

PART 4: GENERAL REVENUE ASSISTANCE

This part provides information on general revenue assistance paid to the States. General revenue assistance is a broad category of payments, including GST payments, which are provided to the States without conditions, to spend according to their own budget priorities.

A NEW FRAMEWORK FOR FEDERAL FINANCIAL RELATIONS

The reforms to federal financial relations will have only a small impact on general revenue assistance provided to the States. Under the treatment of payments for specific purposes in the new framework for federal financial relations, the following payments for specific purposes will be reclassified as general revenue assistance with effect from 1 January 2009: royalty payments (\$351 million in 2008-09); Snowy Hydro Ltd tax compensation (\$23 million in 2008-09); and two payments for ACT municipal services (\$17 million in 2008-09).

As the reclassification will take effect from half way through 2008-09, half of the Budget year estimates for these payments are classified in this part as general revenue assistance and the other half remain classified in Part 3 as payments for specific purposes, as shown in Table 3.9. The full year effect of the reclassifications applies from 2009-10.

The new framework for federal financial relations will not involve any change to the GST revenue sharing arrangements provided for in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*.

TOTAL GENERAL REVENUE ASSISTANCE

In 2008-09, the States will receive \$45.5 billion in general revenue assistance from the Commonwealth, as shown in Table 4.1, comprising \$45.3 billion in GST payments and \$178 million of other general revenue assistance. This is a 6.3 per cent increase in general revenue assistance, compared with the \$42.8 billion the States will receive in 2007-08.

Table 4.1: General revenue assistance, by State

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2007-08	12,034	9,328	8,596	4,097	3,947	1,677	856	2,219	42,753
2008-09	13,020	10,196	8,686	4,335	4,144	1,731	926	2,420	45,458
2009-10	14,452	11,086	9,025	4,704	4,433	1,821	1,016	2,596	49,134
2010-11	15,577	11,862	9,335	4,575	4,648	1,890	1,073	2,782	51,741
2011-12	16,554	12,675	9,815	4,540	4,890	1,978	1,120	2,903	54,475

Part of the increase in general revenue assistance in 2008-09 is a result of the reclassification of payments for specific purposes from 1 January 2009 (\$391 million) as part of the new framework for federal financial relations. However, this increase is partly offset by the repayment by the States of overpaid compensation for GST policy decisions (\$286 million). In addition, GST payments are expected to be \$2.6 billion higher in 2008-09, compared with 2007-08.

For the Budget year, total general revenue assistance to the States will represent 15.5 per cent of total Commonwealth expenditure. The bulk of general revenue assistance is from GST payments the Commonwealth provides to the States, as shown in Table 4.2.

Table 4.2: General revenue assistance

\$million	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
GST payments	42,630	45,280	48,260	50,880	53,670
Other payments					
Budget balancing assistance	0	0	0	0	0
National Competition Policy payments	43	0	0	0	0
Royalties	0	351	698	684	627
Compensation					
Crude oil excise condensate	80	72	84	85	85
GST policy decisions	0	-286	10	10	10
Snowy Hydro Ltd tax compensation	0	23	47	47	47
ACT municipal services	0	17	35	36	36
Total other	123	178	874	861	805
Total general revenue assistance	42,753	45,458	49,134	51,741	54,475

GST PAYMENTS

GST revenue variations since the 2007-08 Budget

Table 4.3 is a reconciliation of the GST revenue estimates since the 2007-08 Budget and MYEFO. The reconciliation accounts for policy decisions, parameter and other variations, and the reclassification in this Budget of the GST as a Commonwealth tax.

GST revenue for 2007-08 is expected to be \$840 million higher than forecast at MYEFO. This reflects the stronger than expected growth in consumption which is subject to GST. For 2008-09, the increase in estimated revenue of \$250 million incorporates GST refunds of around \$500 million which are expected to be paid following the Federal Court decision in *KAP Motors Pty Ltd v Commissioner of Taxation [2008] FCA 159 (KAP Motors)*, as well as slower growth in consumption which is subject to GST and private dwelling investment, relative to the MYEFO estimates. These are partly offset by increased GST revenues resulting from policy decisions.

