

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

17 October – 18 October 2012

Question: SBT 81-82

Topic: Goods and Services Tax Revenue

Written: Received from Committee – 26 October 2012

Senator WHISH-WILSON asked:

81. There are calls for GST revenue to be divided among states on an equal per capita basis, regardless of whether some states have the good fortune of having large reserves of minerals whose price has gone up so much. How much would such a change take off Tasmania's share of the GST revenue? What would this represent on a per household basis?
82. Is one cause of Europe's problems that they have a single currency area without any mechanism for horizontal fiscal equalisation – as occurs in Australia through the Grants Commission? Does this imply there are risks from suggestions to divide GST revenue between the states on a per capita basis?

Answer:

81. In 2012-13, Tasmania is forecast to receive \$1,721 million in GST. This is \$635 million more than Tasmania would have received if the GST were distributed on an equal per capita basis.

This represents a difference of \$1236 per capita, or \$2967 per household based on Census data showing that the average household size in Tasmania is 2.4 people.

82. The OECD has found that, in a currency union, it can be slow and difficult for countries to adapt to country-specific shocks or differences in growth rates.¹ This is one cause of the European debt issue. In the absence of an equalisation mechanism, it can be more difficult for countries to use fiscal policy to stabilise their economies.

The Government is committed to equalisation of States' fiscal capacity. Fiscal equalisation, as well as the impact on individuals of federal taxes and transfers, helps to stabilise States' economies by spreading the impact of State-specific shocks. Equalisation aims to put States on a level playing field and to ensure that they all have the same fiscal capacity to provide services and infrastructure to their residents.

¹ OECD Economics Department Working Paper No. 827 – Resolving and avoiding unsustainable imbalances in the Euro Areas.