

PART 3: GENERAL REVENUE ASSISTANCE

General revenue assistance is a broad category of payments, including GST payments. This assistance is provided to the States without conditions, to spend according to their own budget priorities.

OVERVIEW OF PAYMENTS

In 2009-10, the States will receive \$41.8 billion in general revenue assistance from the Commonwealth, as shown in Table 3.1, comprising \$41.3 billion in GST payments and \$494 million of other general revenue assistance. This is a 2.8 per cent decrease in general revenue assistance, compared with the \$43.05 billion the States will receive in 2008-09.

The decrease in general revenue assistance in 2009-10 is largely the result of a reduction in GST payments, which are expected to be \$6.9 billion lower than forecast at 2008-09 Budget. The global recession, and its effect on private final consumption, has resulted in substantial downward revisions to GST revenues.

Table 3.1: General revenue assistance by State

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2008-09	12,235	9,452	7,973	4,719	3,821	1,627	871	2,347	43,046
2009-10	12,394	9,356	7,599	4,048	3,792	1,526	874	2,236	41,824
2010-11	13,677	10,021	7,691	3,896	4,085	1,609	935	2,444	44,356
2011-12	14,858	10,749	7,971	3,832	4,407	1,708	986	2,670	47,180
2012-13	15,916	11,444	8,368	4,005	4,692	1,802	1,028	2,878	50,132

In 2009-10, total general revenue assistance to the States will represent 12.4 per cent of total Commonwealth expenditure. The bulk of general revenue assistance is from GST payments the Commonwealth provides to the States, as shown in Table 3.2.

Table 3.2: General revenue assistance

\$million	2008-09	2009-10	2010-11	2011-12	2012-13
GST payments	41,189	41,330	43,580	46,460	49,410
Other payments					
Budget balancing assistance	261	-	-	-	-
Royalties	1,083	698	684	627	627
Compensation					
Reduced royalties	55	60	57	57	57
GST policy decisions	-	-300	-	-	-
Snowy Hydro Ltd tax compensation	423	-	-	-	-
ACT municipal services	34	35	36	36	38
Total other	1,857	494	776	720	722
Total general revenue assistance	43,046	41,824	44,356	47,180	50,132

The Intergovernmental Agreement provides that all general revenue assistance – all of the payments covered in this Part – will be paid by the Commonwealth Treasury to each state treasury on the 21st day of each month.

GST PAYMENTS

GST revenue variations since the 2008-09 Budget

Table 3.3 is a reconciliation of the GST revenue estimates since the 2008-09 Budget, *Mid-Year Economic and Fiscal Outlook 2008-09 (MYEFO)* and February 2009 *Updated Economic and Fiscal Outlook (UEFO)*. The reconciliation accounts for policy decisions and parameter and other variations.

GST revenue in 2008-09 has been revised down by \$1.2 billion since the UEFO, reflecting lower growth in consumption subject to GST, dwelling investment and ownership transfer costs and the continued slowdown in tax collections since UEFO. In 2009-10, GST revenue is forecast to be lower than the UEFO estimate by \$2.3 billion, in line with further deterioration in the outlook for taxable consumption and delayed recovery in dwelling investment. The weakness in the taxable consumption base reflects a shift in consumer spending away from discretionary purchases, which are generally taxable, towards more essential goods that have large non-taxable components (for example, rent and fresh food).

