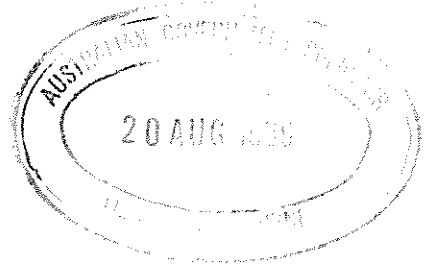


1999



**THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA**

**HOUSE OF REPRESENTATIVES**

**A NEW TAX SYSTEM (COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS)  
BILL 1999**

**SUPPLEMENTARY EXPLANATORY MEMORANDUM**

**Amendments and a New Clause to be Moved on Behalf of the Government**

**(Circulated by authority of the Treasurer,  
the Hon Peter Costello, MP)**

## Table of Contents

Outline and financial impacts.....	1
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### Chapters

1. Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations.....	2
2. Changing the GST rate and base.....	4
3. Providing GST revenue to the States and Territories .....	6
4. Transitional arrangements.....	7

## Outline

These Government amendments will amend the *A New Tax System (Commonwealth-State Financial Arrangements) Bill 1999*.

### Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations

The proposed amendments create a new part (Part 1A) of the Bill which adds a schedule (Schedule 2) comprising the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* and also records the intention of the Commonwealth to comply with the Intergovernmental Agreement.

The Intergovernmental Agreement signed at the 9 April 1999 Premiers' Conference was subsequently amended to reflect changes to the tax reform package announced by the Prime Minister on 28 May 1999. The amended version of the Intergovernmental Agreement is included at Schedule 2.

### Changing the GST rate and base

The proposed amendments to Part 2 of the Bill add a definition of the term "changes of an administrative nature" mentioned in clause 10 of the Bill, and provide that Ministerial Determinations under the *A New Tax System (Goods and Services Tax) Act 1999* or the *A New Tax System (Goods and Services Tax Transition) Act 1999* that affect the Goods and Services Tax (GST) base will be made in accordance with a procedure agreed by all States and Territories.

### Providing GST revenue to the States and Territories

An amendment is required to remove the reference to the diesel fuel credits in the definition of the GST revenues to be provided to the States. Originally, diesel fuel credits were to be administered through the GST system. However, these credits will now be administered through an outlays programme. GST revenues are therefore no longer affected by the provision of diesel fuel credits by the Commonwealth.

### Transitional arrangements

The proposed amendments to Schedule 1 of the Bill provide for transitional assistance to be in the form of grants and short term loans in 2000-01.

## Financial impacts

There are no financial impacts arising from these proposed amendments.

## Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations

### Overview

1.1 The proposed amendments create a new part (Part 1A) of the Bill which adds a schedule (Schedule 2) comprising the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* and also records the intention of the Commonwealth to comply with the Intergovernmental Agreement.

### Summary of the amendment

#### *Purpose of the amendment*

1.2 To fulfil the Government's commitments under clause 4 of the Intergovernmental Agreement.

#### *Date of effect*

1.3 Clause 2 of the Bill provides that this Bill, once enacted, will commence when it has received Royal Assent or after the *A New Tax System (Goods and Services Tax) Act 1999*; the GST Imposition Acts; and the *A New Tax System (Goods and Services Tax Administration) Act 1999* have commenced. The Intergovernmental Agreement between the Commonwealth, the States and the Territories will commence on 1 July 1999 unless otherwise agreed by the Parties.

### Background to the amendment

1.4 At the 9 April 1999 Premiers' Conference, the Prime Minister and the Premiers and Chief Ministers of each State and Territory signed an *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. The Intergovernmental Agreement sets out Commonwealth, State and Territory commitments with respect to new Commonwealth-State financial arrangements.

1.5 In clause 4 of the Intergovernmental Agreement the Commonwealth undertook to attach the Intergovernmental Agreement to the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* and to use its best endeavours to ensure the Act will require compliance with the Intergovernmental Agreement. The States and Territories made a similar undertaking in relation to their legislation.

1.6 The 9 April 1999 Intergovernmental Agreement was subsequently amended to reflect changes to the taxation reform package announced by the Prime Minister on 28 May 1999. The amended version of the Intergovernmental Agreement is included at Schedule 2.

**Explanation of the legislation**

1.7 Sub-clause 9A(1) provides that a copy of the Intergovernmental Agreement is attached to the Act.

1.8 Sub-clause 9A(2) records that it is the Commonwealth's intention to comply with, and give effect to, the Intergovernmental Agreement.

## 2

## Changing the GST rate and base

### Overview

2.1 The proposed amendments to Part 2 of the Bill add a definition of the term "changes of an administrative nature" which is mentioned in clause 10 of the Bill and provide that Ministerial Determinations under the *A New Tax System (Goods and Services Tax) Act 1999* or the *A New Tax System (Goods and Services Tax Transition) Act 1999* that affect the GST base will be made in accordance with a procedure agreed by all States and Territories.