GST revenue has also increased in each year as a consequence of the reclassification of the GST as a Commonwealth tax. Budget Statement No. 5 in Budget Paper No. 1, *Budget Strategy and Outlook 2008-09*, provides a further explanation of the accounting implications of reclassifying the GST as a Commonwealth tax and the GST revenue estimates more generally.

Table 4.3: Reconciliation of GST revenue estimates

\$million	Estimates		Projections	
	2007-08	2008-09	2009-10	2010-11
GST revenue at 2007-08 Budget	43,090	45,500	47,810	50,300
<i>Changes from 2007-08 Budget to MYEFO</i>				
Effect of policy decisions	-2	-3	-3	-3
Effect of parameter and other variations	442	1,153	1,183	1,323
Total variations	440	1,150	1,180	1,320
GST revenue at 2007-08 MYEFO	43,530	46,650	48,990	51,620
<i>Changes from MYEFO to 2008-09 Budget</i>				
Effect of policy decisions	70	371	508	713
Effect of parameter and other variations	630	-271	312	187
Effect of GST as a Commonwealth tax(a)	140	150	150	160
Total variations	840	250	970	1,060
GST revenue at 2008-09 Budget	44,370	46,900	49,960	52,680

(a) Once-off impact of reclassifying the GST as a Commonwealth tax.

Table 4.4 shows policy decisions taken since MYEFO that affect GST revenue. These decisions increase the amount of GST payments to the States by over \$2.5 billion over five years, and include:

- increasing the excise and customs duty rates on 'other excisable beverages' to the same rate as for full strength spirits (\$282 million over five years);
- increased places for migrants in 2007-08, 2008-09 and over the forward estimates (five measures totalling \$1.1 billion over four years); and
- tightening of the fringe benefits tax exemptions applying to certain work-related items (including laptop computers, personal digital assistants and tools of trade) and meals under a salary sacrifice arrangement (two measures totalling \$240 million over five years).

The Government is also proposing to implement several changes to the GST, including an integrity measure relating to the sale of real property under the margin scheme, and an amendment to ensure that supplies of mobile telephone 'global roaming' services provided to visitors to Australia remain not subject to GST. These measures are subject to the unanimous agreement of the States, pursuant to the *Intergovernmental Agreement*.

Table 4.4: Policy decisions since MYEFO that affect GST revenue

\$million	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
Albatrosses and Petrels Conservation Secretariat — tax relief	-
Excise and customs duty — increased rates on 'other excisable beverages'	8.7	57.1	64.0	71.6	80.1
Fringe benefits tax — exemption for eligible work-related items	-	5.0	20.0	45.0	50.0
Fringe benefits tax — meal cards	-	15.0	30.0	35.0	40.0
GST — relief for charities	*	*	*	*	*
GST and international telecommunications — mobile telephone global roaming	-	-	-	-	-
GST and the sale of real property — integrity measure	-	90.0	150.0	175.0	205.0
GST and the sale of real property — not to proceed with previously announced deferred integrity measure	*	*	*	*	*
Humanitarian migration program — additional 500 places for Iraqis in 2008-09	-	0.8	0.8	0.8	0.9
Humanitarian migration program — additional 750 Special Humanitarian Program places from 2009-10	-	-	1.3	2.5	3.9
Indirect tax — refund restrictions and four year amendment period	-	*	*	*	*
Migration Program — 37,500 place increase for 2008-09	-	94.6	195.3	303.6	419.7
Migration Program — additional 6,000 skill stream places for 2007-08	-	17.6	18.1	18.8	19.5
PAYG annual instalments — deferring the 2007-08 Budget measure	-	35.0	-30.0	-	-
Political donations — removing tax deductibility	-	-	-	-	-
Tourist refund scheme — not to proceed with private provider proposal	61.0	55.0	57.0	60.0	62.0
Visa places for Iraqi locally engaged employees	-	0.9	1.0	1.0	1.1
Total GST revenue policy decisions	69.7	371.0	507.5	713.3	882.2

The Government will not proceed with the proposal to allow private providers to offer refunds in relation to the Tourist Refund Scheme or the proposed GST changes for charities and other not-for-profit organisations which were announced in the 2007-08 Budget.

Detailed information on each decision is included in Budget Paper No. 2, *Budget Measures 2008-09*.

