

GST carve-up to be examined by the Productivity Commission

Written by Michelle Grattan, Professorial Fellow, University of Canberra

The government has ordered the Productivity Commission (PC) to review how the GST revenue is sliced up, setting the scene for a new round of hostilities between states over what they get from the tax.

[The review](#), to report by the end of January, follows long-standing pressure from Liberals in Western Australia, which currently loses out heavily from the present formula. There is now deep concern, after the Barnett government's wipeout, that a number of federal seats in that state could be lost at the next election.

Under the Grants Commission's formula, WA in 2017-18 will get only 34% of the average national per capita distribution of the GST.

The new WA Labor Premier Mark McGowan welcomed the review, saying he had pressed for it. He said action was needed as soon as the report was received.

But South Australian Labor Treasurer Tom Koutsantonis said that after the WA rout of the Liberals, the federal government wanted "to take GST away from South Australians and give it to Western Australians".

Expert sources said potential winners and losers from the PC review could not be predicted.

The outcome of the PC review would be taken to the Council of Australian Governments (COAG).

Treasurer Scott Morrison said the PC had been asked to inquire into the impact on the national economy of the current system of horizontal fiscal equalisation (HFE) which underpins the present distribution.

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Under this system, the Grants Commission recommends a carve up to give each state the capacity to provide its citizens with a comparable level of government services.

“In recent years, views have been put to the government that the current approach to HFE creates disincentives for reform, including reforms to enhance revenue raising capacities or drive efficiencies in spending, arguing that any gains from reform are effectively redistributed to other states,” Morrison said.

“It is important for Australia’s future prosperity that our system underpinning Commonwealth-state financial relations supports productivity, efficiency and economic growth across the country.”

The federal government has been topping up WA’s money and confirmed that it will continue to do so in next week’s budget, by providing it with some \$226 million for infrastructure.

One closely-watched area in the budget will be health, with the government expected to announce a staged lifting of the freeze on Medicare rebates, probably over three years and starting with GP consultations for those covered by concession cards.

Labor is pre-emptively seeking to raise the bar higher than the government will meet. Bill Shorten and health spokeswoman Catherine King said in a statement that if the government “doesn’t drop every single health cut in full”, including the entire Medicare freeze from July 1, it would be “more proof that they can’t be trusted on health”.

Meanwhile, Education Minister Simon Birmingham is setting the scene for the imminent announcement of the university funding policy by releasing a study on the cost of delivery of higher education, commissioned by the government and undertaken by Deloitte.

It showed revenue rose faster than costs – between 2010 and 2015 the average costs of delivery per student increased by 9.5%, while per student funding growth was 15%.

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“This independent analysis speaks for itself: funding for our universities is at record levels, but it has grown above and beyond the costs of their operations,” Birmingham said.

“Australian taxpayers gave universities around \$16.7 billion in 2016 alone or around \$19,000 per student, which is more than ever before. In the context of a tight national budget, the Turnbull Government is focused on getting the best return for every taxpayer dollar invested,” Birmingham said.

Birmingham has a meeting with university leaders and business and student representatives on Monday.

With housing affordability a key item in the budget, there is speculation one measure could be a tax break for first home buyers’ savings.

In its pre-budget monitor on the economy Deloitte Access Economics says the economic news is getting better – reinforcing the point Morrison made last week.

“National income is jumping by \$100 billion this year, equalling the gains of the previous two-and-a-half years in one gulp,” it says, adding that the good news is mostly in profits. But wages growth remains low, restraining the growth in revenue.

Deloitte projects a deficit of \$38.3 billion this financial year, \$1.8 billion worse than in the official mid-year budget update, and (on the assumption of no further policy changes) the deficit falling to \$27.5 billion next financial year. That would be \$1.2 billion better than projected in the mid-year update.

Deloitte doesn’t expect Australia to lose its AAA credit rating in the near term. “Were it to happen, the initial trigger may actually be the debt of families rather than that of government,” it says. “In recent months Australian families passed those of Denmark to move into second place as the world’s most indebted [behind the Swiss].”

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Michelle Grattan does not work for, consult, own shares in or receive funding from any company or organization that would benefit from this article, and has disclosed no relevant affiliations beyond the academic appointment above.

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