

# Ways to increase revenue for the states

## Submission to the Productivity Commissions Review of the GST

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*States and territories are billions of dollars worse off because the revenue raised from GST has not kept pace with GDP growth. Rising inequality means that less money is spent on items that GST is applied to. Raising new taxes and giving the revenue to the states and territories would help pay for the essential services that all Australians need.*

Discussion paper

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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, thus providing a secure revenue source for state governments to fund services. This has not occurred.

Since 2000-01, economic growth has averaged 6%, but GST revenue has grown at only 5%. We estimate that, as a result, state and territory governments have received \$231 billion less revenue than was expected when GST was introduced.<sup>1</sup> This lack of revenue inevitably means lower quality services and/or bigger state budget deficits.

The short-changing of the states in this way is likely to get worse. This year alone (2025-26) the gap between economic growth and GST revenue growth will cost the state and territory budgets \$26 billion. For the four years of the forward estimates (2025-26 to 2028-29) the GST shortfall is projected to be \$122 billion.<sup>2</sup>

The anemic growth of GST revenue in the last two decades has been caused, in large part, by rising inequality. Slow wage growth for low-income earners, coupled with rapidly rising rents and mortgage repayment, has constrained consumer spending in Australia and, inevitably, this had constrained the growth of GST. Put simply, as there is no GST payable on rent or mortgage repayments the more money spent on these housing costs, the less revenue state governments receive from the GST.

Similarly, the more rapid increase in the wages and capital gains of high-income Australians means that expenditure on GST-free items — like private school fees, private health insurance and overseas holidays — has grown faster than average, and this has also cut into the amount of GST revenue that could be provided to the states. Short-changing the states and territories has real consequences for their ability to supply services like health, education, and public housing to everyday Australians.

A simple solution to the slower than promised growth of GST revenue would be for the Commonwealth to collect new taxes and add the additional revenue they generate to the pool that the Commonwealth provides to the states. This could take many different forms. This submission specifically suggests that an annual wealth tax, or a tax on gas exports could

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

<sup>2</sup> Grudnoff (2025) *The cost of slow growth in GST revenue: The growing problem of short-changing the states*, <https://australiainstitute.org.au/report/the-cost-of-slow-growth-in-gst-revenue-the-growing-problem-of-short-changing-the-states/>

help cover the shortfall. This additional revenue could be allocated to the states and used to better fund public schools, hospitals, and other essential services that all Australians need.

# 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.<sup>3</sup>

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, for example:

- The steady increase in the profit share of GDP and the subsequent reduction in the share of national income flowing to workers means household spending accounts for a shrinking share of GDP and, in turn, lower GST collections,
- The rapid rise in spending on housing, including payments on rents and mortgages (on which no GST is payable), the more money spent on non-GST items like rent and mortgage repayments the lower GST collections will be,
- 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.

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<sup>3</sup> Costello (2000) *Budget 2000-01, Budget speech*, <https://archive.budget.gov.au/2000-01/speech/speech.pdf>

# Decline in the GST

Since 2000-01, GST revenue has grown at 5%, while economic growth has averaged 6%. This is partly because of the decline in the wage share of GDP, and partly because of the rise in the share of consumer spending on things that are exempt from the GST. As a result, states have missed out on around \$231 billion over the 23 years from the introduction of the GST in 2000-01 till 2023-24.

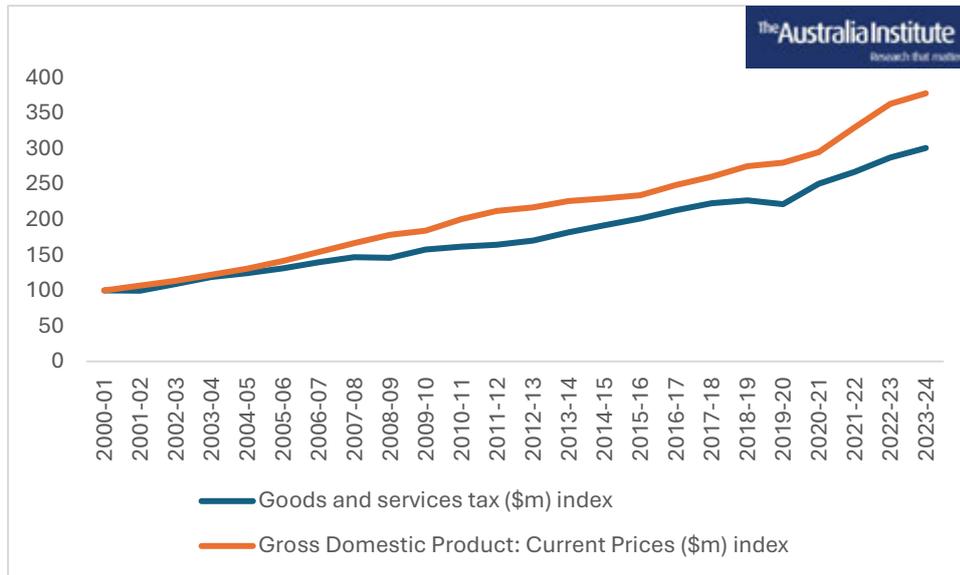
The problem is accelerating rapidly, and it will continue to get worse unless structural solutions are found. Across all states and territories, the difference between the revenue the GST has collected and how much it would have collected if GST revenue had grown at the same rate as the economy is \$26 billion the current budget year (2025-26). For the four years of the forward estimates (2025-26 to 2028-29) it is projected to be \$122 billion.

Because the states have already been short-changed by \$231 billion since the introduction of the GST, 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 would still be shortchanged by \$108 billion over the forward estimates, rather than the \$122 billion we have estimated.

