



27 February 2026

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GST distribution inquiry
Productivity Commission
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Dear Commissioners,

RE: GST distribution reforms

Who we are

Councils of Social Service (COSS) are the peak bodies for the community service sector across Australia.

Collectively we represent thousands of organisations across Australia. Our social service member organisations are broad and diverse, working across a range of fields including, housing and homelessness, family and children, youth, multicultural, mental health, employment, First Nations justice, domestic and family violence, and community legal services. We advocate for change to achieve equality, opportunity, and wellbeing for all members of the community.

High-level objectives for fiscal equalisation and the distribution of GST funds among States and Territories

The system of fiscal equalisation via the GST is detailed and complex. We consider that the best starting point for this Inquiry is to outline a set of high-level objectives for reform. This short submission outlines a set of four key objectives for the Commission's consideration as it undertakes this review.

Essentially, we consider that the system should help ensure that all States and Territories can provide an equivalent standard of quality services for people, from a combination of own-source revenue and GST funds.

Australia must avoid the outcomes of countries such as the United States, in which people who live in states with the lowest revenue capacity receive inferior benefits and services. Since low revenue capacity is associated with financial and other disadvantage among

residents, inequitable distribution of national public resources reinforces and entrenches poverty and disadvantage.¹

While our system of horizontal fiscal equalisation (HFE) is imperfect, over its long history since 1933 it has helped avert that outcome.

We propose four high-level objectives for reform, in italics below.

1. Core objective:

State and territory governments should receive funding from the pool of goods and services tax such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own-sources and operated at the same level of efficiency.

This is the generally accepted working definition of the objectives of horizontal fiscal equalisation (HFE) used the Commonwealth Grants Commission.

We firmly support these objectives and believe they should be starting point for the Commission's inquiry. Necessary improvements to the fiscal equalisation formula currently in place are beyond the scope of this high-level submission.²

2. Who should pay:

Fiscal equalisation should be implemented by regularly adjusting each State/Territory share of GST revenues accordingly, with modest supplementation by the Commonwealth as required. In a fair system of GST distribution, a 'no worse off' guarantee' should not be needed.'

We note that the cost to the Australian government of the 'no worse off guarantee' together with transitional GST top-up payments is approximately \$6 billion in 2025-26 - much greater than originally estimated.

3. Transparency around support for people facing poverty or social disadvantage:

While GST grants are 'untied', States and Territories should report regularly and transparently on the services and supports they provide for people facing poverty or social disadvantage, including disadvantage that is considered in the equalisation formula.

¹ Schapiro R (2021), *States of Inequality: Fiscal Federalism, Unequal States, and Unequal People*. DOI: <https://doi.org/10.15779/Z38RR1PN2J>

² Commonwealth Grants Commission (2025), *GST Distribution - Commission's Assessment Methodology*.

Transparent reporting is needed to help ensure that States and Territory governments are accountable to their constituents so that any additional resources allocated to them pursuant to HFE reach people with the greatest need for public support and services, as intended. This applies especially to services and supports provided to and controlled by First Nations communities.

4. Strengthening own-source revenue:

Separate from and in addition to equalisation through the GST, States and Territories should strengthen their own-source progressive revenue bases, with support from the Commonwealth as needed.

A key objective of HFE as outlined above is to encourage States and Territory governments to make effective use of their own public revenue bases. The most equitable and efficient revenue bases available to them – such as Land Taxes and mineral resource taxes – are often under-utilised. The Australian government should assist States and Territory governments to redress this.

We look forward to assisting the Commission in this challenging and important task.

Yours sincerely,

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