

SUBMISSION TO THE
PRODUCTIVITY COMMISSION
Inquiry into the 2018 GST Distribution Reforms

**MAINTAINING THE GST FLOOR:
PROTECTING WESTERN AUSTRALIA'S FAIR SHARE**

Submitted by:

Senator the Hon Michaelia Cash

Leader of the Opposition in the Senate

Shadow Attorney-General

Senator for Western Australia

On behalf of the Western Australian Federal Liberal Party Team

February 2026

Executive summary

Western Australia is the engine room of the Australian economy. The state's resources sector injected a record \$150 billion into the national economy in 2023-24, supports three in ten jobs across the state, and contributed \$37.7 billion in taxes to the Australian Government - an amount roughly equivalent to the entire national Medicare bill. Despite this extraordinary contribution, Western Australia for decades received a pittance in return from the Goods and Services Tax (GST) distribution system, with its GST share falling to as low as 30 cents for every dollar raised by West Australians at the system's most unjust point.

The 2018 GST distribution reforms, designed and delivered by the Coalition Government of which Senator Michaelia Cash was a proud member, corrected this historic injustice by legislating a relativity floor - ensuring that no state would receive less than 70 cents in the dollar rising to 75 cents from 2024-25. That reform was right then, and it is right now. It must be maintained.

The Western Australian Federal Liberal team, headed by Senator Cash, makes this submission to urge the Productivity Commission to recommend the retention of the 2018 reforms, including a GST floor of no less than 0.75, without weakening or dilution. Our core arguments are straightforward:

- Western Australia generates extraordinary national wealth through mineral resources that require massive, ongoing capital investment and carry inherent geological, environmental and market risk. This contribution must not be penalised by the distribution formula.
- Even with the 2018 floor in place, Western Australia still returns only 75 cents for every dollar of GST it generates. The reforms corrected an injustice; they did not over-correct it.
- WA faces genuine above-average costs of service delivery, including in remote and regional communities, that justify its GST needs even when royalty revenues are strong.
- The 2018 reforms were a carefully negotiated, legislated compact. Unpicking them would shatter investor confidence, undermine Commonwealth-State trust, and punish WA for being a national economic success story.
- Horizontal Fiscal Equalisation (HFE) as previously practised was fundamentally flawed in its treatment of resource royalties, creating perverse incentives and deeply unfair outcomes for West Australians.

Western Australia's message is simple: we have always paid our way for this nation. We ask only for arrangements that stop short-changing us. The 2018 floor must stand.

1. Background

1.1 The problem the 2018 reforms were designed to fix

For much of the period following the introduction of the GST in 2000, Western Australia was treated as a cash cow by the national distribution formula. As the state's mining sector grew to become one of the most productive in the world, the Commonwealth Grants Commission (CGC) used WA's royalty revenue to systematically reduce its GST share, effectively redistributing wealth generated by West Australians to other states, with no corresponding recognition of WA's unique service delivery challenges or the investment WA governments had made to generate that resource wealth.

The consequences were stark and damaging. At its lowest point, WA's GST relativity fell to approximately 0.30 - meaning Western Australia received less than one-third of what a per-capita share of the GST pool would have delivered. This was not a minor fiscal inconvenience. It created genuine budget pressure at the state level, constrained investment in essential services, and sowed deep community resentment.

The scale and volatility of the imbalance also defied the original intent of the GST system and the compact between the Commonwealth and the states. Western Australia had not

anticipated, when agreeing to the introduction of the GST, that a commodities boom would be used to strip back the state's revenue to such extraordinary levels. The Commonwealth Grants Commission itself acknowledged that the degree of volatility experienced by WA had not been foreseen.

1.2 The Coalition's 2018 reform was a landmark achievement

It was a Coalition Government that had the political courage and conviction to address this injustice in 2018. Senator Cash, then a senior Minister in that Government, was part of the Cabinet that designed and implemented these reforms. The WA Liberal team is therefore uniquely placed and deeply invested in defending the integrity of these arrangements.

The 2018 reforms established:

- A legislated GST relativity floor, rising from 0.70 in 2022-23 to 0.75 from 2024-25 onwards, applying to all states and territories.
- A 'No Worse Off' (NWO) guarantee, under which the Commonwealth tops up the GST pool to ensure other states are not disadvantaged by the floor, ensuring the reform was not redistributive from east to west, but rather funded by the Commonwealth.
- A change to the equalisation benchmark, moving from the fiscally strongest state to the stronger of New South Wales or Victoria, moderating the scale of equalisation.

These reforms were carefully calibrated, extensively modelled, and accompanied by substantial Commonwealth funding commitments to protect all other jurisdictions. They were not a windfall for Western Australia. They were a modest correction that still leaves WA well below a per-capita share of GST.

