

COMMONWEALTH-STATE FINANCIAL RELATIONS

The states will receive GST revenue and payments from the Australian Government totalling an estimated \$61.4 billion in 2004-05 (Table 1) and \$64.8 billion in 2005-06 (Table 2).

All GST revenue is paid to the states under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the IGA). The GST revenue pool is distributed among the states on the basis of relativities recommended by the independent and expert arbiter, the Commonwealth Grants Commission (CGC). The CGC's recommendations are based on the principles of Horizontal Fiscal Equalisation (HFE).

In 2004-05 and 2005-06, each state and territory is estimated to receive more revenue from GST than they would have received from Australian Government Financial Assistance Grants (FAGs) and their own inefficient taxes abolished under tax reform. In the absence of the abolition of further inefficient state taxes, it is estimated that the states would enjoy a cumulative GST windfall of \$17.2 billion from 2004-05 to 2009-10.

A report on business stamp duties was prepared by Australian Government and state officials and, as required by the IGA, was considered by the Ministerial Council for Commonwealth-State Financial Relations at its meeting on 23 March 2005. As GST revenues are now sufficient to fund the abolition of these taxes, the Australian Government has proposed a timetable for these taxes to be abolished to reduce the tax burden on Australian businesses and families.

If still imposed in all jurisdictions, these taxes would represent a burden of \$8.8 billion over the four years from 1 July 2006. As some states have already abolished some of these taxes, the Australian Government's proposal involves the abolition of \$7.4 billion in stamp duties still imposed by the states over the four years.

The significant GST windfall gains the states are receiving make this proposal affordable for all states. Even after the proposed tax cuts, it is estimated that the states will receive a GST windfall of approximately \$9 billion over the period of 2004-05 to 2009-10.

As provided under the IGA, the Australian Government has paid Budget Balancing Assistance (BBA) to the states to cover any shortfall between GST revenue and a state's Guaranteed Minimum Amount (GMA). This has ensured that no state is worse off during the transitional period after the changes made to Commonwealth-State financial relations as part of the Australian Government's *The New Tax System*. The transitional period ceases on 30 June 2006. However, as part of the Australian Government's proposal on the abolition of further taxes, it has offered to guarantee that no state will be worse off over the three years from 2006-07, resulting in an estimated payment of BBA of \$563.1 million to the states.

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The Australian Government will also provide the states with National Competition Policy Payments to implement National Competition Policy and related reforms, residual adjustment amounts, payments to compensate for GST revenue deferred as a result of allowing certain small businesses and non-profit organisations to pay their GST on an annual basis, as well as Specific Purpose Payments, including FAGs to local government, to contribute towards meeting the costs of state and local government responsibilities.

Other features of Commonwealth-State financial relations include the First Home Owners Scheme, which provides compensation to first home buyers for the one-off increase in housing prices associated with indirect tax reform, and mirror tax arrangements, which provide for the collection of certain state taxes on activities in or on Commonwealth places, to ensure competitive neutrality for businesses operating from Commonwealth places.

Table 1: GST revenue provision and total Australian Government payments to the state/local sector in 2004-05 (estimated)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
(1) Provision of GST revenue to the states(a)	9,937.5	7,374.4	7,374.2	3,643.6	3,307.6	1,441.3	683.2	1,743.2	35,505.0
(2) Budget Balancing Assistance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(3) Compensation for GST deferral	63.7	47.0	44.9	22.3	20.1	8.2	4.0	9.2	219.4
(4) Residual adjustment amounts	35.0	11.1	38.8	-0.5	1.4	2.9	0.7	11.0	100.4
(5) National Competition Policy Payments	233.5	201.6	143.3	53.6	50.4	19.7	13.6	8.5	724.3
(6) Total Specific Purpose Payments (6.1)+(6.2)+(6.3)	8,212.9	5,758.9	4,663.0	2,847.8	1,963.8	603.7	412.0	396.8	24,859.0
(6.1) Specific Purpose Payments to the states	5,962.1	4,021.4	3,371.1	2,142.7	1,429.9	436.2	275.6	321.5	17,960.5
(6.2) Specific Purpose Payments through the states	2,157.1	1,663.0	1,232.0	663.8	510.5	153.6	132.0	68.4	6,580.5
(6.3) Specific Purpose Payments direct to local government	93.8	74.5	59.8	41.3	23.4	13.9	4.4	6.9	318.0
(7) Total Australian Government payments to the state/local sector (2)+(3)+(4)+(5)+(6)	8,545.2	6,018.6	4,890.1	2,923.2	2,035.7	634.5	430.2	425.5	25,903.1
(8) GST revenue and total Australian Government payments (1)+(7)	18,482.7	13,393.0	12,264.3	6,566.8	5,343.2	2,075.9	1,113.4	2,168.7	61,408.0

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(a) The GST estimate has been adjusted to account for the final 2003-04 outcome, reflecting that payments in 2003-04 exceeded final collections in that year. (Further details are provided in Table 14.)

Table 2: GST revenue provision and total Australian Government payments to the state/local sector in 2005-06 (estimated)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
(1) Provision of GST revenue to the states	10,426.7	7,864.5	7,721.1	3,822.1	3,449.0	1,501.4	722.6	1,832.7	37,340.0
(2) Budget Balancing Assistance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(3) Compensation for GST deferral(a)	36.7	27.4	25.9	12.9	11.5	4.7	2.3	5.5	127.0
(4) National Competition Policy Payments	266.2	197.3	156.3	79.3	60.3	19.0	12.7	7.9	799.2
(5) Total Specific Purpose Payments (5.1)+(5.2)+(5.3)	8,640.4	6,277.7	4,916.0	3,071.4	2,111.2	660.3	423.4	430.5	26,530.9
(5.1) Specific Purpose Payments to the states	6,215.1	4,417.9	3,509.2	2,310.5	1,528.3	468.9	274.0	341.7	19,065.6
(5.2) Specific Purpose Payments through the states	2,300.5	1,765.3	1,325.8	707.3	551.1	162.8	139.9	72.8	7,025.4
(5.3) Specific Purpose Payments direct to local government	124.9	94.5	81.0	53.5	31.8	28.7	9.4	16.0	439.9
(6) Total Australian Government payments to the state/local sector (2)+(3)+(4)+(5)	8,943.3	6,502.5	5,098.3	3,163.6	2,183.1	684.0	438.4	443.9	27,457.1
(7) GST revenue and total Australian Government payments (1)+(6)	19,370.0	14,367.0	12,819.4	6,985.8	5,632.0	2,185.4	1,160.9	2,276.6	64,797.1

(a) Consistent with the A New Tax System (Commonwealth-State Financial Arrangements) Act 1999, \$219.4 million in compensation paid to the states in 2004-05 as an advance from their 2005-06 GST entitlement will be deducted from GST payments to the states in 2005-06. This amount will be repaid to the states in 2005-06 in addition to the \$127 million it is estimated the states will require to compensate for lower GST revenue in 2005-06 as a result of allowing certain taxpayers to pay GST annually.

