



Australian Government
Commonwealth Grants Commission

Submission

ACT Legislative Assembly Inquiry into the Fiscal Sustainability of the ACT

February 2026

Role and approach of the Commonwealth Grants Commission

The Commonwealth Grants Commission (the CGC) provides independent advice to the Australian Government on how GST revenue should be distributed among the states and territories (states). The distribution of GST revenue is governed by legislation¹ and terms of reference issued by the Commonwealth Treasurer, which require the CGC's advice to be based on the objective of horizontal fiscal equalisation.

The CGC's approach to implementing horizontal fiscal equalisation is to estimate the revenue needed to give each state the fiscal capacity to provide services and infrastructure at the average standard if it makes the average effort to raise revenue and operates at the average level of efficiency. The CGC's estimates of 'relative fiscal capacities' and the resulting 'assessed relativities' seek to put states on an equal footing after allowing for circumstances that are beyond their control. Through this approach, the CGC seeks to minimise differences in fiscal capacities as much as possible.

In 2018, the Commonwealth Parliament legislated a new way to distribute GST revenue to the states. The legislation changed the GST distribution arrangements from a 'full' equalisation standard to a 'reasonable' equalisation standard.²

The CGC assesses each state's revenue raising capacity in comparison to the average revenue collected by all states. The CGC also accounts for circumstances outside the control of each state that affect the cost of providing services, relative to other states. In each revenue and expense assessment, the CGC considers a range of economic, demographic and geographic characteristics (for example, age, socio-economic status and levels of remoteness).

Further information on the CGC's role in supporting the various arrangements for providing Commonwealth financial assistance to states since 1933 can be found here: [Occasional Paper No.10 – 90 Years of the Commonwealth Grants Commission](#).

Inquiry

In the resolution of establishment for the inquiry, the Committee is asked to '*assess the impact of the Commonwealth Grants Commission process regarding the adjustments made to the allocations to states and territories due to the constitutional inability of states and territories to tax the Commonwealth Government.*'³

To assist the Committee with its inquiry, the CGC provides the following information, which outlines its approach to addressing constitutional barriers to states levying taxes on the Commonwealth in its assessments and the impact on the GST distribution.

¹ [Commonwealth Grants Commission Act 1973](#), [Federal Financial Relations Act 2009](#), [Treasury Laws Amendment \(Making Sure Every State and Territory Gets Their Fair Share of GST\) Act 2018](#).

² See [Occasional Paper #4 New arrangements for distributing GST](#) for further information on the current GST distribution arrangements.

³ Legislative Assembly for the Australian Capital Territory. Select Committee on the Fiscal Sustainability of the ACT. Resolution of Establishment, 4 December 2025. Subsection 4c.

Key Points

- The constitutional exemption of the Commonwealth Government from state taxes impacts all states.
- The main impact on the ACT is its inability to levy payroll tax, with 42% of the total ACT workforce employed by the Commonwealth Government.
- This impact is recognised by the Commonwealth Grants Commission in its payroll tax assessment. In the 2025–26 GST distribution, the ACT received \$63 million (\$129 per capita) more than if it had the average capacity to tax public sector wages and salaries.

Assessing state revenue raising capacity

The CGC assesses the revenue raising capacities of states from 6 state taxes:

- Payroll taxes
- Land tax
- Motor taxes
- Stamp duties on conveyances
- Insurance taxes
- Mining royalties