# The GST's performance so far

The diverging relationship between the GST and national income is shown in Figure 1.

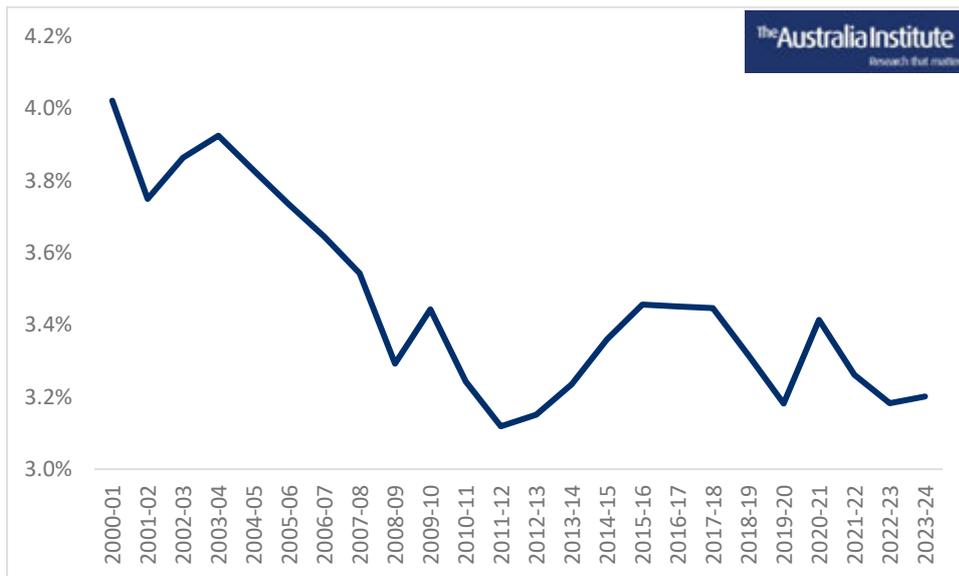
**Figure 1: GST vs GDP growth, indices with 2000-01 = 100**



Source: ABS (2024) *Australian System of National Accounts: 2023-24*, and ATO (2025) *Taxation Statistics 2022-23, GST – Table 1*

As a result, despite Peter Costello's promise that state governments would have 'a revenue base that grows in line with the economy', in reality the GST has declined significantly as a share of GDP, as shown in Figure 2. As discussed below, the underperformance of the GST is largely due to rising income inequality.

**Figure 2: GST as a share of GDP, % 2000-01 to 2023-24**



Source: ABS (2024) *Australian System of National Accounts: 2023-24*, and ATO (2025) *Taxation Statistics 2022-23, GST – Table 1*

Put simply, the design of the GST means that states are being asked to meet the rising expectations of citizens for high-quality government services with a declining share of national income. This is unsustainable and unless structural solutions are introduced this tension will get worse not better.

As Table 1 shows, if the Commonwealth Government were to restore funding to the states to the level first delivered by the Howard Government, then all states would have significantly smaller budget deficits — Queensland, South Australia and Northern Territory would in fact be in surplus. This restoration of the original promise made by Peter Costello could be done in two ways: by broadening the base of the GST to include items like private health insurance and private school fees, or by including new Commonwealth taxes in the pool of revenue provided to the states.

**Table 1: State and Territory budget outcomes in 2023-24 if they received the same GST/GDP share provided in 2001**

State	Actual Budget cash balance (\$m)	Additional revenue (\$m)	Potential cash balance (\$m)
NSW	-18,046	6,312	-11,734
VIC	-16,213	4,778	-11,435
QLD	-4,049	4,624	575
WA	2,054	1,644	3,698
SA	-994	2,148	1,154
TAS	-1,159	877	-282
ACT	-1,226	460	-766
NT	-884	1,074	190
<b>Total</b>	<b>-40,517</b>	<b>21,917</b>	<b>-18,600</b>

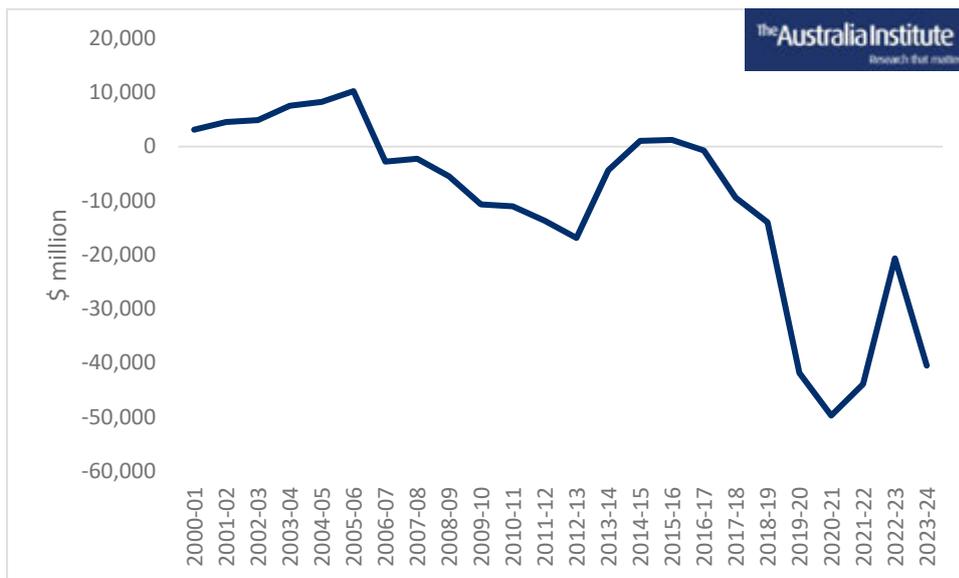
Source: Source: ABS (2025) *Government Finance Statistics, Annual*

## Consequence for state budgets

The consequence of the decline in GST revenue is that the states have less money to cover the growing cost of the services their citizens expect them to provide. To maintain the same level of services, the states must either raise more revenue from other sources, or see their budget bottom line deteriorate further.

