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Liberal Member for Bass



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Submission to the Productivity Commission Review of Horizontal Fiscal Equalisation

Submitted by: Rob Fairs MP, Member for Bass, Tasmanian House of Assembly

I write to strongly advocate for the retention and strengthening of full Horizontal Fiscal Equalisation (HFE) as the guiding principle for the distribution of Goods and Services Tax (GST) revenue in Australia. From Tasmania's perspective, full HFE is essential to maintaining fairness within the federation, ensuring equitable access to services for all Australians, and supporting balanced national economic development.

HFE is founded on the principle that all Australians, regardless of where they live, should have access to a broadly comparable standard of government services, provided each state makes a comparable effort to raise revenue. This is not merely a technical fiscal framework but a core expression of the Australian social compact. The Commonwealth Grants Commission has applied this principle, in various forms, since the 1930s, reflecting a longstanding national consensus that federal financial arrangements should reduce structural inequalities between the states and territories rather than entrench them.

Tasmania provides a clear case study of why full HFE remains vital. The state has a smaller and less diversified economy and a comparatively lower capacity to raise revenue from our taxes and royalties. For example, Tasmania's ability to generate revenue from mining royalties and land tax is substantially below the national average. At the same time, demographic and geographic characteristics, including an older population profile, higher levels of chronic illness and disability, and a dispersed regional population, increase the cost of delivering essential public services such as healthcare, education and emergency services.

GST revenue is therefore a critical pillar of Tasmania's fiscal sustainability. Historically, GST receipts have accounted for approximately 40 per cent of Tasmania's total general government revenue. Without full HFE, Tasmania would receive significantly less funding, with modelling indicating that equal per capita distribution would reduce GST receipts by approximately 1.1 billion dollars in a single year, with profound consequences for service delivery and infrastructure investment. Such an outcome would not simply disadvantage Tasmania; it would undermine the broader national objective of ensuring equality of opportunity across Australia.

The 2018 changes to GST distribution arrangements represent a departure from full HFE by shifting equalisation away from the fiscal capacity of the strongest state and instead targeting the second

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strongest jurisdiction. While transitional “no worse off” guarantee payments have temporarily mitigated financial impacts, these payments are scheduled to expire. Forward estimates indicate that Tasmania will face ongoing and structural reductions in GST revenue once transitional arrangements cease. This creates fiscal uncertainty and risks reducing Tasmania’s capacity to invest in essential services, particularly in regional and disadvantaged communities.

Importantly, full HFE does not penalise economic success or discourage productivity. Rather, it recognises that differences in economic structure, resource endowments, population density and service delivery costs are largely outside the control of state governments. By equalising fiscal capacity rather than actual expenditure or policy choices, HFE preserves incentives for responsible financial management while ensuring that structural disadvantages do not translate into entrenched social and economic inequality.

From a national perspective, weakening HFE risks concentrating economic opportunity and public investment in already strong jurisdictions, accelerating population drift, and placing additional pressure on metropolitan infrastructure. A federation that tolerates widening disparities between states ultimately imposes greater long-term costs on the national economy. Conversely, a robust HFE system supports national cohesion, strengthens regional economies and enables smaller jurisdictions to contribute productively to Australia’s overall prosperity.

Accordingly, I urge the Productivity Commission to recommend the restoration and preservation of full Horizontal Fiscal Equalisation as the central objective of GST distribution. In addition, consideration should be given to embedding enduring safeguards, including a permanent no worse off guarantee, to provide fiscal certainty for states with structurally lower revenue capacity and higher service delivery costs.

Full HFE is not a concession to weaker jurisdictions. It is a fundamental pillar of a fair, stable and unified federation. Maintaining this principle is essential to ensuring that every Australian, including those in Tasmania, has access to high quality public services and genuine equality of opportunity, regardless of geography.

Yours sincerely,

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