

## Part 3: General revenue assistance

### Overview

General revenue assistance is provided to state and territory governments (states), without conditions, to spend according to their own budget priorities. In 2025–26, the states are expected to receive \$100.6 billion from the Australian Government in total general revenue assistance, which is estimated to represent 25.0 per cent of total Australian Government expenditure in that year. This consists of the GST entitlement of \$95.2 billion (comprising the GST pool and the Commonwealth funded GST pool boost), horizontal fiscal equalisation (HFE) transition payments of \$4.9 billion (also known as the No Worse Off guarantee) and \$533.5 million of other general revenue assistance.

Total GST-related payments to the states (GST entitlements plus HFE transition payments) are estimated to increase from \$100.1 billion in 2025–26 and reach \$117.2 billion by 2028–29.

2025–26 is the fifth year in the six-year transition to the updated GST distribution system, which will ensure that no state will have a per capita GST share lower than the fiscally stronger of New South Wales or Victoria. It is also the second year that the GST relativity floor of 0.75 is in effect, which means a state’s GST share cannot fall below this level. During this transition, the Australian Government has guaranteed, through legislation, that each state will not receive less than they would have under the previous GST distribution system by using, if necessary, HFE transition payments.

In December 2023, the Australian Government agreed to extend this guarantee for three years until 2029–30. At the Council on Federal Financial Relations meeting on 29 November 2024, the Commonwealth and all states other than Western Australia agreed the Extension of the No Worse Off Guarantee funding agreement, which formalised the extension of the guarantee.

Estimated general revenue assistance provided to the states by the Australian Government is shown in Table 3.1. Table 1.1 in Part 1 shows a breakdown by state.

**Table 3.1: General revenue assistance**

| \$million                           | 2024-25         | 2025-26          | 2026-27          | 2027-28          | 2028-29          |
|-------------------------------------|-----------------|------------------|------------------|------------------|------------------|
| GST-related payments                |                 |                  |                  |                  |                  |
| GST entitlement                     | 90,278.2        | 95,151.0         | 100,276.5        | 105,907.5        | 111,568.9        |
| HFE transition payments(a)          | 5,308.5         | 4,940.4          | 5,633.9          | 5,634.6          | 5,602.0          |
| Total GST-related payments          | 95,586.7        | 100,091.4        | 105,910.4        | 111,542.1        | 117,170.8        |
| Other general revenue assistance(b) | 693.5           | 533.5            | 447.4            | 417.8            | 342.7            |
| <b>Total</b>                        | <b>96,280.2</b> | <b>100,624.9</b> | <b>106,357.8</b> | <b>111,959.8</b> | <b>117,513.5</b> |

a) Estimates of the HFE transition payments for 2026–27 and later years are based on the Commonwealth Grants Commission’s recommended 2025–26 GST relativities and adjusted to take into account the transition to the new HFE system. The 2026–27, 2027–28 and 2028–29 HFE transition payments are assumed to be 90 per cent, 85 per cent and 80 per cent respectively of that implied using the 2025–26 GST relativities. At the time of the 2025–26 Budget, the Treasurer had not yet made a determination of the 2025–26 GST relativities.

b) More detail about other general revenue assistance payments is provided in Table 3.7.

## GST payments

Under the *Federal Financial Relations Act 2009*, the states are entitled to receive payments from the Australian Government equivalent to the revenue raised from the GST in any given financial year, subject to some minor adjustments. From 2021–22, the states' GST entitlements are boosted each year by additional Australian Government funding as described below.

The Australian Government makes monthly payments (advances) to the states throughout the year based on GST estimates for that year. Estimates of the GST are used because the actual amount of GST revenue for the financial year is unknown until after the end of the financial year. Once the amount of GST revenue is known, the Treasurer makes a determination of the GST entitlement for that year. A balancing adjustment is made to each state's payment to ensure they receive the GST to which they are entitled. These balancing adjustments (referred to as the 'prior year balancing adjustment') are made in the following financial year.

### Calculating the GST payments

Adjustments and additions are made to GST revenue to calculate the amount of GST paid to the states in any given year. In particular, adjustments are made to move from GST revenue (an accrual concept) to GST receipts (cash) as GST receipts are the basis for the GST paid to the states.

