.2 illustrates the expected composition of General Government Sector revenue in 2022–23.

Chart 4.2 Revenue by operating statement category, 2022–23[1,2]



Notes:

1. Numbers may not add up to 100 per cent due to rounding.
2. Chart prepared in line with Operating Statement categories. 'Other revenue' includes royalties and land rents, which comprise 10.6 per cent of total revenues.

4.3 Budget initiatives

A number of revenue measures have been announced as part of the 2022–23 Queensland Budget, including specific measures aimed at providing sustainable funding to support the delivery of mental health and other essential government services, and to fund the racing industry.

Other revenue related measures in this Budget will provide payroll tax relief for thousands of small and medium Queensland businesses, support businesses across the state that employ apprentices and trainees, and provide foreign acquisition duty relief for foreign buyers who are retirement visa holders when purchasing their principal place of residence.

Mental health levy

A mental health levy will be introduced to meet increasing demands for mental health services. The levy, to apply to payroll tax liabilities arising on or after 1 January 2023, will be applied to large employers, or groups of employers, with annual Australian taxable wages over $10 million, including an additional levy applied to taxable wages over $100 million, providing a sustainable funding source for mental health services. More information on the mental health levy can be found in Box 4.1.

Payroll tax relief for small to medium employers

Substantial payroll tax relief will be provided for many small and medium businesses, by increasing the payroll tax deductions available to employers, or groups of employers, with annual Australian taxable wages of between $1.3 million and $10.4 million. These changes are proposed to apply to payroll tax liabilities arising on or after 1 January 2023. More information on this measure can be found in Box 4.2.

Racing levy

To ensure ongoing sustainable funding of Queensland's racing industry, a 5 per cent racing levy will be applied to the betting tax rate and bonus bets will be incorporated into the calculation of betting tax for liabilities arising on or after 1 December 2022. Taxing bonus bets will bring Queensland into line with betting tax arrangements in all other jurisdictions, other than Tasmania. The proportion of betting tax revenue allocated to the racing industry will also increase from the current 35 per cent to 80 per cent.

More information on this measure can be found in Box 4.4.

Progressive coal royalty rates

To ensure that during future periods of high coal prices the royalty return to the state is appropriate in line with the usage of the state's valuable natural resources, 3 additional progressive coal royalty rates will apply. The new tiers will apply on that part of the average price per tonne of the coal sold, disposed of or used on or after 1 July 2022 as follows: 20 per cent for prices exceeding A$175, 30 per cent for prices exceeding A$225, and 40 per cent for prices exceeding A$300. More information on this measure can be found in Box 4.6.

Foreign retirement visa holders buying their homes

Retirement visa holders will be exempt from additional foreign acquirer duty for purchases of their principal place of residence on or after 1 January 2023. This change will ensure that, subject to conditions, holders of retirement visas who purchase a home will not be subject to a surcharge rate of duty, and only duty at standard concessional rates will apply to eligible transactions.

Payroll tax rebate for apprentices and trainees

The 50 per cent payroll tax rebate for wages paid to apprentices and trainees will be extended for 12 months until 30 June 2023. In addition to apprentice and trainee wages generally being exempt from payroll tax, this rebate will provide additional support to employment in the ongoing recovery from COVID-19, in particular supporting youth employment and businesses who employ trainees and apprentices.

4.4 Revenue by operating statement category

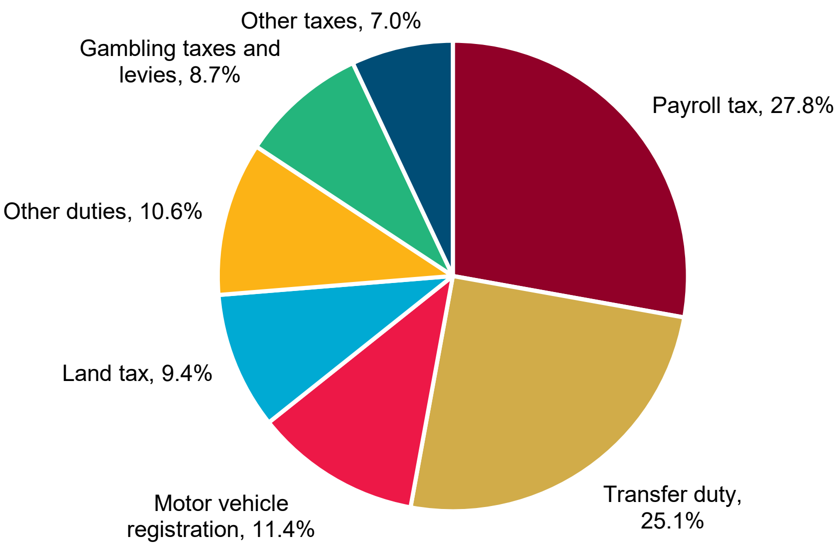
4.4.1 Taxation revenue

Chart 4.3 outlines the composition of estimated state taxation revenue for 2022–23, with the largest sources being payroll tax and transfer duty, together representing 52.9 per cent of the state's total taxation revenue.

Payroll tax generally has a relatively stable base, with its growth usually driven by the underlying strength of the economy. Transfer duty can be variable, reflecting residential and non-residential market conditions.

Land tax growth can also reflect variability in the property market but is generally more stable than most other tax lines due to the relatively stable base and the effect of assessments being based on 3-year averages of land values.

Chart 4.3 State taxation by tax category, 2022–23[1]



Note:

1. Percentages may not add to 100 per cent due to rounding. 'Other duties' includes vehicle registration duty, insurance duty and other minor duties. 'Other taxes' includes the emergency management levy, waste disposal levy, guarantee fees and other minor taxes.

Table 4.2 shows the main components of taxation revenue and the forecast revenues for each component across the forward estimates.

Total taxation revenue is expected to grow by 20.0 per cent in 2021–22. Improved taxation receipts in 2021–22 are primarily being driven by strong growth in transfer duty, payroll tax and land tax.

The growth in transfer duty reflects the combined impacts of significant increases in transaction volumes and the strong growth in dwelling prices over the year, as well as a recovery in collections from large and non-residential transactions. The strong growth in payroll tax reflects the strong labour market conditions in Queensland. The performance of the property market has also resulted in significant increases in land valuations that are flowing through to land tax collections.

Taxation revenue is expected to decline by 3.4 per cent in 2022–23 due to lower transfer duty as property transactions moderate from their elevated levels of activity, along with a slowing of turnover in large transactions from their 2021–22 levels.

Total taxation revenue is forecast to grow on average by around 5.1 per cent per annum across the 3 years ending 2025–26.

Table 4.2 State taxation revenue[1]

	2020–21 Actual $ million	2021–22 Est. Act $ million	2022–23 Budget $ million	2023–24 Projection $ million	2024–25 Projection $ million	2025–26 Projection $ million
Payroll tax	4,166	4,957	5,242	5,766	6,022	6,289
Duties						
Transfer	3,954	6,028	4,722	4,442	4,757	5,233
Vehicle registration	662	684	645	665	685	712
Insurance[2]	1,095	1,249	1,311	1,376	1,444	1,503
Other duties[3]	31	32	32	33	33	35
Total duties	**5,742**	**7,994**	**6,711**	**6,515**	**6,919**	**7,482**
Gambling taxes and levies						
Gaming machine tax	821	816	819	843	869	903
Health services levy	121	112	109	117	127	132
Lotteries taxes	359	366	372	383	395	410
Wagering taxes	157	160	201	247	254	261
Casino taxes and levies	107	114	124	139	143	149
Keno tax	22	21	22	22	23	23
Total gambling taxes and levies	**1,586**	**1,589**	**1,646**	**1,752**	**1,810**	**1,879**
Other taxes						
Land tax	1,524	1,603	1,773	2,019	2,268	2,365
Motor vehicle registration	2,011	2,074	2,152	2,232	2,315	2,401
Emergency management levy	581	599	624	649	676	704
Waste disposal levy	303	331	339	407	420	433
Guarantee fees	292	307	320	323	317	314
Other taxes[4]	44	46	36	37	38	39
Total taxation revenue	**16,249**	**19,500**	**18,842**	**19,700**	**20,785**	**21,905**

Notes:

1. Numbers may not add due to rounding.
2. Includes duty on accident insurance premiums.
3. Includes duty on life insurance premiums.
4. Includes the statutory insurance scheme levy and nominal defendant levy.

