

The Review Panel
GST Distribution Review
The Treasury
Langton Crescent
PARKES ACT 2600

By email: gstdistributionreview@treasury.gov.au

18 October 2011

To the Review Panel,

For some time now, I have been campaigning for a fairer return of the Goods and Services Tax (**GST**) revenue for my State of Western Australia. As such, I welcomed the announcement of the GST Distribution Review and I am pleased to have the opportunity to provide the **enclosed** submission to the Review Panel.

I have had the benefit of meeting with the Western Australian Treasurer, the Hon. Christian Porter about this matter. I would like to take this opportunity to express my general support for the Western Australian Government's position on this issue, as outlined in their submission to this Review Panel.

Please do not hesitate to contact me if you would like to discuss this submission further. I look forward to the outcomes of the Review.

Yours faithfully



TONY CROOK

Submission to the Goods and Services Tax Distribution Review

Tony Crook, MP
Member for O'Connor

14 October 2011

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Supporting Documents

- Annex A: Notice of Motion in the House of Representatives
- Annex B: Hansard Extract, Monday 12 September 2011, Member for O'Connor moving Motion on GST Relativities
- Annex C: Discussion Paper: one page background on the GST Motion
- Annex C: Calculations Tables: Calculations for the effect of a 75% floor in GST relativities: 2010-11 to 2014-15

1. Executive Summary

This submission supports the introduction of a 75 per cent floor on States' Goods and Services Tax (GST) relativities, ensuring that no State receives less than 75 per cent of its equal per capita share of GST revenue.

This submission argues that:

- I. Notwithstanding the equalisation objectives, the record-low GST share that Western Australia is currently receives, is grossly unfair. The application of the current equalisation principles sees Western Australia receiving less GST revenue relative to its population share than any State ever has since the GST was introduced.
- II. To a large extent, a reasonable 75% floor in GST relativities would allow continuing respect for the principles of Horizontal Fiscal Equalisation, but with proper recognition for population, while ensuring that any strongly performing State is not unfairly penalised for its disproportionate contribution to the federal economy.
- III. A 75% floor in GST relativities would provide predictability and stability in the determination of strongly performing States' GST shares, and would support the ability of those states to make long term investment decisions.
- IV. A floor in GST relativities should be in place in 2013-14, to avoid the untenable situation where Western Australia is forecast to receive just one third of its per capita share of the GST pool.

2. WA's share of GST revenue pool

In recent years, Western Australia (WA) has experienced a record low share of the Goods and Services Tax (GST) revenue pool, relative to its population share. However, this has not always been the case; WA has not always been a donor-State. In fact, between 2004-5 and 2006-7, WA had a per capita relativity greater than one. In the years prior to that it fluctuated just below that.

Notwithstanding this, in recent years, WA's share of the GST revenue pool, relative to its population share, has plummeted. WA has experienced record low GST shares relative to its population share.

In 2010-11, WA received a record-low relativity of 0.68, representing just 68% of what it would receive if GST was distributed on an equal per capita basis. By contrast, every other State and Territory received not less than 91%. This is the lowest relativity of any State since the GST formula was introduced.

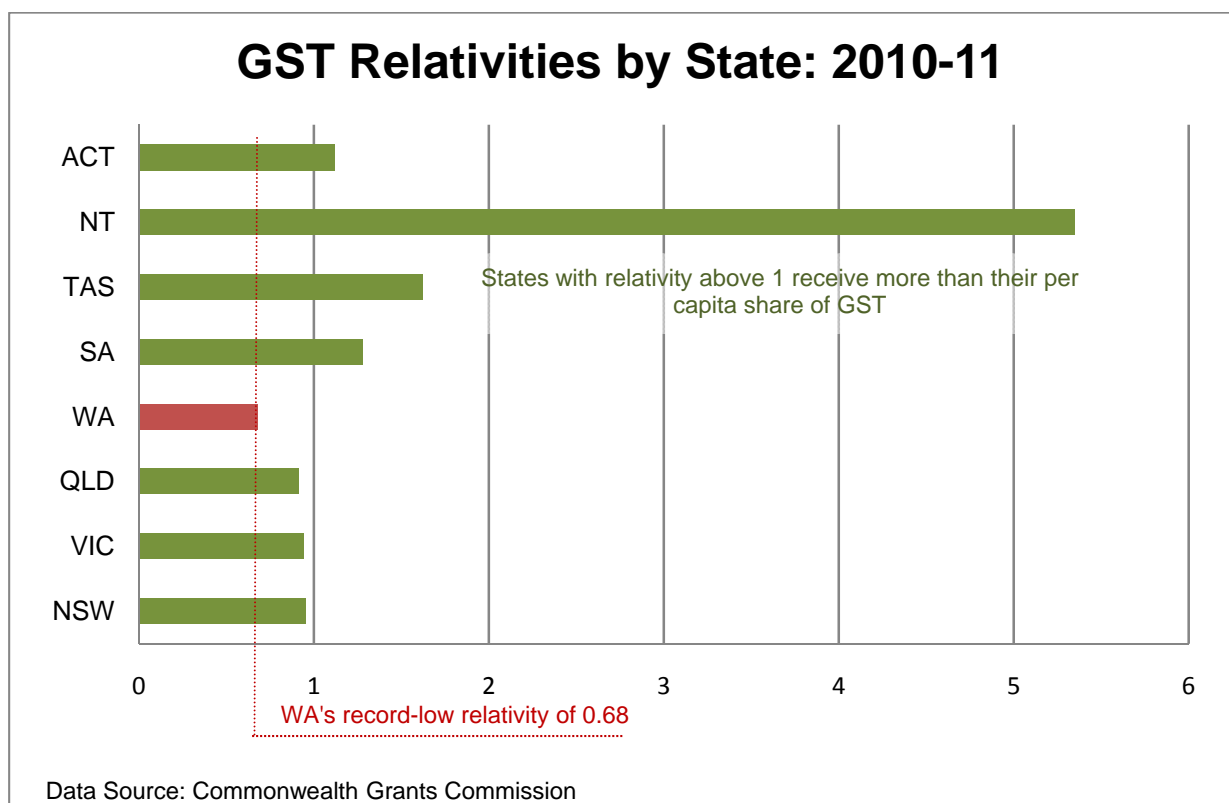


Table 1 above demonstrates WA's record low relativity in 2010-11.

