# 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 2023–24, the states are expected to receive $92.5 billion from the Australian Government in total general revenue assistance, which is estimated to represent 13.5 per cent of total Australian Government expenditure in that year. The main form of general revenue assistance is the GST entitlement, which in 2023–24 is estimated to be $86.6 billion.

Total GST-related payments to the states (GST entitlements plus horizontal fiscal equalisation (HFE) transition payments) are estimated to increase from $91.5 billion in 2023–24 and reach $104.8 billion by 2026–27.

2023–24 is the third 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 second year that the GST relativity floor of 0.7 is in 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 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 |
|---|---|---|---|---|---|
| GST entitlement | 82,346.0 | 86,620.6 | 90,207.6 | 95,494.9 | 101,287.7 |
| HFE transition payments(a) | 4,112.4 | 4,915.5 | 5,349.6 | 5,666.8 | 3,481.1 |
| Other general revenue assistance(b) | 1,562.5 | 934.3 | 788.2 | 620.6 | 492.7 |
| **Total** | **88,020.9** | **92,470.4** | **96,345.3** | **101,782.3** | **105,261.5** |

a) Estimates of the HFE transition payments for 2024–25 and later years are based upon the 2023–24 GST relativities and adjusted to take into account the transition to the new HFE system. The 2026–27 HFE transition payment is assumed to be half of that implied using the 2023–24 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 $600.0 million annually into the GST pool, which will be followed by a further $250.0 million annually from 2024–25. Each year, these amounts will grow in line with the underlying growth of the GST pool and will be distributed to the states in the same way as GST revenue.

In 2021–22, the states' GST entitlement was $870.7 million higher than the advances paid during that year. A prior year balancing adjustment has been made to states' GST payments in 2022–23 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 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 |
|---|---|---|---|---|---|
| GST revenue | 88,040 | 89,080 | 91,910 | 97,750 | 103,690 |
| *less* Change in GST receivables | 6,279 | 3,071 | 2,580 | 3,191 | 3,385 |
| GST receipts | 81,761 | 86,009 | 89,330 | 94,559 | 100,305 |
| *less* Non-GIC penalties collected | 80 | 90 | 100 | 100 | 120 |
| *less* GST collected by Commonwealth agencies but not yet remitted to the ATO | 1 | -1 | 0 | -1 | -5 |
| *plus* GST pool boost | 666 | 701 | 978 | 1,035 | 1,098 |
| GST entitlement | 82,346 | 86,621 | 90,208 | 95,495 | 101,288 |
| *plus* Prior year balancing adjustment | 871 | | | | |
| GST payments to the States(a) | 83,217 | 86,621 | 90,208 | 95,495 | 101,288 |

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 October Budget. The reconciliation accounts for policy decisions and parameter and other variations. The GST entitlement in 2023–24 has been revised up by $373 million since the October Budget.

**Table 3.3: Reconciliation of the GST entitlement estimates since the October Budget**

| $million | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|
| GST entitlement at October Budget | 83,122 | 86,248 | 89,048 | 93,305 |
| Changes between October Budget and 2023-24 Budget | | | | |
| Effect of policy decisions | .. | 843 | 1,130 | 1,245 |
| Effect of parameter and other variations | -776 | -469 | 29 | 946 |
| Total variations | -776 | 373 | 1,159 | 2,190 |
| GST entitlement at 2023-24 Budget | 82,346 | 86,621 | 90,208 | 95,495 |

The states' GST entitlement is expected to reach $101.3 billion by 2026–27. Since the October Budget, GST receipts have been revised up by $368.0 million in 2023–24 and $6.1 billion over the 5 years from 2022–23 to 2026–27. Year on year, GST receipts are expected to increase by 5.2 per cent in 2023–24 and 3.9 per cent in 2024–25 in line with nominal household consumption.

Excluding new policy decisions, GST has been revised down by $481.0 million in 2023–24 but up $1.5 billion over the 5 years from 2022–23 to 2026–27. GST receipts have been downgraded in the near term due to weaker than expected collections for 2022–23, offset by upgrades to consumption subject to GST and higher population growth.

Policy decisions taken since the October Budget that affect the GST entitlement are shown in Table 3.4. These decisions are estimated to increase the amount of the GST entitlement by $4.5 billion over the 4 years to 2026–27.

