

# GST Distributions Reforms

Chris Murphy

Crawford School of Public Policy, ANU

23 April 2026

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# 1. Introduction

# 1. Introduction – Full equalisation (old system)

- Australia, like many federations, transfers money from fiscally advantaged states ('donor states'), to fiscally disadvantaged states ('recipient states'). Since 1933, this fiscal equalisation has been overseen by the Commonwealth Grants Commission (CGC).
- From 1981 we had **full** equalisation, which aims to give all states the same fiscal capacity. For example, WA paid other states to fully share its fiscal advantage from a high capacity to raise mining royalties. Equally, the NT received payments from other states to fully share its fiscal disadvantage from a high indigenous population.
- Since 2000, these equalisation transfers have been made as part of a 2-step system of sharing GST revenue between the states.
  1. GST revenue is initially shared according to state populations.
  2. These initial state payments are then adjusted for the equalisation transfers.

# 1. Introduction – Grants (2018 PC recommendation)

- Following complaints from WA, a donor state, in 2017-18 the Productivity Commission (PC) conducted an inquiry into our fiscal equalisation system. The 2018 inquiry recommended that full equalisation be replaced with what the PC called equalisation to the average of all states (ETA).
- This is exactly equivalent to the **grants** system that is discussed in the fiscal equalisation literature. Under the grants system, recipient states are paid from the GST pool instead of by donor states.
- The government rejected the PC recommendation for a grants system in favour of its own 'standard state' system.
- The PC is to report to government again by the end of 2026 on how the standard state system is performing.

# 1. Introduction – Standard state (current system)

- The **standard state** system places a floor under GST relativities equal to the GST relativity of the standard state. The standard state is either NSW or Victoria, whichever has the lower GST relativity.
- The standard state system is fully phased in from 2026/27. The GST relativities for that initial year were announced by the CGC in March.
- Compared to full equalisation, the standard state system raised the GST relativity for WA from 0.25 to 0.82, at the expense of the GST relativities of the other 7 states and territories.
- Under a ‘no worse off’ guarantee, the Federal Government fully compensates the seven losing states and territories. This guarantee extends to 2029/30.
- The modelling of the standard state system assumes this guarantee, which has been more costly than was expected, is allowed to expire.

# 1. Introduction – aim of the optimal system

- An optimal equalisation system is designed to best serve the public interest. There are three possible ways it might do this.
- **Vertical equity** – redistributing from rich to poor. Fiscal equalisation between states is a blunt instrument for achieving vertical equity because each state has a mixture of rich and poor people. The Federal Government can better achieve vertical equity by targeting individuals using government services, taxes and transfers.
- **Horizontal equity** – ensuring that comparable individuals who are residents of different states have the same economic welfare. Australian fiscal equalisation has tried to achieve this. However, free interstate migration achieves this aim better because migration decisions take into account all of the factors that influence economic welfare in a state, not just state government services and taxes.
- **Labour location efficiency** – labour is allocated between states to maximise economic welfare. Fiscal equalisation is integral to achieving this. So fiscal equalisation should focus on this aim.

# 1. Introduction – Efficient (welfare maximising)

- The **efficient** system helps maximise economic welfare by allowing labour to be optimally allocated between states. This requires that **each states offers the same type of labour the same dollar value of government services net of taxes, or net fiscal benefit.**
- To achieve this, some factors that cause states to differ in fiscal capacities should be neutralised using equalisation and other factors should not.
- A state may have a higher fiscal capacity because it has a more educated population or more valuable natural resources (minerals and land). Such fiscal advantages may allow a state to offer haven-like tax rates, inefficiently attracting labour from more productive uses in other states. This loss in national productivity should be avoided using fiscal equalisation. (Buchanan, 1952; Boadway & Flatters, 1982)
- A state may also have a higher fiscal capacity because government services are provided more efficiently reducing expenditure needs, or it is an unattractive place to live requiring it to offer higher pay to attract workers, boosting revenue. Such fiscal advantages have a legitimate role in labour market decision making and should not be equalised. (Albouy, 2012)

# 1. Introduction – my research

I have developed an optimal fiscal equalisation system for Australia in a series of papers: Independent Economics (2015), Murphy (2017), Murphy (2018), Murphy (2021) and here. This has three aspects.

1. The principles of optimal fiscal equalisation. Building on international research (Buchanan, 1952; Boadway & Flatters, 1982; Albouy, 2012), this study clarifies some issues and adds an Australian orientation e.g. including the GST. It arrives at a general formula for optimal fiscal equalisation.
2. The practice of optimal fiscal equalisation. This work applies the formula to Australia. This provides a set of optimal equalisation transfers between the eight states and territories for any given year.
3. A comparison of the economic effects of alternative systems. This compares the effects on state populations and economic welfare of moving from full equalisation to: (i) minimal equalisation; (ii) the PC's recommended grants scheme; (iii) the government's standard state scheme; or (iv) the optimal or efficient scheme.

# 1. Introduction – updating to 2026/27

- This modelling was updated in April 2026.
- It uses the CGC GST distribution for 2026/27, which was published in March 2026.
- It takes population attributes from the 2021 Census. The previous modelling used the 2016 Census.
- All other data sources have also been updated for the latest data.