- Some GST revenue accrued during a financial year is not remitted to the Australian Taxation Office (ATO) by 30 June of that year because it is not due to be paid until Business Activity Statements (BAS) are lodged in the following financial year. For taxpayers other than Australian Government agencies, this accrued amount is included in GST revenue but not in GST receipts.
- Penalties owed to the ATO, other than general interest charge (GIC) penalties, are not included in the GST to be paid to the states as defined in the *Federal Financial Relations Act 2009*.
- Some GST collected by Australian Government agencies is not remitted to the ATO by 30 June in each financial year because it is not due to be paid until the next BAS is lodged. This amount is included in Australian Government receipts but is not included in GST payments to the states until it is remitted to the ATO.
- From 2021–22, the Australian Government is boosting the states' GST entitlement each year with additional funding. Since 2021–22, the Australian Government has injected \$600.0 million annually into the GST pool, with this amount growing in line with the underlying growth of the GST. Since 2024–25, the Australian Government has further boosted the GST pool by an additional \$250.0 million annually. This additional funding is distributed to the states in the same way as GST revenue.

In 2023–24, the states' GST entitlement was \$759.7 million higher than the advances paid during that year. A prior year balancing adjustment has been made to states' GST payments in 2024–25 to reflect this.

Table 3.2 reconciles GST revenue, GST entitlement and GST payments to the states.

**Table 3.2: Reconciling GST revenue, GST entitlement and GST payments to the states**

| \$million                                                                          | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 |
|------------------------------------------------------------------------------------|---------|---------|---------|---------|---------|
| GST revenue                                                                        | 94,420  | 99,300  | 104,560 | 110,540 | 116,550 |
| <i>less</i> Change in GST receivables                                              | 5,020   | 5,066   | 5,251   | 5,672   | 6,069   |
| GST receipts                                                                       | 89,400  | 94,234  | 99,309  | 104,868 | 110,481 |
| <i>less</i> Non-GIC penalties collected                                            | 100     | 110     | 120     | 110     | 120     |
| <i>less</i> GST collected by Commonwealth agencies but not yet remitted to the ATO | 0       | 4       | -1      | -2      | 1       |
| <i>plus</i> GST pool boost                                                         | 978     | 1,031   | 1,087   | 1,148   | 1,209   |
| GST entitlement                                                                    | 90,278  | 95,151  | 100,277 | 105,908 | 111,569 |
| <i>plus</i> Prior year balancing adjustment                                        | -760    |         |         |         |         |
| GST payments to the States(a)                                                      | 89,519  | 95,151  | 100,277 | 105,908 | 111,569 |

a) These GST payment estimates do not take into account the ATO's GST administration costs, which will be deducted from GST payments to the states throughout the year on a monthly basis. They also do not take into account the HFE transition payments.

Table 3.3 reconciles the GST entitlement estimates since the 2024–25 MYEFO. The reconciliation accounts for policy decisions and parameter and other variations. The GST entitlement in 2025–26 has been revised up by \$1.0 million since the 2024–25 MYEFO.

**Table 3.3: Reconciliation of the GST entitlement estimates since the 2024–25 MYEFO**

| \$million                                        | 2024-25 | 2025-26 | 2026-27 | 2027-28 |
|--------------------------------------------------|---------|---------|---------|---------|
| GST entitlement at 2024-25 MYEFO                 | 90,631  | 95,150  | 100,387 | 105,967 |
| Changes between 2024-25 MYEFO and 2025-26 Budget |         |         |         |         |
| Effect of policy decisions                       | -       | 6       | 48      | 91      |
| Effect of parameter and other variations         | -353    | -5      | -158    | -151    |
| Total variations                                 | -353    | 1       | -110    | -60     |
| GST entitlement at 2025-26 Budget                | 90,278  | 95,151  | 100,277 | 105,908 |

The states' GST entitlement is expected to reach \$111.6 billion by 2028–29. Since the 2024–25 MYEFO, the GST entitlement has been revised down by \$500.0 million over the five years from 2024–25 to 2028–29.

Excluding new policy decisions, the GST entitlement has been revised down by \$5.1 million in 2025–26 and by \$902.6 million over the five years from 2024–25 to 2028–29, driven by the change in GST receipts. GST receipts have been downgraded over the forward estimates, primarily reflecting weaker-than-expected price pressures in the dwelling construction industry.

New tax policy measures announced since the 2024–25 MYEFO are expected to increase GST entitlement by \$6.1 million in 2025–26 and by \$402.6 million over the five years from 2024–25 to 2028–29.