Figure 3 shows the combined budget outcomes of all states and territories since the introduction of the GST. It shows that while the states and territories had an aggregate surplus when the GST was introduced in 2000-01, they have an aggregate deficit today. While COVID-19 exacerbated the problem, the trend was evident even before the pandemic.

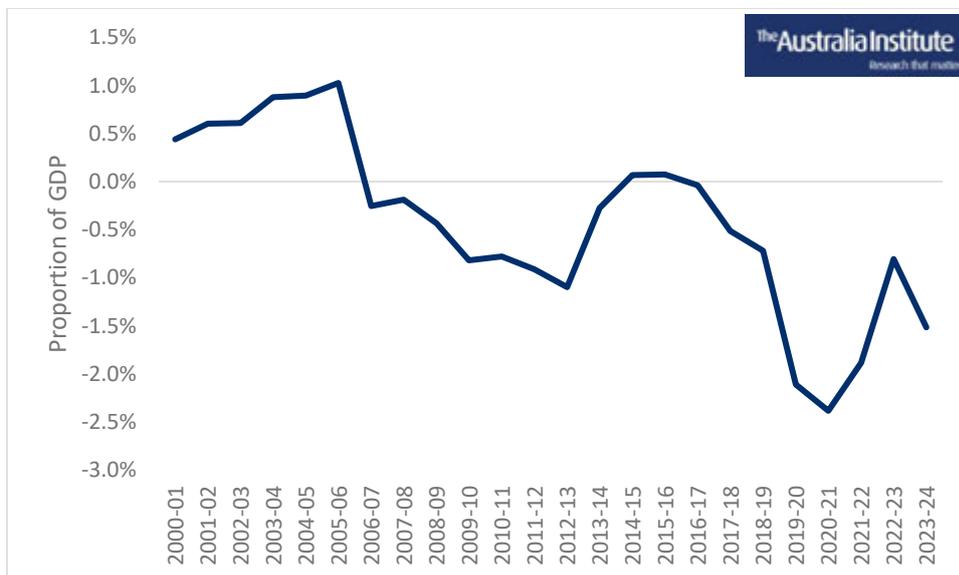
**Figure 3: Combined State and Territory Government budget outcome (\$m)**



Source: ABS (2025) Government Finance Statistics, Annual

Figure 4 depicts the same combined budget outcomes shown in Figure 3 but expresses them as a proportion of national income (GDP) rather than in dollars.

**Figure 4: Combined State and Territory Government budget outcome (% of GDP)**



Source: ABS (2025) Government Finance Statistics, Annual and ABS (2024) Australian System of National Accounts, 2023-24

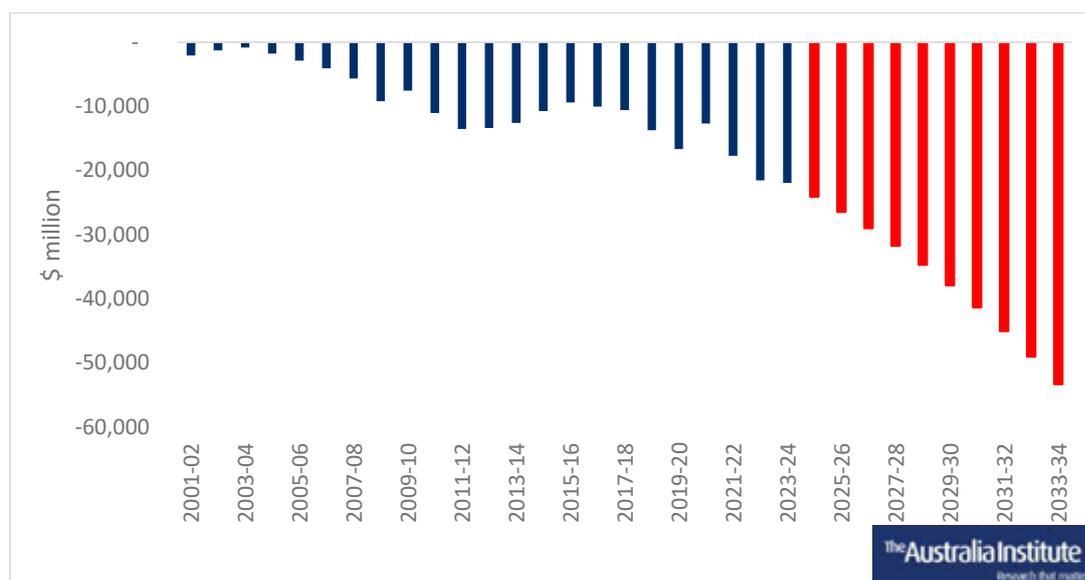
# GST revenue will continue to shrink as a percentage of GDP

To estimate the underperformance of future GST revenue, we have projected how much GST is expected to be collected over the 10 years from 2024-25 to 2033-34. To do this we used 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 5 shows how much less revenue is being collected because GST is only growing at 5%, and not at the economy-wide average growth rate of 6%. The blue bars represent past years, and the red bars are for projected future years.

**Figure 5: Difference in GST revenue due to slower growth than GDP**



Source: ABS (2024) Australian System of National Accounts: 2023-24, and ATO (2025) Taxation Statistics 2022-23, GST – Table 1

Figure 5 shows that the relative difference in what was promised and what is being delivered 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.

