

GST shortfall

How to better fund the states

States have lost out on \$279 billion since the GST was introduced. This is because revenue has failed to keep up with national income. The economy has grown at 5.9% while GST revenue has grown at 5%. Applying the GST to private health insurance and private school fees, and adding other taxes to the pool of money that flows to the states, could help pay for the services Australians deserve.

Discussion paper

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Summary

When introduced in July 2000, 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% per annum while economic growth has averaged 5.9%. The result of this is that states and territories have received over a quarter of a trillion dollars (\$279 billion) less revenue than was expected when GST was introduced.

This problem is likely to get worse. Across all states and territories, the difference in 2025-26 is \$24 billion and for the four years of the forward estimates (2026-27 to 2029-30) is projected to be \$121 billion.

Table 1 shows the difference between 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 and 2026-27 allocations for forward estimates

State	Difference in 2025-26 (\$m)	Difference over forward estimates (\$m)
NSW	-6,426	-30,760
VIC	-6,594	-32,813
QLD	-4,172	-21,711
WA	-1,984	-10,994
SA	-2,286	-11,243
TAS	-914	-4,672
ACT	-493	-2,467
NT	-1,180	-6,055
Total	-23,978	-120,714

Source: Author calculations from Commonwealth Grants Commission (2026), ABS (2025), and ATO (2026)

But this problem is not insurmountable and does not require wholesale changes to the GST. Instead, there could be a small broadening of the GST to include private health insurance and private schools.

Importantly, adding additional taxes to the pool of revenue, alongside the GST, could bridge the funding gap and give the states a more sustainable revenue stream into the future. This could come in the form of new taxes, like a gas export tax, or by expanding existing taxes by closing tax concessions. The GST funding shortfall is an opportunity for broader tax reform that could include the introduction of more efficient and equitable taxes.

Introduction

The Goods and Services Tax (GST) was introduced in July 2000 by the then Howard Government. An agreement was reached with the state and territory governments that all the revenue from the GST would flow to them. This meant that the GST was collected by the federal government, but the revenue went to the states.

When introducing the GST the then 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.¹

The GST has not lived up to the promise of being “a revenue base that grows in line with the economy.” In fact, GST revenue has been shrinking as a share of the economy. As it has done so, the states have found it increasingly difficult to fund the important services that the people of Australia demand from their governments.

GST revenue has been shrinking as a share of the economy 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.²

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, and which 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 paper estimates the cost to the state and territory governments from the slow growth of the GST, including estimates by state. It also estimates the likely cost to state budgets

¹ Costello (2000) *Budget 2000-01, Budget speech*, <https://archive.budget.gov.au/2000-01/speech/speech.pdf>

² Denniss et. al. (2025) *GST Reform: How to stop the states being short-changed*, <https://australiainstitute.org.au/report/gst-reform/>

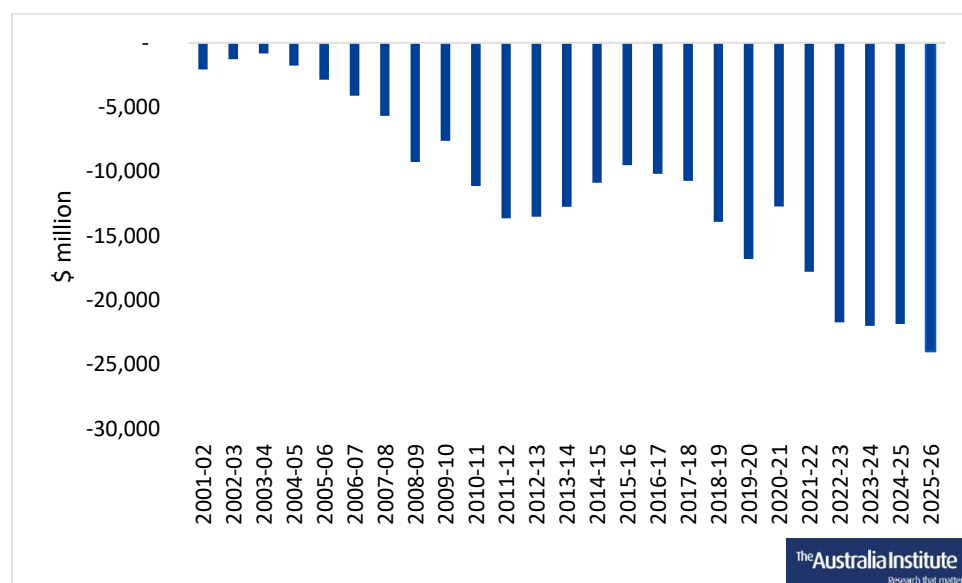
over the forward estimates, that is, the next four years. Finally, it suggests a possible solution that could help address the revenue shortfall.