Payroll tax

Payroll tax collections have improved substantially in line with the strong rebound in economic and labour market conditions in Queensland following the initial COVID-19 crisis in mid-2020. Payroll tax is expected to be 19.0 per cent higher in 2021–22 compared to 2020–21, reflecting the lower base in 2020–21 due to COVID-19 relief measures, and strong growth in employment and a strengthening of wages growth in 2021–22.

Payroll tax is expected to grow by 5.8 per cent in 2022–23 and average annual growth of around 6.1 per cent is forecast over the 4 years ending 2025–26. This is broadly in line with the expected ongoing solid employment and wage growth over the forward years and also reflects the impact of the mental health levy.

As outlined earlier, the 50 per cent payroll tax rebate for wages paid to apprentices and trainees will be extended for 12 months until 30 June 2023.

Box 4.1 Supporting mental health services

The Mental Health Select Committee, in its report to Parliament – *Report No. 1, 57th Parliament – Inquiry into the opportunities to improve mental health outcomes for Queenslanders* – identified significant opportunities to improve the mental health and wellbeing of Queenslanders, including:

- greater involvement of people with lived experience in the system
- greater use of health data to inform service delivery
- expanded GP and other community-based mental health services
- greater support services in schools
- expanding alternative entry points and emergency department diversion services
- utilising health practitioners' full scope of practice.

Queensland Health advised the Committee that it spent an estimated $1.35 billion on mental health in 2020–21 and a further $139 million on alcohol and other drug (AOD) services. Even so, the Committee considered it was evident that to reform Queensland's mental health and AOD system, a substantial increase in investment is required.

In the 2022–23 Queensland Budget, the government is providing an additional $1.645 billion in operating funding plus an additional $28.5 million in capital funding to support initiatives under a new 5-year plan *Better Care Together: a plan for Queensland's state-funded mental health, alcohol and other drug services*, and to meet Queensland's obligations under the *National Agreement on Mental Health and Suicide Prevention*.

To fund the enhancements to mental health services, and to provide ongoing sustainable funding for this critical element of the state's health system, a mental health levy will be applied to payroll tax liabilities arising on or after 1 January 2023, but will only be applicable to large employers, or groups of employers, with annual Australian taxable wages over $10 million and an additional levy applied to Australian taxable wages over $100 million.

The mental health levy will be applied as follows:

- a 0.25 per cent levy on the annual Australian taxable wages of employers, or groups of employers above $10 million
- an additional 0.5 per cent levy on the annual Australian taxable wages of employers, or groups of employers, above $100 million.

Given this reform is a specific levy, as distinct from a change in tax rates, the levy will only apply to the portion of the wages above the respective taxable wage amounts (i.e. on a marginal basis).

The levy is estimated to provide annual revenue of $425 million by 2025–26. The revenue raised from the levy will be utilised as a funding source for future expenditure on mental health and associated services and investment.

Queensland's payroll tax exemption threshold of $1.3 million threshold is one of the highest thresholds of all states and territories, meaning that most small businesses would not be liable for payroll tax. Additionally, the standard rate of 4.75 per cent is one of the lowest tax rates compared to other jurisdictions, and there is a one percentage point discount for eligible regional employers.

There is also a deduction available for employers between the exemption threshold of $1.3 million and the current deduction threshold of $6.5 million that reduces the amount of tax payable between this wage range.

Box 4.2 Tax relief for small and medium businesses

Small and medium businesses are the backbone of Queensland's economy and comprise more than 99 per cent of businesses operating across the state.

Many small and medium enterprises have been severely impacted over the past few years, due to the COVID-19 pandemic and the related health and border restriction measures, as well as natural disasters.

A number of these businesses are also experiencing higher input costs and constraints to grow their operation and workforce, given the tight national labour market and ongoing global supply chain disruptions.

In recognition of the important role that small to medium businesses play in the Queensland economy, the government is providing payroll tax relief to small and medium businesses across the state, through adjustments to the existing payroll tax deduction framework from 1 January 2023.

This targeted payroll support measure will help to minimise the cost pressures on eligible businesses and provide confidence to those businesses to employ additional Queenslanders to take advantage of economic opportunities that are emerging strongly across the state.

Under the current regime, employers, or groups of employers, with annual Australian taxable wages between $1.3 million and $6.5 million can claim a deduction from their taxable wages, which phases out at a rate of $1 for every $4 of taxable wages above the $1.3 million threshold.

The deduction will be extended from the current ceiling of $6.5 million in annual Australian taxable wages up to $10.4 million, reflecting an increase in the phase out rate of the deduction from $1 for every $4 to a rate of $1 for every $7 of taxable wages above the $1.3 million threshold.

This reform is estimated to benefit over 12,000 Queensland businesses and will save a business paying $6.5 million in annual taxable wages over $26,000 in payroll tax each year (Table 4.3).

Table 4.3 Tax savings for indicative annual taxable wages

Annual taxable wages ($)	Tax saving[1] ($)
2,000,000	3,563
4,000,000	13,741
6,000,000	23,920
6,500,000	26,464
8,000,000	16,971
10,000,000	2,829

Note:

1. This represents a full 12 month saving, noting that this policy will only be implemented for a part year in 2022–23. Based on standard tax rates.

Duties

Transfer duty

Transfer duty is charged on 'dutiable transactions', including transfers of land in Queensland or Queensland business assets.

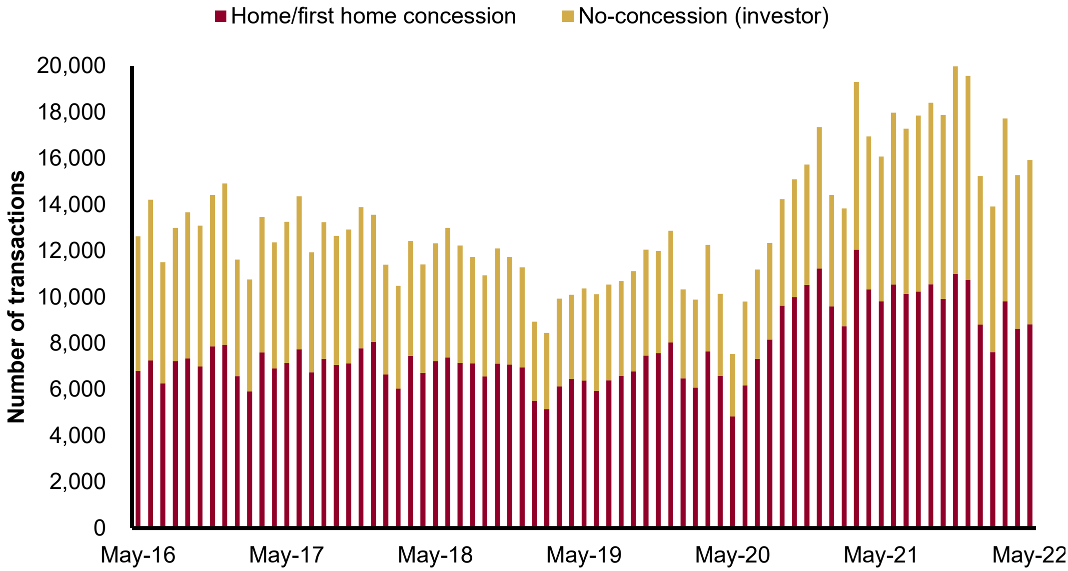
The Queensland Government offers extensive concessions for the transfer of land where the property is purchased as a home. This means eligible home buyers pay a one per cent concessional rate on the first $350,000 of dutiable value, rather than the normal scheduled rates of between 1.5 per cent and 3.5 per cent.

If a first home buyer purchases a property up to $500,000 they will pay no duty, with reduced rates available up to $550,000.

Transfer duty is estimated to be 52.5 per cent higher in 2021–22 compared with 2020–21, driven by substantial increases in prices and transaction volumes. This reflects strong activity in the residential housing sector since mid-2020, with transactions in all components of the residential market (investors, principal place of residence and first home buyers) showing significant growth, although first home activity has slowed following expiry of the Homebuilder grant.