**Table 3.4: Policy decisions since the 2024–25 MYEFO that affect the GST entitlement**

| \$million                                               | 2024-25  | 2025-26  | 2026-27   | 2027-28   | 2028-29    |
|---------------------------------------------------------|----------|----------|-----------|-----------|------------|
| Strengthening Tax Integrity                             | -        | 6        | 48        | 91        | 258        |
| Supporting the Hospitality Sector and Alcohol Producers | -        | ..       | ..        | ..        | ..         |
| <b>Total</b>                                            | <b>-</b> | <b>6</b> | <b>48</b> | <b>91</b> | <b>258</b> |

Detailed information on policy decisions taken since the 2024–25 MYEFO is included in Budget Paper No. 2.

### Distribution of the GST among the states

The Australian Government distributes the GST among the states based on the GST relativities recommended by the Commonwealth Grants Commission (the CGC).

The detailed calculation for the distribution of the GST entitlement in 2025–26 is shown in Table 3.5. This method of calculation is prescribed in the *Federal Financial Relations Act 2009*. At the time of the 2025–26 Budget, the Treasurer had not yet made a determination of the 2025–26 GST revenue sharing relativities. The GST relativities in Table 3.5 use those recommended by the CGC for 2025–26.

**Table 3.5: Calculation of GST entitlements**

|                | Estimated<br>31 December<br>population<br>(1) | GST<br>relativities<br>(2) | Adjusted<br>population<br>(1) x (2) | Share of<br>adjusted<br>population | Share of<br>GST pool<br>\$million |
|----------------|-----------------------------------------------|----------------------------|-------------------------------------|------------------------------------|-----------------------------------|
| <b>2025-26</b> |                                               |                            |                                     |                                    |                                   |
| NSW            | 8,646,188                                     | 0.86034                    | 7,438,661                           | 26.7%                              | 25,436                            |
| VIC            | 7,164,738                                     | 1.06722                    | 7,646,352                           | 27.5%                              | 26,146                            |
| QLD            | 5,732,492                                     | 0.84571                    | 4,848,026                           | 17.4%                              | 16,578                            |
| WA             | 3,055,180                                     | 0.75000                    | 2,291,385                           | 8.2%                               | 7,835                             |
| SA             | 1,904,131                                     | 1.38876                    | 2,644,381                           | 9.5%                               | 9,042                             |
| TAS            | 577,124                                       | 1.84053                    | 1,062,214                           | 3.8%                               | 3,632                             |
| ACT            | 483,960                                       | 1.17223                    | 567,312                             | 2.0%                               | 1,940                             |
| NT             | 257,839                                       | 5.15112                    | 1,328,160                           | 4.8%                               | 4,542                             |
| <b>Total</b>   | <b>27,821,652</b>                             | <b>na</b>                  | <b>27,826,491</b>                   | <b>100%</b>                        | <b>95,151</b>                     |

In 2018, the Australian Government reformed the system of HFE to provide a fairer way to distribute the GST among the states. From 2021–22, the system began its transition to a more stable and predictable equalisation standard that will reduce volatility in states' GST payments.

To support the states' transition to the new system, the Australian Government provided an additional \$5.2 billion in transitional GST top-up payments over the three years to 2021–22 to ensure that no state had an effective GST relativity below 0.7, or 4.66024 for the Northern Territory. At the time of the 2018 reforms, it was estimated that \$1.8 billion in top-up payments would be required over those three years.

From 2022–23, the new HFE system included a relativity floor of 0.7, permanently increasing to 0.75 in 2024–25. Further, the Australian Government has guaranteed that each state will receive at least the cumulative better of the old or the new HFE system for the nine years from 2021–22 to 2029–30. The HFE transition payments associated with this guarantee are outlined in Table 3.1.

The CGC does not forecast GST relativities beyond the budget year. The distribution of GST among the states and any resulting transitional payments beyond the budget year is calculated based on a technical assumption that uses the CGC's recommended 2025–26 GST relativities as the starting point, adjusted to reflect the transition to the updated distribution system.

In 2026–27, 2027–28, and 2028–29, the transitional payments are assumed to be 90 per cent, 85 per cent and 80 per cent respectively, of what would be expected using the 2025–26 GST relativities. Commodity prices are projected to fall from their current levels which will cause GST relativities to revert towards their historical averages. However, the three-year lag in the CGC's relativity calculations means that the reversion will be more gradual than previously anticipated. The estimates (shown in Table 3.1) do not reflect any attempt to project future GST relativities.

The Australian Government is expected to provide an estimated \$21.8 billion in HFE transition payments from 2025–26 to 2028–29 to support the transition to the new HFE system.

