



**PRIME MINISTER**

FOR PRESS

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JUNE PREMIERS' CONFERENCE

The tax sharing arrangements settled today represent perhaps the most important advance in financial relations between Governments in Australia since Federation.

A completely new approach in financial relations between the Commonwealth, the States and Local Government has been set.

The key factor in the revenue sharing arrangements is that the States and Local Government will receive their financial entitlements automatically. Major elements in their finances should no longer be subject to haggling.

The revenue sharing arrangements implemented today are the foundation for the future development of Federalism, including the basic issue of defining clearer and more efficient roles and responsibilities for all three spheres of Government.

Under the new tax sharing arrangements States will receive much more in the current financial year as untied general revenue assistance than they would have under the Whitlam formula. This is a result the States have been seeking for years.

As set out in more detail below the increase in 1976-77 in funds to be available to the States and their authorities as tax sharing entitlements, local government assistance, Loan Council programs and welfare housing advances is estimated at 16.4 per cent.

Tax Sharing

The meeting had before it a comprehensive list of matters decided in relation to the tax sharing scheme following discussion at the February and April Premiers' Conferences. This list is reproduced as Attachment A. It covers the essential features of the tax sharing scheme.

At today's meeting there was further discussion on some outstanding subsidiary aspects. A summary of the additional points agreed at today's meeting is set out in Attachment B.

Arrangements for Stage 1 of the tax sharing scheme have now been largely settled, and that Stage will commence in 1976-77. Legislation to implement these arrangements, which will replace the existing States Grants Act, will be introduced as early as possible in the Budget session of Parliament.

The Prime Minister paid tribute to the co-operative spirit in which the States had discussed the new scheme over the period beginning with the February Conference and to the detailed work which had been carried out jointly by the Commonwealth and State Treasury officers.

Present estimates - which it is emphasised are very preliminary - put the States' tax sharing entitlement for 1976-77 at \$3,711 million - and increase of no less than \$638 million or 20.8 Per cent compared with the level of the financial assistance grants in 1975-76. The State by State figures are set out in Attachment C.

On present estimates this is \$55 million more than the present formula would have yielded - a formula which is, the Prime Minister noted, itself by no means an ungenerous one, particularly given the provision in it for an increase in the "betterment" factor to 3 per cent from 1 July next. Particulars on a State by State basis of the estimated entitlements and of the estimated amounts that would have been yielded under the financial assistance grants formula are given in Attachment D.

The Prime Minister said that, to avoid any possible misunderstanding, it should be made quite clear that the figures quoted are no more than present estimates. Nevertheless, it is a fair conclusion to say that the new tax sharing scheme will, on present estimates result, from the States' point of view, in an improvement on an already favourable situation.

The Prime Minister noted that work on Stage 2 of the tax sharing scheme is continuing at officer level. The firm target is to have legislative and other necessary arrangements made so that the States will be able, if they wish, to apply personal income tax surcharges or rebates in their States from the beginning of 1977-78.

STATE GOVERNMENT LOAN COUNCIL PROGRAMS FOR 1976-77

The Loan Council approved a total State Government Loan Council program for 1976-77 of \$1,356 million. This represents an increase of 5.0 per cent over the 1975-76 program. Of this total, one third will be provided to the States by way of interest free, non repayable capital grants. The capital grants will thus total \$452 million and borrowings for the States will total \$904 million.

Further details are set out in Attachments E and F.

BORROWING PROGRAMS FOR "LARGER" STATE AUTHORITIES IN 1976-77

For the States' "larger" authorities (those borrowing individually more than \$800,000 in a year) the Loan Council approved a total program of \$960 million, which represents an increase of \$150.3 million, or 18.6 per cent over the 1975-76 programs.

Details are set out in Attachment G.

"SMALLER" AUTHORITIES' BORROWINGS

The Loan Council has for some years placed no overall limit on the borrowings by "smaller" State authorities (those whose borrowings individually do not exceed \$800,000 in a year - increased from the figure of \$700,000 in 1975-76). The Loan Council agreed that this arrangement should be continued in 1976-77.

