



25 February 2026

The Productivity Commission
Locked Bag 2, Collins St East
Melbourne Vic 8003, Australia

Online submission

Dear Commissioners

Inquiry into the 2018 GST Distribution Reforms

I welcome the opportunity to contribute to the Productivity Commission's inquiry into the operation of Australia's Goods and Services Tax (GST) distribution reforms, including whether the 2018 changes are operating efficiently, effectively and as intended.

This submission supports maintaining the existing 2018 arrangements, including the legislated GST relativity floor. The evidence shows the current system is fair, stabilising and nationally beneficial, consistent with the objectives of horizontal fiscal equalisation (HFE). It also ensures that Western Australia (WA), a state which drives national economic performance, is incentivised to continue to invest in and develop resources critical to Australia's prosperity and energy transition.

The 2018 reforms corrected a structural inequity while preserving national fairness

Prior to 2018, WA's GST relativity fell to just 30 cents per dollar and was projected to decline further to 18 cents per dollar, or potentially lower. This was the lowest share any state had ever received.

Even with the reforms and the 75 cent floor, WA continues to receive the lowest per capita GST share of any state. This underscores that the 2018 reforms did not over-reward WA; they simply prevented extreme distortions.

GST distribution arrangements should align incentives with the national interest

WA produces nearly half of Australia's total exports, including resources and critical minerals essential for clean-energy technologies, advanced manufacturing and national defence supply chains.

Under the pre-2018 approach, increases in a state's mining revenue capacity materially reduced its GST allocation. Gambling revenues, by contrast, did not affect GST distribution. In 2024, NSW, Victoria and Queensland together earned approximately \$10 billion in gambling revenue, while WA earned almost nothing.

Electorate office
Cnr The Boulevard and Floreat Ave
Floreat WA 6014
PO Box 186 Floreat WA 6014

T 08 9388 0288
E kate.chaney.mp@aph.gov.au
W www.katechaney.com.au

Parliamentary Office
PO Box 6022
House of Representatives
Parliament House
Canberra ACT 2600
T 02 6277 4655



This asymmetry in revenue treatment essentially incentivised states to maximise gambling revenue while penalising resource development.

The reformed framework with a relativity floor helps realign incentives with the national interest by ensuring states are not financially penalised for responsible resource development.

The increased cost of the HFE payment is balanced by increased company tax collections

While the 2018 reforms have cost the Commonwealth more than initially forecast, much of the higher-than-expected cost reflects elevated commodity prices, which have boosted Commonwealth receipts. ATO collections data show company tax rose from \$124.4 billion in 2021–22 to \$150.1 billion in 2022–23, an increase of \$25.7 billion year on year before easing in 2023–24. By comparison, the HFE transition (No Worse Off) payments associated with the GST reforms were \$5.166 billion in 2023–24, which puts the scale of these top ups in perspective relative to company tax receipts.

Reinforcing my earlier point regarding incentivising responsible resource development in line with the national interest, I note that the surge in company tax collections in 2022–23 was largely attributed to record-high earnings from Australian energy and mineral exports.

The current system promotes revenue stability and fiscal sustainability

The floor mechanism stabilises revenue through commodity cycles. It limits extreme volatility in relativities, reducing the risk of an abrupt collapse in a state's revenue base that would otherwise necessitate larger Commonwealth interventions.

Modern infrastructure and service delivery require multi-year commitments. The current GST model provides the predictability required for hospitals, schools, transport infrastructure and major energy projects.

The current system maintains equity across states. While WA benefits today, any state with concentrated or cyclical revenues - such as Queensland with coal and critical minerals or New South Wales with stamp duty - can be protected from unsustainably low GST shares in the future.

The current model operates efficiently, effectively and as intended

The post-2018 framework is meeting the inquiry's tests. The floor has stabilised outcomes without disproportionate shifts for other states; transitional impacts have been smoothed by Commonwealth top-ups to ensure no state is financially disadvantaged by the reforms; and the system better balances equalisation with incentives to develop industry and diversify revenue bases.

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Alternative models raise other problems

While the Commission may explore alternatives, none would meet the Commission's criteria for efficiency, fairness, or fiscal sustainability. Key models sometimes proposed include:

- a. Returning to pre 2018 HFE** - this would re-introduce extreme volatility, expose WA to unsustainable shortfalls and disincentivise resource development in WA.
- b. Pure per capita distribution** - WA would likely receive materially more GST revenue in the short-term under a pure per capita system, but this model ignores structural differences in service delivery costs due to WA's scale, population dispersion and remoteness. This model would also remove an important stability mechanism and penalise resource development. Overall, this model would risk contradicting the foundational purpose of HFE, which is to equalise capacity.
- c. Fixed-share or capped-share approaches** - these models would freeze inequities and reduce responsiveness to economic cycles, likely necessitating permanent Commonwealth compensation mechanisms.

Maintaining the Current System Ensures National Productivity and Fairness

The 2018 reforms corrected long-standing inequities, reduced volatility and improved national outcomes. By avoiding penalties on productive investment, especially responsible resource development, and by ensuring stable revenues for essential services, the current framework advances both fairness and fiscal sustainability. The floor should be retained, and the system should continue to align incentives with the national interest.

Thank you for the opportunity to contribute to this inquiry and for the Commission's careful consideration of the issues I have raised.

Yours sincerely,

Kate Chaney MP
Federal Member for Curtin

Electorate office
Cnr The Boulevard and Floreat Ave
Floreat WA 6014
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