



Hon Tim Nicholls MP
Member for Clayfield
Treasurer and Minister for Trade

TRY-01553

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The Honourable Nick Greiner AC, The Honourable John Brumby, Mr Bruce Carter
Review of GST Distribution Panel
GST Distribution Review
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Mr Greiner, Mr Brumby and Mr Carter

The Queensland Government welcomes the opportunity to provide a submission to the Review of the GST Distribution in response to the April and June 2012 interim reports.

In addition to Queensland's individual submission accompanying this letter, a joint submission with New South Wales, Victoria and Western Australia, presenting our common views on a number of issues, is being provided separately.

In previous submissions, Queensland has put forward three key priorities for the Review, to:

- clarify and better focus the aim of the GST distribution process;
- address the problems with the current assessment of mining revenue; and
- simplify the assessment process.

It is now time to take a step back and view Australia's horizontal fiscal equalisation system in a broader perspective. In light of Australia's economic and fiscal challenges, the existing system is too complex, unpredictable and engenders a lack of confidence in the outcomes. It acts as an impediment to the structural adjustment of the economy.

It is time for change and this Review presents an opportunity for bold reform that may not reappear for another generation.

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Queensland, alongside New South Wales, Victoria and Western Australia, proposes a new model of horizontal fiscal equalisation for Australia. It is based on the distribution of the GST on a population share basis with the Commonwealth taking responsibility for the additional financial assistance required for states with lower fiscal capacity to ensure no state or territory is worse off.

Such a model would be fair, simple, transparent and predictable. It would encourage good policy and better support national economic development.

If this proposal is considered to be a solution for the long term, this submission proposes a series of reforms that should be implemented immediately to help address the flaws in the current GST distribution system:

- Most importantly, reform of the mining assessment to address its perverse outcomes. Both Queensland and Western Australian share strong views about the need for immediate reform to the mining assessment. In particular, a discount to mining revenue is required to reflect resource ownership by states and the tangible and intangible costs to government of the mining industry, and to restore the appropriate incentives to governments to develop the industry in their states. Additionally, Queensland recommends the introduction of a single rate structure to replace the current two rate structure to enhance policy neutrality and to significantly simplify the assessment.
- A change in the objective of horizontal fiscal equalisation from one that seeks to equalise states' fiscal capacities to deliver the same level of services, to one that enables states to deliver a comparable level of services. The Commonwealth also has a responsibility to do more of the "heavy lifting" when it comes to improving the level of services in the lower capacity states.
- The application of a general discount based on this principle to reduce the redistributive churn that currently takes place through the GST. The Commonwealth would then share the load of supporting services in recipient states by providing additional financial assistance to ensure that all states have the fiscal capacity to deliver the average level of services.
- Application of a broad indicator to the revenue assessment based on household disposable income.
- Simplification and improvement of expense assessments by either paring back or improving those assessments that lack a robust evidence base.

Finally, Queensland calls on the Review Panel to recommend that more be done to protect the GST base to ensure it remains a strong source of state revenue.

I offer Queensland Treasury and Trade's assistance in any way to support your consideration of these or other issues.

I trust you will give full consideration to the issues raised in the Queensland Government's submission.

Yours sincerely

A handwritten signature in blue ink that reads "Tim Nicholls". The signature is written in a cursive style with a period at the end.

Tim Nicholls
Treasurer and Minister for Trade