

Chapter 1: Overview and Recent Developments

Since *The New Tax System* came into effect on 1 July 2000, Commonwealth-State financial relations have operated under the framework of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the Intergovernmental Agreement) which was endorsed by Heads of Government in June 1999.

This Chapter provides an overview of the system and outlines total payments from the Commonwealth to the States in 2001-02 and 2002-03. Key developments since the 2001-02 Budget are also highlighted.

OVERVIEW OF COMMONWEALTH-STATE FINANCIAL RELATIONS

A key element of *The New Tax System* is that all goods and services tax (GST) is received by the States. The GST has provided the States with a secure, growing and broad-based revenue source with which to fund essential community services, such as schools, hospitals and police.

Under this system of Commonwealth-State financial relations:

- all GST revenue is provided to the States, to be spent according to their own budgetary priorities;
 - with GST revenue, the States will be better off over time compared to the previous financial arrangements;
- a range of narrow and inefficient State taxes have been abolished or are scheduled for review. Financial Institutions Duty and stamp duty on quoted marketable securities were abolished on 1 July 2001; and
- a new First Home Owners Scheme was introduced which, when combined with the additional First Home Owners Scheme grant, has provided over \$2.4 billion to eligible home buyers since July 2000.

In addition, the Commonwealth made a commitment to provide assistance to the States in the transitional years to ensure that each individual State will be no worse off than it would have been had *The New Tax System* reforms not been implemented.

The reforms to Commonwealth-State financial arrangements required the passage of legislation by both the Commonwealth Parliament and by the States. The *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* and the *A New Tax System (Commonwealth-State Financial Arrangements — Consequential Provisions) Act 1999* give effect to the Commonwealth's commitments. The legislation builds on the Intergovernmental Agreement and incorporates it as a Schedule.

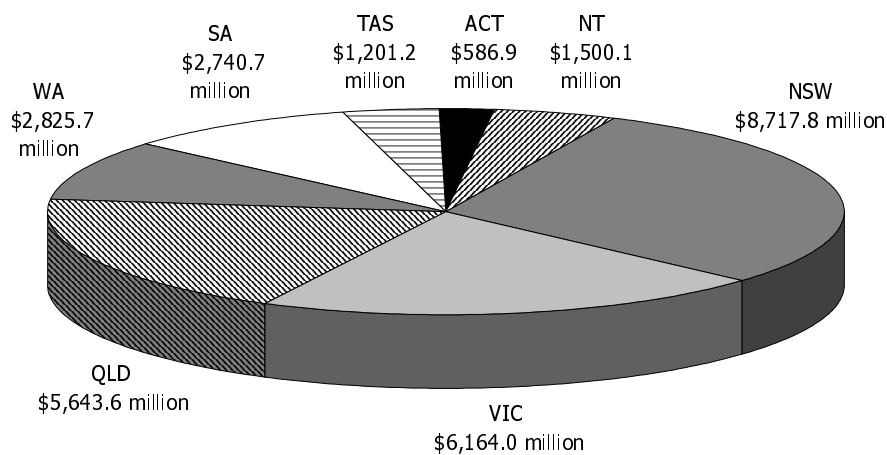
The States have also enacted legislation to meet their commitments.

GST REVENUE PROVISION AND COMMONWEALTH PAYMENTS TO THE STATE/LOCAL SECTOR

It is estimated that the States will receive \$29.4 billion in GST revenue in 2002-03. This is revenue which can be spent by the States according to their own priorities.

Chart 1 illustrates the estimated GST revenue provision to each State in 2002-03.

Chart 1: GST revenue provision to the States, 2002-03 (estimated)



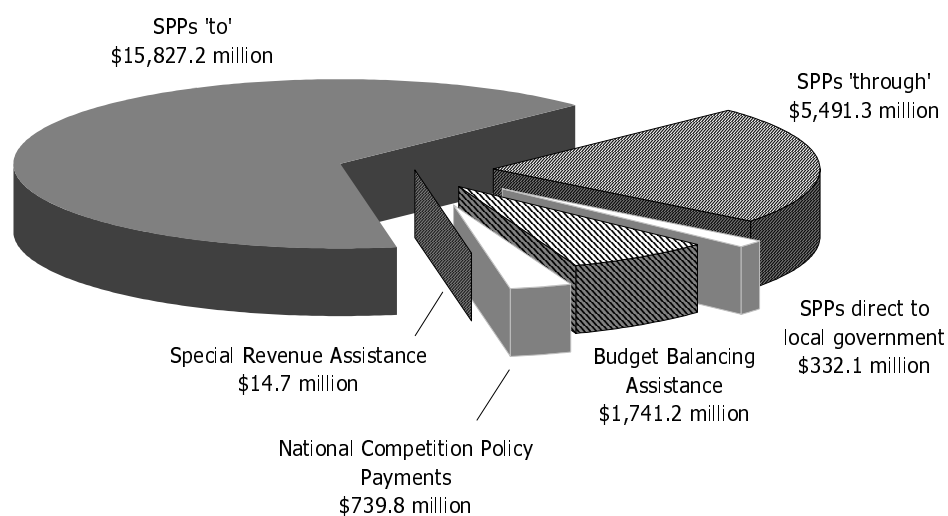
In addition to GST revenue, the Commonwealth will make further payments totalling \$24.1 billion to the State/local sector in 2002-03, comprising:

