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# Productivity Commission Inquiry into GST distribution reforms

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Tasmanian Government Submission

February 2026

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## Key points

- One of the fundamental principles defining the Australian Federation is that all Australians have the equal right to be able to access similar levels of service, regardless of where they live.
- Australia's level of vertical fiscal imbalance is structural and enduring. There will always be a need for fiscal transfers from the Australian Government to states to support service delivery.
- GST was intended to be the states' tax, fully distributed as untied revenue on the basis of full horizontal fiscal equalisation (HFE) and at no net cost to the Australian Government.
- Tasmania has always advocated for full HFE as a fair and sustainable distribution system.
- There has never been evidence that there was a need to 'fix' elements of the full HFE GST distribution system, or that it was not working as intended.
- Despite that, in 2018 the Australian Government legislated changes to the GST distribution system which eroded the level of HFE and introduced a dual-level of federation.
- The 2018 changes to the GST distribution system have not delivered their intended outcomes, including the claims they would reduce volatility and result in all states being better off.
- The strongest State, currently Western Australia, is the primary beneficiary of the 2018 reforms. Other states are only protected through the costly and temporary no-worse-off guarantee.
- The 2018 reforms have changed the flow of capital and labour (people), relative to full HFE.
- While the original GST framework was cost-neutral for the Australian Government, the 2018 reforms have imposed a significant financial burden for the Australian Government.
- If the no-worse-off guarantee is allowed to expire, and absent any other changes, the benefit to the strongest State will be at the direct expense of other states.
- As such, the 2018 reforms should be revoked.
- Alternative distribution mechanisms, including those considered in this submission, are inferior to a return to full HFE and would necessitate a no-worse-off guarantee in perpetuity, at the expense of the Australian Government.

- Any targeted support to recognise revenues from mining industries should be provided separately by the Australian Government, avoiding distortion of the national GST system.
- Tasmania supports a return to full HFE and the egalitarian principles upon which Australia's Federation was originally built.

## Introduction

Since Federation, a high degree of vertical fiscal imbalance (VFI) has existed in Australia, which results in the Australian Government holding a disproportionately high revenue raising capacity compared to the expenditure responsibilities of the states and territories (states). As a result, the Australian Government has always provided support to states to help to narrow differences in states' fiscal capacity to deliver services.

The nature and mechanism of transfers to address VFI have evolved over time. Before the establishment of the Commonwealth Grants Commission (CGC) in the 1930s, financially weaker states had to make applications to receive additional financial assistance from the Australian Government, which were often provided on an ad hoc basis. The subjective nature of this process was broadly acknowledged to fail to provide recipient states with fiscal certainty and resulted in states depending on the outcome of negotiations with the Australian Government.

The CGC's role has evolved over time and since the 1970s, has included providing independent recommendations to equalise the fiscal capacities of all states. Tasmania has long-supported the independence of the CGC and its approach of using horizontal fiscal equalisation (HFE) principles to ensure all states have the fiscal capacity to provide broadly comparable levels of services to their residents under the same revenue raising effort. Tasmania continues to support the CGC and its methodologies, which are regularly reviewed to ensure its principles of reliability, practicality, simplicity and stability are appropriately balanced.

When the GST was introduced, states agreed to forgo a range of other Australian Government grants and abolished specified state taxes on the basis that revenue from GST would be provided in entirety to the states as untied funding. This agreement was formalised under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA-RCSFR), and more recently updated in the *Intergovernmental Agreement on Federal Financial Relations* (IGA-FFR). These arrangements include that GST would be distributed as untied revenue based on the long-standing egalitarian principle of HFE. Since that time, the CGC has implemented HFE through recommending relativities, or the relative shares of GST revenue that states receive, through a comprehensive methodology that considers the revenue raising capacity and expenditure of all states.

Until the Australian Government legislated changes to the GST distribution arrangements in 2018 (the 2018 reforms), GST was distributed on the basis of full HFE. Under full HFE, all states are provided with the fiscal capacity of the fiscally strongest state (currently Western Australia). Full HFE seeks to provide states with the same fiscal capacity to deliver services, reflecting the widely-supported belief that all Australians should be able to access services of a similar standard and incur a similar tax burden, regardless of where they live.

The GST is collected by the Australian Government on behalf of states and was expected to provide states with access to a robust tax base, growing in line with the economy. The untied nature of GST grants was critical to offset states' reduced own-source revenue raising capacity as a result of abolished state tax lines. It provides essential flexibility for states to direct funding towards local priorities and needs. While the GST was intended to be a growing revenue source for states, changes in consumer spending patterns and the broad range of exemptions

currently in place, have resulted in the GST base not growing in line with expectations.

As a broad-based value-added tax on consumption, there is inherent volatility in the collection of GST in responses to changes in consumption patterns associated with economic cycles, which may be exacerbated by GST exclusions. This impacts the revenue collected and distributed to states. GST relativity shares, as recommended by the CGC, are also responsive to the changing fiscal circumstances of states, which enables the distribution to adjust in order to achieve the agreed HFE outcomes.

As a 'states' tax', the GST distribution system came at no cost to the Australian Government. The 2018 reforms have fundamentally altered the Australian Government's role in the GST distribution system and the nature of the zero-sum distribution between states. This is because the reforms provide fiscal protection for the strongest state, at the expense of all other states. While the no-worse-off guarantee is in place, this cost is borne by the Australian Government.

Under HFE, when a state's fiscal capacity increases relative to other jurisdictions, its GST allocation should reduce. The zero-sum nature of the GST distribution arrangements in place before the 2018 reforms meant that as that occurred, other states' share increased. This relationship, including the lagged impact, was well understood and accepted by all states.

As a consequence of Western Australia's mining boom, its royalty revenue increased from \$841 million in 2004-05<sup>1</sup> to \$6.0 billion in 2013-14,<sup>2</sup> resulting in the state's GST share declining.

This led to Western Australia undertaking a strong advocacy program seeking a greater share of GST. In response, the Australian Government provided Western Australia with quarantined funding of \$1.2 billion from 2015-16 to 2017-18.<sup>3</sup> Continued lobbying resulted in the then Australian Treasurer directing the Productivity Commission (the Commission) in 2017 to undertake a review into HFE. In its Final Report, the Commission recommended changes to the GST distribution system that were intended to better balance equity and efficiency.

The Australian Government accepted the Commission's findings that the GST distribution system should change but indicated its preference to equalise states' fiscal capacities to the stronger of New South Wales and Victoria. This formed the 2018 legislative changes, which the Australian Government stated were intended to reflect the modern economy and minimise Western Australia's exposure to volatile revenue sources.

There are four elements to the 2018 reforms:

- a reduced standard of equalisation from a system of full HFE to a system of partial HFE, being phased in over six-years from 2021-22 to 2026-27;
- introduction of a GST relativity floor, currently set at 0.75, to protect from economic shocks and provide fiscal budgetary certainty;

<sup>1</sup> Western Australian Government, 2005-06 Annual Report on State Finances, September 2006.

<sup>2</sup> Western Australian Government, 2013-14 Annual Report on State Finances, September 2014.

<sup>3</sup> A further \$189 million in quarantined funding was provided to Western Australia to bring its share of GST revenue to the equivalent of a 0.5 relativity in 2018-19.

- top-ups to the GST pool of \$600 million per year from 2021-22 and an additional \$250 million from 2024-25 (both indexed each year and funded by the Australian Government outside the pool); and
- a time-limited Australian Government-funded no-worse-off guarantee, legislated until the end of the transition period and subsequently extended through a Federation Funding Agreement to 2029-30, required by all states to support the reforms.

When the Australian Government announced its changes to the GST distribution, it argued, based on a single scenario, that all states would be better off under the revised model, both now and in the future. At the time, most states including Tasmania, argued that the assumptions and modelling upon which the Australian Government built its revised arrangements and arguments were flawed and failed to consider several other more realistic scenarios.

In this Submission, Tasmania will demonstrate that, in contrast to the Australian Government's assertions at the time the 2018 reforms were introduced, all states are not better off under the 2018 reforms. Western Australia has been significantly and disproportionately advantaged by the reforms. While the no-worse-off guarantee has not prevented the relative fiscal advantage provided to Western Australia, it has temporarily provided critical protection for all other states. However, this has come at a high cost to the Australian Government. Should the no-worse-off guarantee be allowed to expire, and the 2018 reforms continue unchanged, Western Australia's extraordinary fiscal benefit will continue and will be provided at the expense of other states.

In its Submissions to the Productivity Commission's 2017 Inquiry into Horizontal Fiscal Equalisation (2017 PC Inquiry), Tasmania consistently argued that the GST distribution system was not broken. There was no evidence that HFE was not working the way it was intended, or to the Commission's claims and Australian Government's response that amendments to the system were needed to address its perceived shortcomings. As will be outlined below, the reforms have failed to address these perceived shortcomings.

On this basis, Tasmania strongly supports a return to full HFE. Full HFE ensures no one state receives a comparative advantage over another and comes at no additional cost to the Australian Government. Distributing GST based on full HFE would alleviate the fiscal impact of the 2018 reforms for the Australian Government, providing it with the fiscal flexibility to direct its funding to its priorities. This could include separate targeted support to Western Australia to reflect its actual circumstances and the revenue benefits its mining industry provides, if desired.

Tasmania considers the independent role of the CGC in recommending GST relativities should be maintained. This includes continued review and evolution of its comprehensive methodologies, which is the appropriate mechanism for resolving issues within the GST distribution system.

# Information Request 1

## **How have the 2018 legislative changes impacted the fiscal positions of states and territories?**

Have other Commonwealth payments to states and territories been affected?

Has Commonwealth, state, or territory revenue, service and infrastructure provision been supported or impeded by the changes?

What would happen to Commonwealth, state and territory revenue, services and infrastructure if the no worse off guarantee ceased?

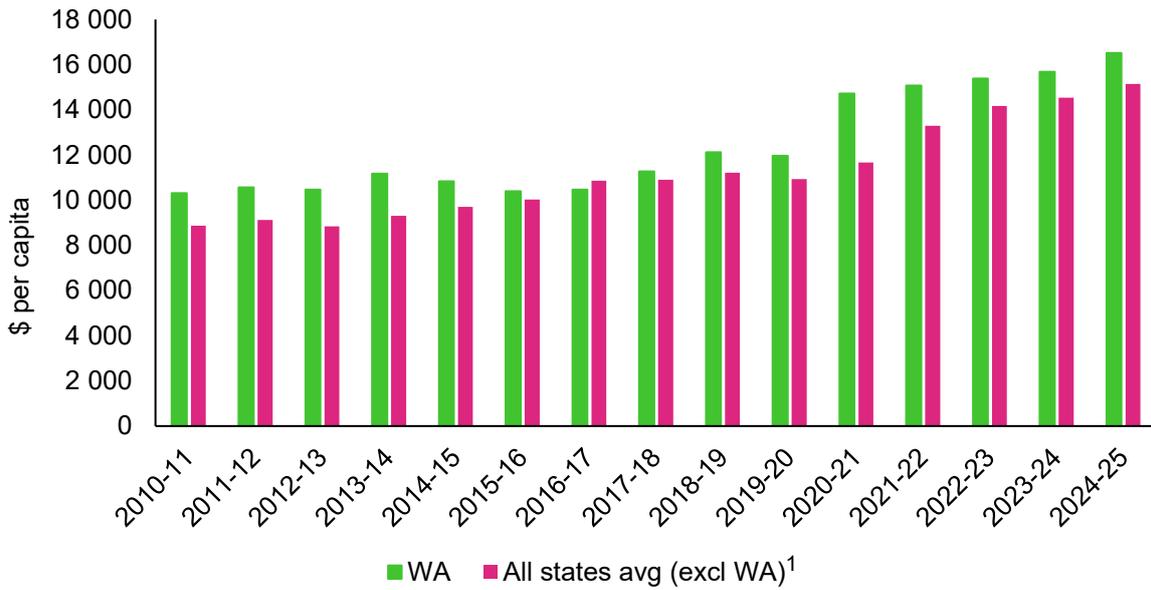
As outlined in the introductory comments above, the 2018 legislative changes weakened the level of HFE by reducing the standard of equalisation to that of the stronger of New South Wales or Victoria, and introduced a relativity floor during the transitional period. While the floor provides a guaranteed minimum revenue stream for all states, to date it has only benefitted Western Australia.

