



Australian Government
Commonwealth Grants Commission

Forward Work Program

Research Update #1

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Acknowledgement of Country

The Commonwealth Grants Commission acknowledges the Traditional Owners of Country throughout Australia, and their continuing connection to land, water and community. We pay our respects to them and their cultures and to Elders both past and present.

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The Commission's Forward Work Program

As part of the 2025 Methodology Review, the Commonwealth Grants Commission (the Commission) outlined a Forward Work Program.

The Forward Work Program comprises a series of topics identified by the Commission and states and territories (states), where further research and analysis could be undertaken in preparation for the next methodology review. Some of the research projects involve emerging issues, while others are those where further detailed analysis is required in response to issues identified during the 2025 Methodology Review.

The Commission's objective with the Forward Work Program is to build a body of work and an evidence base that will inform the next methodology review. The list of Forward Work Program projects is at Attachment A and further background is available in the [2025 Review Outcomes report](#).

States have been involved in the development of the Forward Work Program and have the opportunity to engage throughout each project, including on the scope, timing and outcomes. No decisions on potential changes to assessment methods will be made until the next review. Consistent with existing practice, states will be consulted on any potential changes to assessment methods as part of the formal consultation process during the next review.

This paper provides an outline and next steps for 3 projects:

- investigating the feasibility of introducing elasticity adjustments in revenue assessments
- re-evaluating the Urban Transport Assessment
- considering the case for separately assessing state revenue and expenditure relating to the transition to net zero emissions.

These research projects have a broad impact on the Commission's assessments of states' fiscal capacities. Elasticity adjustments have the potential to affect all estimates of state revenues, urban transport is a significant expense driver for state governments and net zero policies are increasingly important for state governments and continue to evolve.

The Commission will provide periodic updates on the progress of all projects in the Forward Work Program.

Elasticity adjustments

Background

The Commission assesses each state's capacity to raise revenue using total state revenue from the relevant taxes and each state's assessed revenue base for each tax. However, this is a simplification because all states levy taxes at different rates with different exemptions for certain activities.¹ In the 2026 Update, the Commission's revenue assessments distributed \$15.9 billion (\$566 per capita) away from an equal per capita share (Table 1).

Table 1 2026–27 GST impact of revenue assessments

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Payroll tax	-460	395	642	-1,721	797	279	70	-2	2,184
Land tax	-3,632	-482	1,892	1,004	643	248	218	109	4,114
Stamp duty on conveyances	-2,288	177	333	517	749	307	19	186	2,288
Insurance tax	-167	128	-6	100	-143	41	32	15	316
Motor taxes	484	-6	-228	-291	-24	-37	83	18	586
Mining revenue	4,382	8,942	-5,771	-10,726	1,874	600	627	72	16,497
Total	-1,681	9,154	-3,138	-11,117	3,895	1,439	1,050	398	15,936
	(\$pc)	(\$pc)	(\$pc)	(\$pc)	(\$pc)	(\$pc)	(\$pc)	(\$pc)	(\$pc)
Payroll tax	-53	55	111	-551	414	483	141	-9	78
Land tax	-416	-67	327	322	334	429	441	407	146
Stamp duty on conveyances	-262	24	57	165	389	532	38	693	81
Insurance tax	-19	18	-1	32	-74	71	66	54	11
Motor taxes	55	-1	-39	-93	-12	-64	169	66	21
Mining revenue	502	1,238	-996	-3,435	973	1,039	1,269	269	586
Total	-192	1,267	-542	-3,560	2,023	2,491	2,124	1,480	566

Note: Total effect shows 'gross impacts' (the positive or negative impact for each state). These cancel each other out because GST distribution is zero sum.

The Commission seeks to measure state revenue raising capacity under the principle of policy neutrality.² The Commission reduces the influence of state policy choices by measuring the national average effective tax rate for each tax being assessed. It also reduces the inconsistencies from different data collection methods by using ABS and state data on realised tax revenue and state estimates of tax bases, excluding commonly exempt activities such as land tax exemptions for charities.

Economic theory assumes that taxes affect consumer and firm (actor) behaviour, incentivising or disincentivising relevant activities.³ The magnitude of the impact of a tax on

¹ Commercial property is exempt from land tax in the ACT but does attract land tax in most other states, while the Northern Territory doesn't levy land taxes at all. Small businesses are exempt from payroll taxes in all states, however the threshold for exemption differs between states. In the ACT the threshold is \$2 million per annum, while in Victoria it is \$1 million per annum.

² The Commission's policy neutrality supporting principle is a state's policy choices should not directly influence its GST share and the Commission's assessments should not create policy incentives or disincentives for states.

³ ERA Seligman, *The Shifting and Incidence of Taxation*, 2nd edition, Columbia University Press, New York, 1902.

its tax base depends on whether actors are able to change their behaviour through offering lower prices or changing preferences in response to the tax rate (elasticity).⁴ Consequently, differences in state tax policies are expected to result in policy driven differences in the observed tax bases.