## What the GST shortfall is costing the states

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

To identify the drop in revenue for each state and territory 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
<b>Total</b>	<b>-26,463</b>	<b>-121,952</b>	<b>-372,730</b>

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](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 on billions of dollars per year. As these losses grow, the pressure on state and territory budgets will increase.

## GST growth matching economic growth would still leave states behind

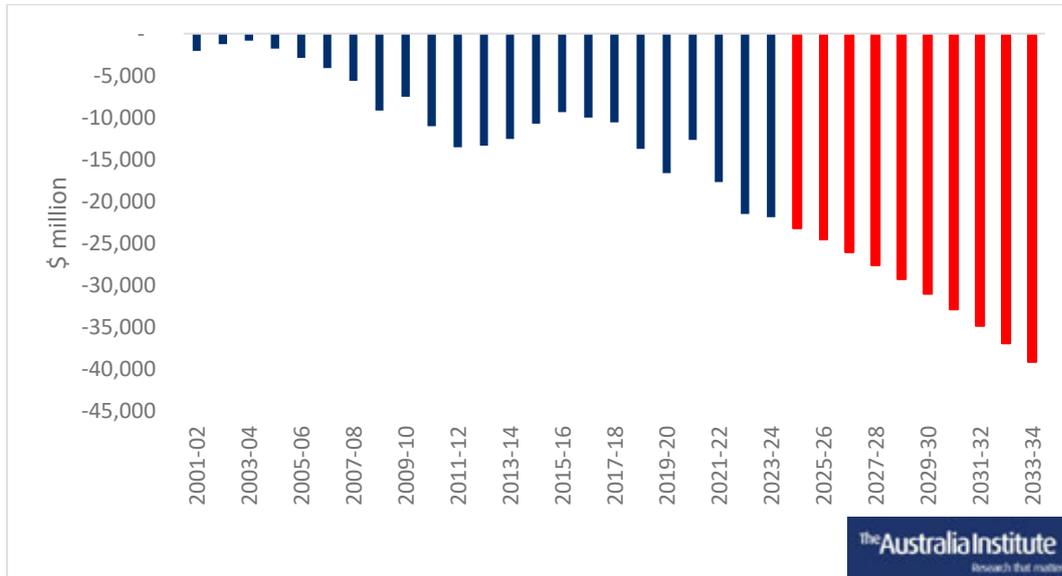
Even if the growth rate of GST revenue increases to match overall economic growth, the states and territories will still be worse off than Treasurer Costello promised in the year 2000. This is because the lack of growth to date means GST revenue is starting at a lower base. Only above-trend GST revenue growth could reverse this, which 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 than if it had kept pace with economic growth since 2000. 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. This is shown in Figure 6.

**Figure 6: 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 in revenue 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
<b>Total</b>	<b>-24,618</b>	<b>-107,666</b>	<b>-305,919</b>

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

# Why the GST is growing slower than national income

The factors driving the decline in GST revenue as a proportion of GDP are:

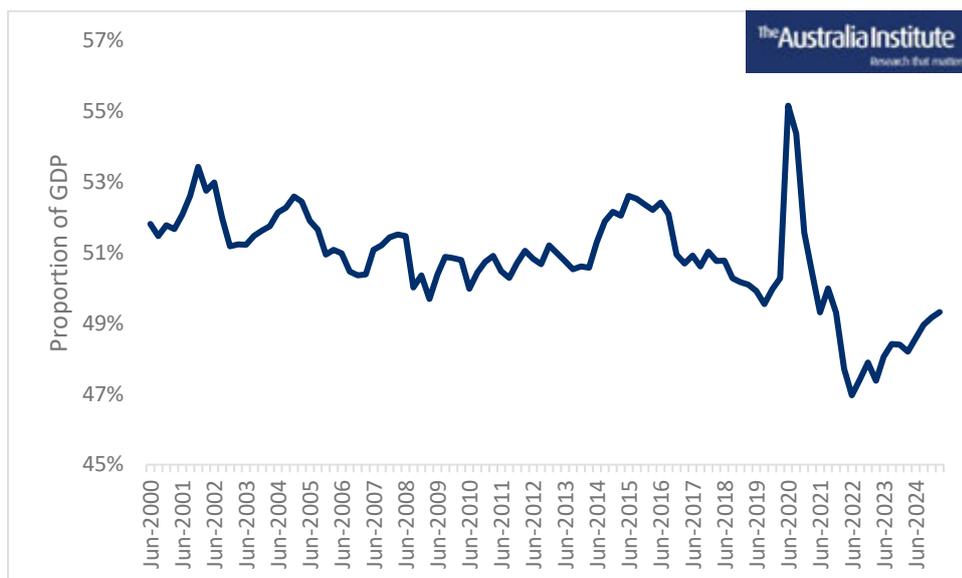
- The steady reduction in the share of national income flowing to workers (which means they spend less money and, in turn, pay less GST),
- The rapid rise in spending on housing, including payments on rents and mortgages (on which no GST is payable, but which further reduce household spending on other 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.

This section discusses each of these factors.

## The decline in the share of national income going to wages

There has been a substantial decline in the share of national income going to wages since the GST was first introduced. This trend is shown in Figure 7.