As shown in Chart 4.4, residential transactions have grown strongly since the peak of the emergency health restrictions required to control the initial spread of COVID-19 in April 2020.

Chart 4.4 Residential property transactions by concession type (monthly)



The level of transfer duty collections in 2022–23 is expected to unwind somewhat as residential housing market activity declines but is still forecast to remain well above previous levels. Residential transaction volumes, which exceeded 207,000 in the 12 months to May 2022 compared to an average of around 149,000 in the previous 5 years, are expected to moderate following the recent surge in activity and in the context of expected future interest rate increases.

As a result, transfer duty is forecast to decline by 21.7 per cent in 2022–23 and by a further 5.9 per cent in 2023–24. However, transfer duty revenue in those years is still expected to remain well above 2019–20 and 2020–21 levels.

After moderating in the near term, transfer duty from the non-residential sector is forecast to grow steadily over subsequent years, supporting a return to overall growth in 2024–25 and 2025–26.

Vehicle registration duty

Vehicle registration duty applies to applications to register or transfer a vehicle. Duty is imposed on the dutiable value, with the applicable rate dependent on the type of vehicle. An additional amount of registration duty is imposed on applications to register or transfer vehicles (other than special vehicles or heavy vehicles) with a dutiable value of more than $100,000.

Revenue from vehicle registration duty in 2021–22 is expected to be 3.4 per cent higher than in 2020–21, driven by the continued strength in vehicle sales in line with the high levels of broader consumption expenditure experienced as part of the recovery from COVID-19.

Vehicle registration duty is expected to decline by 5.7 per cent in 2022–23, reflecting a return to more normal levels of vehicle transactions as the impact of COVID-19 stimulus measures and the expenditure switching from overseas travel restrictions abates. Vehicle registration duty is then forecast to grow by around 3.3 per cent per annum.

Land tax

Land tax is imposed on the taxable value of a landowner’s aggregated holdings of freehold land owned in Queensland, as at midnight on 30 June each year. The landowner’s home and some other specified types of landholdings are exempt.

Individuals other than absentees are generally liable for land tax if the total taxable value of the freehold land owned by that person as at 30 June is equal to or greater than $600,000. Companies, trustees and absentees are liable for land tax if the total taxable value of the freehold land owned as at 30 June is equal to or greater than $350,000.

Land tax is expected to grow by 5.2 per cent in 2021–22 and 10.6 per cent in 2022–23, with the 2022–23 forecast driven by the impact of the solid land value growth expected in line with the current strength of the residential property market. The impact of 3-year averaging of land valuations has moderated the uplift in 2022–23 but additional value growth is expected in the next valuation, resulting in further land tax growth in 2023–24.

Average annual growth of 10.1 per cent is forecast for land tax over the 3 years ending 2025–26, reflecting the flow-on impact of recent and expected ongoing increases in land valuations due to the strength of the residential and non-residential property market.

Box 4.3 Queensland’s competitive land tax settings

Despite the recent increases in land values around the nation, the current threshold and exemptions in Queensland ensures that most landowners won’t have a land tax liability, and those with small investment property holdings generally have only a minimal land tax liability.

The thresholds at which land tax becomes payable in Queensland are among the most generous in Australia. For individuals, the land tax-free threshold of $600,000 is the second highest in the country.

The generosity of Queensland’s land tax thresholds is even more apparent when the threshold is put in the context of land values. Queensland’s threshold is competitive having regard to its comparative average dwelling and associated land values. Several other jurisdictions have land tax thresholds that are a much lower proportion of average prices.

Depending on the ownership and use of the land, a range of exemptions may be available meaning the value of exempt parcels is excluded from the total taxable value, reducing the amount you pay.

In particular, the key exemption is for the principal place of residence (the dwelling you live in), meaning that most Queensland homeowners have no liability for land tax. In addition, land tax in Queensland is subject to a system of 3-year averaging of the land value, which helps further reduce the impacts of increasing land values on the tax payable by landholders.

On a comparative basis, landowners in Queensland may be liable for much lower land tax than in other states. For example, an indicative landowner with taxable holdings of $4.5 million in Queensland, would pay $2,698 less than in NSW, $9,975 less than in Victoria and at least $1,300 less than in Western Australia.

Gambling taxes and levies

A range of gambling activities are subject to state taxes and levies. Total gambling tax and levy collections are only expected to be 0.2 per cent higher in 2021–22 compared with 2020–21. This largely reflects the moderation in collections from their elevated levels in 2020–21 as they rebounded from the COVID-19 related weakness on gambling activity in 2019–20.

Total gambling tax and levy collections are expected to grow by 3.6 per cent in 2022–23, largely due to the half year impact of the new racing levy. Average annual growth of 4.5 per cent is forecast for gambling tax revenue over the 3 years ending 2025–26.

Box 4.4 Sustainable funding of the racing industry

On 6 June 2022, the government announced a new funding model to ensure ongoing sustainable funding for Queensland's racing industry.

The new model recognises the significant changes that have occurred in the wagering market through the growth in online betting and will ensure all wagering operators are making an appropriate contribution to the future of the racing industry.

The changes will support 125 racing clubs across Queensland, particularly country racing clubs which play an important role in regional communities. Across the state, 85 communities host a race meeting which is their largest or second largest event each year.

Key elements of the reform are outlined below:

- applying a 5 per cent racing levy additional to the betting tax
- taxing bonus bets or free bets
- hypothecating 80 per cent of total betting tax revenue to Racing Queensland.

The 5 per cent racing levy and taxing of bonus bets are expected to raise an additional $80 million per year. Taxing bonus bets will bring Queensland into line with betting tax arrangements in all other jurisdictions, other than Tasmania.

All additional revenue raised through the levy and taxing bonus bets will be allocated to Queensland's racing industry.

Raising the share of betting tax revenue allocated to the racing industry from the current 35 per cent to 80 per cent will provide certainty for the industry and the 6,500 direct jobs it supports by replacing a range of existing funding streams, including short-term government funding programs.

Long term funding certainty will provide the opportunity to increase prize money, enhance infrastructure and provide better training facilities.

The new funding arrangements will be implemented through amendments to the *Betting Tax Act 2018.* Subject to the passage of legislative amendments, it is proposed that the changes will take effect from 1 December 2022.

Waste disposal levy

The waste disposal levy commenced on 1 July 2019 and applies to 39 local government areas, covering more than 90 per cent of the state's waste generation and population. The levy is paid by landfill operators on waste disposed to landfill. Exemptions from the levy exist for particular waste, such as waste from declared disasters, waste donations to charitable recyclers and lawfully managed and transported asbestos.

The levy commenced at $75 per tonne for general waste and increased by $5 per tonne per annum in its first 3 years of operation. The first annual increase of $5 per tonne was deferred by 6 months to 1 January 2021 to provide financial relief from the impacts of COVID-19.

To help Queensland reach its waste recovery targets, changes to the waste levy will commence from 1 July 2022. These include dividing the existing levy zone into metropolitan and regional levy areas, which will have different annual levy rate increases for each levy area. Additionally, changes to levy exemptions for particular types of waste will take effect from 1 July 2023.

Revenue from the waste disposal levy is estimated to be $331 million in 2021–22, 9.1 per cent higher than in 2020–21. Revenue is forecast to grow by 2.3 per cent in 2022–23 reflecting regulated levy rate increases.

Seventy per cent of proceeds from the waste levy will be used for resource recovery and other programs that reduce the impact of waste and protect the environment and local communities.

Queensland's competitive tax status

Maintaining the competitiveness of Queensland's tax system is critical to provide a competitive advantage to business and to moderate the tax burden on citizens.

Maintaining a competitive tax regime is also fundamental to the Queensland Government's economic strategy and its commitment to creating more jobs in more industries and maintaining a competitive investment environment.

Importantly, as Chart 4.5 shows, taxation per capita in Queensland was lower in 2020–21 than the average taxation per capita in the other states and territories, highlighting the ongoing competitiveness of Queensland's taxation regime.

Based on the latest available actuals data from states and territories, Queensland's taxation per capita in 2020–21 was $647 less than the average of other jurisdictions.