GST REVENUE PROVISION TO THE STATES

All GST revenue collected is received by the states. Consequently, they have a secure, growing and broad-based revenue source. Subject to the IGA, states can spend their GST revenue according to their own budgetary priorities. The states' GST revenue has grown significantly since its introduction in 2000-01 (Table 3).

Table 3: GST revenue provision to the states (cash), 2000-01 to 2005-06

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	Increase	Average	
	\$m	\$m	\$m	\$m	(e) \$m	(e) \$m	from 2000-01 to 2005-06 \$m	annual increase %	increase %
NSW	7,257.6	8,132.0	9,080.2	9,667.1	9,937.5	10,426.7	3,169.1	43.7	7.6
VIC	5,099.3	5,593.1	6,365.1	6,961.0	7,374.4	7,864.5	2,765.2	54.2	9.1
QLD	4,658.2	5,018.6	5,887.6	6,552.8	7,374.2	7,721.1	3,062.9	65.8	10.7
WA	2,374.6	2,518.1	2,910.2	3,157.9	3,643.6	3,822.1	1,447.5	61.0	10.1
SA	2,278.9	2,476.6	2,859.1	3,146.4	3,307.6	3,449.0	1,170.1	51.3	8.7
TAS	988.1	1,059.8	1,246.7	1,394.5	1,441.3	1,501.4	513.2	51.9	8.9
ACT	472.6	543.9	615.7	658.1	683.2	722.6	250.0	52.9	9.0
NT	1,225.6	1,289.8	1,514.5	1,680.9	1,743.2	1,832.7	607.1	49.5	8.5
Total	24,354.9	26,632.0	30,479.1	33,218.7	35,505.0	37,340.0	12,985.1	53.3	9.0

(e) Estimates.

GST revenue

Estimates of GST revenue in accrual terms for the years 2004-05 to 2007-08 are shown in Table 4. These estimates have been revised since the 2004-05 Budget and the *Mid-Year Economic and Fiscal Outlook 2004-05* (MYEFO) to account for policy decisions and parameter variations.

Table 4: Reconciliation of GST revenue (accrual), 2004-05 to 2007-08 (estimated)

	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m
GST revenue at 2004-05 Budget	35,190	37,370	39,530	41,710
<i>Changes from 2004-05 Budget to MYEFO</i>				
Effect of policy decisions	218	40	151	161
Effect of parameter and other variations	632	510	409	419
Total variations	850	550	560	580
GST revenue at 2004-05 MYEFO	36,040	37,920	40,090	42,290
<i>Changes from MYEFO to 2005-06 Budget</i>				
Effect of policy decisions	0	6	9	10
Effect of parameter and other variations	260	74	-39	-30
Total variations	260	80	-30	-20
GST Revenue at 2005-06 Budget	36,300	38,000	40,060	42,270

Estimated GST revenue in 2004-05 has been revised up by \$260 million since MYEFO. The GST revenue estimate for 2005-06 has been revised up since MYEFO by \$80 million, reflecting the flow-on effect of an expected stronger outcome in 2004-05,

dampened by expected weaker growth in consumption in 2005-06. Estimates of GST receipts in cash terms are shown in Table 5.

Table 5: GST receipts (cash), 2005-06 to 2008-09 (estimated)

	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m
GST receipts	37,340	39,200	41,320	43,480

GST revenue measures

Policy decisions affecting GST revenue estimates include: taxing offshore supplies of options or rights where they relate to goods, services and other things that are consumed or used in Australia; removing the GST-free status of supplies made to offshore owners in relation to their residential property in Australia; allowing GST-free supplies of certain care services and accommodation to residents of serviced apartments in retirement villages; ensuring that the GST vouchers provisions apply appropriately to pre-paid phone products; providing a further optional methodology for compulsory third party insurers to calculate decreasing adjustments; providing additional compliance funding for the Australian Customs Service; and deferring the commencement date of the measure to allow certain taxpayers to report and pay their GST on an annual basis.

The revenue effect of these GST measures is estimated for 2005-06 to 2008-09 (Table 6). Detailed information on each measure is in Appendix A.

Table 6: GST revenue measures since the 2004-05 Budget (estimated)

	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m
Additional customs compliance activities	2.4	5.7	6.3	6.7
Annual private use apportionment option – change to the start date	-	-	-	-
Annual reporting and payment option – change to the start date	-110.6	-	-	-
Asian Development Bank – GST concession
Changes to the vouchers provisions	10.0	10.0	10.0	10.0
Compulsory third party schemes – alternative global decreasing adjustment methodology	-6.7	-6.7	-6.7	-6.7
GST and the sale of real property	*	*	*	*
GST-free supplies – charitable retirement villages
GST-free supplies – residents of serviced apartments in retirement villages	-11.0	-12.0	-13.0	-14.0
GST treatment of the Military Rehabilitation and Compensation Scheme	-	-	-	-
Indirect Tax Concession Scheme – GST concessions for diplomats and consular missions	*	*	*	*
Supplies of rights offshore – taxing consumption in Australia	140.0	140.0	150.0	150.0
Supplies to offshore owners of Australian real property	22.0	23.0	24.0	25.0
Total impact of GST revenue measures	46.1	160.0	170.6	171.0

GST revenue provision

The Australian Government distributes GST revenue among the states in accordance with the recommendations of the Commonwealth Grants Commission.

The CGC recommends relativities to calculate each state's share of GST by applying the principles of Horizontal Fiscal Equalisation. GST relativities are shown for 2004-05 and 2005-06 (Table 7).

