

# **The Impact of the GST on State Budgets**

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## Overview

There has been a great deal of discussion about the increased revenue that will be available to the states as a result of the goods and services tax (GST). This paper explains the current estimates of revenue to the states and how the GST works.

The Commonwealth Government collects the GST but all GST revenue is paid to the states and territories. The decisions on how to allocate this revenue are made by the states and territories on the basis of their own policy priorities.

Total revenue from the GST was \$33.3 billion in 2003-04 and is estimated to rise to \$34.5 billion in 2004-05.

- From 2004-05 onwards, all states and territories will receive more revenue from the GST than they would have prior to the changes to the taxation system.
- In 2004-05, GST revenue is estimated to be \$1.3 billion more than it would have been under the previous taxation system.
- GST revenue has been growing at an average increase of 9.1% per year.

### Estimated 2004-05 GST revenue in excess of the guaranteed minimum:

	\$m
NSW	17.8
VIC	167.3
QLD	598.0
WA	195.5
SA	100.7
TAS	72.0
ACT	39.1
NT	99.8

### Guaranteed minimum revenue

GST revenue going to the states and territories replaced the Financial Assistance Grants previously provided by the Commonwealth Government. As part of the taxation reform process, a number of state taxes were abolished, including Financial Institutions Duty, accommodation taxes and stamp duty on marketable securities. Other changes were also implemented. Bank Account Debits Tax is scheduled to be abolished by July 2005.

Under the agreement between the Commonwealth and the states when the GST was introduced, each state was guaranteed that they would be no worse off under the new system.

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In order to meet this guarantee, the Commonwealth has paid the states Budget Balancing Assistance to cover any shortfall of GST revenue compared to each state's Guaranteed Minimum Amount. The Guaranteed Minimum Amount for each state is the amount each would have had if the tax reform had not been implemented. The guarantee applies until 30 June 2006.

The GST is a growing revenue base and so this Budget Balancing Assistance program was seen as a transitional one, to be removed when the GST revenue exceeded the amount that each state would have had under the previous system. It will no longer be applied in 2004-05.

The Commonwealth budget has proposed that small businesses and not for profit organisations will be able to lodge annual GST payments from 2004-05. This would mean deferral of some GST payments until 2005-06. The Commonwealth has agreed to provide \$330m to the states in 2004-05, in compensation for this deferral. It is subject to the agreement of the states.

### **The growth in GST revenue**

In 2002-03, the Commonwealth provided Budget Balancing Assistance of \$1004 million. It was distributed to every system apart from Queensland and the Northern Territory, where the GST revenue exceeded the Guaranteed Minimum Amount. Queensland GST revenue exceeded the minimum by \$97.5m and the NT GST revenue by \$9.2m.

The estimated GST revenue for 2003-04 has been revised upwards and Budget Balancing Assistance of \$46m will be paid only to NSW in 2003-04.

The other states and territories will no longer access such assistance because their GST revenue now exceeds the level of revenue they would previously have had. The total additional revenue for these states and territories is now estimated at \$1.1 billion in 2003-04.

In cash terms, it is estimated that GST revenue has grown from \$24.4 billion in 2000-01 to \$34.5 billion in 2004-05, an increase of \$10.1 billion, or 41.5%. This is an average increase of 9.1% per year.

Budget Balancing Assistance has been estimated and paid in advance and is then adjusted later. Since GST revenue has been greater than anticipated, the amounts of Budget Balancing Assistance advanced to the states and territories have in a number of cases exceeded their entitlement. Payments made to the states in subsequent years are adjusted for these overpayments.

### **GST revenue forecasts**

The GST cash revenue for 2004-05 is forecast to provide an additional \$1.3 billion to the states and territories. This is \$1.3 billion over the Guaranteed Minimum Amount. It will rise to \$1.6 billion if the payment by the Commonwealth of compensation for the deferral of some GST payments is agreed.

Taking into account the abolition of bank accounts debit tax by 1 July 2005, the budget estimates that additional GST revenue will increase to \$2.9 billion by 2007-08.