On average, Queenslanders paid $1,067 less tax than New South Wales residents and $492 less than Victorian residents, as highlighted in Chart 4.5.

Chart 4.5 Taxation per capita, 2020–21

Sources: ABS Government Finance Statistics and ABS National, State and Territory Population.

Other measures of tax competitiveness include estimates by the Commonwealth Grants Commission (CGC) of Queensland's tax effort compared with other jurisdictions, and each state or territory's taxation revenue as a proportion of the respective size of its economy.

The CGC's revenue raising effort ratios are an indicator of the extent to which governments burden their revenue bases, with a lower ratio indicating a relatively lower taxation burden imposed by state taxes.

The CGC's 2022 update assessed that Queensland's tax effort in 2020–21 (latest available CGC estimate, based on 2020–21 data and using total tax revenue effort for CGC assessed taxes) was 1.6 per cent below the national average.

The third measure of tax competitiveness (that is, taxation as a share of GSP) also confirms that Queensland's taxes are highly competitive, being below the average of the other states and territories, and significantly lower than the major southern states.

Table 4.4 summarises the estimates of these 3 measures compared with other states and territories and demonstrates that the Queensland tax system is very competitive.

Table 4.4 Tax competitiveness, 2020–21

	NSW	VIC	Qld	WA	SA	TAS	ACT[4]	NT	Avg[5]
Taxation per capita[1] ($)	4,168	3,593	3,101	3,722	2,769	2,560	4,763	2,152	3,748
Taxation effort[2] (%)	102.2	97.9	98.4	99.8	93.8	90.7	148.9	76.1	100.0
Taxation % of GSP[3] (%)	5.3	5.0	4.4	2.8	4.2	4.0	4.7	2.1	4.5

Notes:

1. 2020–21 data (latest available actuals). Sources: *ABS Government Finance Statistics* and *ABS National, State and Territory Population*.
2. 2020–21 data (latest available). Source: Commonwealth Grants Commission 2022 Update - total tax revenue effort for assessed taxes (payroll, transfer duty, land tax, insurance duty and motor vehicle taxes). Revenue raising effort ratios are an indicator of the extent to which governments burden their revenue bases.
3. 2020–21 data (latest available). Sources: *ABS Annual State Accounts* and *ABS Government Finance Statistics*
4. Figures include municipal rates.
5. Weighted average of states and territories, excluding Queensland (aside from taxation effort, which is the average of all states).

Tax expenditures

Tax expenditures are reductions in taxation revenue that result from the use of the tax system as a policy tool to deliver government policy objectives. Tax expenditures are provided through a range of concessions, including tax exemptions, reduced tax rates, tax rebates, tax deductions and provisions which defer payment of a tax liability to a future period.

The substantial tax relief provided by the Queensland Government to Queensland businesses and property owners in response to the COVID-19 crisis resulted in significant tax expenditures in both 2019–20 and 2020–21. The Queensland Government continued to provide tax relief and concessions through a range of measures in 2021–22.

The Tax Expenditure Statement (Appendix B) provides details of tax expenditure arrangements provided by the Queensland Government.

4.4.2 Grants revenue

Grants revenue is comprised of Australian Government grants (including GST), grants from the community and industry, and other miscellaneous grants.

A 5.6 per cent increase in total grants revenue is forecast for 2022–23, primarily driven by increases in GST revenue but partially offset by decreases in Australian Government grants (Table 4.5).

Table 4.5 Grants revenue[1,2]

	2020–21 Actual $ million	2021–22 Est. Act $ million	2022–23 Budget $ million	2023–24 Projection $ million	2024–25 Projection $ million	2025–26 Projection $ million
Current grants						
GST revenue grants[3]	15,419	15,813	17,811	18,270	19,039	19,200
Australian Government grants	13,834	14,611	14,261	15,300	15,646	16,110
Other grants and contributions	312	292	301	333	290	293
Total current grants	**29,566**	**30,716**	**32,372**	**33,903**	**34,975**	**35,603**
Capital grants						
Australian Government capital grants	3,420	2,594	2,854	3,857	3,265	3,115
Other grants and contributions	27	66	17	20	35	0
Total capital grants	**3,447**	**2,661**	**2,870**	**3,877**	**3,300**	**3,115**
Total Australian Government payments	32,674	33,018	34,925	37,427	37,950	38,424
Total grants revenue	**33,013**	**33,376**	**35,242**	**37,780**	**38,275**	**38,718**

Notes:

1. Numbers may not add due to rounding.
2. Amounts in this table may differ to those outlined in Chapter 9 due to different classification treatments.
3. Includes entitlements to payments associated with the 'no worse off' guarantee as part of the Australian Government changes to the GST distribution.

GST revenue

Improvements in the national GST pool, along with an increase in Queensland's share of the pool, have been the key drivers of stronger forecasts for Queensland's GST revenue.

Queensland's GST revenue in 2021–22 is expected to be 2.6 per cent higher than 2020–21, with this growth primarily driven by Queensland receiving a larger share of the GST pool, with the GST pool being slightly larger (growing by less than one per cent) compared with 2020–21.

Queensland's GST revenue is expected to grow a further 12.6 per cent in 2022–23 compared with 2021–22. This increase in GST revenue is primarily due to:

- the Australian Government forecasting particularly strong 9.1 per cent growth in the national GST pool in 2022–23
- the Commonwealth Grants Commission recommending to the Australian Government that Queensland should receive a larger share of GST in 2022–23 compared with 2021–22.

GST revenue is forecast to continue to grow over the forward estimates, by 2.6 per cent in 2023–24, 4.2 per cent in 2024–25 and 0.85 per cent in 2025–26. This reflects the Australian Government's forecast growth in the GST pool over the forward estimates, which is partially offset by the expectation that Queensland's share of the GST pool will decline over this period due to the recent increases in Queensland's mining royalty revenue.

Revisions to the GST pool

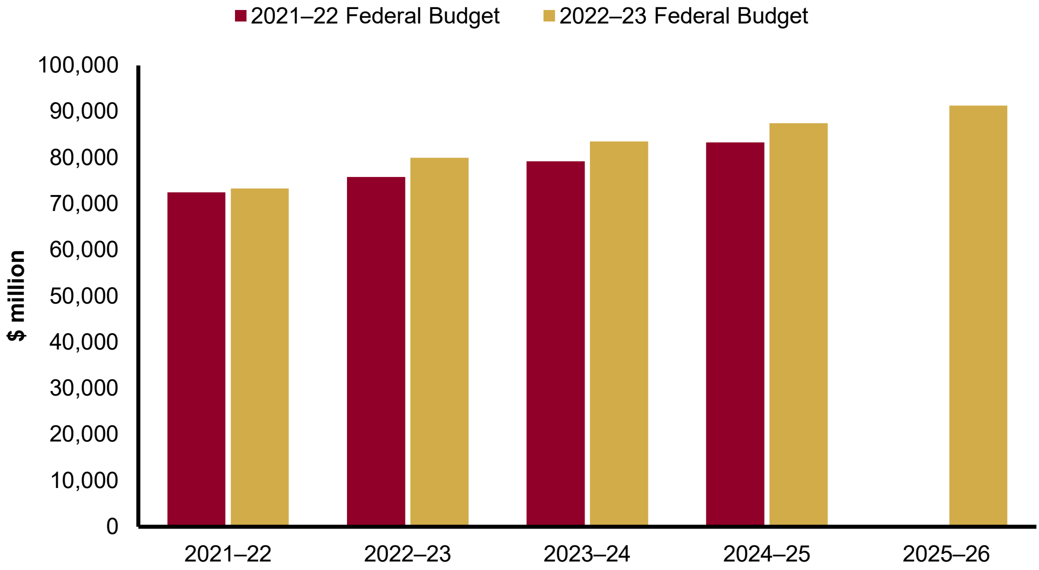
The Australian Government's national GST pool forecasts were upgraded in the 2022–23 Federal Budget, to be $13.4 billion higher across the 4 years to 2024–25 compared with 2021–22 Federal Budget estimates.

The 2022–23 Federal Budget stated that increases in GST receipts largely reflect upgrades to consumption subject to GST and flow-on impacts from strong private dwelling investment.

