

EXPLANATORY STATEMENT

Issued by authority of the Treasurer

Federal Financial Relations Act 2009

*Federal Financial Relations (GST Revenue Sharing Relativities for 2021-22)
Determination 2021*

Subsection 8(1) of the *Federal Financial Relations Act 2009* (the Act) provides that the Treasurer may determine that a factor specified in the determination is the goods and services tax (GST) revenue sharing relativity for a State, the Australian Capital Territory or Northern Territory for a payment year.

The purpose of the *Federal Financial Relations (GST Revenue Sharing Relativities for 2021-22) Determination 2021* (the Determination) is to specify the factors that will be the GST revenue sharing relativities for each State, the Australian Capital Territory and Northern Territory (the States and Territories) for the 2021-22 payment year.

Consistent with the *Intergovernmental Agreement on Federal Financial Relations*, the Commonwealth makes payments to the States and Territories of 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 Commonwealth Grants Commission recommends the GST relativities to be used in calculating each State's and Territory's share of GST payments. The relativities determine how much GST revenue each State and Territory receives compared with an equal per capita share.

The *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018* made changes to the equalisation arrangements. Under these changes, 2021-22 will be the first year in a 6-year transition away from distributing the GST pool based solely on the Commission's assessment of States' and Territories' relative fiscal capacities (that is, providing States and Territories with the same ability to provide services). Over these 6 years, the Commission's assessment will be adjusted to new arrangements where no State or Territory will have a per capita GST share lower than the fiscally stronger of New South Wales or Victoria. The transition will be completed in 2026-27.

This provides each State and Territory with the capacity to deliver services at a similar level. It takes account of each State's and Territory's different abilities to raise revenue and their different costs of service provision and ensures each has the capacity to provide services at the standard of New South Wales or Victoria, whichever is higher.

The Determination commenced the day after it was registered on the Federal Register of Legislation and applies to the 2021-22 payment year.

Before making a determination, the Treasurer must consult each of the States and Territories. The Treasurer consulted the States and Territories at the meeting of the Council for Federal Financial Relations held on 19 March 2021 outlining the proposed GST revenue sharing relativities for each State and Territory for the 2021-22 payment year. An embargoed copy of the Commonwealth Grants Commission's *Report on GST Revenue Sharing Relativities—2021 Update* was circulated to the States and Territories on 26 February 2021, consistent with the Commission's terms of reference. The Treasurer considered the matters raised by the States and Territories at the meeting and has accepted the recommendations of the Commonwealth Grants Commission.

Details of the Determination are set out in [Attachment B](#).

The Determination is a legislative instrument for the purposes of the *Legislation Act 2003*. However, the Determination is not subject to disallowance.

A statement of Compatibility with Human Rights is at [Attachment A](#).

Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011

Federal Financial Relations (GST Revenue Sharing Relativities for 2021-22) Determination 2021

This Legislative Instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

Overview of the Legislative Instrument

The purpose of the *Federal Financial Relations (GST Revenue Sharing Relativities for 2021-22) Determination 2021* (the Determination) is to specify the factors that will be the GST revenue sharing relativities for each State, the Australian Capital Territory and Northern Territory for the 2021-22 payment year.

Human rights implications

This Legislative Instrument does not engage any of the applicable rights or freedoms.

Conclusion

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues.

ATTACHMENT B

Details of the *Federal Financial Relations (GST Revenue Sharing Relativities for 2021-22) Determination 2021*

This Attachment sets out further details of the *Federal Financial Relations (GST Revenue Sharing Relativities for 2021-22) Determination 2021* (the Determination).

Section 1 – Name

This section specifies the name of the Determination is the *Federal Financial Relations (GST Revenue Sharing Relativities for 2021-22) Determination 2021*.

Section 2 – Commencement

This section prescribes that the Determination commences the day after the Determination is registered.

Section 3 – Authority

This section provides that the Determination is made under the *Federal Financial Relations Act 2009*.

Section 4 – Definitions

This section provides definitions for the purposes of the Determination.

Sections 5 – GST revenue sharing relativities for the 2021-22 payment year

This section sets out the GST revenue sharing relativity for each State, the Australian Capital Territory and the Northern Territory, for the 2021-22 payment year. The Treasurer accept the recommendation of the Commonwealth Grants Commission in its *Report on GST Revenue Sharing Relativities—2021 Update*.