GST REVENUE TO THE STATES

In accordance with the Intergovernmental Agreement, the Australian Government administers the GST on behalf of the States and all GST revenue is paid to the States. This provides the States with a robust, secure and growing source of revenue to spend according to their own budget priorities. In 2007-08, GST revenue will be $43.1 billion — an increase of $2.4 billion (5.8 per cent) from 2006-07.

VARIATIONS IN GST REVENUE SINCE THE 2006-07 BUDGET

Table 2 is a reconciliation of the GST revenue estimates since the 2006-07 Budget and the *Mid-Year Economic and Fiscal Outlook 2006-07* (MYEFO). The reconciliation accounts for policy decisions and parameter and other variations.

Table 2: Reconciliation of GST revenue estimates

	Estimates		Projections	
$million	2006-07	2007-08	2008-09	2009-10
GST revenue at 2006-07 Budget	**40,000**	**42,210**	**44,440**	**46,670**
Changes from 2006-07 Budget to MYEFO				
Effect of policy decisions	..	..	..	..
Effect of revenue recognition variations(a)	390	340	260	350
Effect of parameter and other variations	240	580	930	980
Total variations	630	920	1,190	1,330
GST revenue at 2006-07 MYEFO	**40,630**	**43,130**	**45,630**	**48,000**
Changes from MYEFO to 2007-08 Budget				
Effect of policy decisions	..	-110	-161	-138
Effect of parameter and other variations	90	70	31	-52
Total variations	90	-40	-130	-190
GST revenue at 2007-08 Budget	**40,720**	**43,090**	**45,500**	**47,810**

(a) Accrual estimates for GST revenue at the 2006-07 Budget were recognised using the Taxation Liability Method (TLM) of revenue recognition. Since the 2005-06 Final Budget Outcome, GST revenue has been recognised using the Economic Transactions Method (ETM) method of revenue recognition. Refer to Appendix F of Statement 5 in 2006-07 Budget Paper No. 1 for an explanation of the different methods of revenue recognition.

GST revenue for 2006-07 is expected to be $90 million higher than forecast at MYEFO. This reflects the stronger than expected March quarter outcome for consumption subject to GST. However, weaker inflation forecasts since MYEFO dampen GST revenue in 2007-08 and the forward years. Policy decisions will also have a small negative impact on GST revenue in 2007-08 and the forward years.

Policy decisions which have a positive impact on GST revenue include:

- providing funding for additional compliance activities for GST (additional revenue of $65 million over four years); and

- not proceeding with a decision in respect to compulsory third party insurers (additional revenue of $27 million over four years).

The revenue impact of those policy decisions is more than offset by decisions which have a negative impact on GST revenue, including:

- increasing the registration turnover threshold for the GST (at a cost of $318 million over four years); and

- changes to the operation of tourist shopping arrangements to enhance their effectiveness (at a cost of $263 million over four years).

The estimated revenue effect of each GST policy decision since the 2006-07 MYEFO is shown in Table 3. Detailed information on each decision is in Appendix C.

Table 3: GST revenue policy decisions since the 2006-07 MYEFO

$million	2007-08	2008-09	2009-10	2010-11
Compulsory third party schemes - alternative global decreasing adjustment methodology	6.7	6.7	6.7	6.7
Debt collection enhancement - reducing taxation debt and outstanding superannuation guarantee charge payments	5.0	20.0	20.0	20.0
Employee share schemes that provide stapled securities	-0.1	-0.1	-0.1	-0.1
Expand the range of goods in inwards duty free stores	-2.0	-2.0	-2.0	-2.0
GST car concession for certain injured defence personnel	-	-	-	-
GST concessions for the International Criminal Court	..	..	..	..
Increasing the GST registration turnover threshold	-56.7	-82.9	-87.1	-91.4
Increasing the threshold for requiring an approved tax invoice for GST	-0.9	-1.1	-1.2	-1.3
International telecommunications services	-	-	-	-
PAYG instalments paid annually when voluntarily registered for GST	-	-35.0	-5.0	-5.0
Pharmaceutical concession for certain defence personnel	-	-	-	-
Simplified accounting methods - extending availability	-1.0	-2.0	-2.0	-2.0
Tourist Refund Scheme - introducing private providers and enhancements to tax-free shopping	-61.0	-65.0	-67.0	-70.0
Total GST revenue policy decisions	**-110.0**	**-161.4**	**-137.7**	**-145.1**