The CGC also recommends Financial Assistance Grants forgone relativities (Table 7), which are used for the calculation of each state's Guaranteed Minimum Amounts (Tables 11 and 12).

Table 7: GST relativities and Financial Assistance Grants forgone relativities, 2004-05 and 2005-06

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
GST relativities								
2004-05	0.86750	0.86534	1.05504	1.03054	1.20407	1.55939	1.12930	4.26538
2005-06	0.86846	0.87552	1.04389	1.02500	1.20325	1.55299	1.14300	4.26682
FAGs relativities								
2004-05	0.80363	0.83480	1.10104	1.00781	1.30402	1.74908	1.16529	5.22707
2005-06	0.80494	0.84699	1.08397	0.99807	1.30342	1.75127	1.17714	5.30427

Source: CGC Report on State Revenue Sharing Relativities 2005 Update.

The GST relativities are applied to state populations to determine a weighted population for each state. The Australian Government uses the weighted populations to distribute the GST revenue pool. Each state receives a share of the GST revenue pool equal to its weighted population share of a combined pool of GST revenue and unquarantined Health Care Grants, less its unquarantined Health Care Grants. This calculation determines the distribution of GST revenue in 2004-05 and 2005-06 (Tables 8 and 9).

Table 8: Distribution of GST revenue in 2004-05 (estimated)

Projected population as at 31 December 2004	(1)	Per capita relativities	(2)	Weighted population (1)x(2) (a)	(3)	Share of weighted population (%)	(4)	GST revenue/HCGs pool according to (4) (\$m)	(5)	Unquarantined HCGs (\$m)	(6)	Distribution of GST revenue (5)-(6) (\$m)	(7)
NSW	6,766,613	0.86750	5,870,037	5,870,037	29.0	12,471.8	2,534.3	9,937.5					
VIC	5,000,970	0.86534	4,327,539	4,327,539	21.4	9,194.5	1,820.1	7,374.4					
QLD	3,926,824	1.05504	4,142,956	4,142,956	20.5	8,802.3	1,428.1	7,374.2					
WA	2,000,810	1.03054	2,061,915	2,061,915	10.2	4,380.8	737.2	3,643.6					
SA	1,538,402	1.20407	1,852,344	1,852,344	9.2	3,935.6	628.0	3,307.6					
TAS	484,122	1.55939	754,935	754,935	3.7	1,604.0	162.6	1,441.3					
ACT	324,345	1.12930	366,283	366,283	1.8	778.2	95.0	683.2					
NT	201,540	4.26538	859,645	859,645	4.2	1,826.4	83.3	1,743.2					
Total	20,243,626	na	20,235,653	20,235,653	100.0	42,993.6	7,488.6	35,505.0					

(a) Total weighted population differs from the total population in column (1) as the CGC calculates the per capita relativities using population numbers for 1998-99 to 2002-03, then rounds these figures.

Note: HCGs means Health Care Grants.

Table 9: Distribution of GST revenue in 2005-06 (estimated)

	Projected population as at 31 December 2005	Per capita relativities	Weighted population (1)×(2)	Share of weighted population (%)	GST revenue/HCGs pool according to (4)	Unquarantined HCGs	Distribution of GST revenue (5)-(6)
	(1)	(2)	(a)	(4)	(5)	(6)	(7)
			(3)		(\$m)	(\$m)	(\$m)
NSW	6,823,074	0.86846	5,925,567	28.9	13,090.3	2,663.6	10,426.7
VIC	5,057,845	0.87552	4,428,244	21.6	9,782.5	1,918.0	7,864.5
QLD	4,006,784	1.04389	4,182,642	20.4	9,240.0	1,518.9	7,721.1
WA	2,033,048	1.02500	2,083,874	10.2	4,603.5	781.4	3,822.1
SA	1,545,119	1.20325	1,859,164	9.1	4,107.1	658.1	3,449.0
TAS	487,377	1.55299	756,892	3.7	1,672.1	170.7	1,501.4
ACT	325,748	1.14300	372,330	1.8	822.5	100.0	722.6
NT	203,744	4.26682	869,339	4.2	1,920.5	87.8	1,832.7
Total	20,482,739	na	20,478,052	100.0	45,238.5	7,898.5	37,340.0

(a) Total weighted population differs from the total population in column (1) as the CGC calculates the per capita relativities using population numbers for 1999-00 to 2003-04, then rounds these figures.

Note: HCGs means Health Care Grants.

The Effect of Horizontal Fiscal Equalisation

One way to view the effect of the Commonwealth Grants Commission's (CGC's) application of Horizontal Fiscal Equalisation (HFE) is to compare each state's distribution of the GST revenue/Health Care Grants pool using the CGC's relativities with a notional distribution on an equal per capita basis. In 2005-06, approximately \$3.4 billion (7.4 per cent) of the total GST revenue/Health Care Grants pool will be redistributed among the states, compared with an equal per capita distribution (Table 10).

Table 10: Effect of Horizontal Fiscal Equalisation 2005-06

	GST/HCG pool distributed under HFE (\$m)	Equal per capita distribution of GST/HCG pool (\$m)	Difference (1) - (2) (\$m)	Population (million)	Per capita redistribution (3) / (4) (\$)
	(1)	(2)	(3)	(4)	(5)
NSW	13,090.3	15,069.6	-1,979.3	6.8	-290.1
VIC	9,782.5	11,170.8	-1,388.3	5.1	-274.5
QLD	9,240.0	8,849.5	390.5	4.0	97.5
WA	4,603.5	4,490.2	113.3	2.0	55.7
SA	4,107.1	3,412.6	694.5	1.5	449.5
TAS	1,672.1	1,076.4	595.6	0.5	1,222.1
ACT	822.5	719.5	103.1	0.3	316.4
NT	1,920.5	450.0	1,470.5	0.2	7,217.3
Total	45,238.5	45,238.5	0.0	20.5	na

Note: HCG means Health Care Grants.
HFE means Horizontal Fiscal Equalisation.

Review of Horizontal Fiscal Equalisation Methodology

At the 2005 meeting of the Ministerial Council for Commonwealth-State Financial Relations, the Australian Government and all the states agreed that a work programme be undertaken to review and simplify the methodology that the CGC uses to determine the GST relativities.

