

PART 3: GST AND GENERAL REVENUE ASSISTANCE

General revenue assistance is a broad category of payments. This assistance is provided to the States without conditions, to spend according to their own budget priorities.

Until 2010-11, all payments of GST to the States will be general revenue assistance. As agreed on 20 April 2010 by COAG, other than Western Australia, from 2011-12 an agreed amount of GST revenue will be retained and dedicated to health and hospital services in each State. Remaining GST will continue to be untied general revenue assistance.

OVERVIEW OF PAYMENTS

In 2010-11, the States will receive \$47.9 billion in GST payments from the Commonwealth. This is a 7.6 per cent increase in GST payments compared with the \$44.5 billion the States will receive in 2009-10. The States will also receive \$707 million in other general revenue assistance. This is a 1.4 per cent decrease in other general revenue assistance, compared with the \$717 million the States will receive in 2009-10. The decrease in other general revenue assistance in 2010-11 is largely the result of lower royalty payments to Western Australia. Total GST payments and general revenue assistance by State is shown in Table 3.1.

The increase in GST payments over the forward estimates, which are expected to be \$14.7 billion higher than forecast at Mid-Year Economic and Fiscal Outlook (MYEFO), is largely a reflection of higher forecast growth for taxable consumption as the economy recovers from the global recession.

Table 3.1: GST payments and general revenue assistance by State

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2009-10	13,463	10,104	8,181	4,409	4,107	1,639	936	2,407	45,246
2010-11	14,793	11,212	8,906	4,006	4,517	1,761	919	2,524	48,637
2011-12	16,205	11,982	9,097	4,109	4,831	1,866	971	2,796	51,857
2012-13	17,286	12,993	9,336	4,341	5,092	1,986	1,056	2,940	55,030
2013-14	18,235	13,738	10,018	4,646	5,315	2,049	1,100	3,013	58,114

In 2010-11, total general revenue assistance to the States will represent 13.7 per cent of total Commonwealth expenditure. General revenue assistance and GST payments the Commonwealth provides to the States, including GST retained and dedicated to health and hospital services, are shown in Table 3.2.

The estimates of GST to be retained and dedicated to health and hospital services across the forward estimates are indicative only. Through the years 2011-12 to 2013-14, the amount of GST dedicated to health and hospital services will be determined

annually based on actual health expenditure of the States. Detailed work will be required between the Commonwealth and the States in the period through to 1 July 2011 to align jurisdictional budget data to ensure consistency of approach and accuracy when GST dedicated to health and hospital services is first determined in 2011-12.

Table 3.2: GST payments and general revenue assistance

\$million	2009-10	2010-11	2011-12	2012-13	2013-14
GST payments (including dedicated GST)(a)	44,529	47,930	51,210	54,380	57,510
Other payments					
Budget balancing assistance	-	-	-	-	-
Residual Adjustment Amounts	68	-	-	-	-
Royalties	775	581	521	509	470
Compensation					
Reduced royalties	51	44	44	58	49
GST policy decisions	-242	-	-	-	-
Snowy Hydro Ltd tax compensation	31	47	47	47	47
ACT municipal services	35	36	36	37	38
Total other	717	707	647	650	604
Total GST and other payments	45,246	48,637	51,857	55,030	58,114
Less: GST dedicated to health (a)	-	-	13,713	14,941	16,251
Total general revenue assistance	45,246	48,637	38,144	40,089	41,863

(a) Estimates of GST dedicated to health and hospital services are calculated on the basis of Treasury projections using data from the Australian Institute of Health and Welfare. These estimates are indicative only, with final amounts to be determined annually, in consultation with the States, on the basis of actual expenditure. Western Australia will continue to receive GST revenue as general revenue assistance until it becomes a signatory to the *National Health and Hospitals Network Agreement*.

GST PAYMENTS

GST retained and dedicated to health and hospital services

On 20 April 2010, COAG, with the exception of Western Australia, agreed to significant reforms to the funding arrangements for health and hospital services through the *National Health and Hospitals Network Agreement*. Under that agreement, one of the three sources of Commonwealth *National Health and Hospitals Network* funding is a portion of GST retained and dedicated to health and hospital services.

For the period 2011-12 to 2013-14, the GST dedicated to health and hospital services in each State other than Western Australia will be the amount that, combined with funding sourced from the National Healthcare SPP, will fund the 60 per cent Commonwealth hospital funding contribution outlined in the agreement, 100 per cent of GP and primary health care services undertaken by the States and the net additional costs for changes in roles and responsibilities in Home and Community Care and related programs.

The proportion of GST dedicated to health and hospital services will be determined on a State by State basis and will vary depending on each State's share of the total GST

pool and health care costs. In aggregate, it will be around one-third of the total GST pool. The remaining portion of each State's share of the GST pool will continue to be untied general revenue assistance.

