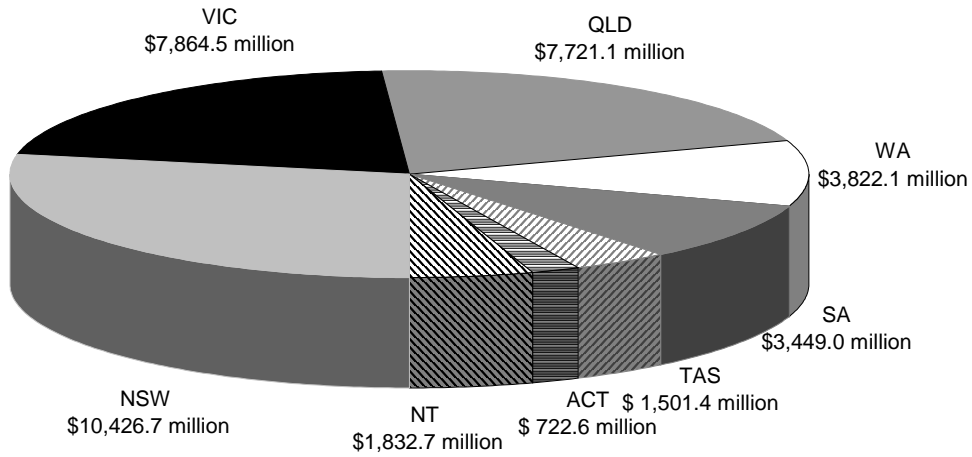


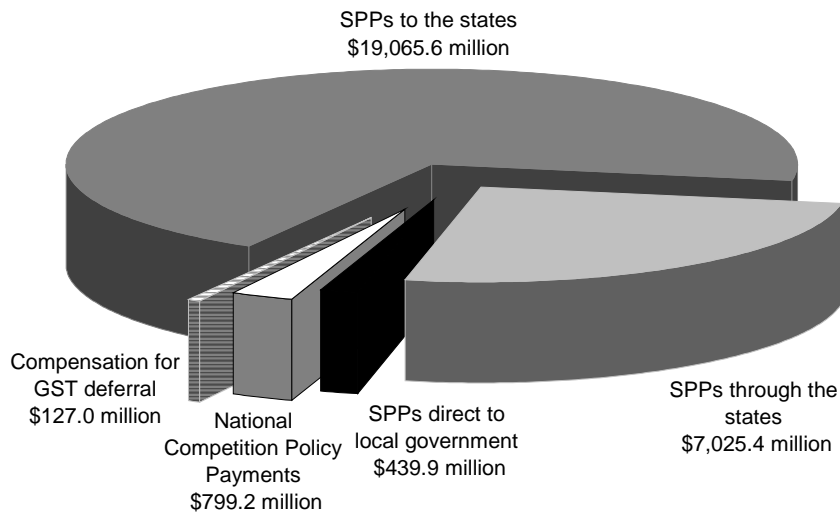
## EXECUTIVE SUMMARY

- In 2005-06, 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 2005-06, the states will be better off by a total of over \$1.5 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 2005-06, the states will receive GST revenue totalling an estimated \$37.3 billion (Chart 1). This amount will be distributed among the states in accordance with the recommendations of the Commonwealth Grants Commission (CGC) which are set out in its *Report on State Revenue Sharing Relativities 2005 Update* of 2 March 2005.
- In addition, the Australian Government will provide the states with Specific Purpose Payments (SPPs), National Competition Policy Payments and compensation payments for GST deferred totalling an estimated \$27.5 billion in 2005-06. Specific Purpose Payments comprise the overwhelming majority of these funds (Chart 2).
- Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the IGA), the states have agreed to abolish bank account debits tax by 1 July 2005. Further, as required by the IGA, a range of business stamp duties have been reviewed and as GST revenues are now sufficient to fund the abolition of these taxes, the Australian Government has proposed a timetable for their abolition. To ensure that no state is worse off due to the abolition of these inefficient state taxes, the Australian Government has offered an additional \$563.1 million in financial assistance over three years, if the states agree to the Australian Government's proposed timetable. This financial assistance and the significant GST windfall gains make the proposal affordable for all states.
- The Australian Government and the states have agreed to terms of reference for the CGC to undertake a methodology review by 2010, which will include a programme of simplification consistent with the principles of Horizontal Fiscal Equalisation.
- Most states are expected to record operating surpluses in 2005-06, although smaller than in 2004-05, reflecting the downturn in revenue from property-related taxes and higher than anticipated expenses. Most states are also set to continue the trend of reducing or maintaining low levels of public net debt.

**Chart 1: GST revenue provision to the states in 2005-06 (estimated)**



**Chart 2: Australian Government payments to the state/local sector in 2005-06 (estimated)**



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