Australian Government
Commonwealth Grants Commission

FAQs on the misconceptions of GST distribution

1. What is the Commonwealth Grants Commission?

The Commonwealth Grants Commission is an independent Australian Government agency. Each year, the Commission advises the Australian Government on how to share Goods and Services Tax (GST) revenue between the 8 states and territories (states).

2. What is the basis for the distribution of GST?

The GST pool is distributed to the states in accordance with the principle of *horizontal fiscal equalisation*. The aim is to equalise the fiscal capacity of the states to enable provision of a broadly comparable standard of services to their residents.

In determining state GST needs, the Commission assesses the relative, non-policy influenced revenue raising capacity of the state and the costs of providing services beyond the control of the state. Each state's different circumstances are considered, such as its population profile, geography, mineral resources and economic conditions.

With the introduction of the GST in 2000, the Commonwealth and all states signed the 1999 Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations, which stated that the GST revenue would be distributed according with horizontal fiscal equalisation principles.

3. Does each state get the same amount of GST per person? Do states get back the GST collected within their borders?

No. States do not get the same amount of GST per person. Nor is it distributed based on the GST collected in each state. Data on GST paid by residents of each state are not collected and it would be difficult to do so. GST is distributed with the aim of equalising the fiscal capacity of the states to provide a broadly comparable standard of services to their residents.

4. Does GST distribution reward states for poor fiscal management?

No. States are not rewarded with an increased GST share if they run larger budget deficits than other states because of their policy choices.

GST is distributed on relative, non-policy influenced fiscal capacities, not how well a state manages its finances.

5. What is a GST relativity?

Each state's share of GST revenue is expressed as a 'relativity'. If all states had the same fiscal capacity, each state would have a relativity of 1 and receive the same GST per person. States with a stronger than average fiscal capacity have a relativity below 1 (and receive less than the average GST revenue per person). States with a weaker than average fiscal capacity have a relativity above 1 (and receive more than the average GST revenue per person). Because the GST pool is fixed, if some states' GST share increases, the GST share of other states will decrease.

6. Why do GST relativities change each year?

The Commonwealth Grants Commission provides the Australian Government with advice on the distribution of GST each year, and it is usual for states' GST relativities to change every year. This is because each year there are changes in state economic circumstances, population profiles, and revenue sources (for example mining royalties and property taxes) that affect states' relative GST needs.

7. Can future GST distributions be accurately predicted?

GST relativities are updated annually to reflect changes in states' economic and demographic circumstances. GST relativities cannot be assumed to remain constant. It is very difficult to predict a state's future GST distribution because it requires forecasting changes in the relative economic and social circumstances of all states.