**Figure 7: Wages plus Mixed income share of GDP (%)<sup>4</sup>**



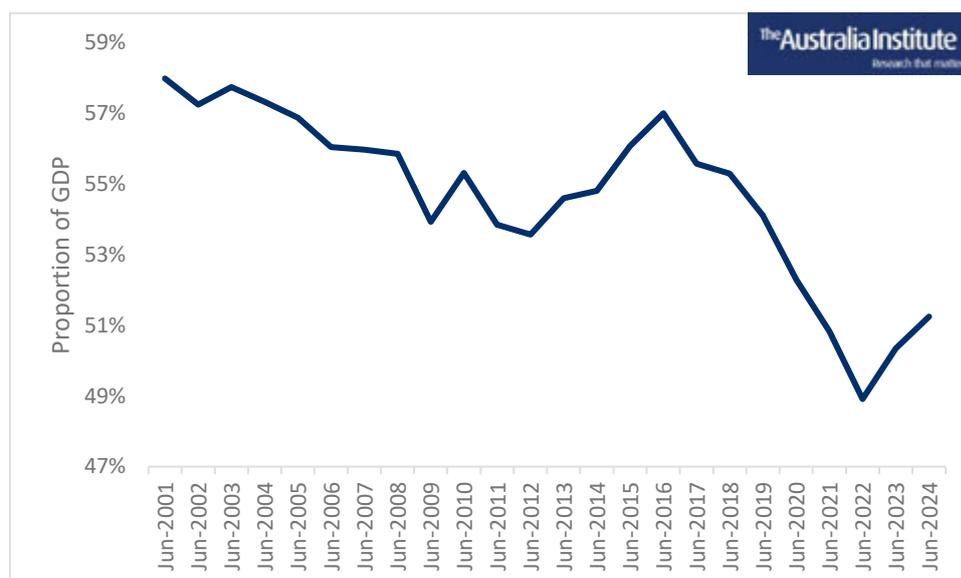
Source: ABS (2025) *Australian National Accounts: National Income, Expenditure and Product, March 2025*.

The fall of wages as a share of GDP is driving inequality up and the GST/GDP ratio down. As a per cent of GDP, workers have less income to spend on consumer goods, which reduces consumption tax revenue. Meanwhile, the profit share of GDP has increased. As profits flow strongly to the highest income households, and because high-income earners spend a lower share of their income, consumption spending and the GST/GDP ratio has been further suppressed. This effect is exacerbated by the high level of foreign ownership of businesses in Australia, which means more income is flowing offshore, where no GST can be collected.

Figure 8 shows how the consumption share of GDP has declined since the GST was first introduced.

<sup>4</sup> Mixed income refers to income from unincorporated enterprises such as sole traders and partnerships, including self-employed tradespeople. The mixed income share of national income has been falling over this period.

**Figure 8: Consumption share of GDP (%), 2000-01 to 2023-24**



Source: ABS (2024) *Australian System of National Accounts, 2023-24*.

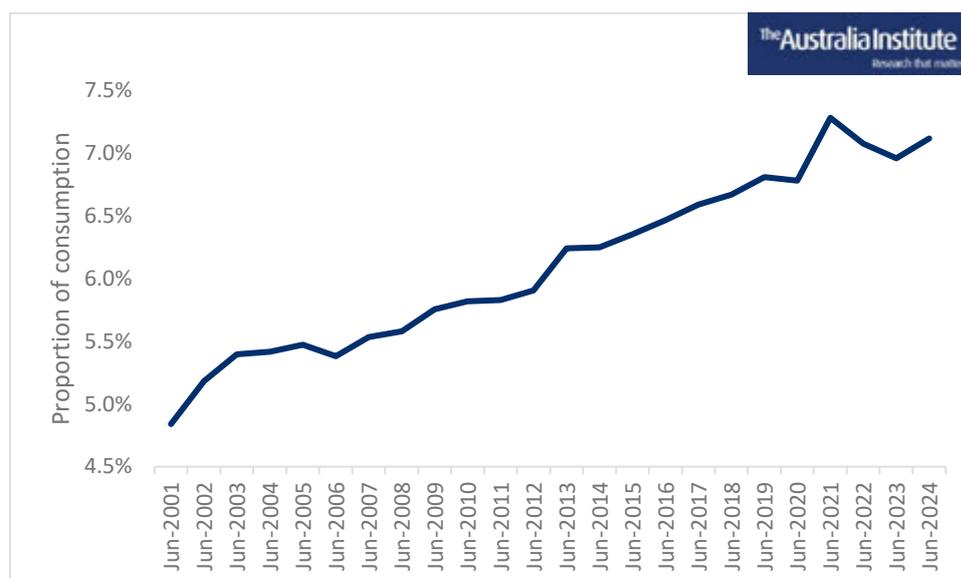
## The decline in spending on items subject to GST

The decline in consumption spending as a share of national income is not the only reason that GST revenue for the states has fallen. As inequality has increased, overall expenditure patterns have changed because higher-income people have different consumption preferences. As services like private school fees and private health insurance, which are exempt from GST, are strongly preferred by the highest income households, this change in spending patterns has cost the states billions.