The amount of GST dedicated to health and hospital services in each State will be fixed in 2014-15, based on 2013-14 costs, and indexed at the rate of overall GST growth. From 2014-15, the Commonwealth will fund its share of growing health costs over and above growth in the funding sourced from the National Healthcare SPP and dedicated GST, through a Commonwealth top-up payment.

Until Western Australia becomes a signatory to the *National Health and Hospitals Network Agreement* it will continue to receive its share of the GST pool as general revenue assistance.

GST revenue variations since the 2009-10 Budget

Table 3.3 is a reconciliation of the GST revenue estimates since the 2009-10 Budget and MYEFO. The reconciliation accounts for policy decisions and parameter and other variations.

GST revenue in 2009-10 has been revised up by \$2.6 billion since the 2009-10 MYEFO, reflecting higher forecast growth for taxable consumption as the economy recovers from the global recession.

Table 3.3: Reconciliation of GST revenue estimates

\$million	Estimates		Projections	
	2009-10	2010-11	2011-12	2012-13
GST revenue at 2009-10 Budget	43,630	45,960	48,670	51,880
<i>Changes from 2009-10 Budget to MYEFO</i>				
Effect of policy decisions	-	*	*	*
Effect of parameter and other variations	630	1,290	1,760	1,720
Total variations	630	1,290	1,760	1,720
GST revenue at 2009-10 MYEFO	44,260	47,250	50,430	53,600
<i>Changes from MYEFO to 2010-11 Budget</i>				
Effect of policy decisions	25	338	529	676
Effect of parameter and other variations	2,545	2,412	2,451	2,394
Total variations	2,570	2,750	2,980	3,070
GST revenue at 2010-11 Budget	46,830	50,000	53,410	56,670

Table 3.4 shows policy decisions taken since MYEFO that affect GST revenue. These decisions increase the amount of GST revenue by \$2.3 billion over five years and include:

- GST compliance program — working together to improve voluntary compliance (\$1.6 billion over four years from);

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- increasing the excise and excise-equivalent customs duty on tobacco products (\$505.0 million over five years);
- ATO compliance program – dealing with the cash economy (\$146.7 million over four years);
- stronger, fairer, simpler tax reform – growth dividend (\$94.0 million over two years from 2012-13);
- Migration Program – allocation of places for 2010-11 (-\$24.1 million over four years);
- Work and Holiday visa (Subclass 462) addition of new participant countries (\$11.4 million over four years); and
- reforms to the GST financial supply provisions (\$8.0 million over two years from 2012-13).

Detailed information on each decision is included in Budget Paper No. 2, *Budget Measures 2010-11*.

Table 3.4: Policy decisions since MYEFO that affect GST revenue

\$million	2009-10	2010-11	2011-12	2012-13	2013-14
GST compliance program - working together to improve voluntary compliance	-	216.9	391.9	478.2	474.3
Increasing the excise and excise-equivalent customs duty on tobacco products	25.0	115.0	115.0	120.0	130.0
ATO compliance program - dealing with the cash economy	-	5.7	24.1	48.9	68.0
Stronger, fairer, simpler tax reform - growth dividend	-	-	-	32.0	62.0
Migration Program - allocation of places for 2010-11	-	-2.0	-4.5	-7.3	-10.3
Work and Holiday visa (Subclass 462) - addition of new participant countries	-	2.0	2.8	2.9	3.7
GST – Reforms to the GST financial supply provisions	-	-	-	1.0	7.0
GST and cross-border transport supplies	-	..	..	..	..
GST – Government response to Board of Taxation report: minor changes	*	*	*	*	*
GST – Reform to the arrangement for exempting taxes, fees and charges from the GST	-	*	*	*	*
GST – Government response to Board of Taxation report: GST cross-border transactions	-	-	-	*	*
GST – Sale of boats for export within 12 months of delivery	-	-	*	*	*
Improvements to the Tax Running Balance Account Provisions	-	-	*	*	*
GST – Reforms to the GST margin scheme	-	-	-	-	-
Total GST revenue policy decisions	25.0	337.6	529.3	675.7	734.7

Reconciling GST revenue and GST payments to the States

The Commonwealth makes GST payments to the States equivalent to the revenue received from the GST. In 2010-11, GST revenue will be \$50.0 billion – an increase of \$3.2 billion (6.8 per cent) from 2009-10.

GST revenue for a financial year varies from the amount of GST payments to the States for that year because of:

- GST revenues which are recognised on a Commonwealth whole-of-government basis, but not recognised as at 30 June of each financial year, because the revenues will not be remitted to the ATO until the following financial year; and
- penalties, other than general interest charge penalties, which are not included in the definition in the *Intergovernmental Agreement on Federal Financial Relations* (Intergovernmental Agreement) of GST to be paid to the States.

