

FEDERAL FINANCIAL RELATIONS

In 2006-07, the States and Territories (the States) will receive GST revenue of \$39.3 billion and other payments from the Australian Government of \$28.3 billion, totalling \$67.6 billion as shown in Table 21.

Table 21: GST and Australian Government payments to the States, 2006-07

(\$m)	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
(1) GST revenue to the States	10,999	8,515	8,012	3,945	3,562	1,566	763	1,979	39,342
(2) General revenue assistance	5	4	3	2	2	1	..	1	17
(3) Specific purpose payments	9,139	6,521	5,447	3,437	2,183	694	444	421	28,285
SPPs to the States	6,658	4,598	3,950	2,639	1,586	501	297	333	20,562
SPPs through the States	2,334	1,814	1,398	736	567	170	146	75	7,240
SPPs direct to local government	147	109	100	62	29	22	1	14	484
(4) Australian Government payments to the States and local govt (2) + (3)	9,144	6,524	5,451	3,438	2,185	694	444	422	28,303
(5) GST and total payments (1) + (4)	20,143	15,040	13,463	7,383	5,747	2,261	1,207	2,401	67,644
Per cent of GDP	2.0	1.5	1.3	0.7	0.6	0.2	0.1	0.2	6.6

GST revenue to the States

In accordance with the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, all GST revenue is paid to the States. This provides the States with a secure, growing and broad based revenue source to spend according to their own budget priorities. Table 22 is a reconciliation of the estimates of GST revenue between the 2006-07 Budget and the 2006-07 MYEFO.

Table 22: Reconciliation of GST revenue estimates

	Estimates		Projections	
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
2006-07 Budget	40,000	42,210	44,440	46,670
Changes between 2006-07 Budget and MYEFO				
Effect of policy decisions
Effect of revenue recognition variations(a)	390	340	260	350
Effect of parameter and other variations	240	580	930	980
Total variations	630	920	1,190	1,330
2006-07 MYEFO	40,630	43,130	45,630	48,000

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

A change in the recognition methodology for GST revenue has increased the GST revenue estimate for 2006-07 by \$390 million above the estimate provided at the 2006-07 Budget. This change in methodology only affects GST revenue estimated on an accruals basis, and does not affect GST receipts (cash collections) or the GST revenue to the States. GST revenue for 2006-07 has been revised up by a further \$240 million, primarily due to the higher than expected outcome for 2005-06.

Under the Intergovernmental Agreement, the Commissioner for Taxation estimates the likely level of GST receipts in June, prior to the end of each financial year. A balancing adjustment is usually made in the following financial year to ensure that the States receive the full amount of GST receipts for a financial year.

In 2006-07, the States will receive GST revenue totalling an estimated \$39.3 billion – \$212 million higher than estimated at the 2006-07 Budget. The upward revision reflects an increase of \$240 million in the estimate of GST receipts for 2006-07, offset by the recovery of a \$28 million overpayment in respect of 2005-06. Estimates of GST revenue to the States are shown in Table 23.

Table 23: GST revenue to the States, 2005-06 to 2009-10

	Outcome	Estimates		Projections	
	2005-06	2006-07	2007-08	2008-09	2009-10
	\$m	\$m	\$m	\$m	\$m
GST revenue	38,884	40,630	43,130	45,630	48,000
less change in GST receivables	1,442	1,260	1,270	1,250	1,380
GST receipts	37,442	39,370	41,860	44,380	46,620
plus variation from Commissioner's determination(a)	28				
plus prior year balancing adjustment	-288	-28			
GST revenue to the States	37,182	39,342	41,860	44,380	46,620

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

GST revenue to the States has grown strongly since its introduction, as shown in Table 24. The average annual increase since 2001-02¹ has been 8.2 per cent.

