

The Impact of the GST on State Revenue: 2004-2005 mid-year update

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Overview

This paper explains the current estimates of GST revenue to the states and how the GST works. Revenue estimates have been updated by the information provided in the Treasurer's statement on the *Mid-Year Economic and Fiscal Outlook 2004-05*. From 2004-05, all states and territories will now receive more revenue from the GST than they have from the previous system.

The Commonwealth Government collects the GST but all GST revenue is paid to the states and territories. The decisions on how to allocate this revenue are made by the states and territories on the basis of their own policy priorities.

Total revenue from the GST was \$33.3 billion in 2003-04 and the mid-year outlook statement has estimated that this will rise to \$35.2 billion in 2004-05.

- From 2004-05 onwards, all states and territories will receive more revenue from the GST than they would have prior to the changes to the taxation system.
- In 2004-05, GST revenue is now estimated to be \$1.9 billion more than it would have been under the previous taxation system.
- By 2007-08, GST revenue is expected to provide the states and territories with an additional \$3.2 billion over the previous system.

Revised estimate of 2004-05 additional revenue for the states from the GST and tax changes:

	\$m
NSW	195.9
VIC	285.6
QLD	760.6
WA	248.5
SA	161.5
TAS	102.1
ACT	52.9
NT	134.3
Total	1941.4

Guaranteed minimum revenue

GST revenue going to the states and territories replaced the Financial Assistance Grants previously provided by the Commonwealth Government. As part of the taxation reform process, a number of state taxes were abolished, including Financial Institutions Duty, accommodation taxes and stamp duty on marketable securities. Other changes were also implemented. Bank Account Debits Tax is scheduled to be abolished by July 2005 and this is included in the Guaranteed Minimum Amounts from 2005-06. Some other state taxes will be the subject of Ministerial Council review in 2005.

Under the agreement between the Commonwealth and the states when the GST was introduced, each state was guaranteed that they would be no worse off under the new system.

In order to meet this guarantee, the Commonwealth has paid the states Budget Balancing Assistance to cover any shortfall of GST revenue compared to each state's Guaranteed Minimum Amount. The Guaranteed Minimum Amount for each state is the amount each would have had if the tax reform had not been implemented. The guarantee applies until 30 June 2006.

The GST is a growing revenue base and so this Budget Balancing Assistance program was seen as a transitional one, to be removed when the GST revenue exceeded the amount that each state would have had under the previous system. It will no longer be applied in 2004-05.

The Commonwealth budget proposed that small businesses and not for profit organisations will be able to lodge annual GST payments from 2004-05, which means a deferral of some GST payments until 2005-06. In compensation, the Commonwealth will provide an advance of \$219.4m on 2005-06 GST. This will lower payments for 2005-06 and the states will then receive an additional payment of \$219.4m to ensure that the total amount of GST revenue for 2005-06 is paid to the states in 2005-06. This compensation payment is included in the table above of revised estimates of additional revenue for the states from the GST and tax changes.

The growth in GST revenue

In 2002-03, the Commonwealth provided Budget Balancing Assistance of \$1,004 million. It was distributed to every system apart from Queensland and the Northern Territory, where the GST revenue exceeded the Guaranteed Minimum Amount. Queensland GST revenue exceeded the minimum by \$97.5m and the NT GST revenue by \$9.2m.

In 2003-04 Budget Balancing Assistance of \$46m was paid only to NSW.

The other states and territories no longer accessed such assistance in 2003-04 because their GST revenue exceeded the level of revenue they would previously have had. The total additional revenue for these states and territories was \$1.2 billion in 2003-04.

In cash terms, the May 2004 Commonwealth budget estimated that GST revenue had grown from \$24.4 billion in 2000-01 to \$34.5 billion in 2004-05, an increase of \$10.1 billion, or 41.5%. This is an average increase of 9.1% per year. The mid-year revised estimates indicate total growth of 44.6% since 2000-01.

Budget Balancing Assistance has been estimated and paid in advance and is then adjusted later. Since GST revenue has been greater than anticipated, the amounts of Budget Balancing Assistance advanced to the states and territories have in a number of cases exceeded their entitlement. Payments made to the states in subsequent years have been adjusted for these overpayments.

GST revenue forecasts

The GST cash revenue for 2004-05 is on the revised mid-year estimates forecast to provide an additional \$1.9 billion to the states and territories. This is \$1.9 billion over the Guaranteed Minimum Amount. It includes compensation for the deferral of some GST payments until 2005-06.

Taking into account the abolition of bank accounts debit tax by 1 July 2005, the mid-year statement estimates that additional GST revenue will increase to \$3.2 billion by 2007-08.

The revised aggregate revenue forecasts are:

2005-06: \$37.16 billion, or \$1,566.8 million over the Guaranteed Minimum Amount
2006-07: \$39.23 billion, or \$2,283.5 million over the Guaranteed Minimum Amount
2007-08: \$41.33 billion, or \$3,172.9 million over the Guaranteed Minimum Amount.

If the revised forecasts are accurate, this is the additional revenue that the states and territories can anticipate from the GST over the next few years.