The 2022–23 Federal Budget also indicated that expected increases in employment and wages are expected to flow through to higher nominal consumption, while the strength of private dwelling investment, combined with near-term supply chain shortages, has driven up prices in the construction sector, thereby flowing through to overall GST collections.

Chart 4.6 compares GST revenue pool forecasts published in the 2020–21 and 2021–22 Federal Budgets.

Chart 4.6 Australian Government forecast of national GST revenue pool[1]



Note

1. The 2021–22 Federal Budget estimates are limited to the 2024–25 financial year.

GST – Queensland's assessed fiscal capacity

In early 2022, the Australian Government accepted the CGC's recommendation that Queensland requires a larger share of GST revenue in 2022–23 compared to 2021–22.

The CGC's recommendation that Queensland receive an increased share of the GST pool was driven by the following factors:

- mining revenue – a decrease in the value of coal production in 2020–21, combined with an increase in the value of iron ore production in Western Australia, reduced Queensland's relative capacity to raise mining revenue
- population growth – Queensland's population growth rate was faster in 2020–21 than in 2017–18, thereby increasing Queensland's assessed need for new infrastructure.

The increase in Queensland's share of the GST pool as a result of these factors was partially offset by the following factors:

- wages expense – wage growth in Queensland was lower than the national average between 2017–18 and 2020–21, decreasing the state's GST share
- Commonwealth payments – Queensland's share of payments, particularly for infrastructure and health expenses was higher in 2020–21 compared to 2017–18, thereby decreasing Queensland's GST share
- capital improvements and cost of construction in 2020–21 compared to 2017–18 – Queensland's total urban transport investment increased faster than growth in the GST pool and cost of construction grew less than the national average, thereby decreasing Queensland's GST share.

However, on balance, given the impacts of these range of factors, the CGC recommended that Queensland's GST share should increase in 2022–23 relative to 2021–22.

Importantly, states and territories' shares of GST revenue fluctuate over time based on the CGC's assessment of their fiscal capacity and expenditure needs. Some key drivers of changes to Queensland's and all states' shares of GST are factors that are not Queensland specific, including the impacts of changes in royalty revenue from iron ore in Western Australia and transfer duty collections in New South Wales.

Box 4.5 Impacts of Australian Government changes to state shares of GST

Queensland faces substantial risks in its longer-term outlook for GST revenue (i.e. beyond the forward estimates period outlined in this Budget) from the changes made to the system of Horizontal Fiscal Equalization (HFE) by the Australian Government in 2018.

The Australian Government legislated changes to HFE with the proposed aim of improving the resilience of the HFE system against economic shocks and to reduce volatility in GST revenues to states and territories.

As a result of the changes, states will no longer receive GST revenue to equalise them to the same standard as the fiscally strongest state. Instead, states will be equalised to a 'similar standard' – in effect being the stronger of New South Wales or Victoria.

However, under the Australian Government's changes, Western Australia (which has been the fiscally strongest state over the long term) will now retain a much greater share of GST revenue at the expense of all other states once the 'no worse off' guarantee expires in 2026–27.

At a time when all other states and territories are facing fiscal challenges and are recovering from the substantial fiscal impacts of COVID, Western Australia is estimated to have a net operating surplus in every year from 2020–21 to 2025–26 of between $1.5 billion and $5.8 billion, partially reflecting these Australian Government changes to GST.

These changes are now leading to a real and fundamental reshaping of states' fiscal capacities.

Under the Australian Government's changes, Western Australia is benefiting from its heightened iron ore mining royalties without appropriate adjustments being made to its share of GST revenue.

The Commonwealth's own estimates for payments under the 'no worse off' guarantee are estimated to total almost $15 billion over the forward estimates as a consequence of this. When the guarantee expires at the end of 2026–27, this cost will be borne by the states other than Western Australia.

The Queensland Government is continuing to engage with the Australian Government in advance of 2026–27 to provide greater certainty and fairness in relation to future GST payments. This will be critical to inform future state budgets.

A review of the changes is scheduled to be undertaken by the Australian Productivity Commission prior to the expiry of the 'no worse off' guarantee.

Queensland considers this review needs to be prioritised, with a clear emphasis on the long-term fiscal impacts of the changes, to ensure the review informs further consideration of the Australian Government's changes and to ensure Queensland continues to receive its fair share of GST revenue over the longer term.

Australian Government payments

Australian Government payments to Queensland in 2022–23 are expected to total $34.925 billion, representing an increase of $1.907 billion (5.8 per cent) compared to payments in 2021–22. This increase is attributable to a 12.6 per cent increase in GST.

Chapter 7 provides a detailed overview of Federal-State financial arrangements, including Australian Government payments to Queensland.

Other grants and contributions

Other grants and contributions are funds received from other state and local government agencies, other bodies and individuals.

The main sources of contributions are those received from private enterprise and community groups to fund research projects and community services and contributed assets and goods and services received for a nominal amount. Contributions exclude Australian Government grants and user charges.

Other grants and contributions comprise only a small share of total grant revenue (0.9 per cent in 2022–23).

4.4.3 Royalty revenue

The state earns royalties from the extraction of coal, base and precious metals, bauxite, petroleum and gas, mineral sands and other minerals. Royalties ensure a share of the proceeds of the extraction of non-renewable resources are returned to the community. Land rents are also earned from pastoral holdings, and mining and petroleum leases.

There is a high degree of uncertainty associated with estimates of commodity prices, which can have significant impacts on royalty revenue. Risks to commodity export volumes, in particular coal, also have the potential to impact Queensland's royalty estimates, although changes to export volumes may in turn impact prices.

The Revenue and Expense Assumptions and Sensitivity Analysis (Appendix C) outlines key parameter assumptions, and the sensitivity of coal royalty estimates to individual changes in price, volume and exchange rate parameters.

Coal and oil prices have risen substantially since the 2021–22 Queensland Budget, providing a short-term boost to revenues. However, the recent spike in prices is primarily driven by a range of short-term supply side factors and disruptions. As such, prices are expected to return to more sustainable levels in 2023, but the timing and extent of the decline remains uncertain. Forecast royalties and land rents are detailed in Table 4.6.

Table 4.6 Royalties and land rents[1]

	2020–21 Actual $ million	2021–22 Est. Act $ million	2022–23 Budget $ million	2023–24 Projection $ million	2024–25 Projection $ million	2025–26 Projection $ million
Coal	1,740	7,290	5,480	3,297	3,539	3,699
Petroleum[2]	298	1,185	1,626	1,116	1,025	996
Other royalties[3]	499	483	538	505	488	494
Land rents	126	176	190	193	198	203
Total royalties and land rents	**2,662**	**9,135**	**7,832**	**5,112**	**5,251**	**5,392**

Notes:

1. Numbers may not add due to rounding.
2. Includes liquefied natural gas (LNG).
3. Includes base and precious metal and other mineral royalties.

Box 4.6 Progressive coal royalty rates

Coal royalties are designed to ensure all Queenslanders receive a fair and appropriate return on the state's valuable and limited natural resources.

The royalty rate for coal is determined based on the average price per tonne of coal sold, disposed of or used in a royalty return period.

Since 1 October 2012, the highest marginal royalty rate applicable to Queensland coal royalties has been a rate of 15 per cent, payable on that part of the average price per tonne exceeding A$150.

Given the exceptional surge in coal prices experienced across 2021 and early 2022, with spot metallurgical coal prices reaching as high as around A$900 per tonne, the current royalty structure does not provide a fair return to Queenslanders during periods of such high prices.

To ensure Queenslanders receive a fair return on the use of the state's valuable and limited natural resources in periods of high prices, the government is introducing 3 new tiers to the coal royalty structure, with effect for coal sold, disposed of or used on or after 1 July 2022:

1. an additional tier with a rate of 20 per cent on that part of the average price per tonne that is more than A$175 but not more than A$225
2. a further tier with a rate of 30 per cent on that part of the average price per tonne that that is more than A$225 but not more than A$300
3. a further tier with a rate of 40 per cent on that part of the average price per tonne that is more than A$300.

This is estimated to generate additional royalty revenue of around $1.2 billion over the 4 years ending 2025–26. However, a substantial proportion (around $765 million) will be in 2022–23, as coal prices are expected to return to longer run prices over the next year.