Table 24: GST revenue to the States, 2000-01 to 2006-07

(\$m)	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2000-01	7,258	5,099	4,658	2,375	2,279	988	473	1,226	24,355
2001-02	8,132	5,593	5,019	2,518	2,477	1,060	544	1,290	26,632
2002-03	9,080	6,365	5,888	2,910	2,859	1,247	616	1,515	30,479
2003-04	9,667	6,961	6,553	3,158	3,146	1,394	658	1,681	33,219
2004-05	9,884	7,346	7,329	3,624	3,293	1,435	680	1,730	35,323
2005-06	10,362	7,833	7,689	3,804	3,442	1,496	723	1,834	37,182
2006-07	10,999	8,515	8,012	3,945	3,562	1,566	763	1,979	39,342

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

General revenue assistance

In the Intergovernmental Agreement, the Australian Government guaranteed that the budgetary position of each individual State would be no worse off than it would have been had the reforms in the Agreement not been implemented. The guaranteed minimum amount (GMA) is an estimate of the revenue that each State would have received under the previous system of financial assistance grants and if their own inefficient state taxes had not been abolished as part of the reforms.

For 2006-07, it is estimated that each State will receive more GST revenue than their GMA and, consequently, no State will require budget balancing assistance (BBA). Indeed, the States will receive a total revenue gain from the reforms of around \$2.0 billion above their GMA. These revenue gains are estimated to increase to around \$5.0 billion by 2009-10, as shown in Table 25.

Table 25: Revenue gains to the States as a result of reform, 2006-07 to 2009-10^(a)

(\$m)	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2006-07									
(1) GMA(b)	10,837	8,152	7,346	3,643	3,367	1,459	703	1,858	37,364
(2) GST revenue	10,999	8,515	8,012	3,945	3,562	1,566	763	1,979	39,342
(3) BBA (1) - (2)	0	0	0	0	0	0	0	0	0
(4) States' revenue gain (2) - (1)	162	363	666	302	195	108	60	121	1,978
2007-08									
(1) GMA	11,247	8,415	7,478	3,680	3,473	1,496	724	1,971	38,483
(2) GST revenue	11,906	9,138	8,400	4,139	3,763	1,621	809	2,086	41,860
(3) BBA (1) - (2)	0	0	0	0	0	0	0	0	0
(4) States' revenue gain (2) - (1)	659	722	922	459	290	125	85	115	3,377
2008-09									
(1) GMA	11,809	8,704	7,621	3,721	3,559	1,530	747	2,069	39,760
(2) GST revenue	12,903	9,765	8,744	4,317	3,938	1,674	852	2,187	44,380
(3) BBA (1) - (2)	0	0	0	0	0	0	0	0	0
(4) States' revenue gain (2) - (1)	1,094	1,061	1,122	596	380	145	105	118	4,620
2009-10									
(1) GMA(c)	12,593	9,035	7,925	3,850	3,684	1,568	782	2,173	41,609
(2) GST revenue	13,838	10,190	9,080	4,490	4,099	1,722	896	2,305	46,620
(3) States' revenue gain (2) - (1)	1,245	1,155	1,155	640	415	154	113	133	5,011

(a) Estimates from 2006-07 will be affected by variations in GMA components and GST revenue. Estimates from 2007-08 will be affected by recommendations by the Commonwealth Grants Commission on the distribution of GST provided to each of the States. Where GST revenue exceeds the GMA, no BBA is payable. As part of the agreement with the States to abolish the majority of the state taxes listed for review under the Intergovernmental Agreement, the Australian Government has extended the transitional period (in which BBA may be paid) from 30 June 2006 to 30 June 2009.

(b) As part of the agreement with the States to abolish the majority of the state taxes listed for review under the Intergovernmental Agreement, stamp duties on cheques, bills of exchange and promissory notes have been abolished in all States. The revenue foregone is included in the GMA from 2006-07.

(c) As part of the agreement with the States to abolish the majority of the state taxes listed for review under the Intergovernmental Agreement, all States will have abolished stamp duties on credit arrangements, instalment purchase arrangements, rental arrangements and leases by 1 July 2009. The revenue foregone is included in the GMA from 2009-10.

As no BBA is payable for 2006-07, general revenue assistance only consists of \$17 million in compensation payments to the States in respect of the cost of the Australian Government's decision to allow certain small businesses and non-profit organisations to pay their GST liability on an annual rather than quarterly basis (refer to 2004-05 Budget Paper No. 2). The compensation will ensure that the full financial impact of the decision is borne by the Australian Government and that there will be no impact on state budgets. Compensation payments for each year will be subject to an ex-post adjustment once final tax return data becomes available and the impact of the measure on GST revenue is known.

