

## PART 3: GENERAL REVENUE ASSISTANCE

### OVERVIEW

General revenue assistance is provided to the States without conditions, to spend according to their own budget priorities. The main form of general revenue assistance is the GST entitlement. Other general revenue assistance includes payments in relation to municipal services in the Australian Capital Territory, royalties, and Snowy Hydro Limited tax compensation.

In 2016-17, the States are expected to receive \$61.3 billion from the Commonwealth in total general revenue assistance – \$60.7 billion for the GST entitlement and \$605 million for other general revenue assistance. This represents a 5.6 per cent increase in the GST entitlement compared to the \$57.5 billion the States are expected to receive in 2015-16. The Government has introduced measures impacting GST which include applying GST to low value goods imported by consumers and tobacco excise measures to improve health outcomes and combat illicit tobacco. Measures have increased the GST entitlements by \$700 million over the forward estimates period.

In 2016-17, total general revenue assistance to the States is expected to represent 13.6 per cent of total Commonwealth expenditure. Estimated total general revenue assistance provided to the States by the Commonwealth is shown in Table 3.1. Table 3.2 shows a breakdown by State.

**Table 3.1: General revenue assistance**

\$million	2015-16	2016-17	2017-18	2018-19	2019-20
<b>GST entitlement</b>	57,450.0	60,660.0	63,940.0	67,350.0	70,370.0
<b>Other payments</b>					
ACT municipal services	38.5	39.1	39.6	40.2	40.9
Compensation for reduced royalties	29.0	21.7	22.3	20.0	21.0
Royalties	643.6	468.7	451.9	408.5	415.1
Snowy Hydro Limited tax compensation	75.0	75.0	75.0	75.0	75.0
<b>Total other payments</b>	786.1	604.5	588.8	543.7	552.0
<b>Total</b>	<b>58,236.1</b>	<b>61,264.5</b>	<b>64,528.8</b>	<b>67,893.7</b>	<b>70,922.0</b>

**Table 3.2: General revenue assistance by State<sup>(a)</sup>**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2015-16	17,546.7	12,897.0	13,044.0	1,911.7	5,573.2	2,265.7	1,080.3	3,274.0	58,236.1
2016-17	17,684.4	13,910.5	14,297.4	2,040.9	6,100.5	2,306.9	1,193.5	3,261.8	61,264.5
2017-18	18,649.0	14,709.9	15,075.7	2,162.5	6,399.0	2,402.3	1,255.4	3,423.2	64,528.8
2018-19	19,654.6	15,545.3	15,882.6	2,287.0	6,707.2	2,498.9	1,319.3	3,590.4	67,893.7
2019-20	20,549.6	16,296.3	16,595.6	2,403.0	6,973.4	2,577.7	1,375.4	3,735.9	70,922.0

(a) State splits for royalties are not published due to commercial sensitivities. Therefore, total general revenue assistance will not equal the sum of the State splits above.

## **GST PAYMENTS**

Under the *Intergovernmental Agreement on Federal Financial Relations*, the States are entitled to receive payments from the Commonwealth broadly equivalent to the revenue raised from the GST in any given financial year, after some minor adjustments, as discussed below.

The Commonwealth makes monthly payments (advances) to the States throughout the year based on GST estimates for that year. Estimates of the GST are used, as the actual amount of GST revenue for the financial year is unknown until after the end of the financial year. Once the amount of GST revenue is known, the Treasurer makes a determination of the GST entitlement for that year. A balancing adjustment payment is then made to each State to ensure the States receive the GST to which they are entitled. These balancing adjustments (referred to as the 'prior year balancing adjustment') are made in the following financial year.

States compensate the Commonwealth for the agreed costs incurred by the Australian Taxation Office (ATO) in administering the GST. In practice, this is achieved by the Commonwealth reducing the monthly GST payments to the States by the GST administration costs.

### **Calculating the GST payments**

Some additional adjustments are made to GST revenue in order to calculate the amount of GST paid to the States in any given year, described below.

- Some GST revenue accrued during a financial year is not remitted to the ATO by 30 June of that year, because it is not due to be paid until Business Activity Statements (BAS) are lodged the following financial year.
- Penalties owed to the ATO, other than general interest charge (GIC) penalties, are not included in the GST to be paid to the States, as defined in the *Federal Financial Relations Act 2009*.
- Some GST collected by Commonwealth agencies is not remitted to the ATO by 30 June in each financial year, because it is not due to be paid until the next BAS is lodged.

