

NSW Review of Federal Financial Relations

On 1 July, the NSW Government released the Draft Report of the Federal Financial Relations Review, *Supporting the Road to Recovery*. The Report sets out a framework to better align financial relations between the states and Commonwealth by reforming the tax system and simplifying Commonwealth-state agreements.

Recommendations

The report makes 15 recommendations, including:

1. Establish the National Cabinet as an inter-governmental body of equals with an independent national Secretariat to support governance and administrative processes.
2. To support the continued operation of the National Cabinet, create a national evidence base, including a Commonwealth-state Intergenerational Report, to support shared priority setting.
3. Strengthen monitoring and assessment of performance of Commonwealth-state commitments, enabling citizens to see the results delivered and informing government decision making.
4. Review and reform all Commonwealth-state funding agreements to:
 - a) Reduce administrative burdens and shift the basis of funding towards outcomes rather than inputs and outputs
 - b) Reassess roles and responsibilities in areas in which they are not completely intertwined, so that citizens know where to go and who is responsible for particular services;
 - c) Ensure that programs that need long-term stable funding are not subject to short-term grants with unreliable and administratively burdensome renewal processes, by replacing them with untied funding from an ongoing source (such as personal income tax sharing or GST reform).
5. State Treasuries should develop projections of national GST revenues that consider the magnitude and timing of further erosion of the base to inform the appropriate policy response.
6. State governments, in consultation with the Commonwealth, should assess and agree options for lifting the GST rate and/or expanding the base over the medium to longer-term to offset base erosion and move away from more harmful taxes. Some of the revenue gained should be transferred to lower income household to maintain equity.
7. As a more equitable and efficient approach to taxation, the NSW Government should replace transfer duty with a broad-based land tax. The transition should be managed with the support of detailed distributional and financial modelling and public communication and consultation, so that the transition is fair, efficient and minimises the amount of revenue foregone.
8. In consultation with other state Governments, the NSW Government should seek assurance from the Commonwealth that it will not be disadvantaged with a lower GST share as a result of undertaking major productivity-enhancing tax reforms such as replacing transfer duty with a broad-based land tax

9. With the Commonwealth, the NSW Government should lead the development of a personal income tax-sharing model. The model should be opt-in, revenue neutral for the taxpayer and with revenue distributed to the state in which it is generated. The revenue should be quarantined from the calculation of GST relativities. A small-scale pilot could be undertaken and evaluated prior to a more expansive roll-out.
10. All specific taxes on insurance products, including the Emergency Services Levy in New South Wales, should be abolished and replaced by more efficient and broad tax bases, to improve the affordability and uptake of insurance.
11. To reduce the cost of insurance and enable fairer ways to fund the fire and emergency services, the NSW Government should reconsider applying a levy on property owners and should also consider combining this with a future broad-based land tax. The reform should follow a detailed consultation and modelling process to carefully consider the impacts on different taxpayers.
12. The NSW Government should propose that the Board of Treasurers collectively agree a strategic national approach to payroll tax reform that addresses the hollowing out of the tax base and the complexity this imposes on taxpayers.
13. The NSW Government should work with the Board of Treasurers and state transport departments to design a nationally compatible and fair road user charging scheme for electric vehicles.
14. Once distance-based charging for electric vehicles has been successfully implemented, the NSW Government should work with the Board of Treasurers to replace vehicle registration, licence fees, stamp duties on motor vehicles and motor vehicle insurance with a distance-based charging scheme that better reflects the social costs of road use, including wear-and-tear, pollution and congestion. Revenue should be hypothecated to expenditure on roads and other transport infrastructure.
15. The NSW Government should commence a trial for a congestion cordon around the Sydney CBD to better understand how Sydney drivers respond to time-based road pricing.

Response

NSW Treasurer Dominic Perrottet has indicated his support for the recommendations enclosed in the Draft Report, saying on 1 July “we all know our federation needs fixing. This is our once in a generation opportunity to change it for the better”.

Federal Treasurer Josh Frydenberg has previously said the Federal Government is in the “harvesting” phase for tax reform, despite Finance Minister Mathias Cormann suggesting on 7 June “when it comes to the GST, we did have a very thorough look at this not that long ago and the outcome of that work at time was, that it wasn’t in our interest to move in that direction.”

The Review is accepting comments until 31 July 2020. The full Draft Report can be found here: <https://www.treasury.nsw.gov.au/draft-report>.

The Final Report is expected to be delivered in September 2020.