

Part 3: General revenue assistance

Overview

General revenue assistance is provided to state and territory governments (states), without conditions, to spend according to their own budget priorities. In 2024–25, the states are expected to receive \$94.4 billion from the Australian Government in total general revenue assistance, which is estimated to represent 12.9 per cent of total Australian Government expenditure in that year. This consists of the GST entitlement of \$88.5 billion (comprising GST revenue and the Commonwealth funded GST pool boost), horizontal fiscal equalisation (HFE) transition payments of \$5.2 billion (also known as the No Worse Off guarantee) and \$711.4 million of other general revenue assistance.

Total GST-related payments to the states (GST entitlements plus HFE transition payments) are estimated to increase from \$93.7 billion in 2024–25 and reach \$108.8 billion by 2027–28.

2024–25 is the fourth year in the 6-year transition to the updated GST distribution system, which will ensure that no state will have a per capita GST share lower than the fiscally stronger of New South Wales or Victoria. It is also the first year that the GST relativity floor of 0.75 is in effect, which means a state's GST share cannot fall below this level. During this transition, the Australian Government has guaranteed, through legislation, that each state will not receive less than they would have under the previous GST distribution system using, if necessary, HFE transition payments. In December 2023, the Australian Government agreed to extend this guarantee for three years until 2029–30.

Estimated general revenue assistance provided to the states by the Australian Government is shown in Table 3.1. Table 1.1 in Part 1 shows a breakdown by state.

Table 3.1: General revenue assistance

\$million	2023-24	2024-25	2025-26	2026-27	2027-28
GST-related payments					
GST entitlement	86,368.6	88,534.1	93,245.4	98,826.1	104,467.6
HFE transition payments(a)	4,962.6	5,166.2	5,425.4	5,487.4	4,341.4
Total GST-related payments	91,331.1	93,700.3	98,670.8	104,313.5	108,809.0
Other general revenue assistance(b)	776.1	711.4	570.7	457.6	434.5
Total	92,107.3	94,411.8	99,241.5	104,771.2	109,243.4

a) Estimates of the HFE transition payments for 2025–26 and later years are based upon the 2024–25 GST relativities and adjusted to take into account the transition to the new HFE system. The 2026–27 and 2027–28 HFE transition payment is assumed to be 80 per cent and 60 per cent respectively of that implied using the 2024–25 relativities.

b) More detail about other general revenue assistance payments is provided in Table 3.7.

GST payments

Under the *Federal Financial Relations Act 2009*, the states are entitled to receive payments from the Australian Government equivalent to the revenue raised from the GST in any given financial year, subject to some minor adjustments. From 2021–22, the states' GST entitlements are boosted each year by additional Australian Government funding as discussed below.

The Australian Government makes monthly payments (advances) to the states throughout the year based on GST estimates for that year. Estimates of the GST are used as the actual amount of GST revenue for the financial year is unknown until after the end of the financial year. Once the amount of GST revenue is known, the Treasurer makes a determination of the GST entitlement for that year. A balancing adjustment is made to each state's payments to ensure they receive the GST to which they are entitled. These balancing adjustments (referred to as the 'prior year balancing adjustment') are made in the following financial year.

Calculating the GST payments

Adjustments and additions are made to GST revenue to calculate the amount of GST paid to the states in any given year. In particular, adjustments are made to move from GST revenue (an accrual concept) to GST (cash) receipts as GST receipts are the basis for the GST paid to the states.

- Some GST revenue accrued during a financial year is not remitted to the Australian Taxation Office (ATO) by 30 June of that year because it is not due to be paid until Business Activity Statements (BAS) are lodged in the following financial year. For taxpayers other than Australian Government agencies, this accrued amount is included in GST revenue but not in GST receipts.
- Penalties owed to the ATO, other than general interest charge (GIC) penalties, are not included in the GST to be paid to the states as defined in the *Federal Financial Relations Act 2009*.
- Some GST collected by Australian Government agencies is not remitted to the ATO by 30 June in each financial year because it is not due to be paid until the next BAS is lodged. This amount is included in Australian Government receipts but is not included in GST payments to the states until it is remitted to the ATO.
- From 2021–22, the Australian Government is boosting the states' GST entitlement each year with additional funding. From 2021–22, the Australian Government has injected \$600.0 million annually into the GST pool, with this amount growing in line with the underlying growth of the GST. From 2024–25 the Australian Government will further boost the GST pool by an additional \$250.0 million annually. This additional funding will be distributed to the states in the same way as GST revenue.

In 2022–23, the states' GST entitlement was \$350.9 million higher than the advances paid during that year. A prior year balancing adjustment has been made to states' GST payments in 2023–24 to reflect this.

Table 3.2 reconciles GST revenue, GST entitlement and GST payments to the states.