1.3 This inquiry is a pre-scheduled review, not a reopening of the deal

This Productivity Commission inquiry was required by the 2018 legislation itself - it was always going to occur at the five-year mark. The Commission should approach its task as it was intended: to examine whether the reforms are operating efficiently, effectively and as intended, not as an opportunity to revisit the fundamental policy compact that underpins them.

We note that Federal Treasurer Jim Chalmers has publicly stated the Government's support for the existing arrangements, affirming that WA is getting its fair share of the GST. We urge the Commission to take that policy commitment seriously in framing its analysis and recommendations.

2. Western Australia's extraordinary contribution to the national economy

2.1 The engine room of Australia

Any analysis of GST distribution must begin with an honest accounting of Western Australia's contribution to national prosperity. The figures are remarkable:

- WA's resources sector contributed a record \$150 billion to the national economy in 2023-24 - a 13 per cent increase on the prior year - representing the highest contribution in the decade-long history of such surveys.
- The sector paid \$12.7 billion in state taxes and royalties to the WA Government and \$37.7 billion in taxes to the Australian Government - a federal contribution roughly equivalent to the total cost of Medicare for all Australians.
- The WA resources sector supports 3 in 10 jobs across the state and accounts for approximately 9 per cent of national GDP.
- Iron ore remains the dominant export, accounting for approximately 58 per cent of mineral export value.
- Resource royalties and taxes contribute approximately one-third of WA's general government revenue.

These are not abstract statistics. They represent the investment decisions, the workplace risks, the community disruption, and the environmental obligations shouldered by Western Australia and its people to generate wealth that flows to every corner of this nation through corporate tax receipts, export income, Commonwealth revenues, and the GST pool itself.

2.2 WA's contribution is not accidental or passive

Critics of the 2018 reforms argue that WA's mineral wealth is simply a geological accident for which the state deserves no credit. This argument is superficially clever but fundamentally wrong.

Mineral resources do not 'jump out of the ground and onto a ship,' as the WA Deputy Premier has rightly noted. Western Australia has invested decades in developing the regulatory frameworks, infrastructure, workforce, and capital investment environment that makes resource extraction viable and world competitive. The Pilbara iron ore operations represent some of the most sophisticated industrial infrastructure on the planet. The North-West Shelf LNG facilities required enormous capital commitment and technical complexity.

Moreover, WA governments have made deliberate policy choices to attract investment, streamline approvals, and accept the risks of a resource-based economy. To then have the royalty revenues generated by those choices used as an instrument to strip back WA's GST entitlement is both economically perverse and politically unjust.

2.3 WA's fiscal capacity Is cyclical and volatile

Resource royalties, while currently strong, are inherently cyclical and volatile. Iron ore prices fluctuate dramatically with global demand, particularly from China. A sustained downturn in commodity prices - as occurred in the mid-2010s - can rapidly erode the royalty revenues.

The 2018 reforms appropriately recognised this volatility. A floor that protects WA during commodity downturns is not a bonus - it is insurance against a system that would otherwise swing wildly, leaving WA unable to plan services or maintain fiscal stability. The Commonwealth Grants Commission has acknowledged that the scale of volatility experienced by WA was not foreseen when the GST was introduced. The 2018 reforms directly addressed that flaw.

WA's royalty revenues peaked at \$11.4 billion in 2020-21. Before the 2018 floor, that peak would have driven WA's GST share to near zero. The floor did not create a windfall; it created basic fiscal stability.

3. The 75-cent floor: correcting the record

3.1 WA still does not get its fair share

A central argument made by those who wish to weaken or remove the 2018 reforms is that Western Australia is receiving an unjustified 'bonus'. This characterisation is misleading and must be firmly rejected.

Under the 0.75 floor, Western Australia receives 75 cents in GST for every dollar it generates - not the full dollar. Put plainly: even with the reform in full operation, Western Australia is still returning 25 cents in every dollar it generates to subsidise other states' GST shares.

In 2025-26, Western Australia is estimated to receive approximately \$7.8 billion in GST revenue. While this represents an improvement on the pre-reform era, it still reflects a below-population-share distribution. WA's population is approximately 11 per cent of the national total; its GST share is constrained by the floor rather than reflecting the full population share that simple equity would demand.

3.2 The 'no worse off' guarantee protects eastern states

One of the most important design features of the 2018 reforms is the Commonwealth's commitment to top up the GST pool to ensure no other state is worse off. This means that the floor for WA does not come at the expense of NSW, Victoria, Queensland or any other jurisdiction. It is funded by Commonwealth fiscal capacity.