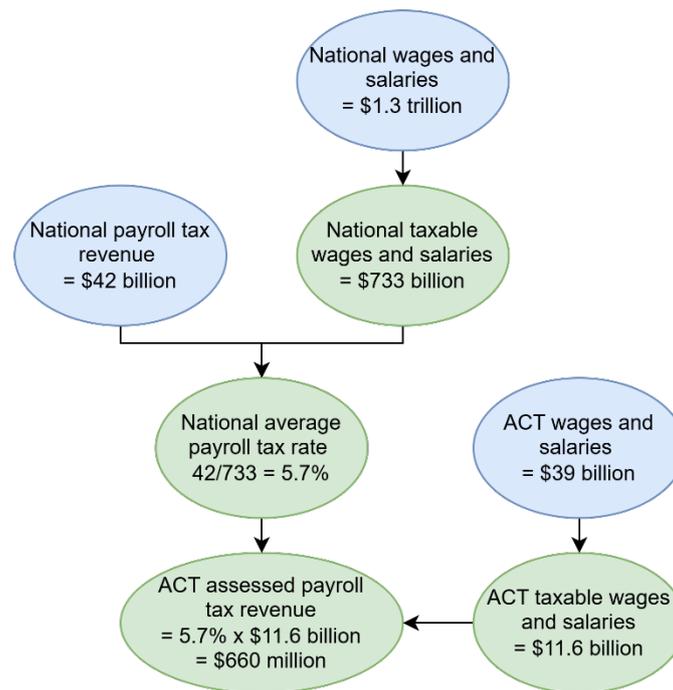
The CGC's approach to assessing a state's revenue raising capacity

The CGC's method of assessing state revenue raising capacities is outlined in Figure 1, using the payroll tax assessment for the ACT in 2024–25 as a worked example. The method is identical for all states.

1. Identify total national revenue from the tax (states collected around \$42 billion in payroll tax)
2. Identify the national tax base, excluding commonly exempt activities (total taxable wages and salaries were \$733 billion excluding wages and salaries below the average payroll tax threshold and exempt employees including the Commonwealth)
3. Estimate the national average tax rate – this is the national tax base divided by the national tax revenue (5.7%)
4. Identify the ACT's tax base (\$11.6 billion)
5. Apply the national average tax rate to the ACT's tax base (\$660 million).

Step 5 is the CGC's assessment of what the ACT would raise in payroll tax revenue if it used the national average policy settings. As noted in step 2, exempt Commonwealth employees have been excluded from the revenue base.

Figure 1: Revenue assessment example — ACT’s assessed payroll tax revenue in 2024–25



The CGC’s assessments of state revenue raising capacities use actual state revenues sourced from state and territory governments, or the Australian Bureau of Statistics. Actual state revenues from these sources do not include revenue from exempt activities (such as payroll tax from Commonwealth employees in the ACT) because no revenue is collected.

The CGC considers Constitutional restrictions to state revenue raising capacities in identifying the taxable revenue base for each assessment.

Payroll taxes

Commonwealth entities are constitutionally exempt from payroll tax. The CGC accounts for this by excluding payroll tax exempt wages and salaries for all states from its payroll tax assessment.

While the exemption for Commonwealth entities from payroll tax affects all states, the ACT is the most affected. Table 1 shows the difference between the actual 2025–26 GST distribution and a scenario where the ACT has the national average capacity to tax public sector wages and salaries.⁴ It shows that if the ACT had the average capacity to tax public sector employees, it would be assessed to need \$12 million less than its per capita share of GST from the payroll tax assessment compared to \$51 million more than its per capita share in the 2025 Update.

In 2025–26, the assessment method resulted in the ACT receiving an additional \$63 million in GST (\$129 per capita) in recognition of its limited capacity to raise public sector payroll taxes compared to other states.

⁴ In the 2025–26 update, the CGC estimated that around 10.2% of public sector employment in the ACT was liable for payroll tax compared to the national average of around 15.9% (based on a three-year average of the assessment years, 2021–22 to 2023–24).

Table 1 GST effect of the payroll tax assessment in 2025–26: difference from equal per capita

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2025–26 GST distribution								
Total payroll \$m	-586	178	859	-1,485	713	274	51	-4
Total payroll \$pc	-68	25	150	-486	375	474	105	-15
2025–26 GST distribution								
Scenario Average taxable public sector (a)								
Total payroll \$m	-565	195	871	-1,476	716	275	-12	-3
Total payroll \$pc	-65	27	152	-483	376	475	-24	-13
Difference								
Total payroll \$m	-21	-17	-12	-9	-3	-1	63	-1
Total payroll \$pc	-3	-2	-2	-3	-1	-1	129	-2

a. Estimate based on ACT having the national average share of taxable public sector wages and salaries in each assessment year in the 2025–26 GST distribution.

