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The cost of slow growth in GST revenue

The growing problem of short-changing the states

The Howard Government claimed that GST revenue would grow in line with Australia's economy. It has not. The slower growth in GST revenue means that states and territories have $26 billion less to spend in 2025-26 than was intended. The difference over the forward estimates for all states and territories is $122 billion.

Discussion paper

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The Australia Institute - Research that matters

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Summary

When introduced in 2000-01, revenue from Australia's Goods and Services Tax (GST) was expected to grow in line with the overall Australian economy, providing a secure revenue source for state governments to fund services. This has not occurred.

Since 2000-01, GST revenue has grown at 5% while economic growth has averaged 6%. Previous Australia Institute research estimated that the result has been $231 billion less revenue to state and territory than was expected when GST was introduced.[1]

This paper shows that short-changing of the states is likely to get worse. Across all states and territories, the difference in the current budget year (2025-26) is $26 billion and for the four years of the forward estimates (2025-26 to 2028-29) is projected to be $122 billion.

Table 1 shows the difference in expected and received GST revenue by state and territory based on the latest Commonwealth Grants Commission GST relativities.

Table 1: Drop in state and territory revenue, based on 2025-26 allocations

State	Difference in 2025-26 ($m)	Difference over forward estimates ($m)
NSW	-7,092	-32,683
VIC	-7,277	-33,537
QLD	-4,605	-21,220
WA	-2,170	-10,000
SA	-2.514	-11,585
TAS	-1,006	-4,634
ACT	-529	-2,439
NT	-1,270	-5,854
Total	**-26,463**	**-121,952**

Source: Author calculations and Commonwealth Grants Commission

Because the states have already been short-changed by $231 billion, even if GST revenue grew in line with the overall economy in future years, it would grow from a lower base than was originally intended. If GST revenue begins to grow at 6% from now on, the states will still be shortchanged by $108 billion over the forward estimates, rather than the $122 billion estimated in the table above.

[1] Denniss et. al. (2025) *GST Reform: How to stop the states being short-changed*, https://australiainstitute.org.au/report/gst-reform/

Short-changing the states and territories has real consequences for their ability to supply services like health, education, and public housing. New revenue could be provided by adding new federal taxes to the pool of revenue going to the states and territories.

Introduction

When the goods and services tax (GST) was introduced, Treasurer Peter Costello declared:

> Every dollar raised by Goods and Services Tax is paid to the State and Territory Governments. It is the money that will provide the schools, the hospitals, the police, and the roads of the future. The days of State Governments relying on Financial Assistance Grants from the Commonwealth are now over. From 1 July they have a revenue base that grows in line with the economy. It will provide a secure base to fund their services.[2]

The GST has not lived up to this promise. GST revenue has not kept up with economic growth, meaning that the share of the economy made up by GST revenue is shrinking. This is because the share of goods and services sold in Australia that are subject to the GST is shrinking. This is largely driven by rising inequality, as detailed in a recent Australia Institute report.[3]

The report details the factors driving the decline in GST revenue as a proportion of GDP. These factors are:

- The steady reduction in the share of national income flowing to workers (which means they spend less money and, in turn, pay less GST),
- The rapid rise in spending on housing, including payments on rents and mortgages (on which no GST is payable, but which further reduce household spending on other items),
- The inequitable decision to exclude private school fees and private health insurance from the GST (on average high-income earners spend more on these than low-income earners); and
- High income earners have a greater ability to travel overseas and buy items GST free.

The cost of slow GST growth to state and territory governments has been $231 billion over the 23 years from the introduction of the GST in 2000-01 to 2023-24. This includes $22 billion in lost revenue in 2023-24 alone.

There is no reason to think that GST revenue will begin to grow faster in coming years. There is nothing to suggest that the factors driving inequality, and the related shift in household spending, are going to change in the short to medium term. This paper builds on

[2] Costello (2000) *Budget 2000-01, Budget speech*, https://archive.budget.gov.au/2000-01/speech/speech.pdf

[3] Denniss et. al. (2025) *GST Reform: How to stop the states being short-changed*, https://australiainstitute.org.au/report/gst-reform/

the Australia Institute’s previous work to project the shortfall in GST revenue the states and territories can expect over the next 10 years.