In 2015-16, an amount of \$342.0 million was added to the States' 2015-16 GST entitlement as a balancing adjustment for the difference between the final amount as determined by the Treasurer and the advances made during the 2014-15 financial year.

A reconciliation of GST revenue, GST entitlement and GST payments to the States is provided in Table 3.3.

**Table 3.3: Reconciling GST revenue, GST entitlement and GST payments to the States**

\$million	2015-16	2016-17	2017-18	2018-19	2019-20
GST revenue	60,040	63,340	66,910	70,740	73,470
<i>less</i> Change in GST receivables	2,232	2,412	2,690	3,100	2,787
GST receipts	57,808	60,928	64,220	67,640	70,683
<i>less</i> Non-GIC penalties collected	250	270	280	290	310
<i>less</i> GST collected by Commonwealth agencies but not yet remitted to the ATO	108	-2	..	..	3
GST entitlement	57,450	60,660	63,940	67,350	70,370
<i>plus</i> Prior year balancing adjustment	342				
GST payments to the States(a)	57,792	60,660	63,940	67,350	70,370

(a) These GST payment estimates do not take into account the ATO's GST administration costs, which will be deducted from GST payments to the States throughout the year on a monthly basis.

Table 3.4 provides a reconciliation of the GST entitlement estimates since the 2015-16 Budget and the *Mid-Year Economic and Fiscal Outlook 2015-16* (2015-16 MYEFO). The reconciliation accounts for policy decisions and parameter and other variations. The GST entitlement in 2016-17 has been revised down by \$60 million since the 2015-16 MYEFO.

**Table 3.4: Reconciliation of the GST entitlement estimates since the 2015-16 Budget and 2015-16 MYEFO**

\$million	2015-16	2016-17	2017-18	2018-19
GST entitlement at 2015-16 Budget	57,050	60,950	64,500	68,200
Changes between <i>2015-16 Budget</i> and <i>MYEFO</i>				
Effect of policy decisions	2	11	14	14
Effect of parameter and other variations	198	-241	-824	-1,544
Total variations	200	-230	-810	-1,530
GST entitlement at 2015-16 MYEFO	57,250	60,720	63,690	66,670
Changes between <i>2015-16 MYEFO</i> and <i>Budget</i>				
Effect of policy decisions	-	-15	125	235
Effect of parameter and other variations	200	-45	125	445
Total variations	200	-60	250	680
GST entitlement at 2016-17 Budget	57,450	60,660	63,940	67,350

Specific policy decisions taken since the 2015-16 MYEFO that affect the GST entitlement are shown in Table 3.5. These decisions increase the amount of the GST entitlement by \$700 million over the five years to 2019-20.

Detailed information on policy decisions since the 2015-16 MYEFO is included in Budget Paper No. 2, *Budget Measures 2016-17*.

**Table 3.5: Policy decisions since the 2015-16 MYEFO that affect the GST entitlement**

\$million	2015-16	2016-17	2017-18	2018-19	2019-20
Applying GST to low value goods imported by consumers	-	-	60.0	90.0	120.0
Indirect Tax Concession Scheme – diplomatic, consular and international organisation concessions	..	..	..	..	..
Ten Year Enterprise Tax Plan – increase the small business entity turnover threshold	-	-15.0	..	..	..
Tobacco excise – measures to improve health outcomes and combat illicit tobacco	-	-	65.0	145.0	235.0
<b>Total</b>	-	-15.0	125.0	235.0	355.0

### Distribution of the GST among the States

The Commonwealth distributes GST among the States in accordance with the principle of horizontal fiscal equalisation and having regard to the recommendations of the Commonwealth Grants Commission (the Commission).

The Commission uses the principle of horizontal fiscal equalisation to calculate its recommended GST revenue sharing relativities. In broad terms, the relativities are determined such that, if each State made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each State would have the capacity to provide services and the associated infrastructure at the same standard.