Cost to state budgets in 2025-26

To estimate the cost of the slow growth in GST, we need to estimate how much revenue the GST would have collected if it had grown at the same rate as the economy. We then compare this with how much revenue the GST actually collected. The difference is the amount that the states have been shortchanged by.

Figure 1 shows how much revenue the states have lost since the introduction of the GST.

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



Source: ABS (2025) *Australian System of National Accounts: 2024-25*, <https://www.abs.gov.au/statistics/economy/national-accounts/australian-system-national-accounts/2024-25> and ATO (2026) *Taxation Statistics 2023-24, GST – Table 1*, <https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/taxation-statistics/taxation-statistics-2023-24/statistics-in-taxation-statistics-2023-24/gst-and-other-tax-statistics-for-taxation-statistics-2023-24>

In the 25 years from 2000-01 to 2025-26 the economy grew at an average annual rate of 5.9%, but the GST only grew at an average annual rate of 5%. The total cost of slow growth in GST revenue has reached more than a quarter of a trillion dollars (\$279 billion) over the 25 years from the introduction of the GST in 2000-01 to 2025-26. This includes \$24 billion in lost revenue in 2025-26 alone.

We can also estimate how much this slow growth in GST has cost each state. Using the updated GST relativities for 2025-26, we can split the \$24 billion in lost revenue in 2025-26 by state (shown in Table 2).

Table 2: Drop in state and territory revenue in 2025-26

State	2025-26 Split	Cost in 2025-26 (\$million)	Net operating balance (\$million)	New net operating balance (\$million)
NSW	26.7%	-6,409	-3,049	3,360
VIC	27.3%	-6,550	727	7,277
QLD	17.4%	-4,162	-8,845	-4,683
WA	8.3%	-1,984	3,507	5,491
SA	9.5%	-2,286	189	2,475
TAS	3.8%	-914	-923	-9
ACT	2.1%	-493	-426	67
NT	4.9%	-1,180	95	1,275
Total	100%	-23,978	-8,726	15,253

Source: Commonwealth Grants Commission (2026) *GST 2026-27 GST Distribution*,
<https://www.cgc.gov.au/media/media-release-13-march-2026>,

Table 2 also shows the budget balance (net operating balance), which is the deficit or surplus that each state is currently running. It then shows what that balance might be if each state's revenue increased by the amount of the GST shortfall.

We can see that in 2025-26 four states were running a budget deficit (NSW, QLD, TAS, and ACT), while four were running a budget surplus, with three running a small surplus (VIC, SA, and NT), and WA running a large surplus. The collective position of all states is a deficit of \$8.7 billion.

If each state received GST revenue in 2025-26 in line with what it would have been if GST revenue had grown at the same rate as the economy as a whole, then the number of states running a deficit is reduced to just two, Queensland and Tasmania. Tasmania's deficit is tiny, at only \$9 million. This is less than 0.1% of spending. The collective position of all states moves to a surplus of \$15.3 billion.

To be clear, if the states received an additional \$24 billion in revenue, they could spend that in any way they saw fit. Rather than increase their budget balance, they could choose to spend it on better services for the people of their states.

What is clear is that the additional revenue would make a substantial difference to their budgets and give them more financial freedom. It also highlights that the difficulties many states are currently facing are in large part because of slow growth in GST revenue.

