GST Distribution Bill – Dissenting Report of Senator Zhenya Wang

Overview of the Bill

1.1 The *Commonwealth Grants Commission Amendment (GST Distribution) Bill 2015* ('the bill') seeks to change the way in which the Commonwealth Grants Commission ('CGC') distributes GST revenue to the State and Territory governments by requiring the CGC to take into account the most recent financial year mining revenue data when preparing its annual recommendations on the distribution, as opposed to the current requirement of taking into account the three financial years' worth of mining revenue data. [1]

1.2 The purpose of this bill is to address the inequities of the distribution of the GST revenue to the states and territories, most of which has been caused by the economic volatility within the mining and resources sector.

1.3 Evidently there are other issues surrounding the GST distribution. For instance, in August 2012, the Western Australian government provided a submission in response to the CGC GST Distribution Review First and Second Interim Reports, reiterating the Review Panel's view in the First Report that the current GST distribution arrangements '*…do not appear to recognise mining related infrastructure costs, mining expenses and economic development costs appropriately*'.[2] Solutions of these issues will require agreements between federal and state/territory governments, and is beyond the capacity of a Private Senator's bill. Therefore this bill does not intend to address other problems.

1.4 The current model of distribution is evidently flawed when it allows a high contributor of GST revenue to receive as low as 30 cents to the dollar in the 2014/2015 financial year. WA received a GST distribution of only $2.215 billion in 2014/15. In the 2015/16 financial year, WA received a mere $1.935 billion. Modelling undertaken by the Parliamentary Budget Office and contained in the Explanatory Memorandum to this bill reveals the extent of the inequities arising from the current distribution model (**Annexure A**). If this bill was legislated, WA would have received $3.5 billion in 2015/2016. This is not a new issue and it is one that has consistently been raised over the last ten years.[3] In 2010 the CGC reduced the averaging period of distribution assessments from five years to three years following the review of grants distribution.[4] Then on 23 December 2014, the then Treasurer, the Honourable Joe

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1 Explanatory Memorandum, p. 2.

2 Western Australia's Submission in Response to the First and Second Interim Reports, p. 3. http://www.gstdistributionreview.gov.au/content/submissions/downloads/interim_reports/WA-Submission.pdf

3 GST Distribution Review, 2012 http://www.gstdistributionreview.gov.au/content/Content.aspx?doc=reports/finaloctober2012/00executivesummary.htm#P130_11433

4 Commonwealth Grants Commission GST Revenue Sharing Relativities, 2010 Review, p. 4.

Hockey, wrote to the Chairperson of the CGC requesting advice on the issue of mining revenue volatility. [5]

1.5 The CGC's 'time lag' approach of assessing distribution across three years' worth of mining royalties income when recommending the 'GST sharing relativities' to be used in calculating each state's entitlement of the GST pool has resulted in unfair consequences, particularly for Western Australia and Queensland. In practical terms, the assessment undertaken by the CGC does not allow flexibility in remedying the variances between three-year average mining royalties and actual annual mining royalties revenue.[6] As the CGC measures the tax base of the states and territories with reference to the *value* or *number* of transactions or assets subject to tax,[7] the assessment of relativities for any particular state or territory is more difficult to predict over three years than it would be over only one year. By reducing the assessment period, it allows the mining royalties collected in the prior financial year to be immediately reflected in the GST distribution to the particular state in the following year.

1.6 As a federated nation, the goal is for the Commonwealth to enable the financially weaker states and territories to offer services of a similar standard to those offered by their fiscally stronger state and territory counterparts by issuing contingent grants and funding.[8] The states and territories are unable to raise revenue to the extent that the Commonwealth can with a broad-based tax, meaning the weaker state and territory governments rely on the GST distribution to prevent them from reducing vital services or raising additional revenue by the imposition of further taxes and duties.

1.7 The inequity of the current distribution model is not lost on the Federal government, which recently provided a 'contingent' additional infrastructure grant of $499 million to the WA state government with a requirement that the WA government invest that money in 'key road projects'.[9] Whether the grant adequately addresses the inequity or not or whether it alleviates the WA state government's budget constraints, is outside the purview of this Inquiry, but it should be noted that this additional grant is a short-term solution not capable of fixing the continuous inequity caused by the current model.