Table 3.3: Reconciliation of GST revenue estimates

\$million	2008-09	2009-10	2010-11	2011-12
GST revenue at 2008-09 Budget	46,900	49,960	52,680	55,560
<i>Changes from 2008-09 Budget to MYEFO</i>				
Effect of policy decisions	0	0	0	0
Effect of parameter and other variations	-1,410	-1,870	-2,010	-2,380
Total variations	-1,410	-1,870	-2,010	-2,380
GST revenue at 2008-09 MYEFO	45,490	48,090	50,670	53,180
<i>Changes from MYEFO to UEFO</i>				
Effect of policy decisions	0	0	0	0
Effect of parameter and other variations	-1,134	-2,197	-2,360	-2,582
Total variations	-1,134	-2,197	-2,360	-2,582
GST revenue at 2009 UEFO	44,356	45,893	48,310	50,598
<i>Changes from UEFO to 2009-10 Budget</i>				
Effect of policy decisions	0	-80	-130	-184
Effect of parameter and other variations	-1,226	-2,183	-2,220	-1,744
Total variations	-1,226	-2,263	-2,350	-1,928
GST revenue at 2009-10 Budget	43,130	43,630	45,960	48,670

Table 3.4 shows policy decisions taken since UEFO that affect GST revenue. These decisions decrease the amount of GST revenue by \$634 million over five years, and include:

- a decrease in the 2008-09 Migration Program – Skilled Stream (\$161.5 million over five years);
- a decrease in the number of places in the 2009-10 Migration Program compared to the previous planning level (\$485.3 million over five years); and
- implementing most of the Board of Taxation’s recommendations from its review of the legal framework for the administration of the GST.

Table 3.4: Policy decisions since UEFO 2009 that affect GST revenue

\$million	2008-09	2009-10	2010-11	2011-12	2012-13
Carbon Pollution Reduction Scheme - GST treatment of units	-	-	-	-	-
GST and cross-border transport supplies			-2.0	-2.0	-2.0
GST - Government response to Board of Taxation report: GST administration	-	*	*	*	*
GST - representatives of incapacitated entities	-
Indirect Tax Concession Scheme - diplomatic and consular concessions
Migration Program - allocation of places for 2009-10	-	-44.5	-93.4	-146.2	-201.2
Migration Program - Skilled Stream decrease for 2008-09		-37.9	-39.7	-41.3	-42.6
Promoting a level playing field for Australian small business		1.9	2.4	3.2	3.6
Strategic Compliance – Supporting businesses and other taxpayers in financial distress	0	1.0	3.0	2.0	2.0
Total GST revenue policy decisions	0.0	-79.5	-129.7	-184.3	-240.2

Detailed information on each decision is included in Budget Paper No. 2, *Budget Measures 2009-10*.

Reconciling GST revenue and GST payments to the States

The Commonwealth makes GST payments to the States equivalent to the revenue received from the GST. In 2009-10, GST revenue will be \$43.6 billion – an increase of \$500 million (1.2 per cent) from 2008-09.

GST revenue for a financial year varies from the amount of GST payments to the States for that year because of:

- GST revenues which are recognised on a Commonwealth whole-of-government basis, but are not recognised by the Commissioner of Taxation as at 30 June of each financial year, because the revenues will not be remitted to the Australian Taxation Office until the following financial year; and
- penalties, other than general interest charge penalties, which are not included in the definition in the Intergovernmental Agreement of GST to be paid to the States.

In June 2009, the Commissioner of Taxation will determine the amount of GST payable to the States in 2008-09. This is the last year that the Commissioner will determine the amount of GST payable to the States. From 2009-10, that amount will be based on the final GST outcome rather than the Commissioner's determination. To ensure that the States receive their correct entitlement of GST payments for the 2008-09 financial year, a balancing adjustment for each State will be made in the 2009-10 financial year.

The reconciliation of GST revenue and GST payments to the States is provided in Table 3.5.

Table 3.5: GST revenue and GST payments to the States

\$million	2008-09	2009-10	2010-11	2011-12	2012-13
GST revenue	43,130	43,630	45,960	48,670	51,880
less change in GST receivables	1,872	2,177	2,280	2,120	2,320
GST receipts	41,258	41,453	43,680	46,550	49,560
less non-GIC penalties collected(a)	110	100	100	90	150
less GST collected by Commonwealth agencies but not yet remitted to the ATO(b)	8	23	0	0	0
plus prior year balancing adjustment(c)	49				
GST payments to the States	41,189	41,330	43,580	46,460	49,410

(a) General interest charge (GIC) penalties are defined in the Intergovernmental Agreement as being a part of the Commonwealth's GST revenue that is paid to the States. However, while GST related non-GIC penalties are recognised in the Commonwealth's GST revenue, non-GIC penalties are not defined in the Intergovernmental Agreement as being a part of the GST revenue that is paid to the States.

