

APPENDIX B: GUARANTEED MINIMUM AMOUNT AND BUDGET BALANCING ASSISTANCE

TRANSITIONAL PERIOD

In the *Intergovernmental Agreement on the Reform of Commonwealth-State Relations* of 1999, the Commonwealth guaranteed that, in each of the transitional years following the introduction of The New Tax System in July 2000, the budget position of each State would be no worse than if the financial reforms had not been implemented.

For each of the transitional years where the GST paid to a State is less than the guaranteed minimum amount, the Commonwealth pays that State budget balancing assistance to cover the shortfall.

As part of the agreement with the States to abolish most of the state taxes listed for review under the Intergovernmental Agreement, the Commonwealth extended the transitional period from 30 June 2006 to 30 June 2009.

The guaranteed minimum amount is calculated according to a methodology agreed between the Commonwealth and the States. Components of the guaranteed minimum amount incorporate parameter variations to account for changes in economic conditions which are applied to the agreed methodology. States provide their own estimates of the revenue forgone from the abolition of state taxes. Details of the calculation of the guaranteed minimum amount for each State for 2008-09 are shown in Table B.2.

COMPONENTS OF THE GUARANTEED MINIMUM AMOUNT

State revenue forgone

The GST replaced two grants the Commonwealth paid to the States prior to 1 July 2000: financial assistance grants and revenue replacement payments. Estimates of both these amounts are components of the guaranteed minimum amount. In addition, revenue forgone from the abolition of state taxes listed in the Intergovernmental Agreement is included, once all States have abolished a tax, based on each State's own estimates of the revenue forgone from the abolition of the tax.

By 1 July 2005, the States had abolished several taxes that were listed in the Intergovernmental Agreement. This first tranche of abolished state taxes included accommodation tax, financial institutions duty, quoted marketable securities duty and debits tax. In 2006, the Commonwealth reached agreement with all States on the abolition of a second tranche of taxes, including stamp duties on mortgages, leases,

and credit and rental arrangements with the last of these taxes to be abolished in 2012-13.

Financial assistance grants

Prior to the introduction of the GST, the Commonwealth provided the States with substantial financial assistance grants. The GST replaced financial assistance grants as the major source of untied revenue to the States from 1 July 2000. The grants forgone by the States are included in the guaranteed minimum amount.

Financial assistance grants were distributed among the States according to the principle of horizontal fiscal equalisation, as embodied in the relativities recommended by the Commonwealth Grants Commission. The Commission has calculated the relativities for the notional allocation of these grants between the States. The relativities for 2000-01 to 2008-09 are shown in Table B.1.

Table B.1: Financial assistance grants relativities, 2000-01 to 2008-09

million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2000-01	0.89642	0.85780	1.01079	0.92399	1.23481	1.62565	1.14522	4.85767
2001-02	0.88284	0.84543	1.01882	0.92429	1.27328	1.68695	1.18924	4.93364
2002-03	0.86037	0.83401	1.04008	0.92858	1.29035	1.75186	1.20906	5.22670
2003-04	0.84317	0.84030	1.04870	0.92093	1.30919	1.79057	1.19727	5.34163
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
2006-07	0.80893	0.87406	1.05636	0.96845	1.28415	1.75660	1.17823	5.47833
2007-08	0.82028	0.87572	1.04406	0.88815	1.32813	1.79171	1.18808	5.66456
2008-09	0.83705	0.90734	0.99200	0.79574	1.33942	1.80087	1.21069	6.03774

Revenue replacement payments

Revenue replacement payments were provided to the States from 1997 to 2001 as a result of a 1997 High Court decision that brought the constitutional validity of all state business franchise fees into question. The Commonwealth put in place 'safety net' arrangements to collect these revenues on behalf of the States, by increasing the rate of excise on tobacco and petrol and the rate of wholesale sales tax on alcohol, and passed the revenue from this increase on to the States.

From 1 July 2000, revenue replacement payments were abolished as part of the reform of federal financial relations.

Financial institutions duty

Financial institutions duty was abolished from 1 July 2001 in all States in accordance with the Intergovernmental Agreement. Each State provides its own estimates of the revenue forgone from the abolition of financial institutions duty.

Debits tax

Debits tax was abolished in all States by 1 July 2005 in accordance with the Intergovernmental Agreement. Each State provides its own estimates of the revenue forgone from debits tax.