ADVANCES FOR WELFARE HOUSING

The Commonwealth will advance a total of \$375 million to the States in 1976-77 under the Housing Agreement. Any State would be free to supplement these amounts by providing additional funds for housing from general purpose capital funds available to it as Loan Council programs.

The State by State distribution of the figure of \$375 million is shown in Attachment H.

OVERALL SUMMARY

The following table represents an overall summary of the amounts referred to above.

|  | (1)<br><u>Level of</u><br><u>Funds</u><br><u>1975-76</u><br>\$ million | (2)<br><u>Estimated/</u><br><u>Proposed</u><br><u>Level in</u><br><u>1976-77</u><br>\$ million | (3)<br><u>Increase</u><br>\$ million    % |             |
|--|--|--|---|-------------|
| Financial Assistance<br>Grants/Tax Sharing<br>Entitlements | 3,072.8(a)   | 3,711.1(b)   | 638.3                                     | 20.8        |
| Local Government<br>Assistance                             | 79.9   | 140.0(c)   | 60.1                                      | 75.2        |
| Loan Council Programs                                      |  |  |   |             |
| State Governments  | 1,291.0  | 1,356.0(d)   | 65.0                                      | 5.0         |
| State Authorities (e)                                      | 809.7  | 960.0(d)   | 150.3                                     | 18.6        |
| Welfare Housing  | 364.6  | 375.0(d)   | 10.4                                      | 2.9         |
|  | <u>5,618.0</u>   | <u>6,542.1</u>   | <u>924.1</u>                              | <u>16.4</u> |

PERSONAL INCOME TAX SHARING - ISSUES DECIDED  
FOLLOWING THE FEBRUARY AND APRIL 1976 PREMIERS' CONFERENCES

- (1) The scheme will be related to personal income tax - not company tax and not including withholding taxes on interest and dividends.
- (2) The scheme will be introduced in two Stages.

Stage 1

- (3) Stage 1 will be introduced as from the beginning of 1976/77.
- (4) The States' entitlements under Stage 1 will represent a specified percentage of Commonwealth imposed personal income tax and State legislation will thus not be required in regard to Stage 1.
- (5) The "base" to which the percentage will be applied each year will be personal income tax collected in the year. The percentage figure will be determined by reference to the relationship between the financial assistance grants in 1975-76 and personal income tax collections in that year.
- (6) Personal income tax collections in the Territories will be included in the base figure but with this subject to review in the light of developments in public finances in the Territories.
- (7) The yield or costs of special surcharges or rebates applied, in appropriate circumstances, by the Commonwealth will not be included in the base figure from which the States' entitlements will be calculated.
- (8) In regard to the possible effects on the States' Stage 1 entitlements of changes by the Commonwealth in its personal income tax legislation, the Commonwealth Government has given a firm assurance to the States that:-
  - (a) it will ensure that the States are fully informed of relevant tax changes made by the Commonwealth and of their estimated effects on the States entitlements;
  - (b) it will participate in a review of the arrangements when there are changes in Commonwealth tax legislation which have effects on the States' entitlements of such significance as to warrant such a review; and

- (c) longer-term trends in regard to such matters as changes in the relative importance of personal income tax vis-a-vis other taxes will be kept under notice between the Commonwealth and State Governments.
- (9) However, it is agreed that it would not be practicable to devise in advance an automatic formula for defining how changes in Commonwealth tax laws should be reflected in the Stage 1 arrangements.
- (10) There will be a "guarantee" arrangement to ensure that the States' Stage 1 entitlements in any year are not less, in absolute terms, than in the previous year. This arrangement will be supplemented in the first three years of the new scheme (i.e. 1976-77, 1977-78 and 1978-79) by a further undertaking that the entitlements will not be less in a year than the amount which would have been yielded in that year by the financial assistance grants formula as laid down in the States Grants Act 1973-75.
- (11) A total entitlement for all States will first be determined, to be then divided between the States.
- (12) The initial per capita relativities between the States in their Stage 1 entitlements will be the relativities in the financial assistance grants in 1975-76.
- (13) Subject to (17) below, and to any absorption of specific purpose payments, these relativities will be carried forward into subsequent years in such a way as to maintain the proportionate relationships between the per capita entitlements of the States.
- (14) The four less populous States will continue to be free to apply for grants on the recommendation of the Grants Commission in addition to their basic entitlements as yielded under the arrangements summarised above.
- (15) The matter of the relationship between the special grant which Queensland is at present receiving on the recommendation of the Grants Commission and the tax sharing arrangements is regarded as essentially one between the Commonwealth and Queensland Governments and will be considered by those Governments as necessary.
- (16) The States will be paid their Stage 1 entitlements on a monthly pro-rata basis, with adjustments during the financial year as necessary as estimates of personal income tax collections in the year are varied (this is similar to the arrangements under which the financial assistance grants are paid).
- (17) There will be a periodic review of relativities between all States.