The addition of the new tiers is not expected to have any material impacts on the coal industry or viability of producers, given the increases are applied only at relatively high prices.

Based on unit export values over the past 10 years, average hard coking coal prices have only been higher than A$175 per tonne around half the time, while average thermal coal prices have only been above A$175 per tonne around 2.5 per cent of the time over this period (based on monthly averages, only observed in 3 months over the 10 year period ending February 2022) (Chart 4.7).

The increased return to Queenslanders received during future periods of high prices will help enable the provision of essential infrastructure and services to meet the needs of Queenslanders across all regions of the state.

Historical changes in coal royalty rates and tiers

It is also important to recognise that coal companies have experienced a long period of stability in terms of the royalty regime, without any changes to royalty rates or price tiers in Queensland over almost a decade since October 2012, despite prices rising substantially over that time.

This follows a range of changes to the royalty regime prior to that period, with at least 6 major changes made to coal royalty rates over the previous 20 years.

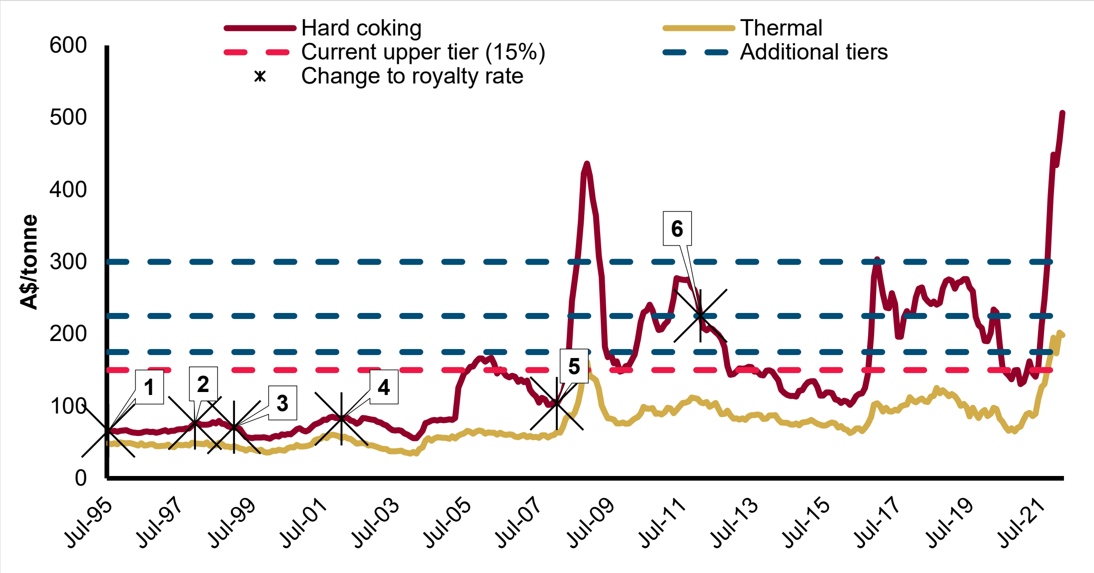
This included the introduction in 2008 of a second tier with a new top rate of 10 percent over A$100 per tonne, and in 2012 the introduction of a 3 tier system of 7 per cent up to A$100 per tonne, 12.5 per cent above A$100 up to A$150 per tonne, and 15 percent above A$150 per tonne.

However, prices have increased substantially over the last few decades, from well under A$100 per tonne in the 1990s, with an underlying persistent upward trend in prices over time, including previous periods of exceptionally high prices.

As such, the changes being made are timely and appropriate to ensure the state's coal royalty regime continues to provide a fair return to Queenslanders during future periods of high prices.

Chart 4.7 outlines the extent to which major changes have been made to the coal royalty rates since the 1990s.

Chart 4.7 Historical average coal prices



Notes:

1. 1994: standard rate of 7 per cent of value for exports.
2. 1997–98: base special royalty (BSR) was introduced for certain mines. Where BSR applied, the coal royalty rate was 5 per cent, with 7 per cent applying to any excess tonnage.
3. 1999: standard 7 per cent royalty applied from 1 July 2000 (no reduction where BSR paid). BSR was reduced to $3.00 per tonne (ending June 2000).
4. 2002: deductions for rail freight and road haulage ceased to apply.
5. 2008: additional tier added, with rate of 7 per cent applied up to A$100 per tonne, and a 10 per cent rate applied over A$100 per tonne.
6. 2012: further changes to tier structure: 7 per cent applied to a value of up to A$100 per tonne, 12.5 per cent to values from over A$100 to A$150 per tonne, and 15 per cent to values above A$150 per tonne.

Source: ABS International Trade in Goods and Services (unpublished)

Coal royalties

A large proportion of Queensland's royalties and land rents comes from coal mining and the majority of this revenue is attributable to the hard-coking coal used in global steel production.

The lower level of royalties collected from thermal coal mining compared with hard-coking coal reflects the smaller volume of thermal coal mined in Queensland, the lower values per tonne of thermal coal and the 3-tiered coal royalty rate system, where lower value coal is subject to a lower average royalty rate. In 2021, coking coal represented almost 75 per cent of coal exported from Queensland.

Coal royalties are expected to total $7.290 billion in 2021–22. The increase has been driven by significant increases in global coal prices, which have been reflected in price rises for Queensland coal exports. On a year-average basis, the premium hard coking coal price is estimated to be US$364 per tonne in 2021–22, an increase of more than 200 per cent on 2020–21.

A key driver of the recent surge in coal prices has been China's strong demand for coal from other exporters (due to its reduced importation of Australian coal), which appears to have temporarily distorted global market dynamics, leading to a shortage in supply.

Coal prices have also been impacted as a result of European buyers reducing their purchases of Russian coal following the commencement of the Russia-Ukraine conflict.

COVID-19 and weather-related supply shortages are also impacting prices. Significant weather events globally included:

- weeks of heavy rain in September and October 2021 affecting coal mines in Mongolia and China
- heavy rains and mudslides crippled various coal infrastructure in Canada
- heavy rains in Indonesia in late 2021 which delayed shipments.

In addition, a number of weather events impacted on Australian supply. For example, heavy rainfall linked to La Niña weather conditions disrupted Australian supply, especially in New South Wales, leading to a declaration of force majeure in March 2022 at the Port Kembla Coal Terminal (72km south of Sydney).

In addition, there have been some coal mine closures, for example:

- Moranbah North (supplying metallurgical coal) was temporarily closed after an incident in late March 2022 (operations restarted on 31 May 2022)
- Gregory coal mine (supplying metallurgical coal) reopening was delayed after an incident in September 2021 (operations expected to resume in September quarter 2022)
- Curragh coal mine (supplying metallurgical and thermal coal) was temporarily closed in November 2021 (mine reopened after 3 weeks).

The above events caused considerable disruption, which along with labour constraints resulted in tighter supply putting additional upward pressure on prices.

This has been further exacerbated by restocking demand due to power plants/steel mills drawing down their stockpiles of coal.

However, the primary factors and disruptions that have driven the recent spike in global coal prices are expected to be temporary in nature. COVID-19 and weather-related issues are expected to subside, resulting in an easing of the supply constraints and thus lessening the upward pressure on coal prices.

Further, China has begun to reduce its coal import volumes and rely more on its own domestic supply, driven by the recent slowdown in the Chinese economy. This is expected to moderate the global market distortions currently impacting prices.

In addition, prices of steel products globally have grown more slowly than prices for coal. For example, across the year ending 31 May 2022, average steel rebar prices were around 19 per cent higher than the previous year while the average price of steel products was around 21 per cent higher. In comparison, over the year ending 31 May 2022, average premium hard coking spot prices were around 221 per cent higher than the previous year.

The slower growth in steel prices will potentially lead to reduced profit margins for steel producers, given metallurgical coal is a key input into steel making. This implies that the current high hard coking coal prices are not sustainable in the longer term and downward pressure on coal prices is expected in the near term.

Current forecasts assume no Queensland coal is being exported to China over the forward estimates, however any changes to the current trade relationship with China could lead to the price of coal unwinding sharply. Developments in the Russia/Ukraine conflict could also lead to a significant downward risk to coal prices in the future.