In calculating GST relativities, the Commission takes into account differences in the States' capacities to raise revenues and differences in the costs the States would incur in providing the same standard of government services. A fiscally stronger State will require less GST revenue to have the capacity to provide services and infrastructure at an average standard. For example, a State that was assessed as requiring 90 per cent of the GST on a per capita basis to be able to provide services and infrastructure at an average standard would have a relativity of 0.9. A fiscally weaker State that was assessed as requiring 110 per cent of the GST on a per capita basis to be able to provide services and infrastructure at an average standard would have a relativity of 1.1. Importantly, a GST relativity does not reflect the amount of GST revenue returned to the State where the revenue was raised. This would only be true if the GST collected per person were the same in every State, which is unlikely given differences among the States.

Distributing the GST based on the principle of horizontal fiscal equalisation does not necessarily result in the same standard of government services being delivered by all States. It simply aims to equalise each State's capacity to provide the same standard of services.

The detailed calculation for the distribution of the GST entitlement in 2015-16 and 2016-17 is shown in Table 3.6.

**Table 3.6: Calculation of GST entitlements<sup>(a)</sup>**

	Estimated 31 December population (1)	GST relativities (2)	Adjusted population (1) x (2) (3)	Share of adjusted population (4)	Share of GST pool \$million (5)
<b>2015-16</b>					
NSW	7,673,875	0.94737	7,269,999	30.5%	17,496.7
VIC	5,992,339	0.89254	5,348,402	22.4%	12,872.0
QLD	4,806,849	1.12753	5,419,866	22.7%	13,044.0
WA	2,607,541	0.29999	782,236	3.3%	1,882.6
SA	1,704,186	1.35883	2,315,699	9.7%	5,573.2
TAS	517,536	1.81906	941,429	3.9%	2,265.7
ACT	393,480	1.10012	432,875	1.8%	1,041.8
NT	244,205	5.57053	1,360,351	5.7%	3,274.0
Total	23,940,011	na	23,870,858	100.0%	57,450.0
<b>2016-17</b>					
NSW	7,785,528	0.90464	7,043,100	29.1%	17,634.4
VIC	6,096,490	0.90967	5,545,794	22.9%	13,885.5
QLD	4,876,082	1.17109	5,710,331	23.6%	14,297.4
WA	2,658,858	0.30330	806,432	3.3%	2,019.1
SA	1,719,548	1.41695	2,436,514	10.1%	6,100.5
TAS	518,510	1.77693	921,356	3.8%	2,306.9
ACT	398,676	1.15648	461,061	1.9%	1,154.4
NT	246,519	5.28450	1,302,730	5.4%	3,261.8
Total	24,300,211	na	24,227,317	100.0%	60,660.0

(a) Amounts shown are estimates of each State's GST entitlement based on the estimated total GST pool. For 2015-16, these amounts do not take into account the 2014-15 balancing adjustment of \$342.0 million which was paid in 2015-16.

The Commission does not produce relativities beyond the Budget year because its recommended relativities are based on actual outcomes in past years.

In Budget Paper No. 3, *Federal Financial Relations 2015-16*, the Commonwealth committed to consult with the States on its methodology for calculating forward projections of GST entitlements. Following this consultation, the Commonwealth has decided to replace the technical projections of GST relativities with an assumption that the relativities in the Budget year will also apply to the forward estimate years. This assumption makes it clear that the Commonwealth is not attempting to project future changes in the States' share of GST, based on their future fiscal capacities.

This assumption – that the GST relativities in the Budget year also apply to the forward estimate years – is then applied to the Commonwealth's estimates of population and the GST entitlement to produce projections of the State breakdowns of the GST over the forward estimates. The Commonwealth publishes State breakdowns of the GST entitlement for the purpose of publishing an estimate of total payments to each State.

Table 3.7 shows the GST relativities recommended by the Commission and determined by the Treasurer for 2015-16 and 2016-17, and the Commonwealth's assumption of the

relativities for 2017-18 to 2019-20. Table 3.8 shows the distribution of the GST entitlement based on the GST relativities in Table 3.7.

**Table 3.7: GST relativities recommended by the Commission and the Commonwealth's assumption of GST relativities**

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2015-16	0.94737	0.89254	1.12753	0.29999	1.35883	1.81906	1.10012	5.57053
2016-17	0.90464	0.90967	1.17109	0.30330	1.41695	1.77693	1.15648	5.28450
2017-18(a)	0.90464	0.90967	1.17109	0.30330	1.41695	1.77693	1.15648	5.28450
2018-19(a)	0.90464	0.90967	1.17109	0.30330	1.41695	1.77693	1.15648	5.28450
2019-20(a)	0.90464	0.90967	1.17109	0.30330	1.41695	1.77693	1.15648	5.28450

(a) These figures do not represent a forecast of future relativities.

