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Acknowledgement of Country

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GST distribution to states and territories in 2024–25

Summary

- The Commonwealth Grants Commission (the Commission) has released its report to the Commonwealth Treasurer – referred to as the [2024 Update](#) – which outlines its recommended relativities for GST distribution to the states and territories (states) in 2024–25.
- The Commission’s starting point for calculating the GST relativities is assessing states’ different abilities to raise revenue and their different costs in providing services. Each year the Commission updates the GST relativities to reflect developments influencing states’ fiscal capacities.
- Based on the Commission’s recommended GST relativities for 2024–25, Victoria would receive a significant increase in its GST distribution compared with 2023–24 (estimated to be \$3.7 billion). This is largely driven by its reduced capacity to raise mining revenue relative to other states as well as data revisions from the 2021 Census, which increased its urban population and urban density. The Northern Territory is estimated to receive the largest increase in per capita terms (\$995 per capita). New South Wales’ and Queensland’s GST distributions are estimated to fall, largely due to an increase in their relative revenue raising capacities.
- Western Australia’s GST distribution is estimated to increase in 2024–25 because of the operation of the GST relativity floor. Its relativity is set to the floor, which increased from 0.70 in 2023–24 to 0.75 in 2024–25. Western Australia continues to have a very strong fiscal capacity, driven by its capacity to raise iron ore royalties. However, Western Australia’s relative fiscal capacity is estimated to be lower than last year, largely due to strong growth in coal royalties raising the fiscal capacities of other states. Western Australia is estimated to receive \$6.2 billion more GST in 2024–25 than it would have under the previous GST distribution arrangements.
- The increase in Western Australia’s GST relativity from the GST floor lowers the GST relativities of the other states. The Commonwealth Government’s top-up to the GST pool and no worse off payments ameliorate this impact.
- The GST pool is estimated to grow from around \$85 billion in 2023–24 to around \$89 billion in 2024–25. All states, other than New South Wales and Queensland, are estimated to receive more in total GST and no worse off payments than they received in 2023–24.

Introduction

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

The Commission has released its report to the Treasurer with its recommended GST relativities for the distribution of the GST pool in 2024–25. This report is referred to as the [2024 Update](#).

The Commission's first step in determining the GST distribution is to assess the differences in the fiscal capacities of states. States' economic, social and demographic characteristics differ, and this affects their relative expenditure needs and revenue raising capacities. This in turn informs the amount of GST each state would need to be able to provide similar services – referred to as a state's 'assessed GST needs'.

Drivers of differences in states' revenue capacities include differences in their mineral endowments, land values, property transactions and payroll taxes. States also receive different levels of Commonwealth payments. A state with an above-average revenue raising capacity has lower assessed GST needs than a state with a below-average revenue raising capacity. The cost of services can vary by state for a range of reasons, including socio-demographic characteristics, wage pressures, population dispersion, population density and rates of population growth. A state with above-average expense needs has higher assessed GST needs than a state with below-average expense needs.

The Commission updates states' assessed GST needs every year to take account of changes in the relative fiscal capacities of the states. To smooth the effects of volatility, the Commission uses a moving 3-year average of data in its assessments. The 3 years covered in the 2024 Update are 2020–21, 2021–22 and 2022–23. These are the most recent years for which robust and reliable data are available.

The recommended distribution of the GST pool is expressed in terms of 'GST relativities'. A state with a GST relativity higher than one (the average) will receive an above-average amount of GST per person. A state with a GST relativity less than one will receive a below-average amount of GST per person.

Under the changes to the GST distribution arrangements legislated in 2018, 2024–25 is two-thirds of the way through a 6-year transition away from distributing the GST pool based solely on the Commission's assessed GST needs. The arrangements ensure that no state's GST relativity can fall below a relativity floor. For the 2024 Update, the relativity floor is 0.75. When the transition is complete, no state will be able to have a GST relativity lower than the fiscally stronger of New South Wales or Victoria (referred to as the 'standard state') in any assessment year.

This paper provides an overview of the 2024 Update of recommended GST relativities for the distribution of GST in 2024–25.

Recommended GST relativities for 2024–25

Table 1 shows the Commission’s recommended GST relativities for the distribution of the GST pool in 2024–25, as outlined in the [2024 Update](#).

