

FOR PRESS:

OUTCOME OF THE PREMIERS' CONFERENCE, JUNE 1971

STATEMENT BY THE PRIME MINISTER, THE RT. HON. WILLIAM McMAHON

Like the Conference in April the discussion at today's Premiers' Conference was both frank and extremely fruitful.

In my opening statement to the Conference (copies of which have been circulated) I said that the Commonwealth accepted the States' need for some greater flexibility and freedom in revenue raising. However, the constitutional position clearly debars the States from imposing virtually any form of sales tax and, on broad grounds of economic and social policy, the Commonwealth Government has decided that it would not be advisable to re-open the field of personal income tax to the States. In these circumstances, I indicated that the Commonwealth was willing to transfer pay-roll taxation to the States on the basis set out in the detailed Commonwealth offer on that matter which was circulated to the Premiers following my opening statement.

The Premiers re-affirmed their previously expressed views that the States need access to a new area of "growth" taxation to assist them in financing improvements in the services which State Governments provide. They indicated that, while some of them would prefer that the States be given access to income tax, they accepted that pay-roll tax would constitute a useful addition to their resources for revenue-raising purposes.

The Premiers pointed out, however, that the amount of revenue that they might be able to raise from the tax in 1971-72 would not in itself be sufficient to enable them to deal with the large deficits facing them in that year, even after taking account of other possibilities for improving their budgetary outlook.

The Premiers emphasised strongly that, in these circumstances, they would find it very difficult to cope with their prospective 1971-72 budget deficits which, they said, are abnormally high due largely to the unavoidable "full year" costs of the extraordinary wage and salary awards granted in 1970-71.

The Treasurer and I both indicated that the Commonwealth recognised that the States were again faced in 1971-72 with abnormal budgetary problems. At the same time we pointed out that the Commonwealth is itself faced with a very difficult budgetary problem in 1971-72, and this in circumstances where there is a need to do everything possible to combat inflationary pressures. I also again emphasised that public authority expenditures are undoubtedly playing a leading role in the generation of these pressures. After careful consideration the Commonwealth came to the view that, as part of a co-operative effort, it should be prepared to play some further part.

On these grounds the Commonwealth agreed that it should assist the States to meet their prospective revenue deficiencies by providing total additional revenue

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assistance in 1971-72 estimated at \$62.7 million.

Of this amount, \$40 million will take the form of a non-recurring grant to be distributed between the States in proportion to their financial assistance grants. A table showing the approximate distribution of \$40 million is attached.

The remaining amount of about \$22.7 million represents the difference between the amount the States will receive from pay-roll tax collections in 1971-72 and the amount by which the 1971-72 formula grants will be reduced - that is, the deduction from the 1971-72 grants will be smaller by this amount. This smaller reduction of about \$22.7 million will also be made in the "base" used to determine the formula grants for 1972-73 and subsequent years so that the States will continue to benefit from it in those years. Over the remaining four years of the financial assistance grants the States should receive an additional \$100 million or so in this way. The method by which the estimated amount of \$22.7 million will be distributed between the States is described in more detail in the attachment.

A feature of the agreement between the Commonwealth and the States to transfer pay-roll tax to the States, and

which is referred to in the detailed Commonwealth offer, is that, as from the date of transfer sometime in 1971-72, wages and salaries paid by local authorities, other than in respect of their business activities, will be exempted from pay-roll tax. The cost of providing this exemption, which I feel sure will be greatly welcomed by local government authorities throughout Australia, will be met entirely by the Commonwealth. The cost in 1971-72 will depend on the date of transfer and the cost in a full year is estimated to be of the order of \$8 million.

Further details of how the transfer will be effected are included in the attachment and these and other technical and administrative aspects are to be the subject of further early discussion between Commonwealth and State Treasuries.

However, there are two points I mention especially in relation to the transfer.

First, it will be entirely up to each State to decide at what rate it will levy its own pay-roll tax and to decide what exemption and other assessment provisions it should adopt. For that reason it is not possible to say what additional amount of revenue the States might gain from pay-roll tax in 1971-72 or subsequent years. It is one of the great advantages of the scheme that each State is able to determine for itself the extent to which it should gain extra revenue

from this source, having in mind its particular budgetary circumstances.

Secondly, I make it clear that, while pay-roll tax will be transferred to the States, the Commonwealth will continue to operate the export incentive scheme so as to give exporters the same benefits, based on the existing rate of 2½ per cent, as they now enjoy. The Acting Minister for Trade and Industry will be making a separate statement about this scheme.