The 2009-10 financial year is the first year that the Treasurer will determine the amount of GST revenue. The Treasurer will make a determination for the amount of GST revenue collected in the 2009-10 financial year upon receipt of the final outcome receipts after the close of the 2009-10 financial year. States receive monthly advances of GST throughout the year based on the Commonwealth estimate of GST receipts for that financial year. Any variation between GST payments and final outcome receipts as determined by the Treasurer will be settled in the following financial year.

In previous years the amount of GST revenue has been determined by the Commissioner of Taxation in June of the financial year. To ensure that the States received their correct entitlement of GST payments, a balancing adjustment for each State was made in the following financial year. In 2009-10 an amount of \$18.5 million was paid to the States as a balancing adjustment for the difference between the amount determined by the Commissioner of Taxation in June 2009 and the final outcome receipts. The reconciliation of GST revenue and GST payments to the States is provided in Table 3.5.

Table 3.5: GST revenue and GST payments to the States

\$million	2009-10	2010-11	2011-12	2012-13	2013-14
GST revenue	46,830	50,000	53,410	56,670	59,870
less change in GST receivables	2,233	1,981	2,100	2,181	2,241
GST receipts	44,597	48,019	51,310	54,489	57,629
less non-GIC penalties collected(a)	80	90	100	110	120
less GST collected by Commonwealth agencies but not yet remitted to the ATO(b)	7	-1	..	-1	-1
plus prior-year balancing adjustment(c)	19				
GST payments to the States	44,529	47,930	51,210	54,380	57,510

(a) General interest charge (GIC) penalties are defined in the Intergovernmental Agreement as being a part of the Commonwealth's GST revenue that is paid to the States. However, while GST related non-GIC penalties are recognised in the Commonwealth's GST revenue, non-GIC penalties are not defined in the Intergovernmental Agreement as being a part of the GST revenue that is paid to the States.

(b) This is the GST component of sales by Commonwealth agencies which has been collected by those agencies but which, as at 30 June in each year, will not have been remitted to the Australian Taxation Office, because it is not due to be paid until the next Business Activity Statement is lodged (typically on 21 July in the following financial year).

(c) The Commissioner's determination for 2008-09 was \$18.5 million lower than the final outcome. As the GST payment for 2008-09 was made in accordance with the Commissioner's determination, a balancing adjustment has been paid in 2009-10.

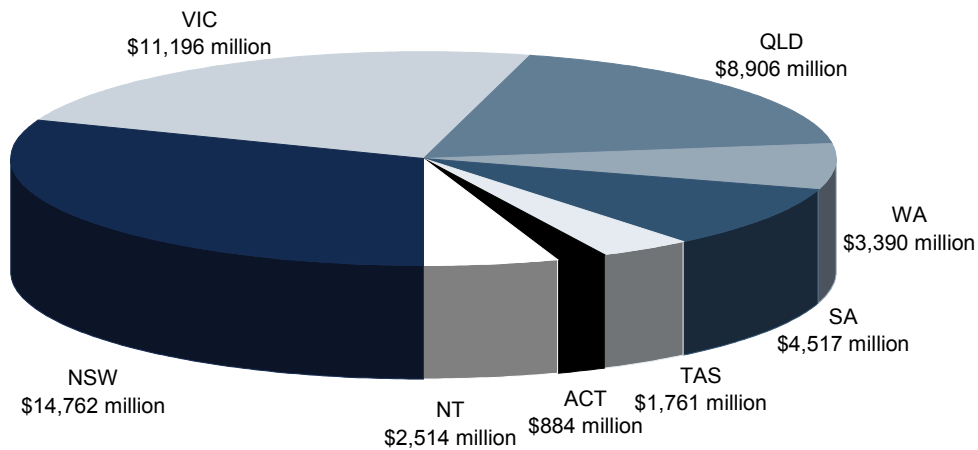
Distribution of GST payments among the States

The Commonwealth distributes GST payments among the States in accordance with the principle of horizontal fiscal equalisation and having regard to the recommendations of the Commonwealth Grants Commission (the Commission).

Under the *National Health and Hospitals Network* reforms, from 2011-12, GST dedicated to health and hospital services will continue to be included in the GST pool for the purposes of calculating the GST relativities, and the total GST pool will be distributed to the States in accordance with the principle of horizontal fiscal equalisation.

State shares of GST payments for 2010-11 (totalling \$47.9 billion) are shown in Chart 3.1.

Chart 3.1: State shares of GST payments, 2010-11



GST relativities

The Commission recommends GST relativities to be used in calculating each State's share of GST payments. The relativities determine how much GST revenue each State receives compared with an equal per capita share and are determined 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 and the associated infrastructure at the same standard.