GST REVENUE TO THE STATES

Under the Intergovernmental Agreement, all GST revenue collected by the Australian Taxation Office is provided to the States. The Commissioner of Taxation estimates the likely level of GST receipts in June, prior to the end of each financial year. A balancing adjustment is also usually made in the following financial year to ensure that the States receive the full amount of GST receipts for a financial year. The calculations of GST revenue to be provided to the States are provided in Table 4.

Table 4: GST revenue to the States

	Actual	Estimates		Projections		
$million	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
GST revenue	38,884	40,720	43,090	45,500	47,810	50,300
less change in GST receivables	1,443	1,140	1,240	1,300	1,360	1,450
GST receipts	37,442	39,580	41,850	44,200	46,450	48,850
plus variation from the Commissioner's determination(a)	28					
plus prior year balancing adjustment	-288	-28				
GST revenue to the States	37,182	39,552	41,850	44,200	46,450	48,850

(a) The Commissioner's determination for 2005-06 was $28 million higher than the final outcome.

GST revenue to the States has grown strongly since its introduction, as shown in Table 5. The average annual growth since 2001-02[2] has been 7.9 per cent. Furthermore, GST revenue has increased from 3.6 per cent of GDP in 2001-02 to 3.8 per cent in 2007-08.

Table 5: Growth in GST revenue to the States since 2000-01

$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2000-01	7,258	5,099	4,658	2,375	2,279	988	473	1,226	24,355
2001-02	8,132	5,593	5,019	2,518	2,477	1,060	544	1,290	26,632
2002-03	9,080	6,365	5,888	2,910	2,859	1,247	616	1,515	30,479
2003-04	9,667	6,961	6,553	3,158	3,146	1,394	658	1,681	33,219
2004-05	9,884	7,346	7,329	3,624	3,293	1,435	680	1,730	35,323
2005-06	10,362	7,833	7,689	3,804	3,442	1,496	723	1,834	37,182
2006-07(a)	11,034	8,573	8,049	3,978	3,591	1,573	768	1,985	39,552
2007-08(a)	11,926	9,147	8,384	3,945	3,855	1,646	823	2,124	41,850

(a) Estimates.

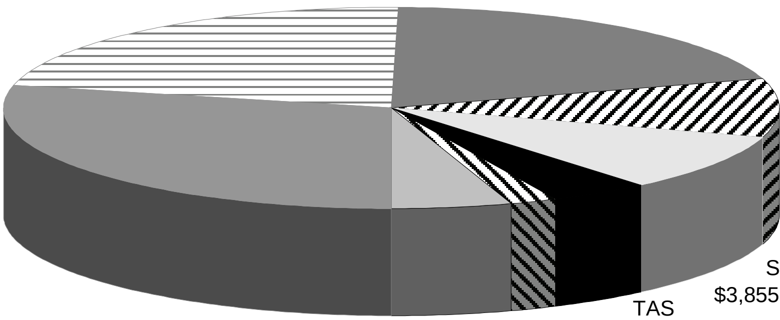
2 As only 11 monthly activity statements, 3 quarterly activity statements, and no annual activity statements were payable in 2000-01, the calculated annual growth uses 2001-02 as the base year.

DISTRIBUTION OF GST REVENUE AMONG THE STATES

As agreed by all States in the Intergovernmental Agreement, GST revenue is distributed among the States in accordance with the long-standing principle of horizontal fiscal equalisation and having regard to the recommendations of the Commonwealth Grants Commission.

The state shares of GST revenue for 2007-08 (totalling $41.9 billion) are shown in Chart 2.