Table 1 GST relativities, shares and estimated GST distribution, 2023–24 and 2024–25

	GST relativities		GST shares		GST distribution		
	2023–24	2024–25	2023–24	2024–25	2023–24	2024–25	Difference
			%	%	\$m	\$m	\$m
New South Wales	0.92350	0.86736	29.0	27.1	24,535	24,224	-310
Victoria	0.85169	0.96502	21.9	24.8	18,541	22,227	3,686
Queensland	1.03118	0.95232	21.2	19.5	17,929	17,460	-469
Western Australia	0.70000	0.75000	7.6	8.1	6,419	7,257	838
South Australia	1.39463	1.40312	9.7	9.7	8,214	8,671	457
Tasmania	1.79080	1.82832	3.8	3.9	3,257	3,476	219
Australian Capital Territory	1.19540	1.20419	2.1	2.1	1,778	1,889	111
Northern Territory	4.98725	5.06681	4.7	4.8	4,002	4,257	256
Total	1.00000	1.00000	100.0	100.0	84,675	89,462	4,787

Note: The estimated GST pool distribution for 2024–25 was calculated by applying 2024 Update relativities to estimated state populations (as of December 2023) and the estimated GST pool for 2024–25.

Source: Commission calculation.

At the time of its [Mid-Year Economic and Fiscal Outlook 2023–24](#) the Commonwealth Government anticipated an increase in the GST pool from around \$85 billion in 2023–24 to around \$89 billion in 2024–25. All states, except New South Wales and Queensland, are estimated to receive more GST in 2024–25 than they did in 2023–24.

Key developments affecting GST distribution

The 2024 Update contains details of the factors influencing the GST distribution in 2024–25, along with a state-by-state breakdown of the changes. The following is a summary of the key developments.

Mining production

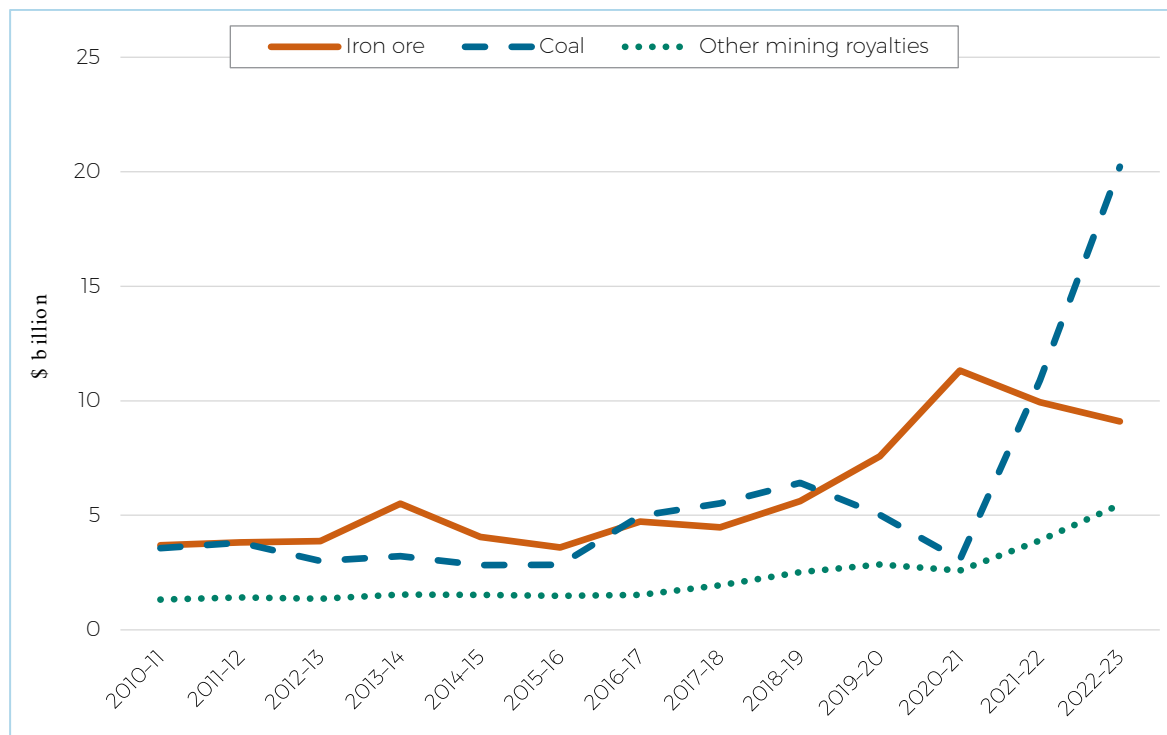
Mining royalties are a major source of revenue for some states and are a significant factor influencing relative state fiscal capacities, and therefore GST distribution. For example, iron ore resources are concentrated in Western Australia, while black coal is mined predominantly in New South Wales and Queensland. In recent years, increases in commodity prices have had a big influence on the value of mining activity, and in turn the revenue raising capacities of these 3 states.