Those who argue that the reform is 'costing' other states are wrong. The cost falls on the Commonwealth and even then, it is cost that the Commonwealth can absorb given the enormous tax revenues WA's resources sector delivers to the federal budget. The \$37.7 billion in federal taxes paid by WA's resources sector alone in 2023-24 dwarfs the estimated Commonwealth contribution to the NWO guarantee.

3.3 A per-capita approach would be even more generous to WA

Some commentators argue for a move to strict per-capita distribution of the GST, arguing that each state should simply receive a share proportional to its population. Ironically, under a pure per-capita model, Western Australia's GST share would be higher than under the current floor arrangement, given WA's share of national population relative to its current floor-constrained allocation.

We do not advocate for per-capita distribution - there are legitimate reasons to maintain some degree of equalisation. But this fact powerfully illustrates that the 2018 floor does not over-correct the system. It represents a modest, floor-based protection, not a bonanza.

4. Why full horizontal fiscal equalisation was broken

4.1 The perverse treatment of mining royalties

The pre-2018 HFE system, as operated by the Commonwealth Grants Commission, systematically treated Western Australia's mineral royalty revenues as a reason to reduce its GST share on an almost dollar-for-dollar basis. This created a deeply perverse dynamic: the more successfully WA managed its resources and the more it benefited the national economy the more it was penalised in the GST distribution.

This stands in stark contrast to how other revenue sources are treated. New South Wales, for example, benefits from enormous revenues from poker machines, a revenue stream that most Australians would regard as socially harmful and entirely unlike the productive, export-generating resource royalties earned by WA. Yet gambling revenues are treated differently from mining royalties in the equalisation calculus. This inconsistency is indefensible and has been rightly noted by many.

4.2 Full equalisation creates fiscal dependency

A system that redistributes resource revenues from producing states to consuming states reduces the incentive for fiscal responsibility across the federation. States that benefit from equalisation have less reason to develop their own revenue base or pursue difficult economic reforms. The 2018 reforms, by moderating the degree of equalisation, move the system toward one that better rewards productive economic management.

4.3 WA's above-average service delivery costs

Western Australia is the largest state in Australia by land area, roughly one-third of the Australian continent. It has vast stretches of remote and regional territory, significant indigenous communities with complex service needs, and a population that is heavily concentrated in a single metropolitan area far from the east coast centres of national infrastructure.

The Commonwealth Grants Commission acknowledges that WA faces above-average wage cost pressures and genuine above-average costs of service delivery in remote and regional areas. These factors justify a higher GST allocation regardless of the royalty question. The 2018 floor ensures these legitimate cost drivers are not entirely overwhelmed by the royalty assessment.

5. The integrity of the compact must be maintained

5.1 A legislated promise to Western Australians

The 2018 reforms were not merely an administrative adjustment. They were a legislated compact between the Commonwealth and Western Australia, negotiated at the highest political levels and passed by the Parliament of Australia. They represented a solemn commitment that WA would not be penalised to the same extreme degree it had been for the preceding decade.

To weaken or reverse those arrangements now or to recommend alternatives that erode the floor would constitute a fundamental breach of trust with the people of Western Australia. It would send a damaging message to every state with natural resources. Be careful how successfully you develop those resources, because the more you succeed, the more we will take from you.

5.2 Investor confidence and long-term planning

Western Australia's resources sector requires long-term capital investment decisions based on policy predictability. Mining projects run for decades. LNG facilities are built on 20-year financing models. Any uncertainty about the fiscal environment facing Western Australia including the stability of its state budget, itself partly dependent on GST, flows through to investment decisions that affect the national interest.

The 2018 reforms provided welcome certainty. Revisiting them or allowing this inquiry to cast doubt on their continuity will introduce unnecessary uncertainty into WA's investment environment, with consequences that extend well beyond the state's borders.

5.3 Bipartisan support for the reforms

The continued operation of the 2018 arrangements enjoys broad political support. The WA State Government, under both Liberal and Labor governments, has consistently argued for

their retention. Federal Treasurer Chalmers has publicly supported the existing deal. The WA Liberal team adds its strong voice to this bipartisan consensus.

The fact that some commentators and economists, many of them based on the east coast, argue for their removal does not change the fundamental justice of the case for retention. Academic critiques of the deal typically focus on its cost to the Commonwealth without adequately accounting for WA's enormous fiscal contribution to the Commonwealth, or the deep injustice of the pre-2018 system it replaced.

6. Responding to arguments against the floor

6.1 WA has large surpluses - it doesn't need the floor

Critics point to WA's recent budget surpluses as evidence that the state no longer needs the protection of the 2018 floor. This argument confuses a cyclical outcome with a structural entitlement and misunderstands the purpose of the reform.