## 2. Full equalisation (old system)

## 2. Full equalisation (old system)

- Australia's system of full equalisation neutralises all of the following sources of higher-than-average fiscal capacity.
- **Natural endowments.** Valuable mining and land resources boost fiscal capacity via the tax bases for royalties, stamp duties and land tax.
- **Demographic circumstances.** A state with a population that is more educated, mainly of prime working age and has low indigeneity has a higher fiscal capacity.
- **Geographic circumstances.** A state with a lower remote population has lower costs in providing government services, giving it a higher fiscal capacity.
- **Economic circumstances.** A state that is unattractive to live or faces a labour shortage may need to offer higher wages to attract workers from other states. Such higher wages may increase fiscal capacity via higher payroll tax and other revenues.

## 2. Full Equalisation – CGC – 2026/27

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>REVENUE RAISING CAPACITY</b>									
Mining production	4 382	8 942	-5 771	-10 726	1 874	600	627	72	16 497
Taxable land values	-3 632	- 482	1 892	1 004	643	248	218	109	4 114
Property sales	-2 288	177	333	517	749	307	19	186	2 288
Taxable payrolls	- 460	395	642	-1 721	797	279	70	- 2	2 184
Motor and insurance tax bases	317	122	- 234	- 191	- 167	4	116	32	591
Other taxes	0	0	0	0	0	0	0	0	0
Non-tax revenue	0	0	0	0	0	0	0	0	0
<b>TOTAL REVENUE</b>	<b>-1 681</b>	<b>9 154</b>	<b>-3 138</b>	<b>-11 117</b>	<b>3 895</b>	<b>1 439</b>	<b>1 050</b>	<b>398</b>	<b>15 936</b>
<b>EXPENSE REQUIREMENTS</b>									
Socio-demographic characteristics									
Population dispersion	-2 405	-1 939	1 318	635	107	876	- 356	1 764	4 700
Indigenous status	573	-3 772	1 633	312	- 340	241	- 172	1 524	4 283
Non-Indigenous disadvantage	- 199	- 299	534	- 166	530	161	- 394	- 167	1 225
Other SDC (a)	179	- 385	- 43	- 33	372	- 64	- 76	49	601
Administrative scale	-741	-520	-316	70	223	403	416	465	1577
Wage costs	480	139	-514	430	-567	-227	197	63	1308
Population weighted density	853	320	-533	-244	-192	-127	-25	-52	1173
Non-State sector	-912	-96	212	599	7	-39	192	37	1048
Other expenses	-106	-924	650	648	-166	-29	-220	146	1444
Cost of construction	275	-864	17	547	-106	-38	38	132	1009
Other investment expenses (b)	-194	803	-241	658	-727	-379	-379	460	869
<b>TOTAL EXPENSE AND INVESTMENT</b>	<b>-2 198</b>	<b>-7 538</b>	<b>2 719</b>	<b>3 456</b>	<b>- 858</b>	<b>777</b>	<b>- 778</b>	<b>4 421</b>	<b>11 372</b>

## 2. Full Equalisation – 2026/27 (\$million)

	(1) per capita grant	(2) equalisation transfer	(3) total = (1)+(2)	(4) GST relativity = (3)/(1)
NSW	31,825	-3,238	28,586	0.90
Vic	26,315	3,599	29,914	1.14
Qld	21,104	-1,621	19,484	0.92
WA	11,375	-8,531	2,844	0.25
SA	7,014	3,083	10,097	1.44
Tas	2,105	2,030	4,134	1.96
ACT	1,801	435	2,235	1.24
NT	980	4,244	5,224	5.33
<b>Total</b>	<b>102,518</b>	<b>0</b>	<b>102,518</b>	<b>1.00</b>

The equalisation transfers in column (2) are calculated in the previous slide.

## 2. Full Equalisation – 2026/27 (\$ per capita)

	(1) per capita grant	(2) equalisation transfer	(3) total = (1)+(2)	(4) GST relativity = (3)/(1)
NSW	3,643	-371	3,272	0.90
Vic	3,643	498	4,141	1.14
Qld	3,643	-280	3,363	0.92
WA	3,643	-2,732	911	0.25
SA	3,643	1,601	5,244	1.44
Tas	3,643	3,513	7,156	1.96
ACT	3,643	879	4,522	1.24
NT	3,643	15,783	19,426	5.33
Total	3,643		3,643	1.00

### 3. Grants (2018 PC recommendation)

### 3. Grants scheme – 2026/27 (\$million)

	(1) per capita grant	(2) equalisation grant	(3) cost of grant	(4) total transfer = (2)+(3)
NSW	31,825	0	-4,157	-4,157
Vic	26,315	3,599	-3,437	162
Qld	21,104	0	-2,756	-2,756
WA	11,375	0	-1,486	-1,486
SA	7,014	3,083	-916	2,166
Tas	2,105	2,030	-275	1,755
ACT	1,801	435	-235	199
NT	980	4,244	-128	4,116
Total	102,518	13,390	-13,390	0

The grants scheme eliminates donor states (NSW, QLD, WA) – column (2). The revenue shortfall is met from the GST pool – column (3).