Coal royalties were the largest component of the mining revenue assessment in the 2024 Update. They continued to grow strongly due to an increase in both coal prices and the national average coal royalty rate. Royalties reached a new high in 2022–23 (Figure 1). As a result of the strength of coal royalties, New South Wales and Queensland were assessed to have higher capacity than last year to raise revenue from mining royalties. This led to a reduction in their assessed GST needs and an increase in the assessed GST needs of other states, including a significant increase for Victoria.

Similarly, other mineral royalties continued to grow, with lithium royalties rising to over \$1 billion while onshore oil and gas exceeded \$2 billion. A smaller contributor to the growth in mining revenue was nickel royalties, increasing to \$138 million. These changes collectively saw reductions in the assessed GST needs of Queensland and Western Australia, which produce most of these minerals.

In contrast, iron ore royalties fell in 2022–23 after reaching a peak in 2020–21. This added to the increase in Western Australia’s assessed GST needs related to the strong growth in coal royalties.

Figure 1 Royalty revenue by mineral, 2010–11 to 2022–23



Source: State provided data.

Urban transport

In the 2024 Update, a range of factors affected states’ assessed GST needs for urban transport, for both recurrent expenditure and investment.

The Commission uses a 3-year assessment period. In this update, 2019–20 data were replaced by 2022–23 data. Queensland’s assessed GST needs rose as its population and population-weighted density grew faster than the national average over the period 2019–20 to 2022–23. Further, there was an increase in national investment in urban transport. This increased the assessed GST needs of those states with above-average urban transport needs (New South Wales and Victoria).

This increase for Victoria and New South Wales, was partially offset by revisions to national investment as Australian Bureau of Statistics’ (ABS) estimates for 2021–22 replaced state provided investment estimates. A downward revision for national transport investment expenditure in that year reduced the assessed GST needs of those states.

The use of the ABS 2021 Census boundaries also resulted in an increase in population-weighted density for Victoria and the ACT, increasing their assessed GST needs.

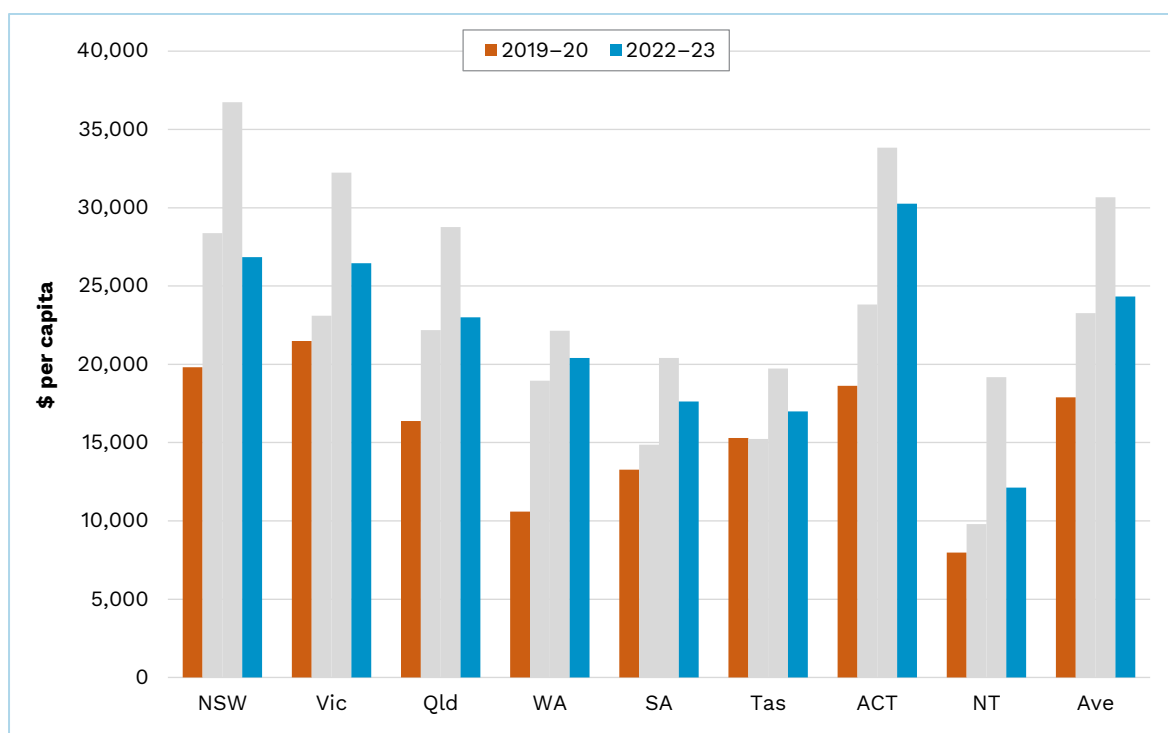
Property sales

Stamp duties raised from the transfer of property can be volatile. Property market cycles can lead to large changes across years and states. This can have marked effects on states' revenue raising capacities.