This does not necessarily result in the same standard of government services — just the equalisation of each State's capacity to provide the same standard of services. 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, including through acquiring the infrastructure used to deliver those services.

Horizontal fiscal equalisation provides the necessary budget support so that all States have the capacity to provide services at a comparable standard, while ensuring that the interstate transfers are not so large that they would significantly distort economic behaviour and reduce productivity growth.

On 26 February 2010, the Commission released its 2010 Methodology Review. This review sets out the methodology to be used for determining revenue sharing relativities over the next four or five years. This report also recommended the revenue sharing relativities for the 2010-11 financial year.

Box 3.1: Commonwealth Grants Commission 2010 Methodology Review

The Commission's 2010 Methodology Review was developed in response to terms of reference provided on 26 May 2005 and supplementary terms of reference provided on 14 October 2009. The terms of reference broadly instructed the Commission to prepare a report for the appropriate distribution, after 2009-10, of the GST revenue pool among the States. In particular, the Commission was instructed to simplify its assessments, including by aggregating assessments, eliminating unnecessary assessments and assessing the reliability of pre-existing data. The supplementary terms of reference provided specific instruction on how to deal with the changed federal financial arrangements following the adoption of the new framework agreed by COAG in November 2008.

The review recommended a number of significant changes to the calculation of revenue sharing relativities. Most notably, the Commission has reduced the period over which relativities are assessed from five years to three years. This change is designed to ensure that assessments are more contemporaneous – that is, that the assessment more accurately reflects the current circumstances facing a State. The change results in one-off impacts through timing adjustments.

A further significant change was the new approach to the assessment of infrastructure spending. This change results in a revised definition of equalisation; such that relativities are calculated to ensure that States have the fiscal capacity to deliver the same standard of services and associated infrastructure. Simply put, the revised assessment delivers a more immediate distribution of GST to reflect infrastructure needs than the previous assessment.

The review also simplified the assessment. For example, the number of revenue assessments fell from 13 categories to 7 and expense assessments fell from 39 categories to 12.

The changes to the methodology applying from the 2010-11 financial year are a significant factor in the differences between the 2010-11 relativities and the 2009-10 relativities. This introduces a structural break between the 2009-10 GST relativities and the 2010-11 GST relativities – that is, the revenue sharing relativities assessed by the Commission for 2010-11 are not comparable with the relativities assessed for 2009-10 and previous years. Table 3.6 identifies the relativities recommended by the Commonwealth Grants Commission for 2009-10 and 2010-11, and estimated revenue sharing relativities for distributing GST over the forward estimates.

Table 3.6: GST relativities

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2009-10	0.93186	0.91875	0.91556	0.78485	1.24724	1.62040	1.27051	5.25073
2010-11	0.95205	0.93995	0.91322	0.68298	1.28497	1.62091	1.15295	5.07383
2011-12 (a)	0.98015	0.93954	0.86766	0.66499	1.29451	1.61873	1.14351	5.23592
2012-13 (a)	0.98838	0.95888	0.83349	0.66171	1.29262	1.63261	1.17525	5.16175
2013-14 (a)	0.98976	0.95817	0.84082	0.67891	1.28367	1.60214	1.15943	4.97868

(a) Treasury projection.

The Commonwealth's projections of GST relativities for 2010-11 to 2012-13 assume that the States' fiscal capacities will be broadly consistent with the Commission's assessment of their relative fiscal assessed differences in 2006-07, 2007-08 and 2008-09. However, the projections include adjustments to account for estimated changes in GST revenue, State population and the distribution of the National SPPs.

The population estimates are constructed using the latest demographic data available from the Australian Bureau of Statistics and Treasury assumptions. Broadly, these assumptions are in respect of fertility, mortality, net overseas migration and interstate migration. Further information on the assumptions is provided in Appendix A.

Applying the GST relativities to the GST pool

The GST relativities will be applied to estimated state populations in order to determine an adjusted population for each State. Each State will receive its adjusted population share of the GST payments. The calculations for the distribution of the GST payments in 2010-11 and forward years are shown in Table 3.7.

From 2011-12, GST dedicated to health and hospital services is separately identified, except for Western Australia, with the difference between each State's share of the total GST pool and its GST dedicated to health and hospital services being general revenue assistance.