Marketable securities duty

Stamp duties on **quoted** marketable securities were abolished in all States from 1 July 2001 and the revenue forgone included in the guaranteed minimum amount.

Stamp duties on **non-quoted** marketable securities have been abolished in most States but will not be included in the guaranteed minimum amount until all States have abolished the tax.

As revenue from marketable securities duty was not separately identified as being derived from quoted versus non-quoted marketable securities, the estimate of the revenue forgone from stamp duty on quoted marketable securities takes account of the Commonwealth Grants Commission's assessment of marketable securities duty.

Marketable securities duty needs

The Intergovernmental Agreement provided for marketable securities duty forgone to be included in the guaranteed minimum amount from 1 July 2001. The agreement also provides that the States could retain the stamp duty on unquoted marketable securities after 1 July 2000 subject to a review by the Ministerial Council in 2005. To account for any discrepancy between the methodologies for calculating the GST relativities and the guaranteed minimum amounts, the Commonwealth Grants Commission's assessment of marketable securities duty needs is incorporated in each State's guaranteed minimum amount.

Each State's marketable security duty need is added to the estimate of revenue forgone from marketable securities duty. A positive need implies that a State has less than average capacity to raise revenue from this tax base while a negative need implies that a State has a greater than average capacity to raise revenue from this tax base. Since 2007-08, this amount has been zero – reflecting that all States have now abolished marketable securities duty.

Accommodation taxes

Accommodation taxes – the tourism marketing duty in the Northern Territory and accommodation levy in New South Wales – were abolished under the Intergovernmental Agreement by 1 July 2000 and estimates of revenue forgone from these taxes are included in the guaranteed minimum amounts for these two States. No other State levied this type of tax at the time of abolition.

Cheque duty

No State has applied taxes on cheques, bills of exchange or promissory notes since 1 July 2005. Estimates of the revenues forgone are included in the guaranteed minimum amounts for the three States – Western Australia, South Australia and the Northern Territory – that abolished these taxes under the Intergovernmental Agreement.

Reduced revenues

The guaranteed minimum amount includes compensation for the impact of the GST on the revenue from other state taxes.

Gambling taxes

The Intergovernmental Agreement required States to adjust their gambling tax arrangements to take account of the impact of the GST on gambling operators. In effect, tax rates needed to be reduced by one eleventh so that the introduction of the GST resulted in no overall price effect.

The GST applies to gambling operators' margins – the difference between total 'ticket sales' or 'bets taken' by an operator and the value of the prizes or winnings paid out – from gambling and lottery activities.

Estimates of the costs to state revenues from adjusting the gambling arrangements are included in the guaranteed minimum amount.

Interest costs

The reform of federal financial relations in 2000 resulted in changes to cash flows for the States. Weekly payments of financial assistance grants and revenue replacement payments, in addition to the daily flow of state tax revenues forgone, were replaced with monthly GST revenue payments. The reforms also provided for changes in the expenditure responsibilities of the States.

Between the 2000-01 reforms and 2002-03 inclusive, the guaranteed minimum amount included an adjustment to take account of interest costs incurred should a State need to borrow to meet its cash flow requirements. The Commonwealth and the States agreed that compensation was not required in the guaranteed minimum amount from 2003-04.

Additional expenditures

The First Home Owners Scheme and GST administration costs were new expenditure responsibilities for the States from 2000-01, provided for in the Intergovernmental Agreement.

First Home Owners Scheme

The Intergovernmental Agreement provided for the States to fund the First Home Owners Scheme to offset the impact of the GST on the price of new homes.

Estimates of the annual cost to the States of this scheme are included in the guaranteed minimum amount, based on a lump-sum payment of \$7,000 per eligible applicant multiplied by estimates of the number of first home buyers in each State.

GST administration costs

The Intergovernmental Agreement provided for the Australian Taxation Office to administer the GST on behalf of the States. Consequently, the States compensate the Commonwealth for the agreed costs incurred by the Australian Taxation Office in administering the GST. This compensation is paid by each State on a per capita basis and is accounted for in its guaranteed minimum amount.

More information on GST administration costs is contained in Part 3 of this Budget Paper.

Other items

Wholesale sales tax payments

Prior to 1 July 2001, the States levied wholesale sales tax equivalent levies on state government business enterprises, as part of the Competitive Neutrality Framework and National Competition Policy. The guaranteed minimum amount included an adjustment over three years from 2000-01 in relation to revenue forgone from these levies.