The dollar terms effects have been extreme. In 2011-12, WA's GST grant was over a billion dollars less than its per capita share. In fact, in 2010-11, WA received the same

amount of GST, in dollar terms, than it did in 2003-4. This is despite the fact that the national GST pool increased by 35%.¹

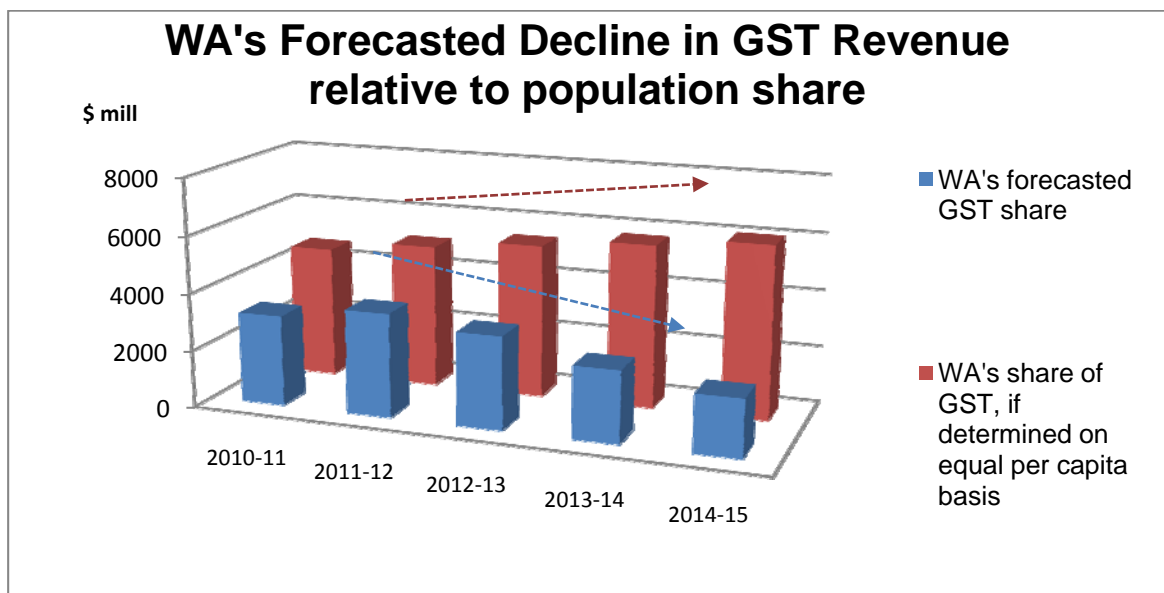
It is noted that WA's GST share actually increased in 2010-11 from 0.68298 in 2010-11 to 0.71729 in 2011-12, resulting in a dollar value increase in WA's GST revenue. This was mostly attributable to upward revisions in WA's wages and increased costs of service provision in the State.

3. The need for change

The future for WA's GST share

Notwithstanding the minor increase in WA's GST relativities noticed above, there is a strong downward trend in WA's GST share, and this trend is expected to resume from 2012-13. WA Department of Treasury and Finance (DTF) modelling indicates that WA's relativity will drop to 44% in 2013-14 and plummet to just 33% by 2014-15.² That is just one third of WA's per capita share of the GST Revenue Pool.

WA DTF modelling indicates that over the period 2010-11 to 2014-15, WA GST grants will be \$12.3 billion less than WA's equal per capita share.³



¹ DTF(WA), 2010-11 *Annual Report on State Financed*, page 2.

² DTF (WA), 2011-12 *Budget, Economic and Fiscal Outlook, Budget Paper No 3*, page 34.

³ DTF (WA). 2011-12 *Budget GST Fact Sheet*, page 1.

Table 2, above, illustrates the projected decline in WA's GST share, as compared to its equal per capita share.

It is noted that the estimates relied on in this submission, differ to those provided by Federal Treasury. WA's projections are more reliable for the purposes of considering future GST shares because they incorporate projected changes in relative revenue raising capacity of WA, in particular, they account for published estimates of the State's current and projected own source revenue for the years beyond 2009-10.⁴

The need for change

WA's GST share is docked due to WA's large state-based revenue stream which has resulted from the resources boom. Without a reasonable GST floor, WA is unable to adequately respond to long-term funding projects which are needed to meet the infrastructure pressure caused by the resources sector growth.

WA requires a reasonable underpinning of their future GST share to properly prepare for their emerging, leading role in the national economy. There is no doubt that WA will continue to experience a great growth; recently, Sydney economist Brian Haratsis predicted WA would account for 60% of Australian exports by 2016-17. WA cannot successfully play this vital role for the country, without its future GST share being reasonably safeguarded.

There needs to be some limit to the rip-off

While WA is prepared to continue to contribute to the federal economy and continue to financially assist less prosperous states, there has to be some limit to the depredation of WA's GST share.

The current system unsustainably penalises WA

The current application of the principles of Horizontal Fiscal Equalisation without any floor is unsustainably penalising WA for its economic success. The extent of WA's record low GST share is in and of itself evidence that the scheme is inequitable and unsustainable.

⁴ DTF (WA) 2011-12 *Budget, Economic and Fiscal Outlook, Budget Paper No 3*, page 84.

The current system reduces incentive

As outlined in the WA Government submission, the current system reduces incentives for individual States to develop their economies.

4. The proposal for a floor

This proposal for a GST floor refers to a minimum relativity figure, which strongly performing States could not fall below. A minimum relativity of 75% means that no strongly performing State would ever receive less than 75% of its per capita share in GST revenue. A 75% minimum GST revenue-sharing relativity should be legislated for in the *Federal Financial Relastions Act 2009*.

The 75% floor would provide an immediate fix to the unfairly low GST shares being suffered by WA. The floor would immediately reduce the severity of equalisation in circumstances where a state is receiving extremley low shares of the GST pool relative to its population share. The floor is the focus of this submission; however, in general terms, Tony Crook supports the complementary reforms discussed in the submission of the Western Ausetralian Government .

Types of Floors

Fixed vs Variable Floor

This submission discusses a fixed floor over a variable floor for reasons of simplicity. It is acknowledged that a variable floor, while being more complicated to implement, may also achieve some of the goals discussed in this paper.

Types of fixed floors

It is noted that a GST floor could be expressed in various ways, including percentages, dollar amounts or per capita values. This submission favours the floor as an expression of fixed relativity. This is primarily favoured because of its simplicity and general acceptance.

75% as a fair relativity

A 75% floor is a reasonable floor and would only affect the distribution of GST revenue in the extreme case where a State is being so heavily penalised that it receives less than three quarters of its per capita share of the GST pool.

Funding a floor

A floor will not affect the distribution of GST revenue, unless one State is set to receive less than 75% of its per capita share of the GST pool.

In the event that a State falls below this level, the differential would be taken from the GST Pool. The assessed relativities of other States would remain the same.

Tony Crook's campaign for a 75 per cent floor in GST relativities

Tony Crook has consistently campaigned for a 75% floor in the GST.

