

EXECUTIVE SUMMARY

- Federal financial relations were substantially reformed from 1 July 2000, as part of *The New Tax System*. The new financial arrangements provide the States and Territories (the States) with a robust, secure and growing source of revenue – the goods and services tax – which replaced several inefficient state taxes and financial assistance grants from the Australian Government.
- The States will receive GST revenue of \$41.9 billion in 2007-08 – an increase of 5.8 per cent from 2006-07. This revenue will be distributed among the States in accordance with the recommendations of the Commonwealth Grants Commission in its 2007 update of relativities and as agreed by all States.
- In 2007-08, the States will be better off by an estimated \$3.2 billion due to the Australian Government’s reforms. Each State will receive more revenue from the GST than it would have received had the previous financial arrangements continued. This revenue windfall will increase to \$4.6 billion by 2010-11.
- GST revenue will be 3.8 per cent of GDP in 2007-08 – up from 3.6 per cent in 2001-02 (the first full year of its operation).
- The Australian Government will provide the States with specific purpose payments of \$28.5 billion in 2007-08 – an increase of 8.7 per cent from 2006-07. In addition, local governments will receive \$2.3 billion in Australian Government grants in 2007-08, an increase of 11.8 per cent.
- Timetables are in place for the abolition of all but one of the state taxes listed for abolition in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. The abolition of these taxes is estimated to save taxpayers \$5.0 billion in 2007-08 and a further \$18.9 billion over the forward years. However, no State has yet committed to a timetable to abolish the last remaining tax specified in the agreement.
- Most States expect to record small operating surpluses in 2007-08 and the forward years and to rely on debt financing to cover capital expenditures. State public sector debt is expected to increase in 2007-08 and the forward years.