



THE OFFICE OF SENATOR JACQUI LAMBIE
SENATOR FOR TASMANIA

18 February 2026

Ngunnawal Country
4 National Circuit
Barton ACT 2600

Submission: Productivity Commission – GST Distribution Reforms

The Goods and Services Tax (**GST**) is designed to benefit all Australians, by ensuring that every state and territory has the financial capacity to provide a comparable standard of public services (such as health, education, and infrastructure) regardless of their ability to raise their own revenue.

When the GST was first introduced in 2000, the Australian Government and all states and territories agreed it would be distributed based on the long-standing egalitarian principle of Horizontal Fiscal Equalisation (**HFE**). HFE fundamentally binds the Federation by seeking to ensure that all Australians, no matter where they live, can access a similar standard of services and infrastructure. Under full HFE, all states and territories were provided with the fiscal capacity of the fiscally strongest state to provide services.

In 2018, the Morrison government with the support of the then Labor opposition gave Western Australia a special deal for the distribution of income from the GST.

Under the deal, which was clearly designed to win marginal seats, Western Australia, receives a much greater share of the centrally collected GST revenue than it would have been entitled to under the methods previously used by the Commonwealth Grants Commission.

Western Australia, already a resource rich state, got this boost to their coffers, and in 2025 declared a \$2.5 billion surplus, while most other states, like New South Wales, Victoria, Tasmania and Queensland have faced budgetary deficits.

The 2018 deal overturned the horizontal fiscal equalisation principal that ensures each state and territory has the fiscal capacity to provide its residents with a broadly similar range and quality of public services, while levying a similar level of state taxes. This applies to states with different populations and needs.

This principle is the primary reason why the quality of health care, schooling and policing in Australian communities, doesn't depend on the state you call home.

Office of Senator Jacqui Lambie

Email: Senator.Lambie@aph.gov.au

Mail: PO Box 256, Burnie TAS 7320

Electorate Phone: 03 6431 3112

Electorate Office Address: 4/22 Mount St, Burnie TAS 7320

But that egalitarian principle was lost in the pursuit, by both major parties, of electoral victory. This naked manipulation of our countries budget is a shameful episode in our nation's history, and one that should be righted at the earliest opportunity.

The mining boom that hit Western Australia, starting in the 2000's, meant the state was now having to share income from mining royalties with other states. But the 2018 amendment changed how the GST revenue is distributed.

Instead of equalising all states to have the fiscal strength of the strongest state (such as WA during the boom), GST funds were now equalised to the stronger states of New South Wales and Victoria. States are also guaranteed a minimum per capita share of revenue.

The only state that benefited from these changes was Australia's richest state: Western Australia. Since 2018/19 it has received more than \$24.2 billion more than it would have done. Combine that with \$53.8 billion in mineral royalties over the last seven years, has enabled Western Australia to have cash surpluses totalling more than \$18 billion. Every other state and territory recorded cash deficits over that time.

The GST is Tasmania's single largest source of revenue, accounting for approximately 40 per cent of total General Government Sector revenue in 2025-26.

For Tasmania, this provides crucial flexibility to direct revenue in accordance with the States priorities, including funding essential services for Tasmanians. Given the importance of GST revenue for the State, it is imperative that Tasmania secures its fair share on an ongoing basis. The 2018 changes also introduced a GST relativity floor which guarantees a minimum revenue stream for all states, but to date has only benefitted Western Australia.

This guarantee has protected Tasmania from the reforms which would have otherwise reduced our states GST revenue by \$318.6 million.

The necessity of the no-worse-off guarantee to mitigate the fiscal impact for states, and the quantum of these payments, highlights the unsustainability of the revised arrangements and indicates they are not operating as intended.

It has been estimated that the "No Worse Off Guarantee" (NoWo) will cost the Federal Budget \$8 billion over the nine years to 2026-27, when the NoWo would expire.

The Albanese government agreed in 2023 to extend NoWO by another three years. It is now expected it will have cost the federal budget almost \$60 billion by its scheduled expiry in 2029-30.

Apart from the National Disability Insurance Scheme, this is the biggest cost of any single policy decision. This \$52 billion blowout from the GST carve up is a massive drain on the federal budget; this at a time when there is huge demand on our federal budget.

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According to independent economist Saul Eskale; “ *Western Australia’s per capita gross product has in recent years been more than 70% above the average for the rest of Australia. To the best of his knowledge there has never been another time, at least not since Federation, when one state has been ‘richer’ – as measured by per capita gross product – than the rest of the country by as large a margin as Western Australia has been in recent years. During the past 45 years during which ABS estimates of gross state product have been available, the ACT’s per capita gross product has never been more than 24% above the national average; Victoria’s has never been more than 12% above the national average, and New South Wales’ never more than 8% above the national average.*”

The 2018 changes to the GST require the Productivity Commission to judge whether the new system is working “**efficiently, effectively and as intended**”. It is my view and the view of many others that it is not efficient, and it is certainly not equitable.

If Australia is to rise to the myriad challenges the 21st Century is posing; we must have a fair and equitable distribution of our wealth to that it benefits the lives of all Australians.

Yours sincerely.

Senator Jacqui Lambie
Senator for Tasmania

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