On Monday 12 October 2011, Tony Crook introduced a motion in the House of Representatives. The tabled motion is provided at **Annex A**. The Motion moved "that the House:

1. note that GST revenues are distributed to State and Territories in accordance with a formula driven by Horizontal Fiscal Equalisation principles and legislated for in the *Federal Financial Relations Act 2009*;
2. note that for 2010-11, WA received just 68 per cent of what it would have received if GST revenue were distributed across Australia on a per capita basis – the lowest relativity applied to any State since the formula was introduced;
3. note that every other State and Territory, by contrast, received not less than 91 per cent of what it would have received if GST revenue was distributed evenly across Australia; and
4. call on the Government to amend the Act to stipulate a minimum GST revenue-sharing relativity of 75 per cent, which would allow continuing respect for the principles of Horizontal Fiscal Equalisation, but with proper recognition for population and without Western Australia being unfairly penalised for its disproportionate contribution to our national economy."

The Hansard Extract for 12 September 2011, when Tony Crook moved the Motion in the House of Representatives, is provided at **Annex B**. The one page Discussion Paper provided at **Annex C** provides background to the Motion.

Arguments for a floor

Provides certainty

A floor in GST relativities would provide certainty and fairness to strongly performing states. Currently, there is no limit to how low a State's GST share can fall relative to its population share.

The floor would underpin strongly performing State's GST shares; this predictability and stability empowers them to make long term investment decisions.

With the extraordinarily low GST relativity projections for WA in 2014-15, it is imperative that a minimum floor is introduced imminently to provide some certainty to WA's future GST share.

Preserves the guiding principles of GST distribution

Except in the extraordinary circumstance where a State is receiving less than 75% of its per capita share of GST, a GST floor preserves the principles of Horizontal Fiscal Equalisation. In this regard, the proposed GST floor model also preserves the workings of the Commonwealth Grants Commission in applying these principles.

The GST floor maintains due regard to a State's share of the population.

Allows strong states to continue contributing to the federal economy

Importantly, a GST floor would allow strong states to continue contributing more than their fair share to the federal economy, to assist less prosperous states.

5. Effect of a floor

Based on WA DTF figures, the amount of funds redirected to WA in 2013-14 due to a 75% floor in GST relativities, would be \$2.5 billion.

Projections of the effect of the proposed floor can be calculated using publicly available data from the Federal Budget. Based on Federal projections, in 2012-13, WA would be \$373 million better off with a GST floor.

The below table illustrates the effect of a GST Floor based on the projected relativity factors, GST pool and population shares.

2012-13

State	Estimates & projections ⁵			Calculation of GST entitlement pool with floor			
	Relativity	Share of GST \$m	Share of adj pop	Relativity w/ floor	New share of adj pop	New share of GST \$m	Difference w floor \$m
NSW	0.97137	16178.2	31.3%	0.97137	31.0%	16052.6	-126
VIC	0.90508	11671.3	22.6%	0.90508	22.4%	11580.7	-91
QLD	0.93389	9883.3	19.1%	0.93389	18.9%	9806.6	-77
WA	0.67510	3648.6	7.1%	0.75000	7.8%	4021.9	373
SA	1.25339	4718.7	9.1%	1.25339	9.0%	4682.1	-37
TAS	1.59147	1845.0	3.6%	1.59147	3.5%	1830.7	-14
ACT	1.10956	921.7	1.8%	1.10956	1.8%	914.5	-7
NT	5.38098	2883.2	5.6%	5.38098	5.5%	2860.8	-22
Total		51750.0	100.0%		100.0%	51750.0	0

Annex D provides calculations for the effect of the floor up until for 2011-12, 2012-13 and 2013-14.

⁵ Estimates and Projections from Federal Budget Paper No 3 2011-12

6. Conclusions

A 75% floor in GST relativities provides certainty and predictability for strongly performing states, and indeed all states, in the way GST is distributed. A floor allows continuing respect for the equalising principles which have been an important aspect of our federal economy. The model also ensures that no one state is unfairly and extremely penalised for its contribution to the federal economy.

The Review Panel is urged to consider implementing a floor as soon as possible, to avoid the untenable scenario of WA receiving just a third of its GST share proportionate to its population share in 2014-15.

HOUSE OF REPRESENTATIVES

NOTICE OF MOTION

MR CROOK

I give notice that on the next day of sitting I shall move that the House:

1. note that GST revenues are distributed to the States and Territories in accordance with a formula driven by Horizontal Fiscal Equalisation principles and legislated for in the *Federal Financial Relations Act 2009*;
2. note that for 2010-11 Western Australia received just 68 per cent of what it would have received if GST revenue were distributed across Australia on a per capita basis – the lowest relativity applied to any State since the formula was introduced;
3. note that every other State and Territory, by contrast, received not less than 91 per cent of what it would have received if GST revenue was distributed evenly across Australia; and
4. call on the Government to amend the Act to stipulate a minimum GST revenue-sharing relativity of 75 per cent, which would allow continuing respect for the principles of Horizontal Fiscal Equalisation, but with proper recognition for population and without Western Australia being unfairly penalised for its disproportionate contribution to our national economic prosperity.



..... (signed)

Mover



..... (signed)

Seconder

debate will be made an order of the day for the next sitting. The honourable member will have leave to continue when the debate is resumed.

BILLS

Parliamentary Service Amendment (Parliamentary Budget Officer) Bill 2011

Second Reading

Debate resumed.

The DEPUTY SPEAKER (Hon. BC Scott): In accordance with standing order 133(b), I shall now proceed to put the question on the motion for the second reading of the Parliamentary Services Amendment (Parliamentary Budget Officer) Bill 2011 on which a division was called for and deferred in accordance with the standing order. No further debate is allowed.

Question put:

That this bill be now read a second time.

