

PUBLIC DEBT : STATES, MUNICIPAL AND SEMI-GOVERNMENTAL BODIES.

State.	Debts of the States. (a)	Due to Public Creditor.		Grand Total.
		Municipal.	Semi-Governmental Bodies.	
1946-47.				
	£'000.	£'000.	£'000.	£'000.
New South Wales	362,028	24,188	74,913	461,129
Victoria	183,096	10,313	59,368	252,777
Queensland	135,356	22,297	5,674	163,327
South Australia	114,134	579	11,145	125,858
Western Australia	99,002	1,691	263	100,956
Tasmania	32,633	2,625	480	35,738
Total, All States	1946-47 ..	926,249	61,693	1,139,785
	1940-41 ..	916,022	80,255	1,128,323
	1939-40 ..	905,727	80,316	1,114,695
	1938-39 ..	897,772	78,126	1,096,410

DEBT PER HEAD OF POPULATION.

1946-47.				
	£	£	£	£
New South Wales	121.3	8.1	25.1	154.5
Victoria	89.1	5.0	28.9	123.0
Queensland	122.4	20.1	5.1	147.6
South Australia	176.6	0.9	17.3	194.8
Western Australia	196.9	3.4	0.5	200.8
Tasmania	126.9	10.2	1.9	139.0
Total, All States	1946-47 ..	122.6	8.2	150.9
	1940-41 ..	129.3	11.3	159.3
	1939-40 ..	129.1	11.4	158.8
	1938-39 ..	129.2	11.2	157.8

(a) Includes amounts due by municipal and semi-governmental bodies.

Details of the debt of local and semi-governmental authorities were not compiled for the years 1941-42 to 1945-46.

4. The Financial Agreement between the Commonwealth and the States.—

(i) *Details of the Agreement.* The original Financial Agreement between the Commonwealth and the States was made on 12th December, 1927. It was later affected by the following agreements made under the powers conferred by Section 105A of the Constitution :—

Debt Conversion Agreement—Made 21st July, 1931.

Debt Conversion Agreement (No. 2)—Made 22nd October, 1931.

Agreement relating to Soldier Settlement Loans—Made 3rd July, 1934.

Financial Agreement 1944—Made 15th November, 1944.

The Debt Conversion Agreements did not affect the wording of the main agreement, but contained provisions stating that where their provisions were not in accordance with any contained in the Financial Agreement the former should prevail. An Agreement was made between the Commonwealth and Tasmania only on 1st July, 1928. This was not an amendment, but was made under the authority of Part III., Clause 3 (l) of the original Agreement.

A summary of the original Agreement as affected by the subsequent Agreements is given below.

(i) *Australian Loan Council.* Under the Agreement, an Australian Loan Council was set up to co-ordinate the public borrowings of the Commonwealth and the States. It consists of the Prime Minister of the Commonwealth as Chairman and the Premier of each State, or in their absences Ministers nominated by them in writing.

Each of the Governments submits annually to the Loan Council a programme setting forth the amount it desires to raise by loans during each financial year for purposes other than the conversion, renewal or redemption of existing loans, or for temporary purposes. Any revenue deficit to be funded must be included in the loan programme. Loans for defence purposes are not subject to the Agreement, and therefore the Commonwealth is not required to include borrowing for that purpose in its programme for submission to the Loan Council.

If the Loan Council decides that the total amount of the loan programmes for the year cannot be borrowed at reasonable rates and conditions, it then decides the amount which shall be borrowed and may, by unanimous decision, allocate that amount between the Commonwealth and the States. In default of a unanimous decision, the Commonwealth is then entitled to one-fifth of the total amount to be borrowed and each State to a proportion of the remainder equal to the ratio of its net loan expenditure in the preceding five years to the net loan expenditure of all States during the same period.

In questions decided by a majority vote of the Council members, the member representing the Commonwealth has two votes and a casting vote and each member representing a State has one vote.

(ii) *Borrowings of the Commonwealth and the States.* (a) Subject to the decisions of the Loan Council, the Commonwealth arranges for all borrowings for or on behalf of the Commonwealth or any State, and for all conversions, renewals, redemptions, and consolidations of the Public Debts of the Commonwealth and of the States.