### 3. Grants scheme – 2026/27 (\$million)

	(1) per capita grant	(2) equalisation transfer	(3) total = (1)+(2)	(4) GST relativity = (3)/(1)
NSW	31,825	-4,157	27,668	0.87
Vic	26,315	162	26,477	1.01
Qld	21,104	-2,756	18,348	0.87
WA	11,375	-1,486	9,889	0.87
SA	7,014	2,166	9,181	1.31
Tas	2,105	1,755	3,859	1.83
ACT	1,801	199	2,000	1.11
NT	980	4,116	5,096	5.20
<b>Total</b>	<b>102,518</b>		<b>102,518</b>	<b>1.00</b>

Under a grants scheme, the donor states under full HFE are given the same GST relativity, even though they have differing fiscal advantages.

## 4. Standard state (Current system)

## 4. Standard state – 2026/27 (\$million)

	(1) per capita grant	(2) equalisation transfer	(3) cost of WA relief	(4) total transfer = (2)+(3)
NSW	31,825	-3,238	-2,289	-5,527
Vic	26,315	3,599	-1,893	1,706
Qld	21,104	-1,621	-1,518	-3,139
WA	11,375	-1,157	-818	-1,976
SA	7,014	3,083	-504	2,578
Tas	2,105	2,030	-151	1,878
ACT	1,801	435	-130	305
NT	980	4,244	-70	4,174
Total	102,518	7,373	-7,373	0

While the standard state scheme is applied to each of the three assessment years, the modelling simplifies by applying it, at the end, to the application year.

## 4. Standard state – 2026/27 (\$million)

	(1) per capita grant	(2) equalisation transfer	(3) total = (1)+(2)	(4) GST relativity = (3)/(1)
NSW	31,825	-5,527	26,297	0.83
Vic	26,315	1,706	28,021	1.06
Qld	21,104	-3,139	17,966	0.85
WA	11,375	-1,976	9,399	0.83
SA	7,014	2,578	9,592	1.37
Tas	2,105	1,878	3,983	1.89
ACT	1,801	305	2,106	1.17
NT	980	4,174	5,153	5.26
Total	102,518	0	102,518	1.00

In 2026/27, the standard state scheme raises the GST relativity for WA from 0.25 to match that of NSW.

5. Efficient (welfare-maximising system)

## 5. Equalisation theory: assumptions

- There are different types of labour
- Each labour type is perfectly mobile between states in the long run
- Federal government makes equalisation transfers to state govts
- Federal government makes redistributive transfers to different labour types
- State government levies multiple taxes
- State government services provide private benefits
- State governments follow the same redistributive policies
- State production depends on inputs of capital, labour types and land
- Fixed supply of land in each state
- Individual asset holdings are independent of state of residence
- Productivity and consumer amenity can vary by state
- Labour and capital supplies are fixed at the national level
- Government behaves as a benevolent planner

## 5. Equalisation theory: general conclusions

- An optimising, benevolent government needs each state to offer the same type of labour the same dollar value of government services net of taxes, or net fiscal benefit.
- Otherwise, if different states offer the same person different net fiscal benefits, their choice of state to live may be distorted, being no longer based solely on labour market considerations.
- This principle leads to a clear-cut formula for optimal fiscal equalisation, which is given in the research papers.

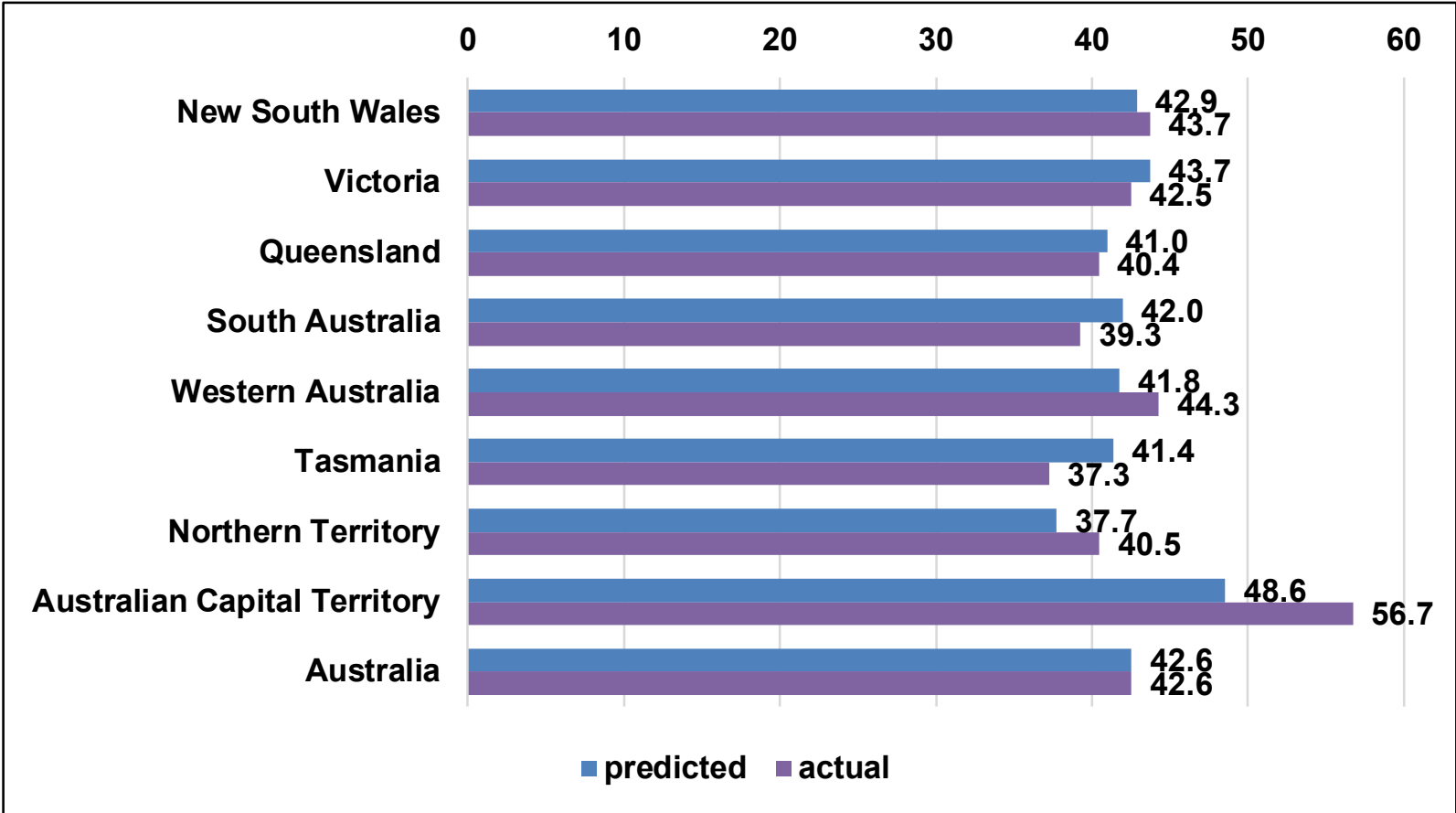
## 5. Equalisation theory: what to equalise

