

EXPLANATORY STATEMENT

STATUTORY RULES 2006 NO.

Issued by authority of the Treasurer

A New Tax System (Commonwealth-State Financial Arrangements) Act 1999

Determination of the Guaranteed Minimum Amounts for 2005-06

Clause 2 of Schedule 1 to the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* (the Act) requires the Treasurer to make a determination in writing of the Guaranteed Minimum Amount for each State and Territory (State) before 20 June in a transitional GST year.

In 1999, Australian Government, State and Territory leaders signed an *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the IGA). The IGA, which is Schedule 2 to the Act, sets out reform measures which implement changes to Commonwealth-State financial relations. These measures include, among other things, the provision of all GST revenue to the States and the abolition of certain state taxes.

Under the IGA, the Australian Government guarantees that, in each of the transitional years following the introduction of the GST, the budgetary position of each individual State will be no worse than it would have been had the reforms set out in the IGA not been implemented. The transitional years were originally defined under the Act to cover the period from 1 July 2000 to 30 June 2003. This has been extended to cover the financial years up to 30 June 2006.

To meet this guarantee in the IGA, the Australian Government has legislated to provide additional funding to the States to ensure that each individual State will be no worse off in the transitional years.

The Guaranteed Minimum Amount for each State is a calculation of the amount of revenue each State would have had available to it under the previous system of financial relations. Components of the GMA comprise estimates of Australian Government Financial Assistance Grants forgone, state taxes abolished by tax reform and other items.

Under the Act, a State is entitled to additional funding to offset any shortfall between its entitlement to GST revenue for a transitional GST year and its Guaranteed Minimum Amount for that year.

The IGA outlines components used to construct the Guaranteed Minimum Amount for each State. These form the basis of the Guaranteed Minimum Amount for each State for 2005-06.

The Act requires that the Treasurer consult with each of the States before determining the Guaranteed Minimum Amounts. Accordingly, consultation has been undertaken with the State treasurers.

As every State's entitlement to GST revenue for 2005-06 exceeds its Guaranteed Minimum Amount for 2005-06, no State is entitled to additional funding for 2005-06.