

20 February 2026

To: Productivity Commission

Re: Productivity Commission Inquiry into 2018 changes to Goods and Services Tax distribution

Introduction

The Productivity Commission has been asked by the Australian Government to undertake an inquiry into the 2018 Goods and Services Tax (GST) distribution reforms. The 2018 legislation provided for a review of the operation of the Act by the Productivity Commission by 31 December 2026.

The inquiry has been tasked with examining the extent that the 2018 changes to the GST distribution system are operating efficiently, effectively and as intended and the fiscal implications of the changes for each state and territory and the Commonwealth.

A final report is not due until the end of 2026.

About AMEC

The Association of Mining and Exploration Companies (AMEC) is the national peak body representing over 575 mining and mineral exploration companies across Australia. Our members are mineral explorers, emerging miners, producers and a wide range of businesses working in and for the industry. Collectively, AMEC's member companies account for over \$100 billion of the mineral exploration and mining sector's value.

The mining and exploration industry make a critical contribution to the Australian economy, directly employing over 274,000 people. In 2022-23 industry generated a record high \$466 billion in resource exports, invested \$4.27 billion (2023) in exploration expenditure to discover the mines of the future, and collectively paid over \$63 billion in royalties and taxes.

Background

Australia's system of federal financial relations involves the transfer of revenue collected by the Commonwealth to the states. An important part of the system is the GST, collected by the Commonwealth and distributed to the states and territories in accordance with the *Federal Financial Relations Act 2009* and the *Commonwealth Grants Commission Act 1973*. The GST is a 10 per cent tax on most goods and services sold in Australia and is collected by the Commonwealth Government.

In 2018, the Commonwealth Parliament changed the way GST revenue is distributed among the states to address concerns about the volatility of this revenue source. The amendment Bill was titled *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Bill 2018*.

The main reforms legislated via amendments to the *Commonwealth Grants Commission Act 1973* in 2018 were:

- Changing the equalisation benchmark so that each state's relativity is at least as high as the relativity of the fiscally stronger of New South Wales or Victoria.
- Ensuring a minimum GST revenue-sharing relativity (now 0.75);
- Requiring the GST pool to be 'topped-up' by the Commonwealth into perpetuity, and for that 'top-up' to grow at an indexed rate;
- During a transition period of six year from 2021-22 to 2026-27, any state that received less than it would have received under the previous GST distribution system would be entitled to additional 'no worse off' (NoWO) payments.

General Comments

The distribution of revenue from the GST to the states and territories is the largest single expenditure program in the Federal Budget and is the largest source of untied funding to the States. According to 2025-26 Federal Budget Paper No 3 it will amount to \$95.2 billion in the 2025-26 financial year and is estimated to rise to \$111.6 billion in 2028-29.

When the GST was introduced, its stated aims were to simplify the taxation system, eliminate state-based taxes and create a more equitable tax system. The states and territories were encouraged to support the introduction of the GST as they would receive the full proceeds of the GST revenue.

The key principle behind the GST carve-up between the states and territories is called Horizontal Fiscal Equalisation (HFE), administered by the Commonwealth Grants Commission. The stated goal behind the carve-up is that each state and territory should have a similar capacity to deliver public services, for example health, education and infrastructure, if they adopted similar policies. GST is adjusted based on how much a state can raise from its own taxes, how much it costs to provide services and the relative needs and demographics of the state. It is an accepted policy position that Commonwealth GST grants should aim to compensate for or narrow the gap between fiscally stronger and weaker states and territories.

The 2018 reforms were introduced to address concerns regarding the volatility of the GST distribution to the states as territories as a revenue source.

The GST is distributed on the basis of HFE, with states effectively disadvantaged for their ability to raise revenue from alternative sources, for example mining royalties. However, pokies taxes and toll road revenue are exempt from the formula. Revenue is included in the GST redistribution formula if it reflects real economic capacity (mining royalty) and excluded if it reflects policy choice (pokies, gambling and road tolls).

The reasoning for exempting pokies taxes from the GST redistribution formula is described as policy driven. It is to avoid penalising or rewarding states for their gambling policy choices. The same logic is applied to the exempting of revenue from road tolls. That is, the revenue from pokies and tolls is strongly influenced by state policy, it's considered that its inclusion would distort state behaviour, therefore distort the equalisation system.

