

PART 3: 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. The main form of general revenue assistance is Goods and Services Tax (GST). Other general revenue assistance includes payments to the Australian Capital Territory for municipal services, royalties, and Snowy Hydro Limited tax compensation. These payments are discussed in this Part.

OVERVIEW OF PAYMENTS

In 2011-12, the States will receive \$49.5 billion from the Commonwealth in total general revenue assistance – \$48.4 billion for GST and \$1.1 billion for other general revenue assistance. This represents a 6.4 per cent increase in GST entitlement compared to the \$45.5 billion the States will receive in 2010-11 and a 3.3 per cent increase in other general revenue assistance. In 2011-12, total general revenue assistance to the States will represent 13.5 per cent of total Commonwealth expenditure. Total general revenue assistance the Commonwealth provides to the States is shown in Table 3.1 and in Table 3.2 by State.

Table 3.1: General revenue assistance

\$million	2010-11	2011-12	2012-13	2013-14	2014-15
GST entitlement	45,450.0	48,350.0	51,750.0	54,700.0	57,400.0
Other Payments					
ACT municipal services	35.4	36.1	36.8	37.5	38.2
Reduced royalties	60.8	78.4	74.2	71.3	71.6
Royalties	948.9	937.2	935.4	946.0	931.4
Snowy Hydro Ltd tax compensation	28.4	57.0	57.0	57.0	57.0
Total	46,523.5	49,458.8	52,853.4	55,811.8	58,498.2

Table 3.2: General revenue assistance by State^(a)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2010-11	14,042.3	10,638.9	8,413.6	3,262.9	4,296.1	1,671.7	877.2	2,372.0	46,523.5
2011-12	14,987.8	10,907.5	9,138.9	3,676.9	4,492.6	1,743.0	902.7	2,672.1	49,458.8
2012-13	16,216.2	11,690.3	9,883.3	3,722.8	4,718.7	1,845.0	958.5	2,883.2	52,853.4
2013-14	17,270.4	12,202.1	10,992.5	3,705.3	4,906.5	1,865.1	960.4	2,963.4	55,811.8
2014-15	18,090.1	12,845.2	11,577.7	3,983.3	5,097.5	1,928.0	1,005.4	3,039.5	58,498.2

(a) State splits for royalties are not published due to commercial sensitivities; therefore total general revenue assistance will not equal the sum of the state splits above.

GST PAYMENTS TO STATES

Under the *Intergovernmental Agreement on Federal Financial Relations*, States are entitled to receive payments from the Commonwealth equivalent to the revenue received from

the GST. GST revenue refers to the amount of GST collected by the Australian Taxation Office (ATO), less revenue 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. GST entitlement refers to the amount of GST which is entitled to be distributed to the States. GST payments reflect the GST entitlement which is distributed to the States adjusted for any balancing amount from the prior financial year.

Table 3.3 provides a reconciliation of the GST revenue estimates since the 2010-11 Budget and 2010-11 MYEFO. The reconciliation accounts for policy decisions and parameter and other variations. GST revenue in 2011-12 has been revised down by \$1.6 billion since the 2010-11 MYEFO, largely reflecting the weaker outlook for consumption and dwelling investment. The weaker outlook for consumption reflects an ongoing trend of households consolidating their balance sheets (particularly in the aftermath of the global financial crisis). Exacerbating this are signs that consumers are spending relatively more of their income on GST exempt goods and services.