**Table 3.8: Distribution of the GST entitlement<sup>(a)</sup>**

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2015-16(b)	17,496.7	12,872.0	13,044.0	1,882.6	5,573.2	2,265.7	1,041.8	3,274.0	57,450.0
2016-17	17,634.4	13,885.5	14,297.4	2,019.1	6,100.5	2,306.9	1,154.4	3,261.8	60,660.0
2017-18	18,599.0	14,684.9	15,075.7	2,140.2	6,399.0	2,402.3	1,215.7	3,423.2	63,940.0
2018-19	19,604.6	15,520.3	15,882.6	2,267.0	6,707.2	2,498.9	1,279.1	3,590.4	67,350.0
2019-20	20,499.6	16,271.3	16,595.6	2,382.0	6,973.4	2,577.7	1,334.5	3,735.9	70,370.0

(a) Amounts shown are estimates of each State's GST entitlement based on the total GST pool estimates, population estimates and GST relativities as shown in Table 3.7.

(b) For 2015-16, these amounts do not take into account the 2014-15 balancing adjustment of \$342.0 million which was paid in 2015-16.

**Box 3.1: The effect of horizontal fiscal equalisation**

It is common for individual States within a federation to have different capacities to raise revenue or deliver services. The practice of equalising revenue capacities and/or expenditure capacities between the States in a federation is common. Australia has had various forms of fiscal equalisation since 1901.

One way to view the degree of horizontal fiscal equalisation is to compare each State’s share of the GST entitlement using the GST relativities, with a notional distribution on an equal per capita basis. In 2016-17, around \$7.8 billion (or 12.8 per cent) of the GST entitlement is expected to be redistributed among the States, compared with an equal per capita distribution (Table A).

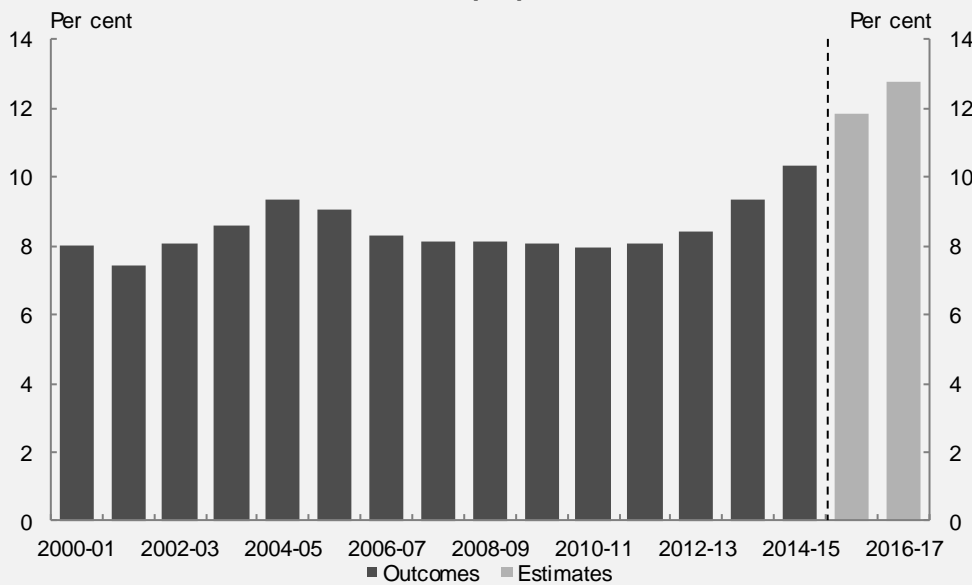
**Table A: Difference from equal per capita distribution, 2016-17**

	GST distribution 2016-17 Budget \$million	Equal per capita distribution of GST \$million	Redistribution(a) \$million	Projected population '000	Per capita redistribution \$
NSW	17,634.4	19,434.8	-1,800.4	7,786	-231.3
VIC	13,885.5	15,218.5	-1,333.0	6,096	-218.7
QLD	14,297.4	12,172.0	2,125.4	4,876	435.9
WA	2,019.1	6,637.2	-4,618.1	2,659	-1,736.9
SA	6,100.5	4,292.5	1,808.0	1,720	1,051.5
TAS	2,306.9	1,294.3	1,012.5	519	1,952.8
ACT	1,154.4	995.2	159.2	399	399.3
NT	3,261.8	615.4	2,646.4	247	10,735.0
Total	60,660.0	60,660.0	7,751.5	24,300	

(a) The total redistribution of \$7,752 million is the sum of positive items in that column.

