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**Gary Humphries MLA**

Australian Capital Territory

2000-01 BUDGET

23 May 2000

# GST IMPACT ON COMMONWEALTH REVENUE

Treasurer, Gary Humphries, today released the first ACT Budget to provide for the impact of the Commonwealth Government's Goods and Services Tax (GST).

Mr Humphries said that, for the first time, the ACT, along with other States and Territories, will be provided with access to a more robust tax base which will grow over time to ensure that their budgets are substantially better off over the medium term.

"In the long term, the ACT will receive a greater level of guaranteed funding from the GST than it would have if the current arrangements of annual financial assistance grants had continued.

"The States and Territories have been given a direct role in determining the GST base, rate and related operational matters. This is untied assistance, with jurisdictions able to spend this funding according to their own budgetary priorities.

"This greater level of funding includes a commitment from the Commonwealth Government to 'top up' revenue payments to the ACT until the States and Territories are in an improved budgetary position compared to the existing system.

"The GST, as a growth tax, will take a number of years to escalate beyond current arrangements, hence the need for top-ups.

"This ACT Budget forecasts that the Commonwealth Government will only need to provide these top up payments for 4 years until the pool of GST collections outstrips the forecast level of financial assistance grants and other elements making up the tax reform package.

The expected benefits to the ACT Budget bottom line will be a +\$14.2m improvement in 2004-05; the fifth year of operation.

Thereafter, the ACT is expected to be better off by +\$13.3m in 2005-06, +\$29.2m in 2006-07 rising to +\$93.8m by 2009-10. In accumulated terms

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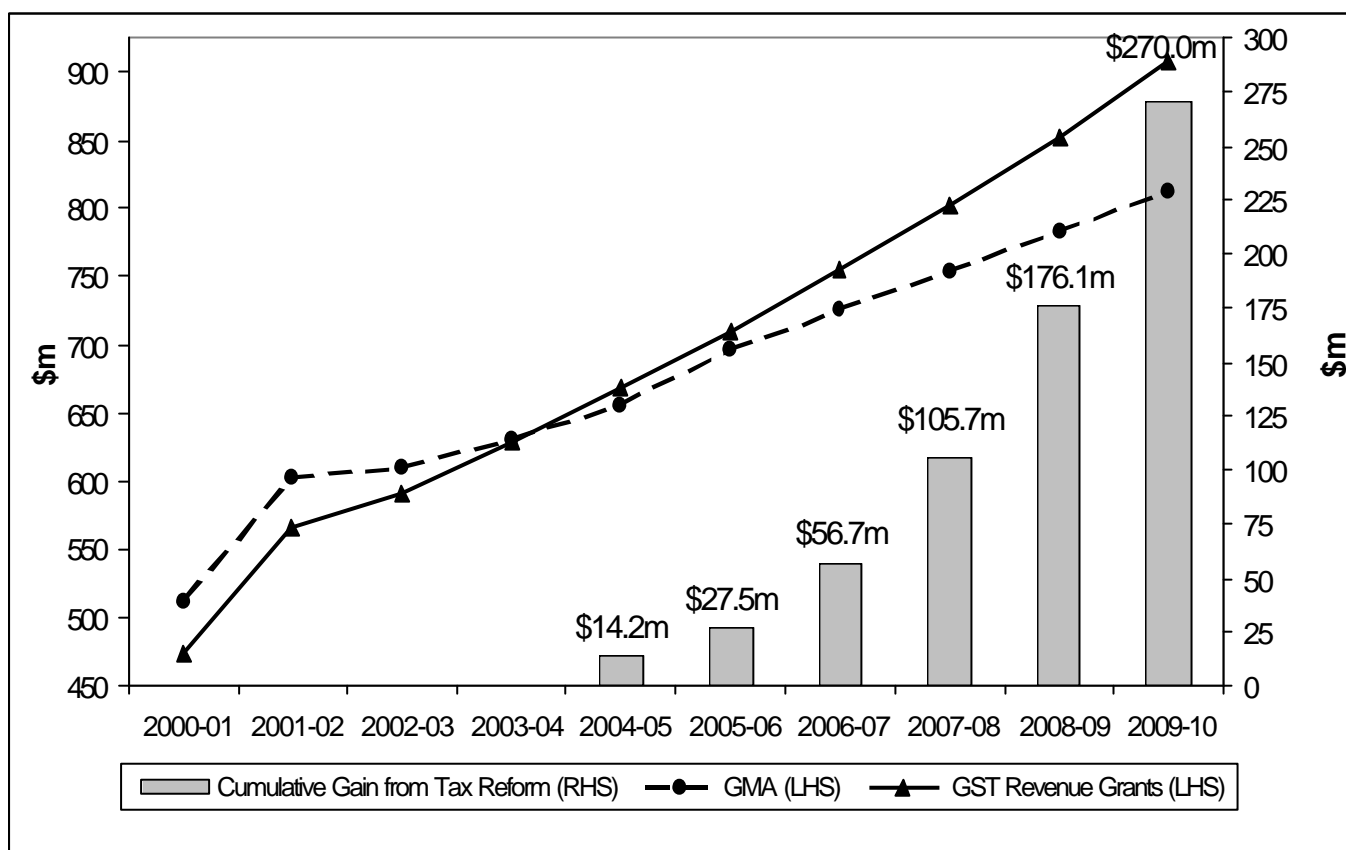
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over a ten year period, this equates to some \$270m as illustrated in the attached chart.

“With Commonwealth funding based on the recommendations of the Commonwealth Grants Commission’s 1999 Review for the next three years, the ACT will receive more than an equal per capita share of the GST revenues over this period,” Mr Humphries said.

### INCREASED FUNDING TO THE ACT ARISING FROM THE GST



Source: 2000-01 ACT Budget Paper Number 3.

The above chart illustrates that between 2000-01 to 2003-04, the ACT’s GST revenue grants are lower than the Guaranteed Minimum Amount (GMA) calculation (left hand scale). The GMA is the notional pre-tax reform position and equates to the amount of funding that each State or Territory should receive from the Commonwealth to restore its previous position. During this period the Commonwealth has undertaken to make up the difference, thereby allowing the ACT to be not financially disadvantaged.

By 2004-05 however, the ACT’s GST revenue grants are higher than its GMA, with the difference being the financial gains to the Territory. The graph shows the favourable gap growing significantly between 2004-05 to 2009-10. The bar chart, which refers to the right hand scale, shows the cumulative magnitude of the gains. By 2009-10, the accumulated gains to the ACT are estimated to total approximately \$270m.

In the first 10 years the ACT is thus estimated to benefit from the new tax arrangements by nearly \$270m above what it would have received under the old Financial assistance Grants system if tax reform had not taken place. The above estimates are broadly indicative only. They are predicated on the full implementation of other agreed tax reform measures.

### Statement Ends

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