

Hon. Colin J Barnett AC

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*Submission to*

**GST distribution reforms inquiry**

Productivity Commission

February 2026

Hon Colin Barnett AC

Premier of Western Australia (2008-)17

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## **Preface**

1. The Goods and Services Tax (GST) was introduced by the Commonwealth Government in 2000 as a significant tax reform.
2. It also led to reform in federal-state financial relations.
3. The distribution of GST revenue to the states has led to disputes between the states as well as disputes between the Commonwealth and the states.
4. The GST system is complex for both business and governments. As such, simplification can lead to efficiency and productivity gains.
5. The main source of dispute over the past decade has been the dramatic decline in Western Australia's share of GST revenue.
6. The 2018 decision to establish a floor level of GST for the states addresses the situation for Western Australia. In reality this was a specific solution for Western Australia.
7. There is, however, a unique opportunity to undertake more fundamental reform. That is the purpose of this submission.
8. Fundamental reform can contribute to a more workable Australian Federation. I encourage the Productivity Commission to pursue fundamental reform.

## **Brief History**

1. In the early decades following federation the small states received extra payments from the Commonwealth. Western Australia also received tariff compensation payments.
2. In the 1930s the principle of horizontal fiscal equalisation (HFE) was introduced with the objective of equal levels of services across all states. The Commonwealth Grants Commission was established to manage the process.
3. In 1943 the states agreed to transfer direct taxing powers (personal and company) to the Commonwealth to fund the war. These taxes were to be returned to the states, but that did not happen.
4. The compromise was for the Commonwealth to share income tax revenue with the states. This was done on the advice of the Grants Commission to the Federal Treasurer through the Premiers' Conferences. This was the Uniform Tax Agreement.
5. In 2000 the Howard Government introduced the GST at a rate of 10 percent, with some exemptions including education, health and fresh produce. The objective was to reduce an overreliance on direct taxation.

6. All of the GST revenue was to be distributed to the states as untied grants. In return the states gave up their right to share in income tax revenue. This was genuine tax reform.
7. The GST grants to the states were recommended by the Grants Commission and presented as advice to the Federal Treasurer who makes the final decision. The agreement of the states is only required for any change to the rate of GST or its coverage.
8. During the first decade of the GST, the distribution system to the states worked quite well. The bigger states received grant shares that were relatively close to the amount of GST collected. In other words, they received close to 100 cents in the dollar. The smaller states received well above 100 cents in the dollar. This was consistent with the principle of HFE.
9. The 'shock' to the system came with the rapid economic expansion of China. During my time as Premier the Western Australian production of iron ore doubled and the production of liquified natural gas (LNG) trebled. The State's share of Australian exports increased to nearly 50 percent. This was a major structural change for the Australian economy.
10. The increase in mining royalties meant a significant reduction in Western Australia's share of GST revenue. That has been the result of the existing system of GST distribution under the Grants Commission.

### **The GST Problem**

As Premier of Western Australia, I first raised the GST issue with Prime Minister Rudd in 2009. I had been advised by the State Treasury that the increase in mining royalties would, under the current system, lead to a significant fall in GST grants. At the time the GST share to Western Australia was 85 cents in the dollar. It could fall to less than 50 cents in the dollar, which would trigger a major economic and political issue.

I put it to Kevin Rudd that a floor price of 75 cents in the dollar would avoid a future crisis. Kevin showed little interest in this. In fairness this was at the height of the global financial crisis.

I note that Western Australia has since then consistently maintained support for a 75 cents floor price. In other words, the State has been prepared to surrender 25 cents in the dollar to the smaller states. This is consistent with the principles of HFE. No other state has been that generous.

As the debate grew other states became more involved. The smaller states opposed any change. In 2012 the largest states – New South Wales, Victoria, Queensland and Western Australia – agreed in writing that the important reform was to distribute GST revenue primarily on a population basis. In other words, the greater the population of a state, the greater the share of GST revenue. The big states had realised they could be vulnerable in the future. A copy of the agreement by the states is in *Appendix A*.