As predicted by Tasmania and other states, the reforms have created a dual-level of federation by providing Western Australia with the capacity to provide more and higher quality services, impose lower taxes and reduce debt compared to all other states. Once fully transitioned, the reforms will permanently entrench a significant fiscal advantage for Western Australia, and any other state stronger than the revised standard of equalisation.

As noted above and included in Tasmania's Submission to the 2017 PC Inquiry, the HFE system was working as intended, in that as a state's fiscal capacity increased, its GST share reduced.

Before the reforms were introduced, Western Australia's mining royalty revenue was strengthening and its share of GST was declining. However, despite that, over the past 15 years, in all but one year, Western Australia has had higher per capita total revenue compared to the national average revenue, as shown in Chart 1.1.

**Chart 1.1: Total revenue per capita, Western Australia and an average of all states excluding Western Australia**



Source: State Governments' annual financial reports.

<sup>1</sup> This average excludes the territories due to their smaller size and unique demographic characteristics.

**Chart 1.2: The impact of the 2018 reforms compared to full HFE, 2018-19 to 2024-25<sup>1</sup>**

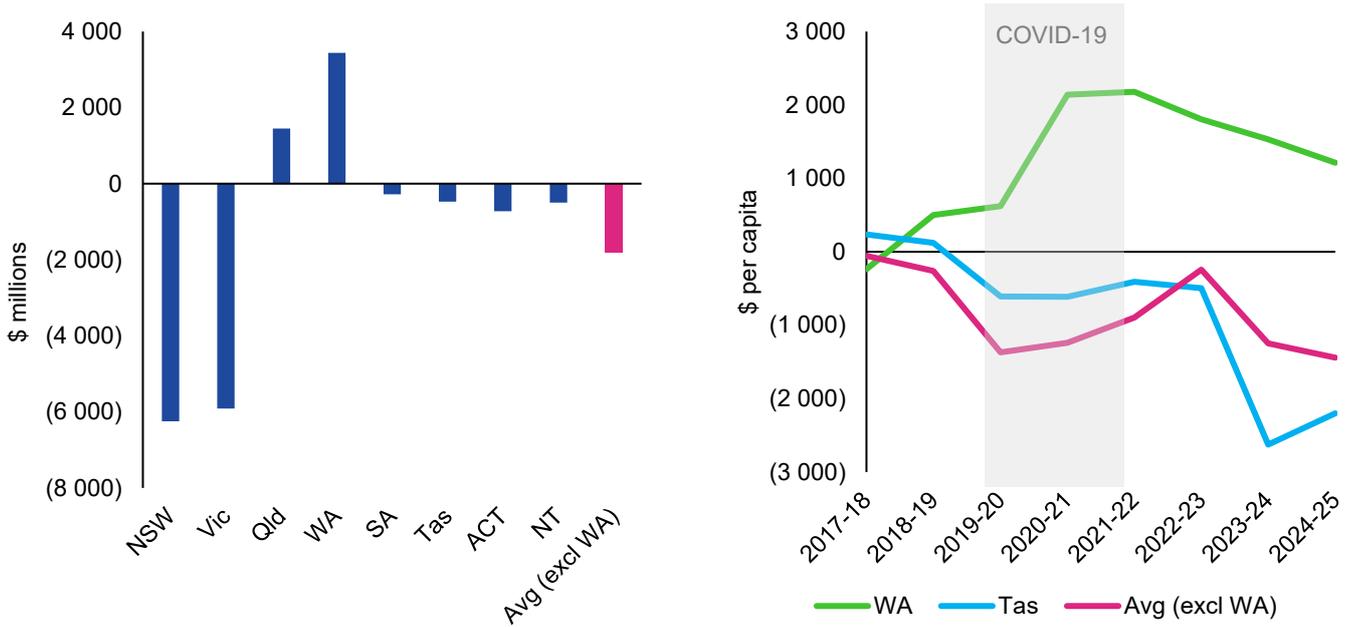


<sup>1</sup> This calculation excludes the impact of no-worse-off guarantee payments.

Source: Australian Government Final Budget Outcomes.

As shown in Chart 1.2, the combined impact of the 2018 reforms provides Western Australia with a disproportionately higher share of GST revenue, irrespective of its substantial mineral royalty income. This has effectively created a two-tier federation by embedding a significant fiscal disparity between Western Australia and all other states, which is evident in a range of fiscal and economic indicators.

**Chart 1.3: States' net operating balance 2017-18 to 2024-25, average \$ millions and \$ per capita**



Source: State Governments' annual financial reports.

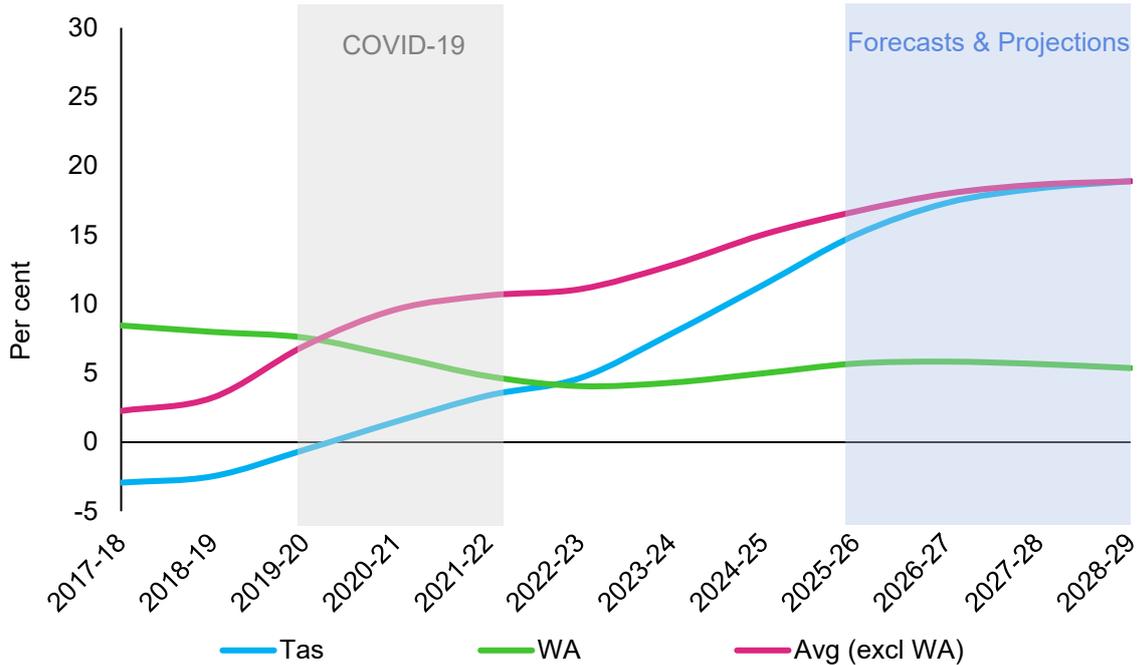
Since the 2018 reforms were introduced, the net operating balances of states has noticeably diverged. As shown in Chart 1.3, Western Australia has enjoyed persistently high net operating surpluses in each year since the implementation of the 2018 reforms commenced, with an average surplus of \$3.4 billion. In contrast, every state other than Queensland has run a fiscal deficit on average over the same time period. Queensland's average surplus largely reflects its record net operating surplus in 2022-23, which was driven by a surge in coal and oil royalties on the back of high coal prices and progressive coal royalty measures introduced in its 2022-23 Budget.<sup>4</sup> Queensland's royalties have since moderated, and this has impacted its net operating balance.

Comparing the average net operating positions of states since the introduction of the 2018 reforms demonstrates that the mining-rich states of Western Australia and Queensland have fared better than all other states. Western Australia in particular has maintained consistently higher fiscal outcomes than all other states, even during the period of the COVID-19 pandemic and recovery.

COVID-19 materially impacted the operating environments of all states, with most states needing to significantly increase their borrowing in order to fund initial response activities and provide economic recovery support. This resulted in a clear step-change increase to net debt in most states. In contrast, Western Australia's general government net debt as a share of its GSP declined over the COVID-19 period, demonstrating the significant fiscal benefits afforded to it through the 2018 GST reforms (Chart 1.4).

<sup>4</sup> Queensland Government, State Budget 2022-23: Budget Strategy and Outlook, June 2022.

**Chart 1.4: General Government Sector net debt as a percentage of nominal GSP**



Source: State Governments’ annual financial reports; State Governments’ 2025-26 mid-year updates.

Western Australia was largely protected from experiencing the same fiscal impacts of the COVID-19 pandemic. This was not only due to ongoing strength in its royalty revenue, but also the significant fiscal advantages it was already enjoying under the 2018 reforms. During the peak period of the COVID-19 pandemic, Western Australia was able to stabilise and pay down its debt. From 2018-19 to 2021-22, Western Australia reduced its net debt by 16.2 per cent<sup>5</sup> while all other states experienced an average increase of 1 045.3 per cent.<sup>6</sup> While other jurisdictions continue to struggle to manage budget repair following the COVID-19 period, Western Australia has successively handed down significant budget surpluses, deepening the fiscal divide across the federation.

Western Australia’s increased relative fiscal strength is expected to continue over the Forward Estimates. Western Australia expects that its net debt as a share of GSP will remain between five and six per cent. By way of comparison, Tasmania is forecasting its net debt to represent around 19 per cent of GSP by the end of the Forward Estimates, a level similar to the average of all other states.<sup>7</sup>

Western Australia’s increased fiscal strength relative to all other states provides it with a greater capacity to offer more attractive settings for its businesses and residents, whether through a greater quantity, or higher quality, of services and infrastructure, or lower taxes. This, along with the additional GST revenue afforded to

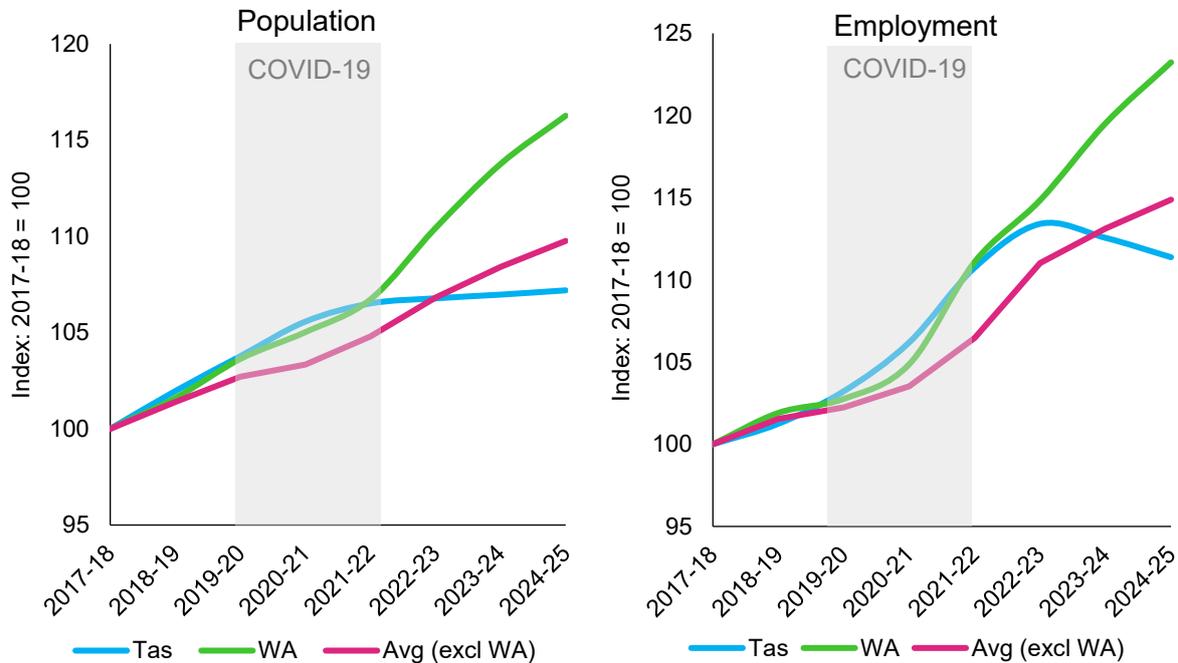
<sup>5</sup> This calculation is based on Western Australia’s net debt from 2018-19 to 2021-22 from its Annual Report on State Finances.

