

Options for a fair, simpler, transparent and predictable
distribution of GST revenue

An Australian citizen

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Introduction

The Australian Government has commissioned a review of GST distribution to the states and Territories. Nick Greiner, John Brumby and Bruce Carter have been appointed to conduct the review.

The review is intended to lead to a simpler, fairer, more predictable and more efficient distribution of the GST to states and Territories.

This review should in theory have far reaching implications for how fiscal equalisation will be done in the future. But in practice it can be difficult to achieve far-reaching and effective changes in this area.

This is because the nature of a perceived zero-sum game and entrenched positions of many important stakeholders. It is also related to the current arrangement in which no effective mechanism exists for a significant change.

Nevertheless, it would be important to keep the momentum and urgency for reforms in this important area, particularly in the context of so many other reforms including taxation and welfare reforms the nation has achieved in the past 30 years.

This submission only outlines a number of options for an alternative distribution for consideration without detailed elaborations. It is intended to be food for thought — practical ideas that present participants with an opportunity to think. It only focus on a few most promising options as opposed to a comprehensive list of options that would waste the time of some people with only small marginal effects.

Promising Options for an alternative GST distribution:

1. EPC – an equal per capita distribution
 - Some states have argued for this distribution that would have no redistribution from the distribution based on shares of population. It may be assessed as high in meeting some of the points in clause 5 of the terms of reference for the review, but it may be rated as very poor with regard to fiscal equalisation.
2. The current system with a discount of a certain percent
 - Assuming an equal per capita distribution is an acceptable no-redistribution distribution, this option is between it and the current almost full fiscal equalisation distribution, with the discount factor determining the weights of those two distributions. It would be a simple compromise between those two distributions.
3. The current system with a discount of a certain percent, plus a floor
 - This is similar to option (1), but could address the concern that a State's relativity may become too low to be a politically difficult issue. Whether a floor will be binding or not depends on how high/low it is set.

4. A set of fixed relativities
 - Such a distribution has some of the characteristics of an EPC distribution because of the numbers are fixed and predictable. Depending how the 8 numbers are determined, they could also be rated as very good with regard to fiscal equalisation in terms of a balance between equity, efficiency, simplicity and predictability and stability. The determination of the 8 numbers could be based on past experience, or by a review and decision by the CGC with terms of reference as per usual.
5. Fixed relativities with periodical reviews
 - State circumstances and relative fiscal capacities may change significantly over time, and periodical reviews of a set of fixed relativities to adjust to changed circumstances could be desirable for a number of reasons, including both equity and efficiency.
6. Fixed relativities with a predetermined path to a different set of fixed relativities, with periodical reviews
 - This option is similar to the previous one, but could also accommodate transitional requirements.

In summary, a framework based a set of fixed relativities could be designed to meet all the objectives implied in the terms of reference for the review. More importantly it could provide a circuit breaker to the current arrangement. This can be done by tasking the CGC to establish such a framework with appropriate and clear terms of reference that require it to balance equity and efficiency and simplicity and predictability. That would overcome the current impossible situation for all states and territories to achieve consensus for changing the distribution that will achieve the four objectives.

State mineral royalties and MRRT

An alternative arrangement to the pending two overlapping systems in dealing with the same issue related to mineral rent would be to introduce a type of mineral rent tax to replace the two and let individual states to be the owner of that tax. Similar to the GST arrangement, Commonwealth may collect the mineral rent tax for efficiency reasons but give it back to the states in full after deducting the administrative costs.

That mineral rent tax should not be as severe in tax rates as the Henry Review recommended, but should be comprehensive of all minerals as the base.

Such an arrangement would retain the merits of a rent type tax on minerals and at the same time would also reduce the current vertical fiscal imbalance in the federation.