The Commonwealth Government believes that, with access to this new field of taxation and with the substantially improved arrangements for the payment of financial assistance grants to the States settled at the June 1970 Premiers' Conference, the States should be well placed, after the difficulties of 1971-72 have been overcome, to meet their financial responsibilities fully in future. In saying that I am conscious, as I indicated in my opening statement to the Conference, that no system of public authority finance can reasonably be expected to contend with the consequences of wage awards in fields of particular importance to public authority employment if they are going to be of the well-nigh crippling kind which has beset the States in particular, but also the Commonwealth, in the course of the present financial year.

It is fair to say that the severe restrictions which have had to be placed upon the growth of much-needed public authority works and services in the latter months of 1970-71, and which will have to be maintained and perhaps intensified in 1971-72, have their origins in the events in the field of wage determination to which I have referred.

The additional revenue assistance of about \$62.7 million which the Commonwealth has agreed to pay to the States in 1971-72, when added to the large increase in payments under existing arrangements, gives an estimated increase in total allocations to the States from the Commonwealth, including the amounts the States will receive from pay-roll tax, of over \$340 million in 1971-72. This would be 12 per cent higher than in 1970-71. Further details of the estimated amounts involved in 1971-72 are set out in the second table attached.

ADDITIONAL REVENUE ASSISTANCE TO THE STATES FOR 1971-72\*

	<u>\$ million</u>
New South Wales	13.1
Victoria	9.8
Queensland	6.2
South Australia	4.3
Western Australia	4.7
Tasmania	1.9
<u>Total</u>	<u>40.0</u>

- \* Total of \$40 million to be divided between the States in proportion to their financial assistance grants, including additional grants of \$2 per head to New South Wales and Victoria and of \$9.5 million to Western Australia as well as the additional grants to Queensland resulting from the \$2 million addition to its base. The distribution between the States is approximate only.

COMMONWEALTH ALLOCATIONS TO OR FOR THE STATES

	<u>1970-71(a)</u>	<u>Increase 1970-71 Over 1969-70</u>		<u>1971-72 Preliminary Estimates</u>	<u>Increase 1971-72 Over 1970-71</u>	
	\$m	\$m	Per Cent	\$m	\$m	Per Cent
<u>General Revenue Grants</u>						
Financial Assistance Grants	1,358.8	217.5(b)	19.1(b)	1,534.9(c)	176.1	13.0
Receipts Duty Compensation	59.7	59.7	-	100.1(c)	40.4	67.7
Special Grants	18.7	-3.2(b)	-14.7(b)	18.7(d)	-	-
Special Revenue Assistance	43.0	17.0	65.4	40.0	-3.0	-7.0
Net Gain to States From Pay-Roll Tax (e)	-	-	-	22.7	22.7	-
Debt Charges Assistance	11.5	11.5	-	23.0	11.5	100.0
<u>Sub-Total</u>	<u>1,491.7</u>	<u>302.5</u>	<u>25.4</u>	<u>1,739.4</u>	<u>247.7</u>	<u>16.6</u>
Specific Purpose Payments(f)	524.5	51.3	10.8	581.3	56.8	10.8
<u>TOTAL PAYMENTS</u>	<u>2,016.2</u>	<u>353.8</u>	<u>21.3</u>	<u>2,320.7</u>	<u>304.5</u>	<u>15.1</u>
<u>Works and Housing (Borrowing) Programmes</u>	<u>823.0</u>	<u>65.0</u>	<u>8.6</u>	<u>860.0</u>	<u>37.0</u>	<u>4.5</u>
<u>TOTAL ALLOCATIONS</u>	<u>2,839.2</u>	<u>418.8</u>	<u>17.3</u>	<u>3,180.7</u>	<u>341.5</u>	<u>12.0</u>

- (a) The figures shown for the various general revenue grants are final in all cases. That shown for specific purpose payments is not.
- (b) Comparisons with 1969-70 affected by the transfer of \$10 million from Tasmania's special grant to its financial assistance grant in 1970-71.
- (c) Based on the assumptions that the increase in average wages in the year ending March 1972 is 9.0 per cent and that percentage increase in each State's population in the year ending December 1971 is the same as in the previous year.
- (d) Based on the arbitrary assumption that these grants (which are paid to South Australia and Tasmania on the recommendation of the Grants Commission) are the same in 1971-72 as in 1970-71.
- (e) Net gain to States in 1971-72 as a result of deducting an estimated \$22.7 million less from the financial assistance grants than the States will receive from pay-roll tax in 1971-72.
- (f) Excluding natural disaster relief payments.