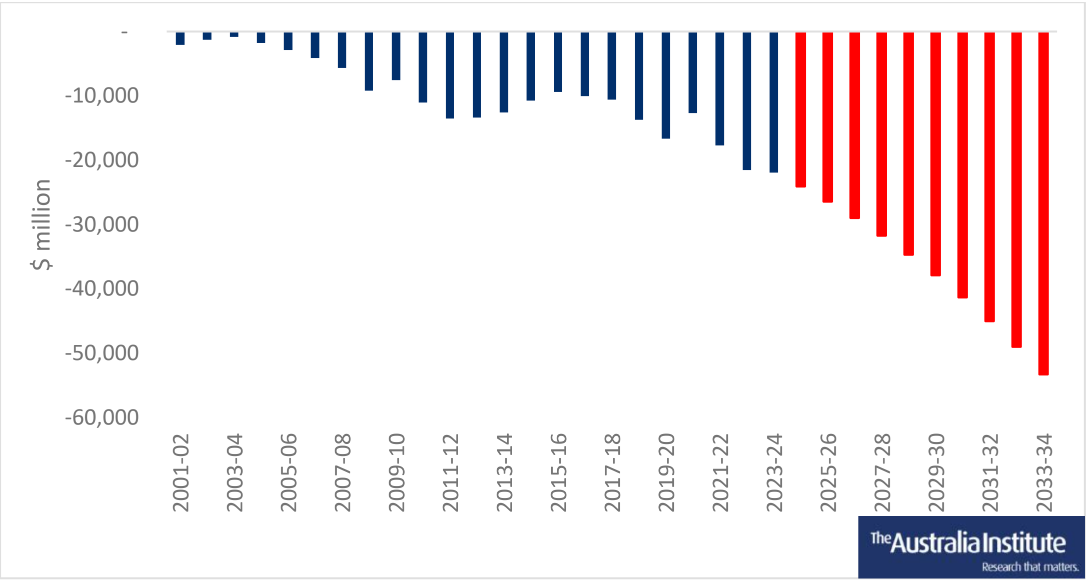
Relative decline of GST revenue

To estimate the underperformance of GST as a revenue, we need to project how much GST is expected to be collected over the 10 years from 2024-25 to 2033-34. To do this we use the average growth rate of the GST since its inception in 2000-01. Over the 23-year period to 2023-24, the GST increased by an annual average of 5%.

We then compared this 5% figure with growth in nominal GDP which, over the same 23 years (2001-02 to 2023-24), grew by an average of 6%.

Figure 1 shows how much less revenue is being collected because GST is only growing at 5% compared with what would have been collected had GST revenue risen at the economy-wide average growth of 6%. The blue bars represent past years and the red are for projected future years.

Figure 1: Difference in GST revenue due to slower growth than GDP



Note: Blue - past years actual, red - projected future years. Source: ABS (2024) Australian System of National Accounts: 2023-24, and ATO (2025) Taxation Statistics 2022-23, GST – Table 1

Figure 1 shows that the relative difference rises from $22 billion in 2023-24 to $53 billion in 2033-34. Over the 10 years from 2024-25 to 2033-34, the loss of revenue is $373 billion.

Impact on state revenue

While the GST is collected by the Federal Government, it is then given to state governments. This means that the underperformance of the GST is impacting state budgets.

This year's state and territory budgets (for financial year 2025-26) include projections for the forward estimates that extend out to 2028-29. For all states and territories, the underperformance in revenue in the current budget year is $26 billion, and over the forward estimates it is $122 billion.

We can identify what the drop in revenue will be for each state and territory. To do this, we used the Federal Grants Commission's 2025 allocation of GST to each state and territory for all projected years. The results are shown in Table 2.

Table 2: Drop in state and territory revenue, based on 2025-26 allocations

State	Difference in 2025-26 ($m)	Difference over forward estimates ($m)	Difference over 10 projected years ($m)
NSW	-7,092	-32,683	-99,892
VIC	-7,277	-33,537	-102,501
QLD	-4,605	-21,220	-64,855
WA	-2,170	-10,000	-30,564
SA	-2.514	-11,585	-35,409
TAS	-1,006	-4,634	-14,164
ACT	-529	-2,439	-7,455
NT	-1,270	-5,854	-17,891
Total	**-26,463**	**-121,952**	**-372,730**

Source: Commonwealth Grants Commission (2025) GST Relativities 2025-26, https://www.cgc.gov.au/sites/default/files/2025-03/GST%20Sharing%20Relativities%202025-26_Final.pdf

Table 2 shows that because revenue from GST has not grown with the economy as originally promised, states are missing out. As these losses grow, the pressure on state and territory budgets will increase.