Mining royalties are included in the GST redistribution formula as they reflect underlying fiscal capacity, they do not result from a policy choice. Mining royalties depends on where mineral deposits happen to exist, is dependent on global commodity prices, if a state has iron ore, coal, gas etc it has a greater natural capacity to raise revenue regardless of what it chooses to do. Although, it could make a policy choice not to take advantage of those natural advantages.

According to Geoscience Australia, 80% of Australia is underexplored, with potential minerals, groundwater and energy resources hidden beneath the surface. Australia's current resource prosperity comes from discoveries and developments made decades ago in geologically well-known and well-explored areas. It can take 5-10 (or more) years for a new resource to go from discovery to development.

In fact, over 80% of Australia's current mineral production comes from mines discovered before 1980, where resources are close to the surface. There is a huge, untapped opportunity in areas that are underexplored and unexplored, known as 'greenfield' areas. This includes areas where resources may be buried deep in the ground – areas that span about 80% of Australia's landmass.

Whilst mining and exploration might reflect fiscal capacity, not every state and territory create and enable an economic environment that attracts investment in mining and exploration. In the same manner that not every state and territory make the same gambling choices, that is not all states have pokies, not all states and territories take advantage of the minerals in their ground. That is a policy choice.

In 2018, the floor was introduced which meant that no state could fall below 70%, and then 75% of the national average per capita GST, from 2024-25 onwards.

The floor as working currently, does benefit Western Australia. That is because for much of the past 20 years Western Australia has been the fiscally strongest state. Mainly, due to the strong exploration and mining industry, and high iron-ore prices. However, historically it has not always been the fiscally strongest state and may not be in the future. Mining and exploration is a highly volatile industry, it is also susceptible to the world economy.

AMEC is recommending that the 2018 reforms including the GST floor remains intact. Retaining the floor ensures a stable income for all states and territories that encourages long-term investment in infrastructure and regional services, and that encourages states to develop their resources sectors supporting the national economy and living standards.

In addition to maintaining the 2018 reforms, other changes to the underlying GST system to encourage states and territories to develop their resources sectors be considered, including partially discounting mining royalties (as occurs in Canada). Incentivising development through our tax system benefits the entire nation through job creation, boosting productivity and standards of living, as well as higher revenue to the states and territories and the Commonwealth through company tax collections.

If GST revenue shares are highly volatile states and territories lose the fiscal certainty they need to make investment in long-term infrastructure and services. A volatile source of income discourages investment by both state governments and the private sector. Long-term, strategic investment depends on stable state funding and infrastructure.

Additionally, if the GST carve-up amongst states and territories is considered unfair by a community, or state population, the tax may start to lose social licence.

Private investors and companies wanting to invest in exploration, mining and energy look for states that can fund the infrastructure that supports their investment. For example, ports, roads and regional services.

Australia's national productivity also depends on there being fiscally strong states, that attract significant investment. If states are disincentivised from long-term investment, and face volatility in their revenue sources, it harms national growth and productivity, not just the individual states and territories.

A fair and stable GST distribution is essential to sustain national investment and economic growth. And an effective way to ensure this stability is to retain the floor, and the NoWO payments.

Final Remarks & Recommendation

The amendments made to the distribution of the GST in 2018 included a requirement to review the efficiency and effectiveness of those amendments by 31 December 2026.

It is important for states and territories to invest in long-term infrastructure, and regional development. If the biggest source of revenue to states and territories fluctuates significantly from year to year, it disincentivises the investment in necessary long-term projects that create national growth.

The current base model acts as a major disincentive for states and territories to invest and support the development of their resource sectors. This is a poor approach to economic policy and one that undermines the growth of state and territory own-sourced revenue, which should be a primary consideration.

States and territories should be incentivised to grow their economies, to support and encourage private investment and increase the overall prosperity of that state or territory. Leading, to greater prosperity for Australia as a whole.

It is important that the GST system balances priorities for states and territories to invest in long-term infrastructure, and regional development and creates the right incentives in our tax system.