- (18) There will be full and precise documentation to record the understandings between Governments in relation to Stage 1 but this will not take the form of a formal Agreement.

Stage 2

- (19) Under Stage 2 each State will be able to legislate to impose a surcharge on personal income tax in the State, (but not company taxation or withholding tax on dividends and interest) additional to that imposed by the Commonwealth, or to give (at cost to the State) a rebate on personal income tax payable under Commonwealth law and to authorise the Commonwealth to collect the surcharge or grant rebate as its agent.
- (20) Any State surcharges or rebates will be expressed in percentage terms.
- (21) Assessment provisions, and the basic income tax rate structure, will continue to be uniform throughout Australia, these being matters for the Commonwealth to determine.
- (22) The Commonwealth will at all times remain the sole collecting and administrative agency in the income tax field.
- (23) The level of any State surcharges or rebates will be a matter for consideration by each State; relevant decisions will be taken within an appropriate framework of consultation with the Commonwealth and other States, but ultimately the level of surcharge or rebate will be a decision for each individual State. In exercising these powers the States will accept responsibility to work in parallel with and not in negation of the overall economic management policies of the Commonwealth.
- (24) Equalisation arrangements will be made so that less populous States will be enabled to obtain the same relative advantage from a surcharge as the States with a broader tax base.
- (25) The Grants Commission will be responsible for assessing amounts payable under the arrangements referred to under (24).
- (26) The basis for assessment of equalisation assistance to the less populous States in regard to the yield of State surcharges levied under Stage 2 (see points (24) and (25) above) will be that supplementary assistance will be provided to a less populous State levying a surcharge to bring the per capita yield from the surcharge up to the average per capita amount which

would be yielded if New South Wales and Victoria levied a surcharge on the same basis. The assessment will be independent of any examination of the overall financial position of the State concerned vis-a-vis other States.

- (27) An officers' working party is to formulate detailed proposals to implement State 2. The firm target is to have an appropriate framework established, relevant matters agreed and necessary legislation prepared in time for Stage 2 to commence from the beginning of 1977-78.
- (28) At an appropriate time the Commonwealth will consider what implications Stage 2 might have in relation to the Territories.

#### Local Government Assistance

- (29) There will be a new scheme of local government assistance, beginning in 1976-77, under which such assistance, to be distributed through the States, will be related to the yield of Commonwealth personal income tax.
- (30) In regard to assistance for local government, an amount of such assistance in 1976-77 having been determined by the Commonwealth Government having regard to its overall budget considerations, a percentage figure will be calculated by relating this amount to personal income tax collections in 1975-76. In 1977-78 and each subsequent year the amounts of assistance will be determined by applying that percentage to Commonwealth personal income tax collections in the previous year excluding the effects of any special surcharges or rebates. The percentage figure could be subject to any absorption of specific purpose payments.

#### Implications for Tax Forms and Assessment Notices

- (31) In relation to tax forms, changes will be minimal apart from necessary changes to take account of surcharges or rebates.
- (32) Assessment notices will be changed only to accommodate State surcharges or rebates (any Commonwealth surcharge or rebate would, of course, also be shown), with information on disposition of Commonwealth tax to States and local government provided to taxpayers separately but in conjunction with assessment notices.

