



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



**HOUSE OF REPRESENTATIVES**

**PROOF**

**BILLS**

**Treasury Laws Amendment (Making  
Sure Every State and Territory Gets  
Their Fair Share of GST) Bill 2018**

**Second Reading**

**SPEECH**

**Tuesday, 23 October 2018**

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

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## SPEECH

<b>Date</b> Tuesday, 23 October 2018	<b>Source</b> House
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<b>Questioner</b>	<b>Responder</b>
<b>Speaker</b> O'Brien, Ted, MP	<b>Question No.</b>

**Mr TED O'BRIEN** (Fairfax) (12:13): Australia is an exceptional country, a country founded on great and lasting liberal democratic principles. These principles include the rule of law, an open, free market and individual freedom. And they have helped to make Australia the prosperous, peaceful nation that it is today. That other great Western liberal democracy, the United States, in its Declaration of Independence, succinctly summarised these values as the right to life, liberty and the pursuit of happiness. In Australia, the pursuit of happiness is perhaps better described as a fair go. Both concepts essentially translate as equality of opportunity, where citizens have the right to freely leverage their ability, their resources and their effort to improve their material and social wellbeing.

The Australian principle of a fair go is key to the bill we are debating today. As the title of the bill suggests, the Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Bill 2018, it represents the latest refinement to the primary mechanism by which the Commonwealth hopes to achieve a fair and sustainable fiscal distribution across the states, across the cities, towns and regions of Australia, so all Australians can have access to essential government services, irrespective of their postcode.

One way to appreciate the significance of this bill and understand the issues it seeks to address is to consider the history of the fiscal relationship between the Commonwealth and the states. That history has been marked by two concurrent trends. One is an increasing centralisation of taxation powers by the Commonwealth, both in response to two world wars and in response to a case for broad based tax reform in the late 1990s. The second is a gradual refinement of the mechanism by which taxation revenue is distributed to the states. The introduction of a federal income tax in 1915 and the total assumption of that power by the Commonwealth in 1942 are well known, as is the introduction of the GST in 2000. However, it is the second trend, the evolution of a robust distribution methodology, that I wish to follow briefly and which will lead to the measures proposed by this bill.

From the earliest days of our Federation, successive Australian governments have sought to apply the principle of a fair go to help deliver equality of opportunity across our vast continent. One early mechanism to achieve this, within a federal context, was the provision of special financial support, direct from the Commonwealth, to fiscally weaker states, who it was hoped would, in turn, better dispense material happiness by way of government services across their jurisdictions. While achieving an effective fiscal equalisation across the states and later the territories was commendable enough as an aim, the underlying truth of Paul Keating's observation that one should never get between a premier and a bucket of money meant the process of deciding who and how much was often fraught and highly charged, relying as it did on a range of ad hoc advisory mechanisms.

By the early 1930s, with the economy in freefall and unemployment skyrocketing, courtesy of the Great Depression, the Australian government established the Commonwealth Grants Commission as an independent and ongoing commission to give impartial advice on the appropriate level of federal support provided annually to state budgets. While the Grants Commission certainly improved the process to ensure independent and transparent advice to the Commonwealth, the mechanism for delivering support continued to rely on applications from financially weaker states—initially, South Australia, Tasmania, Western Australia and, later, Queensland—for these special grants. The states were effectively coming to the Commonwealth each year, cap in hand.

By the late 1970s, all the states, plus the ACT and the Northern Territory, were demanding a piece of the action. So the commission's role was expanded to provide advice that all jurisdictions would receive a share of Commonwealth taxation revenue with the aim of achieving an effective equalisation of fiscal capabilities across the nation. While the introduction of the GST in July 2000 significantly altered the basis on which the pool of funds for distribution was determined, it did not change the fundamental task of the Grants Commission to give impartial advice on the allocation of general purpose funds among the states and territories based on that fair-go principle that was embedded in what we refer to as horizontal fiscal equalisation, or HFE.

Since its introduction, every dollar of GST revenue has been comprehensively distributed to the states and territories using a complex formula that assesses the fiscal capacity of each state and territory according their

ability to raise revenue relative to their costs of delivering services and associated infrastructure. Those states and territories determined by the formula to have a high fiscal capability, due to higher revenues or lower costs, have, according to the HFE principle, received less GST revenue on a per capita basis than jurisdictions with lower fiscal capability.

