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THE HOUSE OF REPRESENTATIVES

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**A NEW TAX SYSTEM (COMMONWEALTH-STATE FINANCIAL  
ARRANGEMENTS — CONSEQUENTIAL PROVISIONS) BILL 1999**

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**EXPLANATORY MEMORANDUM**

(Circulated by authority of the Minister for Regional Services,  
Territories and Local Government, Senator the Hon. Ian Macdonald)

## **A NEW TAX SYSTEM (COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS — CONSEQUENTIAL PROVISIONS) BILL 1999**

### **OUTLINE**

The Bill gives effect to aspects of changes to the payment of financial assistance grants to the States and Territories, and to local government announced in *A New Tax System*. Under *A New Tax System*, the States and Territories will receive GST revenue from the Commonwealth instead of financial assistance grants and will take over responsibility for funding financial assistance to local government.

The Bill amends and repeals the *Local Government (Financial Assistance) Act 1995* and repeals the *States Grants (General Purposes) Act 1994*.

#### **Amendments to and repeal of the *Local Government (Financial Assistance) Act 1995***

The *Local Government (Financial Assistance) Act 1995* is repealed with effect from the commencement of the *A New Tax System (Commonwealth–State Financial Arrangements) Act 1999*.

Some transitional arrangements are specified. Reporting on the operation of the Act during 1999–2000 will be required. Also, some conditions applying to payments to a State made under the Act in respect of 1999–2000 will continue to apply after the Act is repealed.

The amendments to the *Local Government (Financial Assistance) Act 1995* modify the payment of grants to local government during the May quarter 2000. These amendments are required because of the mechanism used to pay these grants through the States to local government. Currently, the grant for each financial year is calculated on the basis of an estimate with an adjustment made to the grant payments in the following financial year when the actual amount of the grant is known.

Under the amendments to the Act, the Commonwealth will finalise payments to the States in respect of local government grants for 1999–2000 during the May quarter 2000. Instead of one quarterly payment in May, there will be three monthly grant payments. An adjustment will be made to the June 2000 payment that reflects the difference between the estimated grant and the actual grant for 1999–2000.

#### **Repeal of the *State Grants (General Purposes) Act 1994***

The whole of the *State Grants (General Purposes) Act 1994* is repealed with effect from the commencement of the *A New Tax System (Commonwealth–State Financial Arrangements) Act 1999*.

### **FINANCIAL IMPACT STATEMENT**

The *Local Government (Financial Assistance) Act 1995* is the basis upon which the Commonwealth financial assistance is provided to local government through the States and Territories. This financial assistance has two components:

- general purpose funding (section 9 payments) and

- local roads funding (section 12 payments).

Under this Act local government is estimated to be entitled to around \$1.238 billion in financial assistance grants for 1998–99. Each year, the Treasurer determines the escalation of local government assistance by having regard to movements in the level of the financial assistance grants and special revenue assistance paid to the States.

Under the Government's tax reform package, the States and the Northern Territory will take over responsibility for providing assistance to local government from their GST revenue. The Commonwealth will make the payment of the GST revenue conditional on the States and the Northern Territory making these payments in accordance with existing conditions on the payment of the grants. Maintaining the growth of these financial assistance grants on a real per capita basis would constitute one of the conditions to be met by the States and the Northern Territory in order for them to receive GST revenue.

In the ACT, the ACT Government directly provides services commonly provided by local government in the States and the Northern Territory. Therefore, these conditions on the payment of grants are not relevant to the ACT.

The main function of the *States Grants (General Purposes) Act 1994* is to appropriate funding from consolidated revenue for the payment of general revenue assistance to the States and Territories.

More than 95 per cent of general revenue assistance is accounted for by financial assistance grants which are distributed amongst the States and Territories on the basis of horizontal fiscal equalisation principles. Under the Government's reform package, financial assistance grants are to be abolished from 1 July 2000 and, subject to transitional arrangements, GST revenue grants will be distributed amongst the States and Territories on the basis of horizontal fiscal equalisation principles. GST revenue grants are to be provided to the States and Territories under the *A New Tax System (Commonwealth-State Financial Arrangements) Bill 1999*.

The *A New Tax System (Commonwealth-State Financial Arrangements) Bill 1999* also contains provisions which will maintain payments to the States and Territories under the *Agreement to Implement the National Competition Policy and Related Reforms* and the Commonwealth's undertaking to provide the States and Territories with any remittances of business franchise fee windfall taxes under the section 90 safety net arrangements.

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**Notes on Clauses**

**Clause 1 – Short Title**

Provides for the Act to be cited as the *A New Tax System (Commonwealth-State Financial Arrangements—Consequential Provisions) Act 1999*.

**Clause 2 – Commencement**

Provides for the Act to come into operation with effect from 1 July 1999. The repeal of the two Acts occurs at the same time as the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* commences.

**Clause 3 – Schedules**

Provides for the Acts to be amended or repealed according to the terms set out in the Schedules.

**Schedule 1 – Amendment of the *Local Government (Financial Assistance) Act 1995***

**Clause 1 – Subsection 9(4)**

Subsection 9(4) provides for section 9 payments to a State to be made in equal quarterly instalments. Clause 1 amends this subsection so that it does not apply for financial year 1999–2000.