<sup>6</sup> This calculation is based on each states’ net debt from 2018-19 to 2021-22 from each states’ annual financial reports (except Western Australia). It is materially influenced by the change in Queensland’s net debt position. The change in net debt for all states excluding Western Australia and Queensland over this period was 277.2 per cent.

<sup>7</sup> International Monetary Fund, Staff Report for the 2025 Article IV Consultation, January 2026, also recognises that all states except the resource rich Western Australia are forecast to suffer rising debt per-person levels.

it under the 2018 reforms, enables Western Australia to support higher levels of business and population growth compared to other states. This is evident in the data, with Chart 1.5 showing the notable acceleration in Western Australia’s population growth over the past three years - the fastest growth of any Australian jurisdiction over this period.

**Chart 1.5: States’ annual population and year-average employment growth**



Source: Australian Bureau of Statistics, National State and Territory Population; Australian Bureau of Statistics, Labour Force.

Consistent with population trends, Western Australia has also recorded notably strong employment growth in recent years, ranking as the strongest-growing jurisdiction from 2021-22 to 2024-25. It has also long maintained the highest labour force participation rate of all states, with only the territories recording higher rates due to their smaller size and unique demographic characteristics. Strong employment growth alongside a persistently high participation rate indicates a tight and resilient labour market, reinforcing Western Australia’s underlying economic strength comparative to other jurisdictions.

As noted above, while the no-worse-off guarantee is in place, all other states are temporarily shielded from the negative fiscal implications of the 2018 reforms. However, Western Australia’s improving debt position, and the range of its consistently positive fiscal indicators demonstrate the economic strength it enjoys as a result of being funded significantly above national average revenue levels, and far in excess of its revenue share under full HFE. This has clearly resulted in a dual-level of federation, which will be further exacerbated should the no-worse-off guarantee be allowed to expire and the 2018 reforms be allowed to otherwise continue.

Tasmania strongly considers that the fiscal strength of one state, at the expense of all others, is inconsistent with the egalitarian principles on which Australia’s GST distribution system was originally built.

### ***Impact of 2018 reforms on other Commonwealth payments to states***

When the 2018 reforms were introduced, the Australian Government considered that its payments under the reforms would be limited to:

- the transitional payments it made to the Northern Territory and Western Australia prior to the legislation of the reforms being implemented; and
- the legislated top-ups to the GST pool, which it estimated to be \$9 billion over nine years.<sup>8</sup>

As noted by Tasmania and other states at the time, this expectation was based on a single flawed scenario. Ultimately, the Australian Government included a time-limited guarantee to validate its assurances that no states would be worse-off under the 2018 reforms.

Contrary to the Australian Government's expectation at the time that it would not have to make any payments under this guarantee, all states (except Western Australia) have needed no-worse-off guarantee payments. The cumulative cost of the no-worse-off guarantee payments is \$14.6 billion to date.<sup>9</sup> By 2029-30, when the guarantee is currently due to expire, Tasmania estimates it will have cost the Australian Government \$43 billion.<sup>8</sup> Combined with the legislated pool top-ups and transition payments to Western Australia and the Northern Territory, the total cost of the 2018 legislative changes to the Australian Government to 2029-30 is estimated to be \$57 billion.<sup>8</sup> While critically necessary for states, it is challenging to argue that an increase of this magnitude is sustainable for any government. It is also challenging to see how this unexpected increase in costs for the Australian Government has not reduced its capacity to provide other Commonwealth payments to states.

Since 2018, the Australian Government's fiscal position also appears to have been constrained by other pressures. One of the most significant examples is the magnitude of cost increases associated with the National Disability Insurance Scheme (NDIS), which has increased from \$11.9 billion in 2018-19,<sup>10</sup> to an estimated \$52.3 billion in 2025-26,<sup>11</sup> representing an increase of roughly 339 per cent. The Australian Government has sought to constrain the growth of its expenses by introducing fiscal sustainability targets for the NDIS. One of its approaches to constraining cost growth is to introduce a range of funding and service delivery reforms, many of which shift costs and fiscal risk to states, in order to address its own budgetary pressures. Such trends exacerbate the fiscal pressures on states and reduce states' flexibility to fund their own expenditure priorities or respond to specific fiscal circumstances. Arguably, the Australian Government's need to fiscally constrain its expenditure, including Commonwealth payments it otherwise would have made to states, is in part due to the magnitude of payments it did not foresee as required under the 2018 legislative reforms.

Conversely, the full HFE distribution arrangements came at no cost to the Australian Government. A return to full HFE would reinstate the Australian Government's fiscal capacity to otherwise support states including through

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<sup>8</sup> Calculated using data from the Australian Government's Final Budget Outcomes and 2025-26 MYEFO.

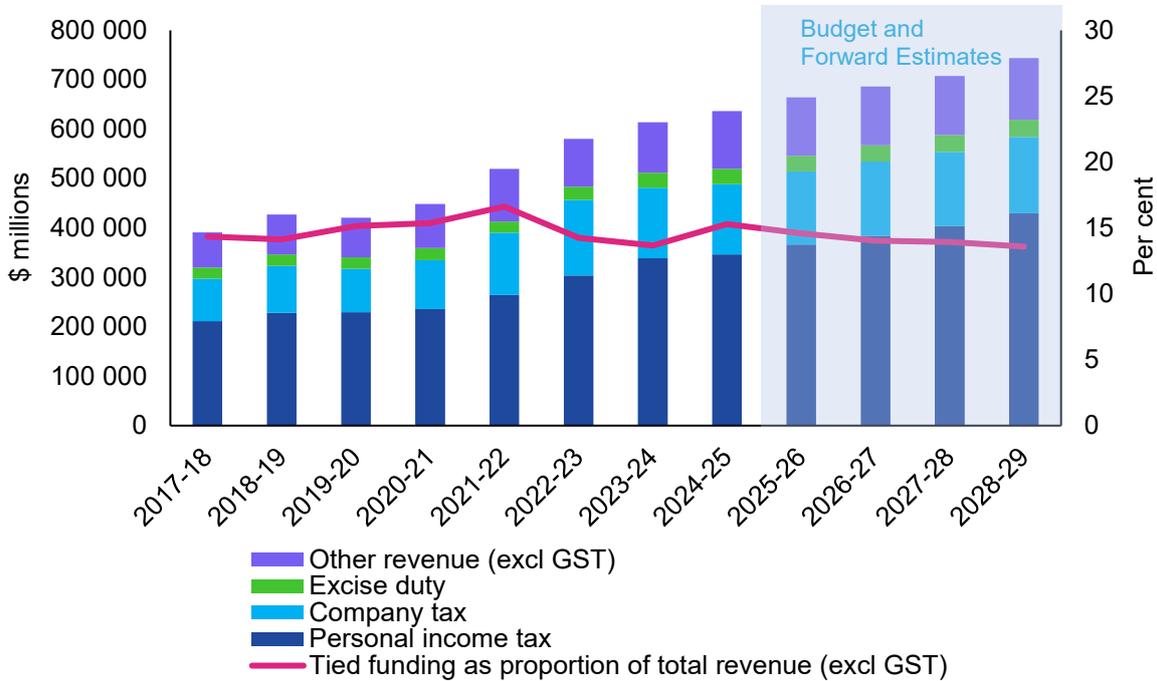
<sup>9</sup> Calculated using data from the Australian Government's Final Budget Outcomes.

<sup>10</sup> National Disability Insurance Agency, NDIS Annual Report 2018-19, October 2019.

<sup>11</sup> Australian Government, 2025-26 Budget, March 2025.

Commonwealth payments or in response to economic shocks. Any additional support negotiated to recognise the benefit from Western Australia’s mining industry, or indeed for any other state, should be at the Australian Government’s discretion and expense, outside GST distribution arrangements.

**Chart 1.6: Australian Government revenue and tied funding to states as a proportion of total revenue, 2017-18 to 2028-29**



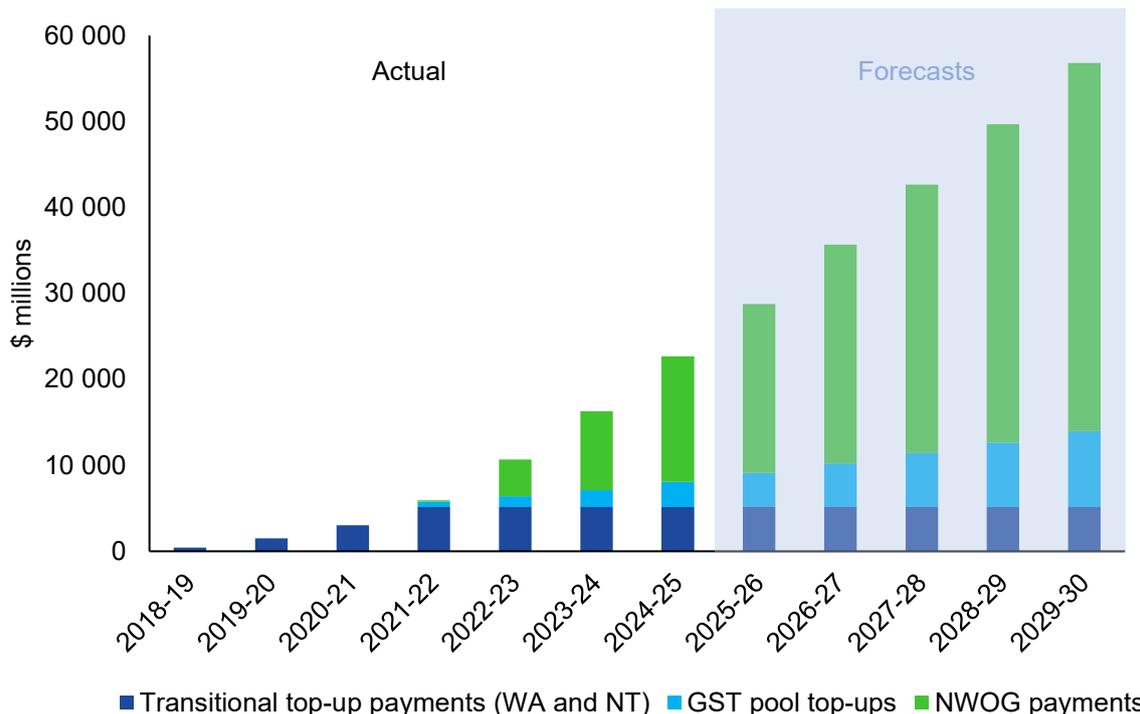
Source: Australian Government, 2025-26 MYEFO historical fiscal data.

