

PART 3: GENERAL REVENUE ASSISTANCE

OVERVIEW

General revenue 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 GST entitlement. Other general revenue assistance includes payments in relation to municipal services in the Australian Capital Territory, royalties, and Snowy Hydro Limited tax compensation.

In 2017-18, the States are expected to receive \$63.1 billion from the Commonwealth in total general revenue assistance – \$62.3 billion for the GST entitlement and \$731 million for other general revenue assistance. The GST entitlement represents a 5.2 per cent increase on the \$59.2 billion the States are expected to receive in 2016-17. Total general revenue assistance to the States is estimated to represent 13.6 per cent of total Commonwealth expenditure in 2017-18.

The Government has introduced measures that have increased the GST entitlement by \$1.8 billion over the five years to 2020-21.

Estimated total general revenue assistance provided to the States by the Commonwealth is shown in Table 3.1. Table 3.2 shows a breakdown by State for 2016-17 and 2017-18.

Table 3.1: General revenue assistance

\$million	2016-17	2017-18	2018-19	2019-20	2020-21
GST entitlement	59,240.0	62,340.0	65,590.0	67,670.0	71,540.0
Other payments					
ACT municipal services	39.1	39.6	40.1	40.7	41.3
Compensation for reduced royalties	34.4	28.3	26.5	28.8	30.5
Royalty payments	587.7	587.8	528.7	511.0	515.0
Snowy Hydro Limited tax compensation	75.0	75.0	75.0	75.0	75.0
Total other payments	736.1	730.6	670.4	655.5	661.8
Total	59,976.1	63,070.6	66,260.4	68,325.5	72,201.8

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

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2016-17	17,265.9	13,656.7	13,955.1	1,984.4	5,933.9	2,259.2	1,168.1	3,165.2	59,976.1
2017-18	17,604.1	14,790.4	14,870.7	2,355.6	6,302.6	2,387.4	1,264.2	2,908.0	63,070.6

(a) State splits for royalty payments are not published due to commercial sensitivities. Therefore, total general revenue assistance will not equal the sum of the State splits above.

(b) Estimates of State splits of general revenue assistance for 2018-19 and later years are published in Part 1, Table 1.1 of this Budget paper.

GST PAYMENTS

Under the *Intergovernmental Agreement on Federal Financial Relations*, the States are entitled to receive payments from the Commonwealth equivalent to the revenue raised from the GST in any given financial year subject to some minor adjustments, as discussed below.

The Commonwealth makes monthly payments (advances) to the States throughout the year based on GST estimates for that year. Estimates of the GST are used, as the actual amount of GST revenue for the financial year is unknown until after the end of the financial year. Once the amount of GST revenue is known, the Treasurer makes a determination of the GST entitlement for that year. A balancing adjustment payment is then made to each State to ensure the States receive the GST to which they are entitled. These balancing adjustments (referred to as the 'prior year balancing adjustment') are made in the following financial year.

States compensate the Commonwealth for the agreed costs incurred by the Australian Taxation Office (ATO) in administering the GST. In practice, this is achieved by the Commonwealth reducing the monthly GST payments to the States by the GST administration costs.

Calculating the GST payments

Some additional adjustments are made to GST revenue in order to calculate the amount of GST paid to the States in any given year, described below.

- Some GST revenue accrued during a financial year is not remitted to the ATO by 30 June of that year because it is not due to be paid until Business Activity Statements (BAS) are lodged the following financial year.
- Penalties owed to the ATO, other than general interest charge (GIC) penalties, are not included in the GST to be paid to the States, as defined in the *Federal Financial Relations Act 2009*.
- Some GST collected by Commonwealth agencies is not remitted to the ATO by 30 June in each financial year because it is not due to be paid until the next BAS is lodged.

In 2015-16, the States' GST entitlement was \$98.4 million lower than the advances paid during that year. A prior year balancing adjustment has been made to States' GST payments in 2016-17 to reflect this.

A reconciliation of GST revenue, GST entitlement and GST payments to the States is provided in Table 3.3.

Table 3.3: Reconciling GST revenue, GST entitlement and GST payments to the States

\$million	2016-17	2017-18	2018-19	2019-20	2020-21
GST revenue	62,220	65,710	68,460	71,030	75,230
<i>less</i> Change in GST receivables	2,766	3,152	2,629	3,105	3,417
GST receipts	59,454	62,558	65,831	67,925	71,813
<i>less</i> Non-GIC penalties collected	200	220	240	250	270
<i>less</i> GST collected by Commonwealth agencies but not yet remitted to the ATO	14	-2	1	5	3
GST entitlement	59,240	62,340	65,590	67,670	71,540
<i>plus</i> Prior year balancing adjustment	-98				
GST payments to the States(a)	59,142	62,340	65,590	67,670	71,540

(a) These GST payment estimates do not take into account the ATO's GST administration costs, which will be deducted from GST payments to the States throughout the year on a monthly basis.

