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STATES (TAX SHARING AND HEALTH GRANTS) BILL 1981

Date Introduced: 28 May 1981
House: House of Representatives
Presented by: Hon. J.W. Howard, M.P., Treasurer

Short Digest of Bill

Purpose

To repeal the States (Personal Income Tax Sharing) Act 1976 and give effect to new tax sharing arrangements with the States over the period 1981-82 to 1984-85. The Bill also gives effect to new arrangements for the payment of health grants to the States and the Northern Territory over the same period.

Background

(i) Tax Sharing Grants

Under the provisions of the States (Personal Income Tax Sharing) Act 1976, as amended, total general revenue grants to the States in any year have been calculated as 39.87 per cent of the net personal income tax collection (excluding any special rebates or surcharges specified by the Treasurer) in the previous year. The total grant was distributed among the States on a weighted population basis, the weights being the per capita general revenue grant relativities prevailing in 1975-76. From 1976-77 to 1979-80, a guarantee applied which ensured that no State would receive a lesser amount than it would have received under the grants formula specified in the States Grants Act 1973 (as amended in 1975). In 1980-81, the States were guaranteed that no State would receive less in real terms than it received in 1979-80. For the most part, the general revenue grants received by the States between 1976-77 and 1980-81 were the guaranteed sums rather than the tax sharing formula amounts.

Sub-section 13(1) of the States (Personal Income Tax Sharing) Act 1976 provided for the tax sharing arrangements between the Commonwealth and the States to be reviewed prior to 30 June 1981. Furthermore, item 17 of the Points of Understanding reached between the Commonwealth and the States in 1976 provided for periodic reviews of relativities between all States, with the first review also being made before the end of 1980-81. This reflects the fact that the
per capita relativities prevailing in 1975-76 (and used as population adjustment weights) represent more the outcome of historical processes rather than the application of fiscal equalisation principles.

The Premiers of all States issued a unanimous statement in February 1981 dealing with various aspects of the tax sharing arrangements. They addressed themselves to issues such as the appropriate tax base, the need for an effective guarantee, the question of consultation between the Commonwealth and the States and the problems of lags.

On the question of the tax base, the Premiers pointed out, on the one hand, that general revenue grants have historically evolved from the loss of State income taxing powers and that personal income tax is the single most important source of taxation revenue. On the other hand, however, they drew attention to significant fluctuations in personal income tax receipts in recent years, resulting in potential cash flow problems for the States. A total tax base would be less liable to fluctuate and the States would be insulated from the effects of shifts in emphasis between forms of taxation.

The States also argued for a realistic guarantee, regardless of which tax base was used. The Premiers sought an extension of the States Grants Act 1973 formula guarantee arrangements, although they were prepared to replace the 3% betterment factor (agreed to in 1975) with a 1.8% betterment factor. The States also expressed concern that the Commonwealth had failed to consult with them on major changes to the personal income tax system, despite the potential impact on States' finances. The Premiers therefore requested better consultation in any tax sharing arrangement. On the matter of lags, the States acknowledged the practical benefits of determining grants on the basis of the previous year's known tax collection, but drew attention to the difficulties this could cause in periods of rapid wages growth.

For its part, the Commonwealth Grants Commission completed its review of per capita relativities in June 1981. Its findings indicated that, on a fiscal equalisation basis, the per capita factors relating to Queensland, N.S.W. and Victoria should be increased while those of the other States are decreased. A number of States raised various issues that they felt had not been adequately taken into account by the Commission, which was subsequently requested to produce a further report in the first half of 1982.

The present Bill reflects several of the issues raised above. In addition, the Bill provides for additional
payments to be made to the States and the N. Territory, which relate to the transfer of certain Commonwealth functions to the States and N. Territory as recommended by the Review of Commonwealth Functions. Since the introduction of the Bill, the Commonwealth has agreed to make a number of other payments to certain States and the N. Territory which will require amendments to the current legislation at a future date.

Under the Bill, the tax sharing grants for 1981-82 will be provided under transitional arrangements. The total base grant for the six States and the N. Territory will be 9 per cent greater than in 1980-81. Adjustments will be made in the distribution of the total grant to ensure that no State receives less than an 8 per cent increase in its base grant. This requires "rounding adjustments" of $11m, $11m and $5m to be paid to Victoria, Queensland and Tasmania respectively. The remainder of the base grant is to be distributed to all States and the N. Territory on the normal, weighted population basis. A further $73.1m is distributed among the States and the N. Territory to take account of the transfer of certain Commonwealth functions while an amount of $5m is paid to the N. Territory to take account of the population element in the tax sharing arrangements as set out in the Memorandum of Understanding with the N. Territory.

Since the introduction of this Bill, Queensland has been further granted a special amount of $9m due to changes in the method of estimating population and the three most populous States have been granted a total of $60m in view of the likelihood that these States will be favoured by any changes in per capita relativities. The N. Territory has also received a guarantee that additional assistance will be provided, if required, to ensure that it receives a total grant that is not less than $315.1m. Separate legislation will be required to appropriate these sums.