Reconciling GST revenue and GST payments to the States

In accordance with the *Intergovernmental Agreement*, the Commonwealth administers the GST on behalf of the States and all GST revenue is paid to the States. This provides

the States with a robust, secure and growing source of revenue to spend according to their own budget priorities. In 2008-09, GST revenue will be \$46.9 billion – an increase of \$2.5 billion (5.7 per cent) from 2007-08.

The Commissioner of Taxation estimates the level of GST receipts in June, prior to the end of each financial year. That estimate forms the basis of GST payments to the States for that financial year. A balancing adjustment is usually made in the following financial year to ensure that the States receive their full entitlement of GST payments for a financial year.

GST revenue for a financial year also varies from the amount of GST payments to the States for that year because of:

- GST revenues which are recognised on a Commonwealth whole of government basis, but are not recognised by the Commissioner of Taxation in his June determination, because the revenues will not be remitted to the Australian Taxation Office until the following financial year; and
- penalties, other than general interest charge penalties, which are not included in the definition in the *Intergovernmental Agreement* of GST to be paid to the States.

The reconciliation of GST revenue and GST payments to the States is provided in Table 4.5.

Table 4.5: GST revenue and GST payments to the States

\$million	Actual	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
GST revenue	41,208	44,370	46,900	49,960	52,680	55,560
less change in GST receivables	1,594	1,582	1,532	1,595	1,691	1,772
GST receipts	39,614	42,788	45,368	48,365	50,989	53,788
less non-GIC penalties collected(a)	87	90	100	100	110	120
less GST collected by Commonwealth agencies but not yet remitted to the ATO(b)	-34	48	-12	5	-1	-2
plus variation from the Commissioner's determination(c)	20					
plus prior year balancing adjustment	-28	-20				
GST payments to the States	39,552	42,630	45,280	48,260	50,880	53,670

(a) General interest charge (GIC) penalties are defined in the *Intergovernmental Agreement* as being a part of the Commonwealth's GST revenue that is paid to the States. However, while other GST-related penalties are also recognised in the Commonwealth's GST revenue, non-GIC penalties are not defined in the *Intergovernmental Agreement* as being a part of the GST revenue that is paid to the States.

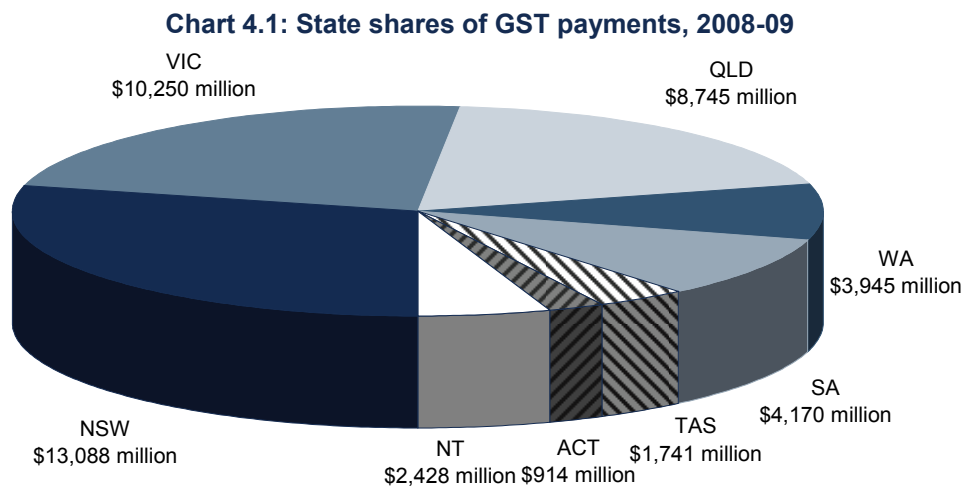
(b) This is the GST component of sales by Commonwealth agencies which has been collected by those agencies but which, as at 30 June in each year, will not have been remitted to the Australian Taxation Office, because it is not due to be paid until the next Business Activity Statement is lodged (typically on 21 July in the following financial year).

(c) The Commissioner's determination for 2006-07 was \$20 million higher than the final outcome. As the GST payment for 2006-07 was made in accordance with the Commissioner's determination, this overpayment is recovered in 2007-08.

