

## Appendix B: Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations

THE COMMONWEALTH OF AUSTRALIA

THE STATE OF NEW SOUTH WALES

THE STATE OF VICTORIA

THE STATE OF QUEENSLAND

THE STATE OF WESTERN AUSTRALIA

THE STATE OF SOUTH AUSTRALIA

THE STATE OF TASMANIA

THE AUSTRALIAN CAPITAL TERRITORY, AND

THE NORTHERN TERRITORY OF AUSTRALIA

### WHEREAS

- (1) the Special Premiers' Conference on 13 November 1998 developed principles for the reform of Commonwealth-State financial relations;
- (2) the Commonwealth, States and Territories are in agreement that the current financial relationship between levels of government must be reformed to facilitate a stronger and more productive federal system for the new millennium; and
- (3) while a majority of the States and Territories support the introduction of the Goods and Services Tax (GST), the agreement of New South Wales, Queensland and Tasmania to the reform of Commonwealth-State financial relations does not imply their in-principle endorsement of the GST:

IT IS HEREBY AGREED:

## **PART 1 – PRELIMINARY**

### **Commencement Clause**

1. This Agreement will commence between the Commonwealth, the States and the Territories on 1 July 1999 unless otherwise agreed by the Parties.

### **Objectives**

2. The objectives of the reforms set down in this agreement include:
  - (i) the achievement of a new national tax system, including the elimination of a number of existing inefficient taxes which are impeding economic activity;
  - (ii) the provision to State and Territory Governments of revenue from a more robust tax base that can be expected to grow over time; and
  - (iii) an improvement in the financial position of all State and Territory Governments, once the transitional changes have been completed, relative to that which would have existed had the current arrangements continued.
3. All Parties to the Agreement acknowledge the need to pursue on-going reform of Commonwealth-State financial relations.

### **Acknowledgement of Agreement**

4. The Commonwealth will attach the Agreement as a schedule to the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999*. The Commonwealth will use its best endeavours to ensure the Act will require compliance with the Agreement. The States and Territories will attach the Agreement as a schedule to relevant State and Territory legislation. The States and Territories will use their best endeavours to ensure their legislation will require compliance with the Agreement.

## **PART 2 – COMMONWEALTH-STATE FINANCIAL REFORM**

### **Reform Measures**

5. The Parties will undertake all necessary steps to have appropriate legislation enacted to give effect to the following reform measures.

- (i) The Commonwealth will legislate to provide all of the revenue from the GST to the States and Territories and will legislate to maintain the rate and base of the GST in accordance with this Agreement.
- (ii) The Commonwealth will cease to apply the Wholesale Sales Tax from 1 July 2000 and will not reintroduce it or a similar tax in the future.
- (iii) The temporary arrangements for the taxation of petrol, liquor and tobacco under the safety net arrangements announced by the Commonwealth on 6 August 1997 will cease on 1 July 2000.
- (iv) The payment of Financial Assistance Grants will cease on 1 July 2000.
- (v) The Commonwealth will continue to provide Specific Purpose Payments (SPPs) to the States and Territories and has no intention of cutting aggregate SPPs as part of the reform process set out in this Agreement, consistent with the objective of the State and Territory Governments being financially better off under the new arrangements.
- (vi) The States and Territories will cease to apply the taxes referred to in Appendix A from the dates outlined below and will not reintroduce them or similar taxes in the future.
  - Bed taxes, from 1 July 2000;
  - Financial Institutions Duty, from 1 January 2001;
  - Debits tax, from 1 January 2001;
  - Stamp duties on marketable securities; business conveyances (other than real property); leases; mortgages, debentures, bonds and other loan securities; credit arrangements, installment purchase arrangements and rental arrangements; and on cheques, bills of exchange and promissory notes, from 1 July 2001.
- (vii) Stamp duty on non-residential conveyances of real property will cease to apply by a date to be determined by the Ministerial Council on the basis that no State or Territory will be worse off in any year.
- (viii) The States and Territories will adjust their gambling tax arrangements to take account of the impact of the GST on gambling operators.
- (ix) Nothing in this clause will prevent any Party from introducing anti-avoidance measures that are reasonably necessary to protect its remaining tax base or liabilities accrued prior to the date the tax ceases to apply.

## **Distribution of GST Revenue**

6. The Commonwealth will make GST revenue grants to the States and Territories equivalent to the revenue from the GST subject to the arrangements in this Agreement. GST revenue grants will be freely available for use by the States and Territories for any purpose.
7. The Commonwealth will distribute GST revenue grants among the States and Territories in accordance with horizontal fiscal equalisation (HFE) principles subject to the transitional arrangements set out below and other relevant provisions of this Agreement.
8. Details of the payment arrangements are contained in Appendix B to this Agreement.

## **Transitional Arrangements**

9. In each of the transitional years following the introduction of the GST, the Commonwealth guarantees that the budgetary position of each individual State and Territory will be no worse off than it would have been had the reforms set out in this Agreement not been implemented.
10. The Commonwealth will extend the transitional period by Regulation (as provided for in the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999*) to give effect to the commitments in clause 9 in the event that transitional assistance is required by any State or Territory after 30 June 2003.
11. To meet this guarantee, the Commonwealth will make transitional assistance payments to each State and Territory, as necessary, over this period. These payments will take the form of interest free loans in July 2000-01 and grants paid quarterly in subsequent years and will be freely available for use by the States and Territories for any purpose. Any payments or repayments made by way of loans or grants under the Commonwealth's guarantee will be excluded from assessments of per capita relativities recommended by the Commonwealth Grants Commission (CGC).
12. The amounts of any additional assistance under the guarantee will be determined in accordance with the processes set out in Appendix C to this Agreement.
13. After the second year following the introduction of the GST, GST revenue grants will be determined on the basis of HFE principles. That is, after the first two years, any State or Territory which is receiving more than would have been received under the current arrangements will retain that excess.

