

ADDENDUM: FURTHER OBSERVATIONS ABOUT THE VALUE DISTRIBUTION ADJUSTMENT

General Proposition – A guiding principle for revenue assessments is that States get a population share of the total States tax revenue (assuming equal tax effort). A direct assessment¹ achieves this.

Reform of tax bases

Unless CGC assessments are as close as possible to a direct assessment, some States will face a disincentive to reduce or eliminate reliance on one tax and move to another (properly assessed) tax (or Commonwealth general revenue assistance distributed EPC) where a population share is being delivered. For example, Victoria will have a disincentive to abolish conveyance duty and increase land tax.

Internal reform of tax design

If a VDA is implemented and it proves to be minor in effect or diminishes over time if the average tax structure becomes less progressive, no harm is done.

If it is not implemented there will be incentives created for individual States (albeit of a zero sum kind) to adopt more or less progressive structures on the basis that a population sharing of the total States revenue from a particular tax (for an equal average effort) can be avoided.

Gaming Incentive

If a VDA is not implemented on the basis that a State, which loses from the VDA element of an assessment, has moved to a less progressive or proportional structure, or is 'unable' to provide volume range data, the CGC has been manipulated and further manipulations are encouraged.

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¹ Direct assessment is one in which actual revenue per capita can be relied upon to indicate revenue capacity – this is the method adopted if rates and bases are identical across the States eg the previous assessment of stamp duty on listed shares.