Table 3.3: Reconciliation of GST revenue estimates since the 2010-11 Budget and 2010-11 MYEFO

\$million	2010-11	2011-12	2012-13	2013-14
GST revenue at 2010-11 Budget	50,000.0	53,410.0	56,670.0	59,870.0
<i>Changes between 2010-11 Budget and MYEFO</i>				
Effect of policy decisions	-	-	-16.0	-31.0
Effect of parameter and other variations	-870.0	-1,210.0	-1,364.0	-1,329.0
Total variations	-870.0	-1,210.0	-1,380.0	-1,360.0
GST revenue at 2010-11 MYEFO	49,130.0	52,200.0	55,290.0	58,510.0
<i>Changes between 2010-11 MYEFO and Budget</i>				
Effect of policy decisions	15.0	30.9	80.6	137.1
Effect of parameter and other variations	-965.0	-1,600.9	-1,140.6	-1,327.1
Total variations	-950.0	-1,570.0	-1,060.0	-1,190.0
GST revenue at 2011-12 Budget	48,180.0	50,630.0	54,230.0	57,320.0

Specific policy decisions taken since MYEFO that affect GST revenue are shown in Table 3.4. These decisions increase the amount of GST revenue by \$30.9 million in 2011-12 and \$452.5 million over five years to 2014-15. The total impact of GST revenue policy decisions since MYEFO is also included in Table 3.3.

Detailed information on policy decisions since the 2010-11 MYEFO are included in Budget Paper No. 2, *Budget Measures 2011-12*.

Table 3.4: Policy decisions since MYEFO that affect GST revenue

\$million	2010-11	2011-12	2012-13	2013-14	2014-15
Migration Program – allocation of places for 2011-12	-	15.9	52.7	95.6	141.7
GST treatment of new residential premises	15.0	10.0	10.0	10.0	10.0
Fringe benefits tax – reform of the car fringe benefit rules	-	5.0	10.0	15.0	20.0
Tax compliance – reporting taxable payments	-	-	7.9	16.5	17.2
GST – Government response to Board of Taxation report: minor changes	-	*	*	*	*
GST – providing businesses in a net refund position with access to the GST instalment system	-	-	*	*	*
Total GST revenue policy decisions	15.0	30.9	80.6	137.1	188.9

GST revenue for a financial year varies from the amount of GST paid 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;
- penalties, other than general interest charge (GIC) penalties, which are not included in the definition in the *Federal Financial Relations Act 2009* of GST to be paid to the States;
- the GST component of sales by Commonwealth agencies which has been collected by those agencies but which, as at 30 June in each year, has not been remitted to the ATO, because it is not due to be paid until the next Business Activity Statement is lodged; and
- adjustments to account for any variation in the previous financial year between the Treasurer's determination, and GST payment advances made during that financial year.

States receive monthly advances of GST throughout the year based on the Commonwealth estimate of the GST entitlement. The Treasurer makes a determination of the amount of GST revenue collected in the financial year upon receipt of the final outcome after the close of the financial year. Any variation between GST advances and final outcome as determined by the Treasurer is settled in the following financial year.

In 2010-11, an amount of \$487.3 million was deducted from the States' 2010-11 GST entitlement as a balancing adjustment for the difference between the final amount determined by the Treasurer and advances made during the 2009-10 financial year.

A reconciliation of GST revenue, GST entitlement and GST payments to the States is provided in Table 3.5.

Table 3.5: Reconciling GST revenue, GST entitlement and GST payments to the States

\$million	2010-11	2011-12	2012-13	2013-14	2014-15
GST revenue	48,180.0	50,630.0	54,230.0	57,320.0	60,150.0
less change in GST receivables(a)	2,401.2	2,148.1	2,340.5	2,470.5	2,589.9
GST receipts	45,778.8	48,481.9	51,889.5	54,849.5	57,560.1
less non-GIC penalties collected(b)	120.0	130.0	140.0	150.0	160.0
less GST collected by Commonwealth agencies but not yet remitted to the ATO(c)	208.8	1.9	-0.5	-0.5	0.1
GST entitlement	45,450.0	48,350.0	51,750.0	54,700.0	57,400.0
plus prior year balancing adjustment(d)	-487.3				
GST payments to the States	44,962.7	48,350.0	51,750.0	54,700.0	57,400.0

(a) GST revenue which is recognised on a Commonwealth whole-of-government basis, but not recognised as at 30 June of each financial year, because the revenue will not be remitted to the Australian Tax Office (ATO) until the following financial year.

