Tabled 20 May 2019
GAA|HFES 4
M. Goddard.

There is no 'budget black hole'

On 9 April 2019 the Treasurer, Mr Gutwein, delivered a statement to the House of Assembly saying that revenue estimates for 2019-20 would be $560 million less than had been expected in the last budget. Half of this (or $280 million) was due to the national GST pool being lower than had been forecast in the 2018-19 Commonwealth Budget and MYEFO; the other half, he said, was due to declining receipts from conveyance (or stamp) duty on property sales.

In his statement, the Treasurer said:

> This is a significant and material impact on our revenues and will be a challenge to manage; however the Government will approach this in the same sensible and responsible manner we have in the past. We have been here before. In 2016-17 we faced a GST write-down of around half a billion dollars. We worked through those issues then and we will work through them now.
>
> Our balance sheet and our economy will both remain strong and we will need to ensure that we are as efficient as possible to limit the impacts ... It will mean that some hard choices will need to be made in this Budget. We will need to cut our cloth to suit our circumstances.
>
> It goes without saying that as a result of the collapse in revenue, the unions need to stop their politicking and be sensible in terms of their wages demands and, importantly, put our very reasonable offer to their members. Under the circumstances, their demands cannot be met – more than half a billion dollars lost in revenue.[1]

But a closer examination of the available data, including the effect of GST redistribution on the Tasmanian budget, shows there is no collapse in state revenues and therefore no need for those 'hard choices' to be made. Even with the new estimates, state revenue is still growing strongly.

GST revenue

Mr Gutwein said:

> We will receive around $40 million less this financial year and next year it will be more than $80 million less than forecast. Compared to our current budget forecasts, Treasury's advice is that the cumulative impact this financial year and across the forward Estimates will be a reduction of around $280 million.[2]

This statement, made without qualification, is misleading. In its recent 2019 Review, the Commonwealth Grants Commission explained that Tasmania's GST share was reduced slightly because the state had received more Commonwealth specific-purpose payments than it was entitled to and was raising more of its own revenue from property sales but the GST pool had increased:

> Tasmania's GST share will decrease slightly from 3.7% to 3.6%, but its GST entitlement in 2019-20 will rise by $44 million, or 1.8%, due to growth in the size of the pool.[3]

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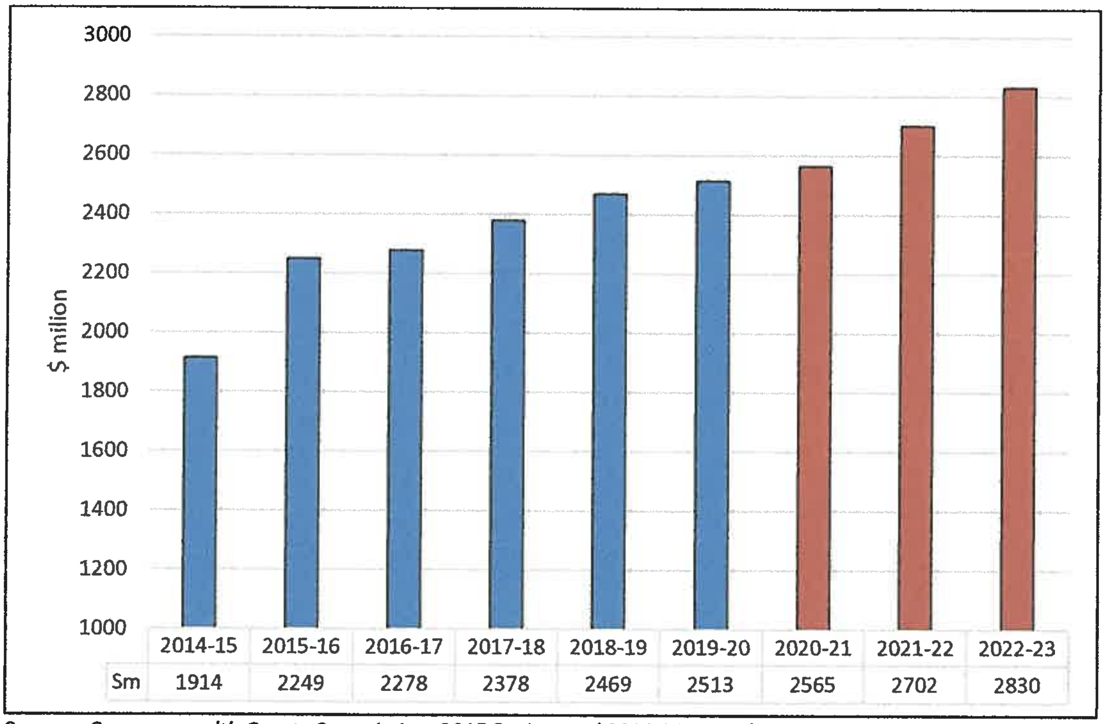
1. Parliament of Tasmania, *Hansard*, House of Assembly, Hobart, 9 April 2019.
2. *ibid.*
3. *ibid.*