**Impact of 2018 reforms on the Australian Government and states revenue, service and infrastructure provision**

Prior to the 2018 reforms, the GST system operated as a pass-through model, which had no fiscal impact on the Australian Government. It collected and distributed GST revenue based on the CGC’s recommendations but did not make any contributions to the GST pool. The structure of this system ensured that GST payments to states did not reduce the Australian Government’s fiscal capacity.

However, as noted above, the 2018 legislative changes have reduced the Australian Government’s revenue by an amount equivalent to the costs of transitional arrangements, pool top-ups and the no-worse-off guarantee, which are estimated to reach \$57 billion by 2029-30, as shown in Chart 1.7.

**Chart 1.7: Cumulative impact of revised GST distribution arrangements on Australian Government**



Source: Australian Government, Final Budget Outcomes; Australian Government, 2025-26 MYEFO.

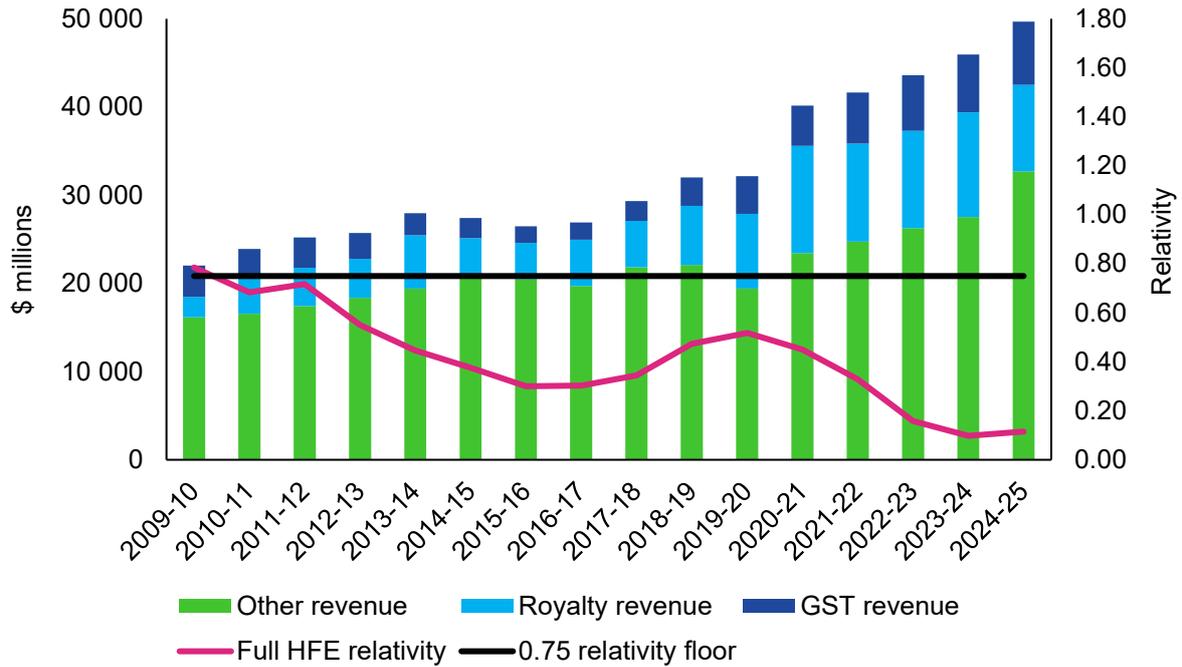
The costs of the 2018 reforms for the Australian Government have reduced the funding available for other purposes and may have impeded its own service delivery and infrastructure priorities.

In contrast, the 2018 legislative changes provide Western Australia with revenue in excess of its (full HFE) need as assessed by the CGC. The historic volatility experienced by Western Australia ahead of the 2018 reforms has not continued since the reforms were introduced. Instead, its own-source revenue has trended upwards. Since its initial mining boom Western Australia’s mining royalties increased from \$841 million in 2004-05<sup>12</sup> to a peak of \$12.2 billion in 2020-21.<sup>13</sup>

<sup>12</sup> Western Australian Government, 2005-06 Annual Report on State Finances, September 2006.

<sup>13</sup> Western Australian Government, 2020-21 Annual Report on State Finances, September 2021.

**Chart 1.8: Western Australia historical revenue and relativities**

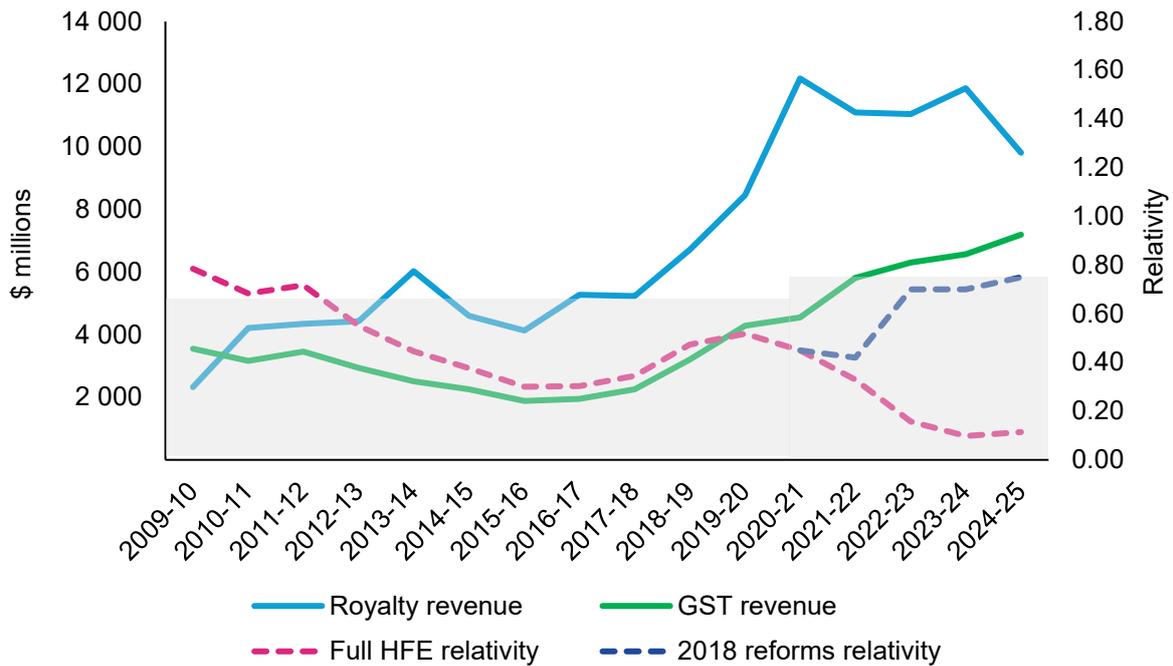


Source: Western Australian Government, Annual Report on State Finances; the CGC, Annual Updates and Methodology Review.

As shown in Chart 1.8, under full HFE, the strength of Western Australia’s 2020-21 mining revenue would have reduced its need for GST to 0.09 in 2023-24. However, under the 2018 reforms Western Australia received a 0.7 relativeity in 2020-21. This provided Western Australia with \$5.7 billion in additional GST revenue compared to full HFE. The uplift for Western Australia in that year alone is estimated to fund an additional 654 000 admitted acute separations in its public hospitals in 2023-24,<sup>14</sup> with \$1.3 billion leftover for other service delivery initiatives or tax reductions.

<sup>14</sup> Productivity Commission, Report on Government Services: E Health (12 Public Hospitals), February 2026.

**Chart 1.9: Western Australia’s historical royalty revenue, GST revenue and relativities<sup>1</sup>**



Source: Western Australian Government, Annual Report on State Finances; the CGC, Annual Updates and Methodology Review.

<sup>1</sup> The grey shaded area represents the 0.7 and 0.75 relativity floor included in the 2018 reforms.

In its Submission to the 2017 PC Inquiry Draft Report, Tasmania estimated that moving to a partial HFE arrangement would, at the extreme, allow Western Australia to reduce its payroll tax by 55 to 70 per cent. Based on 2024-25 actual outcomes, Tasmania estimates that the \$6.1 billion uplift in GST revenue Western Australia received in 2024-25 from the 2018 reforms would have allowed it to completely abolish payroll tax<sup>15</sup> and still retain greater total revenue than it would under the previous full HFE arrangements.

If Western Australia did choose to completely abolish its payroll tax, or even halve the payroll tax it collected, it would likely result in businesses currently located in eastern states seeking to relocate to Western Australia to benefit from the reduced tax burden. This would result in movement of capital and labour to Western Australia, incentivising Western Australia to undertake such reform. While the concept of ‘reasonable’ HFE is discussed further below, this clearly contradicts the Commission’s statement in the 2017 PC Inquiry that a reasonable standard of HFE:

*should not unduly hinder the efficient movement of people and capital between states.*<sup>16</sup>

However, since the 2018 reforms, Western Australia has only changed its tax settings at the margin. The additional funding it has received from the 2018 reforms has primarily been directed towards service delivery and new infrastructure. This has included funding its \$38 billion infrastructure program over the current Budget and Forward Estimates, which includes \$13.3 billion for energy and water infrastructure, \$10.7 billion for transport and road infrastructure and \$3.2 billion in health

<sup>15</sup> Based on Western Australia raising \$5.8 billion in payroll tax in 2024-25.

<sup>16</sup> Productivity Commission, Inquiry Report - Horizontal Fiscal Equalisation, May 2018.

infrastructure.<sup>17</sup> It has also significantly increased its service delivery commitments, including an \$829 million investment into responding to the demand on its public hospitals.<sup>17</sup>

While Western Australia has claimed that '*Western Australia continues to power the national economy*',<sup>18</sup> its 2025-26 Budget clearly shows that the benefits it has received from the 2018 reforms and through its increased royalty revenue are primarily being invested in Western Australia. This is clearly demonstrated by the naming of its recent infrastructure packages, including '*Made in WA Plan: Diversifying Our Economy for the Future and Creating Local Jobs*', which encompasses its investment in energy and water, and transport and road infrastructure and '*Safe Strong and Fair Communities: Supporting Our Local and Regional Communities to Thrive*', which includes its health infrastructure investment.<sup>17</sup>

Western Australia is not the only government to benefit from its mining boom. The rise in company tax receipts and income tax returns from Western Australia's mining sector have also provided a direct fiscal benefit to the Australian Government. For example, in its 2025-26 Budget, Western Australia claims that the three largest iron ore mining companies paid \$17 billion to the Australian Government in company tax in 2023-24, far in excess of the \$5 billion in no-worse-off guarantee payments in that year.<sup>17</sup> While not wholly attributable to Western Australia's mining sector, it is important to recognise that when Western Australia saw its royalty revenues rise above \$10 billion from 2020-21 to 2023-24, the Australian Government also saw a 62.7 per cent increase in its company tax.<sup>19</sup>

Any benefit to the nation from Western Australia's strong economy, does not translate to a benefit at a disaggregated state level. The gap between Western Australia and all other states is clearly demonstrated by the economic and fiscal indicators considered above. The relative fiscal advantage provided to Western Australia under the 2018 reforms would be further amplified without the no-worse-off guarantee. As shown in Chart 1.10, Western Australia's advantage is delivered at the expense of all other jurisdictions.