(b) While GST related non-GIC penalties are recognised in the Commonwealth's GST revenue, non-GIC penalties are not defined in the *Federal Financial Relations Act 2009* as being a part of the GST revenue that is paid to the States.

(c) 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).

(d) Advance GST payments made in 2009-10 were \$487.3 million higher than the final outcome determined by the Treasurer. This amount was deducted from payments in 2010-11.

Distribution of GST entitlement among the States

The Commonwealth distributes GST 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).

The Commission recommends GST revenue sharing relativities to be used in calculating each State's entitlement of the GST pool. The relativities determine how much GST 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 State's capacity 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.

The Commonwealth has commissioned a Review into the distribution of GST to the States. Further information on the Review can be found in Part 1.

Table 3.6 identifies the relativities recommended by the Commonwealth Grants Commission for 2010-11 and 2011-12, and projected revenue sharing relativities for distributing GST over the forward estimates.

The Commonwealth's projections of GST relativities for 2012-13 to 2014-15 assume that the States' fiscal capacities will be broadly consistent with the Commission's assessment of their relative fiscal assessed differences in 2007-08, 2008-09, and 2009-10. The projections include adjustments to account for estimated changes in the size of the GST pool, State population shares and the distribution of the National SPPs.

Table 3.6: GST relativities

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2010-11	0.95205	0.93995	0.91322	0.68298	1.28497	1.62091	1.15295	5.07383
2011-12	0.95776	0.90476	0.92861	0.71729	1.27070	1.59942	1.11647	5.35708
2012-13(a)	0.97137	0.90508	0.93389	0.67510	1.25339	1.59147	1.10956	5.38098
2013-14(a)	0.98251	0.89344	0.97890	0.63254	1.24010	1.53220	1.05197	5.21688
2014-15(a)	0.98395	0.89556	0.97839	0.64497	1.23411	1.51872	1.05077	5.08175

(a) Treasury projection.

Distribution of the GST entitlement 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 entitlement. The detailed calculation for the distribution of the GST in 2010-11 and 2011-12 is shown in Table 3.7, Table 3.9 and Chart 3.1 below.

Table 3.7: Calculation of the GST entitlement pool^(a)

	Estimated 31 December population (1)	GST relativities (2)	Adjusted population (1) x (2) (3)	Share of adjusted population % (4)	Share of GST pool \$million (5)
2010-11					
NSW	7,277,478	0.95205	6,928,523	30.9%	14,023.4
VIC	5,587,207	0.93995	5,251,695	23.4%	10,629.5
QLD	4,551,906	0.91322	4,156,892	18.5%	8,413.6
WA	2,316,385	0.68298	1,582,045	7.0%	3,202.1
SA	1,651,847	1.28497	2,122,574	9.5%	4,296.1
TAS	509,548	1.62091	825,931	3.7%	1,671.7
ACT	360,720	1.15295	415,892	1.9%	841.8
NT	230,975	5.07383	1,171,928	5.2%	2,372.0
Total	22,486,066	na	22,455,480	100.0%	45,450.0
2011-12					
NSW	7,360,346	0.95776	7,049,445	30.9%	14,949.8
VIC	5,674,844	0.90476	5,134,372	22.5%	10,888.5
QLD	4,640,631	0.92861	4,309,336	18.9%	9,138.9
WA	2,365,603	0.71729	1,696,823	7.4%	3,598.5
SA	1,667,161	1.27070	2,118,461	9.3%	4,492.6
TAS	513,875	1.59942	821,902	3.6%	1,743.0
ACT	365,984	1.11647	408,610	1.8%	866.5
NT	235,207	5.35708	1,260,023	5.5%	2,672.1
Total	22,823,651	na	22,798,973	100.0%	48,350.0

(a) Amounts shown in 2010-11 are based on estimates of each jurisdictions GST entitlement based on the estimated total GST pool. These amounts do not take into account the prior year balancing adjustment in 2009-10, totalling \$487.3 million.

Table 3.8 below shows the distribution of the prior year balancing adjustment made to the 2010-11 GST entitlement. The balancing adjustment is distributed in accordance with the relativities used in 2009-10 as this is the basis on which the States were overpaid.

