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GST distribution to states and territories in 2022-23

Summary

- The distribution of GST revenue to states and territories (states) seeks to give them a similar fiscal capacity to provide services. It takes account of states' different abilities to raise revenue and their different costs in providing services.
- The Commonwealth Grants Commission has released its 2022 Update, incorporating its recommended relativities for GST distribution in 2022-23.
- Some of the changes to GST distribution in the 2022 Update reflect the ongoing transition to the 2018 GST legislated arrangements. This includes implementation of a GST relativity floor of 0.7, below which no state's GST revenue sharing relativity can fall. Western Australia's GST relativity (share) would be lifted to the floor in 2022-23, resulting in a lower GST share for the other states, but this would be ameliorated by Commonwealth top-ups to the GST pool and transitional no worse off payments.
- Other changes to GST distribution reflect changes in state circumstances since the 2021 Update. Drivers of change include: an increase in the value of iron ore production; shifting patterns of population growth; wage growth and value of properties transferred; and changes in states' shares of Commonwealth payments.
- Expected growth in the GST pool in 2022-23 means most states are likely to receive a larger GST distribution in 2022-23 than in 2021-22. Victoria is expected to receive less and the ACT around the same. However, all states are expected to receive higher overall payments, which include transitional no worse off payments.

Introduction

Each year, the Commonwealth Grants Commission (the Commission) is asked to recommend to the Commonwealth Treasurer how to distribute the Goods and Services Tax (GST) pool among the states and territories (states), consistent with the objectives outlined in the *Commonwealth Grants Commission Act 1973*¹.

The distribution of the GST pool seeks to provide states with a similar fiscal capacity to provide services. It takes account of their different abilities to raise revenue and their different costs in providing services.

States' economic, social, and demographic characteristics differ, and this affects their relative expenditures and revenues. Drivers of differences in states' revenue capacities include mineral royalties, land values, property transactions and payroll taxes. States also receive different levels of Commonwealth payments. The cost of services can vary by state for a range of reasons, including socio-demographic characteristics, wage pressures, population dispersion or density, and rates of population growth.

The Commission has released its [2022 Update](#) on the recommended GST revenue sharing relativities for 2022-23.

Under the 2018 legislated changes, 2022-23 is the second year in a six-year transition away from GST distribution based solely on the Commission's assessment of states' relative fiscal capacities (see [Occasional Paper #4 - New arrangements for distributing GST](#)).

Recommended GST relativities for 2022-23

The Commission's recommended GST relativities for 2022-23 are in Table 1.

Western Australia has the largest increase in its GST relativity and its share of the GST pool, due primarily to the application of the GST relativity floor of 0.7. The Northern Territory's GST relativity and share of the pool have also increased. All other states will receive a smaller share of the GST pool in 2022-23 compared to 2021-22 (excluding no worse off payments).

An estimated \$4 billion increase in the GST pool in 2022-23² means that most states are expected to receive a larger payment from the GST pool in 2022-23 than in 2021-22, despite lower GST relativities for some states. However, Victoria is expected to receive less revenue from the GST pool in

¹ The Commission expresses recommendations for the distribution of the GST pool in terms of state GST relativities. This is a relative measure of a state's share of the GST pool. It measures the extent to which a state receives more or less than its population share of the pool. The average relativity is one. A relativity above one means a state gets more than its population share, a relativity below one means it gets less than its population share. As well as state fiscal capacities, GST relativities also reflect legislated requirements, such as a floor below which no state's relativity can fall.

² The GST pool consists of revenue from the GST plus top-up payment from the Commonwealth. See Mid-Year Economic and Fiscal Outlook, Appendix C, Table C.7.

2022-23 than it received in 2021-22 and the ACT around the same. All states are expected to receive higher overall payments from the GST distribution arrangements in 2022-23 when no worse off payments made during the transition period (2022-23 to 2026-27) are taken into account.

Table 1 GST Relativities, shares and estimated GST distribution, 2021-22 and 2022-23 (excludes 'no worse off' payments^(a))

	GST relativities		GST shares		GST distribution	
	2021-22	2022-23	2021-22	2022-23	2021-22	2022-23
			%	%	\$m	\$m
New South Wales	0.95617	0.95065	30.3	30.0	22,107	23,218
Victoria	0.92335	0.85861	23.8	22.2	17,411	17,167
Queensland	1.05918	1.03377	21.5	21.2	15,739	16,384
Western Australia	0.41967	0.70000	4.4	7.3	3,199	5,682
South Australia	1.34719	1.28411	9.3	8.9	6,785	6,865
Tasmania	1.96067	1.85360	4.1	3.9	3,024	3,035
Australian Capital Territory	1.16266	1.09250	2.0	1.8	1,426	1,421
Northern Territory	4.79985	4.86988	4.6	4.7	3,379	3,644
Total	1.00000	1.00000	100.0	100.0	73,070	77,416

Note: The estimated GST pool distribution for 2022-23 was calculated by applying 2022 Update relativities to estimated state populations for 2022-23 (as of December 2022) and the estimated GST pool for 2022-23.