Distribution of GST payments among the States

As agreed by all States in the *Intergovernmental Agreement*, GST payments are distributed among the States in accordance with the principle of horizontal fiscal equalisation and having regard to the recommendations of the Commonwealth Grants Commission.

State shares of GST payments for 2008-09 (totalling \$45.3 billion) are shown in Chart 4.1.



State revenue sharing relativities

The Commission recommends state revenue sharing relativities (the GST relativities) to be used in calculating each State's share of GST payments such that, if each State made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each State would have the capacity to provide services at the same standard.

This does not necessarily result in the equalisation of government services – just the equalisation of each State's capacity to provide the same standard of services. In calculating the GST relativities, the Commission takes into account differences in the States' capacities to raise revenues and differences in the costs the States would incur in providing the same standard of government services.

States are able to spend their share of GST revenue according to their own budget priorities.

The GST relativities for 2008-09 were endorsed by the Ministerial Council for Commonwealth-State Financial Relations in March 2008. The relativities for 2007-08 and 2008-09 are shown in Table 4.6. Historical relativities are provided in Appendix A.

Table 4.6: GST relativities

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2007-08	0.89079	0.90096	1.00607	0.94747	1.20791	1.54465	1.16293	4.36824
2008-09(a)	0.91060	0.92540	0.96508	0.88288	1.20856	1.52994	1.17205	4.51835

(a) The Commission issued a corrigendum to its *Report on State Revenue Sharing Relativities 2008 Update* containing revised relativities which it recommended be used to distribute the pool in 2008-09.

Applying the GST relativities to the GST pool

The *Intergovernmental Agreement* defines the GST pool for a financial year to consist of GST payments plus health care grants provided by the Commonwealth under the *Australian Health Care Agreements*. Some health care grants are quarantined from the GST pool.

The GST relativities are applied to estimated state populations in order to determine an adjusted population for each State. Each State's adjusted population is then applied to the combined pool of GST payments and unquarantined health care grants to estimate weighted shares of the GST pool. The final distribution of GST payments is determined by deducting the unquarantined health care grants, which are separately provided to the States, from each State's share of the GST pool. The calculations for the distribution of the GST pool are shown in Table 4.7.

Table 4.7: Distribution of the GST pool

	Estimated 31 December population	State revenue sharing relativities	Adjusted population (1) x (2)	Share of adjusted population %	Share of GST pool \$million	Unquarantined health care grants \$million	GST payments (5) - (6) \$million
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2007-08							
NSW	6,925,472	0.89079	6,169,141	29.1	15,107.0	3,099.4	12,007.7
VIC	5,244,266	0.90096	4,724,874	22.3	11,570.3	2,252.5	9,317.8
QLD	4,220,761	1.00607	4,246,381	20.0	10,398.6	1,802.3	8,596.3
WA	2,129,991	0.94747	2,018,103	9.5	4,941.9	928.7	4,013.3
SA	1,592,054	1.20791	1,923,058	9.1	4,709.2	765.6	3,943.6
TAS	495,875	1.54465	765,953	3.6	1,875.7	198.6	1,677.1
ACT	341,958	1.16293	397,673	1.9	973.8	118.2	855.6
NT	217,260	4.36824	949,044	4.5	2,324.0	105.4	2,218.6
Total	21,167,637	n/a	21,194,227	100.0	51,900.6	9,270.6	42,630.0
2008-09							
NSW	7,006,018	0.91060	6,379,680	29.7	16,171.3	3,083.6	13,087.7
VIC	5,328,012	0.92540	4,930,542	22.9	12,498.0	2,248.1	10,249.9
QLD	4,314,913	0.96508	4,164,236	19.4	10,555.6	1,811.0	8,744.6
WA	2,180,356	0.88288	1,924,993	8.9	4,879.5	934.6	3,944.9
SA	1,609,330	1.20856	1,944,972	9.0	4,930.2	760.5	4,169.7
TAS	499,914	1.52994	764,838	3.6	1,938.7	197.4	1,741.3
ACT	347,686	1.17205	407,505	1.9	1,033.0	118.6	914.4
NT	221,170	4.51835	999,323	4.6	2,533.1	105.6	2,427.5
Total	21,507,399	n/a	21,516,090	100.0	54,539.4	9,259.4	45,280.0

Box 4.1: The effect of horizontal fiscal equalisation

One way to view the effect of horizontal fiscal equalisation is to compare each State's share of the GST pool using the GST relativities with a notional distribution on an equal per capita basis. In 2008-09, around \$3.6 billion (or 6.7 per cent) of the GST pool will be redistributed among the States, compared with an equal per capita distribution (Table A).

