Part 3: General revenue assistance

Overview

General revenue assistance is provided to the states, without conditions, to spend according to their own budget priorities. In 2022-23, the states are expected to receive $84.8 billion from the Australian Government in total general revenue assistance, which is estimated to represent 13 per cent of total Australian Government expenditure in that year. The main form of general revenue assistance is the GST entitlement which in 2022-23 is estimated to be $80 billion.

The Australian Government's reform of horizontal fiscal equalisation (HFE) and integrity measures have injected significant additional funds into the GST pool for the states. Further, the Australian Government's focus on supporting the recovery from COVID-19, restoring business and consumer confidence and getting Australians back into jobs has, and will continue to help grow GST collections in the years to come. Total GST-related payments to the states (GST entitlements plus HFE transition payments and transitional GST top-ups) are estimated to increase every year over the forward estimates and reach $93.6 billion by 2025-26. This represents a 95 per cent increase on the states' GST payments since 2012-13, and a 284 per cent increase since the GST was introduced in 2000-01.

2022-23 is the second 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 0.7 comes into effect. 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.

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	2021-22	2022-23	2023-24	2024-25	2025-26
GST entitlement	73,310.0	80,004.8	83,533.7	87,504.1	91,306.0
Transitional GST top-up payments	2,115.2	-	-	-	-
HFE transition payments(a)	133.2	3,880.1	4,074.9	4,480.7	2,335.2
Other general revenue assistance(b)	936.2	901.9	796.2	682.5	516.7
Total	**76,494.7**	**84,786.8**	**88,404.8**	**92,667.3**	**94,157.9**

(a) Estimates of the HFE transition payments for 2023-24 and later years are based upon the 2022-23 GST relativities and adjusted to take into account the transition to the new HFE system. The 2025-26 HFE transition payment is assumed to be half of that implied using the 2022-23 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 is injecting $600 million annually into the GST pool, which will be followed by a further $250 million annually from 2024-25. Each year, these amounts will grow in line with the underlying growth of the GST and be distributed to the states in the same way as GST revenue.

In 2020–21, the states' GST entitlement was $3.3 billion higher than the advances paid during that year. A prior year balancing adjustment has been made to states' GST payments in 2021-22 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	2021-22	2022-23	2023-24	2024-25	2025-26
GST revenue	76,409	82,460	85,920	89,880	93,960
less Change in GST receivables	3,627	3,028	2,999	3,277	3,598
GST receipts	72,782	79,432	82,921	86,603	90,362
less Non-GIC penalties collected	70	80	70	60	60
less GST collected by Commonwealth agencies but not yet remitted to the ATO	2	2	1	3	2
plus GST pool boost	600	655	684	964	1,006
GST entitlement	73,310	80,005	83,534	87,504	91,306
plus Prior year balancing adjustment	3,312				
GST payments to the States(a)	76,622	80,005	83,534	87,504	91,306

(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 transitional GST top-up payments and HFE transition payments.

Table 3.3 reconciles the GST entitlement estimates since the *2021-22 Budget* and the *2021-22 Mid-Year Economic and Fiscal Outlook* (MYEFO). The reconciliation accounts for policy decisions and parameter and other variations. The GST entitlement in 2022-23 has been revised up by $2.6 billion since the *2021-22 MYEFO*.

Table 3.3: Reconciliation of the GST entitlement estimates since the 2021-22 Budget and 2021-22 MYEFO

$million	2021-22	2022-23	2023-24	2024-25
GST entitlement at 2021-22 Budget	72,530	75,847	79,215	83,327
Changes between 2021-22 Budget and MYEFO				
Effect of policy decisions	9	122	128	117
Effect of parameter and other variations	531	1,446	905	1,430
Total variations	540	1,568	1,034	1,548
GST entitlement at 2021-22 MYEFO	73,070	77,416	80,249	84,875
Changes between 2021-22 MYEFO and 2022-23 Budget				
Effect of policy decisions	-68	-177	69	35
Effect of parameter and other variations	308	2,766	3,216	2,595
Total variations	240	2,589	3,285	2,629
GST entitlement at 2022-23 Budget	73,310	80,005	83,534	87,504

The states' GST entitlement is expected to reach $91.3 billion by 2025-26 – a 90 per cent increase from $48.1 billion in 2012-13. Since the 2021-22 MYEFO, GST receipts have been revised by $240 million in 2021-22 and by $8.7 billion across the 4 years to 2024-25. Increases in GST receipts largely reflect upgrades to consumption subject to GST and private dwelling investment. Increases in employment and wages are expected to flow through to higher nominal consumption, while private dwelling investment is partly driven by near-term supply chain shortages driving up prices in the construction sector.

The states' GST entitlement is also supported by a range of decisions taken by the Australian Government in recent years. These policies focus on ensuring that the GST base adapts to the increasingly digital modern economy, and further supporting the integrity of the GST system by increasing funding for the ATO's compliance activities.

Specific policy decisions taken since the *2021-22 MYEFO* that affect the GST entitlement are shown in Table 3.4. These decisions are estimated to decrease the amount of the GST entitlement by $34 million over the 4 years to 2025–26.