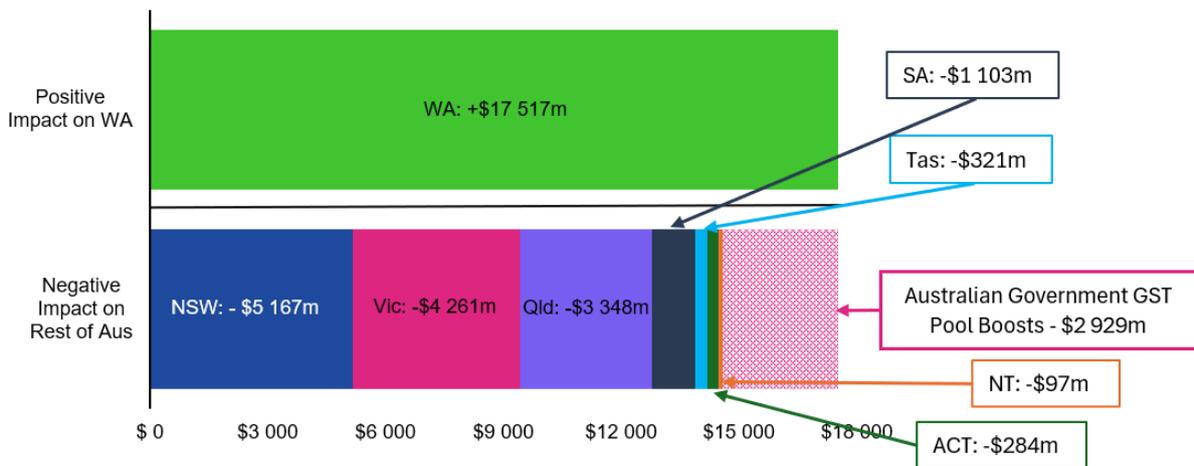
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<sup>17</sup> Western Australian Government, WA State Budget 2025-26 – Budget Paper No. 3, June 2025.

<sup>18</sup> The Hon. Rita Saffioti MP, Strong economic growth shows WA continues to power the nation, September 2025.

<sup>19</sup> Calculated based on Australian Government's actual collection of company tax using 2025-26 MYEFO Historical Fiscal Data.

**Chart 1.10: Impact of 2018 reforms on states' GST revenue, \$ millions, 2021-22 to 2024-25<sup>1</sup>**



Source: Australian Government, Final Budget Outcomes.

<sup>1</sup> This excludes the impact of no-worse-off guarantee payments.

While the 2018 reforms would require all states other than Western Australia to significantly reduce their services and infrastructure, the impacts of the 2018 reforms have been mostly shielded by the time-limited no-worse-off guarantee. To date, Tasmania has received \$321 million in no-worse-off guarantee payments. In terms of service delivery, this level of funding equates to around 10 000 hospital admissions annually,<sup>20</sup> indicating the scale of service delivery reduction that would be required under the 2018 reforms should the no-worse-off guarantee be allowed to expire. Nationally, Tasmania estimates that the no-worse-off guarantee will cost the Australian Government \$43 billion by the time it expires in 2029-30.<sup>21</sup> Should the no-worse-off guarantee expire, and no other changes are made to GST distribution arrangements, all states other than Western Australia will have significantly reduced fiscal capacity. This is expected to result in significant reductions in the provision of services and infrastructure in all states other than Western Australia.

Should the no-worse-off guarantee be allowed to expire, states other than Western Australia will face confronting choices between which services to continue or cease, further exacerbated by the expectation that state governments will maintain existing services and deliver new ones. For example, since 2018 all states have been required to build new infrastructure and deliver new services, whether to respond to local needs and circumstances, economic shocks such as the COVID-19 pandemic, or to meet terms of various National Agreements or Federation Funding Agreements with the Australian Government.

However, similarly to the Australian Government, all states except Western Australia have had a fiscally constrained operating environment to fund such priorities and commitments. On a comparative basis, this has impeded the service delivery and infrastructure provision for all states, relative to Western Australia. This will be exacerbated should the no-worse-off guarantee expire and no-other changes to GST distribution arrangements occur.

<sup>20</sup> Calculated using the Productivity Commission's Report on Government Services: Public Hospitals data.

<sup>21</sup> Calculated using data from the Australian Government's Final Budget Outcomes and 2025-26 MYEFO.

The key element of the 2018 reforms that has benefited Western Australia during the transitional period is the relativity floor, currently set at 0.75. Western Australia's benefit will be further increased following the end of the transitional period when the reforms are fully implemented and it is equalised to the stronger of New South Wales and Victoria, a level anticipated to be higher than 0.75. Even with the no-worse-off guarantee in place, Tasmania maintains its long-standing position that the presence of the floor undermines full HFE by allowing one state to maintain a fiscal capacity in excess of others. Notwithstanding this argument being made by most states at the time the reforms were introduced, the 2018 legislative changes included a floor on the basis it would protect against economic shocks. As will be discussed later in this Submission, the floor has not been required for this intended purpose and, to date, has only benefited Western Australia, despite it not weathering any unique economic shocks since its introduction. As noted earlier, Western Australia experienced disproportionate fiscal strength during the COVID-19 pandemic, in contrast to other states which are still recovering from this economic shock.

Beyond the transition arrangements, should the no-worse-off guarantee be allowed to expire with no other changes to the 2018 reforms, the dual-level of federalism that has been established will continue to be exacerbated and permanently entrenched.

Tasmania considers that should the no-worse-off guarantee expire, the advantage afforded to Western Australia under the 2018 legislative changes should also cease. As such, Tasmania supports a return to full HFE to ensure states are not disadvantaged by the expiry of the no-worse-off guarantee and the Australian Government's fiscal capacity is not reduced.

**Should other Commonwealth payments to the states, such as specific purpose payments and other general revenue assistance, be included in the Commonwealth Grants Commission's assessments?**

Should some of these payments be excluded? If so, which payments should be excluded and why?

When the states ask for a payment to be excluded, what criteria do they use to determine if an exemption should be sought?

**Is additional guidance needed on which Commonwealth payments should be excluded?**

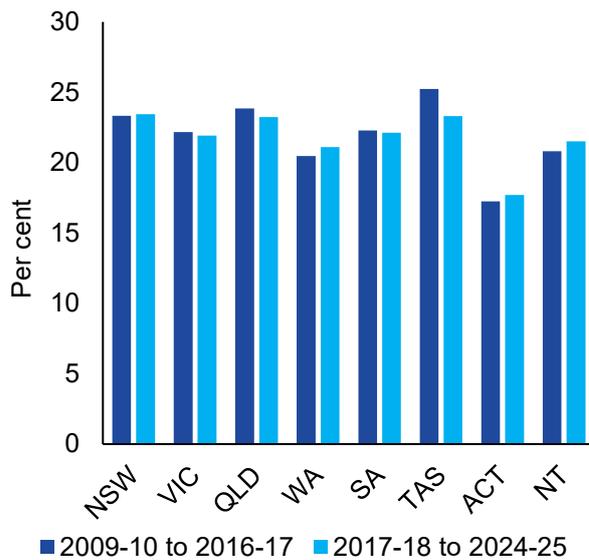
If additional guidance is required, what form should it take?

As discussed above, the high-level of VFI in Australia has required the Australian Government to provide a level of fiscal support to states to enable them to meet their service delivery obligations. While GST is the only source of untied revenue provided to states, the Australian Government also provides Commonwealth payments for specific purposes to the states as another mechanism to address VFI. There is a well-established architecture for Commonwealth-state financial relations, with two key types of payments:

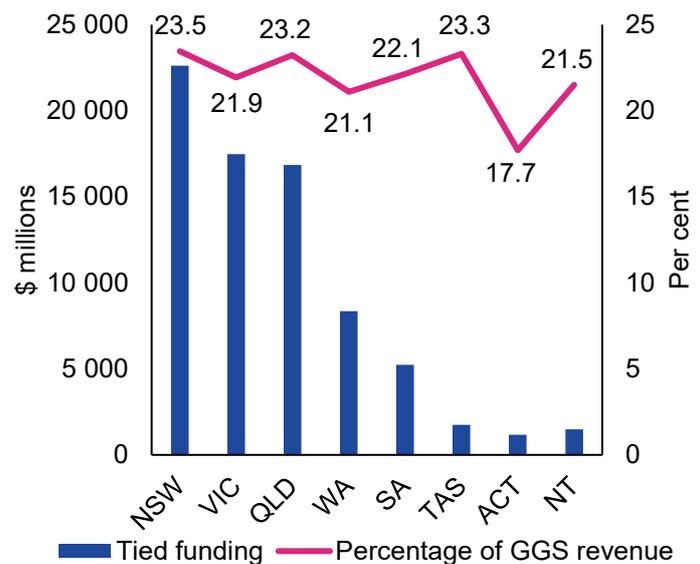
- National Agreements – for ongoing funding in key service delivery areas; and
- National Partnership Payments (NPPs) - for time-limited funding tied to supporting the delivery of projects, facilitating reforms within the recipient state and/or recognising states' delivery of national reforms.

While all states are party to the six major National Agreements,<sup>22</sup> NPPs may vary significantly between states in terms of purpose and quantum. However, while there are variations from year-to-year, as shown in Charts 1.11 and 1.12, Commonwealth payments are a material source of revenue for states. On average these payments represent around 20 per cent of states' total General Government Sector (GGS) revenue. For Tasmania, Commonwealth payments represent around 27 per cent of revenue in 2025-26, which is the second-largest single source of revenue behind the GST.

**Chart 1.11: States' tied funding as percentage of total state GGS revenue, average 2009-10 to 2016-17 compared to 2017-18 to 2024-25**



**Chart 1.12: States' tied funding and as a percentage of total state GGS revenue, average 2017-18 to 2024-25**



Source: Australian Government, Final Budget Outcomes; State Governments, annual financial reports

Given the materiality of Commonwealth payments to state budgets, and that they provide funding to support service delivery in areas of joint responsibility, Tasmania supports the CGC continuing to consider these payments when determining each state's relative fiscal capacity and recommended GST share. Commonwealth payments are not necessarily provided on a per capita basis and states may benefit disproportionately in the share of Commonwealth payments they receive (Chart 1.13). As such, excluding Commonwealth payments from the methodology would undermine the principle of HFE because state fiscal capacities would not be similar, with states that receive less revenue from Commonwealth payments being disadvantaged.

<sup>22</sup> National Agreements include the National Health Reform Agreement, the National Mental Health and Suicide Prevention Agreement, the Better and Fairer Schools Agreement, the National Access to Justice Partnership, the National Agreement on Social Housing and Homelessness, and the National Skills Agreement.

**Chart 1.13: States' share of total Commonwealth tied funding,<sup>1</sup> 2009-10 to 2024-25**



Source: Australian Government, Final Budget Outcomes.

<sup>1</sup> Tied funding includes Specific Purpose Payments and National Partnership Payments

Under the Terms of Reference that the Australian Treasurer issues each year to guide the CGC’s annual relativity updates, there is a standing direction that the CGC should take account of payments provided by the Australian Government to states for specific purposes when considering GST allocations. The Australian Treasurer may also direct the CGC to specifically exclude certain Commonwealth payments from impacting the GST distribution. For example, the Australian Government has consistently required that the Commission exclude facilitation and reward payments to states for implementing reforms to service delivery through the annual Terms of Reference.<sup>23</sup> This ensures that any financial benefits as a result of reforms undertaken by states are retained by the states.

The CGC treats all Commonwealth payments to the states on a case-by-case basis, guided by the HFE objective, and using the following guideline:

*Payments which support State services, and for which expenditure needs are assessed, will have an impact on the relativities.<sup>24</sup>*

The CGC has a well-established annual consultation process, which provides states with the opportunity to engage and support its assessments, including for Commonwealth payments. Tasmania supports the CGC’s approach, broad guidelines and the existing consultation process it has in place with respect to Commonwealth payments.

More broadly, in its five-yearly Methodology Reviews, the CGC reviews the methods it uses to calculate the recommended GST distribution and to ensure its assessments are appropriate and based on fit-for-purpose data. This includes

<sup>23</sup> Australian Government, Terms of Reference for the 2025 Methodology Review, February 2023.

