

WA GST deal adds \$6bn to federal budget deficit

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Western Australia's sweetheart GST deal effectively almost tripled the federal government's budget deficit and has now cost the nation more than \$24bn since it was put in place, new analysis has revealed.

Economist Saul Eslake, a longstanding critic of the current GST arrangement, has calculated that the \$10bn budget deficit announced by Jim Chalmers this week would have only been \$3.7bn were it not for the agreement to top up WA's GST allocation to at least 75 per cent of its per-capita share.

Mr Eslake's analysis comes just a week after Dr Chalmers announced that the Productivity Commission would carry out a review of the GST distribution system. That review was required under the legislation that overhauled the allocation method back in 2018.

The GST has long been a contentious issue in WA, and the Albanese government – which narrowly won power in 2022 on the back of four seat gains and now holds 11 of 16 federal seats in the state – has repeatedly promised that WA's share of the GST will not change.

While most [other states are lobbying hard](#) for an [overhaul of the current system](#), the terms of reference prepared for the Productivity Commission's review specify that the commission "be cognisant of the commonwealth's policy commitments in relation to GST distribution".

Mr Eslake's analysis of the federal government's final budget outcome and WA's annual report on state finances – both released in the past week – shows that the - commonwealth was effectively running larger deficits in order to underwrite WA's budget surpluses.

He found that WA's GST floor had delivered the state almost \$24bn in what he labelled "excess" GST since it came into place six years ago.

Over the same period, WA had recorded just under \$19.5bn in operating surpluses.

His analysis, he said, confirmed his original scathing description of the GST floor - introduced by then-Liberal prime minister Malcolm Turnbull and his then-treasurer Scott Morrison in 2018 as "the worst public policy decision of the 21st century thus far".

Those payments have ensured that WA continues to deliver operating surpluses at a time when other states are struggling with mounting debts.

"WA recorded a general government cash surplus of \$2.66bn in 2024-25," Mr Eslake said. "That's their sixth consecutive cash surplus, totalling \$19.5bn over those six years. Over the same period, the other states and territories have recorded deficits totalling \$267.5bn.

"And where did those \$19.5bn of WA surpluses come from? Answer: the cost to the federal budget of the changes made to the GST distribution system by Morrison (with the support of the then Labor opposition) at the behest of WA has been \$24.2bn over those six years."

The GST floor enjoys enormous bipartisan support in WA, and Treasurer Rita Saffioti has previously warned that any federal treasurer who tried to cut the state's share would risk political oblivion for their party.

Prior to the changes, WA's GST share was in free fall as its take was reduced to reflect its growing iron ore revenues. The floor has meant WA has received both a sharp increase in GST and record iron ore royalties, giving it by far the strongest balance sheet of any state or territory.

WA has already indicated [it will fight hard to protect its current share](#). It has argued that its mining industry benefits the rest of the country through higher company taxes.

The state earlier this year announced major infrastructure spending aimed at putting in place the roads, powerlines and pipelines needed to support the next wave of project development across the state.

In a statement to The Australian, WA's Acting Treasurer David Michael said the state's per-capita GST share would have fallen to just 11 per cent last year without the 2018 reforms. And the 75 per cent the state did receive was lower than any other state in - history. "We know that the Albanese government supports maintaining the 2018 reforms, but we also know some commentators are pushing for the reforms to be removed," Mr Michael said. "Ultimately what Saul Eslake is advocating for is a system that is patently unfair and punishes states who try to grow their economy and boost national productivity."

He said that without the reforms, WA would effectively receive just 12 per cent of the iron ore royalties it collects. NSW, Victoria and Queensland would actually receive more of WA's iron ore royalties than WA did.

"There is no incentive for a state like Western Australia to develop its resource sector and invest in economic infrastructure if we're going to have our revenue completely decimated by a GST formula that doesn't encourage national productivity and economic growth," he said.

The Productivity Commission's review will examine whether the "horizontal fiscal equalisation" principle that has historically directed GST from stronger states to weaker states is a disincentive for states to reform and grow their economies.

Mr Eslake has previously described that argument as a "hoary old chestnut" for which inquiries in 1993, 2012 and 2018 had found no evidence to support.

A spokesman for Dr Chalmers said the Albanese government has made more progress on the budget in the past three years than any government in history.

"We've turned two big Liberal deficits into two substantial Labor surpluses in our first two years and significantly reduced the deficit in our third year," he said.

“The budget is in much better nick because we’ve paid down almost \$200bn of Liberal debt, demonstrated spending restraint, returned most of the revenue upgrades, overseen the creation of more than 1.1 million jobs and got real wages growing again.”

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Paul Garvey is an award-winning journalist with more than two decades' experience in newsrooms around Australia and the world. He is currently the senior reporter in The Australian's WA bureau, covering politics, courts, billionaires and everything in between. He has previously written for The Wall Street Journal in New York, The Australian Financial Review in Melbourne, and for The Australian from Hong Kong before returning to his native Perth. He was the WA Journalist of the Year in 2024 and is a two-time winner of The Beck Prize for political journalism.

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