It is worth noting that the four big states account for 90 percent of Australia's population and 90 percent of the national economy. The GST distribution can no longer be treated as solely a Western Australian issue.

For Western Australia the situation continued to deteriorate. By 2015 the State's share of GST revenue had fallen to just 30 cents in the dollar. The State was effectively funding 60 percent of the total redistribution of GST revenue from the larger to the smaller states. This forced Western Australia into a budget deficit.

For Western Australia, the situation was now untenable. It was the most contentious issue in Commonwealth state relations. The public saw it as Western Australia being penalised for its economic success.

Tony Abbott, as Prime Minister, did try to ameliorate the situation by providing an additional \$500 million to the State, even if it was a tied transport grant. This raised the GST relatively for Western Australia to 37 cents in the dollar. The problem continued.

Next came Malcolm Turnbull. On the evening before the Western Australian State Conference of the Liberal Party in August 2016, Malcolm and I had a long and private conversation about the GST. He understood the risks to the national economy and possibly to the mining industry. The following morning Malcolm announced a floor level for Western Australia's GST share.

I was somewhat frustrated that further details took a long time. During that delay I was defeated at the 2017 state election and was therefore no longer Premier. Nevertheless, Scott Morrison as Federal Treasurer, announced in 2018 that a floor level for Western Australia's share of GST revenue would be set at 70 cents in the dollar from 2021 and 75 cents in the dollar from 2024. This was a good result for the State, and Malcolm had kept his promise.

The Commonwealth also agreed to compensate other states and territories to ensure that none would be worse off. As Western Australia's share of GST had continued to fall, so the compensation payments to the smaller states continued to rise. It rapidly rose to around \$5 billion a year, which was well above what the Commonwealth had anticipated.

In early 2024 the now Prime Minister, Anthony Albanese, extended the 2018 GST deal to 2030.

## **A Better Way**

There are of course other issues to do with the GST and its distribution. It is difficult and time consuming for business. There are anomalies such as Hobart being regarded as 'remote'. The decision of Western Australia not to allow poker machines across the community is effectively penalised by the Grants Commission's decisions while the eastern states are effectively rewarded. There is debate over the exemptions from paying GST and so on.

It is also the case that GST payments to the states are subject to time delays. Western Australia experienced a reduction in GST at the same time as global mineral prices collapsed. Instead of providing financial stability as intended, the GST actually exaggerated the cyclical downturn in 2014. (This submission only addresses the GST distribution).

The fact that the Productivity Commission is inquiring into the GST distribution and that the Grants Commission is examining the GST methodology is proof that all is not well. My purpose is to propose a fuller and longer term reform. A reform that applies across all of Australia. Failure to do so is likely to result in continuing disputes with further reviews every few years or so.

## **My Proposal**

The guiding principle to reform is that most of the GST revenue should be distributed to the states according to their population. After all, the major areas of state expenditure are health and education. They are directly related to population. The same applies to most other areas including police, child protection and transport.

Secondly, the principle of HFE should be retained, but in a better defined way. It is part of the Australian ethos that the larger states should support the smaller states.

Those principles may seem to be somewhat idealistic. Yet a simple examination of the financial reality supports the case.

The total GST revenue collection for 2026 is estimated at \$95.15 billion. The total amount of GST revenue that is likely to be redistributed from the larger states to the smaller states is estimated at around \$9.7 billion. In other words, the redistribution amongst the states amounts to approximately just 10 percent of the total revenue. (These figures are presented in *Appendix B*. They are approximate).

It is therefore logical that 90 percent of GST revenue should be automatically distributed to the states according to their population. For the states that will mean certainty and financial stability. It will also act as an accountability measure for the states. For the Grants Commission the task of assessing the relative shares of GST revenue will be dramatically reduced. That is in it itself a significant gain to efficiency and productivity.

For the larger states they will no longer have their budget outcomes partly determined by the deliberations of the Grants Commission. That was never intended.

For the smaller states they will receive their per capita share plus additional funds from the 10 percent of total GST revenue that is distributed according to HFE. Most of the 10 percent will go to the smaller states. That amounts to around \$10 billion, which is the same as the current level of cross subsidy.