Figure 9 shows that health spending by households, as a share of total consumption spending, has risen since the introduction of the GST — from 4.8% to 7.1%. The largest single item of health spending is private health insurance. According to Consumer Price Index (CPI) weightings, private health insurance is the main component of medical and hospital services which, in turn, makes up three-quarters of household spending on health.<sup>5</sup>

<sup>5</sup> ABS (2024) *Annual weight update of the CPI and Living Cost Indexes, December 2024*, <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/annual-weight-update-cpi-and-living-cost-indexes/dec-2024>; and ABS (2019) *Concepts, sources and methods, price collection, health*, <https://www.abs.gov.au/statistics/detailed-methodology-information/concepts-sources-methods/consumer-price-index-concepts-sources-and-methods/2018/price-collection#health>

**Figure 9: Health spending share of consumption spending (%)**

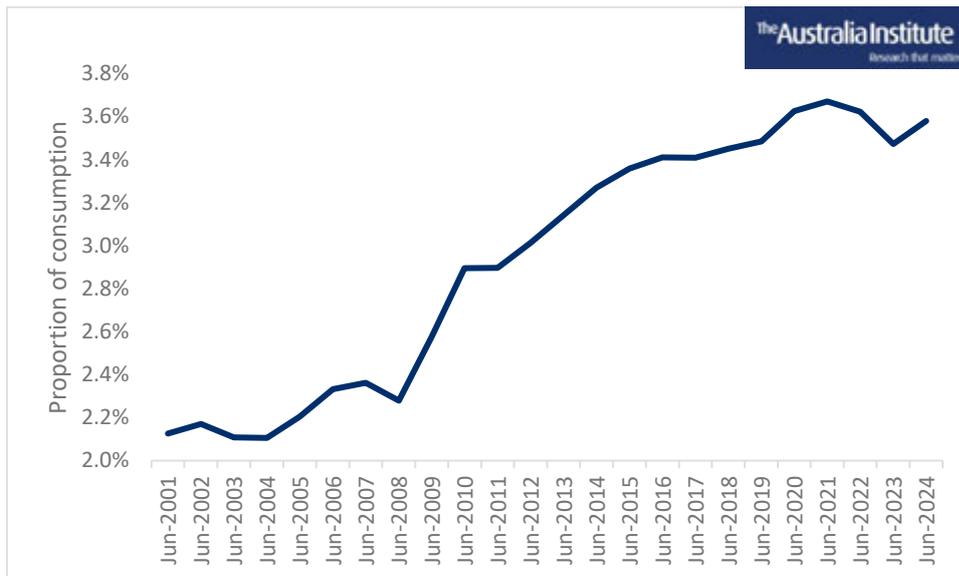


Source: ABS (2024) *Australian System of National Accounts, 2023-24*.

As shown in Figure 10, education spending as a share of consumption spending has also increased — from 2.1% to 3.6%. The largest part of household spending on education (90%) is on private schools.<sup>6</sup> An increasing proportion of students are going to private schools, which are charging increasingly higher fees. Put simply, the more children who go to private schools and the higher the fees charged by those schools, the less revenue is given to the states to fund public schools.

<sup>6</sup> ABS (2017) *Household Expenditure Survey, 2015-16*, <https://www.abs.gov.au/statistics/economy/finance/household-expenditure-survey-australia-summary-results/2015-16> and ABS (2025) *Australian National Accounts: Input-Output Tables, 2022-23*, <https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-input-output-tables/latest-release>

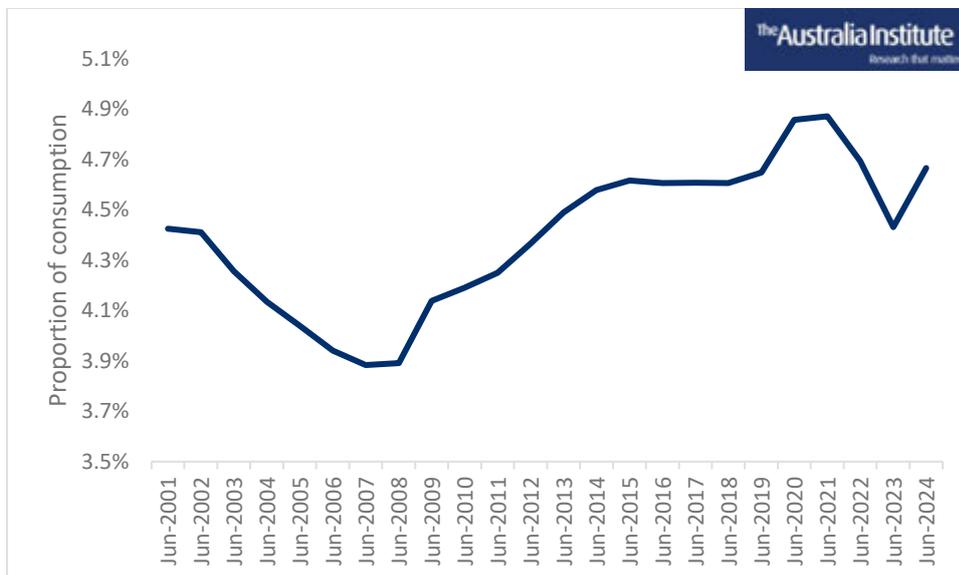
**Figure 10: Education share of consumption (%)**



Source: ABS (2024) *Australian System of National Accounts, 2023-24*.

Similarly, rent does not attract GST, but it too has grown as a share of consumption spending since the GST was introduced (Figure 11).