#### Review of Total Tax Sharing Arrangements

- (33) There will be a review of the tax sharing arrangements as a whole periodically. The first review will be made at some time before the end of 1980-81 with any revisions applying as from the beginning of the next financial year after the review.



TAX SHARING - ADDITIONAL POINTS AGREED  
FOLLOWING DISCUSSION AT PREMIERS'  
CONFERENCE, JUNE 1976

- (1) The Commonwealth Government undertakes that, when post-budget changes in personal income tax legislation with substantial effects on the States' entitlements are made, it will consider, in consultation with the States, appropriate adjustments in the arrangements to offset the effects on the States entitlements in that particular financial year having regard to other relevant factors impinging on the States' budgetary positions. Any necessary consultations with the States on this matter will be arranged at the earliest practicable stage.
  
- (2) In relation to the review of the tax sharing arrangements as a whole which will take place before the end of 1980-81 there will be arrangements made for the Commonwealth and State Governments to agree, well in advance of the review, on the procedures which are to be followed in connection with it.

- (3) Advice in relation to the review of relativities between the States in their Stage 1 entitlements will be sought from an independent review body; aspects of this matter are to be further considered between the Commonwealth and the States at a meeting to be arranged as soon as practical.
- (4) Interest on future issues of Commonwealth securities will be subject to State income tax surcharges under Stage 2 of the tax sharing scheme; this change will not apply retrospectively to interest on securities already issued. The precise timing of this change will be the subject of an announcement by the Treasurer at a later date.
- (5) The arrangement under which the States will be guaranteed to receive not less than the amount yielded by the present grants formula (see Item (10) in Attachment A) will be extended for a further year from 3 to 4 years - i.e. to include 1979-80.

ATTACHMENT C

ESTIMATED AMOUNTS PAYABLE TO THE STATES IN 1976-77 UNDER THE NEW TAX SHARING ARRANGEMENTS COMPARED WITH FINANCIAL ASSISTANCE GRANTS FORMULA YIELD FOR 1975-76

|              | (1)  | (2)  | (3)                             |             |
|--------------|--|--|---------------------------------|-------------|
|              | <u>Financial Assistance Grants 1975-76</u> | <u>Estimated Entitlements Under Tax Sharing Scheme 1976-77</u> | <u>Increase in (2) over (1)</u> |             |
|              | \$ million                                 | \$ million   | \$ million                      | Per Cent    |
| N.S.W.       | 946.7                                      | 1,141.6  | 194.9                           | 20.6        |
| VIC.         | 706.4                                      | 850.9  | 144.5                           | 20.5        |
| QLD.         | 536.8                                      | 648.7  | 111.9                           | 20.8        |
| S.A.         | 363.1                                      | 437.6  | 74.5                            | 20.5        |
| W.A.         | 363.0                                      | 443.7  | 80.7                            | 22.2        |
| TAS.         | 156.8                                      | 188.6  | 31.8                            | 20.3        |
| <b>TOTAL</b> | <u>3,072.8</u>                             | <u>3,711.1</u>   | <u>638.3</u>                    | <u>20.8</u> |

COMPARISON BETWEEN ESTIMATED AMOUNT PAYABLE TO THE STATES  
IN 1976-77 UNDER THE NEW TAX SHARING ARRANGEMENTS WITH  
AMOUNT THAT WOULD HAVE BEEN PAID UNDER THE EXISTING FORMULA  
FINANCIAL ASSISTANCE GRANTS

NOTE:- The very preliminary nature of the following estimates, which are based on assumptions about movements in the year ahead in average wages and other variables, is to be emphasised; the final results could well be significantly different; see text of the press release.