Chart 2: State shares of GST revenue, 2007-08



GST relativities

The Commission recommends relativities to be used in calculating each State's share of GST revenue such that, if each State made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each State would have the capacity to provide services at the same standard.

This does not necessarily result in the equalisation of government services — just the equalisation of the capacity to provide the same standard of services. States are able to spend their share of GST revenue according to their own budget priorities.

In calculating the GST relativities, the Commission takes into account differences in the States' capacities to raise revenues and differences in the costs the States would incur in providing the same standard of government services.

The GST relativities have been endorsed by the Ministerial Council for Commonwealth-State Financial Relations. The relativities for 2006-07 and 2007-08 are shown in Table 6.

Table 6: GST relativities, 2006-07 and 2007-08

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2006-07(a)	0.87332	0.89559	1.02387	1.00480	1.18862	1.54931	1.14575	4.32755
2007-08	0.89079	0.90096	1.00607	0.94747	1.20791	1.54465	1.16293	4.36824

(a) These relativities take account of amended data provided by South Australia after the release of the Commonwealth Grants Commission's 2006 report.

Applying the GST relativities to the GST pool

The Intergovernmental Agreement defines the GST pool for a financial year to consist of GST revenue plus health care grants provided by the Australian Government under Australian Health Care Agreements. Some health care grants are quarantined from the pool.

The GST relativities are applied to estimated state populations in order to determine a weighted population for each State. Each State is then allocated its population-weighted share of the combined pool of GST revenue and unquarantined health care grants. The final distribution of GST revenue is determined by deducting the unquarantined health care grants, which are separately provided to the States, from each State's share of the GST pool. The calculations for the distribution of the GST pool are shown in Table 7.

Table 7: Distribution of the GST pool, 2006-07 and 2007-08

	Projected population 31 December	GST relativities	Weighted population(a) (1) x (2)	Share of weighted population	Share of GST pool	Unquarantined HCGs	GST revenue (5) - (6)
				%	$m	$m	$m
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2006-07							
NSW	6,863,553	0.87332	5,994,078	28.9	13,821.4	2,787.1	11,034.2
VIC	5,128,419	0.89559	4,592,961	22.1	10,590.6	2,017.8	8,572.8
QLD	4,089,996	1.02387	4,187,624	20.2	9,656.0	1,607.0	8,049.0
WA	2,073,267	1.00480	2,083,219	10.0	4,803.6	825.7	3,977.9
SA	1,561,537	1.18862	1,856,074	8.9	4,279.8	689.0	3,590.8
TAS	490,427	1.54931	759,823	3.7	1,752.0	178.8	1,573.3
ACT	330,735	1.14575	378,940	1.8	873.8	105.5	768.3
NT	208,330	4.32755	901,558	4.3	2,078.8	93.5	1,985.4
Total	20,746,264	n/a	20,754,277	100.0	47,855.9	8,304.2	39,551.7
2007-08							
NSW	6,928,601	0.89079	6,171,928	29.4	14,858.3	2,932.0	11,926.3
VIC	5,198,499	0.90096	4,683,640	22.3	11,275.4	2,128.4	9,147.0
QLD	4,165,916	1.00607	4,191,203	19.9	10,089.9	1,705.6	8,384.3
WA	2,114,454	0.94747	2,003,382	9.5	4,822.9	877.5	3,945.4
SA	1,574,204	1.20791	1,901,497	9.0	4,577.6	723.0	3,854.6
TAS	493,242	1.54465	761,886	3.6	1,834.2	187.8	1,646.3
ACT	333,585	1.16293	387,936	1.8	933.9	111.3	822.6
NT	211,303	4.36824	923,022	4.4	2,222.1	98.6	2,123.5
Total	21,019,804	n/a	21,024,494	100.0	50,614.2	8,764.2	41,850.0

(a) The totals of the weighted populations in column 3 differ from the totals of the populations in column 1. This is a consequence of the population projections in column 1 being revised subsequent to the Commonwealth Grants Commission calculating the GST relativities.