## **Local Government Finances**

14. The States and the Northern Territory will provide ongoing financial assistance grants to local government from 1 July 2000.
15. The States and the Northern Territory will make these payments in accordance with Appendix D to this Agreement. The Australian Capital Territory will continue to fund services for local government purpose analogous to those funded by the States and the Northern Territory.

## **First Home Owners Scheme**

16. To offset the impact of the introduction of a GST, the States and Territories will assist first homebuyers through the funding and administration of a new uniform First Home Owners Scheme.
17. This assistance will be provided to first home owners consistent with Appendix E to this Agreement.

## **Application of the GST to Government**

18. The Parties intend that the Commonwealth, States, Territories and local government and their statutory corporations and authorities will operate as if they were subject to the GST legislation. They will be entitled to register, will pay GST or make voluntary or notional payments where necessary and will be entitled to claim input tax credits in the same way as non-Government organisations. All such payments will be included in GST revenue.

## **Government Taxes and Charges**

19. The Commonwealth, States and Territories agree that the GST does not apply to the payment of some taxes and compulsory charges.
20. The Parties will agree a list of taxes and compulsory charges that are outside the scope of the GST. This list will be promulgated by a determination by the Commonwealth Treasurer as set out in Division 81-5 of the *A New Tax System (Goods and Services Tax) Act 1999* (the GST Act).
21. In agreeing the list, the Commonwealth, States and Territories will have regard to the following principles:
  - (i) taxes that are in the nature of a compulsory impost for general purposes and compulsory charges by the way of fines or penalties should not be subject to GST as these will not relate to any specific supply of goods or services;

- (ii) similarly, those regulatory charges that do not relate to particular goods or services should be outside the scope of the GST; and
  - (iii) the inclusion of any other charge in the Commonwealth Treasurer's determination notwithstanding that it may relate to the supply of a particular good or service will require the unanimous agreement of the Commonwealth, States and Territories.
22. The agreed list of taxes and other compulsory charges that are outside the scope of the GST will be subject to on-going review and adjustment as necessary in consultation with the Ministerial Council. The Parties will notify any objections to changes to the list within a period to be specified by the Ministerial Council.

### **Reciprocal Taxation**

23. Reciprocal taxation will be progressed on a revenue neutral basis, through the negotiation of a Reciprocal Taxation Agreement with the objectives of:
- (i) improving the transparency of tax arrangements between all levels of government;
  - (ii) ensuring tax neutrality; and
  - (iii) replacing the Statement of Policy Intent (SOPI) for the taxation treatment of Government Business Enterprises with tax arrangements which are broader in scope.
24. It is the intention of the Parties to this Agreement that a National Tax Equivalent Regime (NTER) for income tax will be operational for State and Territory government business enterprises from 1 July 2000. It is also intended that the reciprocal application of other Commonwealth, State and Territory taxes will be subsequently implemented as soon as practicable.
25. Local government organisations will be consulted with a view to making the NTER for income tax operational for wholly owned local government business enterprises from 1 July 2000 and including local government in the Reciprocal Tax Agreement at a later date.
26. Where the application of full indirect reciprocal tax arrangements is prevented by the Constitution, jurisdictions have agreed to work cooperatively to introduce voluntary payment arrangements in these circumstances.
27. All governments have agreed that no further compensation payments will be payable by any jurisdiction under the SOPI.

## **Monitoring of Prices**

28. In accordance with the *Trade Practices Act 1974*, as amended, the Australian Competition and Consumer Commission will formally monitor prices and take action against businesses that take pricing decisions in a manner inconsistent with tax reform.
29. In order to ensure that these measures apply to the whole economy, the States and Territories will adopt the Schedule version of Part VB of the *Trade Practices Act 1974* (part XIAA of the *New Tax System Price Exploitation Code*) to extend the measures in Part VB to cover those areas outside the Commonwealth's constitutional power. All Parties will work towards having any necessary legislation in place by 1 July 1999.
30. The monitoring and prohibition on unreasonable pricing decisions will commence on 1 July 1999 and continue until 30 June 2002.

## **PART 3 – ADMINISTRATION OF THE GST**

### **Management of the GST Rate**

31. After the introduction of the GST, a proposal to vary the 10 per cent rate of the GST will require:
  - (i) the unanimous support of the State and Territory Governments;
  - (ii) the endorsement by the Commonwealth Government of the day; and
  - (iii) the passage of relevant legislation by both Houses of the Commonwealth Parliament.