This agreement arises from a review undertaken by the Heads of Treasuries, commissioned at the 2004 Ministerial Council meeting, which examined aspects of the methodology used by the CGC to distribute GST revenue among the states. The review found the CGC's methodology, while generally robust, could be simplified without compromising the underlying principle of HFE.

The CGC will be provided with terms of reference to guide it in simplifying its methodology by 2010 and developing a continuous programme of improvement, building on the work undertaken by the Heads of Treasuries. This work programme will place HFE on a sounder and more sustainable basis.

The CGC will report back to the 2006 and 2007 Ministerial Council meetings on progress in relation to its work programme, ahead of its final reporting date of 2010.

DELIVERING MORE FUNDING TO THE STATES

In 2004-05 and 2005-06, all states will receive a GST windfall over the Guaranteed Minimum Amount (GMA). The states will receive a total gain from tax reform in 2004-05 of approximately \$2.2 billion more than the GMA (Table 13). The GMA is an estimate of funding each state would have had available to it had tax reform not been implemented. Components of the GMA comprise estimates of Australian Government Financial Assistance Grants forgone, state taxes abolished by tax reform and other items. Narrow and inefficient state taxes that have been abolished include financial institutions duty, stamp duty on quoted marketable securities and accommodation taxes (bed taxes). Bank account debits tax will be abolished from 1 July 2005 and estimates of the revenue the states would have received from this tax are included in the GMA from 2005-06. Even after the abolition of debits tax, the states will receive a GST windfall of over \$1.5 billion in 2005-06 (Table 13).

It is estimated that if further inefficient taxes were not abolished under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the IGA), the states' gain from tax reform would continue to grow over the forward estimates period, with the states receiving a cumulative gain of \$17.2 billion from 2004-05 to 2009-10. In light of this, the Australian Government has proposed that the states use a proportion of this GST windfall gain to remove more of the inefficient state taxes as outlined under the IGA.

Under the IGA, the Australian Government guaranteed that in the transitional years after the introduction of *The New Tax System* in July 2000, each state's budgetary position would be no worse off than had the reforms to Commonwealth-State financial relations not been implemented. To meet this guarantee, the Australian Government has paid Budget Balancing Assistance (BBA) to any state whose GMA exceeds its GST revenue entitlement. The transitional period ceases on 30 June 2006.

To ensure no financial disadvantage to any state as a result of the Australian Government's proposed timetable for the elimination of further inefficient taxes, the Australian Government will extend the transitional period to 30 June 2009. This will provide compensation through BBA to any state which has a shortfall between its GST revenue and its GMA after the implementation of further tax reform under the IGA. The Australian Government is not proposing to extend the transitional period unless the states agree to its timetable.

Compensation payments for GST revenue deferred

As part of tax reform, the Australian Government is compensating the states for the deferral of GST revenue as a result of the Australian Government's decision to allow certain small businesses and non-profit organisations to pay GST annually. As part of these arrangements, \$219.4 million has been paid to the states in 2004-05 as an advance from their 2005-06 GST entitlements. Consistent with the requirements of the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999*, the Australian

Government will deduct this advance from GST payments to the states in 2005-06. However, the Australian Government will add this \$219.4 million to the 2005-06 compensation payments. This will ensure that the full financial impact of allowing annual payment of GST is borne by the Australian Government and there will be no impact on state budgets. Compensation payments for each year will be subject to an ex-post adjustment once final tax return data becomes available and the impact of the measure on GST revenue is known.

As the states are already receiving separate payments to compensate for lower GST revenue due to allowing small businesses and non-profit organisations to pay GST annually, the measure should not also result in states receiving increased BBA. To cater for the possibility that a state may require BBA in the future, it is necessary to put in place a mechanism to ensure that double compensation does not occur. The Australian Government is proposing that the compensation amount paid to each state be included in that state's GMA (that is, the GMA will be offset by the amount of compensation). This will allow the existing mechanisms to be used to adjust payments as estimated BBA and compensation entitlements change throughout the year. The Australian Government will consult with the states on this matter.

Tables 11 and 12 show the estimated GMA components, GST revenue entitlement and the BBA calculation for each state in 2004-05 and 2005-06. Table 13 shows the estimated GMA, GST revenue entitlement, BBA and gains from tax reform for each state from 2004-05 to 2008-09.

Table 11: Guaranteed Minimum Amount components, GST revenue provision and Budget Balancing Assistance in 2004-05 (estimated)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
State Revenues Forgone									
Financial Assistance Grants	5,188.4	4,108.9	4,712.1	2,126.5	2,221.0	1,039.9	441.7	1,412.8	21,251.4
Revenue Replacement Payments	2,650.5	1,773.4	1,607.1	1,106.6	688.5	233.5	117.9	149.3	8,326.9
Financial Institutions Duty	737.0	410.2	na	155.8	103.7	24.8	20.5	18.2	1,470.2
Marketable Securities Duty	483.0	250.7	28.0	31.1	16.5	0.8	25.4	1.1	836.6
Marketable Securities Duty Needs	-29.1	12.4	13.8	3.9	2.4	2.8	-7.5	1.1	0.0
Accommodation Taxes	88.0	na	na	na	na	na	na	9.5	97.5
plus Reduced Revenues									
Gambling Taxes	621.0	416.7	277.0	64.7	104.7	28.9	24.6	20.4	1,558.0
plus Interest Costs									
Interest Costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
plus Additional Expenditures									
First Home Owners Scheme	271.0	256.6	165.2	124.7	65.1	18.1	13.7	9.2	923.6
GST Administration Costs	196.6	145.3	114.1	58.1	44.7	14.1	9.4	5.9	588.3
plus Other Items									
WST Payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
minus Reduced Expenditures									
Off-road Diesel Subsidies	145.2	60.7	143.4	184.5	38.6	2.3	0.0	4.1	578.8
Savings from Tax Reform	191.2	131.5	108.4	64.6	47.1	15.9	10.7	15.7	585.0
Low Alcohol Beer Subsidies	25.9	17.9	5.0	8.2	4.8	1.8	1.0	1.3	66.0
minus Growth Dividend									
Remaining State Taxes	122.9	79.3	41.5	24.7	19.9	5.1	3.9	2.7	300.0
minus Compensation payments									
Compensation for GST deferral	63.7	47.0	44.9	22.3	20.1	8.2	4.0	9.2	219.4
plus Adjustments									
2003-04 GMA Adjustment	22.0	17.1	1.8	5.4	4.4	-0.2	-0.3	0.6	50.7
Total Guaranteed Minimum Amount (1)	9,679.6	7,055.1	6,575.9	3,372.3	3,120.5	1,329.4	625.9	1,595.1	33,353.8
GST revenue provision (2)	9,937.5	7,374.4	7,374.2	3,643.6	3,307.6	1,441.3	683.2	1,743.2	35,505.0
Budget Balancing Assistance (1)-(2)(a)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

(a) Where the difference between the GMA and GST revenue is less than zero, the amount is zero.