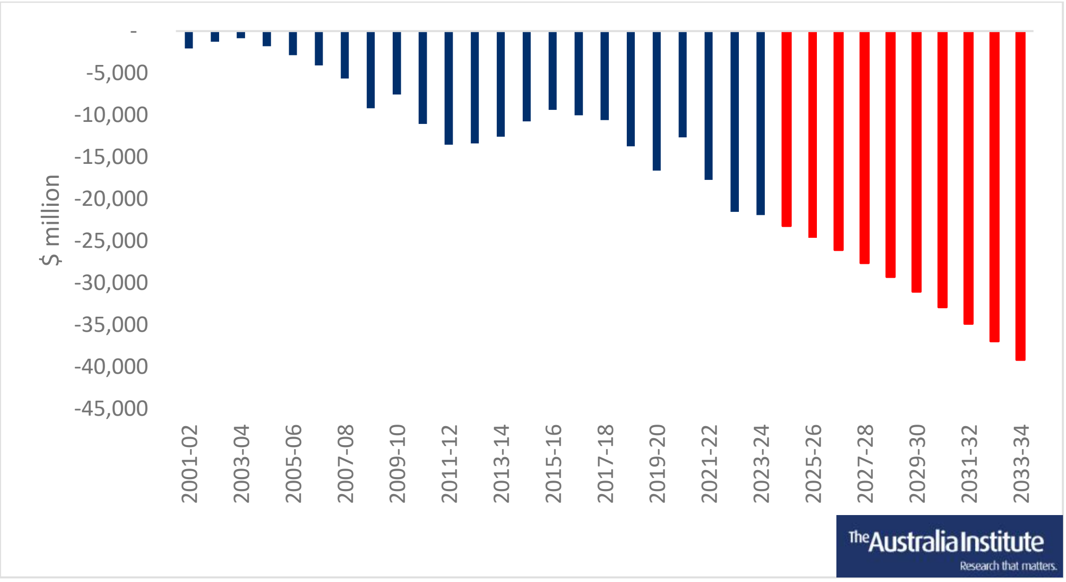
Optimistic case: Future GST growth matches economic growth

Even if the growth rate of GST revenue lifts to match overall economic growth, the states and territories will still be worse off than they were promised by Treasurer Costello in the year 2000. This is because the lack of growth to date means GST revenue is starting at a lower base. Only above-trend GST revenue growth could reverse this, something that is unlikely without substantial reform.

Even if, from 2024-25, GST revenue *does* grow at the same rate as the economy, the drop in revenue still increases from $22 billion in 2023-24 to $39 billion in 2033-34.

Over the 10 years from 2024-25 to 2033-34, GST revenue would be $306 billion lower. For the current budget year, 2025-26, the difference would be $25 billion and for the current forward estimates (2025-26 to 2028-29) it would be $108 billion.

Figure 2: Difference in GST revenue – growth in line with GDP from present



Note: Blue - past years actual, red - projected future years. Source: ABS (2024) Australian System of National Accounts: 2023-24, and ATO (2025) Taxation Statistics 2022-23, GST – Table 1

If we calculate the drop in revenue in the same way we did in Table 2 above, then we can estimate the difference for each state and territory. This is shown in Table 3.

Table 3: Drop in state and territory revenue assuming 2025-26 shares for all years

State	Difference in 2025-26 ($m)	Difference over forward estimates ($m)	Difference over 10 projected years ($m)
NSW	-6,598	-28,854	-81,986
VIC	-6,770	-29,608	-84,128
QLD	-4,283	-18,734	-53,230
WA	-2,019	-8,829	-25,085
SA	-2,339	-10,228	-29,062
TAS	-935	-4,091	-11,625
ACT	-492	-2,153	-6,118
NT	-1,182	-5,168	-14,684
Total	**-24,618**	**-107,666**	**-305,919**

Source: Commonwealth Grants Commission (2025) GST Relativities 2025-26, https://www.cgc.gov.au/sites/default/files/2025-03/GST%20Sharing%20Relativities%202025-26_Final.pdf

Conclusion

The fall in GST revenue suffered by the state and territories will worsen without change. This drop is expected to be between $25 billion and $26 billion for the 2025-26 budget year, and between $108 billion and $122 billion for the four years of the forward estimates.

Such a substantial and ongoing blow to revenue will force state and territory governments to make hard choices that will have long term negative consequences for the people of Australia. The continued short-changing of the states and territories has real consequences. They will need to run larger budget deficits or make cuts to government services to address the lost revenue.

State and territories need more revenue, and this could come by adding new federal taxes to the pool of money going to the states and territories. How this could be done as well as suggestions for what taxes could be added is discussed in a previous Australia Institute report.[4]

[4] Denniss et. al. (2025) *GST Reform: How to stop the states being short-changed*, https://australiainstitute.org.au/report/gst-reform/