- The old full equalisation system neutralises all four sources of higher than average fiscal capacity. The optimal equalisation system is more selective as follows.
- **Natural endowments.** Minerals and land taxes should be fully equalised so that state (dis)advantages in raising revenue from these taxes does not lead to inefficient interstate migration.
- **Demographic circumstances.** These should also be fully equalised. Otherwise the location choice of labour of type A may be distorted by a fiscal (dis)advantage caused by over or under-representation in a state of labour of type B.
- **Geographic circumstances.** These should not be equalised. The user pays principle should apply to those living in high cost areas.
- **Economic circumstances.** These should be equalised only to the extent that they are driven by demographic circumstances. The existing practice of fully equalising for economic circumstances blunts the incentive to migrate to higher economic opportunity states.

## 5. Equalisation model - implementation

- For a revenue item, the fiscal disadvantage of a state is measured by the difference between its share of the population and its share of the tax base. The equalisation payment made is equal to this difference in shares applied to national revenue. The same logic is applied to expenditure items.
  - $\text{Transfer} = \text{national revenue} * (\text{state share of pop} - \text{state share of tax base})$
  - $\text{Transfer} = \text{national spend} * (\text{state share of spend base} - \text{state share of pop})$
- This results in transfer payments summing to zero across states.
- Under full equalisation, actual bases are used in the formulas.
- Under limited equalisation, actual bases are replaced with bases predicted from demographic composition alone.
- For illustrative purposes, this paper defines demographic types using age group, indigenous status and educational attainment.

# 5. Incomes predicted from demography (\$'000 per year per capita, 2021 Census)



## 5. Efficient HFE – 2026/27

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist	category
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
<b>REVENUE RAISING CAPACITY</b>										
Mining production	4 382	8 942	-5 771	-10 726	1 874	600	627	72	16 497	full equalisation
Taxable land values	-3 632	- 482	1 892	1 004	643	248	218	109	4 114	full equalisation
Property sales	-2 288	177	333	517	749	307	19	186	2 288	full equalisation
Taxable payrolls	- 110	- 319	339	86	44	27	- 114	47	543	demographic only
Motor and insurance tax bases	- 66	- 191	203	52	26	16	- 68	28	325	demographic only
Other taxes	- 53	- 156	165	42	21	13	- 56	23	265	demographic only
Non-tax revenue	0	0	0	0	0	0	0	0		
GST: imputed less epc revenue	1 408	- 166	- 833	41	- 419	- 201	100	70	1 619	
GST: equalisation	- 248	- 722	767	195	99	62	- 259	106	1 229	demographic only
<b>TOTAL REVENUE</b>	<b>- 607</b>	<b>7 083</b>	<b>- 2 906</b>	<b>- 8 788</b>	<b>3 036</b>	<b>1 073</b>	<b>468</b>	<b>642</b>	<b>12 302</b>	
<b>EXPENSE REQUIREMENTS</b>										
Socio-demographic characteristics										
Population dispersion	0	0	0	0	0	0	0	0	0	nil equalisation
Indigenous status	573	-3 772	1 633	312	- 340	241	- 172	1 524	4 283	fixed costs
Non-Indigenous disadvantage	- 199	- 299	534	- 166	530	161	- 394	- 167	1 225	demographic
Other SDC (a)	179	- 385	- 43	- 33	372	- 64	- 76	49	601	demographic
Administrative scale	- 741	- 520	- 316	70	223	403	416	465	1 577	full equalisation
Wage costs	0	0	0	0	0	0	0	0	0	nil equalisation
Population weighted density	0	0	0	0	0	0	0	0	0	nil equalisation
Non-State sector	- 912	- 96	212	599	7	- 39	192	37	1 048	demographic
Other expenses	- 106	- 924	650	648	- 166	- 29	- 220	146	1 444	demographic
Cost of construction	0	0	0	0	0	0	0	0	0	nil equalisation
Other investment expenses (b)	- 194	803	- 241	658	- 727	- 379	- 379	460	1 921	demographic
<b>TOTAL EXPENSE AND INVESTMENT</b>	<b>- 1 401</b>	<b>- 5 193</b>	<b>2 430</b>	<b>2 088</b>	<b>- 100</b>	<b>293</b>	<b>- 632</b>	<b>2 515</b>	<b>7 326</b>	
<b>Commonwealth payments</b>	<b>641</b>	<b>1 983</b>	<b>- 1 201</b>	<b>- 870</b>	<b>45</b>	<b>- 186</b>	<b>163</b>	<b>- 575</b>	<b>2 831</b>	