(b) This is the GST component of sales by Commonwealth agencies which has been collected by those agencies but which, as at 30 June in each year, will not have been remitted to the Australian Taxation Office, because it is not due to be paid until the next Business Activity Statement is lodged (typically on 21 July in the following financial year).

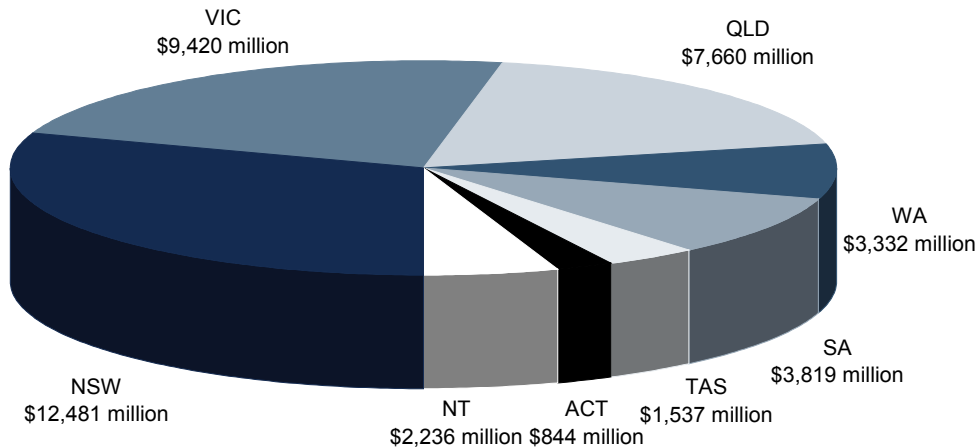
(c) The Commissioner's determination for 2007-08 was \$49 million lower than the final outcome. As the GST payment for 2007-08 was made in accordance with the Commissioner's determination, this underpayment will be recovered in 2008-09.

Distribution of GST payments among the States

As agreed by COAG in the Intergovernmental Agreement, the Commonwealth distributes GST payments among the States and Territories in accordance with the principle of horizontal fiscal equalisation and having regard to the recommendations of the Commonwealth Grants Commission.

State shares of GST payments for 2009-10 (totalling \$41.3 billion) are shown in Chart 3.1.

Chart 3.1: State shares of GST payments, 2009-10



GST relativities

The Commission recommends GST relativities to be used in calculating each State’s share of GST payments. The relativities determine how much GST revenue each State receives compared with an equal per capita share and are determined such that, if each State made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each State would have the capacity to provide services at the same standard.

This does not necessarily result in the same standard of government services – just the equalisation of each State’s capacity to provide the same standard of services. In calculating the GST relativities, the Commission takes into account differences in the States’ capacities to raise revenues and differences in the costs the States would incur in providing the same standard of government services.

Horizontal fiscal equalisation generally provides the necessary budget support to the smaller States so they have the capacity to provide services at a comparable standard to the larger States, while ensuring that the interstate transfers are not so large that they would significantly distort economic behaviour and reduce productivity growth.

The new Intergovernmental Agreement has significantly changed the scope of the revenue sharing relativities the Commission is asked to recommend. Previously, the Commission was asked to recommend a relativity to distribute a pool of GST payments plus health care grants provided by the Commonwealth under the *Australian Health Care Agreements* (some health care grants were quarantined from the GST pool). The Commission is now asked to recommend a relativity to distribute only GST payments. Health care grants are now treated in the same way as other payments which have been rationalised into the new National SPPs. This introduces a structural break between the 2008-09 GST relativities and the 2009-10 GST relativities – that is,

the revenue sharing relativities assessed by the Commission for 2009-10 are not comparable with the relativities assessed for 2008-09 and previous years.

