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12 October 2011

Panel Members
GST Distribution Review
The Treasury
Langton Crescent
Parkes ACT 2600

Dear Panel Members,



I write to you in relation to the *GST Distribution Review Issues Paper*.

Business SA is South Australia's leading business membership organisation, representing thousands of businesses through direct membership and affiliated industry associations. We represent businesses across all industry sectors, ranging in size from micro-business to multi-national companies.

The Goods and Services Tax (GST) has been a major part of the taxation system in Australia for more than a decade and is a vital contributor to South Australia's revenue. According to the 2011-12 State Budget Papers, the GST provided about 26 per cent of the State Government's revenue in 2009-10 and this share was estimated to increase to over 29 per cent in 2010-11.

This increase reflected a rise in the share of GST allocated to South Australia from 9.2 per cent to 9.5 per cent, as recommended by the Commonwealth Grants Commission (CGC), as well as declining revenues from some State taxes. However, the latest advice from the CGC has been to cut this share to 9.3 per cent in 2011-12.

In its 2010 review, the CGC highlighted a number of methodological changes to calculating the distribution of GST revenues, including reducing the assessment period to three years rather than five years, reducing the number of issues and simplifying the parameters assessed, as well as taking greater account of the differences in infrastructure requirements across States and differences in the ability of States to raise revenue. Business SA supports these changes.

The distribution of GST to States and Territories at rates that vary from their per capita share is necessary because of differences in revenue raising capacity, infrastructure requirements and population profiles.

In particular, it is vital that the differences in the age profile of State populations are taken into account when distributing GST revenues. South Australia has the country's oldest population and it is projected to age faster than in all other States, apart from Tasmania. As shown in the Commonwealth Treasury's Intergenerational Report, an ageing population results in significant pressures on Budgets, including those of State Governments, both through reduced tax revenues (payroll tax intake will be lower because of a smaller labour force) and higher expenditure on health and aged care.

The GST distribution process should be simple, fair and transparent and should not result in perverse incentives for States or Territories to change their own revenue raising or spending activities simply in order to be allocated more GST revenue. GST distribution should result in each State or Territory Government having the same ability to provide public services and infrastructure.

Should you require any further information or have any questions, please contact Rick Cairney, Director of Policy, Business SA on (08) 8300 0060 or rickc@business-sa.com.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Vaughan', written in a cursive style.

Peter Vaughan

Chief Executive Officer