1.8 Of broader concern, as raised by Nationals Senator Matt Canavan in his second reading speech, is that the 'current system is creating perverse incentives and, particularly, not encouraging our state governments to develop their resources, their industries and their economies. Ultimately, that is what we want our state

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5 Explanatory Memorandum, p. 2.

6 2015 Budget Paper: http://www.budget.gov.au/2015-16/content/bp3/html/bp3_04_part_3.htm

7 2015 Budget Paper: http://www.budget.gov.au/2015-16/content/bp3/html/bp3_04_part_3.htm

8 GST Distribution Review Report, Executive Summary, http://www.gstdistributionreview.gov.au/content/Content.aspx?doc=reports/finaloctober2012/00executivesummary.htm#P130_11433

9 http://www.ourstatebudget.wa.gov.au/

governments to do because that will create more jobs and more opportunities for all Australians'.[10]

Summary of the submissions

1.9 The committee received only four submissions in relation to this bill outlined as follows:

1. The Western Australian Chamber of Commerce and Industry (WACCI) are in support of the bill, noting that if the GST distribution of mining revenue was altered to enable calculations on an annual basis, then it will allow for improved social and economic outcomes. [11]

2. The government of Western Australia provided strong support for the intent of the bill, citing the benefits of stability to the states budget management if the highs and lows of annual revenue collection were taken into account. [12] Further, the WA government noted that the CGC reliance on data that is between two and four years out of date is increasing the revenue instability, noting that their GST share collapsed in 2014-15 and 2015-16 concurrently with the mining sector. The WA government also noted that the time lag approach means that the calculations are run by the CGC roughly four months before the year commences, leaving the actual data for the current financial year and the upcoming financial year out of the equation. The WA government noted that the CGC 2015 Review considered the time lag issue, however in WA's view; the analysis was simplistic and misleading.

3. The Tasmanian and Queensland governments did not support the bill. Queensland government Treasurer, the Honourable Curtis Pitt, acknowledged Queensland shares concerns about state own-source revenue but believes this bill represents a piecemeal and partial approach to the states' revenue difficulties.[13] I note that the Queensland government in its submission to the 2015 CGC Methodology Review on the issue of mining revenue assessment recommended a 'broad-based review of issues relating to contemporaneity and volatility as opposed to any narrowly focussed special consideration for specific mineral royalties'.[14]

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10 Matt Canavan, Second reading speech, 15 October 2015

11 Chamber of Commerce and Industry WA, Submission 2, p. 2.

12 Western Australian Government, Submission 4, p. 1.

13 Queensland Government, Submission 3, p. 1.

14 Queensland Government, Annexure to Submission 3, p. 34.

Recommendation

1.10 I am of the view that the Committee did not thoroughly consider this bill. The committee will not recommend support of this bill as it has formed the view that this bill is contrary to the CGC process agreed to by states and territory governments'. Further the bill has been construed as an '*ad hoc legislative amendment to address declining revenue in a specific area.'*[15] The committee further noted that the 'Commonwealth can operate outside this system and in the 2015-16 Budget, Western Australia was provided with $499 million in infrastructure funding in response to the special circumstances facing Western Australia as a result of their GST revenue shortfall in the 2015-16 financial year'. [16]I have previously outlined that this is a short-term and contingent measure and will not allow the state governments to effectively manage their revenue. I also note that the ability to direct the CGC is entirely within the remit of the Federal Treasurer and does not require the consent of the states and territories.

1.11 It is my view that this bill should be supported as it provides a platform to broader reform. Although I am a Senator representing the state of WA, my support of this bill should not be construed as non-support for other Australian states and territories receiving their just share of the GST revenue pool. In fact beyond this bill, I am advocating for holistic reform of the distribution system, particularly given the decline of the mining and resources industry and the need to encourage the states and territories with viable mining and resources option to continue contributing to the Australian economy. I note that the principle of horizontal fiscal equalisation (HFE) is fundamental to the agreement and formula; and remains intact with the measures proposed by this bill.[17]

Senator Zhenya Wang

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15 Committee Report, page 3.

16 Committee Report, page 3.

17 Explanatory Memorandum, p. 2.