## 5. Efficient – 2026/27 (\$million)

	(1) per capita grant	(2) equalisation transfer	(3) total = (1)+(2)	(4) GST relativity = (3)/(1)
NSW	31,825	-1,367	30,457	0.96
Vic	26,315	3,873	30,188	1.15
Qld	21,104	-1,677	19,427	0.92
WA	11,375	-7,570	3,805	0.33
SA	7,014	2,982	9,996	1.43
Tas	2,105	1,180	3,285	1.56
ACT	1,801	-1	1,799	1.00
NT	980	2,581	3,561	3.64
Total	102,518	0	102,518	1.00

The equalisation transfers in column (2) are calculated in the previous slide.

# 5. Efficient – 2026/27 (\$ per capita)

	(1) per capita grant	(2) equalisation transfer	(3) total = (1)+(2)	(4) GST relativity = (3)/(1)
NSW	3,643	-157	3,486	0.96
Vic	3,643	536	4,179	1.15
Qld	3,643	-290	3,353	0.92
WA	3,643	-2,424	1,219	0.33
SA	3,643	1,548	5,191	1.43
Tas	3,643	2,042	5,685	1.56
ACT	3,643	-3	3,640	1.00
NT	3,643	9,600	13,243	3.64
Total	3,643		3,643	1.00

## 6. Modified EPC (minimal equalisation)

## 6. Minimal Equalisation – 2026/27 (\$million)

	(1) per capita grant	(2) equalisation transfer	(3) total = (1)+(2)	(4) GST relativity = (3)/(1)
NSW	31,825	573	32,397	1.02
Vic	26,315	-3,772	22,543	0.86
Qld	21,104	1,633	22,738	1.08
WA	11,375	312	11,687	1.03
SA	7,014	-340	6,674	0.95
Tas	2,105	241	2,346	1.11
ACT	1,801	-172	1,629	0.90
NT	980	1,524	2,504	2.56
Total	102,518		102,518	1.00

Modified EPC equalises **only** for the effects of indigenous status on expenses. This equalisation is uncontroversial and is needed for the NT to be fiscally viable.

## 6. Minimal Equalisation – 2026/27 (\$million)

	(1) per capita grant	(2) equalisation transfer	(3) total = (1)+(2)	(4) GST relativity = (3)/(1)
NSW	3,643	66	3,708	1.02
Vic	3,643	-522	3,121	0.86
Qld	3,643	282	3,925	1.08
WA	3,643	100	3,743	1.03
SA	3,643	-176	3,466	0.95
Tas	3,643	418	4,061	1.11
ACT	3,643	-348	3,295	0.90
NT	3,643	5,668	9,311	2.56
Total	3,643		3,643	1.00

The NT is the main beneficiary from equalisation for the effects of indigenous status on expenses, as seen in its higher GST relativity.

## 7. Comparing the systems

# 7. Modelled equalisation systems

- **baseline**: previous full equalisation
- Donor relief systems
  - **grants** scheme: payments by donor states are abolished, with payments to recipient states funded from the GST pool. The 2018 PC report recommended a grants scheme, describing it as “equalising to the average of all states” (ETA)
  - **standard state** scheme: this creates a floor on GST relativities set equal to the GST relativity of the standard state. The standard state is either NSW or Victoria, whichever has the lower GST relativity. In 2026-27 this scheme was fully phased in, to the benefit of WA.
- **Efficient** equalisation: the transfers that maximise welfare for locational efficiency
- **Minimal** equalisation: no equalisation (i.e. an equal per capita or EPC GST distribution) with one exception. Equalisation is retained for the effects of indigenous status on expenses.

