Queensland Budget Announcement 2022-23

A review of the Queensland Budget's major business implications

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Executive summary

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Queensland Chairman

Dan Harradine

Queensland Government Lead

Increased support for the health system and for job creation is at the centre of the 2022-23 Queensland Budget announcements.

The Budget projects an operating surplus of $1.9 billion for 2021-22, which is an improvement compared to the deficit anticipated 12 months ago by $5.4 billion. Tax and royalty revenues have contributed significantly to this result.

Further surpluses (although more modest) are anticipated from 2024-25. While net debt is expected to more than treble by 2025-26, at that level it would only be around 50 percent of general government revenue. This financial position has allowed headroom for additional spending commitments across portfolios.

Natural disasters have weighed heavily on the Queensland community over the last two to three years and the Budget includes $3 billion over four years for disaster recovery assistance. Child protection programs also receive nearly $2.2 billion over the forward estimates.

In terms of health services, the Budget commits an additional $8 billion over the forward estimates on operational expenditure, principally on operational growth and mental health services. There is also $6 billion of capital investment allocated to health infrastructure, including new and expanded regional hospitals and a new Queensland Cancer Centre.

On the revenue side, the Queensland Government will introduce a mental health levy from 1 January 2023 which will be added to the Queensland payroll tax liabilities of employers with a national annual payroll exceeding $10 million. This levy is expected to raise over $400 million annually by 2024-25.

Additional tiers of coal royalty rate will also apply from 1 July 2022. The highest marginal royalty rate will increase from 15 percent to 40 percent on the excess of the average price per tonne over $300. The Queensland Government estimates additional revenue of around $1.2 billion from this measure over the forward estimates.

There is an absence of announcements related to broader fiscal reforms that would support productivity growth. Given Queensland is in a relatively robust financial situation, there is an opportunity for it to take a lead role in implementing reform over the coming years.

Michael Hiller
Queensland Chairman

Dan Harradine
Queensland Government Lead

Economic analysis

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The Budget is in a stronger position than expected due to windfalls in coal royalties and transfer duties. The Queensland Government's focus continues to be on health, education and training.

The Queensland economy has recovered strongly from the COVID pandemic and has benefited from soaring energy prices. This is reflected in the Budget, which is in much better shape than the government expected. Revenues in 2021-22 are estimated to be almost $73 billion, about $10 billion more than collected in 2020-21 and about $9 billion more than budgeted for in the 2021-22 budget. Just under $6 billion of this revenue came from royalties and land rents, reflecting surging coal and energy prices. Tax revenues were about $2 billion higher than expected, with more than two-thirds of this additional tax revenue coming from transfer duties on property.

Although expenses in 2021-22 were about $3.7 billion higher than budgeted, the overall fiscal balance for 2021-22 is expected to be about $1.9 billion. This is a turnaround of almost $5.5 billion from the deficit projected for 2021-22 in last year's budget.

Going forward the government is projecting that commodity markets and housing activity will return to more normal levels. Budget deficits of around $1 billion are expected in the next two years with small surpluses projected for 2024-25 and 2025-26.

The Budget maintains a focus on health, education and training. The infrastructure pipeline remains strong with almost $60 billion projected to be spent on infrastructure over the next four years.

The government has introduced several new initiatives in the budget. Just over $1.6 billion will be invested in mental health over the next five years and this will be funded by a mental health levy on large businesses.

Coal royalties have been reformed significantly. A new, progressive, rate structure will have three additional tiers with the lowest marginal rate of 15 percent (the current rate) applying on that part of average coal prices between A$150 – A$175 a tonne and the highest marginal rate of 40 percent applying on that part of average coal prices above A$300. This new structure is projected to raise $1.2 billion over the next four years.

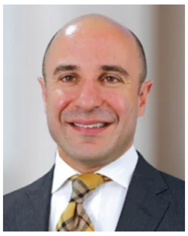
The better-than-expected financial outcome for 2021-22 is reflected in the improved net debt position in the forward estimates, with the ratio of borrowings to GSP about 1 percent lower than projected in last year's budget. Several key assumptions in the Budget forward estimates underpin this outcome. Revenues are projected to grow from the unexpectedly high level recorded in 2021-22 even though coal royalties and transfer duties are projected to fall back to more normal levels. The government is expecting GST revenues to increase by $2 billion in 2022-23 and grow relatively strongly in the following years. This expected boost to GST revenues is highly uncertain, as acknowledged in the Budget, because it depends on a range of factors internal and external to Queensland.

The Budget does not offer a great deal of detail regarding policies targeting productivity. It is notable that, relative to expectations set out in the 2019-20 budget for GSP and employment in 2022-23, the current budget is projecting the economy in 2022-23 will be about 2 percent smaller in terms of GSP but will employ almost 4.5 percent more people. This may partly reflect forecasting errors and distortions related to COVID, but it may also reflect lower underlying productivity.