Reduced expenditures

The numerous tax changes which occurred with the introduction of The New Tax System from 1 July 2000 had consequential effects on the expenditures of State governments. In particular, state government expenditures for off-road diesel subsidies, low-alcohol beer subsidies and the embedded wholesale sales tax and excises on purchases by a State government were reduced or abolished from 2000-01.

Off-road diesel subsidies

From 1 July 2000, the States terminated their off-road diesel rebate schemes and the Commonwealth assumed responsibility for the payment of rebates to off-road diesel users. The savings to the States are deducted from the guaranteed minimum amount.

Savings from tax reform

The benefits accruing to the States from the reduction in embedded taxes (wholesale sales tax and excises) on government purchases are deducted from the guaranteed minimum amount.

Low-alcohol beer subsidies

Until 30 June 2002, the States provided subsidies for the sale of low-alcohol beer. On 1 July 2002, the Commonwealth introduced a national excise scheme for low-alcohol beer to replace different levels of state subsidies with a uniform rate. The amount of each State's subsidy, indexed for inflation, is deducted from its guaranteed minimum amount.

Growth dividend

The growth dividend is included in the calculation of the guaranteed minimum amount, in recognition of the higher tax revenues flowing to State governments because of the positive impact of tax reform on economic activity.

Estimates of the growth dividend attributable to remaining state taxes are distributed among States on the basis of each State's share of remaining state tax revenues.

Compensation for GST deferral

The Commonwealth legislated from 2004-05 that some entities could pay and report GST on an annual rather than monthly or quarterly basis. This payment compensates the States for the deferral of GST collections that may occur when organisations move to annual lodgement. This ensures that the full financial impact of this decision is borne by the Commonwealth, rather than the States.

The amounts of these compensation payments are deducted from the guaranteed minimum amount to remove any distortions in the guaranteed minimum amount from the change in policy. A more detailed description of GST compensation payments is contained in Part 3 of this Budget Paper.

Adjustments

An adjustment is included for any discrepancy between the previous year's determined guaranteed minimum amount and the final outcome for the guaranteed minimum amount.

Appendix B: Guaranteed Minimum Amount and Budget Balancing Assistance

Table B.2: Guaranteed minimum amount in 2008-09

\$ million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
State revenues foregone									
Financial assistance grants	6,394.4	5,590.4	5,151.8	1,880.2	2,734.2	1,268.0	565.8	2,083.0	25,667.8
Revenue replacement payments	3,042.9	2,035.5	1,841.5	1,260.3	789.4	267.4	135.5	170.8	9,543.4
Financial institutions duty	887.3	462.1	na	177.7	119.3	27.3	22.6	25.6	1,721.8
Debits tax	365.3	289.5	439.9	130.9	65.0	25.3	20.8	8.9	1,345.6
Marketable securities duty	614.7	316.8	32.4	38.9	20.9	0.8	27.9	1.3	1,053.6
Marketable securities duty needs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accommodation taxes	124.6	na	na	na	na	na	na	11.7	136.4
Cheque duty	0.0	0.0	0.0	6.0	3.4	0.0	0.0	3.7	13.1
plus reduced revenues									
Gambling taxes	610.9	458.8	304.3	96.8	106.2	30.0	22.9	44.7	1,674.6
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	394.9	307.3	225.6	134.9	83.4	27.3	19.5	9.9	1,202.8
GST administration costs	205.4	156.4	126.9	64.2	47.0	14.6	10.2	6.5	631.2
plus other items									
Wholesale sales tax 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	155.7	67.1	163.8	209.4	41.7	2.5	0.0	4.7	645.0
Savings from tax reform	248.0	175.5	140.0	82.1	60.6	20.7	12.4	18.1	757.3
Low alcohol beer subsidies	29.4	20.4	5.7	9.3	5.5	2.0	1.2	1.4	74.9
minus growth dividend									
Remaining state taxes	215.3	138.9	72.8	43.4	34.9	8.9	6.8	4.8	525.7
minus compensation payments									
Compensation for GST deferral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
plus adjustments									
2007-08 GMA Adjustment	-38.5	-2.9	-21.8	0.8	-4.8	0.3	-1.4	0.7	-67.5
Total	11,953.4	9,211.9	7,718.5	3,446.7	3,821.5	1,626.9	803.4	2,337.7	40,919.9