(b) If the Loan Council unanimously decides, however, a State may borrow outside Australia in the name of the State, and may issue securities for the amount so borrowed. The Commonwealth then guarantees that the State will fulfil all its obligations to bondholders in respect of the money so borrowed and the money is deemed to be borrowed by the Commonwealth for and on behalf of the State.

(c) Subject to any maximum limits decided upon by the Loan Council for interest, brokerage, discount and other charges, the Commonwealth or any State may—

- (i) Borrow within its own territory, for any purpose, money from any authorities, bodies, funds or institutions (including Savings Banks) constituted or established under Commonwealth or State law or practice ;
- (ii) Borrow from the public by means of counter sales of securities ; and
- (iii) Use any available public moneys.

However, any securities issued for money so borrowed or used must be Commonwealth securities on terms approved by the Loan Council.

(d) Where such borrowings are not solely for temporary purposes, they are treated as loans under the Agreement and, if the amount together with the amount of loan money raised for the Government concerned by the Loan Council exceeds the limit (if any) of the amount to be raised for or by that Government, the excess is deemed to be money received by the Government in the following year on account of its loan programme for that year.

(e) The Commonwealth or any State may use for temporary purposes any public moneys available under the laws of the Commonwealth or a State and may, subject to terms approved by the Loan Council, borrow money for temporary purposes by way of overdraft, or fixed, special or other deposit. The conditions as to sinking fund, etc., do not apply to such temporary borrowing.

(iii) *Taking over of State Public Debts.* Subject to the provision of the Financial Agreement, the Commonwealth took over on 1st July, 1929—

(a) the balance then unpaid of the gross public debt of each State existing on 30th June, 1927; and

(b) all other debts of each State existing on 1st July, 1929, for money borrowed by that State deemed by the Agreement to be money borrowed by the Commonwealth for and on behalf of the State—

and in respect of these debts assumed, as between the Commonwealth and the States, the liabilities of the States to bond holders.

The net public debt of each State existing on 30th June, 1927, was as follows :—

	£
New South Wales	234,088,501
Victoria	136,949,942
Queensland	101,977,855
South Australia	84,834,364
Western Australia	61,060,675
Tasmania	22,434,060
Total	641,345,397

These amounts have been varied in accordance with the terms of the " Agreement relating to Soldiers Settlement Loans " made on 3rd July, 1934. The amended figures are—

	£
New South Wales	233,153,779
Victoria	136,348,982
Queensland	101,840,622
South Australia	84,029,376
Western Australia	61,060,675
Tasmania	22,314,180
Total	638,747,614

These amounts represent the gross debt less—

(a) the values of properties transferred by the States to the Commonwealth as shown below ;

(b) the balances of the State sinking funds at 30th June, 1927.

(iv) *Transferred Properties.* In respect of State properties transferred to the Commonwealth under Section 85 of the Constitution, the States, as from 1st July, 1929, are discharged from any liability in respect of principal, interest or sinking fund on so much of the debts bearing interest at 5 per cent. per annum, taken over by the Commonwealth, as amounts to the agreed value of these properties, namely £10,924,323, apportioned to the several States as follows :—

	£
New South Wales	4,788,005
Victoria	2,302,862
Queensland	1,560,639
South Australia	1,035,631
Western Australia	736,432
Tasmania	500,754
Total	10,924,323

(v) *Payment of Interest.* The Commonwealth will, in each year during a period of 58 years from 1st July, 1927, contribute the sum of £7,584,912 towards the interest payable on the State debts, the States paying the balance to the Commonwealth. After that period, the States will pay to the Commonwealth the whole of the interest due.

The distribution among the States of the contribution of the Commonwealth is as follows :—

	£
New South Wales	2,917,411
Victoria	2,127,159
Queensland	1,096,235
South Australia	703,816
Western Australia	473,432
Tasmania	266,859
Total	7,584,912

These amounts are equal to the sums paid by the Commonwealth to each State in the year 1926–27 at the rate of 25s. per head of population, the rate at which the Commonwealth had contributed annually to the States since 1st July, 1910, as compensation for the States relinquishing, after Federation, the right to levy customs and excise duties.