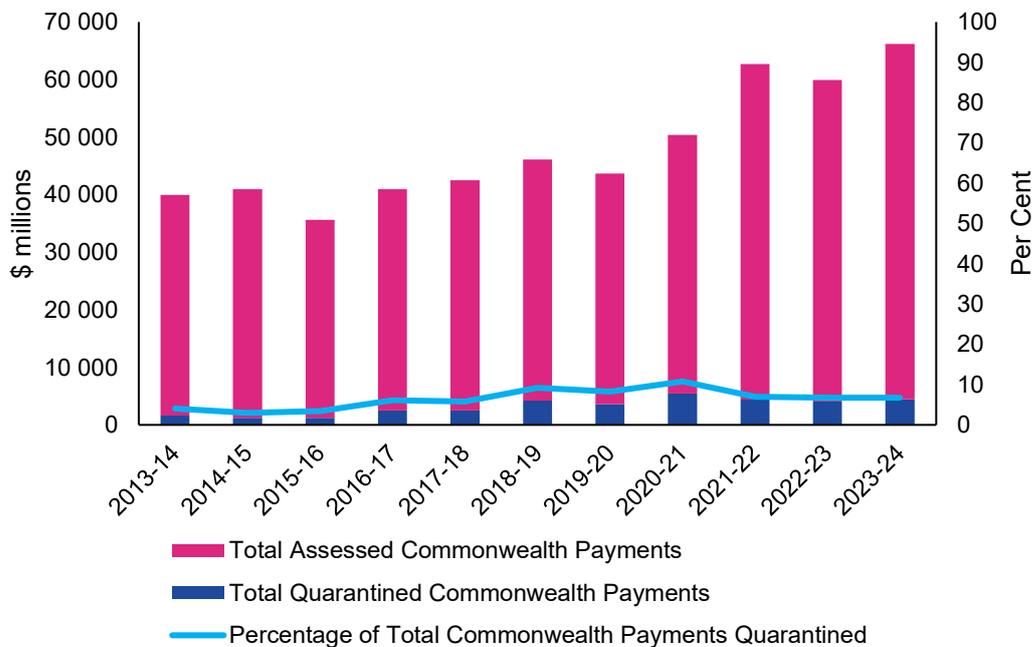
<sup>24</sup> Commonwealth Grants Commission, 2025 Methodology Review – Review Outcomes, March 2025.

consideration of the guidelines it uses to inform the treatment of Commonwealth payments in its assessments. Tasmania also supports the robust processes that the CGC has in place to regularly consider the appropriateness of its assessments, including for Commonwealth payments.

In rare cases, some Commonwealth payments that would otherwise be included in the CGC’s assessments can be specifically excluded (quarantined) to prevent any impact on GST relativities. Commonwealth payments can only be quarantined by a direction from the Australian Treasurer to the CGC in the Terms of Reference for its Annual Update of the GST distribution for a particular year.

These exceptions are uncommon relative to the number of total Commonwealth payments, since quarantining is generally considered detrimental to the principle of HFE, as shown in Chart 1.14. This is because the quarantined payment provides the recipient state with an additional fiscal advantage over other states in excess of HFE. For this reason and recognising that Tasmania benefits from the HFE system, conceptually Tasmania supports Commonwealth payments only being quarantined in limited circumstances.

**Chart 1.14: Quarantined payments as a proportion of total Commonwealth Payments**



Source: The CGC, annual Updates and Methodology Reviews.

Beyond the CGC’s criteria for assessing Commonwealth payments, there are currently no guidelines for circumstances in which Commonwealth payments should be quarantined. Quarantining tends to be either a result of requests from states for special funding treatment, or because the Australian Government considers the payment would be ineffective or counterproductive in achieving its objectives if it was eroded by the HFE process.

As a result, quarantining payments has been the subject of much debate. In the 2017 PC Inquiry, the Commission noted that the quarantining of payments by the Australian Treasurer without a clearly defined rationale can undermine the system or

have the appearance of being unfair.<sup>25</sup> To address this, the Commission recommended that the Australian Government, in consultation with the states, develop clear guidelines detailing the basis on which Commonwealth payments are to be quarantined by the Australian Treasurer.<sup>26</sup> Almost a decade later, and despite substantial intergovernmental discussions on the topic, these guidelines are yet to be developed. This may reflect the challenges associated with developing specific guidelines that are supportable by all parties.

While guidelines in relation to quarantining would aid transparency and accountability, it is unlikely that guidelines to govern the Australian Treasurer's decisions in an area, which can be politically motivated, are likely to be effective. Noting the complexities associated with developing additional guidance, an alternative approach, which would enhance transparency and certainty of the treatment of Commonwealth payments, would be to include the intended GST treatment in the associated funding agreement.

In the interim, Tasmania continues to support the CGC considering the treatment of Commonwealth payments on a case-by-case basis and exercising judgement in accordance with its existing guidelines and principles. If additional guidance is to be developed including through potentially augmenting funding agreements, consistent with the Commission's 2017 recommendation, this should be agreed through a collaborative approach with states.

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<sup>25</sup> Productivity Commission, Inquiry Report - Horizontal Fiscal Equalisation, May 2018.

## Information Request 2

### Have the GST distribution arrangements since the 2018 legislative changes delivered a reasonable level of horizontal fiscal equalisation?

How do you define a reasonable level of horizontal fiscal equalisation?

Should the PC look to international approaches to determine what reasonable fiscal equalisation is in Australia, and why?

As articulated in the IGA-RCSFR, and more recently the IGA-FFR, GST was intended to be a tax to provide a source of revenue for the states that replaced a range of existing state taxes and other financial transfers from the Australian Government. This agreement was supported by all states on the basis that GST would be distributed as untied revenue under the long-standing egalitarian principle of HFE. At the time, HFE was defined as:

*A distribution of GST revenue to State governments such that, allowing for material factors affecting revenue and expenditures, each would have the fiscal capacity to provide services and their associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources, operated at the same level of efficiency and maintained the average per capita net financial worth.<sup>26</sup>*

Tasmania notes that the concept of 'reasonable' was only introduced in the 2018 reforms. This is a subjective concept that appears to have been introduced in the 2017 PC Inquiry, though never defined in the Inquiry itself, nor the resulting 2018 legislation giving effect to the GST distribution reforms. While the Commission did not provide a justification for its proposal that the GST distribution system should deliver a 'reasonable' level of fiscal equalisation, it did state that a reasonable standard of HFE '*should not unduly hinder the efficient movement of people and capital between states*'.<sup>27</sup> However as shown in Chart 1.5 under Information Request 1, the 2018 reforms have resulted in the movement of people towards Western Australia a result of the significant fiscal disparity between it and all other states.

In Tasmania's view, the 2018 legislative changes have permanently introduced an unreasonable level of equalisation, which divides the nation despite the no-worse-off guarantee. This divide will be permanently entrenched and grow, should the guarantee be allowed to expire. Full HFE aimed to level the 'playing field' for all states through providing each with the fiscal capacity to deliver services to a national average level. However, the partial level of HFE introduced under the 2018 legislative changes eroded the level of equalisation in the GST distribution system. In doing so, it created disparity in the playing field by funding the strongest state to a comparatively higher level, while all other states receive funding to provide services to the national average.

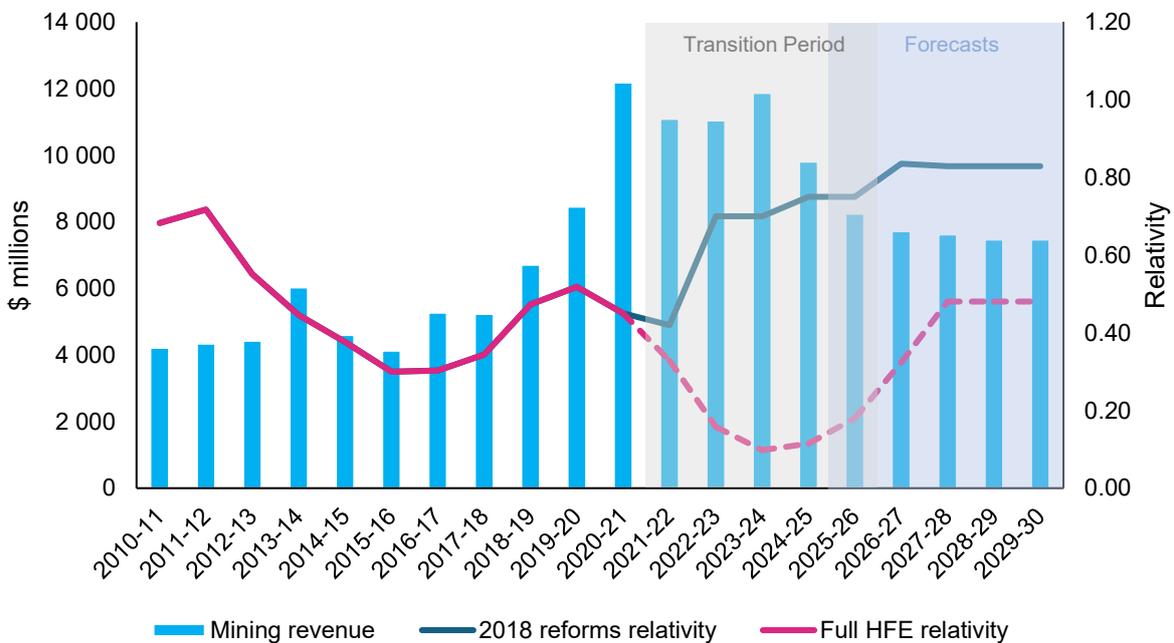
<sup>26</sup> Commonwealth Grants Commission, 2018 Update Report on GST Revenue Sharing Relativities, March 2018.

<sup>27</sup> Productivity Commission, Inquiry Report - Horizontal Fiscal Equalisation, May 2018.

As noted above, since the revised arrangements were legislated in 2018, Western Australia’s mining royalty revenue more than doubled from \$5.2 billion in 2017-18<sup>28</sup> to \$11.9 billion in 2023-24<sup>29</sup>. Under a full HFE system, this would have reduced its need for GST significantly as shown in Chart 2.1. However, the presence of the floor during the transitional period guarantees Western Australia receives a level of GST above what it needs to provide services and infrastructure to the national average level. This is expected to be further exacerbated once the 2018 legislative changes are fully implemented, because Western Australia will be equalised to the fiscal capacity of New South Wales or Victoria, a level anticipated to be higher than the current 0.75 relativity floor.

The forecast period in Chart 2.1 reflects the Tasmanian Department of Treasury’s internal modelling of Western Australia’s GST relativities, which is informed by the Budget outlook of all jurisdictions, and is consequently influenced by Western Australia’s prudent outlook on commodity prices.

**Chart 2.1: Western Australia’s mining revenue and GST relativities from 2010-11 to 2029-30, \$ millions**



Source: Western Australian Government, Annual Financial Reports; Western Australian Government, 2025-26 Mid-Year Financial Projections; the CGC, annual Updates and Methodology Reviews.