The House divided. [20:05]

(The Deputy Speaker—Mr BC Scott)

Ayes 72
Noes 69
Majority 3

AYES

Adams, DGH	Albanese, AN
Bandt, AP	Bird, SL
Bowen, CE	Bradbury, DJ
Brodthmann, G	Burke, AE
Burke, AS	Butler, MC
Byrne, AM	Champion, ND
Cheeseman, DL	Clare, JD
Collins, JM	Combet, GI
Crean, SF	Danby, M
D'Ath, YM	Dreyfus, MA
Elliot, MJ	Ellis, KM
Emerson, CA	Ferguson, LDT
Ferguson, MJ	Fitzgibbon, JA
Garrett, PR	Georganas, S
Gibbons, SW	Gillard, JE
Grierson, SJ	Griffin, AP
Hall, JG (teller)	Hayes, CP
Husic, EN (teller)	Jones, SP
Katter, RC	Kelly, MJ
King, CF	Leigh, AK
Livermore, KF	Lyons, GR
Macklin, JL	Marles, RD
McClelland, RB	Melham, D
Mitchell, RG	Murphy, JP
Neumann, SK	Oakeshott, RJM
O'Connor, BPJ	O'Neill, DM
Owens, J	Parke, M
Perrett, GD	Plibersek, TJ
Ripoll, BF	Rishworth, AL
Rowland, MA	Roxon, NL
Saffin, JA	Shorten, WR
Sidebottom, PS	Smyth, L
Snowdon, WE	Swan, WM
Symon, MS	Thomson, KJ
Vamvakinou, M	Wilkie, AD
Windsor, AHC	Zappia, A

NOES

Abbott, AJ	Alexander, JG
Andrews, KJ	Andrews, KL
Baldwin, RC	Billson, BF
Bishop, BK	Bishop, JI
Briggs, JE	Broadbent, RE
Buchholz, S	Chester, D
Christensen, GR	Cobb, JK
Coulton, M (teller)	Crook, AJ
Dutton, PC	Entsch, WG
Fletcher, PW	Forrest, JA
Frydenberg, JA	Gambaro, T
Gash, J	Griggs, NL
Haase, BW	Hartsuyker, L
Hockey, JB	Hunt, GA
Jensen, DG	Jones, ET
Keenan, M	Kelly, C
Laming, A	Ley, SP
Macfarlane, IE	Marino, NB
Markus, LE	Matheson, RG
McCormack, MF	Mirabella, S
Morrison, SJ	Neville, PC
O'Dowd, KD	O'Dwyer, KM
Prentice, J	Pyne, CM
Ramsey, RE	Randall, DJ
Robb, AJ	Robert, SR
Roy, WB	Ruddock, PM
Schultz, AJ	Scott, BC
Secker, PD (teller)	Simpkins, LXL
Slipper, PN	Smith, ADH
Somlyay, AM	Southcott, AJ
Stone, SN	Tehan, DT
Truss, WE	Tudge, AE
Turnbull, MB	Van Manen, AJ
Vasta, RX	Washer, MJ
Wyatt, KG	

PAIRS

Gray, G	Hawke, AG
Rudd, KM	Moylan, JE
Smith, SF	Irons, SJ
Thomson, CR	Ciobo, SM

Question agreed to.

Bill read a second time.

PRIVATE MEMBERS' BUSINESS

Goods and Services Tax

Mr CROOK (O'Connor) (20:12): I move:

That this House:

(1) notes that:

(a) Goods and Services Tax (GST) revenues are distributed to the States and Territories in accordance with a formula driven by Horizontal Fiscal Equalisation (HFE) principles and are legislated for in the *Federal Financial Relations Act 2009*;

(b) for 2010-11, Western Australia received just 68 per cent of what it would have received if GST revenue was distributed across Australia on a per capita basis—the lowest relativity applied to any State since the formula was introduced; and

(c) every other State and Territory, by contrast, received not less than 91 per cent of what it would have received if GST revenue was distributed evenly across Australia; and

(2) calls on the Government to amend the Act to stipulate a minimum GST revenue-sharing relativity of 75 per cent, which would allow continuing respect for the principles of HFE, but with proper recognition for population, and without Western Australia being unfairly penalised for its disproportionate contribution to our national economic prosperity.

I am pleased to speak on this motion before the House. This motion is very important to my home state of Western Australia and is indeed important in underlying the financial security of all states and territories in Australia.

This motion does two things. First of all, it calls on the House to formally acknowledge the inequity being experienced by Western Australia through GST distribution. It asks members to acknowledge, on the record, that WA receives less GST relative to its population than any state or territory has ever received since the GST was introduced. Secondly, this motion calls on the government to amend the Federal Financial Relations Act to introduce a floor on GST relativities for all states and territories. This proposal maintains respect for the equalisation principles that currently guide the distribution of GST revenue, but proposes a fair and reasonable 75 per cent floor—a floor which strong states will be guaranteed to never fall below.

This evening I would like to discuss four matters in relation to this motion. Firstly, I will give a brief overview on GST relativities and outline the extent of the inequity being suffered by Western Australia. Secondly, I will address the proposal for the 75 per cent floor and outline why it is a fair, reasonable and necessary change to the Federal Financial Relations Act. Thirdly, I will highlight the support that this proposal has received from Liberal, Labor and National colleagues in state and federal parliament. Finally, I will explain why it is imperative that this issue be considered immediately—as I have no doubt that the eastern states members of this parliament will argue that this proposal should be put on the backburner until the unnecessarily long and drawn out GST revenue review is concluded and we see the outcomes of that review.

The Commonwealth Grants Commission is an independent statutory authority that advises the Commonwealth government on GST distribution. Each year, the commission makes recommendations to the government on how much GST revenue each state and territory should receive. The recommendations are guided by the principles of horizontal fiscal equalisation. These principles seek to ensure that each state has the capacity to provide comparable standards of services if it makes the same effort to raise revenue as the other states on average and operates at an average level of efficiency. The Grants Commission's recommendations are made with reference to GST

relativities. A state or territory's GST relativity refers to its GST share relative to its population share.

Over the 12 years since the GST was introduced, there have been some fundamental changes in states' revenue-raising capacity. These changes have resulted in fundamental inequalities in the way the GST is distributed, most notably for Western Australia. The results for WA's GST share have been extreme; the GST inequity being experienced by WA is widely acknowledged. The Commonwealth Grants Commission itself admits that Western Australia continues to receive less GST relative to its population than any state ever has since the GST was introduced 12 years ago. Even our Prime Minister and the Leader of the Opposition have conceded that the current GST share arrangements are unfair for WA. In the current financial year, WA will receive 72 per cent of what it would receive if GST were distributed on an equal per capita basis. This is lower than any other state; in fact, no other state will receive less than 91 per cent. The conclusion is unavoidable: Western Australia is being unfairly penalised for its disproportionate contribution to our national economy.

The WA state budget predicts that WA's GST relativity will fall to just 33 per cent by 2014-15. This represents just one-third of what WA would receive if GST were distributed on an equal per capita basis across the country. This is hugely unfair and cannot have been the intention of the Grants Commission or the Commonwealth government when the GST was introduced.

The Secretary of the Commonwealth Grants Commission confirms that under the current model there will be no limit to how far WA's share of GST could fall. This brings me on to my second discussion point: the proposal for a GST floor. The floor will limit the amount that any state's GST share can fall to. This motion proposes that no state's GST relativity should fall below 75 per cent. In other words, a floor will ensure that no state receives less than 75 per cent of its equal per capita share of GST revenue. A floor in GST relativities will maintain respect for the equalisation principles that currently guide GST revenue distribution by the Grants Commission. The commission will continue to recommend GST relativities using the same guidelines and principles of horizontal fiscal equalisation, except where those principles require a state to receive less than 75 per cent of its per capita share. A 75 per cent floor will allow strong states to continue to contribute more than their fair share to the national economy but will provide a reasonable guarantee and certainty to the minimum GST share that a state or territory will receive.