Specific purpose payments

The States receive substantial specific purpose payments from the Australian Government to help fund areas such as education, health, social security, housing and transport. These payments are a financial contribution to important areas of state responsibility which the Australian Government makes to pursue its own objectives.

In 2006-07, the States are estimated to receive \$28.3 billion in specific purpose payments (Table 26). Of this, \$7.2 billion is paid through the States, to be passed on to local governments and to others (for example, non-government schools), and \$484 million is paid direct to local governments.

Specific purpose payments have grown significantly since 2000-01, by an average of 7 per cent per annum, and are estimated to grow in aggregate by a further 5 per cent in 2006-07.

Table 26: Specific purpose payments, 2004-05 to 2006-07

(\$m)	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
To the States									
2004-05	5,924	4,022	3,341	2,196	1,428	474	281	303	17,969
2005-06	6,402	4,421	3,648	2,500	1,514	501	286	342	19,613
2006-07	6,658	4,598	3,950	2,639	1,586	501	297	333	20,562
Through the States									
2004-05	2,139	1,643	1,219	659	506	152	128	69	6,515
2005-06	2,221	1,752	1,324	705	540	163	138	73	6,915
2006-07	2,334	1,814	1,398	736	567	170	146	75	7,240
Direct to local governments									
2004-05	90	78	54	43	22	10	6	7	311
2005-06	105	90	84	44	26	16	1	11	376
2006-07	147	109	100	62	29	22	1	14	484
Total specific purpose payments									
2004-05	8,154	5,742	4,614	2,898	1,955	637	415	379	24,795
2005-06	8,727	6,262	5,055	3,249	2,079	680	426	426	26,904
2006-07	9,139	6,521	5,447	3,437	2,183	694	444	421	28,285

Reform of state taxes

Implementation of the Intergovernmental Agreement has already delivered significant economic benefits as a result of abolishing a first tranche of inefficient state taxes from as early as 1 July 2000. The value of the revenue foregone from the abolition of these inefficient taxes is estimated to be \$3.9 billion in 2006-07 (Table 27).

The Australian Government has now agreed with the States on a schedule for the next tranche of state tax reform. The schedule provides for the abolition of all but one of the remaining taxes listed for review in the Agreement – these taxes were to be reviewed in 2005 to ensure that there was sufficient GST revenue to fund their abolition. The value of the revenue foregone from the second tranche of the abolition of state taxes is estimated to be a further \$0.6 billion in 2006-07 (Table 27), growing to \$1.7 billion by 2009-10.

Table 27: State tax revenues foregone as a result of reform, 2006-07^(a)

(\$m)	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
<i>Tranche 1</i>									
Financial institutions duty	809	435	na	166	111	26	22	22	1,591
Debits tax	357	284	385	127	64	24	20	9	1,269
Quotable marketable securities duty	545	282	30	35	19	1	27	1	939
Accommodation taxes	105	na	na	na	na	na	na	11	115
Total	1,815	1,001	415	328	193	51	68	42	3,913
<i>Tranche 2</i>									
Mortgage duty	0	227	0	73	31	8	na	na	338
Rental duty	0	26	48	15	0	4	0	0	93
Lease duty	0	52	27	16	3	1	0	1	100
Non-quotable marketable securities duty	0	22	6	10	0	1	0	1	39
Cheque duty	na	na	na	6	3	na	na	3	12
Non-real business assets duty	0	na	0	0	0	0	1	0	1
Total	0	327	80	119	38	14	1	5	584

(a) A not applicable (na) indicates that the State did not levy that particular tax at the time of the Intergovernmental Agreement. A zero indicates that the State levies that particular tax, but has agreed to abolish it at a later date. Revenue foregone from the abolition of a tax is only included in the calculation of GMA (Table 25) once all States have abolished the tax.

Under the Intergovernmental Agreement, stamp duty on business conveyances of real property is also to be abolished, by a date to be determined jointly by the Australian Government and the States, on the basis that no State would be worse off in any year, compared with their likely financial position if reform had not occurred. This is the last remaining tax listed in the Intergovernmental Agreement which all of the States have agreed to abolish, but none have so far set out its timetable.