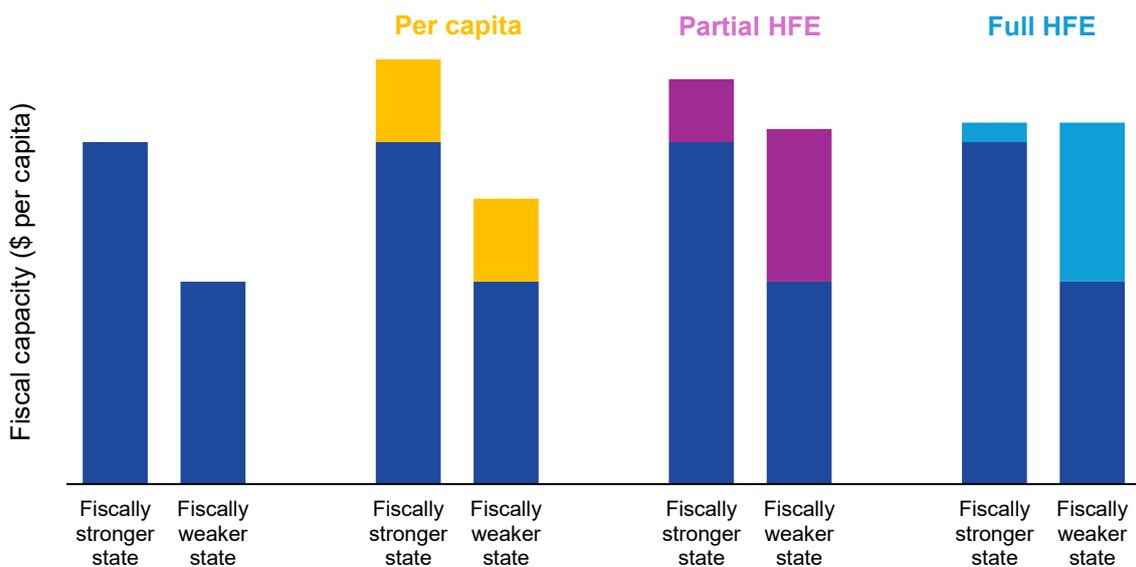
When the 2018 reforms were introduced, the Australian Government made assurances that all states would be better off. However, as discussed above, states considered there were flaws in the Australian Government’s modelling and assumptions and required the inclusion of the no-worse-off guarantee to provide support for the reforms.

<sup>28</sup> Western Australian Government, 2017-18 Annual Report on State Finances, September 2018.  
<sup>29</sup> Western Australian Government, 2023-24 Annual Report on State Finances, September 2024.

Contrary to the Australian Government’s assurances, all states are not better off, and all (other than Western Australia) have needed no-worse-off guarantee payments. As a result, the Australian Government is currently incurring a great expense under the 2018 reforms. If the no-worse-off guarantee is allowed to expire, and there are no other changes to the 2018 reforms, Western Australia’s higher share of GST will increase further and be entirely at the expense of all other states. As was raised at the time, in Tasmania’s view, the 2018 reforms were never reasonable.

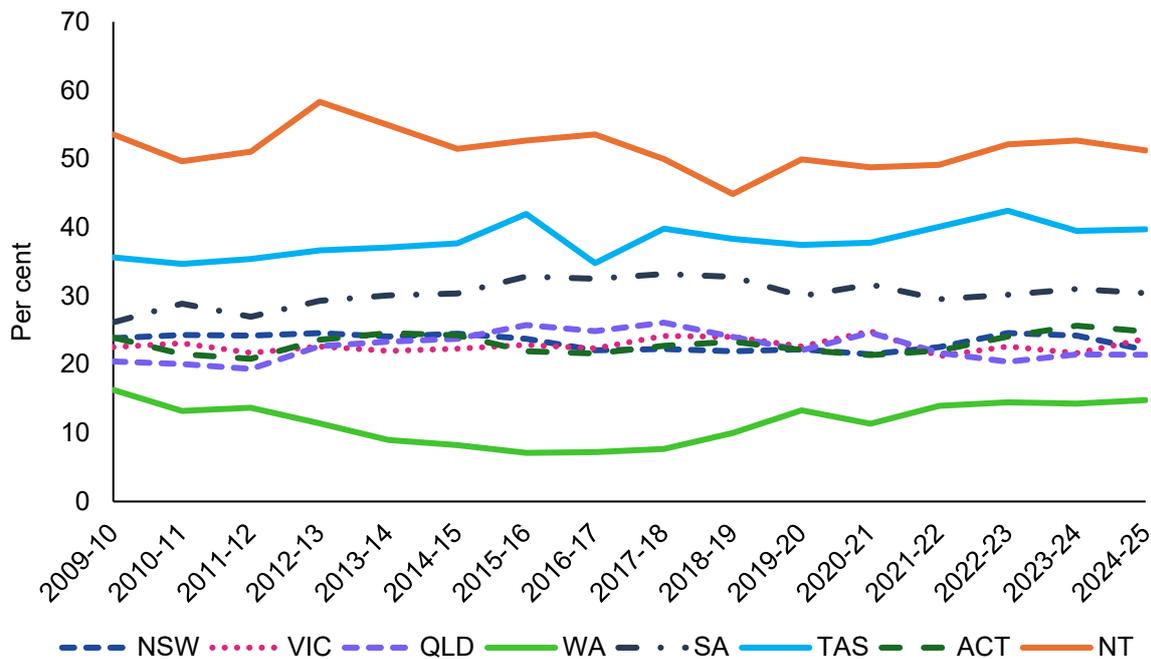
The distribution of GST revenue to the states has been debated for decades, including the ‘fairest’ way to deliver equalisation. Despite the longstanding basis of full HFE, debate has considered specific options such as equal per capita (EPC) distributions, or various other standards of partial equalisation, all of which erode the principle of HFE (shown conceptually in Chart 2.2 and discussed further in this Submission below). Until the 2018 reforms, the zero-sum nature of the GST distribution system has meant that an increase to one state’s share is at the expense of all other states. However, notwithstanding various options considered, there has always been recognition that states with smaller economies or populations (smaller states) require additional support to deliver services at a national average level.

**Chart 2.2: Conceptual representation of the impact of alternative GST distribution standards on the fiscal capacity of fiscally stronger versus fiscally weaker states**



As shown in Chart 2.3, GST revenue represents a higher proportion of General Government Revenue for smaller states compared to the larger states. As such, the level of equalisation, among other factors, has the potential to significantly impact small state economies and communities. For larger states, the proportional impact is comparatively smaller.

**Chart 2.3: GST revenue as a percentage of total General Government Revenue**



Source: State Governments, annual financial reports.

As noted above, Western Australia has consistently argued that the strength of its mining sector and economy supports the rest of the nation. Over 92 per cent of Australia’s economically viable iron ore is located in Western Australia.<sup>30</sup> The associated, and entirely private sector, mining industry provides significant direct fiscal and economic support to Western Australia. Until the 2018 reforms, this significant capacity to raise revenue impacted Western Australia’s GST share, reflecting the principles of HFE.

Before the 2018 reforms were introduced, Western Australia was directly supported by the Australian Government, which was seen to recognise the historical volatility of revenue from its mining sector and the associated increase to company and income tax revenue. However, under the 2018 reforms, that support for Western Australia is funded directly from the pool of GST revenue, despite the CGC’s assessments.

However, Tasmania does not consider that the 2018 reforms have delivered a ‘reasonable’ outcome to respond to issues with the GST distribution system. The CGC has a well-established and well-supported methodology, which as noted above is regularly reviewed. Since the 2025 Methodology Review, the CGC also has the flexibility to change its methods between reviews to better reflect changed state circumstances and the objective of fiscal equalisation. Tasmania supports this system, and the CGC’s consultative process which provides an opportunity for all states to engage on potential changes. For example, in response to the need to capture the impact of the COVID-19 pandemic on the GST distribution, the CGC implemented a separate assessment to appropriately address the difference in spending between states on COVID-19.

<sup>30</sup> Australian Government, Geoscience Australia: Iron Ore, December 2023.

Currently the CGC, in consultation with states, is examining a range of issues in its forward work program. This includes consideration of the dominant state issue in the mining assessment. As long-standing supporters of the independence of the CGC and its approach to reviewing its methodologies, Tasmania considers that this is the most appropriate avenue for considering the potential dominant state issue within the mining assessment.

In contrast, the 2018 reforms by-passed the well-established approach through which adjustments to the GST distribution system are made, by introducing an arbitrary mechanism to deliver a fixed level of funding to one state that does not reflect the CGC's methodology, respond to real economic shocks or other changes.

Tasmania does not consider this to be 'reasonable' or consistent with the egalitarian approach intended to underpin the Federation. Tasmania continues to believe that the only reasonable approach to fiscal equalisation that supports equal outcomes for all Australians, regardless of their location, is full HFE.

### ***International approaches to fiscal equalisation***

As noted above, there is no agreed definition of 'reasonable' fiscal equalisation and Tasmania considers full HFE provides the only supportable level of equalisation. From a fiscal perspective, concepts of federation differ internationally, including the extent to which there is VFI between central and regional governments, and the relative imbalances between the fiscal strength of different regions. While many federations have some form of HFE, approaches vary, with different federations accepting different equalisation outcomes.

As noted earlier, the Australian Federation has been built on the egalitarian concept that all Australian have a right to access similar levels of services. Aligned to that concept, the system of full HFE in place prior to the 2018 reforms provided all Australians with capacity to access similar levels of services at a national average level. Full HFE accounts for the broad drivers of divergence across states from a revenue, expenditure and capital perspective, which are reflected in the CGC's comprehensive assessment across these categories. The CGC's approach is regularly reviewed, most recently as part of the 2025 Methodology Review, which concluded that it remains appropriate.<sup>31</sup>

Tasmania considers that the CGC's approach and methodologies are more comprehensive, effective and robust than the systems in place in comparable countries. Of note, the methodology used in Australia to determine fiscal equalisation focuses on both revenue and expense equalisation, while other key comparable federations primarily focus on revenue equalisation.

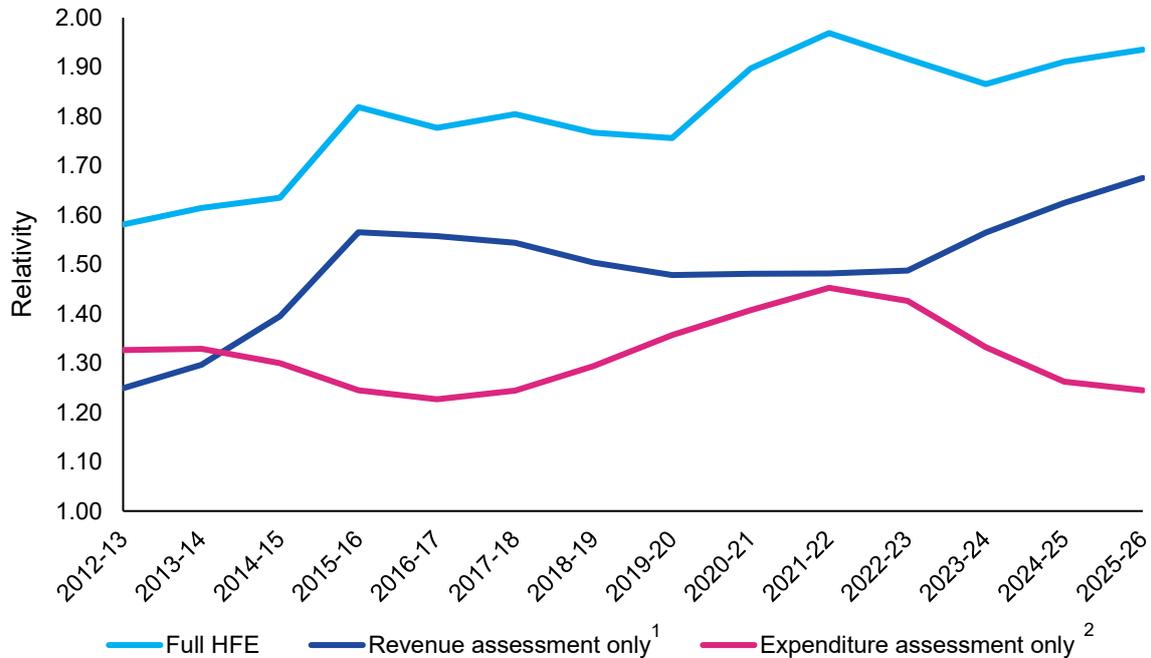
In an Australian context, a change in the GST distribution system to only focus on revenue equalisation would not resolve any fundamental debate about how revenue need is determined. In particular, it would not address disparities across jurisdictions in costs to deliver services resulting from remoteness, population dispersion and other socio-demographic drivers. A model focused solely on revenue equalisation would also not resolve the ongoing debate in terms of the impact mining royalties have on a dominant state's GST share.