**Table 3.4: Policy decisions since the October Budget that affect the GST entitlement**

| $million | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 |
|---|---|---|---|---|---|
| Reform of the Product Stewardship for Oil Scheme | - | 2 | 2 | 3 | 3 |
| Powering Australia – amendment to the Electric Car Discount | - | - | .. | .. | 5 |
| Extending and merging the Serious Financial Crime Taskforce and Serious Organised Crime program | - | 3 | 8 | 10 | 12 |
| GST compliance program — four-year extension | - | 796 | 922 | 996 | 1047 |
| Migration – raising the Temporary Skilled Migration Income Threshold (TSMIT) | - | .. | .. | .. | .. |
| Tax Integrity – improving engagement with taxpayers to ensure timely payment of tax and superannuation liabilities | - | 41 | 59 | 56 | 26 |
| Small Business Support - helping small business manage their tax instalments and improving cashflow | - | -40 | 40 | - | - |
| Indirect Tax Concession Scheme – diplomatic and consular concessions | .. | - | - | - | - |
| Tobacco Excise – measures to improve health outcomes and aligning the treatment of stick and non-stick tobacco tax | - | 30 | 60 | 100 | 100 |
| Migration Program - 2023-24 planning levels | - | -5 | -10 | -10 | -10 |
| Visa changes for Graduates and Students – increasing visa duration and work hours | .. | 10 | 35 | 60 | 80 |
| Enhancing Pacific Engagement | - | 5 | 15 | 25 | 35 |
| Visa and Migration System | .. | .. | .. | .. | .. |
| *Decisions taken but not yet announced* | - | - | - | 5 | 5 |
| Total | .. | 843 | 1130 | 1245 | 1302 |

Detailed information on policy decisions taken since the October Budget 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 2023–24 is shown in Table 3.5. This method of calculation is prescribed in the *Federal Financial Relations Act 2009*. At the time of the 2023–24 Budget, the Treasurer had not yet made a determination of the 2023–24 GST revenue sharing relativities. The GST relativities in Table 3.5 use those contained in the CGC's report – *GST Revenue Sharing Relativities – 2023 Update*.

**Table 3.5: Calculation of GST entitlements**

| 2023-24 | 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 | 8,361,535 | 0.92350 | 7,721,878 | 28.9% | 25,048 |
| VIC | 6,854,422 | 0.85169 | 5,837,843 | 21.9% | 18,937 |
| QLD | 5,486,429 | 1.03118 | 5,657,496 | 21.2% | 18,352 |
| WA | 2,871,573 | 0.70000 | 2,010,101 | 7.5% | 6,520 |
| SA | 1,860,141 | 1.39463 | 2,594,208 | 9.7% | 8,415 |
| TAS | 581,386 | 1.79080 | 1,041,146 | 3.9% | 3,377 |
| ACT | 471,032 | 1.19540 | 563,072 | 2.1% | 1,826 |
| NT | 256,207 | 4.98725 | 1,277,768 | 4.8% | 4,145 |
| Total | 26,742,725 | na | 26,703,512 | 100% | 86,621 |

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 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 the 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 includes 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 2024–25 and 2025–26 are calculated based on a technical assumption that uses the 2023–24 relativities as the starting point, which are then adjusted to reflect the transition to the updated distribution system.

In 2026–27, 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 2026–27 is assumed to be half that of what would be expected from using the 2023–24 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 $19.4 billion in HFE transition payments from 2023–24 to 2026–27 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 $719.4 million for 2023–24, as shown in Table 3.6.

**Table 3.6: Reconciliation of the GST administration budget**

| $million | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 |
|---|---|---|---|---|---|
| Administration budget at 2022-23 March Budget (a) | 679.1 | 483.7 | 484.0 | 487.0 | na |
| Total variations from 2022-23 March Budget to October Budget | -1.9 | -7.7 | -7.7 | -7.8 | na |
| Administration budget at October Budget | 677.2 | 476.0 | 476.3 | 479.2 | na |
| Changes from October Budget to 2023-24 Budget | | | | | |
| *Parameter variations* | - | 0.8 | 2.7 | 3.4 | 16.2 |
| *Other variations* | - | 242.6 | 245.1 | 253.0 | 238.7 |
| Total variations | - | 243.4 | 247.8 | 256.4 | 254.9 |
| Administration budget at 2023-24 Budget | 677.2 | 719.4 | 724.1 | 735.6 | 734.1 |
| less Prior year adjustment | -22.7 | - | - | - | - |
| equals State government payments | 654.5 | 719.4 | 724.1 | 735.6 | 734.1 |

a) Other variations from 2023–24 include the renewed GST Compliance Program. A measure description related to this item can be found in Budget Paper No. 2.

## 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 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 |
|---|---|---|---|---|---|
| ACT municipal services | 42.5 | 44.0 | 45.4 | 46.4 | 47.3 |
| Royalty payments | 1,520.0 | 890.3 | 742.8 | 574.2 | 445.4 |
| **Total other general revenue assistance** | **1,562.5** | **934.3** | **788.2** | **620.6** | **492.7** |

### 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.

## 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 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 |
|---|---|---|---|---|---|
| Mirror taxes | 741.7 | 786.9 | 820.0 | 860.8 | 903.0 |
| *less* Transfers to state governments | 741.7 | 786.9 | 820.0 | 860.8 | 903.0 |
| Australian Government budget impact | - | - | - | - | - |