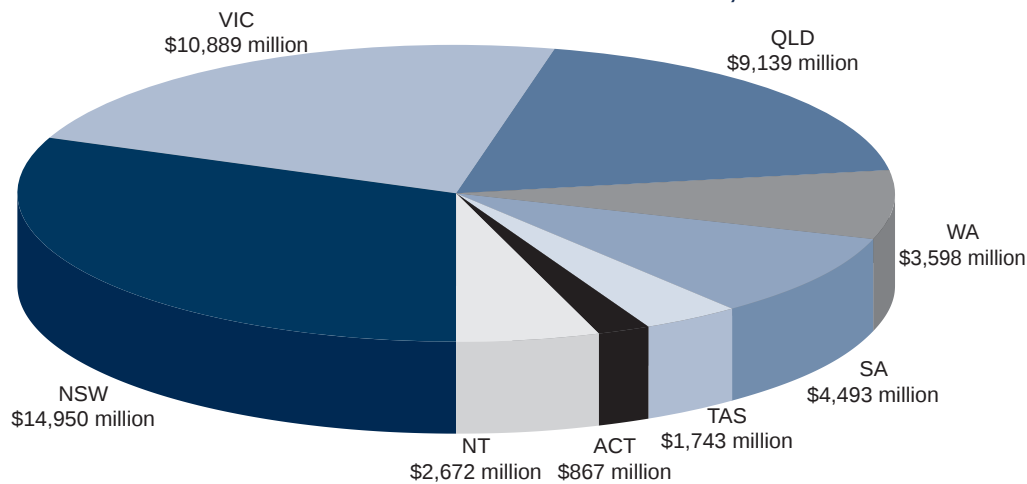
Table 3.8: Distribution of the prior year balancing adjustment

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2010-11	-142.2	-109.8	-92.8	-43.7	-44.6	-18.5	-8.6	-27.1	-487.3

Table 3.9: Distribution of the GST entitlement pool over budget year and forward estimates^(a)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2010-11	14,023.4	10,629.5	8,413.6	3,202.1	4,296.1	1,671.7	841.8	2,372.0	45,450.0
2011-12	14,949.8	10,888.5	9,138.9	3,598.5	4,492.6	1,743.0	866.5	2,672.1	48,350.0
2012-13	16,178.2	11,671.3	9,883.3	3,648.6	4,718.7	1,845.0	921.7	2,883.2	51,750.0
2013-14	17,232.4	12,183.1	10,992.5	3,634.0	4,906.5	1,865.1	923.0	2,963.4	54,700.0
2014-15	18,052.1	12,826.2	11,577.7	3,911.7	5,097.5	1,928.0	967.2	3,039.5	57,400.0

(a) Amounts shown in 2010-11 are based on estimates of each jurisdictions GST entitlement based on the estimated total GST pool. These amounts do not take into account the prior year balancing adjustment for overpayments made in 2009-10, totalling \$487.3 million.

Chart 3.1: State shares of GST entitlement, 2011-12

GST administration

States compensate the Commonwealth for the agreed costs incurred by the ATO in administering the GST, including costs incurred by the Australian Customs Service. On 7 April 2011, the Ministerial Council for Federal Financial Relations endorsed the GST administration budget for the ATO of \$695.4 million for 2011-12, as shown in Table 3.10.

