

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 the 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 2013-14, the States will receive \$51.2 billion from the Commonwealth in total general revenue assistance – \$50.3 billion for GST and \$1.0 billion for other general revenue assistance. This represents a 5.3 per cent increase in GST compared to the \$47.7 billion the States are expected to receive in 2012-13. In 2013-14, total general revenue assistance to the States will represent 12.9 per cent of total Commonwealth expenditure. Total general revenue assistance the Commonwealth provides to the States is shown in Table 3.1 and Table 3.2 shows a breakdown by State.

Table 3.1: General revenue assistance

\$million	2012-13	2013-14	2014-15	2015-16	2016-17
GST entitlement	47,700.0	50,250.0	52,820.0	55,800.0	58,670.0
Other Payments					
ACT municipal services	36.8	37.5	38.2	38.9	39.6
Reduced royalties	63.1	41.7	45.6	49.3	46.2
Royalties	1,060.7	830.2	826.3	815.5	816.6
Snowy Hydro Ltd tax compensation	74.4	74.4	74.4	74.4	74.4
Total	48,935.0	51,233.8	53,804.5	56,778.1	59,646.8

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

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2012-13	14,666.4	10,947.3	9,477.9	2,907.2	4,463.1	1,694.2	984.0	2,734.1	48,935.0
2013-14	15,607.5	11,345.1	10,740.9	2,499.3	4,595.0	1,800.5	1,059.3	2,756.0	51,233.8
2014-15	16,652.1	11,817.3	11,558.5	2,100.7	4,754.3	1,964.8	1,163.1	2,967.5	53,804.5
2015-16	17,681.5	12,636.4	11,974.4	2,354.1	4,839.4	2,150.3	1,244.7	3,081.8	56,778.1
2016-17	18,544.8	13,357.2	12,605.5	2,622.2	5,040.1	2,205.0	1,304.5	3,150.7	59,646.8

(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 ENTITLEMENT TO THE STATES

Under the *Intergovernmental Agreement on Federal Financial Relations*, the 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 recognised by the Australian Taxation Office (ATO), less the amount not remitted to the ATO as at

30 June of each 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 2012-13 Budget and 2012-13 MYEFO. The reconciliation accounts for policy decisions and parameter and other variations. GST revenue in 2013-14 has been revised down by \$650 million since the 2012-13 MYEFO. This reflects weakness in current year collections and slightly lower growth in consumption subject to GST. This lower growth in consumption reflects weaker domestic prices.

Table 3.3: Reconciliation of GST revenue estimates since the 2012-13 Budget and 2012-13 MYEFO

\$million	2012-13	2013-14	2014-15	2015-16
GST revenue at 2012-13 Budget	50,486	53,234	56,056	58,730
Changes between 2012-13 Budget and MYEFO				
Effect of policy decisions	8	39	74	74
Effect of parameter and other variations	296	457	460	626
Total variations	304	496	534	700
GST revenue at 2012-13 MYEFO	50,790	53,730	56,590	59,430
Changes between 2012-13 MYEFO and Budget				
Effect of policy decisions	-1	-1	9	29
Effect of parameter and other variations	-569	-649	-839	-539
Total variations	-570	-650	-830	-510
GST revenue at 2013-14 Budget	50,220	53,080	55,760	58,920

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 \$66.0 million over five years to 2016-17. The impact on GST revenue of policy decisions since MYEFO is also included in Table 3.3.

Detailed information on policy decisions since the 2012-13 MYEFO is included in *Budget Paper No. 2: Budget Measures 2013-14*.

Table 3.4: Policy decisions since MYEFO that affect GST revenue

\$million	2012-13	2013-14	2014-15	2015-16	2016-17
Later start date and conclusion of transitional arrangements for better targeting of not-for-profit concessions	-1.0	-1.0	9.0	29.0	30.0
DisabilityCare Australia – Transition to Full Scheme	-	..	..	..	..
Excise and excise-equivalent customs duty – index tobacco excise to average weekly ordinary time earnings	-	nfp	nfp	nfp	nfp
GST – allowing businesses in a net refund position to continue to use the GST instalments system	-	-	-	-	-
Not-for-profit sector reforms – introducing a statutory definition of 'charity' – later start date	-	*	*	*	*
Tax laws – privileges and immunities for the International Committee of the Red Cross	-	..	..	..	-
Verifying the export of liquids, aerosols and gels sold under the sealed bag scheme	-	-	-	-	-
Total GST revenue policy decisions	-1.0	-1.0	9.0	29.0	30.0

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 remitted to the ATO by 30 June of each financial year, as the revenues will not be remitted 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 final outcome 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 the final outcome as determined by the Treasurer is settled in the following financial year.