The evidence of the last 18 years, including a recently concluded Productivity Commission inquiry report on HFE, suggests that the current GST distribution system has been functioning well and does deliver on its primary objective of achieving high levels of fiscal equality across the states and territories. However—and this is the trigger for the bill, of course—recent shocks to the economy, such as fiscal distortions caused by the mining boom, have resulted in perverse outcomes that threaten the integrity of the GST system. This situation is especially acute in Western Australia, where that state has experienced extraordinary volatility in its GST distribution and has stretched the HFE system to its limits, with Western Australia's share of the GST carve-up plummeting to just 30c in the dollar of GST revenue collected from that state. This situation is clearly unfair and it's not sustainable. If left unmanaged, it would threaten the very integrity of the GST system in Australia.

Despite clear evidence of some shortcomings, the Productivity Commission report also found that the principle of fiscal equality across the nation continues to enjoy broad support from all levels of government. Being careful not to toss the baby out with the bathwater, the Australian government's interim response to the findings of the report, in particular the situation in Western Australia, was to legislate to safeguard the integrity of the system by reforming the way GST is distributed, so that all states and territories are better off. This is the clear aim of the bill. The key recommendation from the Productivity Commission report, and consequently the key reform proposed by this bill, is transitioning away from the current system of full equalisation, where all jurisdictions are equalised to the fiscal capacity of the strongest state or territory, and instead moving towards an alternative benchmark of reasonable equalisation.

The government supports, via the context of this bill, an alternative benchmark that will ensure a more stable and predictable fiscal capacity for all states and territories after GST revenue has been fully distributed, and has determined that this benchmark should be set at equal to the higher of either New South Wales or Victoria, being traditionally the most stable economies within the Commonwealth. The government's plan is to slowly transition to this improved distribution system in three steps over eight years in a fair, reasonable and sustainable way that leaves no state or territory worse off. Step 1 provides short-term transition payments to ensure no jurisdiction receives less than 70c in the dollar of GST revenue collected from that state or territory. It is anticipated that Western Australia would be the only jurisdiction to require such payments, because of a relatively low, what they call, relativity factor—for them, below 0.7 per cent—which is expected during this period. The Northern Territory may also experience special challenges and some volatility in its GST distribution. For this reason, the Commonwealth will ensure that the Northern Territory maintains a minimum distribution equal to its 2017-18 share.

Step 2 will phase in the improved equalisation benchmark, tied to the stronger of New South Wales or Victoria, with all states and territories transitioning to this new standard over six years, from 2021-22 to 2026-27. To ensure a fair and stable transition to the new equalisation benchmark, a GST relativity floor will be introduced in 2022-23 so that no state or territory will receive less than 70c per person per dollar of GST revenue collected. This will increase to 75c per person per dollar of GST in 2024-25. It must be said that, on current projections, under the new equalisation benchmark no jurisdiction is expected to fall below either relativity floor.

From 2021-22 onwards, the federal government will permanently boost the GST revenue pool available for distribution to states and territories by committing direct cash injections sourced from other Commonwealth revenues. The bill permits an initial top-up of \$600 million annually, and a further \$250 million in 2024-25, indexed each year to grow in line with the GST.

Step 3 will finalise the transition to the new, more stable benchmark by 2026-27 and trigger an additional \$1 billion annually, guaranteed over and above the GST revenue, in perpetuity. At the end of the transition, the Productivity Commission will conduct a further inquiry to assess the performance of the updated system and determine whether it is operating efficiently and, indeed, as intended.

These are substantial structural reforms. They will not only guarantee that every state and territory is better off, with the Commonwealth injecting an additional \$9 billion over 10 years, to 2028-29, and providing more than \$1 billion extra each year from 2026-27 in perpetuity, but also ensure a fairer and more sustainable system for

distributing GST revenue. It is revenue which has more than doubled in the 18 years since its introduction and is expected to grow by a further 65 per cent over the next decade. The GST revenue pool will be further boosted courtesy of an additional \$6½ billion in GST receipts that the states and territories will receive over the forward estimates as a direct result of legislation enacted by this government, including extending the GST to online purchases.

The measures outlined in this bill will ensure that all states and territories are better off and that all Australians get a fair go irrespective of where they choose to live. The bill delivers on a fairer and more sustainable GST distribution system, which is part of this government's plan for a stronger economy that guarantees the essential services that Australians rely on. I commend the bill to the House.