To facilitate a comparison, the Commission has recalculated its 2008-09 GST relativities to be consistent with the Intergovernmental Agreement. The rebased 2008-09 GST relativities and the 2009-10 GST relativities are shown in Table 3.6.

Table 3.6: GST relativities

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2008-09 rebased	0.88779	0.91393	0.96118	0.85782	1.23151	1.66332	1.25457	5.25633
2009-10	0.93186	0.91875	0.91556	0.78485	1.24724	1.62040	1.27051	5.25073

The GST relativities for 2009-10 were endorsed by the Ministerial Council for Federal Financial Relations on 25 March 2009.

Applying the GST relativities to the GST pool

In 2009-10, the GST relativities will be applied to estimated state populations in order to determine an adjusted population for each State. Each State will receive its adjusted population share of the GST payments. The calculations for the distribution of the GST payments in 2008-09 (using the old methodology) and 2009-10 (using the new methodology) are shown in Table 3.7.

Table 3.7: Distribution of the GST pool

	Estimated 31 December population (1)	GST relativities (2)	Adjusted population (1) x (2) (3)	Share of adjusted population % (4)	Share of GST pool \$million (5)	Unquarantined health care grants \$million (6)	GST payments (5) - (6) \$million (7)
2008-09(a)							
NSW	7,035,986	0.91060	6,406,969	29.6	15,103.5	3,258.7	11,844.9
VIC	5,358,867	0.92540	4,959,096	22.9	11,690.4	2,379.2	9,311.2
QLD	4,346,332	0.96508	4,194,558	19.4	9,888.1	1,915.0	7,973.1
WA	2,200,651	0.88288	1,942,911	9.0	4,580.1	990.0	3,590.2
SA	1,610,990	1.20856	1,946,978	9.0	4,589.7	802.5	3,787.3
TAS	500,069	1.52994	765,076	3.5	1,803.6	208.1	1,595.5
ACT	348,094	1.17205	407,984	1.9	961.8	125.0	836.8
NT	221,784	4.51835	1,002,098	4.6	2,362.3	111.8	2,250.5
Total	21,622,773		21,625,668	100.0	50,979.5	9,790.1	41,189.4
2009-10							
NSW	7,125,035	0.93186	6,639,535	30.2	12,481	n/a	12,481
VIC	5,454,364	0.91875	5,011,197	22.8	9,420	n/a	9,420
QLD	4,450,593	0.91556	4,074,785	18.5	7,660	n/a	7,660
WA	2,258,527	0.78485	1,772,605	8.1	3,332	n/a	3,332
SA	1,629,034	1.24724	2,031,796	9.2	3,819	n/a	3,819
TAS	504,749	1.62040	817,895	3.7	1,537	n/a	1,537
ACT	353,412	1.27051	449,013	2.0	844	n/a	844
NT	226,514	5.25073	1,189,364	5.4	2,236	n/a	2,236
Total	22,002,228		21,986,191	100.0	41,330.0	n/a	41,330.0

(a) In 2008-09, the Commission was asked to recommend a relativity to distribute a pool of GST payments plus health care grants (HCGs) provided by the Commonwealth under the *Australian Health Care Agreements* (some HCGs were quarantined from the GST pool).

Estimates of GST payments to the States based on the Commonwealth's projections of GST relativities and population over the forward years are shown in Table 3.8.