Chart A below shows the proportion of the GST entitlement redistributed in 2016-17 and since the GST commenced.

**Chart A: GST redistributed as a proportion of the GST entitlement**



## GST administration

States compensate the Commonwealth for the agreed costs incurred by the ATO in administering the GST, including costs incurred by the Department of Immigration and Border Protection. The GST administration budget for the ATO is estimated to be \$682.4 million for 2016-17, as shown in Table 3.9.

**Table 3.9: Reconciliation of the GST administration budget**

\$million	2015-16	2016-17	2017-18	2018-19	2019-20
Administration budget at 2015-16 Budget	679.6	617.1	597.8	587.6	na
Total parameter variations from 2015-16 Budget to MYEFO	-	-	-	-	na
Administration budget at 2015-16 MYEFO	679.6	617.1	597.8	587.6	na
Changes from MYEFO to 2016-17 Budget					
Applying GST to digital products and services imported by consumers(a)	-	1.5	0.1	0.1	-
Applying GST to low value goods imported by consumers(b)	-	4.4	3.6	3.3	2.6
Parameter variations	-	-	-	-	-
Other variations	-	59.4	35.2	28.1	1.7
Total variations	-	65.3	38.9	31.4	4.3
Administration budget at 2016-17 Budget	679.6	682.4	636.7	619.0	598.3
less Prior year adjustment	7.4				
<i>equals</i> State government payments	672.2	682.4	636.7	619.0	598.3

(a) Further information on the measure: applying GST to digital products and services imported by consumers can be found in Budget Paper No. 2, *Budget Measures 2015-16*.

(b) Further information on the measure: applying GST to low value goods imported by consumers can be found in Budget Paper No. 2, *Budget Measures 2016-17*.

The GST administration estimates published at the 2015-16 Budget and the 2015-16 MYEFO did not include a component for indirect costs (such as property, IT infrastructure, and corporate services overheads) relating to the extension of the GST compliance programme. Adjustments to include this component are reflected in 'other variations' in Table 3.9.

In 2014-15, the GST administration payments made by the States were \$7.4 million more than the combination of the total final audited GST administration cost for 2014-15 and the States' 2013-14 net overpayment. The 2014-15 overpayment was subtracted from the estimated administration costs of \$679.6 million for 2015-16.

## OTHER GENERAL REVENUE ASSISTANCE

The Commonwealth makes payments of other general revenue assistance to the States, including:

- payments to the Australian Capital Territory for municipal services;
- compensation for reduced royalties;
- royalties; and
- Snowy Hydro Limited tax compensation.



Like GST, other general revenue assistance is provided to the States without conditions, to spend according to their own budget priorities. These payments are detailed below.

**Table 3.10: Other general revenue assistance**

\$million	2015-16	2016-17	2017-18	2018-19	2019-20
ACT municipal services	38.5	39.1	39.6	40.2	40.9
Compensation for reduced royalties	29.0	21.7	22.3	20.0	21.0
Royalties	643.6	468.7	451.9	408.5	415.1
Snowy Hydro Limited tax compensation	75.0	75.0	75.0	75.0	75.0
<b>Total other general revenue assistance</b>	<b>786.1</b>	<b>604.5</b>	<b>588.8</b>	<b>543.7</b>	<b>552.0</b>

### Payments to the Australian Capital Territory for municipal services

The Commonwealth provides general revenue assistance to the Australian Capital Territory to assist in meeting the additional municipal costs which arise from Canberra's role as the national capital. This general revenue assistance also compensates the Australian Capital Territory for additional costs resulting from the national capital planning influences on the provision of water and sewerage services.

The level of funding is based on the findings of the Commonwealth Grants Commission in its second and third reports on financing for the Australian Capital Territory, prior to the move to self-government in 1989.

