



## DISCUSSION PAPER – A PROPOSED FLOOR IN GST RELATIVITIES

### THE INTRODUCTION OF GST

In May 1999, the Howard Government made an agreement with the States, whereby the States would abolish or reduce many State-based taxes, and the Commonwealth would in return provide all revenue from a new 10% Goods and Services Tax (GST) to the States and Territories.

### THE DISTRIBUTION OF GST BETWEEN THE STATES

Each year, the Commonwealth Treasurer, on the advice of the Commonwealth Grants Commission (CGC), determines how GST revenue will be distributed between the States and Territories. In determining each State's GST share, the CGC takes account of States' differing capacity to raise revenue, and their differing costs in providing services. The CGC aims to provide all States with the same financial capacity to provide a comparable level of services to their populations, termed Horizontal Fiscal Equalisation (HFE).

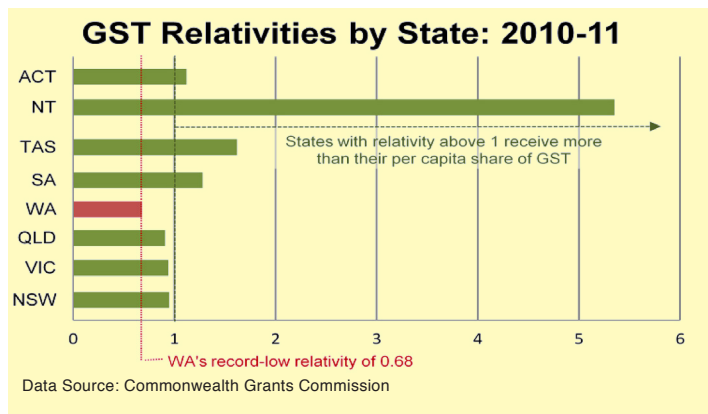
### THE CURRENT CASE FOR WESTERN AUSTRALIA

**In 2010-11, WA received less GST relative to its population than any state has since the formula was introduced.**

As WA has grown and prospered, it has contributed more and more to the federal economy, but has received less and less of the GST pool in return.

In 2010-11, WA received a record-low share of GST revenue relative to its population share (called "GST relativity").

In 2010-11, WA received only 68% of what it would have received if GST revenue was distributed across Australia on a per capita basis. By contrast every other State and Territory received not less than 91%.<sup>1</sup>

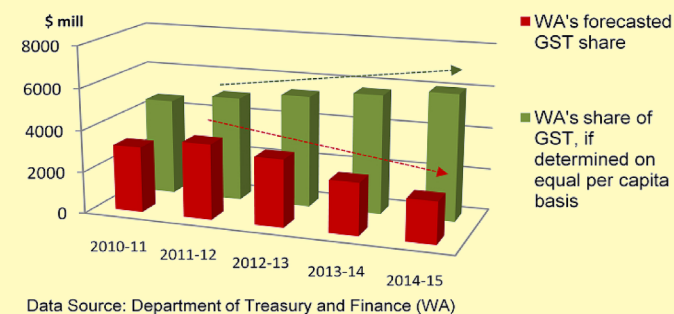


### THE FUTURE FOR WESTERN AUSTRALIA'S GST REVENUE

Current estimates suggest that WA's downward trend in GST revenue share will continue into the foreseeable future.

WA Department of Treasury & Finance (DTF) modelling indicates that in 2014-15, WA's GST revenue share will hit an untenable 33% relative to its population share,<sup>2</sup> resulting in WA receiving at least \$4 billion less than its equal per capita share of GST revenue.<sup>2</sup>

### GST Forecasts to 2014-15: WA's Diminishing GST Revenue



### THE NEED FOR CHANGE: REVERSING THE RIP-OFF

While WA will continue to contribute to the federal economy and continue to financially assist less prosperous states, there has to be some limit to the rip-off. The current application of HFE without any limitations or floor is unsustainably penalising WA for its economic success. A limit to the rip-off must be introduced before WA GST relativities hit an unprecedented and untenable 33%.

In this regard, Tony Crook is pushing for a reasonable 75% floor to any States' GST relativity. This model would preserve the principles of HFE, and the CGC's formula, except to the extent it results in a State receiving less than 75% of its GST share relative to its population share. This proposal would add an estimated \$1.8 billion to WA's GST grant in 2013-14, and an estimated \$2.5 billion in 2014-15.

To put this in perspective, in the year 2014-15, the amount of extra funds directed back to WA under this proposal would be equivalent to more than double the entire Royalties for Regions Fund in that same year. In that one year alone, WA's extra GST revenue would be equivalent to funding the development of the new Albany Health Campus, the State's biggest public country hospital development, 14 times over.

### WHERE TO FROM HERE?

Tony Crook will be moving a motion in the House of Representatives requesting that Parliament formally acknowledge that WA is receiving less GST revenue relative to its population, than any other state has since the formula was introduced. The motion will also call on the Government to amend the *Federal Financial Relations Act 2009* to introduce a 75% floor to any States' GST relativity.

1 Commonwealth Grants Commission, *Report on GST sharing Relativities – 2011 Update*. See, [www.cgc.gov.au](http://www.cgc.gov.au)  
 2 Department of Treasury and Finance (WA), *2011-12 Budget, Economic and Fiscal Outlook, Budget Paper No. 3*. See, [www.ourstatebudget.wa.gov.au](http://www.ourstatebudget.wa.gov.au)