It is important to understand that the size of the GST pool, and Tasmania's GST grant, are not being reduced. Rather, they are growing less quickly than previous state and Commonwealth forecasts indicated. This is far from unusual in Treasury forecasts: it has often been said that economic forecasters exist in order to make astrologers look good. It would be unwise for any government to align its fiscal policy too closely with such forecasts.

This chart shows the amount received in GST allocation to Tasmania since 2015-16 and the forecast amount, based on the revised estimates of the total GST pool in the recent Commonwealth budget and assuming a continued relativity for Tasmania of 3.6%.

GST grants to Tasmania ($ millions) 2014-15 to 2022-23



Sources: Commonwealth Grants Commission, 2015 Review and 2016-2019 Updates.
NB: Years 2021-21 to 2022-23 are estimates based on the 2019-20 Commonwealth Budget.

On a year-on-year percentage basis, the actual and forecast increases are:

GST grants to Tasmania: percentage increases from previous year, 2015-16 to 2022-23

2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
17.5%	1.3%	4.4%	3.8%	1.8%	2.1%*	5.3%*	4.7%*

** Forecasts based on updated estimates of the national GST pool in the 2019-20 Commonwealth Budget.*

The next most likely change to estimates of the GST pool is upwards. Because forecasts of the size of the GST pool are all about assumptions of consumer spending, this can all change with a change of government policy at the federal level. If there is a change of government at next month's election, we can expect a priority would be to stimulate consumer spending. Low-income tax cuts, any increase to welfare payments, spending on employment of public sector employees, and restoring penalty rates would all have that effect. In the longer term, reforming industrial relations to increase wage growth would also contribute.

Stamp (conveyance) duty

The other half of Mr Gutwein's budget write-down was in conveyance duty, also known as stamp duty. This is levied on the sale of property. The Treasurer said that because property sales had tended to switch from Hobart to regional Tasmania where prices were lower, duty revenue had decreased even though the numbers of sales had been maintained. He said this involved a budget write-down of $280 million.

In the Revised Estimates Report, released in December, the state Treasury put the situation into better context:

> Based on the most recent data, Conveyance duty revenue in 2018-19 is forecast to decline by $50.4 million or 16.9 per cent compared to the 2018-19 Budget forecast, with further downward revisions over the Forward Estimates period. These revisions reflect a winding back in the very strong growth in receipts expected at the time of the 2018-19 Budget. *Conveyance duty revenue is still forecast to grow moderately in absolute terms* over the Budget and Forward estimates period compared to 2017-18 receipts by an average annual growth rate of 3.2 per cent.
>
> This slowdown in revenue growth is consistent with downwards revisions to conveyance duty revenue which have been progressively experienced in other jurisdictions since late 2017, noting Tasmania has historically lagged other jurisdictions in relation to property market trends.[4]

Neither the Treasury documents, not the Treasurer's statements to Parliament, acknowledged the part played by GST redistribution in addressing these problems. Because Tasmania has relatively less capacity to raise revenue from stamp duties, the Grants Commission allocates a substantial amount each year to compensate. This money is redistributed from other states, such as New South Wales, which have higher property prices and therefore higher revenue from duties.

The state government is currently benefiting both from the lag in this state's property boom compared with those in larger states (prices here are still rising but are falling elsewhere) and from the delay inherent in the GST system.