Table 3.8: GST payments, 2008-09 to 2012-13

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2008-09	11,844.9	9,311.2	7,973.1	3,590.2	3,787.3	1,595.5	836.8	2,250.5	41,189.4
2009-10	12,481.1	9,420.1	7,659.9	3,332.2	3,819.4	1,537.5	844.1	2,235.8	41,330.0
2010-11	13,676.9	10,021.1	7,690.9	3,167.6	4,084.7	1,608.7	899.1	2,431.0	43,580.0
2011-12	14,857.9	10,748.7	7,971.1	3,158.8	4,407.0	1,707.8	949.6	2,659.1	46,460.0
2012-13	15,916.1	11,443.7	8,368.1	3,331.4	4,692.1	1,801.6	990.0	2,867.0	49,410.0

The Commonwealth's projections of GST relativities for 2010-11 to 2012-13 assume that the States' fiscal capacities in 2008-09, 2009-10 and 2010-11 will be broadly consistent with the Commission's assessment of their relative fiscal capacities in 2007-08. However, the projections include adjustments to account for changes in GST revenue, state population and the distribution of the National SPPs.

The population estimates are constructed using the latest demographic data available from the Australian Bureau of Statistics and Treasury assumptions. Broadly, these assumptions are in respect of fertility, mortality, net overseas migration and interstate migration. Further information on the assumptions is provided in Appendix A.

Box 3.1: The effect of horizontal fiscal equalisation

One way to view the effect of horizontal fiscal equalisation is to compare each State's share of the GST payments using the GST relativities, with a notional distribution on an equal per capita basis. In 2009-10, around \$3.3 billion (or 8.1 per cent) of the GST payments will be redistributed among the States, compared with an equal per capita distribution (Table A).

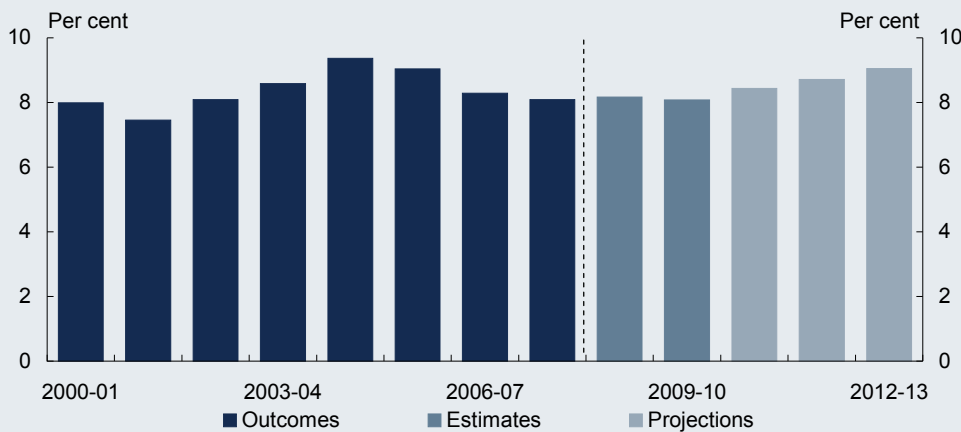
Table A: Effect of horizontal fiscal equalisation, 2009-10

	GST distributed using adjusted population \$million	Equal per capita distribution of GST \$million	Redistribution(a) \$million	Projected population million	Per capita redistribution \$
NSW	12,481.1	13,384.0	-902.9	7.125	-126.7
VIC	9,420.1	10,245.7	-825.6	5.454	-151.4
QLD	7,659.8	8,360.2	-700.4	4.451	-157.4
WA	3,332.2	4,242.5	-910.3	2.259	-403.1
SA	3,819.4	3,060.1	759.4	1.629	466.1
TAS	1,537.5	948.1	589.3	0.505	1,167.6
ACT	844.1	663.9	180.2	0.353	509.9
NT	2,235.8	425.5	1,810.3	0.227	7,992.0
Total	41,330.0	41,330.0	3,339.2	22.002	

(a) The total redistribution of \$3,339.2 million is the sum of positive items in that column.

The proportion of the GST payments being redistributed in 2009-10 is broadly consistent with the average redistribution since the commencement of the GST (Chart A), with the slight decrease in 2009-10 chiefly driven by a reduction in the fiscal capacity of New South Wales, offset by a growth in the fiscal capacities of Queensland and Western Australia.

