



RESEARCH NOTE

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GST Revenue and Budget Balancing Assistance to the States

Arrangements for Commonwealth general purpose payments to the States¹ entered a new phase with the introduction of the goods and services tax (GST) on 1 July 2000. This Note explains the provision of GST revenue and budget balancing assistance, which are the main components of general purpose assistance.²

General Purpose Assistance

Commonwealth general purpose assistance (also called general revenue assistance) to the States now takes four forms:

- the provision of GST revenue
- budget balancing assistance
- national competition policy payments, and
- special revenue assistance.

General purpose assistance is 'untied', that is, the States may spend the funds as they wish. General purpose payments thus differ from specific purpose payments (SPPs), which the States must spend on the purposes specified in the Commonwealth Acts under which SPPs are made.

Intergovernmental Agreement

The *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* is the

legislative authority for general purpose payments.³ The Act builds on and incorporates as a Schedule the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA). The IGA sets out the terms under which GST revenue is paid to the States. It was endorsed by the Commonwealth, State and Territory heads of government in June 1999.

The main features of the IGA are:

- the Commonwealth must pass all GST revenue (net of administrative costs) to the States
- the States may spend the GST as they wish
- the Commonwealth has guaranteed that in each of the transitional years following the introduction of tax reform, no State will be worse off than had the reform not been implemented. To fulfil this commitment, each State is entitled to receive a Guaranteed Minimum Amount (GMA)
- the Commonwealth meets the difference between each State's GMA and GST entitlement in the form of budget balancing assistance

- the inter-State allocation of the GST revenue is based on the relativities calculated by the Commonwealth Grants Commission based on the fiscal equalisation principle⁴
- the States undertook to abolish a number of taxes, reduce gambling taxes and administer a new uniform First Home Owners Scheme,⁵ and
- establishment of the Ministerial Council to oversee the implementation and operation of the IGA.

Guaranteed Minimum Amount

The GMA was introduced consequent to the agreement between the Government and the Australian Democrats regarding the passage of the GST legislation. The agreement reduced the amount of GST revenue below what the Government originally proposed. Consequently, the States would have been worse off than under the arrangements which applied before 1 July 2000. The Government introduced the GMA so that no State would be worse off than had the reform not been implemented.

Before 1 July 2000, the main component of general purpose assistance was financial assistance grants. These grants

and revenue replacement payments (RRPs) have ceased.⁶ RRPs were introduced after the High Court ruling on tobacco franchise fees in NSW, which

cast doubt on the constitutional validity of all State franchise fees. To protect State finances, the Commonwealth increased excise on tobacco, alcohol and

petroleum products and returned the revenue to the States as RRPs.

Guaranteed Minimum Amounts (\$m) 2000–01 and 2001–02

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	TOTAL
2000–01									
Guaranteed minimum amount	8264.7	5769.8	5121.1	2587.6	2546.7	1087.2	517.8	1278.0	27173.0
GST revenue provision	7257.6	5099.3	4658.2	2374.6	2278.9	988.1	472.6	1225.6	24354.9
Budget balancing assistance	1007.2	670.5	462.9	213.0	267.8	99.1	45.2	52.5	2818.1
2001–02 (estimated)									
Guaranteed minimum amount	9401.1	6394.2	5411.3	2823.6	2766.8	1163.1	583.7	1379.8	29923.6
GST revenue provision	8317.0	5813.7	5198.3	2642.6	2541.1	1087.4	544.3	1335.6	27480.0
Budget balancing assistance	1084.1	580.6	213.0	181.0	225.7	75.7	39.4	44.2	2443.6

Sources: Final Budget Outcome 2000–01, p. 49. Budget Paper No. 3, 2001–02, p. 12.

- References to the States should be read as the States and Territories.
- National competition policy payments are governed by the *Agreement to Implement the National Competition Policy and Related Reforms*. Like the other forms of general purpose payments, the States can spend national competition policy payments as they wish.
- The Act is at: <http://scaleplus.law.gov.au/html/pasteact/3/3305/top.htm>
- This principle is that all State governments should be able to provide services at the same standard if they make the same effort to raise revenue from their own sources and operate at the same level of efficiency.
- From 1 July 2001, the States abolished financial institutions duty and stamp duty on quoted marketable securities. The States administer the First Home Owners Scheme on the basis of principles contained in the IGA.
- Due to collections being received, which relate to taxable dealings that occurred before 1 July 2000, lagged payments were made in 2000–01.

Richard Webb
Economics, Commerce and Industrial Relations Group
Information and Research Services

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