PREMIERS' CONFERENCE 1968

STATE TAXATION

Statement by the Prime Minister, Mr John Gorton

I think it is the proper time for me to make clear the Commonwealth's attitude on this question of possible extension of the areas in which the States levy taxation. In particular, I think I must make clear our attitude towards the imposition of States receipts duties on wages and salaries and similar receipts of personal income which we regard as income tax.

We take as our starting point the arrangements which were made in 1965 governing the payment of the financial assistance grants. These arrangements, like the ones that preceded them, were made on the assumption that the exercise of taxing powers would remain unchanged and that the States and their authorities would continue to pay Commonwealth pay-roll tax.

An agreement on that basis was, I understand, explicitly stated at the time. I believe that the States then knew that the Commonwealth was not undertaking to pay the agreed grants to the States unless the States refrained from levying income taxes themselves. That was the position, and as far as we are concerned that remains the position. We have emphasised that the introduction of State income taxation would in our view be a serious breach of the present arrangements.

Over the whole period since World War II, the Commonwealth has adhered firmly to the principle of uniform income taxation and opposed any suggestion of double income taxation. My own Government is convinced that this principle is sound and beneficial to the nation and that any multiplication of income taxes would be undesirable both economically and socially. Because the imposition of income tax and the rates of income tax imposed have major implications for economic and social policies throughout the whole nation, the Commonwealth will not stand by and permit its use of income taxation for policy purposes to be impaired by the introduction of State income taxes.

At last year's Conference, there was some discussion as to what scope there might be within the terms of the present financial assistance arrangements for the States to extend their fields of taxation should they desire to do so. In that context the question of State purchase taxes or turnover taxes on business receipts was raised. The Commonwealth's attitude was that it would not be opposed in principle to State taxation of this kind provided it was not carried to the point where it would significantly affect Commonwealth revenue collections or the carrying out of national policies.

Shortly afterwards, Victoria introduced its new receipts duty which extended beyond taxation on turnover - with which we have no quarrel - to taxation on wages and salaries and other personal incomes. The Commonwealth stated its objection to this duty insofar as it applied to wages and salaries and other comparable payments such as superannuation. I know that a tax similar

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in many respects to the Victorian one was already in operation in Western Australia, and I know, too, that the stamp duty legislation of other States has at one time or another involved minor imposts on wages and salaries, but we regard any impost on wages and salaries as in fact, substance and principle, a form of income tax. The Commonwealth is firmly opposed to such a levy on wages and salaries and will continue to be so opposed.

In our view, such a levy is in breach of the present financial assistance arrangements agreed to by all States. We believe it is wrong to impose more than one direct tax on wages, salaries and related forms of income, and if such a practice were to become established and to spread, it would not only add to the tax burdens on wage and salary earners which already are by no means inconsiderable, but also it could give rise to all of the evils of differential rates of income tax on citizens living in different States, from which the system of uniform taxation has rid this country.

We want the States to refrain from imposing receipts duty on wages and salaries and comparable payments. If these imposts are still in existence when we come to review the present arrangements in 1970, that will be a decisive factor in determining our attitude on the allocation to a State imposing that form of taxation. In the meantime, should a State that continues this impost on wages and salaries impose it a higher rate than at present, we would move forthwith to amend our legislation and seek to reduce that State's grant.

I have already said that we do not object in principle to modest extensions of State taxation into the general field of business receipts or business turnover, provided it is not carried to a point where it could significantly affect the Commonwealth's ability to carry out national policies or to raise Commonwealth revenue. Subject to that proviso, there would be no conflict with the present grants arrangement if any State decided to move into this field. But we do not suggest or urge this. We are ready to accept it within the limits I have stated.

In recent times there have been suggestions that some States might impose a tax on pay-rolls, presumably on the lines of the Commonwealth pay-roll tax. We have studied that possibility and the various implications it could have. It is right that I should tell you that the Commonwealth does not look with favour on such action by any State. We would regard it as cutting across major Australian interests and purposes. Pay-roll taxation is an important source of national revenue and it is also an instrument that can be used to promote activities and developments of benefit to our economy. For example, the rebate of pay-roll tax is basically involved in the Commonwealth's scheme of export incentives, which has been of marked success in promoting the growth of exports, especially of manufactures, and this in turn has helped all of us. We regard that as a kind of tax that ought to be reserved to the Australian Government and administered on a nation-wide basis.

FINANCIAL ASSISTANCE GRANTS

$ million

	1966-67	1967-68	1968-69(a)	
			Amount	Increase
N. S. W.	275.1	302.8	328.9	26.1
Victoria	207.5	228.3	247.7	19.4
Qld.	124.8	139.6	153.9	14.3
S. A.	93.8	102.7	111.1	8.4
W. A.	85.9	96.1	106.2	10.1
Tasmania	34.5	38.0	41.2	3.2
Six States	821.6(b)	907.5(b)	989.0	81.5

(a) Assumes an increase of 5.5 per cent in average wages for the twelve months ended March 1969 and the same increase in each State's population during 1968 as during 1967

(b) In addition, the following amounts of special revenue assistance were provided in 1966-67 and 1967-68 to help offset effects of drought on State revenue :

	1966-67 $million	1967-68 $million
N. S. W.	8.0	5.1
Victoria	-	4.8
Qld.	2.75	2.3
S. A.	-	1.7
	10.75	14.0

The following reimbursements have also been made to the States by the Commonwealth to meet the cost of drought relief measures:-

	1965-66 $ million	1966-67 $ million	1967-68 $ million	Total $ million
N. S. W.	14.2	13.0	7.6	34.8
Victoria	-	-	8.0	8.0
Qld.	7.5	4.9	3.0	15.4
S. A.	-	-	1.0	1.0
	21.7	17.9	19.6	59.2