The effect of horizontal fiscal equalisation

One way to view the effect of horizontal fiscal equalisation is to compare each State's share of the GST pool using the GST relativities with a notional distribution on an equal per capita basis. In 2007-08, $3.3 billion (or 6.6 per cent) of the GST pool will be redistributed among the States, compared with an equal per capita distribution (Table 8).

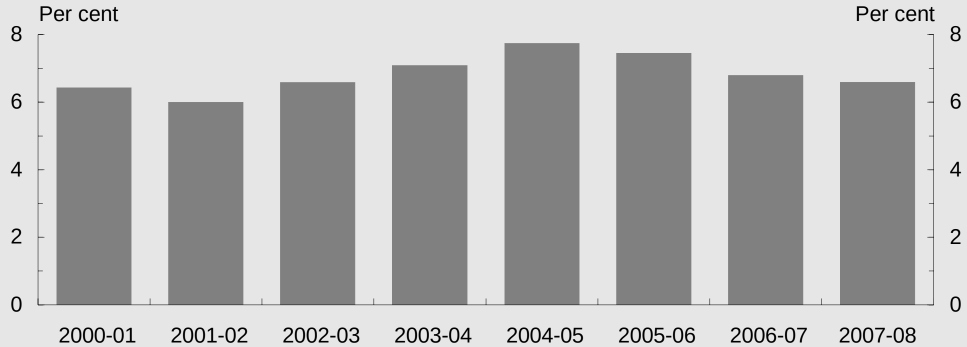
Table 8: Effect of horizontal fiscal equalisation, 2007-08

	GST pool distributed using GST relativities	Equal per capita distribution of GST pool	Redistribution(a)	Estimated population	Per capita redistribution
	$m	$m	$m	million	$
NSW	14,858.3	16,683.6	-1,825.3	6.9	-263.4
VIC	11,275.4	12,517.6	-1,242.3	5.2	-239.0
QLD	10,089.9	10,031.2	58.6	4.2	14.1
WA	4,822.9	5,091.5	-268.5	2.1	-127.0
SA	4,577.6	3,790.6	787.1	1.6	500.0
TAS	1,834.2	1,187.7	646.5	0.5	1,310.6
ACT	933.9	803.2	130.7	0.3	391.7
NT	2,222.1	508.8	1,713.3	0.2	8,108.1
Total	50,614.2	50,614.2	3,336.1	21.0	na

(a) The total redistribution of $3,336.1 million is the sum of positive (or negative) items in that column.

The proportion of the GST pool being redistributed in 2007-08 continues the decline evident since 2004-05 (Chart 3). This reflects the convergence in the fiscal capacities of the four most populous States, partly due to the influence of commodity prices and property market cycles on the revenue raising capacities of these States.

Chart 3: GST redistribution as a proportion of the GST pool



Simplification of the horizontal fiscal equalisation methodology

In March 2007, the Commonwealth Grants Commission reported to the Ministerial Council for Commonwealth-State Financial Relations on its further progress with the methodology review. The report was endorsed by the Ministerial Council. The outcomes of the Commission's methodology review are to be implemented in 2010. The Commission's report is available on its website at www.cgc.gov.au.

GST ADMINISTRATION

Because the GST has a national tax base, but all GST revenue is provided to the States, the Intergovernmental Agreement provides for the Australian Taxation Office to administer the GST on behalf of the States. Consequently, the States compensate the Australian Government for the agreed costs incurred by the Australian Taxation Office in administering the GST, as shown in Table 9.

Table 9: GST administration costs

	Actual	Estimates		Projections		
$million	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Australian Taxation Office	603.8	618.5	635.9	644.5	633.6	639.3
State government payments	-603.8	-618.5	-635.9	-644.5	-633.6	-639.3
Australian Government budget impact	0	0	0	0	0	0

In March 2007, the Ministerial Council for Commonwealth-State Financial Relations endorsed the administration costs for 2007-08, including additional costs of $15 million over four years in respect of the policy decision to improve compliance activities.