The above commentary is supported by analysis from the Office of the Chief Economist for the Australian Government's Department of Industry, Science, Energy and Resources[1] which made several points in regard to metallurgical coal prices.

- *A series of weather disruptions affecting coal mines in Mongolia and China resulted in upward price movements in late 2021, with the largest effect following weeks of heavy rains in September and October.*
- *Non-weather supply disruptions have also picked up early in 2022, with infrastructure bottlenecks constraining output in Russia, and COVID impacts starting to affect output from Australia. On top of this, the Russian invasion of Ukraine sent prices to new records in March.*
- *It is expected that disruptions will ease on some fronts over the remainder of 2022, allowing prices to start correcting. Over the outlook period, hard coking coal prices are expected to ease back from a war-affected peak of around US$460 a tonne in the March quarter 2022, to reach US$172 a tonne by the March quarter 2023. Prices are then expected to stabilise at around US$150 a tonne towards the end of the outlook period.*

While the issues discussed above indicate that coal prices are expected to decline significantly in time, the precise timing and magnitude of such a decline is not known. Treasury has taken an appropriately conservative approach to its coal forecasts and assumed prices will normalise in 2023.

[1] Australian Government (Department of Industry, Science, Energy and Resources, *Office of the Chief Economist - Resources and Energy Quarterly March 2022*, 2022 www.industry.gov.au/req accessed 6 June 2022

Given the expectation of substantially lower coal prices over subsequent years compared with the prices seen in late 2021 and the first half of 2022, coal royalty revenue is forecast to decline by almost 25 per cent in 2022–23 and by a further 40 per cent in 2023–24.

This largely reflects an expected 43.4 per cent fall in 2022–23 in hard coking coal prices (to US$206 per tonne) and a further fall in prices in 2023–24 (returning to US$160 per tonne).

Coal royalty revenue is forecast to grow by 7.3 per cent in 2024–25 and by a further 4.5 per cent in 2025–26 with crown export coal tonnages[1] forecast to gradually increase over this period. This largely reflects the continued recovery in global economic activity from the COVID-19 pandemic.

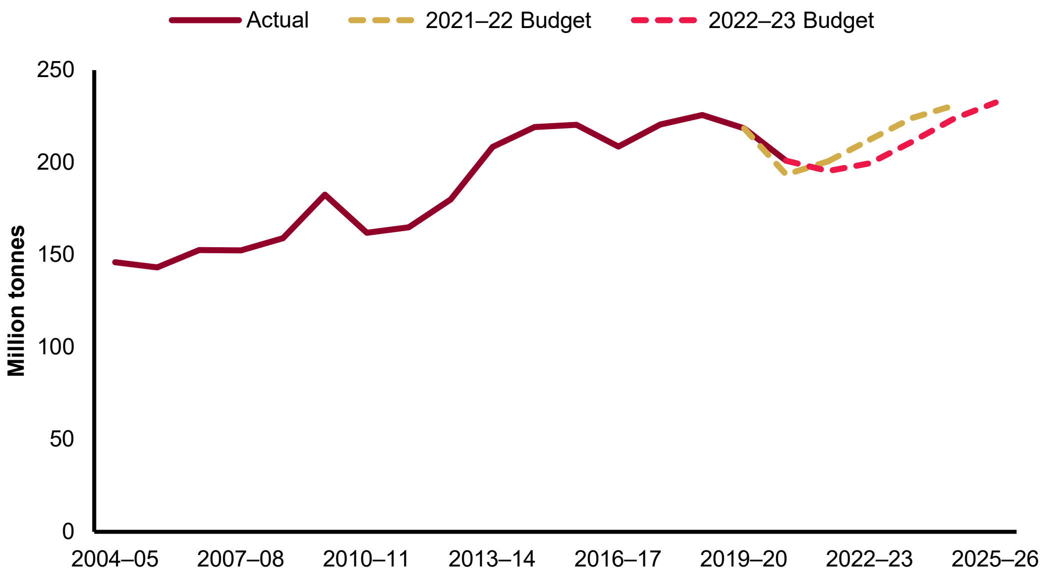
Chart 4.8 shows coal export tonnage forecasts compared to the 2021–22 Queensland Budget outlook. This highlights that coal export tonnages have been revised downwards by around 4 per cent over the 4 years ending 2024–25, driven by the supply side issues discussed earlier and softer global demand.

Queensland's coal export volumes have held up well despite restrictions on Chinese coal imports from October 2020. By November 2021, almost 90 per cent of the reduction in Queensland export tonnages to China had been offset by increased exports to India (up 17.2 million tonnes (Mt) to 58.1 Mt), Japan (up 11.5 Mt to 47.8 Mt) and South Korea (up 8.9 Mt to 32.7 Mt).

However, sustained exceptionally high prices for both metallurgical and thermal coal in late 2021 and so far in 2022 have tempered global demand for coal, resulting in a decline in export tonnages since late 2021. Coal export volumes peaked at 225 Mt in 2018–19. This is not expected to be reached again until 2025–26.

[1] Excludes coal where royalties are not paid to the Queensland Government, that is, private royalties.

Chart 4.8 Export coal tonnages[1]



Note:

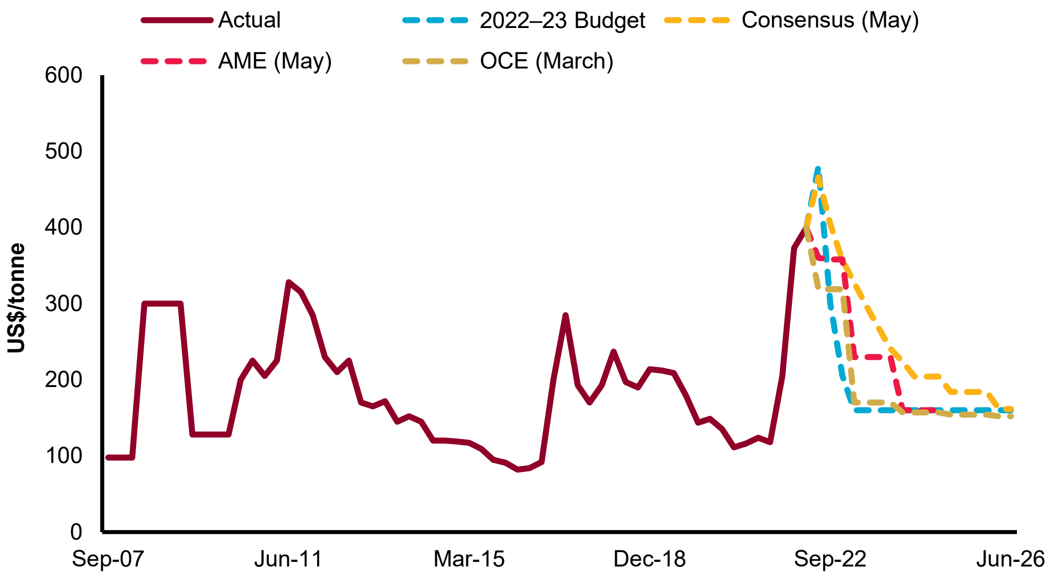
1. Includes coal exports where royalties are not paid to the government, i.e. private royalties. This will not align with tonnages presented in Appendix C which exclude private royalties.

Source: Unpublished ABS trade data and Queensland Treasury

Chart 4.9 shows hard coking coal price forecasts compared to the average quarterly price forecasts from the latest Consensus Economics forecasts, as well as forecasts from AME and the Department of Industry, Science, Energy and Resources' (Australian Government) Office of the Chief Economist (OCE).

This comparison shows that the expected sharp decline in coal prices from current levels is broadly consistent with the expectations of other key forecasters that global coal prices will be substantially lower over coming quarters and years.

Chart 4.9 Coking coal price forecasts



Sources: Consensus Economics, AME, OCE and Queensland Treasury.

An ongoing risk to coal export volumes over the medium to longer term is that Japan and South Korea have committed to achieving net zero CO_2 emissions by 2050, while China has committed to achieve this by 2060. This may lead to an earlier reduction in thermal coal consumption in these countries than previously expected. In addition, South East Asia is generally moving away from coal fired power due to limited finances to fund coal fired power projects.