Table 3.2: Reconciling GST revenue, GST entitlement and GST payments to the states

\$million	2023-24	2024-25	2025-26	2026-27	2027-28
GST revenue	90,180	92,070	97,290	103,050	109,000
<i>less</i> Change in GST receivables	4,422	4,397	4,952	5,184	5,562
GST receipts	85,758	87,673	92,338	97,866	103,438
<i>less</i> Non-GIC penalties collected	90	100	110	120	110
<i>less</i> GST collected by Commonwealth agencies but not yet remitted to the ATO	-2	3	-2	-4	-2
<i>plus</i> GST pool boost	699	964	1,015	1,076	1,138
GST entitlement	86,369	88,534	93,245	98,826	104,468
<i>plus</i> Prior year balancing adjustment	-351				
GST payments to the States(a)	86,018	88,534	93,245	98,826	104,468

a) These GST payment estimates do not take into account the ATO's GST administration costs, which will be deducted from GST payments to the states throughout the year on a monthly basis. They also do not take into account the HFE transition payments.

Table 3.3 reconciles the GST entitlement estimates since the 2023–24 MYEFO. The reconciliation accounts for policy decisions and parameter and other variations. The GST entitlement in 2024–25 has been revised down by \$927.5 million since the 2023–24 MYEFO.

Table 3.3: Reconciliation of the GST entitlement estimates since the 2023–24 MYEFO

\$million	2023-24	2024-25	2025-26	2026-27
GST entitlement at 2023-24 MYEFO	84,675	89,462	95,325	101,239
Changes between 2023-24 MYEFO and 2024-25 Budget				
Effect of policy decisions	-	-5	-5	153
Effect of parameter and other variations	1,694	-923	-2,075	-2,566
Total variations	1,694	-928	-2,080	-2,413
GST entitlement at 2024-25 Budget	86,369	88,534	93,245	98,826

The states' GST entitlement is expected to reach \$104.5 billion by 2027–28. Since the 2023–24 MYEFO, the GST entitlement has been revised down by \$927.5 million in 2024–25 and \$5.5 billion over the five years from 2023–24 to 2027–28.

Excluding new policy decisions, the GST entitlement has been revised down by \$922.5 million in 2024–25 and \$5.9 billion over the five years from 2023–24 to 2027–28, driven by the change in GST receipts. GST receipts have been upgraded in 2023–24 due to stronger than expected collections. From 2024–25 the downgrade is driven by the lower outlook for nominal consumption subject to GST, partially offset by higher nominal dwelling investment.

New tax policy measures announced since the 2023–24 MYEFO are expected to decrease GST entitlement by \$5.0 million in 2024–25 but increase GST entitlement by \$399.6 million over the five years from 2023–24 to 2027–28.

Table 3.4: Policy decisions since the 2023–24 MYEFO that affect the GST entitlement

\$million	2023-24	2024-25	2025-26	2026-27	2027-28
Strengthening Tax Compliance – extending the Shadow Economy Compliance Program	-	-	-	158.0	271.6
Migration – Mobility Arrangement for Talented Early-professionals Scheme (MATES) and extending the validity of the Business Visitor visa for Indian nationals	-	..	15.0	25.0	25.0
Permanent Migration Program – 2024-25 planning levels and multi-year planning	-	..	-5.0	-5.0	-10.0
Migration System Reforms	-	*	*	*	*
Modernising Digital Assets and Payments Regulation	-	-	*	*	*
Strengthening Tax Compliance – Australian Taxation Office Counter Fraud Strategy	-	-	*	*	*
Amendments to existing measures
<i>Decisions taken but not yet announced</i>	-	-5.0	-15.0	-25.0	-30.0
Total	..	-5.0	-5.0	153.0	256.6

Detailed information on policy decisions taken since the 2023–24 MYEFO is included in Budget Paper No. 2.

Distribution of the GST among the states

The Australian Government distributes the GST among the states based on the GST revenue sharing relativities recommended by the Commonwealth Grants Commission (the CGC).

The detailed calculation for the distribution of the GST entitlement in 2024–25 is shown in Table 3.5. This method of calculation is prescribed in the *Federal Financial Relations Act 2009*.

Table 3.5: Calculation of GST entitlements

	Estimated 31 December population (1)	GST relativities (2)	Adjusted population (1) x (2)	Share of adjusted population	Share of GST pool \$million
2024-25					
NSW	8,554,010	0.86736	7,419,406	27.1%	24,015
VIC	7,035,214	0.96502	6,789,122	24.8%	21,974
QLD	5,623,915	0.95232	5,355,767	19.6%	17,335
WA	2,975,463	0.75000	2,231,597	8.2%	7,223
SA	1,883,059	1.40312	2,642,158	9.7%	8,552
TAS	575,193	1.82832	1,051,637	3.8%	3,404
ACT	477,958	1.20419	575,552	2.1%	1,863
NT	254,164	5.06681	1,287,801	4.7%	4,168
Total	27,378,976	na	27,353,040	100%	88,534

In 2018, the Australian Government reformed the system of HFE to provide a fairer way to distribute the GST among the states. From 2021–22, the system began its transition to a more stable and predictable equalisation standard that will reduce volatility in states' GST payments.

To support the states' transition to the new system, the Australian Government provided an additional \$5.2 billion in transitional GST top-up payments over the three years to 2021–22 to ensure that no state had an effective GST relativity below 0.7, or 4.66024 for the Northern Territory. At the time of the 2018 reforms, it was estimated that \$1.8 billion in top-up payments would be required over those three years.

