



Submission to the Commonwealth Treasury -  
GST Distribution Review

14<sup>th</sup> October 2011

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## **Introduction**

1. Thank you for the opportunity to provide this submission on the GST Distribution Review, Issues Paper of July 2011.
2. The Association of Mining and Exploration Companies (AMEC) is the peak national industry representative body for mineral exploration and mining companies within Australia, with over 330 members spread throughout the nation.
3. AMEC's strategic objective is to secure an environment that fosters mineral exploration and mining in Australia in a commercially, politically, socially and environmentally responsible manner.
4. It is in this context that AMEC provides the following comments in relation to the contentious issue of allocation of GST revenue to Australian States and Territories.
5. Comments are based on the content of the Issues Paper, previous discussions with the Secretariat of the Commonwealth Grants Commission, AMEC members and other stakeholders.

## **Executive Summary**

6. AMEC supports the GST Distribution Review on the basis that any outcomes and recommendations make the Australian economy stronger; the tax system fair, equitable and simple; ensures competitive neutrality and protects Australia's international competitiveness and sovereign risk.
7. AMEC would appreciate being consulted about any proposed major structural reforms before they are adopted.

## **Recommendations**

8. *That the HFE model is simplified to the extent that it provides predictability and stability in the state and territory budget setting process.*
9. *That state and territory governments should be rewarded for strategies, innovation, reform and development that results in good economic performance.*
10. *That the current 3 years 'average rolling period' should be further reviewed to make the 'relativity' process more timely and adaptive to meet immediate development and infrastructure needs.*
11. *That the current state and territory based royalties system should be maintained.*

## **Guiding principles**

12. AMEC considers that there are a number of guiding principles that should be essential features of any strategic long term tax reform program, including:

- making the economy stronger,
- having a tax system that is fair and equitable,
- having a tax system that is simple and administratively easy to manage,
- ensuring competitive neutrality, and
- protecting Australia's international competitiveness and sovereign risk.

13. It is noted that the Australian Government in the recent Tax Forum Discussion Paper also considered that a strong economy, and a fair and simple tax system were essential features of any reform program.

## **The global economy**

14. In developing its conclusions the Review should closely consider the concerns recently expressed by the International Monetary Fund, predicting the possibility of an extended global recession, where commodity prices, exchange rates, superannuation funds will be under enormous pressure.

15. Should this eventuate, the implications on the Australian economy should be at the forefront of any long term planning, public policy development and tax reform.

16. In view of the precarious position of the United States and European economies, and the potential shock wave should there be any further weakening in those economies, AMEC considers that the Review should take great care in recommending any major structural reform to the current GST distribution process.

17. Any such strategies and recommendations should be closely analysed to ensure that the current capacity, strength and confidence in the Australian economy is not detrimentally affected through reduced growth, revenue, investment and productivity.

18. AMEC is of the view that any long term tax reform program should be based on sound and sustainable economic policies that address macro-economic issues and promote national growth; rather than any short sighted public policies.

## **Discussion points**

### **Complexity of Horizontal Fiscal Equalisation**

19. AMEC notes the significant reliance that Australian States and Territories place upon GST revenue for much needed services and infrastructure, and that state and territory governments rely on over 50% of their revenue from Commonwealth funding.

20. AMEC also recognizes that the current GST distribution process is based upon the Horizontal Fiscal Equalisation (HFE) principles, which aim to ensure that each state and territory government has the capacity to provide a similar level of services to their constituents.
21. The current HFE distribution process appears to be extremely complex. In this respect, it is understood that over 100 criterion are used by the Commonwealth Grants Commission when assessing the various annual 'relativity submissions' made by the state and territory governments.
22. Such complexity creates an unpredictable and unstable budget environment for state and territory governments.
23. This has an indirect 'flow on' effect for industry and business investment and decision making processes due to the resultant budgetary uncertainty caused by future revenue shortfalls and the subsequent need to raise taxes or royalties.

***Recommendation:***

***That the HFE model is simplified to the extent that it provides predictability and stability in the state and territory budget setting process.***

**Inequity and penalties of Horizontal Fiscal Equalisation**

24. It appears that the treatment of revenue is inequitable, particularly as not all state and territory revenues are considered as 'revenue' in the HFE process eg gambling taxes.
25. Conversely, Western Australia and Queensland that have strong economic growth and have recently outperformed other Australia states are penalized through the HFE averaging process, particularly as a significant proportion of royalty revenue earned by those states are passed onto other less performing states and territories.
26. These inequities and penalties remove any incentive for state and territory governments to develop proactive and growth strategies that seek to significantly improve economic performance and productivity.
27. AMEC considers that states and territories should be rewarded for reform, innovation and development that results in increased productivity and growth.
28. In view of the current period of sustained growth in the Australian resources sector, it is imperative that the Government immediately maximizes all of the opportunities currently available to it, and not inhibit this growth which is currently being caused by Asian demand for our resources.
29. It should also be noted that Australia is not the only jurisdiction in the world that has marketable resources available, and that the current high demand for Australian commodities could change in the near future as other jurisdictions increase and bring on new commodities onto the world market.
30. It is therefore essential that Australia's financial, physical and intellectual resources should be immediately applied to their most productive use.

***Recommendation:***

***That state and territory governments should be rewarded for strategies, innovation, reform and development that results in good economic performance.***

### **Timing and inefficiency of the 'rolling average period'**

31. As the Commonwealth Grants Commission uses a three year average of relativities to determine the current year's allocation of GST revenue, there has been concern that the relativity calculations are slow to react and not sufficiently current to satisfy immediate and critical services, road, rail, and port infrastructure needs. AMEC notes that this 'rolling averaging period' has been reduced from 5 to 3 years, however, consideration should be given to a more 'timely' and adaptive process.

#### ***Recommendation:***

***That the current 3 years 'average rolling period' should be further reviewed to make the 'relativity' process more timely and adaptive to meet immediate development and infrastructure needs.***

### **Current royalty systems**

32. AMEC considers that the current state and territory based royalty system is a simple and appropriate process to compensate the community for the extraction of a non-renewable resource, which are according to the Constitution owned by the respective state and territory governments, and not the Commonwealth Government.

33. Combined with the long standing HFE process, AMEC considers that the current royalties system enables equitable distribution of the subsequent revenue stream between the states and territory governments.

34. AMEC considers that the 'status quo' of the current royalties regime should be maintained and not confused by other mechanisms that may interfere with that process. The current royalties system 'rewards' proactive and progressive relevant state and territory government that promote resource development.

#### ***Recommendation:***

***That the current state and territory based royalties system should be maintained.***