(vi) *Sinking Funds.* (a) A sinking fund at the rate of 7s. 6d. per annum for each £100 of the net public debts of the States existing on 30th June, 1927, and conversions thereof, was established under the terms of the Agreement. The Commonwealth contributes annually from revenue 2s. 6d. per cent. on the net public debts of the States existing at 30th June, 1927 and each State contributes annually 5s. per cent. on the net public debt of such State at 30th June, 1927. The payments of the Commonwealth and of all States except New South Wales will continue for a period of 58 years from 1st July, 1927, and those of New South Wales for a similar period from 1st July, 1928.

(b) On new borrowings after 1st July, 1927 (except those for redemptions or conversions, or funding a State deficit) a sinking fund at the rate of 10s. per cent. per annum was established and the State and the Commonwealth contribute from revenue equal shares for a period of 53 years from the date of raising. (New South Wales did not commence sinking fund contributions in respect of new loans raised in the financial year 1927–28 until 1st July, 1928.)

(c) Any State may increase its contribution in respect of loan funds expended on wasting assets in order to redeem a loan within a shorter period than 53 years. When this shorter period has expired, the State contributions cease but the Commonwealth contributions continue until the full period of 53 years has elapsed. State contributions in respect of other loans are reduced by the amount of these Commonwealth contributions during the period remaining.

(d) Where loan moneys have been advanced by a State under terms providing for their repayment, the State may credit such repayments either to the loan account or to the sinking fund and, in addition, it must provide from revenue its sinking fund contributions in respect of the loan from which the money so advanced was provided. However, advances repaid to the State from the revenue of Public or Local Authorities may be used by the State to meet sinking fund contributions in respect of the loans concerned.

(e) In respect of any loan (except any of the loans referred to in par. (f) below) raised after 30th June, 1927 by a State to meet a revenue deficit accruing after that date, no sinking fund contribution is made by the Commonwealth, but the State makes a sinking fund contribution at the rate of not less than 4 per cent. per annum of the loan for a period sufficient to provide for the redemption of the loan, the contributions being deemed to accumulate at the rate of 4½ per cent. per annum compound interest.

(f) In respect of loans raised by a State or by the Commonwealth on behalf of a State, on the security of Commonwealth Treasury Bills, to meet a revenue deficit accruing after 30th June, 1927 and before 1st July, 1935, the Commonwealth and the State shall in each year during the period commencing on 1st July succeeding the date of raising the loan and ending on 30th June, 1944, pay from revenue a sinking fund contribution at the rate of 5s. for each £100 of the total amount of the Commonwealth Treasury Bills which have been issued in respect of these loans and which are current on 30th June preceding the commencement of the year in which the sinking fund contribution is payable.

The National Debt Commission shall apply the following amounts to the repurchase or redemption of the Commonwealth Treasury Bills issued as above :—

	£
New South Wales	1,970,000
Victoria	260,000
Queensland	125,000
South Australia	300,000
Western Australia	335,000
Tasmania	10,000
Total	3,000,000

The provisions requiring the States to make a further sinking fund contribution of $4\frac{1}{2}$ per cent. per annum on cancelled securities do not apply to the securities redeemed as above.

In each year during a period of 39 years commencing on 1st July, 1944, the Commonwealth and the State concerned shall each pay from revenue a sinking fund contribution of 5s. per cent. and 15s. per cent. respectively in respect of the following amounts which represent the gross total of the deficit loans mentioned above less the amount to be redeemed by the National Debt Commission (£3,000,000) and the amounts which the States have undertaken to apply to the redemption of these loans, viz. :—

	£
New South Wales	26,120,000
Victoria	3,995,000
Queensland	2,148,000
South Australia	4,920,000
Western Australia	5,390,000
Tasmania	445,000
Total	43,018,000

(g) The sinking funds established are controlled by the National Debt Commission which may arrange with any State to act as its agent in connexion with payments due to bondholders. Except where the conditions relating to sinking funds, redemption funds, and funds of a like nature, held by a State on 30th June, 1929, precluded such transfer, all such funds were transferred to the National Debt Commission.

(h) Sinking fund contributions made in respect of the debts of a State, and funds of that State transferred to the National Debt Commission, are not accumulated but must be applied, whenever expedient, to the redemption and repurchase of loan securities. When such a loan security is repurchased or redeemed by the National Debt Commission, it is cancelled, and the State, in addition to sinking fund contributions otherwise payable, pays a further annual sinking fund contribution at the rate of $4\frac{1}{2}$ per cent. on the face value of the cancelled security.