### Payments to the Australian Capital Territory for municipal services

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2015-16	-	-	-	-	-	-	38.5	-	38.5
2016-17	-	-	-	-	-	-	39.1	-	39.1
2017-18	-	-	-	-	-	-	39.6	-	39.6
2018-19	-	-	-	-	-	-	40.2	-	40.2
2019-20	-	-	-	-	-	-	40.9	-	40.9

### Compensation for reduced royalties

The Commonwealth provides general revenue assistance to compensate Western Australia for the loss of royalty revenue resulting from the removal of the exemption of condensate from crude oil excise in the 2009-10 Budget.

### Compensation for reduced royalties

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2015-16	-	-	-	29.0	-	-	-	-	29.0
2016-17	-	-	-	21.7	-	-	-	-	21.7
2017-18	-	-	-	22.3	-	-	-	-	22.3
2018-19	-	-	-	20.0	-	-	-	-	20.0
2019-20	-	-	-	21.0	-	-	-	-	21.0

## Royalties

### Payments to Western Australia

The Commonwealth provides general revenue assistance to Western Australia from royalties collected under the *Offshore Petroleum (Royalty) Act 2006* in respect of the North West Shelf oil and gas project off the coast of Western Australia. The Commonwealth collects these royalties because it has jurisdiction over offshore areas.

These royalties are shared between the Commonwealth (approximately one third) and Western Australia (approximately two thirds). These payment arrangements are in accordance with the revenue sharing arrangements in section 75 of the *Offshore Petroleum and Greenhouse Gas Storage Act 2006*.

### Payments to the Northern Territory

The Commonwealth provides general revenue assistance to the Northern Territory in lieu of royalties on uranium mining in the Ranger Project Area, due to the Commonwealth's ownership of uranium in the Northern Territory.

General revenue assistance is payable biannually at the royalty rate of 1.25 per cent of the net proceeds of sales. These royalties are paid under a continuing agreement established under the 1978 Memorandum of Understanding between the Commonwealth and the Northern Territory.

### Royalties<sup>(a)</sup>

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2015-16	-	-	-	nfp	-	-	-	nfp	643.6
2016-17	-	-	-	nfp	-	-	-	nfp	468.7
2017-18	-	-	-	nfp	-	-	-	nfp	451.9
2018-19	-	-	-	nfp	-	-	-	nfp	408.5
2019-20	-	-	-	nfp	-	-	-	nfp	415.1

(a) State splits for royalties are not published due to commercial sensitivities.

### Snowy Hydro Limited tax compensation

On 28 June 2002, the Snowy Mountains Hydro Electric Authority was corporatised. The assets and business of the Authority were transferred to Snowy Hydro Limited, a company jointly owned by the Commonwealth, New South Wales and Victoria (with 13 per cent, 58 per cent and 29 per cent shareholdings respectively).

The Commonwealth provides compensation payments to New South Wales and Victoria, in the form of general revenue assistance, for Commonwealth income taxes paid by Snowy Hydro Limited. The payments are made in proportion to the States' shareholdings.

Payments are made in accordance with the Snowy Hydro Tax Compensation Deed between the Commonwealth, New South Wales and Victoria. These taxes would have previously been payable to the States through tax equivalence regime payments.

#### Snowy Hydro Limited tax compensation

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2015-16	50.0	25.0	-	-	-	-	-	-	75.0
2016-17	50.0	25.0	-	-	-	-	-	-	75.0
2017-18	50.0	25.0	-	-	-	-	-	-	75.0
2018-19	50.0	25.0	-	-	-	-	-	-	75.0
2019-20	50.0	25.0	-	-	-	-	-	-	75.0

### MIRROR TAX ARRANGEMENTS

The Commonwealth introduced mirror tax arrangements in 1998 to ensure that the States were not financially disadvantaged by the High Court decision in *Allders International Pty Ltd v Commissioner of State Revenue (Victoria)*, which invalidated State taxes on Commonwealth places. These arrangements mirror certain State taxes, including payroll taxes, land taxes and stamp duties, with respect to Commonwealth places. The States collect these mirror taxes on behalf of the Commonwealth and bear the administrative costs of collection.

All mirror tax revenues are credited to the Commonwealth and simultaneously appropriated to the States, with no net impact on the Commonwealth's budget position, as shown in Table 3.11.

**Table 3.11: Mirror taxes accrued on behalf of the States**

\$million	2015-16	2016-17	2017-18	2018-19	2019-20
Mirror taxes	526.7	552.9	581.5	610.7	629.8
less Transfers to State Governments	526.7	552.9	581.5	610.7	629.8
Commonwealth Budget impact	-	-	-	-	-