GST/tax reform revenue forecasts 2005-06 to 2007-08								
	GST/tax reform revenue				Net additional revenue over the Guaranteed Minimum Amount			
	2004-06 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2004-06 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
NSW	9,934.0	10,510.1	11,069.4	11,577.4	195.9	174.6	410.0	681.3
VIC	7,368.3	7,842.2	8,391.1	8,957.5	285.6	222.6	392.1	608.6
QLD	7,359.6	7,756.0	8,161.8	8,631.4	760.6	564.3	718.0	906.7
WA	3,635.7	3,725.2	3,843.2	4,046.3	248.5	194.0	265.4	373.8
SA	3,302.1	3,433.4	3,604.1	3,779.0	161.5	142.5	196.9	259.8
TAS	1,442.8	1,511.4	1,579.0	1,641.1	102.1	91.8	112.8	132.2
ACT	680.6	708.1	735.6	771.6	52.9	47.8	58.3	76.0
NT	1,721.3	1,790.6	1,863.3	1,944.0	134.3	129.2	130.0	134.5
AUST	35,444.4	37,287.0	39,247.2	41,348.2	1,041.4	1,566.8	2,283.5	3,172.9

Distribution of GST revenue

The GST is distributed between the states and territories on the basis of recommendations made by the Commonwealth Grants Commission, which take the various cost disabilities and advantages of each system into account. It is far more expensive, for example, to provide services in the Northern Territory than it is in the larger states.

The intention is to share the funding in such a way that if all systems made the same effort to raise revenue and operated at the same level of efficiency, they should have the capacity to provide services at the same standard. This method of distribution is called Horizontal Fiscal Equalisation.

NSW and Victoria receive less than equal per capita shares and the other states and territories receive more to various degrees. Western Australia was also receiving less than per capita share in 2003-04 but relativities have been changed for 2004-05 and this is no longer true.

In 2004-05, the budget estimated that about \$3.2 billion, or 7.7% of the total pool of GST revenue and Health Care Grants, would be redistributed in this way.

While the figures included in the 2004-05 Budget Papers have been revised upwards by the Mid-Year statement, the budget data on distribution of revenue to the states and territories provides an indication of the effects of Horizontal Fiscal Equalisation.

GST revenue and Horizontal Fiscal Equalisation effects, 2004-05 (Budget Paper no. 3, May 2004)				
	Per capita relativities	Share of weighted population %	GST/Health Care grants to be distributed \$m	Difference between distributed grants and equal per capita distribution \$m
NSW	0.86750	29.1	12,183.2	-1,849.2
VIC	0.86534	21.4	8,972.2	-1,387.6
QLD	1.05504	20.5	8,586.9	454.7
WA	1.03054	10.2	4,262.9	129.8
SA	1.20407	9.2	3,840.6	653.6
TAS	1.55939	3.7	1,568.6	563.5
ACT	1.12930	1.8	759.6	87.5
NT	4.26538	4.2	1,760.0	1,347.7

Other Commonwealth funding to the states and territories

The Commonwealth also provides to the states and territories the following funds as set out in the 2004-05 Budget:

National Competition Policy Payments	\$777.7m
Specific Purpose Payments to the states (eg public education)	\$17,924.8m
Specific Purpose Payments through the states (eg nongov't schools)	\$6362.9m
Specific Purpose Payments direct to local government	\$304.7m
Compensation for GST deferral (2004-05, conditional)	\$330.0m

Commonwealth revenue

The Australian Government's underlying cash surplus for 2004-05 is now expected to be \$6.2 billion. This is \$3.8 billion more than the \$2.4 billion surplus projected in the May 2004 Budget and \$900 million more than the forecast in the Pre-Election Economic and Fiscal Outlook 2004 statement. In accrual terms, the projected surplus for 2004-05 is \$4.9 billion, up by \$4.2 billion since the May 2004 Budget.

These projections take post-budget policy/expenditure decisions into account.

Total accrual revenue is expected to be \$6.3 billion higher than predicted by the May 2004 budget, with taxation revenue expected to be \$5 billion higher and non-taxation revenue to be \$1.2 billion higher than the budget forecast. The projected rise in total income taxation provides \$4.1 billion of

the projected increase in taxation revenue, of which \$2.4 billion relates to individuals and \$1.5 billion to companies' taxation. Estimated accrual expenses have increased by \$1.5 billion since the May 2004 Budget which reflects the net effect of new policy measures of \$1.6 billion and other variations.

An underlying cash surplus of \$4.5 billion is projected for 2005-06, to rise to \$5.7 billion in 2006-07 and \$7.6 billion in 2007-08.

The Commonwealth determines the allocation of this surplus in accordance with government priorities.

Sources:

Mid-Year Economic and Fiscal Outlook 2004-05, December 2004.

Commonwealth Budget 2004-05, Federal Financial Relations 2004-05, Budget Paper No. 3

Commonwealth Budget 2004-05, Budget Strategy and Outlook 2004-05, Budget Paper No. 1

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