Currently, the Commission does not adjust state tax bases to account for the influence of differences in state tax rates. Policy influenced tax bases could lead to a worse equalisation outcome if a state received a larger share of GST because it was assessed to have a smaller tax base due to high tax rates.

The absence of an adjustment for elasticity effects may also create a disincentive for states to undertake tax reform. States may avoid lowering tax rates on highly elastic tax bases, as doing so may increase the observed tax base and result in the state's assessed revenue raising capacity being overestimated, leading to a reduction in its assessed GST share.

There are a number of uncertainties associated with elasticity estimates, and including them would increase assessment complexity.⁵ Therefore, judgement is required as to whether, after allowing for the uncertainties of the elasticity estimates, the improvement in the assessment of state revenue raising capacity and horizontal fiscal equalisation justifies the additional complexity.

In 2018, the Commission engaged the Australian National University's Tax and Transfer Policy Institute to produce empirical estimates of the effect of state taxes on the Commission's assessed tax bases.⁶ That work found statistically significant elasticity effects for:

- stamp duty on conveyances
- land tax
- motor tax (light vehicle registration)
- insurance tax.

It did not find a measurable elasticity effect for payroll tax on labour market outcomes. It also concluded there were no data to reliably measure the effect of mineral royalty rates on the value of mineral production.

In the 2020 Methodology Review, the Commission decided not to introduce any elasticity adjustments due to concerns about the reliability of the estimates and the additional complexity of applying them to Commission measures of state tax bases and effective tax rates.

In the 2025 Methodology Review, the Commission noted that state tax bases are sensitive to state tax policies, including tax rates. However, it decided not to introduce elasticity adjustments because of the complexities and uncertainties involved in implementing them, the differences in state views on the need to include such adjustments, and the limited time available for the methodology review. Instead, it decided to consider how the complexities might be addressed as part of its Forward Work Program in preparation for the next methodology review.

Scope of project

⁴ Tax elasticity is defined as the proportional change in a tax base for a proportional change in the relevant tax rate.

⁵ The Commission's practicality supporting principle is that assessments should be based on sound and reliable data and methods and should be as simple as possible, while capturing the major influences on state expenses and revenue.

⁶ R Steinhauer, M Sinning and K Sobeck, [State tax elasticities of revenue bases](#), Tax and Transfer Policy Institute, 2018, accessed 8 August 2025.

The project is investigating the complexities and uncertainties associated with implementing elasticity adjustments in the Commission's revenue assessments, including those raised by states in the 2025 Methodology Review. Issues being considered relate to:

- the accuracy and fitness for purpose of the estimates of elasticity effects, including:
 - statistical uncertainty and significance of the elasticity estimates
 - uncertainty around whether national elasticity estimates are applicable for all states and all value ranges
 - uncertainty of the cross-elasticity (spill over) effects of taxes on other tax bases
- the impact of data revisions on elasticity adjustments and assessment volatility, including:
 - sensitivity of the adjustment to classifications of state revenue
 - the potential for volatility in an assessment
- the increase in assessment complexity from including an elasticity adjustment
- whether other non-tax state policy influences on tax bases should be considered.

Next steps

The Commission is updating the estimates of elasticities for stamp duty on conveyances, land tax, motor taxes and insurance taxes using methods similar to those used in the 2018 consultancy with reference to relevant literature and updated data.⁷

The Commission is also investigating whether it can develop reliable elasticity estimates for payroll tax and mining royalties.

The Commission is considering options for peer review of its research on elasticity adjustments.

⁷ R Steinhauser, M Sinning and K Sobeck, [State tax elasticities of revenue bases](#), Tax and Transfer Policy Institute, 2018, accessed 8 August 2025.

Urban transport

Background

The Commission's Urban Transport Assessment includes expenditure on public transport services used to travel within an urban area, such as bus, light and heavy rail (passenger and freight) and ferry services. Services used to travel between urban areas are assessed in the Non-urban Transport Assessment. Urban transport is a major driver of state spending. In 2024–25 it amounted to \$31 billion or around 8% of total state expenditure (Table 2). In the 2026 Update, the Urban Transport Assessment distributed almost \$4.4 billion (\$157 per capita) away from an equal per capita share (Table 3).