Table 12: Guaranteed Minimum Amount components, GST revenue provision and Budget Balancing Assistance in 2005-06 (estimated)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
State Revenues Forgone									
Financial Assistance Grants	5,378.8	4,355.1	4,841.1	2,189.9	2,290.9	1,079.2	461.5	1,494.7	22,091.3
Revenue Replacement Payments	2,744.7	1,836.2	1,663.3	1,143.7	712.4	241.5	122.1	154.4	8,618.4
Financial Institutions Duty	772.0	422.6	na	161.0	107.4	25.4	21.0	19.8	1,529.2
Debits Tax	323.6	257.8	330.2	114.0	57.7	21.7	17.7	7.7	1,130.3
Marketable Securities Duty	513.0	265.8	29.0	32.9	17.5	0.8	26.0	1.2	886.2
Marketable Securities Duty Needs	-28.2	14.3	13.9	2.6	3.1	2.9	-9.4	0.9	0.0
Accommodation Taxes	96.0	na	na	na	na	na	na	10.0	106.0
plus Reduced Revenues									
Gambling Taxes	643.3	438.3	301.3	66.1	109.2	30.5	25.2	21.3	1,635.2
plus Interest Costs									
Interest Costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
plus Additional Expenditures									
First Home Owners Scheme	286.9	271.7	174.9	132.1	68.9	19.1	14.5	9.8	977.8
GST Administration Costs	201.0	149.0	118.1	59.9	45.5	14.4	9.6	6.0	603.5
plus Other Items									
WST Payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
minus Reduced Expenditures									
Off-road Diesel Subsidies	148.5	62.2	148.4	190.2	39.3	2.4	0.0	4.2	595.3
Savings from Tax Reform	203.9	140.5	115.6	68.9	50.2	16.9	11.3	16.6	624.0
Low Alcohol Beer Subsidies	26.6	18.4	5.2	8.4	5.0	1.8	1.1	1.3	67.8
minus Growth Dividend									
Remaining State Taxes	149.1	96.2	50.4	30.0	24.2	6.1	4.7	3.3	364.0
minus Compensation payments									
Compensation for GST deferral	36.7	27.4	25.9	12.9	11.5	4.7	2.3	5.5	127.0
Total Guaranteed Minimum Amount (1)	10,366.3	7,666.0	7,126.3	3,591.8	3,282.5	1,403.4	668.9	1,694.7	35,800.0
GST revenue provision (2)	10,426.7	7,864.5	7,721.1	3,822.1	3,449.0	1,501.4	722.6	1,832.7	37,340.0
Budget Balancing Assistance (1)-(2)(a)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

(a) Where the difference between the GMA and GST revenue is less than zero, the amount is zero.

Table 13: Forward estimates of Budget Balancing Assistance and state and territory gains from tax reform^(a)

2004-05 (\$m)	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
(1) Guaranteed Minimum Amount	9,679.6	7,055.1	6,575.9	3,372.3	3,120.5	1,329.4	625.9	1,595.1	33,353.8
(2) GST revenue	9,937.5	7,374.4	7,374.2	3,643.6	3,307.6	1,441.3	683.2	1,743.2	35,505.0
(3) Budget Balancing Assistance(b)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(4) State and territory gains from tax reform (2) - (1)(b)	257.8	319.4	798.3	271.3	187.0	111.9	57.3	148.1	2,151.1
2005-06 (\$m)(c)									
(1) Guaranteed Minimum Amount(d)	10,366.3	7,666.0	7,126.3	3,591.8	3,282.5	1,403.4	668.9	1,694.7	35,800.0
(2) GST revenue	10,426.7	7,864.5	7,721.1	3,822.1	3,449.0	1,501.4	722.6	1,832.7	37,340.0
(3) Budget Balancing Assistance(b)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(4) State and territory gains from tax reform (2) - (1)(b)	60.4	198.5	594.8	230.3	166.5	97.9	53.6	137.9	1,540.0
2006-07 (\$m)									
(1) Guaranteed Minimum Amount(e)	11,377.6	8,340.2	7,668.3	3,853.7	3,505.2	1,469.8	712.4	1,808.0	38,735.3
(2) GST revenue	11,136.7	8,397.2	7,957.7	3,925.3	3,574.3	1,535.4	756.8	1,916.6	39,200.0
(3) Budget Balancing Assistance(b)	240.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	240.9
(4) State and territory gains from tax reform (2) - (1)(b)	0.0	57.1	289.4	71.5	69.1	65.6	44.4	108.6	705.7
2007-08 (\$m)									
(1) Guaranteed Minimum Amount(f)	11,977.5	8,660.3	8,092.6	4,097.8	3,656.5	1,519.1	733.7	1,916.5	40,654.0
(2) GST revenue	11,733.5	8,904.8	8,399.7	4,172.9	3,722.0	1,581.4	792.7	2,012.9	41,320.0
(3) Budget Balancing Assistance(b)	244.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	244.0
(4) State and territory gains from tax reform (2) - (1)(b)	0.0	244.5	307.1	75.1	65.5	62.4	59.0	96.4	909.9
2008-09 (\$m)									
(1) Guaranteed Minimum Amount	12,456.7	8,968.8	8,365.6	4,262.0	3,750.6	1,556.7	751.4	2,006.4	42,118.3
(2) GST revenue	12,378.5	9,452.7	8,789.4	4,422.4	3,869.6	1,633.4	825.8	2,108.1	43,480.0
(3) Budget Balancing Assistance(b)	78.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	78.2
(4) State and territory gains from tax reform (2) - (1)(b)	0.0	483.9	423.7	160.4	119.0	76.8	74.4	101.7	1,440.0

(a) Projections from 2004-05 will be affected by variations in Guaranteed Minimum Amount (GMA) components and GST revenue. In addition to these factors, projections from 2006-07 will be affected by recommendations by the Commonwealth Grants Commission on the distribution of GST to each of the states.