In 2012-13, an amount of \$440.1 million was added to the States' 2012-13 GST entitlement as a balancing adjustment for the difference between the final amount determined by the Treasurer and advances made during the 2011-12 financial year.

A reconciliation of GST revenue, GST entitlement and GST payments to the States is provided in Table 3.5. Compared to the 2012-13 MYEFO estimate, the GST entitlement for 2013-14 is \$750 million lower.

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

\$million	2012-13	2013-14	2014-15	2015-16	2016-17
GST revenue	50,220	53,080	55,760	58,920	61,830
less change in GST receivables(a)	2,302	2,637	2,741	2,911	2,940
GST receipts	47,918	50,443	53,019	56,009	58,890
less non-GIC penalties collected(b)	180	190	200	210	220
less GST collected by Commonwealth agencies but not yet remitted to the ATO(c)	38	3	-1	-1	0
GST entitlement	47,700	50,250	52,820	55,800	58,670
plus prior year balancing adjustment(d)	440				
GST payments to the States	48,140	50,250	52,820	55,800	58,670

(a) GST revenue which is recognised on a Commonwealth whole of government basis, but not remitted to the ATO as at 30 June of each 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 ATO, 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 2011-12 were \$440.1 million lower than the final outcome determined by the Treasurer. This amount was added to payments in 2012-13.

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 being delivered – just the equalisation of each State's capacity to provide the same standard of services. In calculating 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.

Table 3.6 identifies the relativities recommended by the Commission for 2012-13 and 2013-14, and the Commonwealth projected relativities for distributing GST for 2014-15 to 2016-17. The Commission does not provide projected relativities.

The Commonwealth's projections assume that the States' fiscal capacities will be broadly consistent with the relative assessed differences in the Commission's *Report on GST Revenue Sharing Relativities – 2013 Update*.

The Commonwealth's projections only make technical adjustments for estimated changes in the size of the GST pool, State population shares and the distribution of National SPPs. The National SPPs adjustment ensures the projections reflect that, in accordance with the *Intergovernmental Agreement on Federal Financial Relations*, National SPPs are progressively shifting towards an equal per capita share. The projections do not take into account any other major changes in Commonwealth-State financial relations.

Consistent with the Commission's approach, the projected relativity for an individual year is the average of relativities for three assessment years. For example, the 2014-15 projected relativity is based on the average of assessed relativities for 2010-11, 2011-12 and 2012-13.

Table 3.6: GST relativities

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2012-13	0.95312	0.92106	0.98477	0.55105	1.28472	1.58088	1.19757	5.52818
2013-14	0.96576	0.90398	1.05624	0.44581	1.26167	1.61454	1.22083	5.31414
2014-15(a)	0.98311	0.89364	1.07816	0.34982	1.24777	1.69697	1.27297	5.46857
2015-16(a)	0.99124	0.90273	1.05466	0.36650	1.20828	1.78072	1.28644	5.40256
2016-17(a)	0.99149	0.90550	1.05311	0.38454	1.20235	1.75850	1.27828	5.27724

(a) Treasury projection.

Box 3.1: The effect of horizontal fiscal equalisation

It is usual for individual States within a federation to have different capacities to raise revenue or deliver services. The practice of equalising revenue capacities and/or expenditure capacities between the States in a federation is common. Australia has had various forms of fiscal equalisation since 1901.

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 2013-14, around \$4.7 billion (or 9.3 per cent) of the GST payments will be redistributed among the States, compared with an equal per capita distribution (Table A).

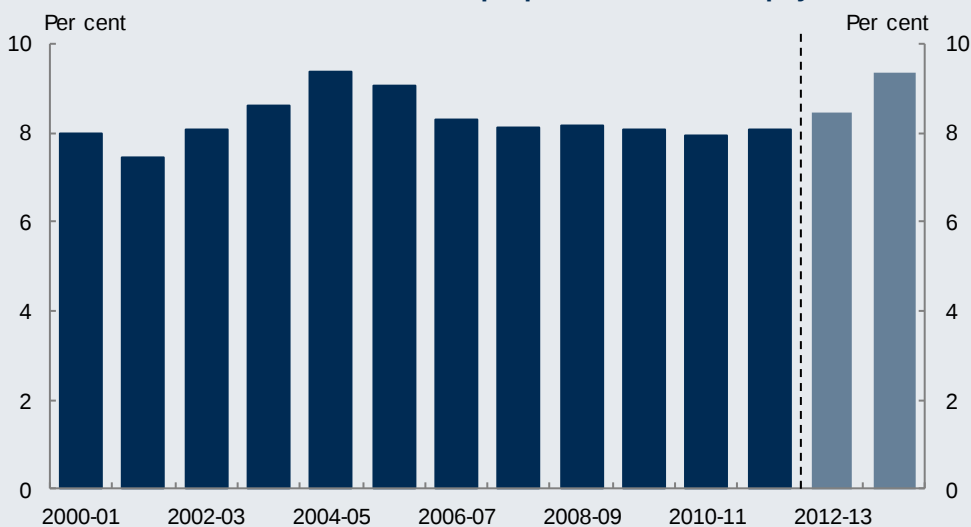
Table A: Difference from equal per capita distribution, 2013-14