From 2022–23, the new HFE system included a relativity floor of 0.7, permanently increasing to 0.75 in 2024–25. Further, the Australian Government has guaranteed that each state will receive at least the cumulative better of the old or the new HFE system for the nine years from 2021–22 to 2029–30. The HFE transition payments associated with this guarantee are outlined in Table 3.1.

The CGC does not forecast GST sharing relativities beyond the budget year. The distribution of GST among the states and any resulting transitional payments for 2025–26 is calculated based on a technical assumption that uses the 2024–25 relativities as the starting point, which are then adjusted to reflect the transition to the updated distribution system.

In 2026–27 and 2027–28, this assumption is changed on the basis that relativities will slowly begin to revert toward historical averages as commodity prices are assumed to fall from their current levels. However, the three year lag in the CGC's relativity calculations means that the reversion will be more gradual than previously anticipated. Given this, the transitional payments for 2026–27 and 2027–28 are assumed to be 80 per cent and 60 per cent respectively, of what would be expected from using the 2024–25 relativities. The estimates (shown in Table 3.1) do not reflect any attempt to project future GST relativities or GST entitlements.

The Australian Government is expected to provide an estimated \$20.4 billion in HFE transition payments from 2024–25 to 2027–28 to support the transition to the new HFE system.

GST administration

States compensate the Australian Government for the costs incurred by the ATO for administering the GST, including costs incurred by the Department of Home Affairs. In practice, this is achieved by the Australian Government reducing the monthly GST payments to the states by the GST administration costs.

The GST administration budget for the ATO is estimated to be \$709.0 million for 2024–25, as shown in Table 3.6.

Table 3.6: Reconciliation of the GST administration budget

\$million	2023-24	2024-25	2025-26	2026-27	2027-28
Administration budget at 2023-24 Budget	719.4	724.1	735.6	734.1	na
Total variations from 2023-24 Budget to 2023-24 MYEFO	-69.2	-15.1	-13.0	-9.4	na
Administration budget at 2023-24 MYEFO	650.2	709.0	722.6	724.7	na
Changes from 2023-24 MYEFO to 2024-25 Budget					
<i>Parameter variations</i>	-	-0.6	-2.6	-2.0	-5.9
<i>Other variations</i>	-	0.6	1.6	0.8	-
Total variations	-	-	-1.0	-1.2	-5.9
Administration budget at 2024-25 Budget (a)	650.2	709.0	721.6	723.5	482.0
less Prior year adjustment	-23.9	-	-	-	-
equals State government payments	626.3	709.0	721.6	723.5	482.0

a) Decreases in estimates from 2027–28 reflect the end of GST Compliance Program announced at the 2023–24 Budget.

Other general revenue assistance

Like GST, other general revenue assistance is provided to the states, without conditions, to spend according to their own budget priorities.

Table 3.7: Other general revenue assistance

\$million	2023-24	2024-25	2025-26	2026-27	2027-28
ACT municipal services	43.9	45.4	46.4	47.5	48.4
Royalty payments	732.2	666.1	524.3	410.2	386.1
Total other general revenue assistance	776.1	711.4	570.7	457.6	434.5

Australian Capital Territory municipal services

The Australian Government provides general revenue assistance to the Australian Capital Territory to assist in meeting the additional municipal costs that arise from Canberra’s role as the national capital. The payments also compensate the Australian Capital Territory for additional costs resulting from the national capital planning influences on the provision of water and sewerage services.

Royalty payments

Western Australia

The Australian Government provides general revenue assistance to Western Australia from royalties collected under the *Offshore Petroleum (Royalty) Act 2006* in respect of the North West Shelf oil and gas project off the coast of Western Australia. The Australian Government collects these royalties because it has jurisdiction over offshore areas.

Royalties are shared between the Australian Government (approximately one third) and Western Australia (approximately two thirds). These revenue sharing arrangements are set out in the *Offshore Petroleum and Greenhouse Gas Storage Act 2006*.

Compensation for reduced royalties

The Australian Government provides general revenue assistance to compensate Western Australia for the loss of royalty revenue resulting from the removal of the exemption of condensate from crude oil excise in the *2009–10 Budget*.

Mirror tax arrangements

The Australian Government introduced mirror tax arrangements in 1998 to ensure that the states were not financially disadvantaged by the High Court decision in *Allders International Pty Ltd v Commissioner of State Revenue (Victoria)*, which invalidated state taxes on Commonwealth places. These arrangements mirror certain state taxes, including payroll taxes, land taxes and stamp duties, with respect to Commonwealth places. The states collect these mirror taxes on behalf of the Australian Government and bear the administrative costs of collection.

All mirror tax revenues are credited to the Australian Government and simultaneously appropriated to the states with no net impact on the Australian Government’s budget position as shown in Table 3.8.

Table 3.8: Mirror taxes accrued on behalf of the states

\$million	2023-24	2024-25	2025-26	2026-27	2027-28
Mirror taxes	838	878	920	970	1021
less Transfers to state governments	838	878	920	970	1021
Australian Government budget impact	-	-	-	-	-