



PRIME MINISTER

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1 JULY 1977

PREMIERS' CONFERENCE/LOAN COUNCIL MEETING : 1 JULY 1977

Today's Premiers' Conference had before it a long agenda, including some complex matters relating to the details of the new tax sharing arrangements.

Under tax sharing, the states and local government authorities already have access to, and a guaranteed share of, income tax revenues. In the next stage the states will be able to increase or decrease their shares of those revenues by increasing or decreasing the rates of income tax payable by their residents.

It is important for the proper operation of responsible government that the spending government should carry the responsibility also for raising the money it spends. The tax sharing arrangements are directed to ensuring that this is the situation at all levels of government in Australia.

This Premiers' Conference has not been a haggle over the level of general revenue funds to the states.

The results of discussion on various aspects of tax sharing are as follows:

LOCAL GOVERNMENT TAX SHARING

Local government authorities receive each year 1.52% of nett personal income tax collections in the preceding year. In 1976-77 they have received \$140 million in this way which represented a 75% increase over similar funds in 1975-76. A further substantial increase is expected in 1977-78.

The funds are paid to the states for on-passing to local authorities and the distribution between the states is determined on the recommendation of the Commonwealth Grants Commission.

All state Premiers today agreed to accept the recommendations of the Report of the Grants Commission in respect of new local government relativities. These new relativities are to apply from 1977-78.

/Amending

Amending legislation will be given priority in the Budget sittings and it is not expected to cause any delays in payments to local government authorities this year.

The total amount of local government's entitlements will be known shortly when the final figure for nett personal income tax collections (excluding the Medibank levy) for 1976-77 are available. Set out below is a table showing the relativities agreed by the Premiers.

	<u>New Relativities</u>	<u>Previous Relativities</u>
New South Wales	36.4977	36.6345
Victoria	25.4513	25.2845
Queensland	16.8606	17.3016
South Australia	8.6010	8.5178
Western Australia	9.3897	9.4015
Tasmania	3.1997	2.8601
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STATES' STAGE 1 TAX SHARING ENTITLEMENTS

There have been problems this year caused by the fluctuations in the estimates of the tax sharing entitlements. This is largely because states opted to have their tax sharing entitlements calculated as a percentage of the current year's personal income tax collections, which are not finally known until after 30 June.

The Prime Minister suggested that stages might reconsider the earlier Commonwealth proposal that the previous year's collections be used as the base.

He offered payment of tax sharing entitlements for 1977-78 to the states of \$4,336.1 million if they were to decide on adoption of that proposal. (This would be subject to adjustments on account of over payments in 1976-77 of their entitlements for that year but would represent an increase in excess of \$600 million over the 1976-77 entitlement).

The Premiers agreed that Commonwealth and State officers should examine and report on arrangements for changing the total tax sharing entitlements from 33.6% of the current years collections to an appropriate percentage of the previous year's collections. This would reduce the uncertainty and the administrative difficulties. Local government tax sharing entitlements presently are based on collections in the preceding year.

Officers will also look at consequential matters arising from such a change in arrangements and at the manner in which changes in population estimates are taken into account in determining state relativities from 1977-78.

PRE-BUDGET INFORMATION

The Prime Minister indicated that the Commonwealth was unable to provide pre-Budget information to the states other than that presently available, namely:

A preliminary estimate of each state's Stage 1 entitlement for year ahead on basis of then current Commonwealth tax legislation;

An estimate of the yield of a 1% surcharge/cost of a 1% rebate in that state on basis of then current Commonwealth tax legislation;

Estimate of entitlement under former financial assistance grants arrangements (the guaranteed entitlement);

Relevant wage assumptions underlying the above estimates; and

Certain other information to the extent this is practicable and consistent with Budget security.

The conflict between the requirements of Budget security and the states' need for information would not arise if the states were to agree to their tax sharing entitlements being based on the previous year's collections.

REVIEW OF STATE RELATIVITIES

Some Premiers indicated they were not entirely happy with the terms of reference for the review as provided in the states (Personal Income Tax Sharing) Amendment Bill now before the Senate.

The Prime Minister agreed that officers would consult on the guidelines and would also give consideration to suggested amendments proposed by some of the Premiers.

In view of previous lack of unanimity about the composition of the review body the Prime Minister suggested that the states might like to accept the compromise proposal, a special division of the Grants Commission supplemented by nominees from the states.

It was agreed that the body to review the relativities should be composed of the Chairman of the Grants Commission, two members of the Commission, plus three additional members, one of whom would be nominated by N.S.W. and Victoria and two by the four other states.

/INCOME TAX ..

INCOME TAX (ARRANGEMENTS WITH THE STATES) BILL

This Commonwealth legislation, which would permit the states if they so chose to impose a surcharge or grant a rebate on Commonwealth personal income tax in respect of taxpayers in their states, was discussed briefly.

The Prime Minister welcomed any suggestions or comments on the draft legislation from the states, and proposed that such comments be examined by Commonwealth and state officers.