### **Management of the GST Base**

32. Subject to clauses 34, 35 and 36 of this Agreement, after the introduction of the GST, any proposal to vary the GST base will require:
  - (i) the unanimous support of the State and Territory Governments;
  - (ii) the endorsement by the Commonwealth Government of the day; and
  - (iii) the passage of relevant legislation by both Houses of the Commonwealth Parliament.
33. All future changes to the GST base should be consistent with:
  - (i) the maintenance of the integrity of the tax base;

- (ii) simplicity of administration; and
  - (iii) minimising compliance costs for taxpayers.
34. A proposal to vary the GST base by way of a Ministerial determination under the GST Act will require the unanimous agreement of the Ministerial Council established under clause 40. The Ministerial Council will develop practical arrangements to ensure timely consideration of proposed Ministerial determinations.
35. During the first 12 months following the implementation of the GST, the Commonwealth Government will retain the discretion to make changes unilaterally to the GST base where such changes:
- (i) are of an administrative nature (as defined in Appendix F to this Agreement);
  - (ii) are necessary to facilitate the implementation of the new tax; and
  - (iii) have regard to the need to protect the revenue of the States and Territories.
36. From July 2001, changes to the GST base of an administrative nature (as defined in Appendix F) would require the majority support of the Commonwealth, the States and the Territories.

### **Australian Taxation Office**

37. The States and Territories will compensate the Commonwealth for the agreed costs incurred by the Australian Taxation Office (ATO) in administering the GST.
38. Accountability and performance arrangements will be established between the ATO and the State and Territory Governments consistent with Appendix G to this Agreement. These arrangements will include maximising compliance, cost efficiency, simplicity for taxpayers and administrative transparency.
39. The ATO and State and Territory Governments will collaborate to explore options for the States and Territories to benefit from the use of the Australian Business Number system.

## **PART 4 – INSTITUTIONAL ARRANGEMENTS**

### **Establishment of Ministerial Council**

40. A Ministerial Council comprising the Commonwealth, the States and the Territories will be established from 1 July 1999 to oversee the operation of this Agreement.

41. The membership of the Ministerial Council will comprise the Treasurer of the Commonwealth and the Treasurers of the States and Territories (or designated representatives).
42. The functions of the Ministerial Council will include:
- (i) the oversight of the operation of the GST;
  - (ii) the oversight and coordination of the implementation of this Agreement;
  - (iii) the review of matters of operational significance raised through the GST Administration Sub-Committee;
  - (iv) discussion of CGC recommendations regarding relativities prior to the Commonwealth Treasurer making a determination;
  - (v) monitoring compliance with the conditions governing the provision of local government financial assistance set out in Appendix D to this Agreement;
  - (vi) monitoring compliance with the conditions governing the provision of assistance to first home owners set out in Appendix E to this Agreement;
  - (vii) monitoring compliance with the Commonwealth's undertaking with respect to SPPs;
  - (viii) considering reports of the GST Administration Sub-Committee on the performance of the ATO in GST administration;
  - (ix) reviewing the operation of the Agreement over time and considering any amendments which may be proposed as a consequence of such review;
  - (x) making recommendations to the Commonwealth Treasurer on the Guaranteed Minimum Amount applying to each State and Territory under the Transitional Arrangements;
  - (xi) approving changes to the GST base which require the support of a majority of Commonwealth, State and Territory Governments;
  - (xii) considering on-going reform of Commonwealth-State financial relations; and
  - (xiii) considering other matters covered in this Agreement.
43. The Treasurer of the Commonwealth will convene the Ministerial Council in consultation with the other members of the Council not less than once each financial year. If the Commonwealth Treasurer receives a request from a member of the Council, he will consult with the other members concerning convening a meeting. The Treasurer of the Commonwealth will be the chair of the Council. The Council may also conduct its business by correspondence.

44. All questions arising in the Ministerial Council will be determined by unanimous agreement unless otherwise specified in this Agreement.
45. While it is envisaged that the Ministerial Council will take decisions on most business arising from the operation of this Agreement, major issues will be referred by the Ministerial Council to Heads of Government for consideration, including under the auspices of the Council of Australian Governments.
46. The Ministerial Council will establish a GST Administration Sub-Committee comprised of Commonwealth, State and Territory officials to monitor the operation of the GST, make recommendations regarding possible changes to the GST base and rate and to monitor the ATO's performance in GST administration. The GST Administration Sub-Committee will function in accordance with the arrangements set out in Appendix F to this Agreement.

**SIGNED** for and on behalf of the Parties by:

The Honourable John Winston Howard,  
Prime Minister of the Commonwealth of Australia,  
on the 9<sup>th</sup> day of April 1999  
in the presence of:

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The Honourable Robert John Carr,  
Premier of the State of New South Wales,  
on the 9<sup>th</sup> day of April 1999  
in the presence of:

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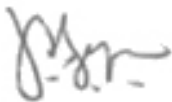
The Honourable Jeffrey Gibb Kennett,  
Premier of the State of Victoria,  
on the 9<sup>th</sup> day of April 1999  
in the presence of:

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The Honourable Peter Douglas Beattie,  
Premier of the State of Queensland,  
on the 9<sup>th</sup> day of April 1999  
in the presence of:

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The Honourable Richard Fairfax Court,  
Premier of the State of Western Australia,  
on the 9<sup>th</sup> day of April 1999  
in the presence of:

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The Honourable John Wayne Olsen,  
Premier of the State of South Australia,  
on the 9<sup>th</sup> day of April 1999  
in the presence of:

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The Honourable James Alexander Bacon,  
Premier of the State of Tasmania,  
on the 9<sup>th</sup> day of April 1999  
in the presence of:

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Kate Carnell,  
Chief Minister of the Australian Capital Territory,  
on the 9<sup>th</sup> day of April 1999  
in the presence of:

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The Honourable Denis Gabriel Burke,  
Chief Minister of the Northern Territory of Australia,  
on the 9<sup>th</sup> day of April 1999  
in the presence of:

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## **APPENDICES**

- A: Taxes Subject to Reform
- B: Payment of GST Revenues to the States and Territories
- C: Transitional Arrangements
- D: Conditions Governing Local Government Financial Assistance
- E: First Home Owners Scheme
- F: GST Administration
- G: GST Administration Performance Agreement — Guiding Principles

**Taxes Subject To Reform**

The taxes which will cease to apply in accordance with paragraph 5 of this Agreement are set out below and in the relevant Commonwealth, State and Territory statutes as at 13 November 1998.