The 75 per cent floor strikes a reasonable balance between maintaining the equalisation principles that

encourage 'fair-go federalism' and ensuring strong states are not unfairly punished for their economic success. This proposal is a simple measure that will return some certainty and some equity to the way GST shares are determined for more strongly performing states.

I would now like to turn to the support for this proposal and the public acknowledgement of WA's GST rip-off. The proposal for a GST floor has been in the public arena for some time now. Senior WA Liberal Party, Labor Party and WA Nationals colleagues have been demanding a floor for quite some time. The Premier of Western Australia, the Hon. Colin Barnett, has been pushing for a 75 per cent floor since last year. The Western Australian Treasurer, the Hon. Christian Porter, has also supported this proposal. The Nationals WA formally adopted this motion earlier this year, with the support of their leader, the Hon. Brendon Grylls. Even the Leader of the Opposition in WA, the Hon. Eric Ripper, has provided in-principle support for a floor in the GST.

In the federal arena, senior Liberal and Labor party members, including Liberal Treasury spokesman Senator Cormann and the member for Durack, are on the public record admitting that GST share arrangements are currently grossly unfair for Western Australia. In his recent visit to WA, the Leader of the Opposition acknowledged the flaws in the GST formula for Western Australia and has previously indicated that we should have a debate about a GST floor. In fact, the federal Treasurer has referred to the question of a 75 per cent floor as a 'very valid question'.

Notwithstanding this general support, members on both sides of this House have declined to introduce this motion themselves or introduce a bill to this effect. In fact, despite the Liberal Premier in Western Australia publicly pushing for this floor, the federal Liberals have refused to even consider this issue in their own party room. I call on all WA members of this parliament—who have been elected by the WA voters to represent their electorate—to put eastern-states-centric politics aside and stand up for the interests of their state by supporting my motion.

Mr Katter: I think the member for North Sydney is a closet supporter.

The DEPUTY SPEAKER (Hon. BC Scott): Order! The member for Kennedy! The member for O'Connor has the call.

Mr CROOK: In this regard, I would like to take this opportunity to extend my warmest thanks to the member for Moore and the member for Kennedy for their public support of this motion.

Finally, I think it is important to address why this issue needs to come to the fore now. Western Australians are willing to assist the other states and to

contribute more than their fair share to the federal economy. However, Western Australians are not prepared to be ripped off under this system by receiving less than 75 per cent of their per capita share when all the other states and territories receive more than 91 per cent. Western Australians certainly are not prepared to face a scenario such as where we are forecast to receive just 33 per cent of our per capita share of GST revenue in 2014-15.

While I welcomed the GST revenue review announced by the Prime Minister in March this year and welcomed her admission that the current GST carve-up is unfair, the review is on an unnecessarily long time frame and is unlikely to result in any reform before WA is set to receive a record punishment for its success in 2014-15. As such, this pressing issue needs to come to the fore now. A 75 per cent floor will give WA—and, indeed, all states and territories in Australia—much-needed certainty over GST revenue into the future.

Western Australia, like any state or territory in Australia, deserves a fair deal from the Commonwealth. Currently, the situation is far from fair for WA. Western Australia's economy is under siege through the mining tax, the carbon tax and GST revenue distributions. Western Australians are prepared to contribute more than their fair share to the federal economy, but there must be some limit to the rip-off; there must be some limit to the punishment WA receives for its economic success; there must be some formal acknowledgement of Western Australia's disproportionate contribution to our national economic prosperity; and there must be some members in this House who are prepared to stand up for their state. For these reasons, I commend the motion to the House.

The DEPUTY SPEAKER: Is the motion seconded?

Mr Katter: I second the motion, I support the Queensland government—probably the only time on record that I will be supporting the current Queensland government—on this issue and I reserve my right to speak in due course.

Mr NEUMANN (Blair) (20:22): I rise to speak but cannot support the motion by the member for O'Connor. I thank him for putting forward the motion and for raising an issue on behalf of his state. As a Queenslander, I share the frustration. I commend the member for Kennedy for his support for the Queensland government in seeking a better deal for Queensland. I think it is a really good idea that states like Queensland and Western Australia, which contribute so much to the wealth of this country in this day and age, should get a fairer deal with respect to finances. We are the ones who are producing mineral wealth and income and contribute so much to society. It is the same in America. The demographics of the

United States has seen the population, economic activity and development move west and south. In Australia the development has moved north and west. The truth of the matter is that we can see the consequences of that even in this chamber, with new federal electorates being created in Western Australia, Queensland and places like that at the expense of electorates in the southern states. The truth is that Western Australia and Queensland do deserve a better share of the federal revenue pie. I look forward to working with the member for O'Connor and all the people in this place—from both sides of the chamber, from the outlying states, from Western Australia and Queensland—in seeking a fairer share for our states. It is acknowledged that both Queensland and Western Australia have contributed to the economic prosperity that we currently enjoy.

I look forward to the review. I look forward to the contribution of the Western Australian government and the Queensland government to the review. I will talk about the review a little later. It is worth remembering that the Howard government introduced the GST in 2000. In that time the states and territories have received revenue from the GST based on the recommendations of the Commonwealth Grants Commission. I thank the member for O'Connor for updating his information, because, due to the changes in the Commonwealth Grants Commission redistribution, Western Australia is receiving 72c in the dollar this financial year, not the 68c he mentioned in the motion. This equates to about \$3.5 billion in GST payments this year alone.

The member for O'Connor chose to put forward this motion while, as I said, there is a review of GST distribution underway. That review was announced in March. In July the review panel released an issues paper and called for submissions. An interim report is due by February 2012 and a final report will be ready by September 2012. In terms of the way the wheels of government, reports, inquiries and commissions are undertaken, that is not a long time in the circumstances. The review will not affect the distribution of GST revenue in 2011-12 or 2012-13.

We appointed a number of people to the review panel, including Nick Greiner, John Brumby and Bruce Carter. Premiers like Greiner and Brumby have had many years of experience in dealing with COAG and national partnership arrangements. They have dealt with issues of horizontal fiscal equalisation and issues that challenge. Premiers like Greiner and Brumby have gone to meetings with Prime Ministers of both persuasions many times. It is quite interesting to see the premiers going to those meetings. Party politics often seems to be put aside and states' rights certainly come to the fore. It is a perfect examination of the Australian Constitution's role in a federation or commonwealth of states. The review has raised a

number of issues. We hope the review will lead, as the Prime Minister's press release said, to a simpler, fairer, more predictable and more efficient distribution of GST to the states and territories.