- general revenue assistance:
 - Budget Balancing Assistance (BBA);
 - National Competition Policy Payments; and
 - Special Revenue Assistance; and
- Specific Purpose Payments (SPPs):
 - Specific Purpose Payments 'to' the States;

- Specific Purpose Payments ‘through’ the States; and
- Specific Purpose Payments direct to local government.

Specific Purpose Payments will comprise the bulk of Commonwealth payments to the State/local sector in 2002-03, as illustrated in Chart 2.

Chart 2: Commonwealth payments to the State/local sector, 2002-03 (estimated)



Tables 1 and 2 summarise the estimated GST revenue provision to the States and Commonwealth payments to each State in 2001-02 and 2002-03 respectively.

The provision of GST revenue to the States and Commonwealth payments to the State/local sector are discussed in greater detail in Chapters 2 and 3.

Table 1: GST revenue provision and total Commonwealth payments to the State/local sector, 2001-02 (estimated)

2001-02	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
(1) Provision of GST revenue to the States(a)	8,133.9	5,689.0	5,076.7	2,562.1	2,486.7	1,069.5	536.4	1,297.7	26,851.9
(2) General revenue assistance (2.1)+(2.2)+(2.3)	1,770.2	1,989.7	626.3	390.2	401.2	146.1	86.7	93.9	4,604.3
(2.1) Budget Balancing Assistance	1,527.7	910.1	478.4	319.1	345.6	128.6	60.9	86.4	3,856.8
(2.2) National Competition Policy Payments	242.5	179.6	147.9	71.1	55.7	17.4	11.6	7.6	733.3
(2.3) Special Revenue Assistance	na	na	na	na	na	na	14.2	na	14.2
(3) Total Specific Purpose Payments (3.1)+(3.2)+(3.3)	6,847.2	5,054.8	4,005.5	2,504.7	1,712.4	555.9	359.7	517.9	21,558.3
(3.1) Specific Purpose Payments 'to' the States	4,941.7	3,533.4	2,886.3	1,853.6	1,271.7	413.4	239.1	439.7	15,578.9
(3.2) Specific Purpose Payments 'through' the States	1,762.1	1,387.8	1,007.9	578.3	400.0	123.8	114.4	67.3	5,441.7
(3.3) Specific Purpose Payments direct to local government	143.4	133.6	111.3	72.8	40.7	18.7	6.3	10.9	537.7
(4) Total Commonwealth payments to the State/local sector (2)+(3)	8,617.4	6,144.5	4,631.8	2,894.9	2,113.7	702.0	446.5	611.9	26,162.6
(5) GST revenue and total Commonwealth payments (1)+(4)	16,751.3	11,833.5	9,708.6	5,456.9	4,600.4	1,771.4	982.8	1,909.6	53,014.6

(a) The GST estimate has been adjusted to account for the final 2000-01 outcome, reflecting that payments in 2000-01 exceeded final collections in that year. Further details are provided in Chapter 2.

Table 2: GST revenue provision and total Commonwealth payments to the State/local sector, 2002-03 (estimated)

2002-03	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
(1) Provision of GST revenue to the States	8,717.8	6,164.0	5,643.6	2,825.7	2,740.7	1,201.2	586.9	1,500.1	29,380.0
(2) General revenue assistance (2.1)+(2.2)+(2.3)	1,112.8	629.0	207.1	172.0	226.2	73.3	49.4	25.8	2,495.7
(2.1) Budget Balancing Assistance	864.2	444.3	67.5	99.0	169.5	55.6	22.8	18.3	1,741.2
(2.2) National Competition Policy Payments	248.6	184.7	139.6	73.0	56.7	17.7	11.9	7.5	739.8
(2.3) Special Revenue Assistance	na	na	na	na	na	na	14.7	na	14.7
(3) Total Specific Purpose Payments (3.1)+(3.2)+(3.3)	7,072.5	5,191.4	3,990.6	2,447.0	1,727.7	511.1	356.6	353.7	21,650.6
(3.1) Specific Purpose Payments 'to' the States	5,174.6	3,700.0	2,932.4	1,835.8	1,296.6	370.1	235.8	281.8	15,827.2
(3.2) Specific Purpose Payments 'through' the States	1,806.9	1,401.2	999.2	565.5	405.0	128.3	117.4	67.8	5,491.3
(3.3) Specific Purpose Payments direct to local government	91.0	90.1	59.0	45.7	26.2	12.8	3.3	4.1	332.1
(4) Total Commonwealth payments to the State/local sector (2)+(3)	8,185.3	5,820.4	4,197.7	2,619.0	1,954.0	584.4	406.0	379.5	24,146.3
(5) GST revenue and total Commonwealth payments (1)+(4)	16,903.1	11,984.4	9,841.3	5,444.7	4,694.7	1,785.6	992.9	1,879.6	53,526.3

KEY DEVELOPMENTS SINCE THE 2001-02 BUDGET

Key developments in Commonwealth-State financial relations since the 2001-02 Budget are highlighted below.

