States (Personal Income Tax Sharing) Amendment Bill 1980

Date Introduced: 27 March 1980
House: House of Representatives

Short Digest of Bill

Main Purpose

To amend the States (Personal Income Tax Sharing) Act 1976, to provide that each State's tax sharing entitlement for 1980-81 will be at least as much in real terms as its entitlements for 1979-80.

Background

Under stage I of the tax sharing arrangements, which commenced in 1976-77, the States are entitled to a specified proportion of the net personal income tax collections made under Commonwealth legislation.

In 1976-77, the States were entitled to receive 33.6 per cent of net personal income tax collections in the current year. Practical difficulties arose, however, with the use of the current year's collections as the base to which the percentage applied, and after some discussion it was finally agreed in October 1977 that a percentage figure of 39.87 would be applied to preceding year's collections for entitlements after 1977-78. In addition to their entitlements so calculated, however, two guarantees presently apply to the entitlements:

(i) there is a guarantee that the States' Stage I entitlements in any year will be no less, in absolute terms, than in the previous year; and

(ii) there is a further guarantee in operation for the four years 1976-77 to 1979-80 that the Stage I entitlements will be no less than the amount which would have been yielded in that year by the financial assistance grants formula as laid down in the States Grants Act as amended in 1975 (referred to as the 'Whitlam guarantee').

In the event it has, in fact, been necessary to invoke the "Whitlam guarantee" each year since the commencement of the arrangements. In 1976-77 all States, except Queensland, were paid the Whitlam guarantee amount...
because of a shortfall in their calculated tax shares; in 1977-78 Tasmania was paid the guaranteed amount; in 1978-79, again, all States except Queensland were paid the guaranteed amount, and the Budget estimates for 1979-80 indicate all States will have to resort to the guarantee.

Hence the revenue growth assured by the components of the "Whitlam formula", a combination of population growth, wages growth and a "betterment" factor has generally outstripped the growth of net personal income tax collections.

It may be noted that the Whitlam formula - particularly the 3.0 per cent betterment factor granted in 1975 - was widely regarded as generous even at that time. The financial assistance grant payments made during the Labor Government's time were calculated on a 1.8 per cent betterment factor, the latter being increased to 3.0 per cent just prior to the Labor Government losing office.

The Commonwealth has indicated it now regards the 3.0 per cent betterment factor as overgenerous. The provisions of this Bill therefore provide for a guarantee to apply for 1980-81 in the form of a guarantee that each State's entitlement in that year will at least be maintained in real terms. The question of the form of future guarantees, if any, will be taken up in the review of the tax sharing arrangements which must take place by the end of 1980-81.

Main Provisions

Clause 4 amends Section 8 of the Principal Act to provide that for 1980-81, each State will receive in real terms no less than the amount it received in 1979-80 as measured by the consumer price index for the four quarters to March 1981 compared with the four quarters to March 1980 in the capital city of the State.