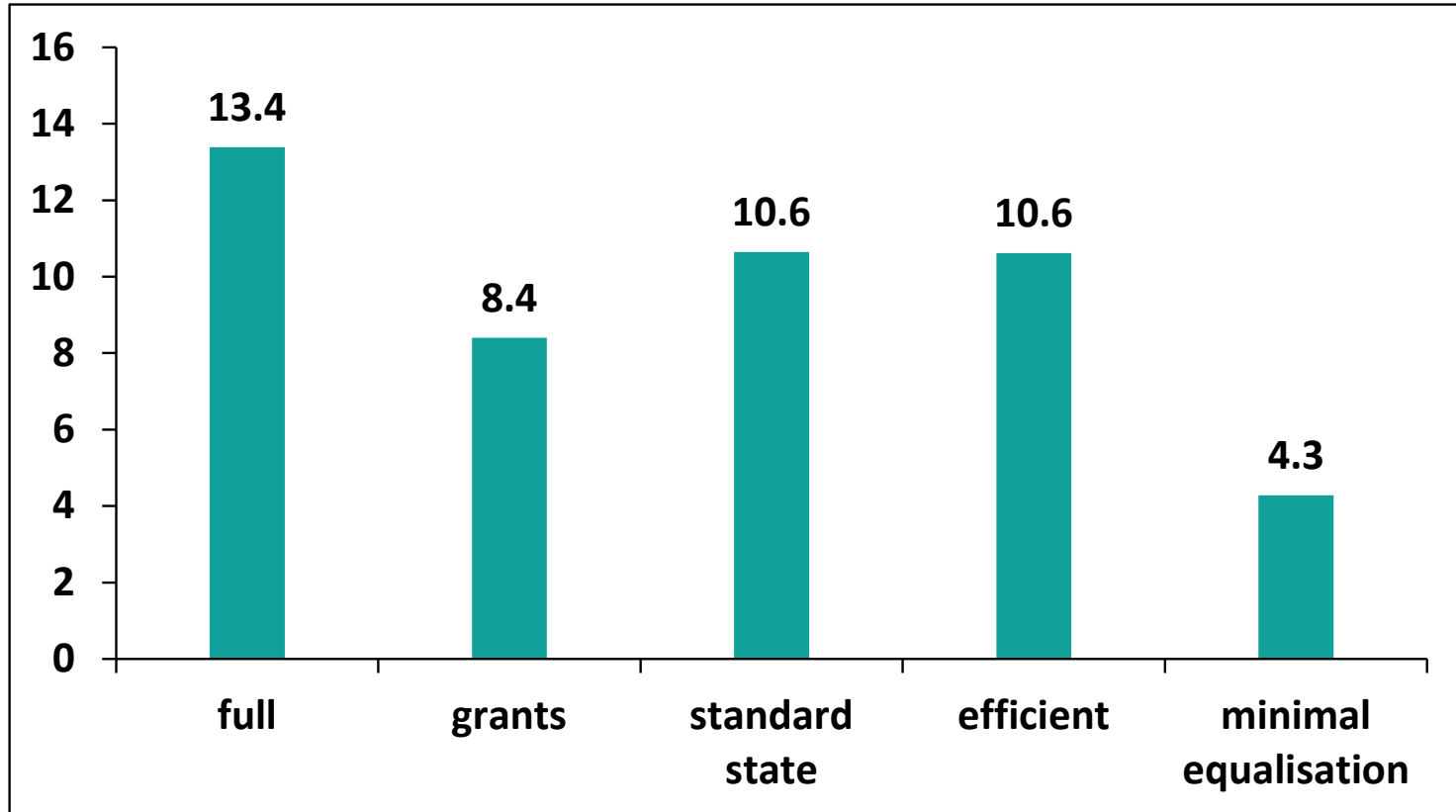
## 7. Estimating welfare effects

- The discrepancy between the optimal transfer and the transfer a state receives generates a deadweight loss (DWL) in economic welfare.
- The contribution of each state to the DWL is (Albouy, 2012):
  - $DWL = -\frac{1}{2} \cdot \epsilon \cdot t^2 \cdot Y$  where
  - “t” is the discrepancy expressed as a percentage of state income
  - “Y” is state income
  - “ $\epsilon$ ” is the long-run elasticity of a state’s population with respect to changes in its per capita income resulting from changes in its net fiscal benefit
- The population elasticity is conservatively set to -2 compared to -3 in Wilson (2003). Otherwise, the effects of minimal equalisation on state population shares seem implausibly high.