### Summary of the amendment

#### Purpose of the amendment

2.2 To provide greater clarity with respect to the provisions in the Bill which deal with changes to the GST rate and base, consistent with the Intergovernmental Agreement.

#### Date of effect

2.3 Clause 2 of the Bill provides that this Bill, once enacted, will commence when it has received Royal Assent or after the *A New Tax System (Goods and Services Tax) Act 1999*; the GST Imposition Acts; and the *A New Tax System (Goods and Services Tax Administration) Act 1999* have commenced, whichever is later.

### Background to the amendment

2.4 The proposed amendments to Part 2 of the Bill clarify that the 'lock-in' mechanism in relation to the GST rate and base extends to proposals to vary the GST base by way of Ministerial determinations under the *A New Tax System (Goods and Services Tax) Act 1999* or the *A New Tax System (Goods and Services Tax Transition) Act 1999*. The Intergovernmental Agreement states that proposals to vary the GST base by way of Ministerial determinations will require the unanimous agreement of the Ministerial Council and that the Ministerial Council is to develop practical arrangements to ensure the timely consideration of proposed Ministerial determinations.

2.5 Clause 10 of the Bill provides for the Commonwealth to make changes to the GST base during the first year of the GST if the changes are, among other things, of an administrative nature. Subsequently, changes to the GST of an administrative nature will require the approval of a majority of the Commonwealth and the States and Territories. The amendments to Part 2 of the Bill define "changes of an administrative nature" in accordance with the definition included in the Intergovernmental Agreement.

## **Explanation of the amendment**

2.6 Clause 10 of the Bill states that the GST base is not to be changed unless each State and Territory agrees to the change. Sub-clause 10(1A) adds to this requirement by providing that a variation of the GST base by way of a Ministerial Determination under the *A New Tax System (Goods and Services Tax) Act 1999* or the *A New Tax System (Goods and Services Tax Transition) Act 1999* will be required to be made in accordance with a procedure to which all the States and Territories have agreed.

2.7 Clause 11(2) adds that, for the purpose of sub-clause 10(2) and 10(3) of the Bill, changes of an administrative nature are defined as changes involving legislation necessary to:

- (a) maintain the integrity of the GST base; or
- (b) prevent tax avoidance.

## Providing GST revenue to the States and Territories

### Overview

3.1 The proposed amendments to Part 1 of the Bill removes the reference to diesel fuel credits in the definition of GST revenues to be distributed to the States and Territories.

### Summary of the amendment

#### Purpose of the amendment

3.2 Clause 5 of the Bill needs to be amended to remove the reference to diesel fuel credits as these will not affect the definition of GST revenues.

#### Date of effect

3.3 Clause 2 of the Bill provides that this Bill, once enacted, will commence when it has received Royal Assent or after the *A New Tax System (Goods and Services Tax) Act 1999*; the GST imposition Acts; and the *A New Tax System (Goods and Services Tax Administration) Act 1999* have commenced, whichever is later. The Intergovernmental Agreement will commence between the Commonwealth, States and the Territories on 1 July 1999 unless otherwise agreed by the Parties.

### Background to the amendment

3.4 The original tax reform plan proposed to administer the diesel fuel credits scheme through the GST. However, these credits will now be administered through an outlays programme and will not be netted off the GST revenues. The definition of GST revenues provided to the States and Territories no longer needs to refer to diesel fuel credits.

### Explanation of the amendment

3.5 The amendment removes sub-clause 5(3)(d) as diesel fuel credits no longer needs to be taken into account when determining the GST revenues to be distributed to the States and Territories.



## Transitional arrangements

### Overview

4.1 The proposed amendments to Schedule 1 of the Bill provide for transitional assistance to be in the form of grants and short term loans in 2000-01.

### Summary of the amendment

#### Purpose of the amendment

4.2 To reflect the terms of the Intergovernmental Agreement in relation to transitional arrangements.

#### Date of effect

4.3 Clause 2 of the Bill provides that this Bill, once enacted, will commence when it has received Royal Assent or after the *A New Tax System (Goods and Services Tax) Act 1999*; the GST Imposition Acts; and the *A New Tax System (Goods and Services Tax Administration) Act 1999* have commenced, whichever is later. The Intergovernmental Agreement will commence between the Commonwealth, States and the Territories on 1 July 1999 unless otherwise agreed by the Parties.

### Background to the amendment

4.4 Changes to the tax reform package announced by the Prime Minister on 28 May 1999 required amendments to the Intergovernmental Agreement, including the provision for additional amounts of transitional assistance to the States and Territories in 2000-01, which will be paid in the form of grants.

### Explanation of the amendment

4.5 Amendments are made to clause 3 of Schedule 1 of the Bill to include the addition of sub clause 3(5A) which requires the Treasurer to determine in writing the amounts of transitional assistance to be provided to a State or Territory as a short term loan or grant.