However, as outlined above, the majority of Queensland's coal exports are metallurgical coal, with thermal coal only representing around 26 per cent of total coal exports in terms of volumes and 17 per cent in terms of values (based on 2021 export data).

Petroleum royalties

Compared to coal, petroleum royalties make up a smaller share of total royalties, though petroleum royalties have grown strongly as the export industry has matured.

Oil prices factor strongly into petroleum royalty forecasts. Most of the LNG produced in Queensland is sold under long-term contracts linked to oil prices, while the production level of the 3 major LNG plants is expected to be relatively stable across the forward estimates.

In 2021–22, revenue from petroleum and gas royalties are estimated to total $1.185 billion, 87.7 per cent higher than forecast at the 2021–22 Queensland Budget.

This is driven by the recent surge in oil prices, which rose from a low of US$6 per barrel on 21 April 2020 to over US$100 per barrel in 2022. Across 2021–22, the average (lagged)[1] price of oil is expected to increase to US$77 per barrel.

This also reflects 2021–22 being the first full year under the new volume-based royalty model, which replaced the previous wellhead model in October 2020.

The faster than expected recovery in the global economy has seen oil consumption grow at a faster rate than oil production, drawing down inventories and boosting oil prices to elevated levels, even prior to the Russian invasion of Ukraine. However, the commencement of the Russia-Ukraine conflict exacerbated the upward pressure on global oil prices, which increased from US$103 per barrel on 23 February 2022 (the day before the invasions) to a peak of nearly US$140 per barrel in early March 2022.

Reflecting the persistent elevated prices, the average (lagged) price of oil across 2022–23 is expected to increase to US$96 per barrel. As a result, petroleum royalties are forecast to grow by a further 37.1 per cent in 2022–23.

Oil production is expected to overtake oil consumption in 2022, which should put downward pressure on prices. Therefore, oil prices are expected to moderate from current levels over the forecast period reaching US$75 per barrel from September quarter 2024 onwards.

Reflecting the expected return to more sustainable oil prices, petroleum royalty revenue is expected to decline by 31.3 per cent in 2023–24, followed by falls of 8.2 per cent in 2024–25, and 2.8 per cent in 2025–26.

Other royalties

Other royalties include revenue from metals mined in Queensland such as copper, lead and zinc, and other minerals including bauxite.

Revenue from other royalties is estimated to total $483 million in 2021–22, 3.1 per cent lower than in 2020–21. This is largely driven by higher shipping costs, partially driven by COVID-19 related disruptions, which can be deducted from the mining revenue that is subject to royalty.

Revenue from Other royalties are expected to grow by 11.2 per cent in 2022–23 driven by a rise in bauxite royalties as bauxite volumes and values increase.

Other royalties are expected to decline by 6.0 per cent in 2023–24 and then by a further 3.4 per cent in 2024–25 because of declining prices across major base and precious metals.

[1] Published Brent oil prices are lagged by 4 months to better align with royalty revenue.

Land rents

Revenue from land rents derived from mining and petroleum leases and pastoral holdings is estimated to total $176 million in 2021–22, an increase of 39.4 per cent compared with 2020–21. This primarily reflects a rebound from low land rents collected in 2020–21 driven by the write down in revenue from rents during the COVID-19 crisis due to the government's relief measures.

Revenue from land rents is forecast to grow by a further 7.9 per cent in 2022–23 reflecting higher rental valuations.

Revenue from land rents is then expected to grow modestly.

4.4.4 Sale of goods and services

Sales of goods and services revenue comprises the cost recovery from the Queensland Government providing goods or services. Table 4.7 provides a breakdown of the categories of goods and services captured in terms of these revenues.

Table 4.7 Sales of goods and services[1]

	2020–21 Actual $ million	2021–22 Est. Act. $ million	2022–23 Budget $ million	2023–24 Projection $ million	2024–25 Projection $ million	2025–26 Projection $ million
Fee for service activities	2,552	2,769	2,750	2,798	2,641	2,671
Public transport: South East Queensland	209	215	275	363	414	415
Rent revenue	530	534	572	598	610	624
Sale of land inventory	48	102	119	110	48	26
Hospital fees	819	877	886	892	899	906
Transport and traffic fees	492	504	523	538	554	572
Other sales of goods and services	1,413	1,031	1,055	1,223	1,086	1,101
Total	**6,063**	**6,032**	**6,181**	**6,521**	**6,253**	**6,316**

Note:

1. Numbers may not add due to rounding.

The government provides substantial concessions in the form of discounts, rebates and subsidies to improve access to and the affordability of a range of services for individuals or families, based on eligibility criteria relating to factors such as age, income and special needs or disadvantage.

Appendix A provides details of the concession arrangements provided by the Queensland Government.

Fee for service activities

Examples of major items of fee for service activities across the General Government Sector include:

- recoverable works carried out by the Department of Transport and Main Roads and the commercialised arm of the department
- fees charged by TAFE colleges
- fees charged by CITEC to commercial clients for information brokerage services.

Other sales of goods and services

Revenue is also raised from a variety of other types of sales of goods and services. These include revenue from public transport ticketing arrangements, rent or lease of government property, hospital fees, transport and traffic fees, title registration fees and other licences and permits.

4.4.5 Interest income

Interest income primarily comprises interest earned on investments, including those held to support debt, superannuation and insurance liabilities.

Interest income is estimated to total $2.561 billion in 2021–22, 0.9 per cent higher than expected at the 2021–22 Budget, and 31.5 per cent higher than received in 2020–21. The increase in interest income in 2021–22 largely reflects the first full year earnings from the Queensland Future Fund (QFF) – Debt Retirement Fund (DRF).

Interest income is forecast to grow on average by around 4.3 per cent across the 4 years ending 2025–26.

4.4.6 Dividend and income tax equivalent income

Revenue from dividend and income tax equivalent income is estimated to total $672 million in 2021–22, $639 million (48.7 per cent) lower than in 2020–21, and $470 million (41.2 per cent) lower than expected at the time of the 2021–22 Queensland Budget. These movements are primarily due to the government decision to allow the government-owned corporations (GOCs) to retain their dividends of around $580 million for 2021–22.

Dividend and income tax equivalent income is forecast to rebound in 2022–23, followed by more moderate growth of 4.8 per cent in 2023–24. This is driven by a return to normal GOC dividend policy from 2022–23.

Dividend and income tax equivalent income is forecast to fall by 21.6 per cent in 2024–25 and 3.0 per cent in 2025–26. The declines primarily reflect lower forecast profits in the electricity generation sector, with the entry of renewables boosting supply into the grid placing downward pressure on wholesale electricity prices.

Trends in dividends and income tax equivalent income are discussed in more detail in Chapter 8.

4.4.7 Other revenue

Other revenue, including royalty revenue, accounts for 12.6 per cent of total General Government Sector revenue in 2022–23 (see Table 4.8). Royalties and land rents account for 10.6 per cent of total revenue in 2022–23 and are discussed in detail in Section 4.4.3.

The major fines included in this category include speeding, red light, mobile phone and seatbelt camera detected offences and tolling offences.

This revenue is forecast to grow by 43.6 per cent in 2022–23, partly driven by the increase in penalties for high-risk driving offences, including mobile phone and seatbelt offences, and the planned rollout of additional detection cameras.

After providing for the cost of administration, funds raised from these initiatives are allocated to allowable road safety initiatives in accordance with the legislation. Such initiatives include road funding to improve the safety of the sections of state-controlled roads where accidents happen most frequently, road safety education and awareness programs and road accident injury rehabilitation programs.

Revenue not elsewhere classified includes assets contributed to the state and payments received for works delivered on behalf of GOCs.

Table 4.8 Other revenue[1]

	2020–21 Actual $ million	2021–22 Est. Act. $ million	2022–23 Budget $ million	2023–24 Projection $ million	2024–25 Projection $ million	2025–26 Projection $ million
Royalties and land rents	2,662	9,135	7,832	5,112	5,251	5,392
Fines and forfeitures	450	530	762	775	786	788
Revenue not elsewhere classified	1,036	929	681	664	1,162	668
Total other revenue	**4,148**	**10,594**	**9,275**	**6,552**	**7,199**	**6,848**

Note:

1. Numbers may not add due to rounding.