A1. The following taxes will cease to apply from 1 July 2000:

(i) *Wholesale Sales Tax*

Sales tax levied on the value of the last wholesale sale of goods sold or otherwise dealt with as imposed by the Commonwealth's Sales Tax (Imposition) Acts.

(ii) *Bed Taxes*

Accommodation taxes levied on the cost of temporary residential accommodation.

A2. The following State and Territory taxes will cease to apply from 1 January 2001:

(i) *Financial Institutions Duty*

Financial Institutions Duty levied on the value of receipts (credits) at financial institutions and on the average daily liabilities and/or investments of short term money market dealers.

(ii) *Debits Tax*

Debits tax levied on the value of withdrawals (debits) from accounts with financial institutions with cheque drawing facilities.

Debits duty levied on transactions, including credit card transactions. This does not include stamp duty on electronic debits (refer A3 (vi) below).

A3. The following State and Territory taxes will cease to apply from 1 July 2001:

(i) *Stamp Duty on Marketable Securities*

Stamp duty levied on turnover (ie sale price times quantity traded) on the transfer of listed and unlisted marketable securities.

(ii) *Stamp Duty on Business Conveyances (other than real property)*

Stamp duty levied on the value of the following components of business conveyances:

- goodwill (except site goodwill);
- trading stock;
- work in progress;
- chattels (except when in connection with a realty conveyance);
- book debts;
- statutory licences or permissions (Commonwealth);
- statutory licences or permissions (State or Territory);
- contractual licences;
- right to use business name/trademark;
- right to use thing, system, process;
- right to use information, knowledge;
- intellectual property (patents etc);
- partnership interest;
- grants of contractual rights;
- transfer of contractual rights; and
- interest in any of the above.

(iii) *Stamp Duty on Leases*

Stamp duty levied on the rental payable under tenancy agreements.

(iv) *Stamp Duty on Mortgages, Bonds, Debentures and Other Loan Securities*

Stamp duty levied on the value of a secured loan property.

(v) *Stamp Duty on Credit Arrangements, Instalment Purchase Arrangements and Rental Arrangements*

Stamp duty levied on the value of the loan under credit arrangements.

Stamp duty levied on credit business in respect of loans made, discount transactions and credit arrangements.

Stamp duty levied on the price of goods purchased under instalment purchase arrangements.

Stamp duty levied on the rent paid in respect of the hire of goods, including consumer and producer goods.

(vi) *Stamp Duty on Cheques, Bills of Exchange and Promissory Notes*

Stamp duty levied on cheques, bills of exchange, promissory notes, or other types of payment orders, promises to pay or acknowledgment of debts, including duty on electronic debits.

A4. The following State and Territory taxes will cease to apply from a date to be determined:

(i) *Stamp Duty on Non-residential Conveyances (real property)*

Stamp duty levied on the value of other than residential property conveyances.

**Payment of GST Revenues to the States and Territories**

- B1. Subject to the transitional arrangements and other relevant provisions in this Agreement, the Commonwealth will distribute GST revenue grants among the States and Territories in accordance with horizontal fiscal equalisation (HFE) principles.
- B2. The pool of funding to be distributed according to HFE principles in a financial year will comprise GST revenue grants and health care grants as defined under an Australian Health Care Agreement between the Commonwealth and the States and Territories. A State or Territory's share of the pool will be based on its population share, adjusted by a relativity factor which embodies per capita financial needs based on recommendations of the Commonwealth Grants Commission. The relativity factor for a State or Territory will be determined by the Commonwealth Treasurer after he has consulted with each State and Territory.
- B3. The total amount of GST revenue to be provided to the States and Territories in a financial year will be defined as:
- (i) the sum of GST collections, diesel fuel excise credits, and voluntary and notional payments made by government bodies; reduced by
  - (ii) the amounts paid or applied under Division 35 of the GST Act and under section 39 of the *Taxation Administration Act 1953*.
- B4. The total amount of GST revenue in a financial year will be determined by the Commissioner of Taxation in the following way:
- (i) actual outcomes for the items listed in paragraph B3 for the period 1 July to 31 May; plus
  - (ii) estimated outcomes for the items listed in paragraph B3 for the month of June; plus
  - (iii) an adjustment amount (which may be positive or negative) to account for any difference between the estimated and actual outcome for the items listed in paragraph B3 for the month of June in the previous year.
- B5. GST revenue grants will be paid by the Commonwealth on the twenty-seventh day of each month. Where the scheduled payment day is a Saturday, Sunday or public holiday in Canberra, the payment will be made on the next business day of the Reserve Bank of Australia in Canberra.
- B6. The States and Territories shall be informed of the quantum of each monthly payment by close of business Canberra time on the twenty-sixth day of each

month. Where the day is a Saturday, Sunday or public holiday in Canberra, the States and Territories shall be informed of the quantum of the payment on the last business day of the Reserve Bank of Australia in Canberra prior to payment day.