**Figure 11: Rent share of consumption (%)**

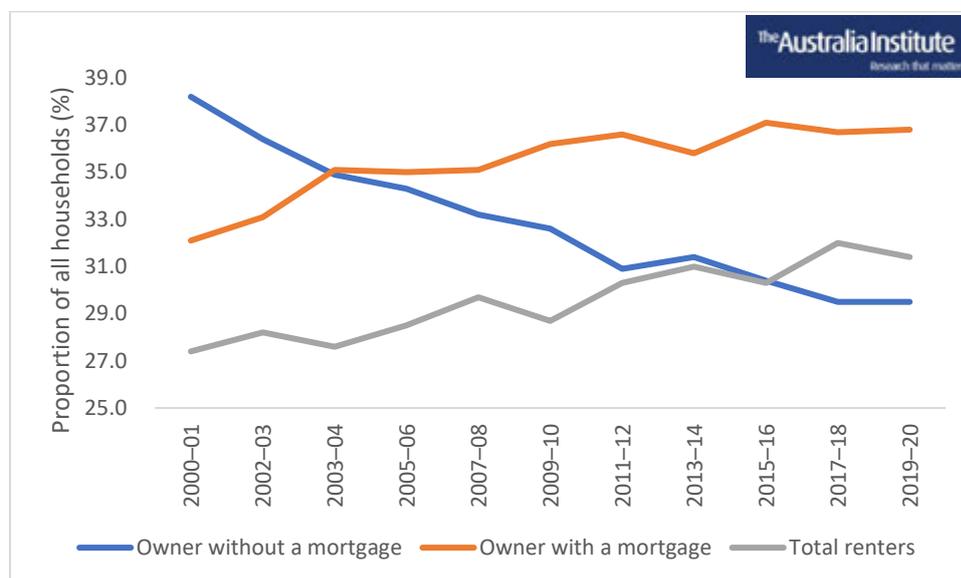


Source: ABS (2024) *Australian System of National Accounts, 2023-24*.

This is likely due to a combination of factors, such as rising rental prices and the growing proportion of households who rent rather than own their property. The proportion of homeowners with mortgages has also risen, in large part because rising house prices mean larger mortgages, which households must spend longer paying off. Not only do mortgage repayments not attract GST, they also reduce a household's disposable income, which could

be spent on items that *do* attract GST. The increase in renters and those with mortgages is shown in Figure 12.

**Figure 12: Housing by occupancy as a % of all households**

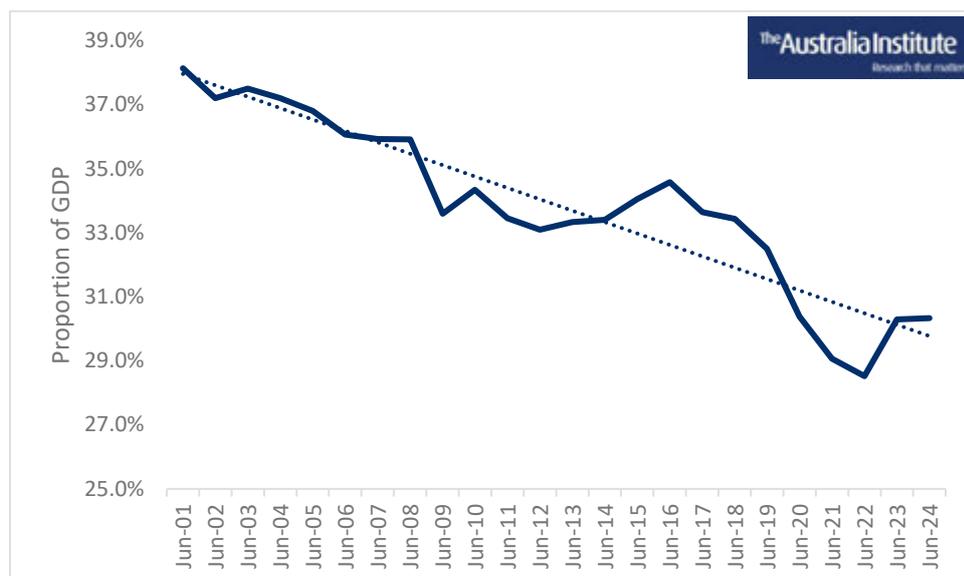


Source: ABS (2022) *Housing Occupancy and Costs, 2019-20, Table 1*, <https://www.abs.gov.au/statistics/people/housing/housing-occupancy-and-costs/2019-20>

In Figure 13 we plot the aggregate value of all the consumption items that attract the GST and show the result as a share of GDP. The items that attract the GST are estimated by taking the total consumption figure from the national accounts and deducting those items that do not attract the GST.<sup>7</sup>

<sup>7</sup> Those categories include food, rent for housing, imputed rent for owner-occupiers, health, education services, insurance and other financial services.

**Figure 13: Consumption items subject to GST (%)**



Source: ABS (2024) *Australian System of National Accounts, 2023-24*.

Figure 13 clearly shows that the proportion of items that are subject to the GST has consistently fallen since it was introduced in July 2000.

## High income earners and the GST

High income earners have ways to avoid paying the GST.

Some employees have salary sacrifice schemes with their employers. These schemes offer employees the opportunity to purchase certain items without paying GST, which is instead refunded, and usually shared between the employer and the employee. Hence, the purchase and operation of a motor vehicle can involve significant GST refunds. Phones, computers and gym membership are also popular salary sacrifice items and give another way of avoiding the GST.

The benefits of salary sacrificing are higher for those who face higher marginal rates of tax. For this reason, those on higher incomes are more likely to salary sacrifice. In 2022-23, reportable fringe benefits valued at \$22.5 billion were provided to employees.<sup>8</sup> Many of those would have involved salary sacrifice arrangements.

Another way that higher income people can avoid paying GST is through overseas travel. People who travel overseas, which is expensive to do, can make purchases without paying GST and can usually get credit for any equivalent tax levied in the countries they visit. That means travel, accommodation, and any other purchases overseas are GST-free.

<sup>8</sup> ATO (2025) *Taxation Statistics 2022-23*, <https://data.gov.au/data/dataset/taxation-statistics-2022-23>

The people able to send their children to expensive private schools again benefit from the GST-exempt services provided by those schools. For example, children that go to private schools can get swimming and music lessons, sporting activities and similar services without paying GST because these are often treated as part of the school's curriculum. Children that go to public schools must often use commercially provided services that attract the GST.