	GST distribution 2013-14 Budget \$million	Equal per capita distribution of GST \$million	Redistribution(a) \$million	Projected population '000	Per capita redistribution \$
NSW	15,557.9	16,053.1	-495.2	7,426	-66.7
VIC	11,320.3	12,478.9	-1,158.6	5,773	-200.7
QLD	10,740.9	10,133.4	607.5	4,688	129.6
WA	2,457.5	5,493.2	-3,035.7	2,541	-1,194.6
SA	4,595.0	3,629.2	965.7	1,679	575.2
TAS	1,800.5	1,111.3	689.2	514	1,340.7
ACT	1,021.8	834.0	187.8	386	486.6
NT	2,756.0	516.8	2,239.2	239	9,366.3
Total	50,250.0	50,250.0	4,689.5	23,246	

The total redistribution of \$4,689.5 million is the sum of positive items in that column.

Chart A below shows the proportion of GST payments being redistributed in 2013-14 and since the GST commenced.

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



Box 3.1: The effect of horizontal fiscal equalisation (continued)

A State's GST relativity is not a complete measure of its share of Commonwealth funding. In 2013-14, payments for specific purposes (National SPPs, National Health Reform funding, National Education Reform funding and National Partnership payments) will also provide a substantial source of revenue for the States. There are also other general revenue assistance payments made to the States. Given this, a more accurate measure of Commonwealth support for a specific State would include this funding.

This analysis is shown in the implied relativity line in Table B below. A ratio of one would indicate that a State has received its population share of total Commonwealth payments.

Using this broader measure, total payments to the States are generally closer to an equal per capita share than GST payments, as shown in Table B.

Table B: Implied relativity of expected total Commonwealth payments, 2013-14

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Implied relativity	0.96	0.94	1.03	0.79	1.10	1.33	1.11	3.79
CGC determined GST relativity	0.97	0.90	1.06	0.45	1.26	1.61	1.22	5.31

Note: Unallocated payments have been excluded. Figures for the forward estimates have not been provided as they would need to rely, in part, on future GST relativities which are projections only.

Distribution of the GST entitlement pool

To determine the allocation of GST amongst the States, the estimated state populations are first multiplied by the GST relativities in order to determine an adjusted population for each State. Each State receives its adjusted population share of the GST entitlement. The detailed calculation for the distribution of the GST in 2012-13 and 2013-14 is shown in Table 3.7 and Table 3.9.

Table 3.7: Calculation of GST entitlements^(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)
2012-13					
NSW	7,332,335	0.95312	6,988,595	30.6%	14,616.8
VIC	5,669,882	0.92106	5,222,302	22.9%	10,922.5
QLD	4,601,689	0.98477	4,531,605	19.9%	9,477.9
WA	2,467,751	0.55105	1,359,854	6.0%	2,844.2
SA	1,661,002	1.28472	2,133,922	9.4%	4,463.1
TAS	512,383	1.58088	810,016	3.6%	1,694.2
ACT	378,143	1.19757	452,853	2.0%	947.2
NT	236,470	5.52818	1,307,249	5.7%	2,734.1
Total	22,859,655	na	22,806,396	100.0%	47,700.0
2013-14					
NSW	7,426,127	0.96576	7,171,856	31.0%	15,557.9
VIC	5,772,721	0.90398	5,218,424	22.5%	11,320.3
QLD	4,687,686	1.05624	4,951,321	21.4%	10,740.9
WA	2,541,159	0.44581	1,132,874	4.9%	2,457.5
SA	1,678,873	1.26167	2,118,184	9.1%	4,595.0
TAS	514,073	1.61454	829,991	3.6%	1,800.5
ACT	385,829	1.22083	471,032	2.0%	1,021.8
NT	239,073	5.31414	1,270,467	5.5%	2,756.0
Total	23,245,541	na	23,164,150	100.0%	50,250.0

(a) Amounts shown in 2012-13 are based on estimates of each jurisdiction's GST entitlement based on the estimated total GST pool. These amounts do not take into account the prior year balancing adjustment for underpayments made in 2011-12, totalling \$440.1 million.

Table 3.8 shows the distribution of the prior year balancing adjustment which was paid in 2012-13. The balancing adjustment is the difference between the GST advances paid to the States in 2011-12 and the States' final GST entitlement determined by the Treasurer. The final GST entitlement for 2011-12 is based on the final 2011-12 GST revenue, 2011-12 GST relativities and 31 December 2011 population as determined by the Australian Statistician.