(b) Where the difference between the GMA and GST revenue (and vice versa) is less than zero, the amount is zero.

(c) The transitional period in which the Australian Government guarantees that no state will be worse off due to tax reform expires on 30 June 2006. However, if the states agree to the Australian Government's proposal to eliminate IGA taxes (see pages 20-21 for details), the Australian Government will extend the transitional period to 30 June 2009.

(d) As agreed at the 26 March 2004 meeting of the Ministerial Council for Commonwealth-State Financial Relations, bank account debits tax is to be abolished by 1 July 2005. The revenue forgone by the states is included in their GMA from 2005-06 to ensure the states are no worse off. Accordingly, state gains from tax reform decrease in 2005-06 compared to 2004-05.

(e) Consistent with the Australian Government's proposal, GMAs from 2006-07 include estimates of revenue forgone from stamp duties on the following: non-quotable marketable securities; leases; mortgages, bonds, debentures and other loan securities; credit arrangements; instalment purchase arrangements and rental arrangements; and cheques, bills of exchange and promissory notes.

(f) Consistent with the Australian Government's proposal, GMAs from 2007-08 include estimates of revenue forgone from stamp duty on business conveyances other than real property.

Adjustments in 2004-05

GST revenue provision in 2004-05 has been adjusted to account for the final 2003-04 outcome (Table 1). In 2003-04, the final GST cash collections outcome was \$45 million lower than the amount determined by the Commissioner of Taxation in June 2004 and provided to the states in 2003-04 under the terms of the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* (the Act).

Consistent with the provisions of the Act, the amount of GST revenue determined by the Commissioner and provided to the states in 2004-05 will take account of this variation. The residual adjustment amount for New South Wales for 2004-05 has also been calculated to account for this variation (Table 14).

Residual adjustments

The Australian Government introduced residual adjustments to ensure that all states receive their appropriate payments under the Act as they come off BBA. Residual adjustments will offset any underestimate or overestimate of payments in a previous financial year.

Queensland and the Northern Territory ceased to require BBA in 2002-03. The residual adjustment amounts for 2002-03 reflect an underestimate of payments in 2001-02. Victoria, Western Australia, South Australia, Tasmania and the Australian Capital Territory ceased to require BBA in 2003-04. The residual adjustment amounts for 2003-04 reflect an underestimate of payments in 2002-03 for Victoria, South Australia, Tasmania and the Australian Capital Territory and a minor overestimate of payments in 2002-03 for Western Australia.

Current estimates show that New South Wales will not require BBA in 2004-05. Based on current estimates, New South Wales' residual adjustment amount for 2004-05 reflects an underestimate of payments in 2003-04. As final payments for 2004-05 will not be known until the June 2005 determinations, final residual adjustment amounts for 2004-05 will not be known until after that time.

As the Australian Government and the states have not yet agreed, as required by the Act, on the manner in which the determination of each state's residual adjustment is made, it has not been possible to make the adjustments. A draft methodology for the calculation of residual adjustments has been provided to the states for their consideration. If the states agree to this methodology, it will be used to determine and make residual adjustments to payments to the states.

Table 14 shows estimates of the residual adjustment amounts, based on the draft methodology.

Table 14: Residual adjustment amounts for 2002-03, 2003-04 and 2004-05 (estimated)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2002-03	0.0	0.0	38.8	0.0	0.0	0.0	0.0	11.0	49.8
2003-04	0.0	11.1	0.0	-0.5	1.4	2.9	0.7	0.0	15.5
2004-05	35.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	35.0
Total	35.0	11.1	38.8	-0.5	1.4	2.9	0.7	11.0	100.4

DELIVERING FURTHER TAX REFORM

One of the objectives of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the IGA), signed by the Australian Government and all states in 1999, was the achievement of a new national tax system, including the elimination of a number of existing inefficient taxes which were impeding economic activity. As part of this objective, the GST was intended to replace a group of inefficient indirect taxes, one Commonwealth and nine state taxes. The state taxes included in the IGA were identified by the states themselves as undesirable on efficiency and equity grounds.

Under the IGA, wholesale sales tax and accommodation taxes were abolished on 1 July 2000, financial institutions duty and stamp duty on quoted marketable securities were abolished on 1 July 2001 and, after review by the Ministerial Council for Commonwealth-State Financial Relations, bank account debits tax will be abolished in all states by 1 July 2005.

The IGA also provided that the Ministerial Council will, by 2005, review the need to retain stamp duty on the following:

- non-residential conveyances;
- non-quotable marketable securities;
- leases;
- mortgages, bonds, debentures and other loan securities;
- credit arrangements, instalment purchase arrangements and rental arrangements; and
- cheques, bills of exchange and promissory notes.

The reason for agreeing to a review of these taxes, rather than setting a firm date for their abolition, reflected uncertainty in 1999 about when GST revenue would be sufficient to fund their abolition. It was understood that if GST revenue proved to be sufficient at the time of the review, the states would abolish these stamp duties.

The GST is now estimated to deliver significant windfall gains to all states and provides the revenue capacity to abolish most of these taxes.

In light of this growing GST windfall, at the Ministerial Council meeting on 23 March 2005, the Australian Government put forward a timetable for the elimination of the majority of the above taxes, with the remaining tax to be reviewed later and a further timetable agreed.

The Australian Government's proposal involves the abolition of the following indirect state taxes by 1 July 2006: stamp duty on non-quotable marketable securities; stamp duty on leases; stamp duty on mortgages, bonds, debentures and other loan securities; stamp duty on credit arrangements, instalment purchase arrangements and rental arrangements; and stamp duty on cheques, bills of exchange and promissory notes.

Further, stamp duty on business conveyances other than real property would be abolished by 1 July 2007. This would include the components of business conveyances (such as goodwill, supply rights of a business and intellectual property) listed at Clause A3 (ii) of the original Intergovernmental Agreement, signed by all states in April 1999.