Table 3.4: Policy decisions since the 2021-22 MYEFO that affect the GST entitlement

$million	2021-22	2022-23	2023-24	2024-25	2025-26
Addressing Cost of Living Pressures – temporary reduction in fuel excise	-65.0	-130.0	-	-	-
Australia-UK Free Trade Agreement – increasing market access opportunities and strengthening ties between our two countries	-	..	10.0	25.0	35.0
Changes To Visa Rules – supplementing Australia's workforce during the recovery	..	5.0	10.0	5.0	*
Indirect Tax Concession Scheme – diplomatic and consular concessions	-2.6	-1.5	-1.5	-0.4	-0.4
Humanitarian Program 2022-23 and Update on Afghan Arrivals	-	..	..	5.0	5.0
Migration Program – 2022-23 planning levels	-	..	..	..	..
Varying the GDP uplift factor for tax instalments	-	-50.0	50.0	-	-
Total	-67.6	-176.5	68.5	34.6	39.6

Detailed information on specific policy decisions taken since the *2021-22 MYEFO* is included in Budget Paper No. 2, *Budget Measures 2022-23*.

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 2022-23 is shown in Table 3.5. This method of calculation is prescribed in the *Federal Financial Relations Act 2009*. At the time of the 2022-23 Budget, the Treasurer had not yet made a determination of the 2022-23 GST revenue sharing relativities. The GST relativities in Table 3.5 use those contained in the CGC's 2022 Update report.

Table 3.5: Calculation of GST entitlements

2022-23	Estimated 31 December population (1)	GST relativities (2)	Adjusted population (1) x (2) (3)	Share of adjusted population (4)	Share of GST pool $million (5)
NSW	8,242,310	0.95065	7,835,552	30.1%	24,060.6
VIC	6,726,888	0.85861	5,775,773	22.2%	17,735.6
QLD	5,330,114	1.03377	5,510,112	21.1%	16,919.9
WA	2,730,176	0.70000	1,911,123	7.3%	5,868.5
SA	1,797,731	1.28411	2,308,484	8.9%	7,088.7
TAS	549,138	1.85360	1,017,882	3.9%	3,125.6
ACT	437,038	1.09250	477,464	1.8%	1,466.1
NT	250,086	4.86988	1,217,889	4.7%	3,739.8
Total	26,063,481	na	26,054,280	100%	80,004.8

In 2018, the Australian Government reformed the system of HFE to provide a fairer and more sustainable 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 has provided an additional $5.2 billion in transitional GST top-up payments over the 3 years to 2021-22 to ensure that no state has an effective GST relativity below 0.7 or 4.66024 for the Northern Territory. At the time of 2018 reforms, it was estimated that $1.8 billion in top-up payments would be required over those 3 years.

From 2022-23, the new HFE system will include a relativity floor of 0.7, permanently increasing to 0.75 in 2024-25. Further, the Australian Government has guaranteed, through legislation, that each state will receive at least the cumulative better of the old or the new HFE system for the 6 years from 2021-22 to 2026-27. 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 2023-24 and 2024-25 are calculated based on a technical assumption that uses the 2022-23 relativities as the starting point, which are then adjusted to reflect the transition to the updated distribution system.

In 2025-26, this assumption is changed on the basis that relativities will begin to revert toward historical averages by that year (including because financial years with lower commodity prices, which are assumed to fall from their current elevated levels, will by then be incorporated in the CGC's relativity calculations). The resulting transitional payment for 2025-26 is assumed to be half that of what would be expected from using the 2022-23 relativities. The estimates (shown in Table 3.1) do not reflect any attempt to project future GST relativities or GST entitlements.

The Government is expected to provide an estimated $14.9 billion in HFE transition payments from 2021-22 to 2025-26 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 $679.1 million for 2022-23, as shown in Table 3.6.

Table 3.6: Reconciliation of the GST administration budget

$million	2021-22	2022-23	2023-24	2024-25	2025-26
Administration budget at 2021-22 Budget (a)	682.9	679.1	483.9	484.4	na
Total variations from 2021-22 Budget to 2021-22 MYEFO	-7.2	-1.9	-1.5	-1.6	na
Administration budget at 2021-22 MYEFO	675.7	677.2	482.4	482.7	na
Changes from 2021-22 MYEFO to 2022-23 Budget					
Parameter variations	-	1.9	1.3	1.3	1.4
Other variations	-	-	-	-	-
Total variations	-	1.9	1.3	1.3	1.4
Administration budget at 2022-23 Budget	675.7	679.1	483.7	484.0	487.0
less Prior year adjustment (b)	-83.3	-	-	-	-
equals State government payments	592.4	679.1	483.7	484.0	487.0

(a) Decreases in estimates from 2023-2024 reflect the end of GST Compliance Program announced at the 2018-19 MYEFO.
(b) The prior year adjustment relates to the ATO's diversion of resources to support COVID-19 stimulus work.

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	2021-22	2022-23	2023-24	2024-25	2025-26
ACT municipal services	41.7	42.4	43.0	43.7	44.4
Compensation for reduced royalties	34.1	42.7	39.1	29.8	21.5
Royalty payments	860.4	816.8	714.1	609.0	450.8
Total other general revenue assistance	**936.2**	**901.9**	**796.2**	**682.5**	**516.7**

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.

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*.

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*.

Northern Territory

The Australian Government provides general revenue assistance to the Northern Territory in lieu of royalties on uranium mining in the Ranger Project Area, due to the Australian Government's ownership of uranium in the Northern Territory.

Payments are made at a royalty rate of 1.25 per cent of the net proceeds of sales under a continuing agreement established under the 1978 Memorandum of Understanding between the Australian Government and the Northern Territory.

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	2021-22	2022-23	2023-24	2024-25	2025-26
Mirror taxes	621.5	690.9	726.9	759.1	795.7
less Transfers to state governments	621.5	690.9	726.9	759.1	795.7
Australian Government budget impact	-	-	-	-	-