Between 1982-83 and 1984-85, new tax sharing arrangements with the States will come into force. In total, the States will, in each year, receive the same proportion of the previous year's total tax receipts as the proportion that the 1981-82 States' grants are to total tax receipts for 1980-81. Under the present legislation, this proportion would take into account only the 1981-82 base grants and the $78.1m special allocation included in Schedule 2 of this Bill. In fact, however, the proportion will also include the $60m paid to the three most populous States. This will also require some future amending legislation. The States will therefore be receiving around 20.5 per cent of the previous year's total tax collection. Despite the States' request for a "realistic guarantee", the
only guarantee included in the legislation is that no State in any year shall receive less in money terms than it received in the preceding year.

(ii) Health Grants

On the basis of recommendations of the Jamison Committee of Inquiry into the Efficiency and Administration of Hospitals, the Commonwealth decided in 1981 to replace hospital cost-sharing and other health grants with general purpose block grants. While these grants will initially still be identified as assistance for health purposes, they will eventually be completely absorbed into tax-sharing grants.

The present Bill introduces these new arrangements in respect of the N. Territory and the States of N.S.W., Queensland, Victoria and Western Australia whose hospital cost-sharing agreements expired on 30 June 1981. Since cost-sharing agreements with South Australia and Tasmania do not expire until 1985, the present Bill appropriates assistance only in respect of the school dental and community health programmes in those States. Provision exists in the Bill for these two States to transfer to the new funding arrangements if they so desire.

For N.S.W., Queensland, Victoria, Western Australia and the N. Territory, the identified health grant for 1981-82 is calculated as follows:- The total of the public hospital, school dental and community health grants for 1980-81 for each State will be increased by 10 per cent. From the resulting amount will be deducted an amount equal to 60 per cent of the sum, assessed by the Commonwealth, that the States could recover by setting notional prices for health services. A special additional sum of $16m will be provided to Queensland to ease the transition to priced health services in that State.

In 1982-83 the aggregate grant for the above States will be calculated by escalating the total 1980-81 health grant by the rate of increase in the consumer price index (C.P.I.) between March 1980 and March 1982 and then subtracting 100 per cent of the assessed potential cost recovery. In 1983-84 and 1984-85, the total grant payable will increase each year at the same rate of increase as total Commonwealth tax receipts over the preceding year. Between 1982-83 and 1984-85, the total identified health grant will be distributed among the States in a manner formulated to have regard to any findings of the Commonwealth Grants Commission pertaining to this matter. The grants are conditional upon free hospital services being provided to eligible pensioners, disadvantaged persons and
their dependants.

In the case of Tasmania and South Australia, the health grant for 1981-82 will be 10 per cent greater than the sum of the school dental and community health grants paid in 1980-81. For 1982-83, those 1980-81 grants will be escalated by the rate of increase in the C.P.I. to March 1982, while in 1983-84 and 1984-85, the grants will increase at the same rate as total tax receipts over the previous year.

Main Provisions


Schedule 1, referred to in clause 6, lists the classes of taxes collected by the Commonwealth, upon which the Bill is based. The taxes listed represent virtually 100 per cent of total Commonwealth tax receipts. Sub-clause 6(8) permits the exclusion from the tax base of any special surcharges or rebates declared by the Treasurer as eligible for exclusion.

Clause 8 specifies the transitional tax sharing grants payable in 1981-82. These consist of the base grant, calculated as shown in sub-clause 8(2), and certain additional grants referred to in sub-clause 8(1) and set out in Schedule 2 of the Bill. Clause 9 specifies tax sharing arrangements which will apply from 1982-83 to 1984-85.

Sub-clauses 11(1) and 11(2) set out the "guarantee" provisions. They provide that in any year, no State shall receive less tax sharing assistance in money terms than it received in the previous year.

Part III of the Bill relates to health grants. Clause 12 provides that the Treasurer shall assess, for 1981-82 and 1982-83, the capacity of each State to raise additional revenue from the levying of health charges. Clause 14 shows the calculation of the identifiable health grant for all States and the N. Territory (but excluding South Australia and Tasmania) for 1981-82. Paragraph 14(2)(b) authorises an additional payment of $16m to Queensland. Clause 16 sets out the formula for setting health grants for these States in 1982-83 while sub-clauses 18(1) and 18(2) set out the arrangements to apply in 1983-84 and 1984-85.

Clause 19 provides for the total health grant in the years 1982-83 to 1984-85 to be distributed in a manner formulated to have regard to any findings of the Common
wealth Grants Commission relating to this matter.

Clauses 15, 17 and sub-clauses 18(3) and 18(4) set out the arrangements for providing health grants to South Australia and Tasmania over the period 1981-82 to 1984-85.

Paragraph 20(1)(a) provides that the grants are conditional upon the provision of free public hospital services to pensioners, disadvantaged persons and their dependants.

Clause 23 sets out the procedure whereby South Australia or Tasmania may make application and be included fully in the new health grant arrangements set out in the Bill.

Clause 29 provides for the Commonwealth to consult with all States prior to 30 June 1985 with a view to determining whether any change in the proposed tax sharing and health funding arrangements is desirable.

For further information, if required, contact:

Finance, Industries, Trade & Development Group

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