The First Home Owners Scheme

The First Home Owners Scheme (FHOS), which was introduced on 1 July 2000, is funded out of GST revenues and guaranteed by the Commonwealth through BBA payments to the States. It provides assistance to first home buyers across all States in the form of a \$7,000 grant. The Scheme, which is administered by the States, has provided over 300,000 grants to eligible home buyers since its introduction.

- On 9 March 2001, the Commonwealth announced that an additional \$7,000 grant, fully funded by the Commonwealth, would be available for first home owners building or purchasing new but previously unoccupied homes before 31 December 2001. In December 2001, the Government announced a phase down of the additional grant making it available for a further six months, from 1 January 2002, at a reduced rate of \$3,000 per grant. The additional grant will cease on 30 June 2002, while the original Scheme will continue to offer \$7,000 grants to eligible first home buyers. The Government also announced that more liberal construction commencement and completion requirements will apply to additional FHOS grants for contracts made on or after 9 October 2001.
 - Since its introduction, additional FHOS grants for new homes have been provided to over 40,000 eligible first home buyers.

In total, over \$2.4 billion has been provided to eligible home buyers through original and additional FHOS grants since July 2000.

Abolition of Financial Institutions Duty and Stamp Duty on Quoted Marketable Securities

From 1 July 2001, Financial Institutions Duty and stamp duty on quoted marketable securities were abolished. This will result in estimated total savings to the community of \$1,871.1 million in 2001-02 and \$2,105.9 million in 2002-03. The abolition is funded out of GST revenues and guaranteed by the Commonwealth through BBA payments to the States.

The Ministerial Council for Commonwealth-State Financial Relations

The Ministerial Council, comprising the Commonwealth Treasurer and all State and Territory Treasurers, met on 22 March 2002. This was the third meeting of the Ministerial Council.

National Excise Scheme for Low Alcohol Beer

At the Ministerial Council meeting of 22 March 2002, Commonwealth and State Treasurers agreed to implement a National Excise Scheme for Low Alcohol Beer. The Scheme replaces a range of State beer subsidy schemes with a nationally uniform and administratively efficient concession in the rate of excise on low alcohol beer. The new excise rates will come into effect on 1 July 2002 and are estimated to reduce excise revenue by \$68 million in 2002-03 (and comparable amounts thereafter).

The Commonwealth will deduct from each State's BBA an amount commensurate with its current subsidies, indexed for inflation, for as long as each State continues to receive BBA. After the transition period, when all States no longer require BBA, the Commonwealth will fully fund the Scheme.

The Guaranteed Minimum Amount

As from 1 July 2002, indexation will not be included in the calculation of petroleum Revenue Replacement Payments (RRPs) forgone, which is a component of each State's Guaranteed Minimum Amount (GMA).

- This revenue was collected by the Commonwealth on behalf of the States following the High Court decisions in *Ha and Lim v New South Wales* and *Walter Hammond & Associates v New South Wales* in August 1997. At the unanimous request of the States, the Commonwealth levied taxation of tobacco, petroleum products and alcoholic beverages in order to collect revenue on behalf of the States which they had lost following the abolition of their business franchise fees.
- These amounts became known as RRP's. With the introduction of *The New Tax System*, payments of RRP's ceased, but RRP's forgone are included as a component of the GMA.

The Commonwealth decided in March 2001 to abolish indexation of fuel excise rates. As the Commonwealth is no longer collecting indexation on petroleum, it is appropriate also that in future the States no longer receive indexation on petroleum RRP's forgone. The cessation of indexation of the petroleum RRP's forgone component of the GMA will only affect the GMA from 2002-03. Payments to the States in 2001-02 will be unaffected.

Administration of the GST

As the GST is collected by the Australian Tax Office (ATO) for the States, the States compensate the Commonwealth for the costs of collecting and administering the GST. The Ministerial Council agreed to the ATO GST administration budget for 2002-03. This funding is expected to generate an increase in GST revenue to be provided to the States. Further details are provided in Appendix A of this Paper and in *Budget Paper No. 2*.

The Ministerial Council also endorsed a GST Administration Performance Agreement between the States and the ATO.

- The purpose of the Performance Agreement is to provide accountability of the ATO to the States, on behalf of whom the GST is collected.

State and Territory Treasurers and the Commissioner of Taxation signed the Performance Agreement at the Ministerial Council meeting. It will operate from 1 July 2002.