Table 3.7: Distribution of the GST pool

	Estimated 31 December population	GST relativities	Adjusted population (1) x (2)	Share of adjusted population %	Share of GST pool \$million	GST dedicated to health and hospital services(a) \$million	GRA GST payments (5) - (6) \$million
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2009-10							
NSW	7,192,250	0.93186	6,702,170	30.3	13,472.3	0.0	13,472.3
VIC	5,498,394	0.91875	5,051,649	22.8	10,154.5	0.0	10,154.5
QLD	4,476,655	0.91556	4,098,646	18.5	8,238.8	0.0	8,238.8
WA	2,274,244	0.78485	1,784,940	8.1	3,588.0	0.0	3,588.0
SA	1,634,561	1.24724	2,038,690	9.2	4,098.0	0.0	4,098.0
TAS	505,760	1.62040	819,534	3.7	1,647.4	0.0	1,647.4
ACT	354,567	1.27051	450,481	2.0	905.5	0.0	905.5
NT	227,908	5.25073	1,196,683	5.4	2,405.5	0.0	2,405.5
Total	22,164,339		22,142,794	100.0	44,510.0	0.0	44,510.0

Table 3.7: Distribution of the GST pool (continued)

	Estimated 31 December population	GST relativities	Adjusted population (1) x (2)	Share of adjusted population %	Share of GST pool \$million	GST dedicated to health and hospital services(a) \$million	GRA GST payments (5) - (6) \$million
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2010-11							
NSW	7,282,687	0.95205	6,933,482	30.8	14,761.9	0.0	14,761.9
VIC	5,594,779	0.93995	5,258,813	23.4	11,196.4	0.0	11,196.4
QLD	4,580,395	0.91322	4,182,908	18.6	8,905.7	0.0	8,905.7
WA	2,331,527	0.68298	1,592,386	7.1	3,390.3	0.0	3,390.3
SA	1,650,898	1.28497	2,121,354	9.4	4,516.5	0.0	4,516.5
TAS	510,324	1.62091	827,189	3.7	1,761.1	0.0	1,761.1
ACT	359,926	1.15295	414,977	1.8	883.5	0.0	883.5
NT	232,766	5.07383	1,181,015	5.2	2,514.5	0.0	2,514.5
Total	22,543,302		22,512,125	100.0	47,930.0	0.0	47,930.0
2011-12							
NSW	7,367,573	0.98015	7,221,327	31.6	16,174.3	4,772.1	11,402.2
VIC	5,686,320	0.93954	5,342,525	23.4	11,966.2	2,862.9	9,103.3
QLD	4,680,940	0.86766	4,061,464	17.8	9,096.9	3,576.5	5,520.4
WA(b)	2,386,313	0.66499	1,586,874	6.9	3,554.3	0.0	3,554.3
SA	1,666,144	1.29451	2,156,840	9.4	4,830.9	1,280.6	3,550.3
TAS	514,754	1.61873	833,248	3.6	1,866.3	375.4	1,490.9
ACT	365,087	1.14351	417,481	1.8	935.1	460.9	474.2
NT	237,566	5.23592	1,243,877	5.4	2,786.0	384.6	2,401.5
Total	22,904,697		22,863,635	100.0	51,210.0	13,713.0	37,497.0
2012-13							
NSW	7,447,965	0.98838	7,361,420	31.7	17,254.4	5,183.6	12,070.9
VIC	5,774,094	0.95888	5,536,663	23.9	12,977.4	3,114.1	9,863.3
QLD	4,778,880	0.83349	3,983,149	17.2	9,336.1	3,927.8	5,408.3
WA(b)	2,439,147	0.66171	1,614,008	7.0	3,783.1	0.0	3,783.1
SA	1,680,492	1.29262	2,172,238	9.4	5,091.5	1,388.8	3,702.7
TAS	519,068	1.63261	847,436	3.7	1,986.3	405.4	1,580.9
ACT	370,089	1.17525	434,947	1.9	1,019.5	501.8	517.7
NT	242,321	5.16175	1,250,800	5.4	2,931.7	419.7	2,512.1
Total	23,252,056		23,200,660	100.0	54,380.0	14,941.0	39,439.0
2013-14							
NSW	7,527,200	0.98976	7,450,121	31.7	18,204.0	5,619.6	12,584.4
VIC	5,861,036	0.95817	5,615,869	23.9	13,722.1	3,383.7	10,338.4
QLD	4,876,294	0.84082	4,100,086	17.4	10,018.3	4,305.4	5,713.0
WA(b)	2,491,604	0.67891	1,691,575	7.2	4,133.3	0.0	4,133.3
SA	1,694,576	1.28367	2,175,276	9.2	5,315.2	1,502.9	3,812.2
TAS	523,345	1.60214	838,472	3.6	2,048.8	436.9	1,611.9
ACT	375,049	1.15943	434,843	1.8	1,062.5	545.5	517.0
NT	247,096	4.97868	1,230,212	5.2	3,006.0	457.3	2,548.6
Total	23,596,200		23,536,454	100.0	57,510.0	16,251.3	41,258.7

(a) Estimates of GST dedicated to health and hospital services are calculated on the basis of Treasury projections using data from the Australian Institute of Health and Welfare. These estimates are indicative only, with final amounts to be determined annually, in consultation with the States, on the basis of actual expenditure.