Chart A: Horizontal fiscal equalisation as a proportion of the GST payments



Note: From 2000-01 to 2008-09, the Commission was asked to recommend relativities to distribute a pool of GST payments plus health care grants. This methodology is conceptually equivalent, when expressed in proportions of GST payments, with the current relativities recommended by the Commission. As such, Chart A is a comparison of the proportion of GST payments, rather than the proportion of the GST pool, estimated to be redistributed for this period.

Box 3.1: The effect of horizontal fiscal equalisation (continued)

The proportion of the GST payments being redistributed is projected to increase over the forward estimates, owing to lower growth in GST revenue and changes to the distribution of National SPPs.

- For a given assessment of the States' relative fiscal capacities, the proportion of GST payments being redistributed will increase if the level of GST revenue decreases.
- The treatment of the National SPPs by 'inclusion' for the purpose of the Commission determining GST revenue sharing relativities provides for State needs in respect of service delivery to be incorporated into the calculation of each State's share of GST revenue. As the distribution of the National SPPs transitions over five years to an equal per capita distribution, the amount of GST redistributed will increase.

GST administration

On 25 March 2009, the Ministerial Council for Federal Financial Relations endorsed the GST administration budget for the Australian Taxation Office of \$624.3 million for 2009-10, as shown in Table 3.9.

Table 3.9: Reconciliation of the GST administration budget

\$million	2008-09	2009-10	2010-11	2011-12
Administration budget at 2008-09 Budget	631.2	620.6	626.8	631.7
<i>Changes from 2008-09 Budget to MYEFO</i>				
Parameter variations	0.0	0.0	0.0	0.0
Total variations	0.0	0.0	0.0	0.0
Administration budget at 2008-09 MYEFO	631.2	620.6	626.8	631.7
<i>Changes from MYEFO to 2009-10 Budget</i>				
Parameter variations	0.6	3.7	3.7	2.5
Total variations	0.0	0.0	0.0	0.0
Administration budget at 2009-10 Budget	631.9	624.3	630.5	634.2

The Commissioner of Taxation administers the GST law and the States compensate the Commonwealth for the agreed costs incurred by the Australian Taxation Office in administering the GST, including costs incurred by the Australian Customs Service, as shown in Table 3.10.

Table 3.10: GST administration budget

\$million	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
(1) Australian Taxation Office budget	633.0	631.2	624.3	630.5	634.2	646.8
less prior year adjustment	32.8	1.4				
State government payments						
Total administration payments	600.2	629.8	624.3	630.5	634.2	646.8
(2) Australian Taxation Office outcome	631.6					
(3) Overpayment (1)-(2)	1.4					
Commonwealth budget impact	1.4	-1.4	0.0	0.0	0.0	0.0

OTHER GENERAL REVENUE ASSISTANCE

The Commonwealth makes payments of other general revenue assistance to the States and Territories that are available for use by the States for any purpose, including:

- revenue sharing arrangements other than GST – for example, offshore petroleum royalty revenues;
- compensation payments for Commonwealth policy decisions; and
- payments to the Australian Capital Territory for national capital influences.

Budget balancing assistance

In the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* of 1999, the Commonwealth guaranteed that the budget position of each State would be no worse than it would have been had tax reform associated with the introduction of the GST not been implemented. The guaranteed minimum amount is an estimate of the revenue that each State would have received under the previous system of Commonwealth grants, and if the state taxes had not been abolished as part of the reforms.

The Commonwealth will pay budget balancing assistance to the States during the transitional period (which will expire on 30 June 2009) if a State's share of GST payments in a financial year is less than its guaranteed minimum amount for that year. No budget balancing assistance is payable when GST revenue exceeds the guaranteed minimum amount.