Total stamp duty revenue grew between 2019–20 and 2022–23. This reduced the assessed GST needs of states with an above-average capacity to raise stamp duties (New South Wales and Victoria) and increased the assessed GST needs of the other states.

Every state experienced a decrease in the per capita value of property transferred between 2021–22 and 2022–23. However, compared with the assessment year removed from the 3-year average (2019–20), there was a 40% increase nationally. Queensland, Western Australia and the ACT experienced above-average growth over the assessment period for the 2024 Update period (Figure 2). This reduced their assessed GST needs and increased those of other states.

Figure 2 Value of property transfers per capita, 2019–20 to 2022–23



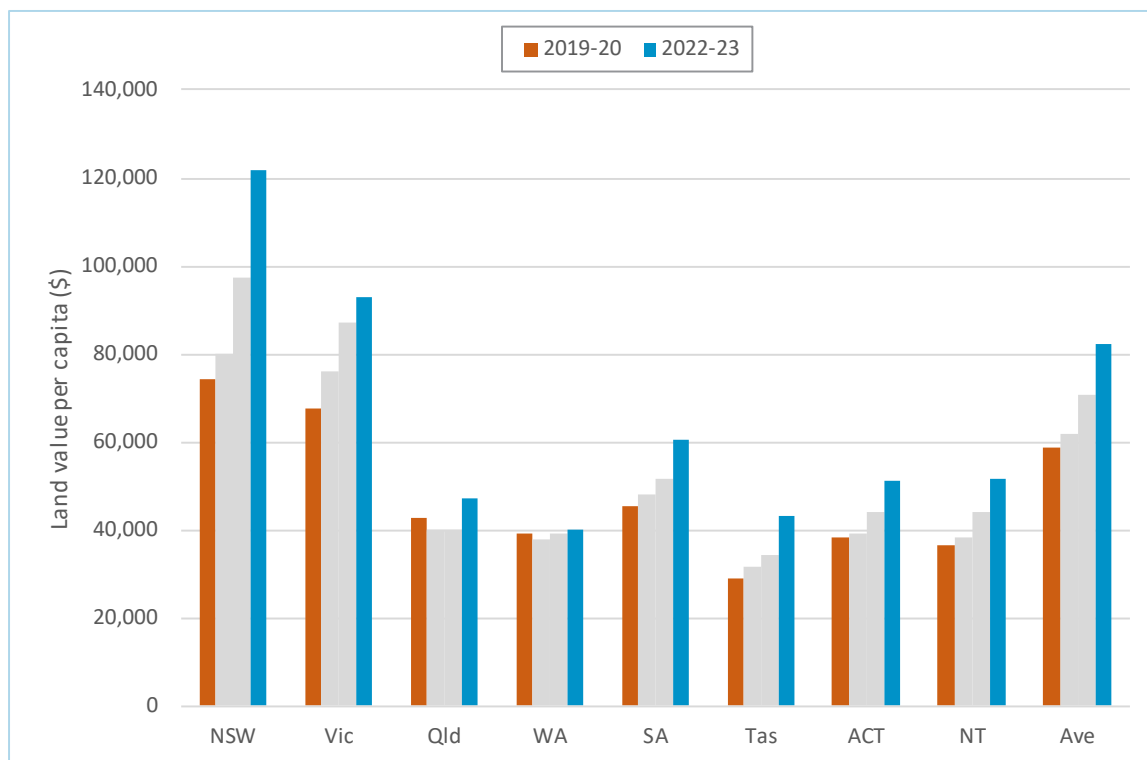
Source: Commission calculation based on annual data provided by states.

Taxable land values

Cycles in property markets can affect state land values and, as a result, their capacities to raise land tax. Between 2019–20 and 2022–23, per capita taxable land values increased by 41% nationally. New South Wales and Tasmania experienced above-average growth over the period (see Figure 3), reducing their assessed GST needs.

Western Australia experienced the slowest growth in its taxable land values. This resulted in a substantial increase in its assessed GST needs.

Figure 3 Land value per capita, 2019–20 to 2022–23



Source: Commission calculation based on annual data provided by states.