Key Insights

- The Budget is in better shape than expected by the government even as late as December 2021, with windfall gains in coal royalties and transfer duties underpinning a $10 billion boost to revenues in 2021-22.
- The infrastructure pipeline is strong and with the addition of new rail and health projects in this Budget, spending on capital projects over the next four years is expected to be around $60 billion.

Transfer duty and land tax



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There was strong growth in revenue from transfer duty and land tax relflecting the increase in transaction volumes and dwelling prices over the year.

The total estimated revenue from transfer duty and land tax in 2021-22 was $7.6 billion, accounting for almost 40 percent of total taxation revenue.

Transfer duty

Compared to 2021-22, transfer duty collection in 2022-23 is expected to decrease due to a decline in the number of transactions in the residential housing market. As a result, it is forecast that transfer duty receipts will decline by approximately 21 percent in 2022-23.

Transfer duty from the non-residential sector is forecast to experience steady growth in the coming years, which will support overall growth in state revenue.

Accounting for increasing dwelling prices, as well as a recovery in collections from large and non-residential transactions, the amount of transfer duty revenue is expected to remain well above 2020-21 levels.

Land tax

The performance of the property market has also resulted in significant increases in land valuations that are flowing through to land tax collections. Land tax revenue is expected to grow by 10.6 percent in 2022-23.

The three-year averaging of land valuations has moderated the uplift forecast for 2022-23.

However, additional value growth is expected in the next valuation due to increases in dwelling prices, which will result in further land tax growth in 2023-24 and beyond.

Revenue measures

The Budget does not contain any significant new revenue measures in relation to transfer duty and land tax.

However, the Budget does introduce an exemption from 'Additional Foreign Acquirer Duty' (**AFAD**) for retirement visa holders

Retirement visa holders will be exempt from AFAD 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 AFAD, and only transfer duty at standard concessional rates will apply to eligible transactions. This exemption is subject to the passage of legislative amendments.

Key Insights

- Strong growth in transfer duty and land tax revenue in 2021-22, linked with increasing dwelling prices.
- AFAD exemption to be granted to retirement visa holders (i.e., holders of subclass 405 and 410 visas) for purchases of their principal place of residence on or after 1 January 2023.

Payroll tax

Hayley Lock

Partner, People Services

The Queensland Budget reveals that payroll tax revenue is expected to grow by 5.8 percent to $5.2 billion in 2022–23. This is broadly in line with the expected employment and wage growth and also reflects the impact of the new mental health levy.

Similar to previous measures introduced in Victoria, the Queensland Government will introduce a mental health levy to be applied to payroll tax liabilities from 1 January 2023. The mental health levy will be applied as follows:

- 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.

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.

A new payroll tax relief measure has been introduced targeted at small and medium-sized businesses. Under this measure, the Queensland Government will adjust the existing payroll tax deduction framework from 1 January 2023.

The current payroll tax 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.

The 50 per cent payroll tax rebate for wages paid to apprentices and trainees will be extended for 12 months until 30 June 2023. The rebate is in addition to apprentice and trainee wages generally being exempt from payroll tax and operates to reduce the overall payroll tax liability of the employer.

Key Insights

- A new mental health levy will apply to payroll tax liabilities after 1 January 2023 where annual Australian taxable wages exceed $10 million.
- A new payroll tax relief measure has been introduced from 1 January 2023 targeted at small and medium-sized businesses. It modifies the application of the payroll tax deduction and, as an example, a business paying $6.5 million in annual taxable wages would save over $26,000 in payroll tax each year.
- The extension of the payroll tax rebate for apprentices and trainees continues a now well-known employment incentive in Queensland (first introduced in 2016-17 and now extended to 30 June 2023). The rebate will ultimately lower payroll tax liabilities if businesses decide to hire apprentices and trainees who are paid 'exempt wages'.

Summary of key expenditure / revenue raising items

The table below shows the value over the financial years ending 2022 to 2026 of new measures announced since the 2021-22 Budget Update. This summary is not an exhaustive list of all expenditure items. Figures are rounded to the nearest $0.1 billion.

Key expenditure items	$billion
Queensland Health - operational growth funding, mental health, alcohol and other drug services funding	8.2
Child and Family Services - Out of Home Care, family support and child protection reforms	2.2
Disaster Recovery Funding Arrangements and Resilient Homes Fund	1.7
Transport infrastructure programs, public transport initiatives and level rail crossing upgrades	0.7

Key revenue items	$billion
Payroll tax – Mental Health Levy	1.4
New progressive rates for coal royalties	1.2

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