The Australian Government also proposed that stamp duty on business conveyances of real property cease to apply from a date to be determined by the Ministerial Council on the basis that no state will be worse off in any year.

To ensure no financial disadvantage to any state as a result of the Australian Government's proposed timetable for the elimination of further inefficient taxes, the Australian Government will extend the transitional period to 30 June 2009, subject to the states agreeing to the Australian Government's proposal. This will provide compensation through BBA to any state which has a shortfall between its GST revenue and its GMA after the implementation of further tax reform under the IGA. It is estimated that, as a result of the Australian Government's proposal, BBA of \$563.1 million over the three years from 2006-07 will be provided to the states.

The significant GST windfall gains the states are receiving, along with the Australian Government's provision of BBA where needed, make this proposal affordable for all states. Even after the proposed tax cuts, it is estimated that the states will receive a GST windfall of around \$9 billion over the period 2004-05 to 2009-10.

Under this proposal, the IGA will be upheld and the full benefit of tax reform will be available through the abolition of a range of inefficient business stamp duties listed in the IGA.

Six of the eight jurisdictions have responded to the Australian Government's proposal with their own timetable for the abolition of the taxes, and the Government is considering its response to them.

First Home Owners Scheme

Eligible home buyers have received over \$5.2 billion through original and additional First Home Owners Scheme grants since July 2000.

The First Home Owners Scheme provides eligible first home buyers with a \$7,000 grant. Since its introduction on 1 July 2000, the scheme has provided over 689,000 grants to families and individuals to assist in purchasing their first home. The scheme is administered by the states. The Australian Government guarantees the funding for the scheme through Budget Balancing Assistance by including the cost to the states in the Guaranteed Minimum Amount (Tables 11 and 12).

In March 2001, the Australian Government made an additional \$7,000 grant available to first home buyers contracting to buy or build a new home before 31 December 2001. The Australian Government fully funds the additional First Home Owners Scheme grant with a Specific Purpose Payment through the states to meet the cost of grants. The Australian Government extended the additional First Home Owners Scheme to provide a grant of \$3,000 for first home buyers contracting to buy or build new homes between 1 January 2002 and 30 June 2002. To date, the additional First Home Owners Scheme has provided over 69,000 grants to eligible home buyers.

Although the additional First Home Owners Scheme has ended, grants continue to be paid to eligible applicants due to the time needed to complete construction and the period allowed to lodge an application once construction is complete. Estimates of payments are shown in the Specific Purpose Payments tables (Appendix B).

NATIONAL COMPETITION POLICY PAYMENTS

The Australian Government makes National Competition Policy Payments (NCPPs) to the states for implementing National Competition Policy (NCP) and related reforms. These reforms include a commitment to review legislation that restricts competition, apply competitive neutrality to government business activities and introduce specific reforms in electricity, gas, water and road transport.

NCPPs commenced in July 1997 with the first of three tranches of payments. The third tranche commenced in July 2001 at an annual level of \$600 million in 1994-95 prices. The NCP agreements, signed by the Australian Government and all state governments in 1995, provide for the Australian Government to make NCPPs to state governments up to and including 2005-06. The future of NCPPs beyond 2005-06 is under review. A Council of Australian Governments' review of the terms and operation of the NCP agreements, including an assessment of the future of NCPPs, is scheduled to be completed in 2005.

Each state's NCPPs are subject to that state making satisfactory progress with the implementation of reform commitments. Prior to the scheduled payment of NCPPs in each year, the National Competition Council (NCC) assesses whether each state has met the specified conditions and provides recommendations for consideration by the Australian Government.

Out of an estimated maximum level of payments in 2004-05 of \$777.9 million, the NCC recommended permanent deductions currently estimated to be worth \$26.3 million and suspensions currently estimated to be worth \$114.1 million. The NCC has indicated that it will recommend that suspensions be lifted or reduced and suspended monies released if and when states sufficiently progress reform.

Table 15 shows estimates of NCPPs for 2004-05 and 2005-06. Each state's amount for 2004-05 reflects reimbursements for 2003-04 suspensions, permanent deductions for 2004-05 and suspensions for 2004-05 as recommended by the NCC. The amounts reported below for 2005-06 are the current estimates of each state's maximum level of payment (that is, if no reimbursements, permanent deductions or suspensions apply).

Table 15: National Competition Policy Payments

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2004-05	233.5	201.6	143.3	53.6	50.4	19.7	13.6	8.5	724.3
2005-06	266.2	197.3	156.3	79.3	60.3	19.0	12.7	7.9	799.2

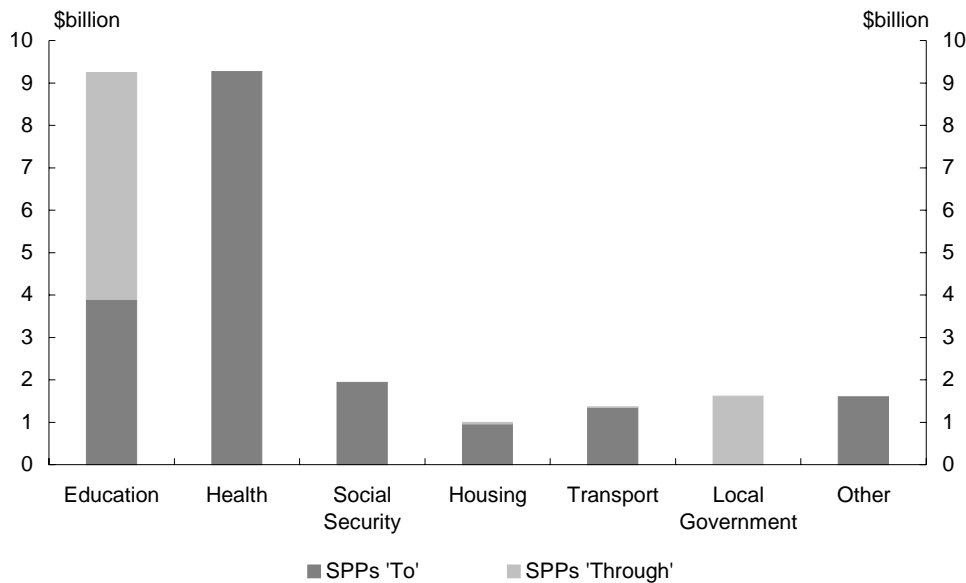
SPECIFIC PURPOSE PAYMENTS

Specific Purpose Payments (SPPs) constitute a significant amount of Australian Government expenditure. In 2005-06, SPPs 'to' and 'through' the states are estimated to total \$26.1 billion. In addition, the Australian Government will provide SPPs direct to local government totalling \$439.9 million in 2005-06. In total, SPPs are estimated to represent around 13 per cent of total Australian Government expenditure in 2005-06.