2021 Census data

Updated data from the ABS 2021 Census have driven changes in the GST distribution since 2023–24. For the 2024 Update, 2021 Census data were used for First Nations populations, remoteness classifications, the level of disadvantage and other location-based data.¹

The 2 largest impacts from the 2021 Census data were for urban transport (discussed above) and health. The use of the 2021 Census data in the health assessment reduced the assessed need for spending in New South Wales and South Australia and increased the need for spending in other states.

2018 legislated changes to GST distribution arrangements

The [2018 legislated changes](#) to the GST arrangements included the introduction of a GST relativity floor. For 2024–25, the floor will be 0.75. In the absence of the relativity floor, Western Australia’s strong relative fiscal capacity would result in it receiving a relativity below the floor. As the GST is distributed from a fixed pool, lifting Western Australia’s relativity to the floor reduces the relativities of the other states. However, the Commonwealth will make additional payments to 2029–30 so that no state will be worse off than they would have been under the previous GST distribution arrangements (the ‘no worse off guarantee’).²

¹ Location-based data on where a person lives are used in several of the Commission’s calculations of the drivers of different state spending needs, for example residence in remoteness areas, significant urban areas, small communities, remote communities and/or discrete First Nations communities. Location-based data are also used in socio-economic indexes and population density calculations.

² Under the 2018 legislated arrangements, no worse off payments were to be in place over the transition period from 2021–22 to 2026–27. On 6 December 2023 the Commonwealth and states agreed to extend the guarantee for 3 years to the end of 2029–30.

Western Australia is estimated to receive \$6.2 billion more GST in 2024–25 than it would have under the previous GST distribution arrangements.

Estimated total GST-related payments, including no worse off payments

Based on its recommendations in the 2024 Update, the Commission has provided indicative estimates of total payments from the GST pool and no worse off payments to the states in 2024–25 (see Table 2). The indicative estimates are provided for illustrative purposes. Final GST distributions and no worse off payments for 2024–25 will be calculated by the Commonwealth and will be based on the actual GST pool, pool top-ups and population for 2024–25, which will not be determined until after the end of that year.

Table 2 Estimated total payments to the states from GST distribution and no worse off payments

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2023–24									
Total GST distribution	24,535	18,541	17,929	6,419	8,214	3,257	1,778	4,002	84,675
No worse off payments	1,711	1,417	1,108	0	368	110	94	37	4,844
Total	26,245	19,958	19,036	6,419	8,582	3,367	1,873	4,039	89,519
2024–25									
Total GST distribution	24,224	22,227	17,460	7,257	8,671	3,476	1,889	4,257	89,462
No worse off payments	1,833	1,513	1,192	0	393	117	101	39	5,188
Total	26,058	23,740	18,652	7,257	9,063	3,593	1,990	4,296	94,649
Difference									
GST distribution	-310	3,686	-469	838	457	219	111	256	4,787
No worse off payments	122	96	85	0	25	7	7	2	344
Total (\$m)	-188	3,782	-384	838	481	226	118	258	5,131
Total (\$pc)	-22	537	-69	283	255	389	245	1,003	188

Source: Commission calculation.

Conclusion

The Commission has provided the Commonwealth Treasurer its recommended GST relativities for 2024–25. All states except New South Wales and Queensland are expected to receive higher payments from the GST pool compared with 2023–24.

Changes since 2023–24 in state revenue raising capacities were the largest driver of changes in the Commission’s recommendations for the distribution of the GST pool in 2024–25. A significant increase in capacity to raise revenue from coal royalties reduced the assessed GST needs of New South Wales and Queensland and increased those of the other states, including Western Australia. Above-average growth in land tax capacity in New South Wales and Tasmania reduced their assessed GST needs. Above-average growth in property sales in Queensland, Western Australia and the ACT reduced their assessed GST needs.

A large national increase in urban transport investment resulted in higher assessed GST needs for both New South Wales and Victoria. The updated 2021 Census urban density data resulted in an increase in the assessed GST needs of Victoria and the ACT and a reduction for New South Wales.

The release of other data from the 2021 Census also impacted the GST distribution. Revisions included the remoteness classification of some locations, the level of disadvantage in some states, and First Nations population in each state.

Another important influence on the distribution of GST is the ongoing transition to the 2018 legislated arrangements, particularly the introduction of a GST relativity floor, which will be 0.75 in 2024–25. This will significantly increase Western Australia’s GST share, while lowering the shares of the other states. The Commonwealth’s top-up payments and no worse off payments will ameliorate this impact on the other states.