In 2008-09, the guaranteed minimum amount for four States – New South Wales, South Australia, Tasmania and the Northern Territory – will exceed those States' shares of the GST payments, as shown in Table 3.11. Consequently, the Commonwealth will provide total budget balancing assistance of \$261 million in 2008-09.

Table 3.11: Guaranteed minimum amount, GST payments and budget balancing assistance, 2008-09

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Guaranteed minimum amount	11,953	9,212	7,718	3,447	3,821	1,627	803	2,338	40,920
GST payments	11,845	9,311	7,973	3,590	3,787	1,595	837	2,250	41,189
Budget balancing assistance	109	0	0	0	34	31	0	87	261

Victoria, Queensland, Western Australia and the Australian Capital Territory will receive GST payments that exceed their guaranteed minimum amount. Consequently, no budget balancing assistance is payable to those States.

Further information on the guaranteed minimum amount is provided in Appendix B.

Royalties

Table 3.12: Royalties

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2008-09	-	-	-	1,074.2	-	-	-	8.8	1,083.0
2009-10	-	-	-	686.0	-	-	-	12.4	698.4
2010-11	-	-	-	671.0	-	-	-	12.6	683.6
2011-12	-	-	-	616.0	-	-	-	11.0	627.0
2012-13	-	-	-	616.0	-	-	-	11.0	627.0

Royalty payments to Western Australia

The Commonwealth provides general revenue assistance to Western Australia from royalties collected under the *Offshore Petroleum (Royalty) Act 2006* in respect of the North West Shelf oil and gas project off the coast of Western Australia. The Commonwealth collects these royalties because it has jurisdiction over offshore areas.

These royalties are shared between the Commonwealth (approximately one-third) and Western Australia (approximately two-thirds). These payment arrangements are in accordance with the revenue sharing arrangements in section 75 of the *Offshore Petroleum and Greenhouse Gas Act 2006*.

Royalty payments to the Northern Territory

The Commonwealth provides general revenue assistance to the Northern Territory in lieu of royalties on uranium mining in the Ranger Project Area due to the Commonwealth's ownership of uranium in the Northern Territory.

General revenue assistance is payable biannually at the royalty rate of 1.25 per cent of the net proceeds of sales. These royalties are paid under a continuing agreement, established under the 1978 Memorandum of Understanding between the Commonwealth and the Northern Territory.

Compensation

Payments in respect of ACT municipal services

Table 3.13: ACT municipal services

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2008-09	-	-	-	-	-	-	34.2	-	34.2
2009-10	-	-	-	-	-	-	35.1	-	35.1
2010-11	-	-	-	-	-	-	35.6	-	35.6
2011-12	-	-	-	-	-	-	36.3	-	36.3
2012-13	-	-	-	-	-	-	37.6	-	37.6

The Commonwealth provides general revenue assistance to the Australian Capital Territory to:

- assist in meeting the additional municipal costs which arise from Canberra's role as the national capital; and
- compensate the Australian Capital Territory for additional costs resulting from the national capital planning influences on the provision of water and sewerage services.

The level of funding for this general revenue assistance is based upon the findings of the Commonwealth Grants Commission, in its second and third reports on financing for the Australian Capital Territory, prior to the move to self-government in 1989.

Reduced royalties

Table 3.14: Reduced royalties

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2008-09	-	-	-	55.0	-	-	-	-	55.0
2009-10	-	-	-	60.4	-	-	-	-	60.4
2010-11	-	-	-	57.1	-	-	-	-	57.1
2011-12	-	-	-	57.1	-	-	-	-	57.1
2012-13	-	-	-	57.1	-	-	-	-	57.1

The Commonwealth provides general revenue assistance to compensate Western Australia for the loss of royalty revenue resulting from the removal of the exemption of condensate from crude oil excise in the 2008-09 Budget.