WA's surpluses reflect high commodity prices in a particular global market environment. Iron ore prices are highly sensitive to Chinese steel demand, which has proven volatile. A return to lower commodity prices as we saw dramatically between 2012 and 2016 would rapidly erode royalty revenues. The floor ensures WA retains basic fiscal stability through the commodity cycle, not just at the peak.

Moreover, even during periods of strong royalty revenue, WA still receives only 75 cents in the dollar from the GST. The state is still subsidising others through the equalisation process. The existence of a budget surplus does not change the principle that WA should not receive less than 75 cents in the dollar of GST it generates.

6.2 The deal costs the Commonwealth too much

Some estimates place the cost of the NWO guarantee and Commonwealth top-up payments at \$26.3 billion over the four-year period from 2025–26 to 2028–29. This sounds large in isolation but must be set in context.

WA's resources sector paid \$37.7 billion in taxes to the Australian Government in 2023-24 alone. The Commonwealth's contribution to maintaining WA's GST floor is a fraction of the national fiscal benefit it receives from WA's economic activity. Framing the NWO guarantee as a cost without acknowledging the revenue it helps protect is selective accounting that does not serve the national interest.

6.3 The deal was simply political

Some critics, including prominent economists, have characterised the 2018 reforms as a purely political decision to win votes in Western Australia. This is a reductive and unfair characterisation of a reform that was driven by genuine fiscal injustice.

Western Australia's GST share had fallen to historically low levels. The state was experiencing genuine budget pressure. The per-capita gap between what West Australians contributed to national revenues and what they received back was profound. The fact that addressing that injustice was also good politics does not make it bad policy. Indeed, the existence of political support for the reform reflected the breadth of community concern about the issue in WA which in turn reflected the depth of the underlying problem.

7. Recommendations

On behalf of the Western Australian Federal Liberal Parliamentary team, we urge the Productivity Commission to make the following findings and recommendations in its final report:

Recommendation 1: Retain the 0.75 GST relativity floor

The Commission should recommend that no less than the 0.75 GST relativity floor, as legislated in 2018, be retained. Any recommendation to lower the floor, phase it out, or subject it to conditions tied to state revenue performance would constitute a breach of the policy compact established in 2018 and would be deeply unjust to Western Australia.

Recommendation 2: Confirm the no worse off guarantee

The Commission should recommend the continuation of the Commonwealth's No Worse Off commitment to other states and territories. This is essential to ensure the floor mechanism does not operate at the expense of other jurisdictions and remains a Commonwealth-funded equity measure.

Recommendation 3: Acknowledge the limits of full equalisation

The Commission should acknowledge in its report that full Horizontal Fiscal Equalisation as historically practised including the treatment of mining royalties that drove WA's share to 30 cents in the dollar was not operating efficiently or fairly, and that the 2018 reforms corrected genuine systemic flaws in that approach.

Recommendation 4: Recognise WA's genuine service delivery costs

The Commission should confirm that WA's above-average service delivery costs, particularly in remote and regional communities, justify ongoing recognition in the distribution methodology, independent of the royalty assessment.

Recommendation 5: Reject calls for radical alternative models

The Commission should decline to recommend any alternative distribution model that would effectively reduce WA's floor protection below 75 cents in the dollar, including proposals for

full per-capita distribution that are presented as neutral but would, if accompanied by removal of the floor, create renewed uncertainty for Western Australia.

8. Conclusion

Western Australia is not asking for special treatment. We are asking for fair treatment. The 2018 GST distribution reforms, delivered by the Coalition Government, moved the system closer to fairness after years of deeply unjust outcomes. They did so with fiscal prudence, protecting other states through the NWO guarantee. They were legislated in good faith.

Even under the reformed system, Western Australia still returns 25 cents in every GST dollar to other states. Our miners dig the iron ore. Our gas workers endure difficult working conditions far from home. Our state governments manage vast infrastructure and service delivery across an extraordinary geography. And WA taxpayers and businesses fund the federal government at a rate that benefits every Australian.

The GST distribution, and fiscal equalisation more generally, should aspire to strengthen the economically weaker states and territories - not to drag the stronger performers down. The overall aspiration of fiscal equalisation should see the GST floor raised over time as structural problems are addressed. All Australian states and territories should be incentivised by the system to maximise their own economic opportunities.

To further reduce what comes back to Western Australia would be to tell our state that success is something to be punished, not rewarded. The Western Australian Federal Liberal team, led by Senator the Hon Michaelia Cash, unequivocally rejects that proposition.

The 2018 floor was right. It remains right. The Productivity Commission should say so clearly and unambiguously in its final report.

Contact for this Submission

Senator the Hon Michaelia Cash

Leader of the Opposition in the Senate

Shadow Attorney-General

Senator for Western Australia

On behalf of the Western Australian Federal Liberal Parliamentary Team