## GST administration

States compensate the Australian Government for the costs incurred by the ATO for administering the GST, including by the Department of Home Affairs. In practice, this is achieved by the Australian Government reducing the monthly GST payments to the states by the GST administration costs.

The GST administration budget for the ATO is estimated to be \$693.0 million for 2025–26, as shown in Table 3.6.

**Table 3.6: Reconciliation of the GST administration budget**

| \$million                                             | 2024-25    | 2025-26    | 2026-27    | 2027-28    | 2028-29    |
|-------------------------------------------------------|------------|------------|------------|------------|------------|
| Administration budget at 2024-25 Budget               | 709        | 722        | 724        | 482        | na         |
| Total variations from 2024-25 Budget to 2024-25 MYEFO | -          | -29        | -33        | -25        | na         |
| Administration budget at 2024-25 MYEFO                | 709        | 693        | 691        | 457        | na         |
| Changes from 2024-25 MYEFO to 2025-26 Budget          |            |            |            |            |            |
| <i>Parameter variations</i>                           | -          | -1         | -1         | ..         | 10         |
| <i>Other variations (a)</i>                           | -60        | 1          | 7          | ..         | -          |
| Total variations                                      | -60        | ..         | 7          | ..         | 10         |
| Administration budget at 2025-26 Budget (b)           | 649        | 693        | 697        | 457        | 456        |
| less Prior year adjustment                            | -33        | -          | -          | -          | -          |
| <b>equals State government payments</b>               | <b>616</b> | <b>693</b> | <b>697</b> | <b>457</b> | <b>456</b> |

a) Other variations include reduction in forecasts primarily due to expected lower indirect cost attributions to GST.

b) Decreases in estimates from 2027–28 reflect the end of GST Compliance Program announced at the 2023–24 Budget.

## Other general revenue assistance

Like GST, other general revenue assistance is provided to the states, without conditions, to spend according to their own budget priorities.

**Table 3.7: Other general revenue assistance**

| \$million                                     | 2024-25      | 2025-26      | 2026-27      | 2027-28      | 2028-29      |
|-----------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| ACT municipal services                        | 45.4         | 46.3         | 47.5         | 48.4         | 49.5         |
| Royalty payments                              | 648.1        | 487.2        | 400.0        | 369.4        | 293.2        |
| <b>Total other general revenue assistance</b> | <b>693.5</b> | <b>533.5</b> | <b>447.4</b> | <b>417.8</b> | <b>342.7</b> |

## Australian Capital Territory municipal services

The Australian Government provides general revenue assistance to the Australian Capital Territory to assist in meeting the additional municipal costs that arise from Canberra’s role as the national capital. The payments also compensate the Australian Capital Territory for additional costs resulting from the national capital planning influences on the provision of water and sewerage services.

## Royalty payments

### Western Australia

The Australian Government provides general revenue assistance to Western Australia from royalties collected under the *Offshore Petroleum (Royalty) Act 2006* in respect of the North West Shelf oil and gas project off the coast of Western Australia. The Australian Government collects these royalties because it has jurisdiction over offshore areas.

Royalties are shared between the Australian Government (approximately one third) and Western Australia (approximately two thirds). These revenue sharing arrangements are set out in the *Offshore Petroleum and Greenhouse Gas Storage Act 2006*.

### Compensation for reduced royalties

The Australian Government provides general revenue assistance to compensate Western Australia for the loss of royalty revenue resulting from the removal of the exemption of condensate from crude oil excise in the *2009–10 Budget*.

## Mirror tax arrangements

The Australian Government introduced mirror tax arrangements in 1998 to ensure that the states were not financially disadvantaged by the High Court decision in *Allders International Pty Ltd v Commissioner of State Revenue (Victoria)*, which invalidated state taxes on Commonwealth places. These arrangements mirror certain state taxes, including payroll taxes, land taxes and stamp duties, with respect to Commonwealth places. The states collect these mirror taxes on behalf of the Australian Government and bear the administrative costs of collection.

All mirror tax revenues are credited to the Australian Government and simultaneously appropriated to the states with no net impact on the Australian Government’s budget position as shown in Table 3.8.

**Table 3.8: Mirror taxes accrued on behalf of the states**

| \$million                           | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 |
|-------------------------------------|---------|---------|---------|---------|---------|
| Mirror taxes                        | 961     | 1,005   | 1,062   | 1,120   | 1,179   |
| less Transfers to state governments | 961     | 1,005   | 1,062   | 1,120   | 1,179   |
| Australian Government budget impact | -       | -       | -       | -       | -       |