LOCAL GOVERNMENT (PERSONAL INCOME TAX SHARING) AMENDMENT BILL 1979

Purpose

To amend the Local Government (Personal Income Tax Sharing) Act 1976 for two purposes:

1) to increase the annual percentage of net personal income tax collections allocated to local government from 1.52 per cent to 1.75 per cent; and

2) to permit periodic reviews by the Commonwealth Grants Commission of the relative State shares of the total funds allocated to local government under the tax sharing arrangements.

Background

1) Under the Liberal-National Country Parties' Federalism policy which commenced in 1976-77, local government receives a fixed percentage share of net personal income tax collections of the previous year. In past years the percentage share has been 1.52 per cent. This Bill provides for that share to be increased to 1.75 per cent. This increase was foreshadowed in a joint Press Release of 28 June 1979 issued by the Treasurer, Mr. Howard and the Minister Assisting the Prime Minister in Federal Affairs, Mr. Fife. It was announced that this was the first step towards fulfilling the Prime Minister's Election Policy Speech promise that the local government share of personal income tax revenue would be increased to 2 per cent during the lifetime of the present Parliament.

The tax sharing funds, like the general revenue grants for local government provided in 1974-75 and 1975-76 under the Labor Governments, are not subject to any conditions as to how they may be spent. Untied funds for local government have increased substantially in recent years; $80 million in 1975-76, $140 million in 1976-77, $165 million in 1977-78, $179 million in 1978-79 and now $222 million in 1979-80. However, at the same time, tied grants for local government (eg RED scheme grants etc) have declined.
2) The proportionate distribution between the States of tax sharing funds for local government is based on recommendations of the Commonwealth Grants Commission. The Commonwealth Grants Commission's direct involvement in recommending grants for individual local authorities ended after 1975-76 when, instead, under the new Federalism policy, the Commission was asked to recommend on a proportionate distribution between the States of the total funds earmarked for local government. State Grants Commissions were set up to take over recommendations to individual authorities.

The Commonwealth Commission's recommendations were made in its Special Report 1976 and the methodology used was explained in its Third Report 1976. The Commission's recommendations were accepted and incorporated into the Principal Act in 1976. However, following representations by the Premier of Tasmania in 1977, the question of the percentage distribution between States was again referred to the Commission for inquiry and report. In its Special Report 1977 the Commission recommended a slightly altered percentage distribution which was again accepted and incorporated into the Principal Act.

At present, sub-section 12(2) of the Act states that the Minister (in this case the Prime Minister) shall before 1981, arrange for the question of whether any change is desirable in the percentage distribution set out in the Act to be referred to the Commonwealth Grants Commission for inquiry and report. However, because this sub-section may be read as providing for one review only, and because as noted, one review has already taken place, the second amendment proposed in this Bill makes it clear that the matter may again be referred to the Commonwealth Grants Commission in the future.

The matter of the principles and procedures to be followed in future reviews, including the questions as to whether the principles and procedures should be included in the legislation, was referred to the Commission for inquiry and report in April 1978. The Commission's Special Report 1979, which was tabled recently in the House, deals with these matters. As noted in the Treasurer's Second Reading Speech on this Bill, the Government is currently examining the recommendations in the Special Report 1979 and further legislation may be required following this examination.

Main Provisions

Commencing in 1979-80, the percentage share of net personal income tax collections to go to local government is to be increased from 1.52 per cent to 1.75 per cent (Clause 3).
The question of whether any change is desirable in the percentage distribution between the States of local government funds presently specified in section 5(2) of the Principal Act, may, from time to time, be referred by the Minister to the Commonwealth Grants Commission (Clause 4).

Finance, Industries, Trade & Development Group

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LEGISLATIVE RESEARCH SERVICE