Purpose

The purpose of this Bill is to authorise the arrangements for the sharing of Commonwealth personal income tax collections with the State Governments.

Party Policies

This Bill implements the central part of the Liberal and National Country Parties policy on federalism originally outlined in September 1975 and modified and expanded at the Premiers’ Conferences in February, April and June 1976. The policy is to be introduced in two Stages. Under Stage 1 in 1976–77, the States will receive a specified percentage of personal income tax receipts. After 1976–77 under Stage 2 the States will also be entitled to introduce State surcharges and rebates on Commonwealth personal income tax.

The Labor Party has criticised and opposed various aspects of the L–NCP proposals for federalism. In his speech to the Town and Country Planning Association of Victoria at Monash University on 18 October, the Leader of the Opposition (Hon. E. G. Whitlam) said that “new federalism” meant an abdication of Federal Government responsibilities and a weakening of local government.\(^1\)

Previous Legislation

The new arrangements provided for in this Bill will replace those provided for in the States Grants Act 1973 as amended in 1974 and 1975. Under the previous arrangements financial assistance grants, which were general purpose grants, were determined on the basis of a formula under which the annual increase in the grant to each State was calculated from its population increase, the increase in the average wage for Australia as a whole and a betterment factor. The betterment factor was to have been 3% instead of 1.8% in respect of 1976–77 and subsequent years.

Related Legislation

If the House approves, a cognate debate will be held on this Bill and the Local Government (Personal Income Tax Sharing) Bill 1976, which provides for a share of Commonwealth personal income tax revenue to be paid to local governments through the States.

Main Provisions

Under this Bill, each year, the States in total are to receive as general purpose funds 33.6% of net personal income tax collected in the year, excluding receipts from the Medibank levy and any other special Commonwealth surcharges or rebates applied in

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\(^1\) The Age 19/10/76.
the future. Each State is to be entitled to a share of the total entitlement based on that State’s proportion of the total “adjusted” population figure of the six States. (Clauses 6 and 7).

The Bill also guarantees that the States’ Stage 1 entitlements in any year will be no less than in the previous year and no less in any of the first four years than the amount which would have been yielded by the previous financial assistance grants formula. (Clause 8).


These tax sharing arrangements, after consultation with the States, are to be reviewed before 30 June 1981. (Clause 13).

Other Relevant Agreements

In addition to the provisions in this Bill, a number of understandings, which will not be formal Agreements, were reached between the Commonwealth and the States at the Premiers’ Conference earlier this year. The major understandings are described in “Payments to or for the States and Local Government Authorities 1976–77,” Budget paper No. 7, pages 15–17.

First it is agreed that the four less populous States will continue to be free to apply to the Commonwealth Grants Commission for special grants.

Secondly the Commonwealth has agreed to consider in consultation with the States adjustments in the arrangements where changes in Commonwealth tax legislation will have substantial effects on the States’ entitlements.

Thirdly it has been agreed that advice in relation to the review of relativities between the States in their Stage I entitlements, will be sought from an independent body and that the first review will be made before 30 June 1981. Legislative provisions will however be made for arrangements periodically to review these State relativities.

Amount

It is expected that personal income tax entitlements paid to the States under these arrangements will amount to $3,716.2 million in 1976–77.

Finance, Industries, Trade and Development Group
19/10/1976

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² This Act has been wrongly described as Financial Assistance 1973 instead of States Grants Act 1973–75.

States (Personal Income Tax Sharing) Bill 1976 (Bills Digest 27, 1976-77)
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**Warning:**
This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments. This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.