(i) A State may pay to the National Debt Commission a sum in addition to sinking fund contributions for the repurchase or redemption of securities issued in respect of the public debt of the State. Upon the cancellation of such securities the State shall not be required to make any further sinking fund contribution as provided for in paragraph (h) above. The National Debt Commission may also accept an amount from a State for the repurchase or redemption of particular securities with the condition that the sinking fund contributions in respect of that amount by both the State and Commonwealth shall cease as from the date of cancellation of those securities.

(j) Where, upon the conversion or partial conversion at a discount of any loan, sinking fund moneys are applied to the redemption of any amount of the converted loan the State shall repay to the National Debt Commission from revenue so much of the sinking fund moneys so applied as does not exceed the aggregate amount of the discounts allowed to subscribers to the loan.

(k) Sinking fund contributions in respect of overseas debt shall be calculated at the mint par of exchange prevailing on 1st July, 1927.

(ii) *Enforcement of the Agreement.* Consequent on the failure of the State of New South Wales to provide certain interest payments on its public debts in accordance with the Financial Agreement, the Commonwealth Parliament passed a Financial Agreement Enforcement Act (No. 3 of 1932). The State of New South Wales contended that the Commonwealth could not simply by Commonwealth Act deprive a State of revenue without the interposition of some judicial tribunal. The High Court by a majority decision of four to two held that this was a valid law and dismissed the action, subsequently refusing leave to appeal to the Privy Council.

(iii) *Borrowing by Semi-Governmental Bodies.* It was realized at the inception of the Loan Council that, in the interests of co-ordinated borrowing, the Council should be advised of borrowings of large amounts by semi-governmental bodies. In May, 1936, all resolutions passed by the Loan Council in connexion with semi-governmental borrowings were consolidated into one set of rules, which superseded all previous resolutions. This set of rules is regarded as the "Gentlemen's Agreement", and provides, *inter alia*, for the submission of annual loan programmes in respect of semi-governmental authorities proposing to raise £100,000 or more in a year, for the consideration of such programmes in conjunction with the loan programme of the Government concerned, and for the fixing of the terms of individual semi-governmental loans coming within the scope of the annual programme.

D.—TAXES ON INCOME.

1. *General.*—A description of the development of income taxes in Australia appeared in Official Year Book, No. 35, p. 926. Since July, 1943, the Commonwealth, under the uniform tax arrangement, has been the only authority imposing taxes on income.

2. *Present Taxes.*—At the present time two taxes on incomes of individuals are imposed by the Commonwealth—Income Tax and Social Services Contribution. Both taxes are based on the same definition of assessable income and both are assessed and collected concurrently. Several taxes are imposed on the income of companies for which assessable income is defined in the same way as for individuals.

3. *Assessable Income.*—Income taxes in Australia are levied, primarily, on all income derived from Australian sources by any person, rather than on income derived from all sources by Australian residents. Thus a non-resident is taxed on all income derived from Australia while a resident is, in general, not taxed on income other than dividends derived from overseas (provided the income is taxed in the country in which it is derived).

Certain types of Australian income are exempt from tax in Australia, the most important being income from gold-mining and a small amount of tax-free interest on Commonwealth Government securities. No amount is included in assessable income on account of a house occupied by its owner. Profits derived from the sale of property are not assessable income if such property was not purchased with a view to resale at a profit.

Assessable income is divided into two main groups—personal exertion and property. Personal exertion income includes all wage, salary, business and professional incomes, while property income includes all rents, dividends and interest. Property income is taxed for individual income tax at higher rates than personal exertion income in all cases where the total taxable income exceeds £250. No distinction in rates is made for companies.

Expenses incurred in earning income, certain subscriptions to business associations, and trade union dues, are allowable deductions. Losses incurred in previous years may be carried forward as a deduction.

Because of uncongenial climatic conditions, isolation and high cost of living, taxpayers living in certain areas are allowed an additional deduction. Two zones have been prescribed and the allowances are Zone A, £120 (£40 in 1946-47) and Zone B, £20.

Income Tax and Social Services Contribution are levied on the taxable income (known as "contributable income" for Social Services Contribution) remaining after making these deductions.