- B7. The distribution between the States and Territories of the payments of GST revenue grants up to 15 June in each year will be based on:
- (i) the Treasurer's determination of per capita relativities;
  - (ii) the latest available Australian Bureau of Statistics' projections, or estimates, of State and Territory populations as at 31 December;
  - (iii) the latest available Department of Health and Aged Care estimates of health care grants to be provided to a State or Territory; and
  - (iv) the latest available estimates of the guaranteed minimum amount for each State and Territory to be calculated under Appendix C of this Agreement.

The Commonwealth will inform the States and Territories of any changes to the estimates as part of the advice to be provided to the States and Territories under paragraph B6.

- B8. The payments of GST revenue grants after 15 June in each year will take into account the determinations of:
- (i) per capita relativities and Guaranteed Minimum Amounts by the Treasurer;
  - (ii) populations by the Statistician;
  - (iii) health care grants by the Minister administering the *National Health Act 1953*; and
  - (iv) GST revenues by the Commissioner of Taxation.

For this purpose, the final payment will be made no later than the seventeenth day of June in each year. Where the seventeenth day of June is a Saturday, Sunday or public holiday in Canberra, the payment will be made on the next business day of the Reserve Bank of Australia in Canberra.

- B9. States shall be informed of the quantum of the final monthly payment of GST revenues grants by close of business Canberra time on the sixteenth day of June. Where the sixteenth day of June is a Saturday, Sunday or public holiday in Canberra, the Commonwealth shall inform the States of the quantum of the final payment on the last business day of the Reserve Bank of Australia in Canberra prior to the thirteenth.
- B10. The timing of payments of GST revenue grants may be varied by agreement between the Parties to this Agreement.

**Transitional Arrangements**

*Guarantee in Legislation*

- C1. Commonwealth legislation will provide a State or Territory with an entitlement to an additional amount of funding from the Commonwealth to offset any shortfall between its entitlement to GST revenue grants and the total amount of funding which would ensure that the budgetary position of a State or Territory is not worse off during the transition period.
- (i) In 2000-01, transitional assistance will be provided to a State or Territory as an interest free loan to be repaid to the Commonwealth in full in 2001-02.
  - (ii) In subsequent transitional years, transitional assistance will be provided to a State or Territory as a grant.

*Guaranteed Minimum Amount*

- C2. The amount of a State or Territory's entitlement to transitional assistance in a financial year will be calculated by subtracting its entitlement to GST revenue grants from a 'Guaranteed Minimum Amount' constructed in the following way:

State revenues forgone: financial assistance grants, revenue replacement payments and State and Territory taxes as defined in Appendix A of this Agreement.

**plus**

Revenue impact of delayed transactions: in 2000-01 only, the effect on a State or Territory's revenue of transactions that have been delayed to avoid liability for a tax that is defined in Appendix A of this Agreement.

**plus**

Reduced revenues: the amount by which States and Territories adjust gambling taxation arrangements to take account of the impact of the GST on gambling operators.

**plus**

Interest costs on cash flow shortfalls: the interest cost incurred by States and Territories as a result of the change to cash flows arising from the replacement of weekly financial assistance grants, revenue replacements and State and Territory taxes with monthly GST revenue grants.

**plus**

Loan Repayments: in 2001-02 only, the repayment of a guarantee loan by a State or Territory.

**plus**

Additional expenditures: general purpose payments to local government in accordance with Appendix D of this Agreement, payments to first home owners in accordance with Appendix E of this Agreement and the amount of the agreed GST administration costs payable to the ATO by a State or Territory.

**plus**

Other items: \$338 million spread evenly over three years starting in 2000-01 in respect of the claim by States and Territories in relation to revenue forgone from the abolition of the Wholesale Sales Tax (WST) Tax Equivalent Regimes (with the distribution to be agreed among the States and Territories).

**minus**

Reduced expenditures: off-road diesel subsidies and reduced costs from the removal of embedded WST and excises on purchases by a State or Territory excluding \$210 million over three years in relation to local government.

**minus**

Growth dividend: the increase in revenue to a State or Territory (not including GST revenue payments) that is attributable to the impact of the Commonwealth's taxation reform measures on economic growth.

**plus**

Adjustments: from 2001-02, the net difference between preliminary estimates and outcomes or final estimates for items that were taken into account in the previous year's Guaranteed Minimum Amount.

In addition, \$269 million in total, spread evenly over three years, will be included in the new Commonwealth State Housing Agreement starting in 2000-01 in respect of the net increased public housing costs as a result of tax reform (with the distribution to be agreed among the States and Territories).

#### *Heads of Treasuries' Advice to Ministerial Council*

- C3. The Guaranteed Minimum Amount for a State or Territory will be determined by the Commonwealth Treasurer by 10 June of each year of the transition period. The Ministerial Council will make recommendations to the Treasurer on the Guaranteed Minimum Amount for each State and Territory.

- C4. The Heads of Treasuries will provide written advice to the Ministerial Council on the following issues by the indicated dates.
- (i) By 1 March 2000, advice on the estimated loans to be provided to each State and Territory in 2000-01 and the amounts which the Commonwealth should provide to each State and Territory on Tuesday 4 July 2000.
  - (ii) By 1 November 2000 advice on the most recent estimates of transitional assistance for the year and any adjustment that may need to be made to the amount of the loans made to each State and Territory.
  - (iii) By 1 September of each subsequent year of the transition period, advice on the most recent estimates of the transitional assistance to be provided to each State and Territory in the financial year and the instalment amounts which the Commonwealth should provide to each State and Territory on the first Tuesday of the following October and January. This advice should identify the adjustments for the net difference between preliminary estimates and outcomes or final estimates for items that were taken into account in the previous year's Guaranteed Minimum Amount for a State or Territory.
  - (iv) By 1 March of each subsequent year of the transition period, advice on the most recent estimates of the transitional assistance to be provided to each State and Territory in both the current financial year and the next financial year, and the instalment amounts which the Commonwealth should provide to each State and Territory on the first Tuesday of the following April and July.
  - (v) By 1 June of each year of the transition period, advice on the Guaranteed Minimum Amount for each State and Territory in the current financial year.