(b) Western Australia will continue to receive GST revenue as general revenue assistance until it becomes a signatory to the *National Health and Hospitals Network Agreement*.

Box 3.2: The redistribution of GST between States

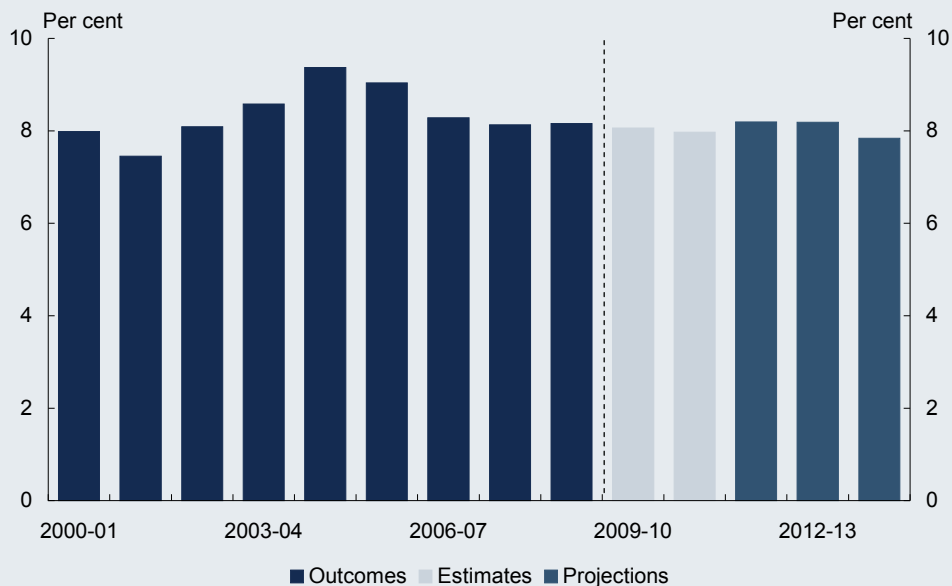
One way to view the effect of horizontal fiscal equalisation is to compare each State's share of the GST payments using the GST relativities, with a notional distribution on an equal per capita basis. In 2010-11, around \$3.8 billion (or 8.0 per cent) of the GST payments will be redistributed among the States, compared with an equal per capita distribution (Table A).

Table A: Difference from equal per capita distribution, 2010-11

	GST distributed using adjusted population \$million	Equal per capita distribution of GST \$million	Redistribution(a) \$million	Projected population '000	Per capita redistribution \$
NSW	14,761.9	15,483.9	-722.0	7,282.7	-99.1
VIC	11,196.4	11,895.2	-698.8	5,594.8	-124.9
QLD	8,905.7	9,738.5	-832.8	4,580.4	-181.8
WA	3,390.3	4,957.1	-1,566.8	2,331.5	-672.0
SA	4,516.5	3,510.0	1,006.5	1,650.9	609.7
TAS	1,761.1	1,085.0	676.1	510.3	1,324.9
ACT	883.5	765.2	118.3	359.9	328.6
NT	2,514.5	494.9	2,019.6	232.8	8,676.4
Total	47,930.0	47,930.0	3,820.5	22,543.3	

(a) The total redistribution of \$3,820.5 million is the sum of positive items in that column.

The proportion of the GST payments being redistributed in 2010-11 is broadly consistent with the average redistribution since the commencement of the GST.

Chart A: GST redistributed as a proportion of the GST payments

Note: From 2000-01 to 2008-09 the Commission was asked to recommend relativities to distribute a pool of GST payments plus health care grants. This methodology is conceptually equivalent, when expressed in proportions of GST payments, with the current relativities recommended by the Commission. As such, Chart A is a comparison of the proportion of GST payments rather than the proportion of the GST pool estimated to be redistributed for this period.

GST administration

On 26 March 2010, the Ministerial Council for Federal Financial Relations endorsed the GST administration budget for the ATO of \$590.1 million for 2009-10, as shown in Table 3.8.

The Government will provide an additional \$337.5 million over four years from 2010-11 to the ATO to fund additional activities that promote voluntary GST compliance and provide a level playing field for Australian businesses. The States will compensate the Commonwealth for these additional costs in accordance with the Intergovernmental Agreement.

Table 3.8: Reconciliation of the GST administration budget

\$million	2009-10	2010-11	2011-12	2012-13
Administration budget at 2009-10 Budget	624.3	630.5	634.2	646.8
<i>Changes from 2009-10 Budget to MYEFO</i>				
Parameter variations	-	-	-	-
Total variations	-	-	-	-
Administration budget at 2008-09 MYEFO	624.3	630.5	634.2	646.8
<i>Changes from MYEFO to 2009-10 Budget</i>				
Change in methodology(a)	-34.2	-40.4	-40.6	-49.1
Additional GST compliance(b)		68.9	86.8	90.7
Parameter variations		3.5	4.1	4.7
Total variations	-34.2	32.1	50.3	46.3
Administration budget at 2009-10 Budget	590.1	662.6	684.5	693.1

(a) The ATO has reviewed its method for estimating GST administration costs to reduce the likelihood of overestimating the cost of administering the GST administration costs.

