

Attachment F

GST REVENUE PROVISION TO THE STATES AND TERRITORIES

All GST revenue is paid to the states and territories (the states) under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the IGA). In 2004-05, the states will receive GST revenue totalling an estimated \$35.2 billion (Table 20).

From 2004-05 onwards, every state and territory will receive more revenue from the GST than they would have under the previous system of financial assistance grants and the state taxes that were abolished by The New Tax System.

In 2004-05, all states will receive a windfall over the Guaranteed Minimum Amount (GMA). Including the compensation for the annual payment of GST, the states will receive a total gain from tax reform of over \$1.9 billion more than the GMA (Table 20). The GMA is an estimate of funding each state would have had available to it had tax reform not been implemented.

As the GST is a secure, growing and broad based revenue source, the states' gain from tax reform is estimated to continue growing to around \$3.2 billion by 2007-08 (Table 20). This means that the Australian Government's tax reform will deliver to the states an extra \$1.9 billion in 2004-05, growing to around \$3.2 billion in 2007-08, to spend according to their own priorities. States can use this additional funding for essential community services such as hospitals, schools, public transport, roads and police, and to lower their tax burdens.

Under the IGA, all the states committed to abolish the bank account debits tax, subject to review by the Ministerial Council for Commonwealth-State Financial Relations. At the March 2004 Ministerial Council meeting, state governments agreed to abolish bank account debits tax by 1 July 2005.

The IGA also provides that the Ministerial Council will, by 2005, review the need to retain stamp duty on the following:

- non-residential conveyances;
- non-quotable marketable securities;
- leases;
- mortgages, bonds, debentures and other loan securities;
- credit arrangements, instalment purchase arrangements and rental arrangements;
and

- cheques, bills of exchange and promissory notes.

The Ministerial Council committed to this review at its March 2004 meeting and will consider the review at its March 2005 meeting.

As the Australian Government's tax reforms have delivered significantly more revenue to the states than would have been the case if the reforms had not been implemented, the states should be able to abolish these inefficient stamp duties in the near future.

Table 20: Forward estimates of states' gains from tax reform^(a)

2004-05 (\$m)	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
(1) Guaranteed Minimum Amount	9,738.2	7,082.6	6,599.0	3,387.2	3,140.6	1,340.6	627.7	1,587.1	33,503.0
(2) GST Revenue	9,870.3	7,321.3	7,314.7	3,613.4	3,282.0	1,434.6	676.6	1,712.1	35,225.0
(3) Compensation for GST deferral	63.7	47.0	44.9	22.3	20.1	8.2	4.0	9.2	219.4
(4) State and territory gains from tax reform (2) + (3) - (1)	195.9	285.6	760.6	248.5	161.5	102.1	52.9	134.3	1,941.4
2005-06 (\$m)	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
(1) Guaranteed Minimum Amount(b)	10,335.4	7,619.6	7,191.8	3,541.2	3,290.8	1,419.6	660.3	1,661.4	35,720.2
(2) GST Revenue	10,474.3	7,815.5	7,729.6	3,722.5	3,421.7	1,506.3	705.7	1,784.5	37,160.0
(3) Compensation for GST deferral(c)	35.8	26.7	26.4	12.7	11.7	5.1	2.4	6.1	127.0
(4) State and territory gains from tax reform (2) + (3) - (1)	174.6	222.6	564.3	194.0	142.5	91.8	47.8	129.2	1,566.8
2006-07 (\$m)(d)	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
(1) Guaranteed Minimum Amount	10,659.3	7,998.9	7,443.8	3,577.8	3,407.2	1,466.2	677.3	1,733.3	36,963.7
(2) GST Revenue	11,064.5	8,387.4	8,158.2	3,841.5	3,602.5	1,578.3	735.3	1,862.5	39,230.0
(3) Compensation for GST deferral(e)	4.9	3.7	3.6	1.7	1.6	0.7	0.3	0.8	17.2
(4) State and territory gains from tax reform (2) + (3) - (1)	410.0	392.1	718.0	265.4	196.9	112.8	58.3	130.0	2,283.5
2007-08 (\$m)	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
(1) Guaranteed Minimum Amount	10,896.1	8,348.9	7,724.7	3,672.5	3,519.1	1,508.9	695.6	1,809.5	38,175.3
(2) GST Revenue	11,572.3	8,953.6	8,627.6	4,044.5	3,777.3	1,640.4	771.3	1,943.1	41,330.0
(3) Compensation for GST deferral(e)	5.1	3.9	3.8	1.8	1.7	0.7	0.3	0.9	18.2
(4) State and territory gains from tax reform (2) + (3) - (1)	681.3	608.6	906.7	373.8	259.8	132.2	76.0	134.5	3,172.9

(a) Projections from 2004-05 will be affected by variations in Guaranteed Minimum Amount (GMA) components, GST revenue growth and recommendations by the Commonwealth Grants Commission on the distribution of GST to each of the states and territories in future years. See Budget Paper No 3, *Federal Financial Relations 2004-05* for details of the GMA and the distribution of GST revenue among the states and territories.

(b) As agreed at the 26 March 2004 meeting of the Ministerial Council for Commonwealth-State Financial Relations, bank account debits tax is to be abolished by 1 July 2005. The revenue forgone by the states and territories is included in their GMAs from 2005-06 to ensure the states and territories are no worse off. Accordingly, state and territory gains from tax reform decrease in 2005-06 compared to 2004-05. However, the estimates of GMAs do not contain reductions in the following state taxes: non-residential conveyances; non-quotable marketable securities; leases; mortgages, bonds, debentures and other loan securities; credit arrangements, instalment purchase arrangements and rental arrangements; cheques, bills of exchange and promissory notes, which are the subject of review by the Ministerial Council in 2005.

(c) Under arrangements to compensate the states for the annual payment of GST measure in 2004-05, \$219.4 million of 2005-06 GST revenue is to be advanced to the states in 2004-05. This advance will be recovered from the states, in accordance with the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999*, by lowering payments to the states under the Act in 2005-06. The states will then receive an additional payment of \$219.4 million to ensure that the total amount equating to 2005-06 GST revenue is paid to the states in 2005-06.

(d) The transition period in which the Australian Government guarantees that no state or territory will be worse off due to tax reform expires on 30 June 2006.

(e) Compensation payments to the states in future years will be reviewed at a later stage, with the possibility of this future compensation being paid as an upfront lump-sum.