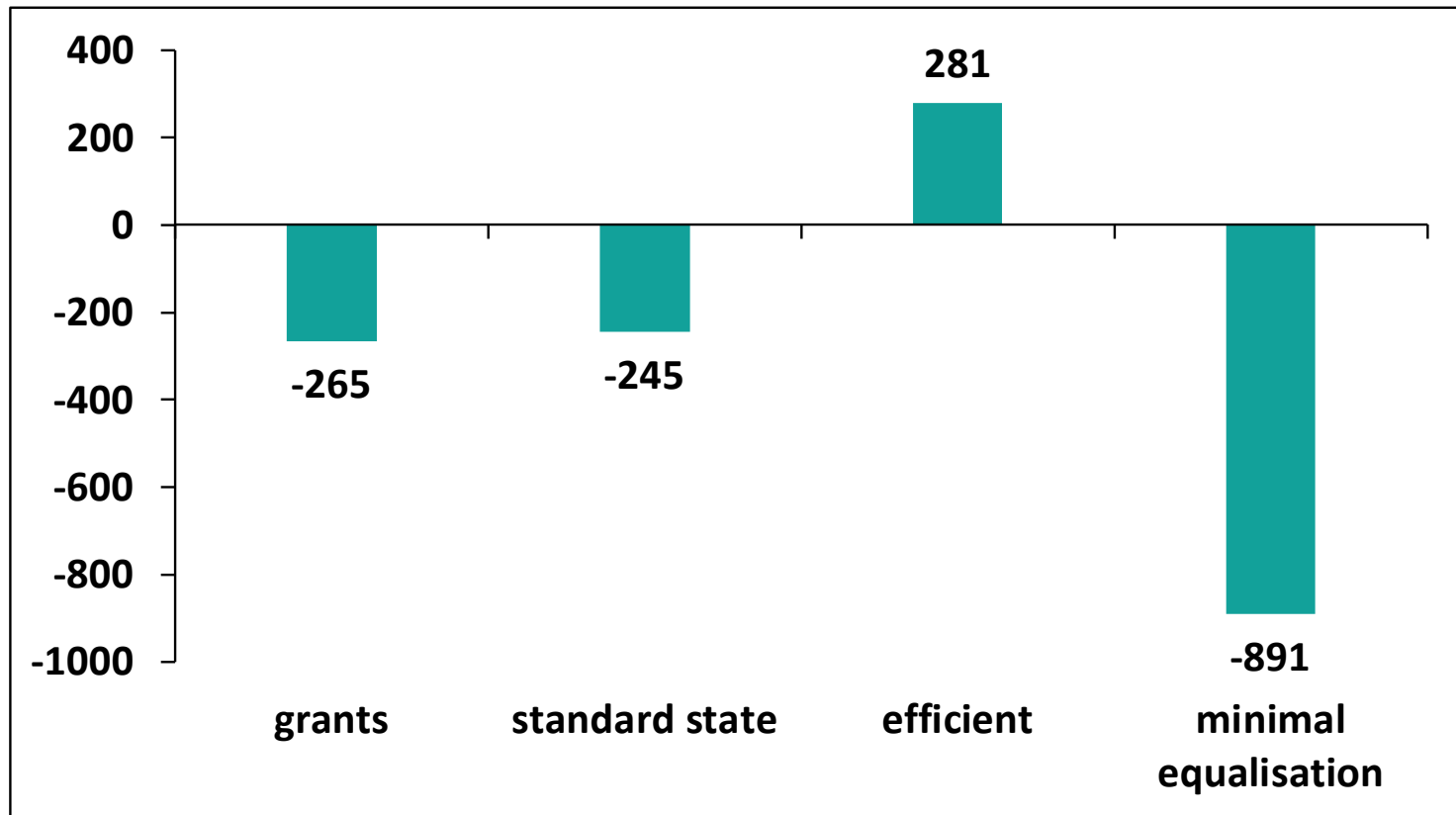
## 7. Transfers under selected systems (2026/27 – \$million)

	full	grants	standard state	efficient	minimal equalisation
NSW	-3,238	-4,157	-5,527	-1,367	573
Vic	3,599	162	1,706	3,873	-3,772
Qld	-1,621	-2,756	-3,139	-1,677	1,633
WA	-8,531	-1,486	-1,976	-7,570	312
SA	3,083	2,166	2,578	2,982	-340
Tas	2,030	1,755	1,878	1,180	241
ACT	435	199	305	-1	-172
NT	4,244	4,116	4,174	2,581	1,524
Total	0	0	0	0	0

