

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 2005-06, the States will receive GST revenue totalling an estimated \$36.7 billion (Table 20). GST payments to the States are estimated to be \$627 million lower than estimated at the 2005-06 Budget. The downward revision reflects recovery of the \$287 million in overpayment of GST in 2004-05 and a decrease in the estimate of total GST receipts in 2005-06 by \$340 million.

In 2005-06, the States will collectively continue to 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.

Each State, except New South Wales (NSW), will receive a windfall over the Guaranteed Minimum Amount (GMA). The GMA is an estimate of the funding each State would have had available to it had tax reform not been implemented. In 2005-06, the States will receive a total gain from tax reform of around \$1.1 billion more than the GMA (Table 20). The Australian Government will provide Budget Balancing Assistance (BBA) to ensure that NSW receives its GMA and is hence no worse off in 2005-06 due to tax reform. It is estimated NSW will require \$77 million; however, approximately \$62 million of this amount will be recovered through a Residual Adjustment Amount (RAA).

Residual adjustments are used to ensure that correct final BBA outcomes are achieved. Based on MYEFO estimates, NSW will be overpaid \$62 million of BBA in 2005-06. A RAA of negative \$62 million for 2005-06 is therefore necessary to adjust for this overpayment

Consistent with the IGA, all States abolished debits tax by 1 July 2005 (NSW abolished debits tax on 1 January 2002). Growth in GST revenue helped put State governments in a position where they could abolish this tax and pass on more of the benefits of tax reform to taxpayers. The abolition of debits tax will save taxpayers over \$1 billion in 2005-06.

Further, consistent with the terms of the IGA, the 2005 Ministerial Council for Commonwealth-State Financial Relations reviewed the need for the retention of the other taxes listed in the IGA. The amended IGA mandated a review rather than setting a firm date for their abolition as had been the case in the original IGA. This is because the Senate narrowed the GST base and, as a consequence there was uncertainty about when GST revenue would be sufficient to fund their abolition. The clear intent of the IGA was that, if GST revenue proved to be sufficient at the time of the review, the States would abolish these taxes.

Part 3: Fiscal outlook

As part of the review, the Australian Government made a proposal to the States that the majority of the remaining taxes be abolished by 2007-08. As part of that proposal, the Australian Government offered to extend the period within which it would pay BBA to a State whose GST revenue falls short of its GMA. This offer to protect States from falling below their GMA as a result of further tax reform, together with the significant windfall gains that tax reform has provided the States, make the Australian Government's proposal affordable to all States.

The proposal involves the abolition of the following stamp duties by 1 July 2006: 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. Additionally, stamp duty on non-real non-residential conveyances would be abolished by 1 July 2007 and stamp duty on non-residential conveyances on real property would cease to apply by a date to be determined by the Ministerial Council on the basis that no State will be worse off in any year.

States' gains from tax reform are estimated to be around \$1.4 billion by 2008-09 (Table 20). The estimates of States' gains from tax reform are based on the Australian Government's proposal for the elimination of the majority of remaining IGA state taxes which, if still collected in all States, would cost taxpayers \$8.8 billion over the four years from 2006-07. The increase in the States' GMAs due to the Australian Government's proposal results in the States' windfall gains being lower in 2006-07 and 2007-08 compared to 2005-06, despite growing GST revenues.

On 20 April 2005, six States and Territories responded to the Australian Government with an alternative proposal on the timing and sequencing of the elimination of these taxes. The Australian Government is considering its response to the States' proposal. The Australian Government is also considering the range of measures available to it to encourage other States to eliminate their IGA taxes.

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)

2005-06 (\$m)(b)	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
(1) Guaranteed Minimum Amount	10,317.3	7,666.8	7,096.5	3,586.5	3,269.0	1,395.8	668.1	1,695.5	35,695.5
(2) GST revenue	10,240.4	7,740.7	7,582.4	3,758.0	3,394.8	1,477.7	712.3	1,806.4	36,712.6
(3) Budget Balancing Assistance	77.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	77.0
(4) State and Territory gains from tax reform	0.0	73.9	485.9	171.4	125.8	81.8	44.2	111.0	1,094.0
2006-07 (\$m)	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
(1) Guaranteed Minimum Amount(c)	11,379.1	8,342.8	7,658.6	3,853.2	3,497.3	1,464.4	712.7	1,811.1	38,719.1
(2) GST revenue	11,136.9	8,407.0	7,949.3	3,925.9	3,573.8	1,531.8	758.5	1,916.7	39,200.0
(3) Budget Balancing Assistance	242.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	242.2
(4) State and Territory gains from tax reform	0.0	64.2	290.7	72.7	76.6	67.4	45.9	105.6	723.0
2007-08 (\$m)	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
(1) Guaranteed Minimum Amount(d)	11,980.0	8,665.8	8,087.0	4,102.2	3,651.6	1,515.5	733.9	1,921.6	40,657.6
(2) GST revenue	11,724.5	8,917.4	8,391.8	4,176.4	3,723.1	1,578.4	793.9	2,014.5	41,320.0
(3) Budget Balancing Assistance	255.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	255.5
(4) State and Territory gains from tax reform	0.0	251.6	304.8	74.2	71.5	62.9	60.0	92.9	918.0
2008-09 (\$m)	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
(1) Guaranteed Minimum Amount	12,462.1	9,007.2	8,365.2	4,272.5	3,749.3	1,554.2	751.4	2,013.8	42,175.8
(2) GST revenue	12,359.2	9,468.0	8,782.1	4,429.1	3,872.4	1,631.2	826.3	2,111.5	43,480.0
(3) Budget Balancing Assistance	102.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	102.9
(4) State and Territory gains from tax reform	0.0	460.8	416.9	156.6	123.1	77.0	75.0	97.6	1,407.1

Note: These estimates are based on the Australian Government's proposal of 23 March 2005 for the elimination of the majority of the taxes listed for review in the IGA.

- (a) Projections from 2005-06 will be affected by variations in GMA components, GST revenue growth and from 2006-07, recommendations by the Commonwealth Grants Commission on the distribution of GST to each of the States and Territories in future years. See *Federal Financial Relations 2005-06*, Budget Paper No. 3 for details of the GMA and the distribution of GST revenue among the States and Territories.
- (b) The transitional 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. However, as part of the Australian Government's proposal, the Australian Government has offered to extend the transitional period to 30 June 2009.
- (c) Consistent with the Australian Government's proposed timetable for the abolition of further inefficient state taxes, GMAs from 2006-07 include estimates of revenue forgone from stamp duties on the following: 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.
- (d) Consistent with the Australian Government's timetable, GMAs from 2007-08 include estimates of revenue forgone from stamp duty on non-residential conveyances other than real property.