I understand that the member for O'Connor is concerned for his state, as I am for my state of Queensland. I encourage him to express his concerns to the review panel via a submission. I believe that the cut-off date for submissions is 14 October this year. As he mentioned as well, I expect that the Western Australian government has already lodged its submission, and I expect that the Queensland government has done the same. I expect all the states and territories—from the smallest, Tasmania, to the largest, New South Wales—will want to make submissions to the review panel, because I am sure they will want to have their say. I am sure they want to express what they wish to receive and the basis upon which they wish to receive it in the future. The review is the appropriate venue for expressing concerns. Until the report is tabled, I think it is unwise to pre-empt the outcome of the review.

I would like to address the underlying notion in the member for O'Connor's motion that Western Australia should receive a greater percentage of the GST. That is essentially what this motion is all about. Western Australia generates more GST revenue at this point in time. That is why he proposes that his state should receive more of the bounty. I can say the same about Queensland—that is for sure. As a federal member from Queensland, I am not standing here and pre-empting the review, even though I would like to see Queensland get a fairer share of the revenue. The argument has been waged at meetings between the states by premiers, the Prime Minister and others. The argument is: if you raise more revenue, why should you not be entitled to more in return? Before we answer that, we need to understand the principles that guide the distribution of revenue.

The pool of GST revenue for this financial year is expected to be about \$48 billion—a not inconsiderable sum of money. It goes to build a lot of roads, hospitals and schools. The revenue is not distributed equally on a per capita basis; it is distributed according to the principle of horizontal fiscal equalisation, or HFE. This ensures the states and territories have the capacity to provide comparable services for their residents based on comparable effort to raise revenue from their tax bases. It takes into account the fact that states and territories, for reasons beyond their control, sometimes have weaker or stronger revenue-raising ability per capita than the average of all states and territories combined. Since Federation, the federal government, regardless of which side has been in power, has been redistributing revenue from tariffs to the states. Appreciating financial support for financially weaker states was appropriate. The Commonwealth Grants

Commission was established in 1933 to advise the government on grants to the states. It quickly adopted the idea of fiscal need as a guiding principle to allow states to function in a standard not appreciably below other states. The irony of this is that in the 1930s there was a threat of secession from the Western Australian government. This was spurred on in the 1970s by Lang Hancock and in the last few years by former Premier Richard Court. Until 1981 for a good 50 years Western Australia was the beneficiary of special or additional grants as it was considered to have a weaker economy along with South Australia, Tasmania and even Queensland, my home state. It difficult for me as a Queenslander to accept that my state's economy was weaker. Since 1933 the main donor states were New South Wales and Victoria—that is, they received less than their population's share of equalisation funding over the years. However, in the late 1990s and early 2000s that trend changed for WA and Queensland and we became donor states as mining, tourism and other industries flourished and the other states dived down comparatively. Around this time the source of funding distribution also changed—from July 2000 that was the GST. Here we are again dealing with the concerns of my home state, Queensland, and WA about the distribution of revenue to the states. The cry is 'unfair', and I often express that too as a Queenslander. It is not just in State of Origin; it comes at meetings between the premiers.

I know that Western Australia has happily been a beneficiary for about 50 years, and the member for O'Connor suggests we need to change the way we distribute these funds because WA is now a donor state. I would like to say 'amen' to that, brother, but I know that there is a review going on at the moment. What happens if the mining boom ends? We have \$430 billion in the pipeline so it is not likely to end. What if we go back to supporting states that are negatively impacted? There is probably never going to be consensus on the GST distribution between the states, but we need to get the principles right and I am hoping that the review will get it right. I do not want to pre-empt the outcome of the review. Even the concept of horizontal fiscal equalisation makes me shudder when I think about what it actually means.

The Federation is not static and economic relativity changes. We know that. That is why we have instigated the review. The fact is that as a country we face some long-term trends that are driving the need for structural change. The mining boom we are experiencing has benefited Queensland and Western Australia, and I look forward to our states getting a fairer share in the future. I know we are heavily reliant on mining, but I am sure that in 100 years' time our nation's economy will look pretty different to what it does today. I am hoping states like Queensland and Western Australia will still get their fair share.

I cannot support the motion because it pre-empts the review. With the nation's interests at heart I look forward to the review findings getting a fairer share for Queensland and, indeed, for Western Australia. (*Time expired*)

Dr WASHER (Moore) (20:33): I rise to speak on the motion proposed by the member for O'Connor, and I thank him for bringing this important issue before the House. I move:

That the House:

deletes paragraph (2) of the motion and substitutes:

(2) calls on the Government to refer the matter of the minimum share of GST allocated to Western Australia to the GST Distribution Review for further consideration and analysis

The distribution of GST revenue according to the Commonwealth Grants Commission's recommendations are expressed in the form of GST relativities—that is, a state's share of national GST grants divided by its population share. The Commonwealth Grants Commission updates its calculations annually by using the latest data on populations, revenue bases and cost drivers and reviews its methods every five to six years, with the last review having been conducted in 2010. In 2011-12 Western Australia's GST relativity is only 72 per cent. The longer term trend will see Western Australia's grant share decline on the back of its strong economic and revenue base growth relative to other states.

On 30 March 2011, the Prime Minister announced a review of the arrangements for distributing GST revenue grants among the states. This review is being conducted by the Hon. Nick Greiner, the Hon. John Brumby and Mr Bruce Carter with assistance from the Commonwealth Treasury and an advisory committee of state treasuries. A final decision is to be made on new arrangements by the end of 2013.

This review will cover issues of longstanding concern to Western Australia, particularly the disincentives for economic development of states created by the Commonwealth Grants Commission redistribution of revenue gains from economic growth to other states through the GST distribution process. The substantial differences between the Western Australian and Commonwealth budget projections reflect the different projection methodologies for the individual data-year relativities. The GST relativities are a lagged three-year average of these data-year relativities. For example, the 2011-12 GST relativity is based on data-year relativities for 2007-08, 2008-09 and 2009-10. Western Australia models the data-year relativities beyond 2009-10, taking into account many factors, including states' relative capacities to raise mining revenues, payroll tax, land tax and conveyance duty, the states' populations and changes in the GST pool.

The Commonwealth largely assumes that the data-year relativities will not change after 2009-10. Adjustments are made for changes in the GST pool, state population shares and the distribution of National Specific Purpose Payments, but these have relatively minor impacts and ignore the increased estimates of Western Australia's mining revenue capacity, including the impact of the increase in the iron ore fines royalty rate. The forward estimates of WA's GST grants based on projections by the WA Department of Treasury indicate that the 2013-14 relativity will be 44 per cent, falling to 33 per cent by 2014-15. Growth in mining revenues is a major factor driving down Western Australia's GST share.