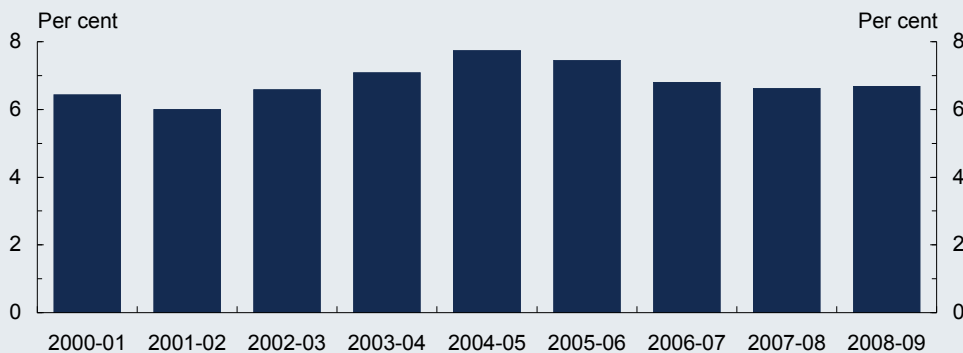
Table A: Effect of horizontal fiscal equalisation, 2008-09

	GST pool distributed using adjusted population \$million	Equal per capita distribution of GST pool \$million	Redistribution(a) \$million	Projected population million	Per capita redistribution \$
NSW	16,171.3	17,766.2	-1,594.8	7.006	-227.6
VIC	12,498.0	13,511.0	-1,013.0	5.328	-190.1
QLD	10,555.6	10,941.9	-386.4	4.315	-89.5
WA	4,879.5	5,529.0	-649.5	2.180	-297.9
SA	4,930.2	4,081.0	849.1	1.609	527.6
TAS	1,938.7	1,267.7	671.0	0.500	1,342.3
ACT	1,033.0	881.7	151.3	0.348	435.1
NT	2,533.1	560.9	1,972.3	0.221	8,917.4
Total	54,539.4	54,539.4	3,643.7	21.507	n/a

(a) The total redistribution of \$3,643.7 million is the sum of positive items in that column.

The proportion of the GST pool being redistributed in 2008-09 is broadly consistent with the average redistribution since the commencement of the GST (Chart A). The average generally reflects the convergence in the fiscal capacities of the four most populous States, with the slight increase in 2008-09 chiefly driven by mining revenue increases and stamp duty increases in the booming resource States.

Chart A: GST pool redistribution as a proportion of the GST pool



GST administration

In March 2008, the Ministerial Council for Commonwealth-State Financial Relations endorsed the GST administration budget for the Australian Taxation Office of \$631.2 million for 2008-09, including the effects of the efficiency dividends which apply to all Commonwealth agencies, as shown in Table 4.8.

Table 4.8: Reconciliation of the GST administration budget

\$million	Actual	Estimates		Projections	
	2006-07	2007-08	2008-09	2009-10	2010-11
Administration budget at 2007-08 Budget	618.5	635.9	644.5	633.6	639.3
<i>Changes from 2007-08 Budget to MYEFO</i>					
Efficiency dividend adjustment(a)	0.0	0.0	-1.6	-1.6	-1.6
Parameter variations	0.0	0.0	0.0	0.0	0.0
Total variations	0.0	0.0	-1.6	-1.6	-1.6
Administration budget at 2007-08 MYEFO	618.5	635.9	642.8	632.0	637.7
<i>Changes from MYEFO to 2008-09 Budget</i>					
2006-07 outcome	-32.8				
Efficiency dividend adjustment(b)	0.0	-2.9	-12.9	-12.7	-12.8
Parameter variations	0.0	0.0	1.3	1.2	1.9
Total variations	-32.8	-2.9	-11.6	-11.4	-10.9
Administration budget at 2008-09 Budget	585.7	633.0	631.2	620.6	626.8

(a) The efficiency dividend was increased from 1 per cent to 1.25 per cent for a further three years to 2010-11. This measure was announced in the *Mid-Year Economic and Fiscal Outlook 2007-08*.