*Frequency and Amounts of Payments and Repayments*

- C5. In each year of the transitional period after 2000-01, the Commonwealth will provide an installment of the guarantee payment to a State or Territory on the first Tuesday (or the first business day thereafter) of January, April, July and October. The installment amounts will reflect the advice to be provided to the Ministerial Council by the Heads of Treasuries under paragraph C4.
- C6. Adjustments to the total amount of additional assistance to a State or Territory in light of actual GST collections and the Treasurer's determination of the Guaranteed Minimum Amount will be made in conjunction with the payments of GST revenue grants after 10 June in each year.
- C7. A State or Territory will repay a loan which it receives from the Commonwealth in 2000-01 in quarterly installments in 2001-02. These installments will be paid to the Commonwealth on the same day on which a State or Territory receives an amount of GST revenue grants in the months of July, October, January and April.

- C8. The methodology for calculating the amounts of particular components of the Guaranteed Minimum Amount for a State or Territory has been agreed by the Heads of Treasuries and is set out in the document titled *Methodology for Estimation of Components of the Guaranteed Minimum Amount*.

### Conditions Governing Local Government Financial Assistance

- D1. The Commonwealth will repeal the *Local Government (Financial Assistance) Act 1995*. The States and the Northern Territory will enact legislation necessary to give effect to the conditions in this Appendix.
- D2. The level of the Local Government Financial Assistance Grants (LGFAGs) provided to local governing bodies will be maintained in real per capita terms on an ongoing basis. Undertakings in respect of funding levels do not preclude revenue neutral funding adjustments made in consultation with local government to reflect: reciprocal taxation or charging initiatives in a particular State or the Northern Territory; and significant change in the respective roles and responsibilities of the States, the Northern Territory and local governing bodies in a particular State or the Northern Territory. Undertakings in respect of funding levels are contingent upon local government bodies acting in accordance with clause 18 of this Agreement.
- D3. The base level of LGFAGs for a State or the Northern Territory will be the actual grant entitlement provided by the Commonwealth to the State or the Northern Territory in the 1999-2000 financial year for local government general purpose assistance and identified local road funding.
- D4. In subsequent financial years, the entitlement for LGFAGs nationally will be indexed annually in line with the March-on-March national Consumer Price Index increase and the December-on-December national population growth, as calculated by the Australian Bureau of Statistics. The general purpose entitlement for a State or the Northern Territory will be that State's or the Northern Territory's per capita share of the national entitlement. The identified local roads entitlement for a State or the Northern Territory will be that State's or the Northern Territory's share of the national entitlement using the same shares as used in the 1999-2000 financial year. Each State and the Northern Territory will maintain the level of LGFAGs to local governing bodies at a level equal to the entitlement for general purpose and identified local roads for that State or the Northern Territory.
- D5. Local governing bodies are those established by or under a law of a State or the Northern Territory (other than a body whose sole or principal function is to provide a particular service, such as the supply of electricity or water) and those bodies the State or the Northern Territory believes should be a local governing body for the purposes of receiving these grants.
- D6. Each State and the Northern Territory will maintain a Local Government Grants Commission. The Commissions will determine the allocation of LGFAGs between local governing bodies within their jurisdiction. The Commissions shall include two members who are or have been associated with local government. Commissions will be required to hold public meetings and to permit local governing bodies to make submissions to it in connection with their recommendations.

- D7. The Local Government Grants Commissions will determine the allocation of general purpose grants to local governing bodies subject to the following conditions:
- (i) General purpose grants will be allocated to local governing bodies, as far as practicable, on a full horizontal fiscal equalisation (HFE) basis.
  - (ii) An effort or policy neutral approach will be used in assessing the expenditure requirements and revenue raising capacity of each local governing body. This means, as far as practicable, that policies of individual local governing bodies in terms of expenditure and revenue effort will not affect grant determinations.
  - (iii) Subject to the effect on the relative needs on local governing bodies of the factors specified in D2, no local governing body will be allocated an amount that is less than the amount that would be allocated to the body if 30 per cent of general purpose grants were allocated on a per capita basis.
  - (iv) Other relevant grant support to local governing bodies to meet any of the expenditure needs assessed should be taken into account using an inclusion approach.
  - (v) Financial assistance will be allocated to local governing bodies in a way which recognises the needs of Aboriginal and Torres Strait Islanders within their boundaries.
- D8. The Local Government Grants Commissions will determine the allocations of the identified roads funding to local governing bodies subject to the following condition:
- (i) the identified roads component of LGFAGs will be allocated to local governing bodies as far as practicable on the basis of the relative needs of each local governing body for roads expenditure and to preserve its road assets.
- D9. The reference to the allocation of funds on a full HFE basis is a reference to an allocation of funds that:
- (i) ensures that each local governing body in a State or the Northern Territory is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the State or the Northern Territory; and
  - (ii) takes account of differences in the expenditure required to be incurred by local governing bodies in the performance of their function and their capacity to raise revenue.