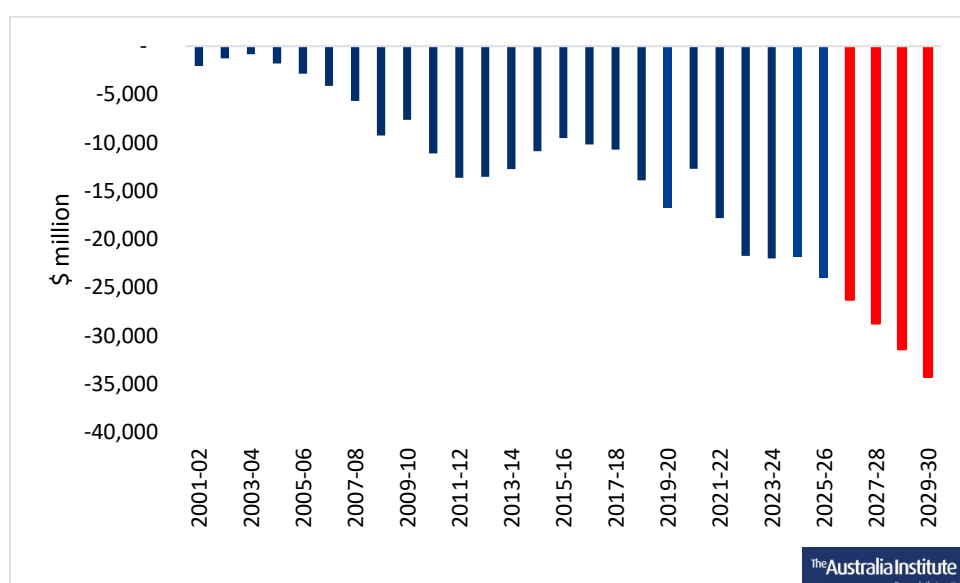
Impact on future revenue

State and territory governments budget for the current financial year (2026-27) and the next three years. These four years are collectively known as the forward estimates. To account for this, we have estimated what the GST shortfall is likely to be over these four years.

We have done this by assuming that GST revenue will continue to grow at the average rate it has grown over the last 25 years, which is 5%. We have also assumed that the economy will grow at the average rate it has grown over the last 25 years, which is 5.9%. We have assumed that the split in GST revenue remains the same as the split announced for 2026-27, which is the latest information from the Commonwealth Grants Commission.

The shortfall in GST revenue over the forward estimates (2026-27 to 2029-30) will be \$121 billion. The breakdown by year is shown in Figure 2. Figure 2 is the same as Figure 1 above, but it also includes the estimates for the forward estimates in red.

Figure 2: Difference in GST revenue due to slower growth than GDP including forward estimates



Source: ABS (2025) *Australian System of National Accounts: 2024-25*, and ATO (2026) *Taxation Statistics 2023-24, GST – Table 1*

We have also estimated the cost per state over the forward estimates in Table 3.

Table 3: Fall in state and territory revenue over the forward estimates

State	2026-27 Split	Cost over the forward estimates (\$million)
NSW	25.5%	-30,760
VIC	27.2%	-32,813
QLD	18.0%	-21,711
WA	9.1%	-10,994
SA	9.3%	-11,243
TAS	3.9%	-4,672
ACT	2.0%	-2,467
NT	5.0%	-6,055
Total	100%	-120,714

Source: Commonwealth Grants Commission (2026) *GST 2026-27 GST Distribution*, ABS (2025) *Australian System of National Accounts: 2024-25*, and ATO (2026) *Taxation Statistics 2023-24, GST – Table 1*

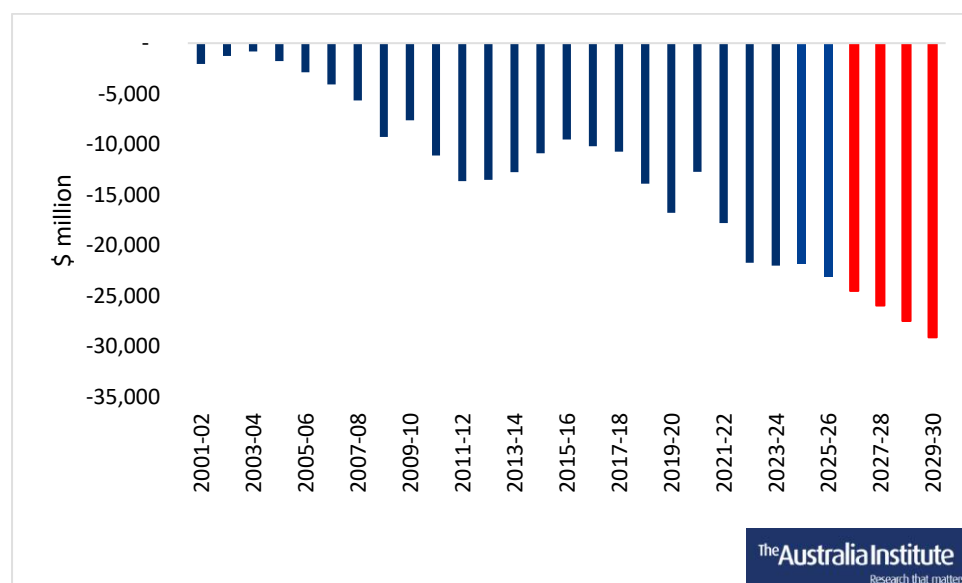
Table 3 shows that because revenue from GST has not grown with the economy as originally promised, states are missing out. As these losses grow, the pressure on state and territory budgets will increase.