(b) A one off 2 per cent efficiency dividend applies from 1 March 2008.

Because the GST has a national tax base, the *Intergovernmental Agreement* provides for the Australian Taxation Office to administer the GST on behalf of the States. As all GST revenue is provided to the States, the States compensate the Commonwealth for the agreed costs incurred by the Australian Taxation Office in administering the GST, as shown in Table 4.9.

Table 4.9: GST administration budget

\$million	Actual	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
(1) Australian Taxation Office budget	618.5	633.0	631.2	620.6	626.8	631.7
less prior year adjustment	-0.3	32.8				
State government payments						
Total administration payments	618.8	600.2	631.2	620.6	626.8	631.7
(2) Australian Taxation Office outcome	585.7					
(3) Overpayment (1)-(2)	32.8					
Commonwealth budget impact	32.8	-32.8	0.0	0.0	0.0	0.0

OTHER GENERAL REVENUE ASSISTANCE

Budget balancing assistance

In the *Intergovernmental Agreement*, the Commonwealth guaranteed that the budget position of each State would be no worse than it would have been had tax reform not been implemented. The guaranteed minimum amount is an estimate of the revenue that each State would have received under the previous system of Commonwealth grants and if their own inefficient state taxes had not been abolished as part of the reforms.

The Commonwealth will pay budget balancing assistance to the States during the transitional period (which will expire on 30 June 2009) if a State's share of GST payments in a financial year is less than its guaranteed minimum amount for that year. No budget balancing assistance is payable when GST revenue exceeds the guaranteed minimum amount.

In 2008-09, all States will receive GST payments that exceed their guaranteed minimum amount, as shown in Table 4.10. Consequently, no State will require budget balancing assistance.

Table 4.10: Guaranteed minimum amount, GST payments and budget balancing assistance^(a)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2007-08									
Guaranteed minimum amount	11,303	8,486	7,669	3,563	3,634	1,549	756	2,077	39,038
GST payments	12,008	9,318	8,596	4,013	3,944	1,677	856	2,219	42,630
Budget balancing assistance	0	0	0	0	0	0	0	0	0
2008-09									
Guaranteed minimum amount	11,994	9,170	7,705	3,415	3,809	1,610	800	2,301	40,803
GST payments	13,088	10,250	8,745	3,945	4,170	1,741	914	2,428	45,280
Budget balancing assistance	0	0	0	0	0	0	0	0	0

(a) No budget balancing assistance is payable when GST revenue exceeds the guaranteed minimum amount. As part of the agreement with the States to abolish most of the state taxes listed for review under the *Intergovernmental Agreement*, the Commonwealth has extended the transitional period (in which budget balancing assistance may be paid) from 30 June 2006 to 30 June 2009.

National Competition Policy payments

Between 1997-98 and 2005-06, the Commonwealth provided National Competition Policy payments to the States for implementing National Competition Policy and related reforms.

In 2005-06 the Commonwealth suspended \$43.2 million in National Competition Policy payments, following recommendations provided by the National Water Commission. This included water reform suspensions for outstanding obligations relating to interstate trading in the southern Murray-Darling Basin, and for lack of progress and outstanding reforms with respect to water planning.

On 13 September 2007, the Commonwealth lifted the suspensions following a subsequent recommendation by the National Water Commission that satisfactory progress by the States in implementing their water reform commitments had been achieved.

Consequently, the suspended payments of \$43.2 million were paid in 2007-08. These payments are the final payments under the previous National Competition Policy arrangements.

Royalties

The Commonwealth makes payments to Western Australia for royalties collected in respect of the North West Shelf oil and gas project. The Commonwealth collects these royalties because it has jurisdiction over off-shore areas. These royalties are shared between the Commonwealth (one third) and Western Australia (two thirds) and paid in accordance with section 129 of the *Petroleum (Submerged Lands) Act 1967*.

The Commonwealth also pays grants to the Northern Territory in lieu of royalties on uranium mining due to the Commonwealth's ownership of uranium in the Northern Territory. The grant is payable at the royalty rate of 1.25 per cent of net proceeds of sales. These royalties are paid under a continuing agreement, as established under the 1978 Memorandum of Understanding between the Commonwealth and the Northern Territory.