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The revised aggregate revenue forecasts are:

2005-06: \$36.61 billion, or \$1,234.4 million over the Guaranteed Minimum Amount  
2006-07: \$38.72 billion, or \$1,933.6 million over the Guaranteed Minimum Amount  
2007-08: \$40,850 billion, or \$2,906.3 million over the Guaranteed Minimum Amount.

If the revised forecasts are accurate, this is the additional revenue that the states and territories can anticipate from the GST over the next few years.

<b>GST revenue forecasts 2005-06 to 2007-08</b>						
	<b>GST revenue</b>			<b>Net revenue over the Guaranteed Minimum Amount</b>		
	<b>2005-06 \$m</b>	<b>2006-07 \$m</b>	<b>2007-08 \$m</b>	<b>2005-06 \$m</b>	<b>2006-07 \$m</b>	<b>2007-08 \$m</b>
NSW	10,317.4	10,921.8	11,446.6	89.2	319.9	620.7
VIC	7,691.1	8,268.9	8,839.6	168.5	328.4	561.6
QLD	7,629.9	8,067.7	8,540.7	470.5	618.2	820.3
WA	3,660.1	3,783.4	3,988.7	172.9	242.0	359.8
SA	3,371.6	3,556.4	3,734.0	111.0	165.7	236.1
TAS	1,486.8	1,560.3	1,623.1	74.5	96.7	119.1
ACT	696.5	726.8	763.4	41.0	51.8	71.1
NT	1,756.5	1,834.7	1,914.1	106.7	110.9	117.6
AUST	36,610.0	38,720.0	40,850.0	1,234.4	1,933.6	2,906.3

## **Distribution of GST revenue**

The GST is distributed between the states and territories on the basis of recommendations made by the Commonwealth Grants Commission, which take the various cost disabilities and advantages of each system into account. It is far more expensive, for example, to provide services in the Northern Territory than it is in the larger states.

The intention is to share the funding in such a way that if all systems made the same effort to raise revenue and operated at the same level of efficiency, they should have the capacity to provide services at the same standard. This method of distribution is called Horizontal Fiscal Equalisation.

NSW and Victoria receive less than equal per capita shares and the other states and territories receive more to various degrees. Western Australia was also receiving less than per capita share in 2003-04 but relativities have been changed for 2004-05 and this is no longer true.

In 2004-05, the budget estimated that about \$3.2 billion, or 7.7% of the total pool of GST revenue and Health Care Grants, would be redistributed in this way.

<b>GST revenue and Horizontal Fiscal Equalisation effects, 2004-05</b>				
	Per capita relativities	Share of weighted population  %	GST/Health Care grants to be distributed  \$m	Difference between distributed grants and equal per capita distribution  \$m
NSW	0.86750	29.1	12,183.2	-1,849.2
VIC	0.86534	21.4	8,972.2	-1,387.6
QLD	1.05504	20.5	8,586.9	454.7
WA	1.03054	10.2	4,262.9	129.8
SA	1.20407	9.2	3,840.6	653.6
TAS	1.55939	3.7	1,568.6	563.5
ACT	1.12930	1.8	759.6	87.5
NT	4.26538	4.2	1,760.0	1,347.7

### **Other Commonwealth funding to the states and territories**

The Commonwealth also provides to the states and territories the following funds:

National Competition Policy Payments	\$777.7m
Specific Purpose Payments to the states (eg public education)	\$17,924.8m
Specific Purpose Payments through the states (eg nongov't schools)	\$6362.9m
Specific Purpose Payments direct to local government	\$304.7m
Compensation for GST deferral (2004-05, conditional)	\$330.0m

### **Commonwealth revenue**

An underlying cash surplus of \$4.6 billion is expected for 2003-04.

A surplus of \$2.4 billion is expected in 2004-05. This is estimated to fall to \$1.6 billion in 2005-06 before rising to \$3.4 billion in 2006-07.

The Commonwealth determines the allocation of this surplus in accordance with government priorities.

#### **Sources:**

Commonwealth Budget 2004-05, Federal Financial Relations 2004-05, Budget Paper No. 3  
Commonwealth Budget 2004-05, Budget Strategy and Outlook 2004-05, Budget Paper No. 1

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