(a) From 2019-20 to 2021-22, the Commonwealth made supplementary payments to Western Australia to deliver an outcome at least equivalent to a relativity of 0.7. This does not apply from 2022-23.

Source: Commission calculation.

Key developments affecting GST distribution

Change in assessment period

To smooth the effects of volatility, the Commission averages three years of data in its assessments. The three-year assessment period for the 2022 Update is 2018-19, 2019-20 and 2020-21. Replacing the 2017-18 data used in the 2021 Update with 2020-21 data in the 2022 Update brings changes in the distribution of GST, evident in some of the drivers of change outlined below.

2018 legislative changes

2022-23 is the second year in a six-year transition to the 2018 legislated arrangements for the distribution of GST.

For the first time, the GST relativity floor of 0.7 operated within the GST pool. Previously³, the Commonwealth made supplementary payments (outside the GST pool) to Western Australia to achieve an outcome equivalent to a relativity of 0.7. Increasing Western Australia's relativity to the 0.7 floor in the 2022 Update increases its GST share significantly, while lowering the shares of the other states. The impact on them would be ameliorated by the Commonwealth's top-up to the GST pool and the transitional no worse off guarantee.

COVID-19

COVID-19, and Commonwealth and state government responses to it, continue to affect Australia's economy and society. The 2022 Update assessed state circumstances for the 36 months from July 2018 to June 2021, of which 16 months were affected by the pandemic. The Omicron outbreak emerged in 2021-22 so its impacts are not reflected in this update.

The Commission, in consultation with the states, considered the implications of the pandemic for the update (see [New issues in the 2022 Update](#)).

The Commission concluded that its revenue assessments largely captured the effects of the pandemic on states' revenue raising capacities. Some states considered the pandemic brought into question the appropriateness of some of the expenditure assessments, particularly for health and business support. However, a change in assessment methods was outside the terms of reference set for the 2022 Update.

The Commission will continue to monitor impacts of the pandemic and its ongoing consequences as part of its work for future updates.

While the pandemic had an impact on GST distribution in 2022-23, other developments had a much larger influence.

Value of iron ore production

In recent years, changes in mining production and commodity prices have had large impacts on the value of mining activity. When coupled with the uneven distribution of resource endowments, this has resulted in the mining revenue assessment having a significant impact on GST distribution (see [Occasional Paper #3 Mining revenue and GST distribution](#)). Mining revenue is the second largest driver of change in GST distribution in 2022-23.

³ This applied from 2019-20 to 2021-22. In 2019-20 a payment was also made to the Northern Territory to deliver an outcome equivalent to a relativity of 4.66.

Almost all iron ore royalties are raised in Western Australia. Significant growth in the value of iron ore production increased its assessed capacity to raise mining revenue (reducing its GST needs) and reduced the relative capacities of the other states to raise mining revenue (increasing their GST needs).

Changing state population growth trends

As states' populations grow, they require more infrastructure to deliver services. The Commission assesses states with relatively fast-growing populations as requiring more GST to fund this infrastructure. Victoria's population declined in 2020-21, primarily due to lower overseas arrivals and, to a lesser extent, lower interstate migration, because of the pandemic. Victoria's lower population growth rate over the assessment period for the update reduced its assessed need to invest in infrastructure, relative to other states, and reduced its share of the GST pool.

This decline may be short-term. If Victoria's population growth reverts to its medium-term trend, or there is subsequent catch-up growth, this would be reflected in the Commission's future assessments.

Despite a significant fall in national population growth, Western Australia and the Northern Territory had faster population growth in 2020-21 than in 2017-18, increasing their investment needs and their share of the GST pool.

Uneven property price increases

Stamp duties raised from the transfer of property are potentially volatile. Property market cycles can lead to large changes to states' relative revenue raising capacities.

Between 2017-18 and 2020-21, the per person value of property transferred increased nationally by 10%. All states except Victoria experienced above average increases over this period, strengthening their revenue raising capacity. The per person value of property transfers in Victoria was 7.4% lower in 2020-21 than in 2017-18. This weakened its revenue raising capacity and increased its GST needs.

Uneven wage growth

Wage costs account for a large proportion of the cost of delivering services. Differences between states' relative wage costs in 2017-18 and 2020-21 changed the GST needs of states.

Relative wage costs grew in New South Wales, Western Australia and South Australia between 2017-18 and 2020-21. This increased their GST

needs. Relative wage costs in Victoria, Queensland, the ACT and the Northern Territory fell, lowering their GST needs.

Conclusion

In 2022-23 all states are expected to receive higher overall payments than in 2021-22, after including the effects of the Commonwealth's GST pool top-ups and no worse off payments.

While the pandemic had an impact, including on state population growth trends, other developments had a greater influence on GST distribution. These include strong growth in Western Australia's iron ore royalties, differences in states' wage growth rates, value of properties transferred and receipt of other Commonwealth payments.

The 2018 legislated change to GST distribution, particularly the 0.7 GST relativity floor which operates within the GST pool for the first time, is the biggest driver of changes in GST distribution in 2022-23. It significantly increased Western Australia's GST share, while lowering the shares of other states. The Commonwealth's top-up to the GST pool and the transitional no worse off guarantee ameliorate this impact.