In acknowledgement of the work already undertaken by the review committee and the Commonwealth and state treasuries, an interim floor of 75 per cent GST relativity is sought pending the outcomes of the review to be presented to COAG by the end of 2013. An interim floor of 75 per cent GST relativity would add an estimated \$1.8 billion to Western Australia's GST grants in 2013-14 and an estimated \$2.5 billion in 2014-15. Western Australia is being penalised for economic success under the current methodology. Additional funding for Western Australia could be spent across a range of services and infrastructure, including nationally significant projects that would generate substantial personal and company tax income for the Commonwealth.

In finishing, I encourage the government and independents to reconsider raising the GST in discussion for next month's tax forum in Canberra. If this does not happen then the tax system will rely on economically bad income and company taxes. Thank you.

The DEPUTY SPEAKER: Is the amendment seconded?

Mr Hockey: I second the amendment.

Mr OAKESHOTT (Lyne) (20:38): This is an important debate, and I certainly welcome the motion put by the member for O'Connor about GST revenue for Western Australia. Hopefully, that will allow for consideration of GST revenue more widely, as mentioned by the previous speaker. At this stage, without having spoken to Mr Washer, I look forward to talking to him to clarify his final comment about raising the GST at the tax forum—did he use the word 'raising' to mean bring it up or directly to mean increase it? But we can clarify that later.

GST revenue is a Commonwealth tax under Commonwealth law and is distributed to the states through the Grants Commission. At times I can see the frustration, as we are seeing in this motion, of people, whether they are sandgropers, cockroaches or cane toads, who feel as if they may be ripped off through the system that has been established. I do not think that

was the intent of the founders in 2001, when the GST was brought in; nor do I think that was the intent when the Grants Commission was formed in 1933. I think we are once again seeing an example of the clash between the foundation documents and the considerations around whether we are a federation of states or a Commonwealth working with the common interest in mind. Anyone who wants to look at whether the Commonwealth should even have things like surpluses, which dominate debate in this chamber quite often, should go to section 94 of the Constitution and reflect on whether money raised at a Commonwealth level should, even on a monthly basis, go through to the states for their infrastructure and service needs.

The terms 'vertical fiscal imbalance' and 'horizontal equalisation' are great Canberra-speak. As terms alone, they should win awards for disengaging the Australian population. But those terms really are code in many ways for an attack on states' rights going back to considerations around our founding document. In that context I can understand the frustration of the member for O'Connor. I certainly congratulate him for bringing the motion forward. I understand he is intimately involved in the GST review committee and was agitating to get it up and running. Hopefully, through that process, per the amendment that has been moved, this can be part of the considerations of that important review.

We have a national tax forum coming up in the next six weeks, and I hope that government does not dodge the elephant in the room—considerations in and around the GST as raised by a previous speaker. They have come up in a series of forums that I attended during the two-week sitting break at meetings at in Walcha and Port Macquarie; there was also a Tax Institute forum in Sydney. If we are going to have an open, honest, frank and full debate around tax, tax collection and how we get fewer taxes in this country, it at least has to be part of the considerations before conclusions are drawn.

I think the Henry review process made some simple recommendations. There are 125 taxes in this country. Ten of them do 90 per cent of the lifting. That means 115 of them do 10 per cent of the work. We can, if we want, combining the state and federal governments, work hard to significantly reduce the number of taxes. That, more than anything else we do in the area of tax and tax collection, would assist the Australian community and the small business community. I hope this motion fits in with the broader conversation we are about to have about tax. I hope there is a commitment across the board for fewer taxes in this country and that we work on significantly reducing the 125 taxes to a more efficient and manageable number. (*Time expired*)

Debate adjourned.



DISCUSSION PAPER – A PROPOSED FLOOR IN GST RELATIVITIES

THE INTRODUCTION OF GST

In May 1999, the Howard Government made an agreement with the States, whereby the States would abolish or reduce many State-based taxes, and the Commonwealth would in return provide all revenue from a new 10% Goods and Services Tax (GST) to the States and Territories.

THE DISTRIBUTION OF GST BETWEEN THE STATES

Each year, the Commonwealth Treasurer, on the advice of the Commonwealth Grants Commission (CGC), determines how GST revenue will be distributed between the States and Territories. In determining each State's GST share, the CGC takes account of States' differing capacity to raise revenue, and their differing costs in providing services. The CGC aims to provide all States with the same financial capacity to provide a comparable level of services to their populations, termed Horizontal Fiscal Equalisation (HFE).

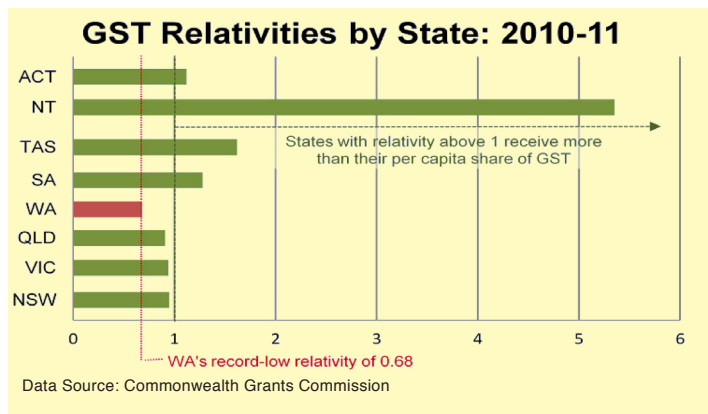
THE CURRENT CASE FOR WESTERN AUSTRALIA

In 2010-11, WA received less GST relative to its population than any state has since the formula was introduced.

As WA has grown and prospered, it has contributed more and more to the federal economy, but has received less and less of the GST pool in return.

In 2010-11, WA received a record-low share of GST revenue relative to its population share (called "GST relativity").

In 2010-11, WA received only 68% of what it would have received if GST revenue was distributed across Australia on a per capita basis. By contrast every other State and Territory received not less than 91%.¹

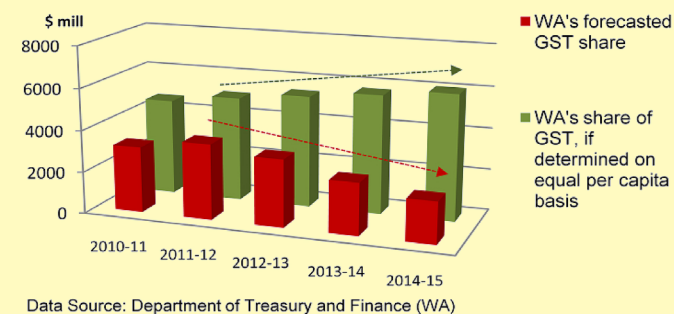


THE FUTURE FOR WESTERN AUSTRALIA'S GST REVENUE

Current estimates suggest that WA's downward trend in GST revenue share will continue into the foreseeable future.