Table 3.10: Reconciliation of the GST administration budget

\$million	2010-11	2011-12	2012-13	2013-14	2014-15
Administration budget at 2010-11 Budget	662.6	684.5	693.1	698.2	na
<i>Changes from 2010-11 Budget to MYEFO</i>					
Parameter variations	-	-	-	-	-
Total variations	-	-	-	-	-
Administration budget at 2010-11 MYEFO	662.6	684.5	693.1	698.2	na
<i>Changes from MYEFO to 2011-12 Budget</i>					
Other variations	-	3.7	2.1	0.4	-
Parameter variations	4.0	7.2	4.1	1.1	-
Total variations	4.0	10.9	6.2	1.5	-
Administration budget at 2011-12 Budget	666.6	695.4	699.3	699.7	607.1

During 2009-10, States paid \$590.1 million in GST administration costs to the Commonwealth. Following the conclusion of the 2009-10 financial year, the final audited GST administration cost was \$598.3 million requiring the States to pay an additional \$8.2 million in 2010-11. Following a reconciliation, it was found that the prior year adjustment (relating to, 2008-09) used in 2009-10 had been understated by \$1.4 million. As a result, the States will be required to reimburse only \$6.8 million in 2010-11.

Table 3.11: GST administration payments

\$million	2010-11	2011-12	2012-13	2013-14	2014-15
GST administration budget	666.6	695.4	699.3	699.7	607.1
less prior year adjustment	-8.2	-	-	-	-
net State reimbursement	6.8	-	-	-	-
2009-10 understatement	1.4	-	-	-	-
Total administration payments	674.8	695.4	699.3	699.7	607.1

OTHER GENERAL REVENUE ASSISTANCE

The Commonwealth makes payments of other general revenue assistance to the States, including:

- payments to the Australian Capital Territory for municipal services;
- reduced royalties;
- royalties; and
- Snowy Hydro Ltd tax compensation.

Similar to GST, other general revenue assistance is provided to the States without conditions, to spend according to their own budget priorities.

Table 3.12: Other general revenue assistance

\$million	2010-11	2011-12	2012-13	2013-14	2014-15
ACT municipal services	35.4	36.1	36.8	37.5	38.2
Reduced royalties	60.8	78.4	74.2	71.3	71.6
Royalties	948.9	937.2	935.4	946.0	931.4
Snowy Hydro Ltd tax compensation	28.4	57.0	57.0	57.0	57.0
Total other general revenue assistance	1,073.5	1,108.8	1,103.4	1,111.8	1,098.2

Payments in respect of ACT municipal services

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2010-11	-	-	-	-	-	-	35.4	-	35.4
2011-12	-	-	-	-	-	-	36.1	-	36.1
2012-13	-	-	-	-	-	-	36.8	-	36.8
2013-14	-	-	-	-	-	-	37.5	-	37.5
2014-15	-	-	-	-	-	-	38.2	-	38.2

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 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.

Reduced royalties

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2010-11	-	-	-	60.8	-	-	-	-	60.8
2011-12	-	-	-	78.4	-	-	-	-	78.4
2012-13	-	-	-	74.2	-	-	-	-	74.2
2013-14	-	-	-	71.3	-	-	-	-	71.3
2014-15	-	-	-	71.6	-	-	-	-	71.6

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.

Royalties^(a)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2010-11	-	-	-	~	-	-	-	~	948.9
2011-12	-	-	-	~	-	-	-	~	937.2
2012-13	-	-	-	~	-	-	-	~	935.4
2013-14	-	-	-	~	-	-	-	~	946.0
2014-15	-	-	-	~	-	-	-	~	931.4

(a) State splits for royalties are not published due to commercial sensitivities.

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.

Snowy Hydro Limited tax compensation^(a)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2010-11	18.9	9.5	-	-	-	-	-	-	28.4
2011-12	38.0	19.0	-	-	-	-	-	-	57.0
2012-13	38.0	19.0	-	-	-	-	-	-	57.0
2013-14	38.0	19.0	-	-	-	-	-	-	57.0
2014-15	38.0	19.0	-	-	-	-	-	-	57.0

(a) Payments in 2010-11 were reduced, to recover previous Commonwealth overpayments associated with changes in the value of the 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 Limited 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.

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 3.13: Mirror taxes accrued on behalf of the States

\$million	2010-11	2011-12	2012-13	2013-14	2014-15
Mirror taxes	424.3	450.8	479.5	509.6	521.2
Payments to State governments	-424.3	-450.8	-479.5	-509.6	-521.2
Commonwealth Budget impact	-	-	-	-	-