THE SENATE

A NEW TAX SYSTEM (COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS) AMENDMENT BILL 2003

Second Reading

SPEECH

Tuesday, 9 March 2004

BY AUTHORITY OF THE SENATE
Senator COONAN (New South Wales—Minister for Revenue and Assistant Treasurer) (5.20 pm)—I thank the senators who have contributed to the debate—Senator Sherry and Senator Murray—on the A New Tax System (Commonwealth-State Financial Arrangements) Amendment Bill 2003. In 1999 the Commonwealth, state and territory governments signed the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations. This agreement, which is given effect under the A New Tax System (Commonwealth-State Financial Arrangements) Act 1999, substantially reformed Commonwealth-state financial relations substantially for the better. Under the new arrangements all GST revenue collected is provided to the states and territories, giving them a secure and robust tax base which they can use to fund essential community services and to abolish inefficient state taxes.

The Australian government also provided a guarantee that no state or territory would be worse off under the new system of Commonwealth-state financial relations. This commitment is met through the payment of budget-balancing assistance to a state or territory whose share of GST revenue is yet to exceed its guaranteed minimum amount, which is a calculation of the position a state would have been in had tax reform not been implemented. After just three years most states are better off than they would have been had the Australian government not implemented tax reform. It is estimated that in 2003-04 the states will receive $32.5 billion in GST revenue, and only two states are estimated to require budget-balancing assistance. In fact, the six states and territories which no longer require budget-balancing assistance are collectively estimated to be better off by some $575 million in 2003-04.

As Senator Murray said, this is a technical bill. The bill makes technical amendments to the A New Tax System (Commonwealth-State Financial Arrangements) Act 1999 to facilitate its operation. The bill will implement three measures which have been agreed to by all states and territories. It will ensure that the Commissioner of Taxation is able to account for all GST refunds when determining GST revenues collected and provided to the states and territories. This reflects the principle that the GST revenue equals gross GST collections less all GST refunds.

In particular, the commissioner will be able to deduct GST refunds under the Tourist Refund Scheme and GST refunds to international organisations, diplomatic missions and visiting defence forces.

At present, as a state comes off budget-balancing assistance there is no mechanism to ensure that the required adjustments from the previous financial year are fully given effect to. The bill will fix this difficulty. It will allow payments to a state or territory to be adjusted to fully account for any overestimate or underestimate of payments in a previous financial year, thereby ensuring that states and territories receive their appropriate payments. The bill also makes minor changes to the statutory deadlines for a number of determinations required under the act. This will improve the timing of these determinations, which are used to calculate final state and territory entitlements to payments under the act.

There are a few additional comments I will make. The argument has been made in this place and elsewhere about whether or not the GST can be regarded as a Commonwealth or a state tax. Under the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations, all GST revenue is appropriated to the states and territories. GST revenue is therefore not available for expenditure by the Australian government. Consequently, the government considers the GST to be effectively a state tax with the Australian government acting as a collection agent for the states. For this reason, the Australian government budget and outcome documents do not recognise the GST as a revenue; nor do they recognise the associated payments to the states as an expense. The Australian Taxation Office and the Treasury report the GST on an Australian government tax basis in their annual reports, respectively showing the tax collected and grant payments made to the states. This, of course, was done to comply with the Australian National Audit Office ruling on the issue.

Finally, I want to address a few comments to the benefits of the tax reform that this government has undertaken, although this is a machinery bill and this may not be the place for quite such an exhaustive examination of the topic as Senator Murray has undertaken. I do not propose to go through Senator Murray's checklist of claimed achievements on the part of the Democrats or demerits on the part of the government. However, I do want to say...
that the government has—and I think this is without doubt—introduced the most comprehensive and successful tax reform ever attempted in Australia’s history. This was certainly with the assistance of the Democrats and certainly with no assistance from the Labor Party.

The GST has met its goals. It is collecting the revenue that it was predicted to collect. It was introduced with, essentially, the same price effects that it was predicted to have. Some price impacts were even lower than expected. Inefficient taxes, particularly the wholesale sales tax and financial institutions duty, have been abolished. It funded the huge reduction in personal taxes the government intended, worth around $12 billion per year. All the GST revenues are being paid to the states and territories as intended. As I said a little earlier, all GST revenue collected is paid to the states and territories. The revenue benefits that go to the states and territories are clear and it behoves me to say that the introduction of the GST means the states and territories now have access to a secure, growing, broad based revenue base to spend according to their own budgetary priorities. These are not hypothecated payments. The states and territories no longer rely on financial assistance grants from the Australian government and some of their own narrow and inefficient taxes, as I have said, have been abolished.

I recall that just a few months ago Premier Beattie acknowledged the GST and the assistance that it had provided with education. I think he said it had funded the whole of a preparatory year for Queensland children, which is obviously a priority of that state. I do not think there would be many Australians who would quibble or complain that that was not an efficient use of the GST. There have been a couple of mentions made of the top marginal tax rate. The top marginal tax rate is too high and the government very much regrets that, in the negotiations in relation to the introduction of this far-reaching, comprehensive and successful tax reform, it was not able to increase the threshold to $75,000 in the way that it had wished.

Recent statements by Mr Latham suggest that, in fact, there may be some cooperation on decreasing the top marginal tax rate, although the suggestion that there would be an increase in company taxes and capital gains tax to pay for it is a backwards step for anyone interested in better improvements to a competitive tax system. However, these comments and, no doubt, arguments can go on for some considerable time and, as I have said, this is a machinery bill. I am grateful that my senatorial colleagues have seen fit to support these sensible amendments. I commend the bill to the Senate.

Question agreed to.

Bill read a second time.