

EXPLANATORY STATEMENT

Issued by authority of the Treasurer

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

Determination of Final Per Capita Relativities for 2008-09

Section 9 of the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* (the Act) requires the Treasurer to make a determination in writing of the GST relativities factor for each State and Territory (State) before 10 June in the current GST year.

As agreed by the Council of Australian Governments in the *Intergovernmental Agreement on Federal Financial Relations*, the Commonwealth makes GST payments to the States equivalent to the revenue received from the GST. The GST payments are distributed 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.

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.

For 2008-09, 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). Details of this calculation are set out in Budget Paper No. 3, *Australia's Federal Relations 2008-09*.

The Act also requires the Treasurer to consult the States before making the GST relativities determination. The Treasurer consulted the States at the Ministerial Council for Commonwealth-State Financial Relations meeting on 14 March 2008.