(b) Further information on the additional GST compliance measure can be found in Budget Paper No.2.

The Commissioner of Taxation administers the GST law and the States compensate the Commonwealth for the agreed costs incurred by the Australian Taxation Office in administering the GST, including costs incurred by the Australian Customs Service, as shown in Table 3.9.

Table 3.9: GST administration budget

\$million	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
(1) Australian Taxation Office budget	631.9	590.1	662.6	684.5	693.1	698.2
less prior-year adjustment	1.4	25.9				
(2) State government payments						
Total administration payments	630.5	564.2	662.6	684.5	693.1	698.2
(3) Australian Taxation Office outcome	604.6					
(4) Overpayment (2)-(3)	25.9					
Commonwealth budget impact	25.9	-25.9	0.0	0.0	0.0	0.0

OTHER GENERAL REVENUE ASSISTANCE

The Commonwealth makes payments of other general revenue assistance to the States that are available for use by the States for any purpose, including:

- revenue sharing arrangements other than GST — for example, offshore petroleum royalty revenues;
- compensation payments for Commonwealth policy decisions; and
- payments to the Australian Capital Territory for national capital influences.

Budget balancing assistance

In the *Intergovernmental Agreement on the Reform of Commonwealth State Financial Relations* of 1999, the Commonwealth guaranteed that the budget position of each State would be no worse than it would have been had tax reform associated with the introduction of the GST not been implemented. The guaranteed minimum amount is an estimate of the revenue that each State would have received under the previous system of Commonwealth grants, and if the state taxes had not been abolished as part of the reforms.

During the transitional period, which expired on 30 June 2009, the Commonwealth paid budget balancing assistance to the States if a State's share of GST payments in a financial year was less than its guaranteed minimum amount for that year. No budget balancing assistance was payable when GST revenue exceeded the guaranteed minimum amount.

As the 2008-09 financial year was the final transitional year, the Treasurer is not required to determine a guaranteed minimum amount in 2009-10 or future years. Following the finalisation of state data for the 2008-09 financial year, the Commonwealth has paid a residual adjustment amount of \$67.8 million in 2009-10 in respect of budget balancing assistance owed to the States in 2008-09. This is in addition to the \$275.2 million in budget balancing assistance paid to New South Wales, South Australia, Tasmania and the Northern Territory in 2008-09.

Table 3.10: Guaranteed minimum amount, GST payments, budget balancing assistance, and residual adjustment

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Revised guaranteed minimum amount	12,020	9,221	7,743	3,468	3,832	1,629	804	2,344	41,060
Final outcome GST payments	11,850	9,319	7,976	3,595	3,788	1,595	836	2,248	41,208
Budget balancing assistance	118	-	-	-	37	32	-	89	275
Residual adjustment	52	-	-	-	7	2	-	7	68

In 2008-09, Victoria, Queensland, Western Australia and the Australian Capital Territory all received GST payments that exceeded their guaranteed minimum amount. Consequently, no budget balancing assistance or residual amount was payable to those States.

Further information on the guaranteed minimum amount is provided in Appendix C.

Royalties

Royalty payments to Western Australia

The Commonwealth provides general revenue assistance to Western Australia from royalties collected under the *Offshore Petroleum (Royalty) Act 2006* in respect of the North West Shelf oil and gas project off the coast of Western Australia. The Commonwealth collects these royalties because it has jurisdiction over offshore areas.

These royalties are shared between the Commonwealth (approximately one-third) and Western Australia (approximately two-thirds). These payment arrangements are in accordance with the revenue sharing arrangements in section 75 of the *Offshore Petroleum and Greenhouse Gas Act 2006*.

Royalty payments to the Northern Territory

The Commonwealth provides general revenue assistance to the Northern Territory in lieu of royalties on uranium mining in the Ranger Project Area due to the Commonwealth's ownership of uranium in the Northern Territory.

General revenue assistance is payable biannually at the royalty rate of 1.25 per cent of the net proceeds of sales. These royalties are paid under a continuing agreement, established under the 1978 Memorandum of Understanding between the Commonwealth and the Northern Territory.

Compensation

Payments in respect of ACT municipal services

The Commonwealth provides general revenue assistance to the Australian Capital Territory to:

- assist in meeting the additional municipal costs which arise from Canberra's role as the national capital; and
- compensate the Australian Capital Territory for additional costs resulting from the national capital planning influences on the provision of water and sewerage services.

