HOUSE OF REPRESENTATIVES

A NEW TAX SYSTEM
(COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS) BILL 1999

Second Reading

SPEECH

Wednesday, 24 March 1999

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES
Mr COSTELLO (Higgins—Treasurer) (10.48 am)—I move:

That the bill be now read a second time.

The bills I introduce today form the third round of legislation required to establish a new tax system for Australia. The reform of our tax system, the most comprehensive since Federation, provides a rare opportunity for the government to address inefficiencies in the way we conduct our tax affairs.

The first part of the government's legislation was introduced in November 1998 to make private health insurance more affordable. The government introduced a universal 30 per cent benefit to be claimed against the cost of health insurance contributions as either a rebate on tax or a direct payment from the government.

A second round of legislation was introduced in December 1998 to abolish the outdated wholesale sales tax and replace it with a broad based goods and services tax (levied at 10 per cent) as from 1 July 2000. Included in this round of legislation were bills to introduce $13 billion worth of annual personal income tax cuts; the provision of powers to the Australian Competition and Consumer Commission to ensure that it can monitor prices for 12 months before the GST starts and two years after; a tightening of the reporting of fringe benefits to prevent some higher income earners taking advantage of government assistance designed for low income earners; and bonuses for older Australians.

The bills before us today represent a further major step in the comprehensive reform of our tax system. With this third round of legislation, the government puts forward landmark reform of Commonwealth-state financial arrangements. It also includes further reforms to the way luxury cars and wine are taxed, removing inefficiencies and smoothing the transition to the modern indirect tax system endorsed by the Australian people in the last election.

Reform of Commonwealth-state financial arrangements

Let me emphasise that the Commonwealth, the states and the territories are in agreement that the current financial relationship between levels of government must be reformed. Australia needs a stronger and more productive federal system for the next century. This will help deliver it.

A key feature of the new tax system is the Commonwealth's offer to the states and territories of a stable and growing source of revenue. By passing all revenues from the GST to the states and territories, the Commonwealth will provide the states and territories with a superior growth tax that will allow them to remove nine of their current taxes. They will abolish financial institutions duty, debits tax, a number of business related stamp duties and accommodation taxes. This will reduce the cost of financial transactions and increase Australia's attractiveness as a major financial centre.

The new arrangements mean that the states and territories will no longer have to rely on inefficient taxes to raise their own source revenues and that they will have greater independence from Commonwealth funding. They will no longer have to rely on general purpose grants from the Commonwealth, which have been the subject of much debate each year at the annual Premiers Conference.

The Prime Minister and I met with all premiers, chief ministers and state treasurers last November to discuss these new arrangements. An historic agreement was reached at this Special Premiers Conference, covering principles that will guide the implementation of far-reaching reforms to Commonwealth and state taxation and to federal financial arrangements.

GST revenues

At the Special Premiers Conference, the Commonwealth committed to legislate to provide all the revenue from the GST to the states and territories. The A New Tax System (Commonwealth-State Financial Arrangements)
Bill 1999 provides a standing appropriation of the GST revenues to the states and territories. As indicated by the government in August 1998, these revenues will be distributed to the states and territories according to the principle of horizontal fiscal equalisation. The bill provides the basic formula that will determine this distribution.

These reforms will replace the current system of Financial Assistance Grants by the Commonwealth to the states and territories. These grants will be abolished as of 1 July 2000.

Transitional assistance

The Commonwealth also guaranteed that, during the initial period following the introduction of the GST, a period not less than three years, the government will pay transitional assistance to the states and territories in each of these years to ensure that they are no worse off financially than they would have been under the current arrangements. Payments under this aggregate funding guarantee will be made so that the budgetary position of each state and territory will be no worse off in each year.

Both the GST revenue and transitional assistance payments will be freely available for use by the states and territories for any purpose. These arrangements will bring enhanced revenue security to the states and territories. It will ensure that they can fund a sustainable level of quality services for hospitals, for schools, for roads and for law enforcement.

Other payments

The bill also includes provisions to ensure that states and territories will retain their existing entitlements to franchise fee windfall tax and competition payments.

Lock-in of GST rate and base

I would like to turn to the process for locking-in the GST rate. The Commonwealth has indicated very clearly that no change to the GST rate will be implemented without the unanimous support of all the states and territories and both houses of the Commonwealth parliament. The bill clearly provides this lock-in mechanism. The mechanism will be backed by the Commonwealth-State Intergovernmental Agreement as well as by legislation.

