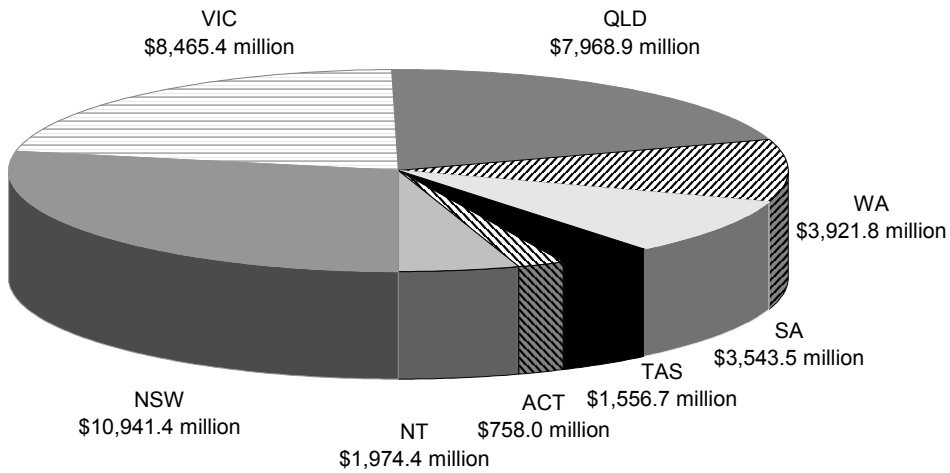


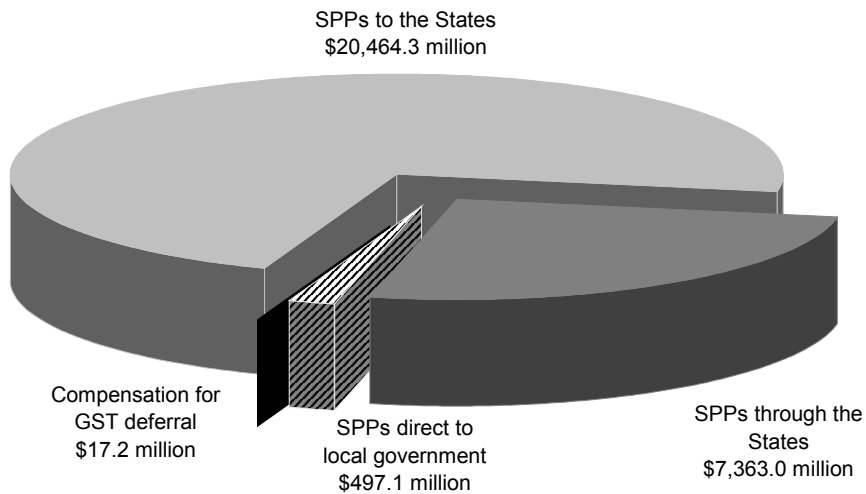
## EXECUTIVE SUMMARY

- In 2006-07, each of the States and Territories (the States) will receive more revenue from the GST than they would have received under the previous system of Financial Assistance Grants and the state taxes that were abolished under *The New Tax System*. In 2006-07, the States will be better off by an estimated \$1.9 billion due to the Australian Government's tax reforms.
- Tax reform has delivered to the States a secure, growing and broad-based revenue source that has more than replaced the revenue from various narrow and inefficient state taxes.
- In 2006-07, the States will receive GST revenue totalling an estimated \$39.1 billion (Chart 1). This amount will be distributed among the States in accordance with the recommendations of the Commonwealth Grants Commission.
- In addition, the Australian Government will provide the States with Specific Purpose Payments (SPPs) and compensation payments for GST deferred totalling an estimated \$28.3 billion in 2006-07. SPPs comprise the overwhelming majority of these funds (Chart 2).
- The Australian Government has now agreed timetables with all States for the abolition of most of the taxes listed in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. The abolition of these taxes is expected to save taxpayers approximately \$4.4 billion over the four years from 1 July 2006.
- Most States are expected to record operating surpluses in 2006-07, although smaller than in previous years, reflecting the downturn in revenue from property related taxes and higher expenses in areas such as health and wages. Most States are expected to experience a deterioration in their net debt position in 2006-07 but their net debt levels will remain low as a percentage of output.

**Chart 1: GST revenue provision to the States in 2006-07 (estimated)**



**Chart 2: Australian Government payments to the State/local sector in 2006-07 (estimated)**



Note: SPPs through the States are payments to State governments to be passed on to local governments and others.