



**DEAN WINTER MP  
SHADOW TREASURER**

**Alex Robson  
Deputy Chair**

**Angela Jackson  
Commissioner**

Productivity Commission  
GPO Box 1428  
CANBERRA CITY ACT 2600

via email: [gst.reforms@pc.gov.au](mailto:gst.reforms@pc.gov.au)

Dear Alex and Angela

**2018 GOODS AND SERVICES TAX (GST) DISTRIBUTION REFORMS – SUBMISSION**

Thank you for the opportunity to provide a submission to the Productivity Commission's inquiry into the 2018 Goods and Services Tax (GST) Distribution Reforms.

**Tasmania's fiscal deterioration**

Tasmania's budget position underscores the importance of this review. Our state is highly dependent on GST revenue, which accounts for 40 per cent of General Government Sector revenue in the 2025–26 Budget. Tasmania's structural characteristics — a small population, ageing demographics, and significant regional dispersion — make strong fiscal equalisation essential to funding the core services Tasmanians rely on.

Since the 2018 changes, Tasmania's fiscal position has deteriorated sharply. Record cash, fiscal, underlying and operating deficits have pushed the state to a record net debt level, forecast to double over the next four years. While the no-worse-off guarantee has shielded Tasmania from the impact of the 2018 methodology changes, the state's worsening financial trajectory makes any reduction in Commonwealth support even more untenable.

Economist Saul Eslake has warned that Tasmania is on track to have the weakest finances of any Australian state. Both Moody's and Standard & Poor's have downgraded Tasmania's credit rating, and the Government is now in breach of 10 of its 11 fiscal strategy benchmarks. Tasmania is bracing for significant tax increases, service cuts, or both in the

2026–27 Budget. Any reduction in GST support would have serious consequences for essential service delivery.

### **The 2018 GST ‘reform’**

The 2018 reforms were deeply concerning to Tasmanians. The Tasmanian Liberal Government’s initial response — and its early submissions — opposed the changes. However, after the release of the final model, which was not properly scrutinised through the Productivity Commission process, the Government reversed its position and claimed the reforms would leave Tasmania \$112 million better off over four years and in perpetuity.

This has not occurred. Tasmania has been materially disadvantaged by arrangements that funnel billions of dollars to Western Australia while constraining the Australian Government’s capacity to invest in other states. I ask the Commission to disregard any suggestion that the 2018 reforms were ever in Tasmania’s interests. They have not been — by any measure.

### **A path forward**

Your discussion paper asks: *Are there better alternative arrangements?*

Yes. The model abandoned in 2018 should be reinstated as the gold-standard approach to Horizontal Fiscal Equalisation (HFE). Each jurisdiction’s fiscal capacity should be equalised to that of the strongest state, ensuring every Australian can access comparable services regardless of where they live.

Tasmanian Labor supports a GST distribution system that maintains strong HFE principles, ensures fiscal sustainability, and protects against volatility. The current model does not. Any reform must enhance the capacity of all states and territories to deliver essential services. The 2018 changes have created systemic risk, and the previous model should be restored.

In the absence of meaningful reform that reinstates full HFE, the no-worse-off guarantee must be extended indefinitely. Its temporary nature leaves Tasmania exposed to a catastrophic revenue shock should a future government choose to terminate it. The guarantee has already cost the Commonwealth more than \$14 billion. Meanwhile, Western Australia continues to post extraordinary surpluses — including a single-year surplus exceeding \$6 billion — and has even ceased taking dividends from its Government Businesses due to the strength of its operating position.

### **Other considerations**

Any exemptions for Specific Purpose Payments (SPPs) or other Commonwealth payments from CGC assessments must not disadvantage Tasmania, given our reliance on tied funding for health and education.

Clear and consistent guidelines are also needed regarding the treatment of major Commonwealth capital contributions, such as the funding provided for the Macquarie Point urban renewal project. Large infrastructure investments are currently being considered for exclusion from GST calculations on an ad-hoc basis. Commonwealth initiatives should not erode the revenue base that supports day-to-day service delivery.

I welcome the opportunity to discuss these matters further. Please contact me to arrange a suitable time to meet.

Yours sincerely

Dean Winter MP  
**Shadow Treasurer**

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