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 2026-27, GST revenue *does* grow at the same rate as the economy, the drop in revenue over the forward estimates will still be substantial. It will be \$107 billion rather than \$121 billion estimated above. The revenue loss is shown in Figure 3 with the forward estimates in red.

Figure 3: Difference in GST revenue – growth in line with GDP from present



Source: ABS (2025) *Australian System of National Accounts: 2024-25*, and ATO (2026) *Taxation Statistics 2023-24, GST – Table 1*

The split by state over the forward estimates under the optimistic case is shown in Table 4.

Table 4: Fall in state and territory revenue over the forward estimates – growth in line with GDP from present

State	2026-27 Split	Cost over the forward estimates (\$million)
NSW	25.5%	-27,268
VIC	27.2%	-29,088
QLD	18.0%	-19,246
WA	9.1%	-9,746
SA	9.3%	-9,966
TAS	3.9%	-4,142
ACT	2.0%	-2,187
NT	5.0%	-5,367
Total	100%	-107,011

Source: Commonwealth Grants Commission (2026) *GST 2026-27 GST Distribution*, ABS (2025) *Australian System of National Accounts: 2024-25*, and ATO (2026) *Taxation Statistics 2023-24, GST – Table 1*

The solution

Increasing the rate of the GST is the least equitable solution to the problem of slow growth. The slow growth has been caused by growing inequality and the regressive nature of the GST will simply make inequality worse. One possible solution is to broaden the GST to include currently GST-exempt items commonly bought by those on high incomes. This could include private school fees and private health insurance. Including private health insurance and private school fees in the GST could raise an additional \$1.8 billion per year.³

Another solution would be to add new taxes to the GST pool. This could include a 25% tax on gas exports, which could raise \$17 billion per year. Like the GST, this would be collected by the Federal Government, but the revenue could flow to the states.

This is an opportunity for the federal government to enlist the help of the states to push for tax reform. Doctors have been calling for a sugar tax. Australia currently taxes wealth poorly when compared with many other developed countries, this could change with the introduction of a wealth tax that just impacts the very wealthy. We could also limit fossil fuel subsidies like fuel tax credits and put the saved money into the pool of money going to the states.

The Western Australia problem

WA has been at the centre of an argument over how the GST funds are distributed. The previous Coalition government made a deal with WA in 2018 to place a floor under the proportion of funding that they receive. The result of this is that WA gets more GST funding than they would under the pre-2018 funding model.

While this deal has been roundly criticised by economists, tax experts, and the other states and territories, the political sensitivity of this deal has made both the previous Coalition Government and the current Labor Government unwilling to change it.

Adding revenue from additional taxes offers a solution that could see the old distribution reinstated without making WA worse off. The new tax revenue could go to the other states, topping up the revenue they receive, until the previous proportions are restored. Revenue above this level could then be applied to all states including WA under the pre-2018 rules. This would increase the additional revenue going to the non-WA states by even more than has been indicated in the above analysis.

³ Grudnoff (2025) *The cost of slow growth in GST revenue*, <https://australiainstitute.org.au/report/the-cost-of-slow-growth-in-gst-revenue-the-growing-problem-of-short-changing-the-states/>

Conclusion

It is clear that the states are struggling to provide the services that the people of Australia expect, and the problem is a lack of revenue. The slow growth in the GST has gradually eaten away at the revenue flowing to the states. While the population has continued to grow and the cost of the services state governments provide has increased, the revenue they receive from the GST has not kept up.

States and territories will continue to see falling GST revenue if there is no change. So far, the drop has cost \$24 billion in 2025-26, and between \$107 billion and \$121 billion for the four years over the forward estimates.

But this is not an insurmountable problem and does not require wholesale changes to the GST. Instead, there could be a small broadening of the GST to include private health insurance and private schools.

Importantly, adding additional taxes to the pool of revenue, alongside the GST, could bridge the funding gap and give the states a more sustainable revenue stream for the long term. This could come in the form of new taxes, or by expanding existing taxes by closing tax concessions. The GST funding shortfall is an opportunity for broader tax reform that could include the introduction of more efficient and equitable taxes.