The introduction of a GST is a major undertaking and like the introduction of any major tax, provisions must be made for finetuning. The government expects that some administrative changes or minor adjustments may be required in the early months of operation, generally having regard to the need to protect revenues. It would be irresponsible for the government to ignore this. As the GST revenue will be directed to the states and territories, the bill ensures that the states and territories will be involved if changes to the GST base prove necessary.

However, time will be of the essence in the first year of operation. Therefore, to ensure that action is taken as quickly as necessary, the Commonwealth will reserve the right in the first year to introduce legislation or regulation that may impact on the GST base but is necessary for the smooth and proper operation of the GST. This right is reserved only for changes which are of an administrative nature, necessary to facilitate minor adjustments to the GST and are made having regard to the need to protect the revenue of the states and territories. After the first 12 months, any change to the base will be subject to the approval of the states and territories and both houses of the Commonwealth parliament.

The 10 per cent GST rate is locked in with the passage of this legislation.

Intergovernmental Agreement

The bill before you today will result in a major transformation of the Commonwealth-state financial arrangements. It brings a new era of cooperation between the Commonwealth and state and territory governments.

Reforming the Commonwealth-state financial arrangements is a major undertaking. This is the major reform of Commonwealth-state financial relations in the history of Federation. However, not all aspects of this reform are appropriately addressed through legislation. Other mechanisms are better suited for arrangements between governments. Accordingly, the Commonwealth will enter into an intergovernmental agreement with the states and territories with respect to the reform of our financial arrangements. This agreement, which will be discussed at the forthcoming Premiers Conference, will spell out the detailed arrangements for the implementation of the reforms to Commonwealth-state financial relations.
In addition to outlining the Commonwealth commitments reflected in these bills, the intergovernmental agreement will detail the obligations which the states and territories are assuming as part of the new arrangements. In particular, these obligations will include:

- the repeal of nine inefficient state and territory indirect taxes;
- the assumption by the states and territories of responsibility for the funding of local government; and
- the operation of a first home owners scheme by the states and territories.

National indirect tax reform means that the financial arrangements relating to local government can also be reformed. The revenues from the GST base will be sufficient to also fund the Commonwealth’s current contribution to local government. Therefore, starting in July 2000, responsibility for ongoing financial assistance to local government will be transferred to states and territories. States and territories will be required to continue to provide general purpose assistance payments to local government at a level which is at least equal to that which would have been paid under the current funding arrangements.

In return for the GST revenue, states and territories have also committed to take on specific responsibilities in assisting home buyers with the purchase of their first home. Starting in July 2000, states and territories will assist first home buyers through funding and administering a new first home owners scheme, designed to offset the impact of the introduction of a GST on the price of new homes.

Consequential legislation


The Local Government (Financial Assistance) Act 1995 provides for financial assistance for local government by means of grants to the states and the Northern Territory. As I mentioned before, under the government’s reform package, these financial assistance grants are to be abolished from 1 July 2000 and the states and territories will take over responsibility for providing this assistance to local government from GST revenue.

The Commonwealth recognises that local government needs certainty in its funding arrangements and has guaranteed that payments to local government will be in accordance with existing conditions. The states and the Northern Territory will make payments at least equal to the amount local government now receives under the financial assistance grant arrangements, adjusted each year for population and inflation movements. These are non-negotiable conditions for the payment of GST revenue to the states and territories.

The states and territories are responsible for local government under the relevant legislation and it is therefore appropriate that they resume financial responsibility for local government. The new arrangements will be set out in more detail in the intergovernmental agreement to be considered at the forthcoming Premiers Conference.

Conclusion

The third round of legislation I am introducing today represents a major step towards establishing a modern tax system for Australia. These are the big tax changes of the century. These are the tax changes which will give Australia a modern tax system to take it into the next century.

The reform of Commonwealth-state financial arrangements will improve the financial position of the states and territories by providing them with a more robust tax base which can be expected to grow over time. At the same time, it will allow the states and territories to abolish bank transaction taxes, a number of stamp duties and accommodation taxes. The cost of financial transactions will be reduced and Australia’s attractiveness as a major financial centre enhanced.

Full details of the measures in the bill are contained in the explanatory memorandum circulated to honourable members.
I commend the bill to the House. I present the explanatory memorandum to this bill.

Debate (on motion by Mr Bevis) adjourned.