|       | (1)<br><u>Estimated<br/>Yield of<br/>Present<br/>Formula in<br/>1976-77</u><br>\$ million | (2)<br><u>Estimated<br/>Entitlements<br/>under Tax<br/>Sharing<br/>Scheme</u><br>\$ million | (3)<br><u>Excess of<br/>(2) Over (1)</u><br>\$ million |
|-------|---|---|--|
| NSW   | 1,124.6   | 1,141.6   | 17.0   |
| VIC   | 838.2   | 850.9   | 12.7   |
| QLD   | 638.9   | 648.7   | 9.8  |
| SA    | 431.0   | 437.6   | 6.6  |
| WA    | 437.1   | 443.7   | 6.6  |
| TAS   | 185.8   | 188.6   | 2.8  |
| TOTAL | <u>3,655.6</u>  | <u>3,711.1</u>  | <u>55.5</u>  |

State Government Loan Council Programs 1975-76 And 1976-77

|                   | <u>1975-76</u>   | <u>1976-77</u>   |                            |
|-------------------|------------------|------------------|----------------------------|
|                   | <u>Total (a)</u> | <u>Total</u>     | <u>Percentage Increase</u> |
|                   | \$'000           | \$'000           | %                          |
| New South Wales   | 411,171          | 431,873          | 5.0                        |
| Victoria          | 326,615          | 343,060          | 5.0                        |
| Queensland        | 172,378          | 181,057          | 5.0                        |
| South Australia   | 169,425          | 177,955          | 5.0                        |
| Western Australia | 120,296          | 126,353          | 5.0                        |
| Tasmania          | 91,115           | 95,702           | 5.0                        |
| <b>TOTAL</b>      | <b>1,291,000</b> | <b>1,356,000</b> | <b>5.0</b>                 |

(a) Includes permanent additions agreed at June 1975 Loan Council meeting.

Proposed State Government Loan Council Programs in 1976-77

- Division between Borrowings and Capital Grants -

|              | <u>Borrowing<br/>Programs</u> | <u>Capital<br/>Grants</u> | <u>Total</u>     |
|--------------|-------------------------------|---------------------------|------------------|
|              | \$'000                        | \$'000                    | \$'000           |
| N.S.W.       | 287,915                       | 143,958                   | 431,873          |
| VIC          | 228,706                       | 114,354                   | 343,060          |
| QLD          | 120,705                       | 60,352                    | 181,057          |
| S.A.         | 118,637                       | 59,318                    | 177,955          |
| W.A.         | 84,235                        | 42,117                    | 126,352          |
| TAS          | 63,802                        | 31,901                    | 95,703           |
| <b>TOTAL</b> | <b>904,000</b>                | <b>452,000</b>            | <b>1,356,000</b> |

ATTACHMENT G

LARGER AUTHORITIES' PROGRAMS 1975-76 AND 1976-77

|              | <u>1975-76 Program</u> | <u>1976-77 Program (b)</u> |                                |
|--------------|------------------------|----------------------------|--------------------------------|
|              | <u>Total</u>           | <u>Total</u>               | <u>Percentage<br/>Increase</u> |
|              | \$'000                 | \$'000                     | %                              |
| NSW          | 303,720 (a)            | 360,108                    | 18.6                           |
| VIC          | 256,693                | 304,351                    | 18.6                           |
| QLD          | 149,769 (a)            | 177,575                    | 18.6                           |
| SA           | 38,122                 | 45,200                     | 18.6                           |
| WA           | 38,264                 | 45,369                     | 18.6                           |
| TAS          | 23,107                 | 27,397                     | 18.6                           |
| <b>TOTAL</b> | <b>809,675</b>         | <b>960,000</b>             | <b>18.6</b>                    |

(a) Includes permanent addition of \$10 million to New South Wales and \$7.1 million to Queensland.

(b) The distribution of the basic program between the States is based on the distribution of the 1975-76 program.

ATTACHMENT H

WELFARE HOUSING ADVANCES

|       | <u>1975-76</u> | <u>1976-77</u> |
|-------|----------------|----------------|
|       | \$'000         | \$'000         |
| NSW   | 123,411        | 123,411        |
| VIC   | 98,159         | 87,159         |
| QLD   | 31,010         | 37,410         |
| SA    | 56,360         | 56,360         |
| WA    | 33,440         | 35,440         |
| TAS   | <u>22,220</u>  | <u>24,220</u>  |
| TOTAL | <u>364,000</u> | <u>375,000</u> |