

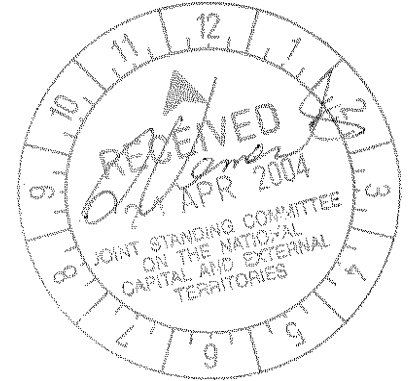


## Australian Government

### The Treasury

20 April, 2004  
File: 2004/01538

Mr Quinton Clements  
The Inquiry Secretary  
Joint Standing Committee on the National Capital and External Territories  
Department of House of Representatives  
Parliament House  
CANBERRA ACT 2600



Dear Mr Clements

#### **NORFOLK ISLAND GOVERNANCE INQUIRY: PART TWO**

I refer to Senator Lightfoot's letter to the Treasurer of 3 March 2004, inviting Treasury to make a submission to the inquiry by the Joint Standing Committee into the sustainability of the current governance and funding arrangements on Norfolk Island.

Treasury made a submission to the first part of the Committee's inquiry, which I understand was numbered 41 by the Committee. This submission addresses many of the issues which the Committee will be examining in the second part of its inquiry.

Treasury also recently submitted a report to the Norfolk Island Government, *Taxation Options for Norfolk Island*, following a request from the Norfolk Island Administrator for advice and assistance in the design and implementation of a new taxation regime. I enclose a copy of the report for the Committee's information.

The report suggests that, on efficiency and equity grounds, the best solution would appear to be for Norfolk Island to come into the taxation and welfare systems of the Australian Government. This would need to be negotiated and would require a redistribution of some power between the Norfolk Island Government and the Australian Government. This is likely to involve the application of the taxation system of Australia to Norfolk Island, possibly on a modified basis similar to the arrangements applying to Christmas Island and Cocos (Keeling) Islands, and a transfer of responsibilities for the provision of services to the Australian Government. This would be expected to provide benefits to Norfolk Island that are much more significant than the contributions its residents and economy make to Australian revenue. That is, it would involve a welfare transfer from other Australians to Norfolk Island. In comparison, any internal change in Norfolk Island's revenue base would remain constrained by the small population base and the price vulnerability of its vital tourism sector.

The report notes that it was not possible to undertake detailed revenue analysis of the various options, due in part to the lack of adequate data on the Norfolk Island economy. Further analysis would be necessary when a decision about preferred options has been made.

The report has been released by the Norfolk Island Government and is the subject of ongoing consultation between the Norfolk Island Government and its population.

Thank you for the invitation to make a submission. The contact officer on this matter is Michelle Dowdell (02 6263 3032).

Yours sincerely



Rob Heferen  
General Manager  
Commonwealth State Relations Division

enc.