Table 3.4 provides a reconciliation of the GST entitlement estimates since the 2016-17 Budget and the *Mid-Year Economic and Fiscal Outlook 2016-17* (2016-17 MYEFO). The reconciliation accounts for policy decisions and parameter and other variations. The GST entitlement in 2017-18 has been revised down by \$400 million since the 2016-17 MYEFO.

Table 3.4: Reconciliation of the GST entitlement estimates since the 2016-17 Budget and 2016-17 MYEFO

\$million	2016-17	2017-18	2018-19	2019-20
GST entitlement at 2016-17 Budget	60,660	63,940	67,350	70,370
Changes between 2016-17 Budget and MYEFO				
Effect of policy decisions	-	15	5	5
Effect of parameter and other variations	-920	-1,215	-1,415	-1,455
Total variations	-920	-1,200	-1,410	-1,450
GST entitlement at 2016-17 MYEFO	59,740	62,740	65,940	68,920
Changes between 2016-17 MYEFO and Budget				
Effect of policy decisions	-	60	989	333
Effect of parameter and other variations	-500	-460	-1,339	-1,583
Total variations	-500	-400	-350	-1,250
GST entitlement at 2017-18 Budget	59,240	62,340	65,590	67,670

Specific policy decisions taken since the 2016-17 MYEFO that affect the GST entitlement are shown in Table 3.5. These decisions increase the amount of the GST entitlement by \$1.8 billion over the five years to 2020-21.

Detailed information on policy decisions since the 2016-17 MYEFO is included in Budget Paper No. 2, *Budget Measures 2017-18*.

Table 3.5: Policy decisions since the 2016-17 MYEFO that affect the GST entitlement

\$million	2016-17	2017-18	2018-19	2019-20	2020-21
Aligning the tax treatment of roll your own tobacco and cigarettes	-	5.0	10.0	10.0	10.0
Better targeting skilled visas	-	5.0	-25.0	-45.0	-25.0
GST - removing the double taxation of digital currency	-	*	*	*	*
Indirect Tax Concession Scheme - diplomatic and consular concessions
Tax Integrity Package - Black Economy Taskforce: extension of the taxable payments reporting system (TPRS) to contractors in the courier and cleaning industries	-	-	32.0	47.0	51.0
Tax Integrity Package - Black Economy Taskforce: one year extension of funding for ATO audit and compliance activities	-	49.6	31.6	18.4	10.2
Tax Integrity Package - Black Economy Taskforce: prohibition on sales suppression technology and software	-	*	*	*	*
Tax Integrity Package - combating fraud in the precious metals industry	*	*	*	*	*
Tax Integrity Package - improving the integrity of GST on property transactions	-	-	940.0	300.0	330.0
Temporary parent visa - establishment	-	-	..	3.0	8.0
Total	*	59.6	988.6	333.4	384.2

Distribution of the GST among the States

The Commonwealth Grants Commission (the Commission) recommends GST revenue sharing relativities to be used to calculate each State's GST share. More information on the system for distributing the GST is included in Box 1.1 in Part 1 of this Budget Paper.

The detailed calculation for the distribution of the GST entitlement in 2016-17 and 2017-18 is shown in Table 3.6. This method of calculation is prescribed in legislation in the *Federal Financial Relations Act 2009*.

Table 3.6: 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)
2016-17					
NSW	7,783,143	0.90464	7,040,942	29.1%	17,215.9
VIC	6,128,689	0.90967	5,575,085	23.0%	13,631.7
QLD	4,873,561	1.17109	5,707,379	23.6%	13,955.1
WA	2,629,495	0.30330	797,526	3.3%	1,950.0
SA	1,712,732	1.41695	2,426,856	10.0%	5,933.9
TAS	519,981	1.77693	923,970	3.8%	2,259.2
ACT	399,268	1.15648	461,745	1.9%	1,129.0
NT	244,959	5.28450	1,294,486	5.3%	3,165.2
Total	24,291,828	n/a	24,227,988	100.0%	59,240.0
2017-18					
NSW	7,902,664	0.87672	6,928,424	28.2%	17,554.1
VIC	6,250,329	0.93239	5,827,744	23.7%	14,765.4
QLD	4,941,791	1.18769	5,869,316	23.9%	14,870.7
WA	2,667,621	0.34434	918,569	3.7%	2,327.3
SA	1,727,517	1.43997	2,487,573	10.1%	6,302.6
TAS	522,100	1.80477	942,270	3.8%	2,387.4
ACT	404,485	1.19496	483,343	2.0%	1,224.6
NT	246,285	4.66024	1,147,747	4.7%	2,908.0
Total	24,662,792	n/a	24,604,986	100.0%	62,340.0

(a) Amounts shown are estimates of each State's GST entitlement based on the estimated total GST pool. The 2016-17 estimates do not take into account the 2015-16 balancing adjustment of -\$98.4 million which was made in 2016-17.

Table 3.7 shows the GST relativities recommended by the Commission and determined by the Treasurer for 2016-17 and 2017-18. Table 3.8 shows the distribution of the GST entitlement based on the GST relativities in Table 3.7.