Table 2 Urban transport expenditure, 2021–22 to 2024–25

	2021–22	2022–23	2023–24	2024–25
Recurrent expenses				
Recurrent expenses (\$m)	14,858	15,899	16,542	18,144
Proportion of total recurrent expenses (%)	5	5	5	5
Investment				
Investment (\$m)	16,099	17,971	15,718	13,095
Proportion of total investment (%)	29	30	25	21
Total				
Total urban transport expenditure (\$m)	30,957	33,870	32,260	31,240
Proportion of total expenditure (%)	9	95	8	8

Table 3 2026–27 GST impact of the Urban Transport Assessment

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Recurrent Urban Transport	1,018	524	-707	-188	-283	-213	-47	-105	1,542
Investment in Urban Transport	1,131	1,751	-1,340	-135	-687	-367	-188	-165	2,882
Total	2,149	2,275	-2,047	-323	-970	-580	-234	-270	4,424
	(\$pc)	(\$pc)	(\$pc)	(\$pc)	(\$pc)	(\$pc)	(\$pc)	(\$pc)	(\$pc)
Recurrent Urban Transport	117	73	-122	-60	-147	-369	-94	-391	55
Investment in Urban Transport	129	242	-231	-43	-357	-635	-380	-612	102
Total	246	315	-353	-103	-504	-1,004	-474	-1,003	157

Note: Total effect shows 'gross impacts' (the positive or negative impact for each state). These cancel each other out because GST distribution is zero sum.

The Commission assesses urban transport expenses using a statistical model of city characteristics. The modelled characteristics represent the Commission's understanding of the key non-policy drivers of public transport service provision. They are:

- the demand for public transport, measured by population density
- the supply of public transport, measured by heavy rail, and bus/light rail passenger numbers
- network complexity, measured by average distance travelled to work
- topography, measured by average urban area slope
- presence of transport modes, measured by the presence of ferries.

Recognising the different views among states on the Urban Transport model in the 2025 Methodology Review, the Commission considered it appropriate to seek external advice prior to the next methodology review.

Scope of project

This project is reviewing the suitability of the Urban Transport Assessment with consideration of issues raised by states in the 2025 Methodology Review. They include:

- the dominant influence of the largest cities on the model
- the influence of individual state policies on transport expenditure
- the impact and measurement of population-weighted density
- the use of a dummy variable to reflect ferry transport
- the inability to account for non-commuter public transport users.

In addition to the issues raised by states, the Commission also considers that the Urban Transport Assessment is affected by:

- the small number of cities in Australia
- significant differences in city characteristics
- limited nationally consistent and comparable data.

The issues raised by states and the Commission compound the difficulties of assessing Urban Transport expense needs across all Australian cities within a single model.

Next steps

The Commission has engaged external expertise to assist with reviewing the Transport Assessment method. This work is considering the issues raised by states during the 2025 Methodology Review, whether new data sources are available, and opportunities to improve the assessment method.

Net zero emissions

Background

The Commonwealth and state governments have all committed to achieving net zero emissions by 2050 as part of global efforts to decarbonise.

Various levels of government are incentivising emission reductions and offsets via direct and indirect actions and policies. At the state level, this includes planning and regulation changes, direct grants and subsidies, infrastructure investment (including through state-owned entities), and activities to transform their own operations to reduce emissions.

The transition to net zero varies at the Commonwealth and state levels and involves a range of changes to state revenue raising and expenditure. In the coming years, state revenue and expenditure related to emission-reducing activities is anticipated to grow.

In the 2025 Methodology Review, the Commission noted that the transition to net zero was an emerging issue for the states. It decided to monitor policies associated with the transition and their impact on states' revenue raising capacities and expenditures. The Commission also decided to explore the feasibility of a separate net zero assessment in preparation for the next methodology review.

Scope of project

This project is considering whether there is a conceptual case for assessing state expenditure relating to the transition to net zero emissions, as well as whether policy neutral expense drivers can be identified and supported by available, fit-for-purpose data. The Commission is considering the extent to which its assessment methodology already captures the impacts of the net zero transition on states' relative fiscal capacities and/or whether a change in approach may be warranted.

Next steps

The Commission is assessing whether current methods take sufficient account of states' actions and policies in relation to the transition to net zero. This work is seeking to identify suitable sources of data and consider the extent to which the equalisation framework accommodates relevant expenditure and revenue. This project will help build the Commission's understanding of this policy area in preparation for its next methodology review.

Attachment A

Forward Work Program research projects

As part of the 2025 Methodology Review, the Commission outlined 9 potential research projects as part of a Forward Work Program. The below list outlines each research project:

- Investigating the feasibility of introducing elasticity adjustments in the revenue assessments.
- Re-evaluating the Urban Transport Assessment.
- Considering the case for separately assessing state revenue and expenses relating to the transition to net zero emissions.
- Investigating the suitability of the Commission's current measure of First Nations disadvantage.
- Investigating the feasibility of introducing a dominant state adjustment in the Mining Revenue Assessment to reduce any disincentive to increase royalty rates.
- Updating the data underpinning the Administrative Scale Assessment.
- Considering cultural and linguistic diversity as a possible driver of state expense needs, including whether it can be reliably measured in the Commission's assessments.
- Exploring the evidence on the extent that non-state health sectors influence state sector Health expense needs, which is relevant to the Commission's non-state sector adjustment in its Health Assessment.
- Examining the Commission's Health Assessment methods (outside of the non-state sector) and exploring opportunities to simplify or improve current approaches and reduce reliance on judgement.