## 7. GST Redistribution (\$ billion per year)



## 7. Consumer welfare (\$ million per year, relative to full equalisation)



## 7. Population impacts (per cent, relative to full equalisation)



## 7. Conclusions

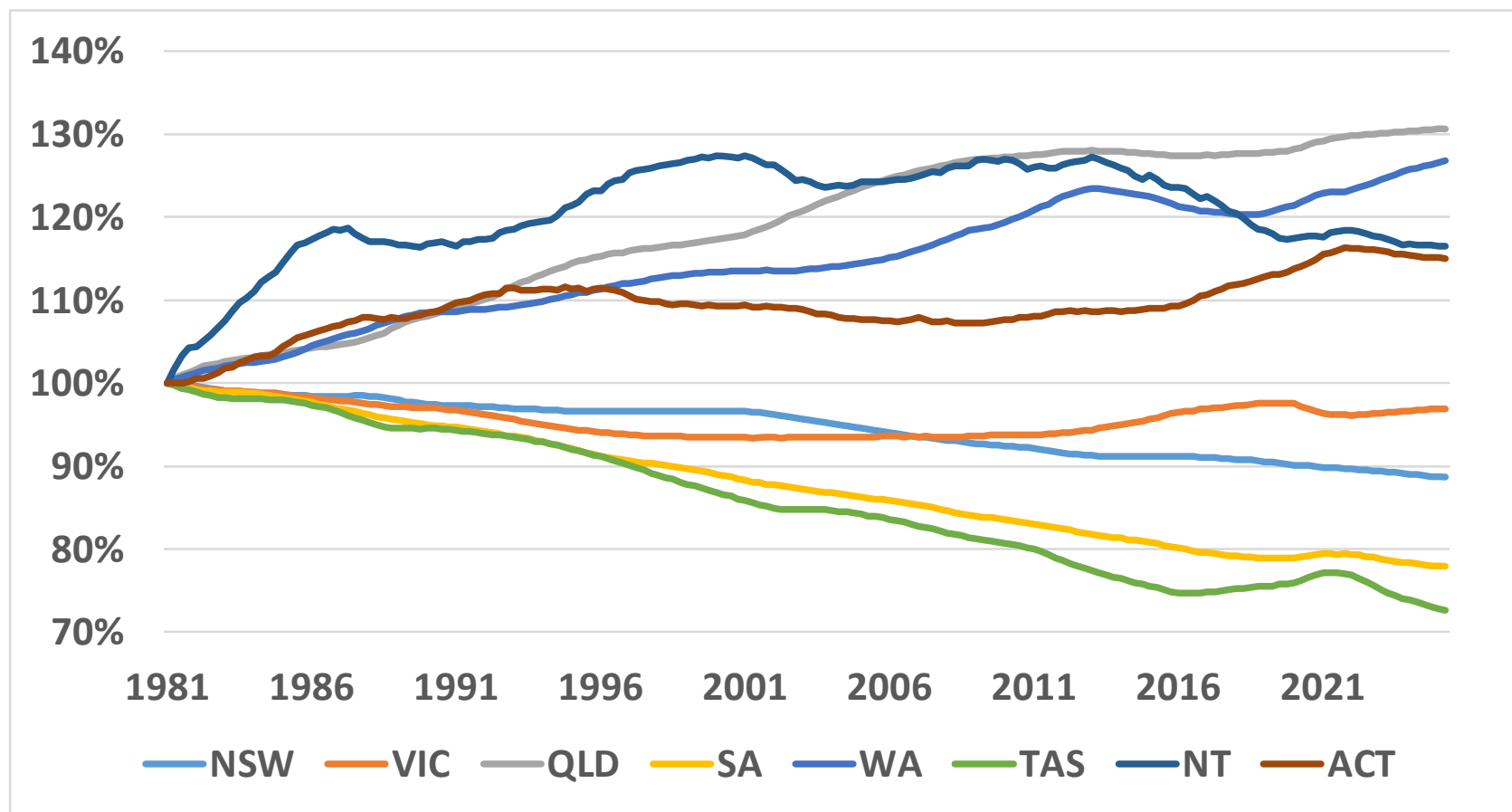
1. The standard state system leaves WA with \$5.5 billion more than under an efficient system. (The grants system proposed by the Productivity Commission in 2018 is similarly flawed.) This excess would allow it to create a tax haven by, for example, completely abolishing payroll tax.
2. This would attract economic activities to WA that would be more productively undertaken in other states. National economic welfare would be lower than under the existing full equalisation system.
3. An efficient equalisation system would equalise for some, but not all, sources of fiscal (dis)advantage. Compare to full HFE, this reduces the amount of redistribution between states from \$13½ billion to \$10½ billion, as does the standard state system. However, the efficient system increases national economic welfare while the standard state system reduces it.
4. The worst option would be to eliminate or minimise fiscal equalisation. This would lead to shifts in economic activity between states that are inspired by net fiscal benefits rather than by economic opportunities.

# Qualifications

## 8. Qualifications

- Labour is fully mobile between states – this takes time (see next slide)
- State governments take equalisation grants as given
- State governments provide private services
- Locational distortions caused by central government budgets are excluded from the equalisation analysis
- No congestion (congestion is seen as a congestion tax not HFE issue)
- These assumptions seem reasonable in the context of analysing fiscal equalisation policy, but not in some other policy contexts

## 8. Qualifications - Historical Population Mobility



# Conclusions

# 9. Recommendations

## Revenue

1. Retain full equalisation for mining royalties (but preferably based on mining capacity not mining production), stamp duties on conveyances and land tax.
2. Replace the population-based state distribution of national GST with a household consumption-based distribution.
3. For GST and other revenues not in (1), simplify by aggregating them together and then using limited equalisation. Revenue-raising capacity is assessed from state demography, not actual state tax bases because they are also affected by economic performance.

## Spending

1. Retain full equalisation for administrative scale.
2. Retain full equalisation for demographic-based characteristics.
3. Remove equalisation for geographic circumstances.
4. Remove equalisation for wage costs.

## 9. Other main messages

1. Conceptually, sharing GST between states according to their populations and making equalisation transfers between the states are separate ideas. Linking the two ideas generally causes confusion. It just happens to be the case that GST revenue sharing is now used as the vehicle for making equalisation transfers, but other vehicles have been used in the past.
2. The existing standard state system creates the conditions for a tax haven in WA, attracting economic activities to WA that would be more productively undertaken in other states. National economic welfare is lower than under the previous full equalisation system.
3. An efficient equalisation system would equalise for some, but not all, sources of fiscal (dis)advantage, as detailed in the recommendations. National economic welfare would be higher than under all other systems.
4. The worst option is to largely or entirely eliminate fiscal equalisation. This would lead to shifts in economic activity between states that are inspired by net fiscal benefits rather than by economic opportunities.

## 10. Sources - Original Research Paper

Murphy, C. (2018) 'Optimal fiscal equalisation and its application to Australia: updated', ANU Tax and Transfer Policy Institute Working Paper, 11/2018.