**Clause 2 – At the end of section 9**

Clause 2 provides for a quarter of the section 9 payments to which a State is entitled in 1999–2000 to be paid in each of the first three quarters of that financial year and the remaining quarter to be paid in equal monthly instalments in the last quarter.

**Clause 3 – Subsection 10(1)**

Subsection 10(1) establishes the formula for calculating the final grant amount for section 9 payments. Clause 3 amends this subsection so that it does not apply for financial year 1999–2000.

**Clause 4 – Subsection 10(6)**

If there is an underpayment of section 9 payments in a year, subsection 10(6) provides for the underpayment to be paid in the following year by way of equal quarterly instalments. Clause 4 amends this subsection so that it does not apply for financial year 1998–99.

**Clause 5 – After subsection 10(6)**

If there is an underpayment of section 9 payments in 1998–99, clause 5 provides for the underpayment to be paid in instalments in 1999–2000. A quarter of the underpayments to a State are paid in each of the first three quarters of that year and the remaining quarter is paid in equal monthly instalments in the last quarter.

**Clause 6 – Subsection 10(7)**

If there is an overpayment of section 9 payments in a year, subsection 10(7) provides for the overpayment to be recovered in the following year by way of equal quarterly instalments. Clause 6 amends this subsection so that it does not apply for financial year 1998–99.

**Clause 7 – At the end of section 10**

If there is an overpayment of section 9 payments in 1998–99, clause 7 provides for the overpayment to be deducted from instalments in 1999–2000. A quarter of the overpayments to a State is recovered in each of the first three quarters of the year and the remaining quarter is recovered in equal monthly instalments in the last quarter.

**Clause 8 – After section 10**

Clause 8 inserts section 10A into the Act. This establishes the formula to calculate the final grant amount of section 9 payments to which the States are entitled in 1999–2000. The formula is used to determine the amount of under or overpayment for that financial year. If there is an underpayment in 1999–2000, then the underpayment is paid to the States in the June 2000 monthly instalment. If there is an overpayment in 1999–2000, then the overpayment is recovered from the States in the June 2000 monthly instalment.

**Clause 9 – Subsection 12(4)**

Subsection 12(4) provides for section 12 payments to a State to be made in equal quarterly instalments. Clause 9 amends this subsection so that it does not apply for financial year 1999–2000.

**Clause 10 – At the end of section 12**

Clause 10 provides for a quarter of the section 12 payments to which a State is entitled in 1999–2000 to be paid in each of the first three quarters of that financial year and the remaining quarter to be paid in equal monthly instalments in the last quarter.

**Clause 11 – Subsection 13(1)**

Subsection 13(1) establishes the formula for calculating the final grant amount for section 12 payments. Clause 11 amends this subsection so that it does not apply for financial year 1999–2000.

**Clause 12 – Subsection 13(4)**

If there is an underpayment of section 12 payments in a year, subsection 13(4) provides for the underpayment to be paid in the following year by way of equal quarterly instalments. Clause 12 amends this subsection so that it does not apply for financial year 1998–99.

**Clause 13 – After subsection 13(4)**

If there is an underpayment of section 12 payments in 1998–99, clause 13 provides for the underpayment to be paid in instalments in 1999–2000. A quarter of the underpayment to a State is paid in each of the first three quarters of that year and the remaining quarter is paid in equal monthly instalments in the last quarter.

**Clause 14 – Subsection 13(5)**

If there is an overpayment of section 12 payments in a year, subsection 13(5) provides for the overpayment to be recovered in the following year by way of equal quarterly instalments. Clause 14 amends this subsection so that it does not apply for financial year 1998–99.

**Clause 15 – At the end of section 13**

If there is an overpayment of section 12 payments in 1998–99, clause 15 provides for the overpayment to be deducted from instalments in 1999–2000. A quarter of the overpayment to a State is recovered in each of the first three quarters of the year and the remaining quarter is recovered in equal monthly instalments in the last quarter.

**Clause 16 – After section 13**

Clause 16 inserts section 13A into the Act. This establishes the formula to calculate the final grant amount of section 12 payments to which the States are entitled in 1999–2000. The formula is used to determine the amount of under or overpayment for that financial year. If there is an underpayment in 1999–2000, then the underpayment is paid to the States in the June 2000 monthly instalment. If there is an overpayment in 1999–2000, then the overpayment is recovered from the States in the June 2000 monthly instalment.

**Schedule 2 – Repeal of Acts*****Local Government (Financial Assistance) Act 1995*****Clause 1 - The whole of the Act**

Provides for the whole of the Act to be repealed.

**Clause 2 - Transitional—section 15 conditions continue to apply**

Section 15 provides a number of conditions on the payment of grants to the States and the Northern Territory. It includes a condition that the Treasurer of the State or Territory must provide a certified statement to the Minister accounting for the distribution of payments made to local government during the previous financial year. After the Act is repealed, this condition will continue to apply to payments made to the State under the Act.

**Clause 3 – Transitional—section 16 report to be prepared etc.**

Section 16 requires the Minister, as soon as practicable after 30 June of each year, to cause to be prepared and to table in Parliament a National Report on the operation of the Act. This provision requires that, after the Act is repealed, the Minister will cause to be prepared and to table in Parliament a National Report in relation to the year 1999–2000.

***State Grants (General Purposes) Act 1994*****Clause 4 – The whole of the Act**

Provides for the repeal of the whole of the Act.