Taxation compensation in respect of Snowy Hydro Limited

Table 3.15: Taxation compensation in respect of Snowy Hydro Limited

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2008-09	282.1	141.0	-	-	-	-	-	-	423.1
2009-10	-	-	-	-	-	-	-	-	-
2010-11	-	-	-	-	-	-	-	-	-
2011-12	-	-	-	-	-	-	-	-	-
2012-13	-	-	-	-	-	-	-	-	-

On 28 June 2002, the Snowy Mountains Hydro Electric Authority was corporatised. The assets and business of the Authority were transferred to Snowy Hydro Limited, a company jointly owned by the Commonwealth, New South Wales and Victoria (with 13 per cent, 58 per cent and 29 per cent shareholdings respectively).

The Commonwealth provides compensation payments to New South Wales and Victoria, in the form of general revenue assistance, for Commonwealth taxes paid by Snowy Hydro Ltd in proportion to the States' shareholdings.

Payments are made in accordance with the *Snowy Hydro Tax Compensation Deed* between the Commonwealth, New South Wales and Victoria. These taxes would have previously been payable to the States through tax equivalence regime payments.

One of the objectives of COAG's new federal financial framework is to rationalise the number of payments made between the Commonwealth and the States. COAG has provided in-principle endorsement for several payments to be cashed out, with one final payment equal to the present value of the future stream of payments.

The Commonwealth will meet its future payment commitments to New South Wales and Victoria in respect of Snowy Hydro Ltd tax compensation by providing a single payment in 2008-09 and ceasing future annual payments.

Further information on this policy decision is included in Budget Paper No. 2, *Budget Measures 2009-10*.

GST compensation for small business concession

Table 3.16: GST compensation for small business concession

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2008-09	-	-	-	-	-	-	-	-	-
2009-10	-87.3	-64.5	-61.4	-30.7	-27.4	-11.0	-5.4	-12.4	-299.9
2010-11	-	-	-	-	-	-	-	-	-
2011-12	-	-	-	-	-	-	-	-	-
2012-13	-	-	-	-	-	-	-	-	-

In 2004-05, the Commonwealth and the States agreed to allow small businesses and non-profit organisations that voluntarily registered for the GST to pay and report GST on an annual rather than monthly or quarterly basis. The measure was designed to reduce the compliance costs faced by these organisations and has the effect of deferring some GST revenue from one financial year to the next. The Commonwealth agreed to compensate the States for this deferral of GST revenue.

The Commonwealth and the States agreed that the annual payments should be suspended from 2006-07 because final tax return data indicated that the impact of the measure on GST revenue was much lower than forecast. The overestimate of the cost of the measure led to an overpayment of compensation to the States, which is estimated to be \$309 million at the end of 2008-09.

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The Government will recover the net overpayment in 2009-10. The amount to be recovered is the present value of the overpayment less the present value of the stream of future annual payments. This arrangement will extinguish all current and future Commonwealth and state commitments in respect of this measure.

Further information on this policy decision is included in Budget Paper No. 2, *Budget Measures 2009-10*.

MIRROR TAX ARRANGEMENTS

The Commonwealth introduced mirror tax arrangements in 1998 to ensure that the States were not financially disadvantaged by the High Court decision in *Allders International Pty Ltd v Commissioner of State Revenue (Victoria)*, which invalidated state taxes on Commonwealth places.

These arrangements mirror certain state taxes, including payroll taxes, land taxes and stamp duties, with respect to Commonwealth places.

The States collect these mirror taxes on behalf of the Commonwealth and bear the administrative costs of collection. All mirror tax revenues are credited to the Commonwealth and simultaneously appropriated to the States. Hence, mirror taxes are recorded as both a Commonwealth revenue and expense, with no net impact on the Commonwealth's budget position.

Table 3.17: Mirror taxes accrued on behalf of the States

\$million	2008-09	2009-10	2010-11	2011-12	2012-13
Mirror taxes	397.1	407.0	422.7	440.1	462.2
Payments to state governments	-397.1	-407.0	-422.7	-440.1	-462.2
Commonwealth budget impact	0.0	0.0	0.0	0.0	0.0