Source: CGC calculation

Further details on how the CGC estimates the differences between states' public sector payroll tax bases is outlined in Appendix A.

Other taxes

Where practical, the CGC asks states and other data custodians to exclude Commonwealth impacted data. This means that Commonwealth land ownership and Commonwealth motor vehicle transfers data are excluded from the land tax assessment and stamp duty on motor vehicles assessment. Data for stamp duties and motor vehicle registrations may still include Commonwealth property purchases and motor vehicle registrations.

For all these assessments, the Commission cannot quantify the GST impact of the treatment of exempt revenue bases on states. However, where exempt tax bases are included — Commonwealth land purchases and Commonwealth motor vehicles registrations — the GST effect is likely to be small.

Insurance taxes are typically levied on insurance companies but are passed on to consumers. There are no adjustments required because the tax is not directly levied on the Commonwealth. The Commonwealth indirectly pays the tax through higher insurance premiums for relevant insurance products.

There are no adjustments to the revenue base for mining royalties on constitutional grounds. States have the right to levy mining royalties on resources extracted in their jurisdictions. Revenues received by states from the Commonwealth from revenue sharing agreements are assessed in the mining assessment.

Method used to derive the public sector payroll tax base

Commonwealth employees comprised 42.4% of employment in the ACT in 2024–25 compared to a national average of 2.6% (Table 2). The CGC’s payroll tax assessment accounts for the unequal distribution of public sector employment by deriving state-specific estimates of public sector payrolls, excluding exempt employees such as the Australian Public Service from the payroll tax revenue base.

Table 2 State share of Commonwealth employees in total employment, 2024–25

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Commonwealth employees ('000)	92	66	53	20	23	6	117	10	386
Total workforce ('000)	4,498	3,791	3,013	1,658	976	284	276	144	14,638
Share of Commonwealth employees	2.0%	1.7%	1.8%	1.2%	2.4%	2.0%	42.4%	6.7%	2.6%

Source: ABS Public sector employment and earnings, 2024–25, ABS, Labour force, Australia, June 2025.

Taxable public sector wages are derived using data from the ABS on public sector employment and earnings by state excluding general government employees and remuneration below the average payroll tax threshold.^{5,6} This is combined with total public sector wages to derive the taxable proportions of public sector wages and salaries. As outlined in Table 3, approximately 10.0% of public sector employment in the ACT was estimated to be liable for payroll tax in 2023–24, below the national average of 15.7%.

Table 3 Taxable share of public sector wages and salaries, 2023–24 (%)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	National average
2023–24	15.9	16.7	16.9	17.1	12.9	17.6	10.0	7.8	15.7

Source: CGC calculation

The tax base for public sector wages is subsequently derived using the taxable proportion of wages and ABS Compensation of Employees data. Table 4 shows the public sector payroll tax base by state in 2023–24.⁷ The revenue base for public sector employment is combined with the private sector revenue base to jointly assess actual state payroll tax revenue.

Table 4 Public sector payroll tax base by state, 2023–24

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Taxable share of public sector wages and salaries (%)	15.9	16.7	16.9	17.1	12.9	17.6	10.0	7.8	15.7
Compensation of public sector employees (\$m)	81,735	65,169	58,136	29,253	19,306	7,514	20,492	5,360	286,965
Public sector payroll tax revenue base (\$m)	13,013	10,875	9,909	5,007	2,493	1,323	2,059	417	45,097

Source: CGC calculation

⁵ General government employees includes all government employees except in the following industries, Agriculture, Forestry and Fishing (ANZSIC Division A), Manufacturing (ANZSIC Division C), Electricity, Gas, Water and Waste Services (ANZSIC Division D), Transport, Postal and Warehousing (ANZSIC Division I), Finance and Insurance services (ANZSIC Division K), all Higher Education Institutions (ANZSIC Class 8102).

⁶ The payroll tax threshold in 2024–25 was \$990,000.

⁷ Taxable private sector compensation of employees is derived using a similar method.