# The Solutions

## Apply GST to private school fees and private health insurance

There are at least two ways to deal with the problem that GST revenue is falling relative to national income: increase the rate of the GST or broaden its base. The problem with these solutions is that the GST is regressive, and so this would worsen inequality.

But there is a way that more GST revenue could be raised in a progressive way. The GST could be broadened to include two items that are currently excluded but are consumed at much higher rates by those on higher incomes: private health insurance and household spending on private schools. Spending on these two items, as we have seen above, are growing at a rapid rate and adding to the decline in GST revenue relative to national income.

Table 4 shows the revenue that could be raised by broadening the GST to include private health insurance and private schools, as well as how much would be paid by each income quintile.<sup>9</sup>

**Table 4: Additional revenue and distribution by broadening the GST to include private health insurance and private schools**

	Q1	Q2	Q3	Q4	Q5	Total
<b>Private health insurance</b>						
<b>GST \$million</b>	53	67	97	126	167	510
<b>% of total revenue</b>	10%	13%	19%	25%	33%	100%
<b>Private schools</b>						
<b>GST \$million</b>	\$76	\$178	\$211	\$216	\$601	\$1,282
<b>% of total revenue</b>	6%	14%	16%	17%	47%	100%
<b>Total</b>						
<b>GST \$million</b>	\$128	\$246	\$308	\$342	\$768	\$1,792
<b>% of total revenue</b>	7%	14%	17%	19%	43%	100%

Source: Private health insurance total from Treasury (2024) *Tax Expenditure and insight Statement, 2024-25*, with distribution from Grudnoff (2014) *How to extend the GST without hurting the poor*. Private schools from ABS (2017) *Household Expenditure Survey, 2015-16* and ABS (2025) *Australian National Accounts: Input-Output Tables, 2022-23*.

Table 4 shows that applying the GST to private health insurance and private school fees would raise \$1.8 billion in additional revenue. Almost half the revenue (43%) would come

<sup>9</sup> Income quintiles divide all households into 5 equal groups with the 20% of households on the lowest incomes in Q1, with the next 20% being those with the second lowest incomes in Q2, with Q5 being the 20% of households on the highest incomes.

from the top 20% of income earners, while only 7% would come from the bottom 20% of households.

## Give states revenue from gas and wealth taxes

While \$1.8 billion per year is a significant increase in GST revenue, it does not make up for the \$26 billion shortfall in revenue in 2025-26 caused by the structural decline of the GST tax base. This lost revenue could, however, be made up through other means.

When the GST was introduced, the Commonwealth Government came to an agreement with state and territory governments that all the revenue it generated would go to the states and territories. But there is no reason that the GST must be the only tax that is passed onto the states in this way. Additional taxes, alongside the GST, could be added to the pool of revenue given to the states.

The additional taxes could be new or existing taxes. The additional revenue from these taxes could be added to the GST to create a larger pool of revenue that goes to the states. Any tax could be included in this pool of revenue, so long as the Commonwealth Government has the legal power to collect it.

This submission suggests two possible taxes that could be passed onto the states: a 25% tax on gas exports that are extracted from commonwealth waters and an annual wealth tax, and an annual wealth tax.

A 25% tax on gas exports, as suggested by the ACTU, has been estimated to raise up to \$17 billion.<sup>10</sup> This would be levelled on gas that is extracted from commonwealth waters and sold overseas. This would mean the tax would not impact Australian buyers of gas. It would even have the effect of increasing the amount of gas supplied to the domestic market as companies may choose to sell to Australians in order to avoid paying the tax.

Another possible tax that could help fund the expenditure of the states is an annual wealth tax. These are used in some European countries such as France, Norway, Spain, and Switzerland. Australia does not tax wealth very effectively. We propose an annual wealth tax of 2% on those with net assets over \$5 million, with the family home and superannuation, which would be exempt from the proposed tax.<sup>11</sup> This \$5 million threshold would restrict the tax to only affect the top 5% of wealth holders, and it would raise an estimated \$41 billion per year.

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<sup>10</sup> Campbell et al. (2025) *Understanding the December 2025 gas policy scramble*, <https://australiainstitute.org.au/report/understanding-the-december-2025-gas-policy-scramble/>

<sup>11</sup> Richardson et al. (2025) *Three ways Australia can tax wealth better*, <https://australiainstitute.org.au/report/three-ways-australia-can-tax-wealth-better/>

These two taxes are examples of efficient and equitable taxes that could compensate the states for the drop in GST revenue relative to national income. Taxing wealth and taxing the profits from gas exports are among the least distortionary taxes that could be introduced. While these two suggestions are by no means the only two that could be used, they would provide a significant increase in revenue, with no distortions to the economy, while funding services that would help reduce inequality.

# Conclusion

Without change, the steady fall in GST revenue as a percentage of GDP being experienced by the states and territories will worsen. Because GST has not kept pace with GDP growth, states and territories are expected to be worse off by between \$25 billion and \$26 billion for the 2025-26 budget year, and by between \$108 billion and \$122 billion for the four years of the forward estimates.

Such a substantial and ongoing impact on 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. States and territories will need to run larger budget deficits, or make further cuts to government services to address the lost revenue.

The good news is that the difficulties that the states are facing because of declining GST revenue relative to national income are not insurmountable, and do not require large wholesale changes to the GST.

Adding additional taxes to the pool of revenue given by the Commonwealth to the states and territories could provide them with a more sustainable revenue stream into the future. This could be done by removing tax concessions on the items that higher income earners are more likely to purchase – including private health insurance and private school fees – or by introducing new taxes, specifically on gas and wealth. The GST funding shortfall is an opportunity for broader tax reform that could include the introduction of more efficient and equitable taxes for the benefit of all Australians.