The level of funding for this general revenue assistance is based upon the findings of the Commonwealth Grants Commission, in its second and third reports on financing for the Australian Capital Territory, prior to the move to self-government in 1989.

Table 3.11: ACT municipal services

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2009-10	-	-	-	-	-	-	35.0	-	35.0
2010-11	-	-	-	-	-	-	35.6	-	35.6
2011-12	-	-	-	-	-	-	36.2	-	36.2
2012-13	-	-	-	-	-	-	36.8	-	36.8
2013-14	-	-	-	-	-	-	37.5	-	37.5

Reduced royalties

The Commonwealth provides general revenue assistance to compensate Western Australia for the loss of royalty revenue resulting from the removal of the exemption of condensate from crude oil excise in the 2009-10 Budget.

Table 3.12: Reduced royalties

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2009-10	-	-	-	50.5	-	-	-	-	50.5
2010-11	-	-	-	44.0	-	-	-	-	44.0
2011-12	-	-	-	43.7	-	-	-	-	43.7
2012-13	-	-	-	58.1	-	-	-	-	58.1
2013-14	-	-	-	49.3	-	-	-	-	49.3

Taxation compensation in respect of Snowy Hydro Limited

On 28 June 2002, the Snowy Mountains Hydro Electric Authority was corporatised. The assets and business of the Authority were transferred to Snowy Hydro Limited, a company jointly-owned by the Commonwealth, New South Wales and Victoria (with 13 per cent, 58 per cent and 29 per cent shareholdings respectively).

The Commonwealth provides compensation payments to New South Wales and Victoria, in the form of general revenue assistance, for Commonwealth taxes paid by Snowy Hydro Ltd in proportion to the States' shareholdings.

Payments are made in accordance with the Snowy Hydro Tax Compensation Deed between the Commonwealth, New South Wales and Victoria. These taxes would have previously been payable to the States through tax equivalence regime payments.

Table 3.13: Taxation compensation in respect of Snowy Hydro Limited

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2009-10	20.4	10.2	-	-	-	-	-	-	30.6
2010-11	31.1	15.6	-	-	-	-	-	-	46.7
2011-12	31.1	15.6	-	-	-	-	-	-	46.7
2012-13	31.1	15.6	-	-	-	-	-	-	46.7
2013-14	31.1	15.6	-	-	-	-	-	-	46.7

GST compensation for small business concession

In 2004-05, the Commonwealth and the States agreed to allow small businesses and non-profit organisations that voluntarily registered for the GST to pay and report GST on an annual rather than monthly or quarterly basis. The measure was designed to reduce the compliance costs faced by these organisations and has the effect of deferring some GST revenue from one financial year to the next. The Commonwealth agreed to compensate the States for this deferral of GST revenue.

The Commonwealth and the States agreed that the annual payments should be suspended from 2006-07 because final tax return data indicated that the impact of the measure on GST revenue was much lower than forecast. The overestimate of the cost of the measure led to an overpayment of compensation to the States, which was estimated to be \$309 million at the end of 2008-09.

The Government will recover the net overpayment in 2009-10. The amount to be recovered is \$299.9 million, which represents the present value of the overpayment less the present value of the stream of future annual payments. This arrangement will extinguish all current and future Commonwealth and State commitments in respect of this measure.

Table 3.14: GST compensation for small business concession^(a)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2009-10	-87.3	-64.5	-61.4	-	-	-11.0	-5.4	-12.4	-241.9
2010-11	-	-	-	-	-	-	-	-	-
2011-12	-	-	-	-	-	-	-	-	-
2012-13	-	-	-	-	-	-	-	-	-
2013-14	-	-	-	-	-	-	-	-	-

(a) Western Australia and South Australia elected to repay their overpayment in 2008-09.

MIRROR TAX ARRANGEMENTS

The Commonwealth introduced mirror tax arrangements in 1998 to ensure that the States were not financially disadvantaged by the High Court decision in *Allders International Pty Ltd v Commissioner of State Revenue (Victoria)*, which invalidated state taxes on Commonwealth places.

These arrangements mirror certain state taxes, including payroll taxes, land taxes and stamp duties, with respect to Commonwealth places.

The States collect these mirror taxes on behalf of the Commonwealth and bear the administrative costs of collection. All mirror tax revenues are credited to the Commonwealth and simultaneously appropriated to the States. Hence, mirror taxes are recorded as both a Commonwealth revenue and expense, with no net impact on the Commonwealth's budget position.

Table 3.15: Mirror taxes accrued on behalf of the States

\$million	2009-10	2010-11	2011-12	2012-13	2013-14
Mirror taxes	402.3	424.7	447.3	472.9	498.2
Payments to State governments	-402.3	-424.7	-447.3	-472.9	-498.2
Commonwealth budget impact	0.0	0.0	0.0	0.0	0.0