The Australian Government makes SPPs to the states and local government as a financial contribution to important areas of state responsibility in pursuit of its own specified objectives. The Australian Government makes SPPs in a large number of policy areas, including education, health, social security, housing and transport (Chart 3).

In 2005-06, SPPs for health, education and transport are estimated to account for over 75 per cent of SPP expenditure. These categories encompass SPPs for public hospitals, schools, vocational education and training and the development, construction and maintenance of the National Land Transport Network under *AusLink*.

Chart 3: Composition of Specific Purpose Payments 'to' and 'through' the states in 2005-06 (estimated)



More detailed information, including payments on a state-by-state basis for 2004-05 and 2005-06, is in Appendix B.

SPPs can be classified into three groups:

- those paid directly 'to' the states – payments direct to state governments, totalling an estimated \$19.1 billion in 2005-06;
- those paid 'through' the states – payments to state governments to be passed on to local governments (for example, FAGs to local government) and to others (for example, to non-government schools). This category is estimated to total \$7.0 billion in 2005-06; and
- those paid direct to local government to help fund local government programmes, such as roads. These payments are estimated to total \$439.9 million in 2005-06.

SPP agreements often include agreed national objectives. However, in making these payments, the Australian Government does not seek to take over responsibility for state functions. The majority of SPPs are 'tied' meaning that they are subject to conditions designed to ensure that national objectives are achieved. These include:

- general policy conditions (for example, the provision of free public hospital access for Medicare patients in return for funding under the Health Care Agreements);
- requirements that payments be expended for a specific purpose only (for example, SPPs for schools may be spent on teacher salaries and curriculum development);
- state maintenance of effort and matching funding arrangements (whereby states are required to maintain funding levels and/or match the Australian Government's funding contribution in a specified programme area); and
- reporting of financial and performance information.

SPPs also include some payments that are not subject to conditions. These typically relate to revenue sharing arrangements or compensation (either for the transfer of responsibilities or for other Australian Government action that affects the states). For example, compensation payments are made to the states under the Extension of Fringe Benefits SPP for the extra costs resulting from the liberalisation of access to the Australian Government's Pensioner Concession Card in 1993. In return, the states agree to provide a core group of concessions to all cardholders.

FINANCIAL ASSISTANCE GRANTS TO LOCAL GOVERNMENT

The Australian Government provides financial assistance to local government for roads and other local government services. Assistance is paid in the form of general purpose assistance and untied local road funding. Local governments can spend both forms of funding according to their own priorities.

The Australian Government is providing a total of \$1.5 billion in FAGs to local government in 2004-05 and an estimated \$1.6 billion in 2005-06 (Table 16). The annual increase in funding is based on an escalation factor, which the Treasurer determines with reference to population growth and the Consumer Price Index.

This financial assistance is paid to the states as an SPP, on condition that all the funds are passed on to local government. In 2005-06, as in previous years, the general purpose component of local government assistance will be distributed between the states on an equal per capita basis and untied local road funding will be distributed on the basis of historical shares. State grants commissions determine the intra-state distribution of the grants to local governments.

Table 16: Financial Assistance Grants to local government in 2004-05 and 2005-06 (estimated)^(a)

	NSW \$m	VIC \$m	QLD \$m	WA \$m	SA \$m	TAS \$m	ACT \$m	NT \$m	Total \$m
2004-05									
General Purpose Assistance	358.2	263.3	205.3	105.0	81.7	25.6	17.2	10.6	1,066.8
Untied Local Road Funding	137.3	97.6	88.7	72.4	26.0	25.1	15.2	11.1	473.4
Total Financial Assistance Grants^(b)	495.5	360.9	293.9	177.3	107.7	50.7	32.4	21.7	1,540.2
2005-06									
General Purpose Assistance	376.5	278.1	218.9	111.3	85.6	27.0	18.1	11.2	1,126.8
Untied Local Road Funding	145.1	103.1	93.7	76.4	27.5	26.5	16.0	11.7	500.0
Total Financial Assistance Grants^(c)	521.6	381.2	312.6	187.7	113.1	53.5	34.1	22.9	1,626.7

(a) Total Financial Assistance Grants are the cash payments that the state receives on behalf of local government. They are equal to the estimated entitlement for a given year adjusted for any overpayment or underpayment from the previous year.

(b) The 2004-05 figure takes into account an overpayment of \$7.4 million in 2003-04. The Treasurer will determine the final 2004-05 escalation factor in June 2005; currently the 2004-05 escalation factor is estimated to be 1.0374.

(c) The 2005-06 figure includes an estimate of the amount necessary to adjust for the difference between the 2004-05 escalation factor estimated in June 2004 and used to calculate payments in 2004-05 and the final factor for 2004-05 to be determined in June 2005. On the basis of the current estimate of the 2004-05 escalation factor, this adjustment is estimated to be an increase of \$9.6 million. The 2005-06 escalation factor is currently estimated to be 1.0385. Financial Assistance Grants in 2005-06 will be paid on the basis of the escalation factor that the Treasurer will estimate in June 2005. The Treasurer will determine the final escalation factor for 2005-06 in June 2006.

MIRROR TAX ARRANGEMENTS

The Australian Government introduced mirror tax arrangements in 1998 to ensure 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 on activities in or on Commonwealth places.

The states collect these mirror taxes on behalf of the Australian Government and bear the administrative costs of collection. All mirror tax revenues are automatically credited to the Australian Government and automatically appropriated to the states at the same time. Hence, mirror taxes are recorded as both Australian Government revenue and negative revenue, with no net impact on the Budget.

Table 17 shows estimates of mirror taxes from 2004-05 to 2008-09.

Table 17: Accrued mirror taxes on behalf of the states, 2004-05 to 2008-09 (estimated)

	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m
Mirror taxes	347.2	365.5	384.1	401.7	421.9