For the Commonwealth, this will allow the now \$5 billion of additional compensation funding to be progressively reduced as the total GST revenue rises.

For Western Australia, the floor price of 75 cents in the dollar should continue for the foreseeable future. That is dependent on continuing prosperity in mining. It is accepted as a fair level of support from a prosperous mining state. It is also consistent with the original proposals for a floor price in 2009.

For the Grants Commission the task of distributing the GST revenue will apply to only 10 percent (or around \$10 billion) of the expected \$95 billion (or 100 percent) of GST revenue. That is a spectacular reform and a large cost saving for all governments.

It is accepted that further work will need to be done on the transition to a new system of GSDT distribution. This is best to be done over time.

### **Final Thoughts**

The introduction of the GST has been good for Australia. It provides a better balance between direct and indirect taxation. It also provides for a more mature financial relationship between the Commonwealth and the states.

There are, however, deficiencies in its operation. Western Australia has been a unique case, though it could be repeated for other states in the future. There are also anomalies in the sharing of GST revenues amongst the states. In addition, the administrative burden on the Commonwealth and the states is both large and confusing.

After 25 years of the GST the time has come for substantial reform. The proposals made in this submission are constructive and realistic. This is an opportunity to grasp nationwide reform.

The rewards from reform are significant in terms of efficiency within governments, less bureaucracy, improved productivity and a more cohesive Australian Federation.

I commend this proposal to the Productivity Commission and then to the Commonwealth Government.

Appendix A. Joint Correspondence of the States, 2012



The Hon Nick Greiner AC, the Hon John Brumby and Mr Bruce Carter  
Review Panel  
GST Distribution Review  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Messrs Greiner, Brumby and Carter

We have pleasure in providing to the Review of the GST Distribution a joint submission on behalf of the States of New South Wales, Victoria, Queensland and Western Australia.

The submission is provided in response to the First and Second Interim Reports of the GST Distribution Review of March and June 2012 respectively.

We urge you to take this opportunity for bold reform of the GST distribution system so it stands the test of time.

A population based distribution system, with the Commonwealth Government taking responsibility for funding the additional financial assistance required for States with lower fiscal capacity, is the preferred long term policy position of our four States.

This objective may not be achievable in the short term. An interim step is to move away from the Commonwealth Grants Commission's interpretative approach of full, comprehensive equalisation to a system that gives States the capacity to provide a comparable level of service delivery.

Confidence in any system of fiscal equalisation must be built on the imperative that the GST – the largest component of State revenue – remains untied and is distributed in full to the States each year, consistent with the 1999 and 2008 Intergovernmental Agreements.

Yours sincerely

Barry O'Farrell MP  
Premier of  
New South Wales

Ted Baillieu MLA  
Premier of  
Victoria

Campbell Newman MP  
Premier of  
Queensland

Colin Barnett MLA  
Premier of  
Western Australia

25 SEP 2012

**Appendix B. Comparison on per capita and relativity share of GST revenue (estimates for 2026).**

**2026 Projections – GST Distribution**

STATE / TERRITORY	POPULATION (MILLIONS)	POPULATION SHARE (%)	PER CAPITA GST SHARE (\$M)	GST RELATIVITY 2025	GST RELATIVITY SHARE (\$M)	PER CAPITA MINUS \$M ACTUAL
NSW	8.594	31.1	29,592	0.860	25,482	-4,110
VIC	7.075	25.6	24,358	1.067	26,147	+1,789
QLD	5.670	20.5	19,506	0.846	16,562	-2,944
WA	3.044	11.0	10,467	0.750	7,830	-2,637
SA	1.902	6.9	6,565	1.389	9,032	+2,467
TAS	0.576	2.1	1,998	1.841	3,635	+1,637
ACT	0.485	1.8	1,713	1.172	1,934	+221
NT	0.264	1.0	952	5.151	4,527	+3,575
<b>AUSTRALIA (TOTAL)</b>	<b>27.614</b>	<b>100</b>	<b>93,151</b>		<b>95,150</b>	<b>Losers -9,691</b> <b>Winners +9,289</b>