Table 3.7: GST relativities recommended by the Commission

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2016-17	0.90464	0.90967	1.17109	0.30330	1.41695	1.77693	1.15648	5.28450
2017-18	0.87672	0.93239	1.18769	0.34434	1.43997	1.80477	1.19496	4.66024

Table 3.8: Distribution of the GST entitlement^(a)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2016-17(b)	17,215.9	13,631.7	13,955.1	1,950.0	5,933.9	2,259.2	1,129.0	3,165.2	59,240.0
2017-18	17,554.1	14,765.4	14,870.7	2,327.3	6,302.6	2,387.4	1,224.6	2,908.0	62,340.0

(a) Amounts shown are estimates of each State's GST entitlement based on the total GST pool estimates, population estimates and GST relativities as shown in Table 3.7.

(b) The 2016-17 estimates do not take into account the 2015-16 balancing adjustment of -\$98.4 million which was made in 2016-17.

GST administration

States compensate the Commonwealth for the agreed costs incurred by the ATO in administering the GST, including costs incurred by the Department of Immigration and Border Protection. The GST administration budget for the ATO is estimated to be \$631.1 million for 2017-18, as shown in Table 3.9.

Table 3.9: Reconciliation of the GST administration budget

\$million	2016-17	2017-18	2018-19	2019-20	2020-21
Administration budget at 2016-17 Budget	682.4	636.7	619.0	598.3	na
Total parameter variations from 2016-17 Budget to MYEFO	-	-	-	-	-
Administration budget at 2016-17 MYEFO	682.4	636.7	619.0	598.3	na
Changes from MYEFO to 2017-18 Budget					
Combating fraud in the precious metals industry(a)	-	0.3	-3.1	-3.8	-4.2
Improving the collection of GST on property transactions(a)	-	2.8	-2.6	-4.6	-4.8
Parameter variations	-	-8.7	-14.1	-12.7	2.8
GST Compliance Programme - three year extension variation	-	-	-	-84.6	-
Other variations	-	-	-	-20.3	-
Total variations	-	-5.6	-19.8	-126.0	-6.2
Administration budget at 2017-18 Budget	682.4	631.1	599.2	472.2	474.4
less Prior year adjustment	-	-	-	-	-
equals State government payments	682.4	631.1	599.2	472.2	474.4

(a) Further information on the measures: 'Combating fraud in the precious metals industry' and 'Improving the collection of GST on property transactions' can be found in Budget Paper No. 2, *Budget Measures 2017-18*.

The GST administration estimates published at the 2016-17 Budget and the 2016-17 MYEFO included costs in 2019-20 relating to the terminating measure from the 2015-16 Budget 'GST Compliance Programme – three year extension' and other variations associated with the ATO's indirect costs (such as property, infrastructure and corporate services overheads). Adjustments to remove these costs are reflected in 'GST Compliance Programme – three year extension variation' and 'other variations' in Table 3.9.

OTHER GENERAL REVENUE ASSISTANCE

Like GST, other general revenue assistance is provided to the States without conditions, to spend according to their own budget priorities. These payments are detailed below.

Table 3.10: Other general revenue assistance

\$million	2016-17	2017-18	2018-19	2019-20	2020-21
ACT municipal services	39.1	39.6	40.1	40.7	41.3
Compensation for reduced royalties	34.4	28.3	26.5	28.8	30.5
Royalty payments(a)	587.7	587.8	528.7	511.0	515.0
Snowy Hydro Limited tax compensation	75.0	75.0	75.0	75.0	75.0
Total other general revenue assistance	736.1	730.6	670.4	655.5	661.8

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

Australian Capital Territory municipal services

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. The payments also compensate the Australian Capital Territory for additional costs resulting from the national capital planning influences on the provision of water and sewerage services.

Compensation for reduced royalties

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.

Royalty payments

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.

Royalties are shared between the Commonwealth (approximately one third) and Western Australia (approximately two thirds). These revenue sharing arrangements are set out in the *Offshore Petroleum and Greenhouse Gas Storage Act 2006*.

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.

Payments are made at a royalty rate of 1.25 per cent of the net proceeds of sales under a continuing agreement established under the 1978 Memorandum of Understanding between the Commonwealth and the Northern Territory.

Snowy Hydro Limited tax compensation

The Commonwealth provides compensation payments to New South Wales and Victoria, in the form of general revenue assistance, for Commonwealth income taxes paid by Snowy Hydro Limited. Snowy Hydro Limited is jointly owned by the Commonwealth, New South Wales and Victoria (with shareholdings of 13 per cent, 58 per cent and 29 per cent respectively). Under the Snowy Hydro Tax Compensation Deed between the shareholders, payments are made in proportion to each State's shareholding.

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, with no net impact on the Commonwealth's budget position, as shown in Table 3.11.

Table 3.11: Mirror taxes accrued on behalf of the States

\$million	2016-17	2017-18	2018-19	2019-20	2020-21
Mirror taxes	530.2	558.7	581.9	612.4	629.9
less Transfers to State Governments	530.2	558.7	581.9	612.4	629.9
Commonwealth Budget impact	-	-	-	-	-