Table 3.8: Distribution of the prior year balancing adjustment

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2012-13	127.0	66.9	-8.4	91.1	46.6	34.7	23.5	58.6	440.1

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

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2012-13	14,616.8	10,922.5	9,477.9	2,844.2	4,463.1	1,694.2	947.2	2,734.1	47,700.0
2013-14	15,557.9	11,320.3	10,740.9	2,457.5	4,595.0	1,800.5	1,021.8	2,756.0	50,250.0
2014-15	16,602.5	11,792.5	11,558.5	2,055.1	4,754.3	1,964.8	1,124.9	2,967.5	52,820.0
2015-16	17,631.9	12,611.6	11,974.4	2,304.8	4,839.4	2,150.3	1,205.7	3,081.8	55,800.0
2016-17	18,495.2	13,332.4	12,605.5	2,576.1	5,040.1	2,205.0	1,264.9	3,150.7	58,670.0

(a) Amounts shown in 2012-13 are based on estimates of each jurisdiction's GST entitlement based on the estimated total GST pool. These amounts do not take into account the prior year balancing adjustment for underpayments made in 2011-12, totalling \$440.1 million.

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 3 April 2013, the Standing Council on Federal Financial Relations endorsed a preliminary GST administration budget for the ATO of \$698.6 million for 2013-14, as shown in Table 3.10.

Table 3.10: Reconciliation of the GST administration budget

\$million	2012-13	2013-14	2014-15	2015-16	2016-17
Administration budget at 2012-13 Budget	680.9	681.9	688.3	695.3	na
Changes from 2012-13 Budget to MYEFO					
Parameter variations	-	-	-	-	-
Total variations	-	-	-	-	-
Administration budget at 2012-13 MYEFO	680.9	681.9	688.3	695.3	na
Changes from MYEFO to 2013-14 Budget					
Parameter variations	-	-2.7	-4.0	-5.4	-
Other variations	13.5	19.4	30.8	35.6	-
Total variations	13.5	16.7	26.7	30.1	592.4
Administration budget at 2013-14 Budget	694.4	698.6	715.0	725.4	592.4

In 2011-12, the GST administration payments made by the States were \$13.7 million less than the combination of the total final audited GST administration cost for 2011-12 and the States' 2010-11 overpayment. This net underpayment was added to the estimated administration costs of \$694.4 million for 2012-13.

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 Limited 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 3.11: Other general revenue assistance

\$million	2012-13	2013-14	2014-15	2015-16	2016-17
ACT municipal services	36.8	37.5	38.2	38.9	39.6
Reduced royalties	63.1	41.7	45.6	49.3	46.2
Royalties	1,060.7	830.2	826.3	815.5	816.6
Snowy Hydro Ltd tax compensation	74.4	74.4	74.4	74.4	74.4
Total other general revenue assistance	1,235.0	983.8	984.5	978.1	976.8

Payments in respect of Australian Capital Territory municipal services

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2012-13	-	-	-	-	-	-	36.8	-	36.8
2013-14	-	-	-	-	-	-	37.5	-	37.5
2014-15	-	-	-	-	-	-	38.2	-	38.2
2015-16	-	-	-	-	-	-	38.9	-	38.9
2016-17	-	-	-	-	-	-	39.6	-	39.6

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
2012-13	-	-	-	63.1	-	-	-	-	63.1
2013-14	-	-	-	41.7	-	-	-	-	41.7
2014-15	-	-	-	45.6	-	-	-	-	45.6
2015-16	-	-	-	49.3	-	-	-	-	49.3
2016-17	-	-	-	46.2	-	-	-	-	46.2

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
2012-13	-	-	-	~	-	-	-	~	1,060.7
2013-14	-	-	-	~	-	-	-	~	830.2
2014-15	-	-	-	~	-	-	-	~	826.3
2015-16	-	-	-	~	-	-	-	~	815.5
2016-17	-	-	-	~	-	-	-	~	816.6

(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 Storage 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

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2012-13	49.6	24.8	-	-	-	-	-	-	74.4
2013-14	49.6	24.8	-	-	-	-	-	-	74.4
2014-15	49.6	24.8	-	-	-	-	-	-	74.4
2015-16	49.6	24.8	-	-	-	-	-	-	74.4
2016-17	49.6	24.8	-	-	-	-	-	-	74.4

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 3.12: Mirror taxes accrued on behalf of the States

\$million	2012-13	2013-14	2014-15	2015-16	2016-17
Mirror taxes	484.6	512.6	543.3	576.5	602.1
less Payments to State governments	484.6	512.6	543.3	576.5	602.1
Commonwealth Budget impact	-	-	-	-	-