- D10. Subject to D2, the States or the Northern Territory shall make unconditional payments of LGFAGs to local governing bodies which are freely available for use for any purpose. As far as practicable, these payments should be made in equal quarterly instalments.
- D11. Each State and the Northern Territory will provide to the Ministerial Council, as soon as practicable after 30 June each year, a statement setting out the payments made by the State or the Northern Territory to the local governing bodies during the year, the dates of the payments and the methods used by the Local Government Grants Commissions to make their recommendations.
- D12. The effectiveness of the operation of the arrangements for the provision of local government funding by the States or the Northern Territory will be reviewed by the Ministerial Council at least every five years. Local government will be consulted on the terms of reference for the reviews and will be asked to contribute to the reviews. Consistent with existing conditions, these reviews will examine:
- (i) the effectiveness of funding arrangements in ensuring that the allocation of funds for local government purposes is made on a full HFE basis;
  - (ii) the impact of the arrangements on the raising of revenue by local governing bodies and on assistance provided by the States and the Northern Territory to local governing bodies;
  - (iii) the implications of any changes in the functions or responsibilities of local governing bodies; and
  - (iv) any other matters relating to local government including the provisions of this Appendix that the Ministerial Council determines.
- D13. The Commonwealth Grants Commission will be directed to continue to exclude local government funding from its assessments.

**FIRST HOME OWNERS SCHEME**

**Principles**

- E1. The States and Territories will make legislative provision for the First Home Owners Scheme (FHOS) from 1 July 2000 which will incorporate programme criteria consistent with the following principles:
- (i) Eligible applicants will be entitled to \$7,000 assistance (per application) on eligible homes under the FHOS.
  - (ii) Assistance will be available directly as a one off payment. If the recipient expressly consents, it may be available as an offset against statutory levies and charges or some combination of these.
  - (iii) Eligible applicants must be natural persons who are Australian citizens or permanent residents who are buying or building their first home in Australia. An applicant's spouse (or de facto) must be included on the application.
  - (iv) To qualify for assistance, neither the applicant or the applicant's spouse (or de facto) must have previously owned a home, either jointly, separately or with some other person.
  - (v) Entering into a binding contract or commencement of building in the case of owner builders, must have occurred on or after 1 July 2000.
  - (vi) An eligible home will be a new or established house, home unit, flat or other type of self contained fixed dwelling that meets local planning standards. Fixed dwellings will include demountable dwellings where these meet local planning standards.
  - (vii) An eligible home must be intended to be a principal place of residence and occupied within a reasonable period. The home must be located in the State or Territory in which the application is made. Applicants who have entered into a financing mechanism which involves a shared equity arrangement will be eligible.
  - (viii) Assistance will not be means tested.
  - (ix) The relevant State and Territory legislation will contain adequate administrative review and appeal mechanisms, along with provision to prevent abuse of the FHOS. The States and Territories will cooperate in the exchange of information to identify eligible first home owners.

## **Other Matters**

- E2. Funding of grants under the FHOS may not be drawn from Home Purchase Assistance (HPA) funds provided through the Commonwealth State Housing Agreement, including the pool of existing HPA revenues.
- E3. Further details concerning eligibility criteria consistent with the above principles are to be agreed between the Commonwealth and each State and Territory.
- E4. The States and Territories will not introduce or vary any taxes or charges associated with home purchase with the intention of offsetting the benefits of the FHOS for recipients.

### GST Administration

- F1. The Commissioner of Taxation has the general administration of the GST law.
- F2. The ATO will arrange for the Australian Customs Service to assist with the collection of the GST on imports.
- F3. During the first 12 months following the implementation of the GST, the Commonwealth will retain the discretion to make changes to the GST base of an administrative nature. For this purpose, changes of an administrative nature involves legislation necessary to:
- (i) protect the integrity of the GST base; or
  - (ii) prevent tax avoidance.
- F4. The Commonwealth will include the definition of change of an administrative nature in the *A New Tax System (Commonwealth-State Financial Arrangements) Bill 1999*.
- F5. From July 2001, changes of an administrative nature as defined in F3 will require the majority support of the Commonwealth, States and Territories.
- F6. The GST Administration Sub-Committee, which will commence operation from 1 July 1999, will monitor the operation and administration of the GST and make recommendations regarding modifications to the GST and the administration of the GST.
- F7. The GST Administration Sub-Committee will comprise officials from each Party to the Agreement including representatives from the ATO as required. The Commonwealth Treasury will chair the GST Administration Sub-Committee.
- F8. The Chair will convene the GST Administration Sub-Committee in consultation with other members of the Sub-Committee as often as may be necessary to conduct its business. If the Chair receives a request from a member of the Sub-Committee, the Chair will consult with the other members concerning convening a meeting.
- F9. The functions of the Sub-Committee will include:
- (i) monitoring the performance of the ATO in the administration of the GST (Appendix G of this Agreement);
  - (ii) the assessment of policy proposals for the modification of the GST rate and base;
  - (iii) making recommendations to the Ministerial Council on the need for legislation which might significantly affect the GST base; and

- (iv) requesting the ATO to produce draft Public Rulings in specified areas.
- F10. The States and Territories will be consulted on draft Public Rulings prior to consideration by the ATO Rulings Panel and before public consultation. There will be a representative from the States and Territories on the ATO Rulings Panel in relation to GST matters.
- F11. Public rulings will not be referred to the Ministerial Council. However, the GST Administration Sub-Committee will refer a proposed GST change to the Ministerial Council for consideration if the Sub-Committee is of the view that the change could have a significant impact on GST revenues and so warrants Ministerial review.
- F12. Draft legislation which might significantly affect the GST base will be forwarded through the GST Administrative Sub-Committee to the Ministerial Council for consideration.