WA Department of Treasury & Finance (DTF) modelling indicates that in 2014-15, WA's GST revenue share will hit an untenable 33% relative to its population share,² resulting in WA receiving at least \$4 billion less than its equal per capita share of GST revenue.²

GST Forecasts to 2014-15: WA's Diminishing GST Revenue



THE NEED FOR CHANGE: REVERSING THE RIP-OFF

While WA will continue to contribute to the federal economy and continue to financially assist less prosperous states, there has to be some limit to the rip-off. The current application of HFE without any limitations or floor is unsustainably penalising WA for its economic success. A limit to the rip-off must be introduced before WA GST relativities hit an unprecedented and untenable 33%.

In this regard, Tony Crook is pushing for a reasonable 75% floor to any States' GST relativity. This model would preserve the principles of HFE, and the CGC's formula, except to the extent it results in a State receiving less than 75% of its GST share relative to its population share. This proposal would add an estimated \$1.8 billion to WA's GST grant in 2013-14, and an estimated \$2.5 billion in 2014-15.

To put this in perspective, in the year 2014-15, the amount of extra funds directed back to WA under this proposal would be equivalent to more than double the entire Royalties for Regions Fund in that same year. In that one year alone, WA's extra GST revenue would be equivalent to funding the development of the new Albany Health Campus, the State's biggest public country hospital development, 14 times over.

WHERE TO FROM HERE?

Tony Crook will be moving a motion in the House of Representatives requesting that Parliament formally acknowledge that WA is receiving less GST revenue relative to its population, than any other state has since the formula was introduced. The motion will also call on the Government to amend the *Federal Financial Relations Act 2009* to introduce a 75% floor to any States' GST relativity.

1 Commonwealth Grants Commission, *Report on GST sharing Relativities – 2011 Update*. See, www.cgc.gov.au
 2 Department of Treasury and Finance (WA), *2011-12 Budget, Economic and Fiscal Outlook, Budget Paper No. 3*. See, www.ourstatebudget.wa.gov.au



Annex D

Table of Figures: the effect of a 75% floor in GST Relativities

Calculation of effect 75% floor on GST Relativities to States' GST Revenue: 2011-12 to 2014-15

2011-12

All assumptions and forecasts based on Federal Government modelling

State	Treasury estimates (BP No.3 2011-12)			Calculation of GST entitlement pool with floor			
	Relativity	Share of GST \$m	Share of adj pop	Relativity w/ floor	New share of adj pop	New share of GST \$m	Difference w floor \$m
NSW	0.95776	14949.8	30.9%	0.95776	30.8%	14899.3	-51
VIC	0.90476	10888.5	22.5%	0.90476	22.4%	10851.7	-37
QLD	0.92861	9138.9	18.9%	0.92861	18.8%	9108.0	-31
WA	0.71729	3598.5	7.4%	0.75000	7.8%	3749.9	151
SA	1.27070	4492.6	9.3%	1.27070	9.3%	4477.4	-15
TAS	1.59942	1743.0	3.6%	1.59942	3.6%	1737.1	-6
ACT	1.11647	866.5	1.8%	1.11647	1.8%	863.6	-3
NT	5.35707	2672.1	5.5%	5.35707	5.5%	2663.1	-9
Total		48350.0	100.0%		100.0%	48350.0	0

2012-13

State	Estimates and projections (BP No.3 2011-12)			Calculation of GST entitlement pool with floor			
	Relativity	Share of GST \$m	Share of adj pop	Relativity w/ floor	New share of adj pop	New share of GST \$m	Difference w floor \$m
NSW	0.97137	16178.2	31.3%	0.97137	31.0%	16052.6	-126
VIC	0.90508	11671.3	22.6%	0.90508	22.4%	11580.7	-91
QLD	0.93389	9883.3	19.1%	0.93389	18.9%	9806.6	-77
WA	0.67510	3648.6	7.1%	0.75000	7.8%	4021.9	373
SA	1.25339	4718.7	9.1%	1.25339	9.0%	4682.1	-37
TAS	1.59147	1845.0	3.6%	1.59147	3.5%	1830.7	-14
ACT	1.10956	921.7	1.8%	1.10956	1.8%	914.5	-7
NT	5.38098	2883.2	5.6%	5.38098	5.5%	2860.8	-22
Total		51750.0	100.0%		100.0%	51750.0	0

2013-14

State	Estimates and projections (BP No.3 2011-12)			Calculation of GST entitlement pool with floor			
	Relativity	Share of GST \$m	Share of adj pop	Relativity w/ floor	New share of adj pop	New share of GST \$m	Difference w floor \$m
NSW	0.98251	17232.4	31.5%	0.98251	31.1%	17022.4	-210
VIC	0.89344	12183.1	22.3%	0.89344	22.0%	12034.6	-148
QLD	0.97890	10992.5	20.1%	0.97890	19.9%	10858.5	-134
WA	0.63254	3634.0	6.6%	0.75000	7.8%	4256.3	622
SA	1.24010	4906.5	9.0%	1.24010	8.9%	4846.7	-60
TAS	1.53220	1865.1	3.4%	1.53220	3.4%	1842.4	-23
ACT	1.05197	923.0	1.7%	1.05197	1.7%	911.8	-11
NT	5.21688	2963.4	5.4%	5.21688	5.4%	2927.3	-36
Total		54700.0	100.0%		100.0%	54700.0	0

Estimates and projections (BP No.3 2011-12)				Calculation of GST entitlement pool with floor			
State	Relativity	Share of GST \$m	Share of adj pop	Relativity w/ floor	New share of adj pop	New share of GST \$m	Difference w floor \$m
NSW	0.98395	18052.1	31.4%	0.98395	31.1%	17854.0	-198
VIC	0.89556	12826.2	22.3%	0.89556	22.1%	12685.4	-141
QLD	0.97839	11577.7	20.2%	0.97839	19.9%	11450.6	-127
WA	0.64497	3911.7	6.8%	0.75000	7.8%	4498.8	587
SA	1.23411	5097.5	8.9%	1.23411	8.8%	5041.6	-56
TAS	1.51872	1928.0	3.4%	1.51872	3.3%	1906.8	-21
ACT	1.05077	967.2	1.7%	1.05077	1.7%	956.6	-11
NT	5.08175	3039.5	5.3%	5.08175	5.2%	3006.1	-33
Total		57400.0	100.0%		100.0%	57400.0	0