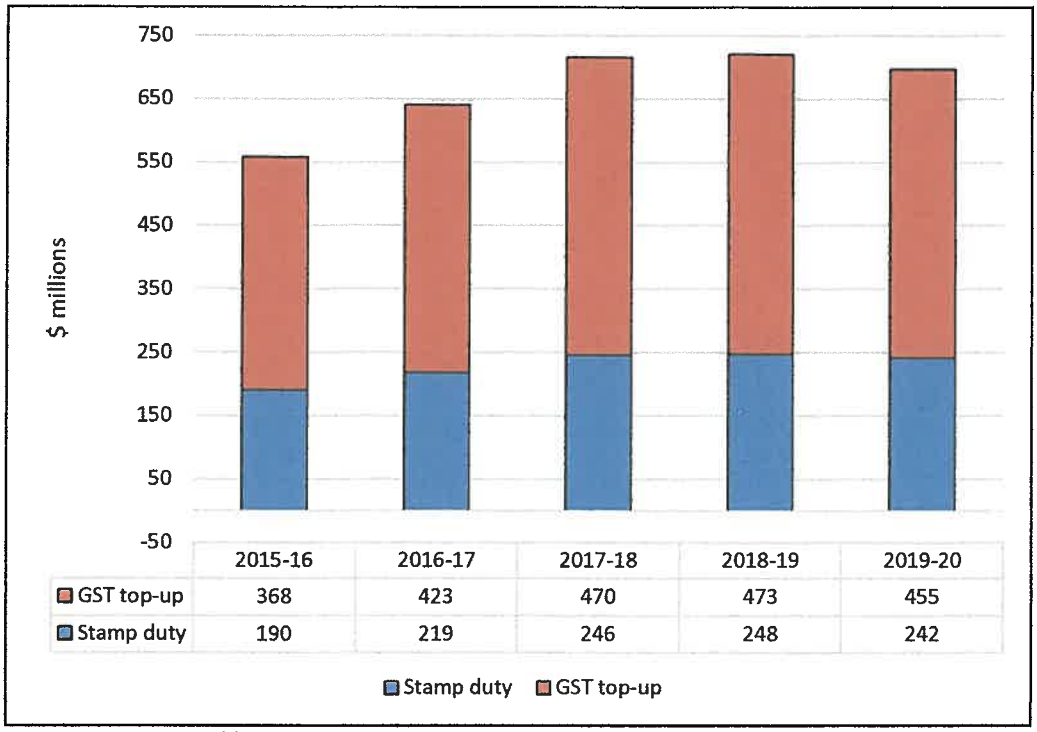
Although receipts are not as high as were initially forecast in the 2018-19 state budget, they remain buoyed by the continuing property boom in this state.

The delay in GST allocation is the result of the Grants Commission's policy of making its calculations on the basis of three-year moving averages in order to reduce volatility, and in the necessary further delay of a year to allow the figures to come in and the calculations to be made. Allocations for 2019-20 are based on data from the three years 2015-16 to 2017-18. At that time, property prices and stamp duty revenues were rising strongly in the larger states but languishing in Tasmania. The state government is now being compensated for the situation that existed then, while at the same time reaping the increased income from a buoyant Tasmanian property market.

The GST amounts being allocated to Tasmania in this way have therefore risen sharply, from $190 million in 2015-16 to an estimated $242 million in 2019-20. When the data from these two sources – the state budget and the Grants Commission documents – are seen together in context, they present a very different situation than that described by the Treasurer. The contribution made by the offsetting GST allocation can be seen in context in the following chart:

4. Department of Treasury and Finance, *Revised Estimates Report*, December 2018. My emphasis.

Stamp (conveyance) duty: state revenue plus GST top-up, 2015-16 to 2019-20



Sources: Commonwealth Grants Commission, 2015 Review and 2016-2019 Updates; Tasmanian Budgets, 2015-16 to 2018-19; Revised Estimates Report, December 2018.

This table more clearly shows the conveyance duty windfall still being enjoyed by the Tasmanian government:

Total conveyance duty revenue (state taxation plus GST top-up), 2015-16 to 2019-20

	2015-16	2016-17	2017-18	2018-19	2019-20
$ millions	558	642	716	721	697

Sources: Commonwealth Grants Commission, 2015 Review and 2016-2019 Updates; Tasmanian Budgets, 2015-16 to 2018-19; Revised Estimates Report, December 2018.

In brief, these data demonstrate that the Treasurer's gloomy presentation of the situation facing the Tasmanian budget is not warranted when the situation is put into proper context and the effect of GST redistribution is acknowledged. Although some earlier over-optimistic budget forecasts have now been proved wrong, these two important streams of government revenue – total GST grants and conveyance duty – are still growing strongly.

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