### **GST ADMINISTRATION PERFORMANCE AGREEMENT — GUIDING PRINCIPLES**

#### **Preamble**

- G1. This Appendix outlines the principles that will guide the subsequent development of a GST Administration Performance Agreement (the Performance Agreement) between the ATO and its agents, and the States and Territories (the Parties).

#### **Objectives and Context of the Performance Agreement**

- G2. The purpose of the Performance Agreement is to provide accountability between the ATO and the States and Territories on behalf of whom the GST revenue is being collected. It also provides an agreed basis for the GST Administration Sub-Committee to monitor the administration of the GST by the ATO and its agents in return for the agreed GST administration costs being paid by the States and Territories.
- G3. The Performance Agreement will reflect the commitment by the Parties to:
- (i) achieving world's best practice for GST administration in Australia;
  - (ii) a cost-effective and transparent GST administration; and
  - (iii) a cooperative relationship between the Parties.
- G4. The Performance Agreement will recognise that achievement of world's best practice GST administration, including cost-effectiveness, is dependent on the GST policy framework and integrated administrative design.
- G5. The Performance Agreement will be consistent with the arrangements set out in this Intergovernmental Agreement.

#### **Components of Agreement**

- G6. The Performance Agreement will include outcomes to be achieved, budgeting arrangements and monitoring and review arrangements for the purposes of maintaining accountability and transparency of operations. The Performance Agreement will also include the process for raising matters of operational significance with the Ministerial Council.

## **Outcomes**

G7. The Performance Agreement will stipulate performance outcomes and appropriate benchmarks to be achieved by the ATO. These outcomes may include, but are not limited to: revenue, taxpayer registration, compliance, reporting, education and legislative review. Consistent with the objectives of the Agreement, the benchmarks are to reflect world best practice in GST administration.

## **Cost of Administration**

G8. The Performance Agreement will outline the Commonwealth administration activities that are GST related for the purposes of agreeing the GST administration costs.

G9. The Performance Agreement will stipulate arrangements for an audit of GST costs and the systems for the control of GST costs.

G10. The Performance Agreement will outline the process and timing of consultation for developing/modifying budgets and business plans for GST administration. These budgets and business plans will be developed, and/or revised, in an appropriate and timely manner so as to broadly accord with Commonwealth arrangements for funding agency operations.

G11. The Performance Agreement will recognise that the States and Territories will fully compensate the Commonwealth for the agreed costs of administering the GST.

## **Monitoring and Review**

G12. The Performance Agreement will stipulate the:

- (i) number and timing of formal reports by the ATO to the Sub-Committee;
- (ii) number and timing of progress reports by the ATO to the Sub-Committee; and
- (iii) arrangements for special briefings on particular issues.

G13. The Parties to the Performance Agreement will ensure appropriate alignment of ATO Parliamentary reporting responsibilities and reporting responsibilities under the Performance Agreement.

G14. The Performance Agreement will stipulate that ATO reports to the Sub-Committee on outcomes will include:

- (i) updates on relevant internal governance arrangements, including appropriate strategic plans and annual and other relevant reports that scrutinise aspects

of GST operations (including annual and other relevant reports from the Australian National Audit Office);

- (ii) accrual-based financial reports;
- (iii) key outcome performance indicators (including, registrations, revenue, refunds, costs, key processing workloads, Taxpayer Charter standards and international benchmark comparisons);
- (iv) litigation and public ruling information;
- (v) updates on relevant compliance and cost-of-compliance research;
- (vi) administrative base issues; and
- (vii) commentary on administrative performance and any key emerging GST compliance issues and related initiatives.

G15. The Performance Agreement will ensure that the States and Territories will have access to GST data held by the ATO subject to statutory limitations.

### **Matters of Operational Significance**

G16. The Performance Agreement will outline arrangements for raising matters of operational significance with the Ministerial Council. Matters of operational significance may include disputes over the interpretation of the Performance Agreement and non-performance by the ATO against agreed targets. The Performance Agreement will ensure that the ATO will have the opportunity to provide direct advice to the Ministerial Council on any matters submitted to the Council.

### **Development of Agreement**

G17. The Performance Agreement will be developed by the GST Administration Sub-Committee and representatives of the ATO. The Performance Agreement is to be developed with reference to both:

- (i) the guiding principles outlined in this Appendix; and
- (ii) actual GST performance data (including revenue) in the Australian context, gathered during the transitional years.

G18. The Performance Agreement is to be finalised by the end of the GST transitional year ending June 2002. The Performance Agreement is to be endorsed by the Ministerial Council prior to being signed.

G19. The Performance Agreement will stipulate the process for its amendment.

## **Transitional Arrangements**

- G20. The ATO and the GST Administration Sub-Committee will discuss key operational issues and costs commencing in October 1999 and on a semiannual basis throughout the GST transitional year ending 30 June 2002.
- G21. The ATO will arrange for an audit of the systems for the control of GST costs and the GST costs incurred during the period from 1 July 1999 to the date of the signing of the Performance Agreement by the Parties.
- G22. The ATO will undertake to establish, by the end of the Transitional year ending 30 June 2002, final GST benchmarking arrangements with relevant overseas administrations, subject to their agreement. The ATO will discuss benchmarking plans with the GST Administration Sub-Committee.