Compensation

Compensation for impact on royalties of excise amendment

The Commonwealth is removing the current exemption of condensate from crude oil excise. This will result in a consequential reduction in revenue from the offshore petroleum royalty.

As the Commonwealth pays two thirds of the royalty revenues to Western Australia, the Government has decided to provide compensation for the loss of royalty revenue. An initial payment of \$80 million will be made to Western Australia in 2007-08, with payments in subsequent years adjusted to equal the impact of removing the condensate exemption.

Further information is contained in the revenue measure *Crude oil excise – condensate* in Budget Paper No. 2 in the Treasury portfolio.

GST compensation for small business concession

In 2004-05, the Commonwealth and the States agreed to allow small businesses and non-profit organisations which voluntarily registered for the GST to pay and report GST on an annual rather than monthly or quarterly basis. The measure was designed to reduce the compliance costs faced by these organisations and has the effect of

deferring some GST revenue from one financial year to the next. The Commonwealth agreed to compensate the States for this deferral of GST revenue.

The Commonwealth and the States agreed that the annual payments should be suspended from 2006-07 because final tax return data indicated that the impact of the measure on GST revenue was much lower than forecast. The over-estimate of the cost of the measure led to an over-payment of compensation to the States, which is estimated to be \$286 million at the end of 2008-09, as shown in Table 4.11.

Table 4.11: Overpayment of compensation for GST deferral for small business

\$million	Outcomes		Estimates		
	2004-05	2005-06	2006-07	2007-08	2008-09
Compensation payments(a)	219.4	127.0	0.0	0.0	0.0
GST revenue deferral(b)	10.0	20.0	10.4	10.0	10.0
Estimated adjustment	-209.4	-107.0	10.4	10.0	10.0
Cumulative balance	-209.4	-316.4	-306.0	-296.0	-286.0

(a) Payments from 2006-07 have been suspended.

(b) Latest estimates. Outcomes for 2004-05 and 2005-06 are based on tax return data.

The Government will recover the overpaid compensation in 2008-09, and payments to the States, estimated at approximately \$10 million per year, will recommence from 2009-10.

Further information is contained in the expense measure *Goods and Services Tax Compensation to the States for Small Business Concession – recovery of overpayments* in Budget Paper No. 2 in the Treasury portfolio.

Snowy Hydro Ltd — company tax compensation

On 28 June 2002, the Snowy Mountains Hydro-Electric Authority was corporatised. The assets and business of the Authority were transferred to Snowy Hydro Limited, a company jointly owned by the Commonwealth, New South Wales and Victoria (with 13 per cent, 58 per cent and 29 per cent shareholdings respectively).

The Commonwealth provides compensation to New South Wales and Victoria for Commonwealth taxes paid by Snowy Hydro Ltd in proportion to the States' shareholdings. These taxes would have previously been payable to the States through tax equivalence regime payments.

Australian Capital Territory — municipal services

Funding is provided to the Australian Capital Territory to assist in meeting the additional municipal costs which arise from Canberra's role as the national capital.

The Commonwealth also provides funding to compensate the Australian Capital Territory for additional costs resulting from the national capital planning influences on the provision of water and sewerage services.

The level of funding for both of these payments is based upon the findings of the Commonwealth Grants Commission, in its second and third reports on financing for the Australian Capital Territory, prior to the move to self-government in 1989.

MIRROR TAX ARRANGEMENTS

The Commonwealth introduced mirror tax arrangements in 1998 to ensure that 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, with respect to Commonwealth places.

The States collect these mirror taxes on behalf of the Commonwealth and bear the administrative costs of collection. All mirror tax revenues are credited to the Commonwealth and simultaneously appropriated to the States. Hence, mirror taxes are recorded as both Commonwealth revenue and negative revenue, with no net impact on the Commonwealth's Budget position.

Estimates of mirror taxes are provided in Table 4.12.

Table 4.12: Mirror taxes accrued on behalf of the States

\$million	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
Mirror taxes	376.8	398.8	420.3	443.9	469.8
Payments to state governments	-376.8	-398.8	-420.3	-443.9	-469.8
Commonwealth budget impact	0.0	0.0	0.0	0.0	0.0

