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STATES (TAX SHARING AND HEALTH GRANTS) AMENDMENT BILL 1982

Date Introduced: 18 February 1982  
House: House of Representatives  
Presented by: Hon. J.W. Howard, M.P., Treasurer

Short Digest of Bill

**Purpose**

To appropriate additional general revenue funds for the States and the Northern Territory, agreed to subsequent to the May 1981 Premiers' Conference at which the arrangements forming the basis for the Principal Act were determined.

**Background**

At the Premiers' Conference in May 1981, the Commonwealth and the States negotiated new tax sharing arrangements to apply from 1981-82 to 1984-85. A major innovation in the arrangements was the expression of the States' tax sharing entitlements as a proportion of the Commonwealth's total tax collections rather than of personal income tax collections. With the move to the new arrangements, it was also necessary for transitional grant arrangements for 1981-82 to be negotiated. These arrangements were formalised in the Principal Act. The present Bill reflects modifications made to those arrangements at a later date.

Once a total tax sharing grant has been determined, it must then be allocated among the States. This is done on a weighted per capita basis. From 1976 to 1981, the weights used were the per capita relativities that applied in 1975-76. These relativities did not reflect any concept of fiscal equalisation but evolved basically through a process of historical accident. Item 17 of the Points of Understanding reached between the Commonwealth and the States in 1976 provided for periodic reviews of these relativities, with the first review being completed before 30 June 1981.

The Commonwealth Grants Commission was given terms of reference to begin such a review in June 1978. The Commission presented its findings on 9 June 1981 and a Premiers' Conference was convened on 20 June to discuss the Report. The Commission found that the current set of

relativity weights unduly penalised Victoria, N.S.W. and Queensland while benefiting the other States. The adoption of its recommendations would have led to a significant reallocation of the total tax sharing grant. Several of the States raised various issues that they felt had not been adequately taken into consideration by the Commission. The Commission was therefore requested to review its findings and is expected to report by 30 May 1982.

As a result, the basic grant in 1981-82 will be allocated on the basis of the existing relativities. However, given the likelihood that any new set of relativities would favour the three largest States, additional grants of \$24.5m for N.S.W., \$15m for Victoria and \$20.5m for Queensland were authorised for payment in 1981-82. These grants, appropriated by this Bill, are subject to the conditions that:

- (i) no State will apply for a special grant in relation to 1981-82;
- (ii) the additional grants for 1981-82 are to be considered as part of any contribution the Commonwealth may make to assist the States to adjust to whatever new relativities might be adopted (although the Commonwealth has made it clear that it does not intend to fund the total cost of such adjustment); and
- (iii) the grants do not prejudice any future decisions concerning the degree of change in relativities or the pace at which any such change should be implemented.

From 1982-83 onwards, the aggregate tax sharing entitlement of the States in any year will bear the same proportion to the previous year's total tax receipts as the general revenue grant to the States in 1981-82 bears to total tax receipts in 1980-81. For the purpose of this calculation, the additional \$60m granted to N.S.W., Queensland and Victoria will be included in the total 1981-82 grant. This means that between 1982-83 and 1984-85, the States will receive 20.72 per cent of the previous year's total tax collection.

At the same Premiers' Conference, it was also agreed that Queensland should receive a supplementary grant of \$9m. This is designed to compensate that State for the reduction in its grant that would have occurred as a result of the Statistician altering the method of population estimation from a de facto measure (representing the number of both resident and non-resident persons in a State at the

time of census) to a de jure basis (which only takes residents into account). This \$9m is a once-and-for-all grant and is not regarded as part of the total 1981-82 grant for the purpose of calculating future tax sharing entitlements.

Subsequent to the June Premiers' Conference it was also agreed that the Northern Territory would receive a fixed grant of \$315.1m in 1981-82. This is estimated to be around \$6.5m more than it would have received under the tax sharing formula.

For more information see the Bills Digest for the Principal Act and Budget Paper No. 7.

### Main Provisions

Clause 4 inserts new sections 8A and 8B. Section 8A authorises the payment of the fixed amount of \$315.1m to the Northern Territory in 1981-82. Section 8B appropriates the sum of \$9m to be paid to Queensland in the same year.

Clause 7 substitutes a new Schedule 2 to the Principal Act. The new Schedule includes \$60m in additional payments to N.S.W., Victoria and Queensland. In accordance with sub-section 9(4) of the Principal Act, all amounts included in Schedule 2 are included in the base used to determine the proportion of the previous year's total tax collection that will represent the aggregate tax sharing entitlement in each year from 1982-83 to 1984-85.

For further information, if required, contact:

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