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<sup>31</sup> Commonwealth Grants Commission, 2025 Methodology Review: Review Outcomes, March 2025.

Given this, and the significant disparity across Australian states with respect to capacity to raise revenue and differences in costs incurred to deliver services and infrastructure, Tasmania is of the view that both revenue and expenditure need to be considered to deliver full HFE. As such, Tasmania supports the CGC’s current methodology. Any move to dilute the comprehensive assessments currently in place would deliver a lesser standard of HFE, which Tasmania does not support.

**Chart 2.4: Tasmania’s GST relativities under full HFE compared to equalisation based only on revenue raising capacity or expenditure**



Source: the CGC, annual Updates and Methodology Reviews.

<sup>1</sup> Calculated based on assessed own-source revenue, Commonwealth payments and net borrowing.

<sup>2</sup> Calculated based on assessed expenses and investment.

As noted in the CGC’s research paper *Some international themes in fiscal equalisation: an Australian perspective*,<sup>32</sup> Australia’s comprehensive approach to equalisation can have a significant effect on states’ fiscal capacities, with the paper highlighting Tasmania as an example of this (replicated in Chart 2.4).

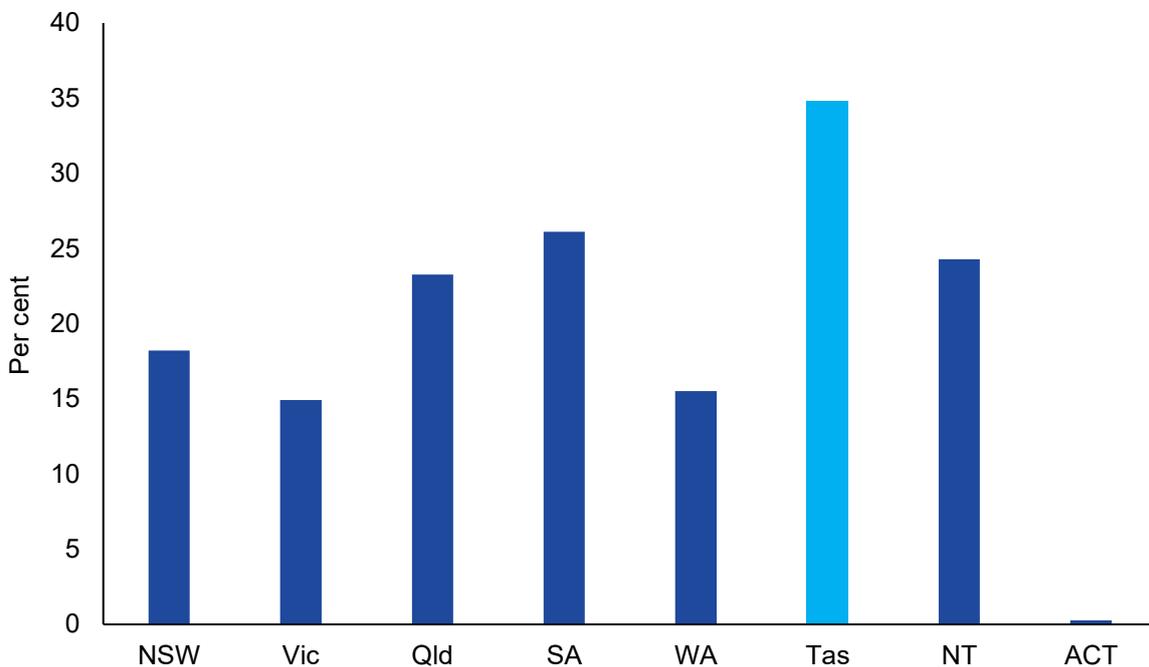
As a smaller state, Tasmania has a smaller economy and more limited revenue raising capacity compared to larger states. In part this is due to the State’s lower population and, in part, because of the demographics of its population, including socio-economic status of its residents and the proportion of older people. Tasmania has comparatively lower revenue from mining than other states and, as a smaller state, often experiences diseconomies of scale. This results in Tasmania having a lower capacity to raise revenue, relative to other states. As a result, the CGC assesses Tasmania as requiring a greater share of GST revenue.

<sup>32</sup> Commonwealth Grants Commission, *Some international themes in fiscal equalisation: an Australian perspective*, April 2022.

States’ differing characteristics also affect their costs of providing services. From a Tasmanian perspective, the State’s socio-demographic composition, population dispersion, and geographical characteristics, including the nature of being an island state, also present a range of challenges in delivering services and infrastructure which result in higher costs. The CGC’s current approach accounts for many of these cost drivers in its methodology, but there are data limitations in capturing the impact of the complex and compounding nature where cost drivers exist across multiple sectors.

Across all states, Tasmania has the highest proportion of its population living in social disadvantage. Chart 2.5 shows that nearly 35 per cent of Tasmanians live in the most disadvantaged quintile; if this were to be expanded to the lowest two quintiles of advantage, 63 per cent of Tasmanians would be captured.

**Chart 2.5: Proportion of population in the most disadvantaged SEIFA quintile by jurisdiction**

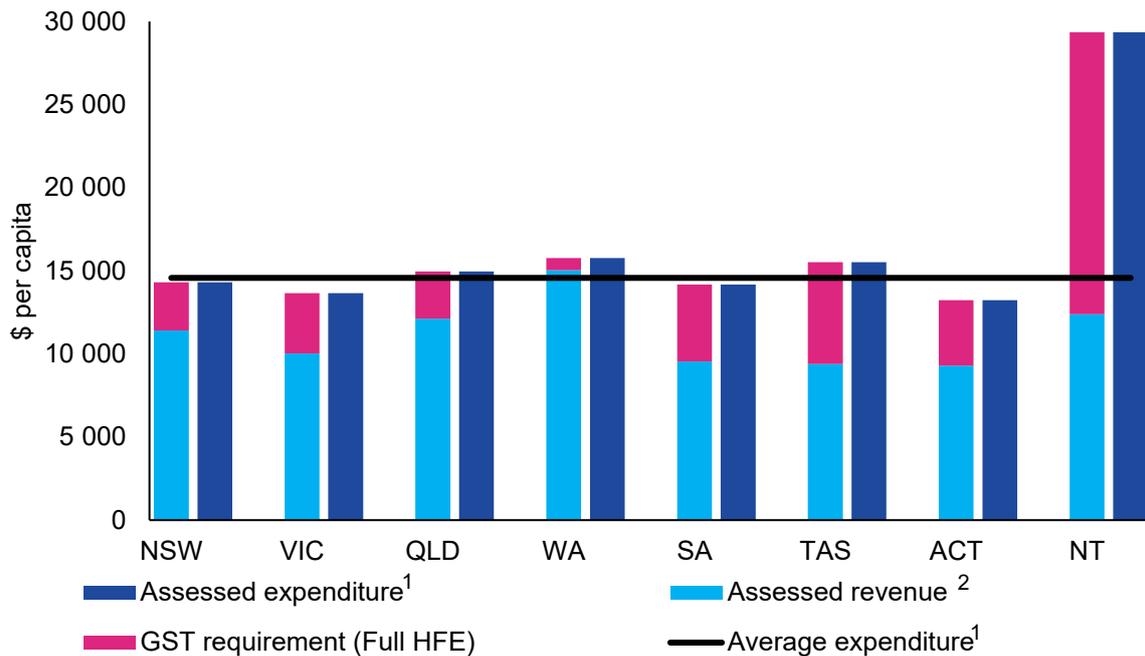


Source: ABS, 2021 Census – Socio-Economic Indexes for Areas (SEIFA).

The CGC relies on national data for its methodology and utilises measures of socio-demographic elements of disadvantage individually. However, it is well-established that individuals can experience disadvantage across multiple factors, which leads to compounding impacts and has complex consequences for service delivery. Emerging data sets such as the Australian Bureau of Statistics’ Person Level Integrated Data Asset (PLIDA) are becoming increasingly sophisticated and comprehensive. This may evolve to inform drivers of service delivery costs in the GST distribution methodology.

Under the current methodology, Tasmania faces the second highest drivers of expenditure and the lowest capacity to raise own source revenue (Chart 2.6). Any move to consider only one side of equalisation, or simplify the extent to which the GST distribution methodology captures the revenue raising capacity and expenditure, is likely to disproportionately impact smaller states. As noted above, Tasmania does not support the current lesser standard of equalisation under the 2018 reforms, or any further erosion of HFE.

**Chart 2.6: Commonwealth Grants Commission – assessed revenue v assessed expenditure of states, per capita, 2023-24**



Source: the CGC, 2025 Methodology Review.

<sup>1</sup> Includes assessed expenses and investments.

<sup>2</sup> Includes assessed own-source revenue, Commonwealth payments and net borrowing.

Another key feature differentiating other federations’ fiscal equalisation systems internationally is whether transfers are made vertically, horizontally or a mix. As defined by the CGC:

*Vertical systems of equalisation involve a transfer of funds from higher to lower levels of government. Richer regions draw a smaller share from the pool of funds than poorer regions. Horizontal systems involve governments at the same level contributing to and sharing a common pool of funds. Richer regions contribute to a pool of funds while poorer jurisdictions draw from this pool.<sup>33</sup>*

Australia has a vertical system, in that the pool of revenue to be equalised comes from the collection of GST, and under the 2018 legislative arrangements, additional top-ups from the Australian Government. States are not required to contribute to the pool.

In contrast, other fiscal equalisation systems, such as those operating in Switzerland and Germany, have elements of horizontal equalisation that require richer regions to contribute revenue to the equalisation pool. While this has never been a feature of Australia’s equalisation system, this concept was tested ahead of the 2022 Update when the CGC consulted states on how negative GST relativities should flow through the GST distribution system.<sup>34</sup> Conceptually, a negative relativity represents

<sup>33</sup> Commonwealth Grants Commission, Some international themes in fiscal equalisation: an Australian perspective, April 2022.

<sup>34</sup> Commonwealth Grants Commission, New Issues in the 2022 Update, March 2022.

a scenario in which a state has such fiscal strength that it would need to contribute to the pool of revenue distributed, in order for the system to achieve full HFE.

Regardless of whether states have positive or negative GST relativities, if Australia's equalisation is to be informed by international systems of equalisation, conceptually there could be a case for the strongest states to contribute to the GST pool.

However, the thresholds for determining a state's fiscal capacity to contribute to the pool would require extensive consideration and consultation.

On balance, when considering the range of approaches to fiscal equalisation internationally, Australia's current approach does not seem to unfairly disadvantage any state. It comprehensively considers the full range of cost drivers differentiating states and does not require any state to make additional contributions to the pool of revenue that is distributed.

## Information Request 3

### **Do the 2018 GST distribution reforms strike the right balance between responding to changing circumstances and providing certainty around revenue?**

What changing economic and social circumstances are of most concern to states and territories?

Do the GST distribution reforms support states to manage the fiscal impact of shocks such as natural disasters or economic disruptions?

Have changing economic and social circumstances affected revenues, and the provision of state services and infrastructure?

Has the impact of these changing economic and social circumstances been more or less significant than the changes in GST distribution on the states' finances?

Have the GST distribution reforms decreased or increased the volatility of state finances?

Can volatility in the states' GST shares be reduced, and if so how?

How do the states manage volatility in their finances?

Are there other sources of volatility in state finances?

Have the GST distribution reforms impacted the ability of the states to undertake fiscal planning?

As discussed above, Australia's fiscal equalisation system has been debated on many occasions. In the lead-up to the 2018 reforms, mining and housing booms, along with demographic and other structural changes, caused variation in the distribution of GST revenue among the states, which led to discussion of the appropriateness of full HFE.

Tasmania's Submission to 2017 Inquiry noted state relativities (and hence shares of GST) are highly variable from year to year due to a range of factors. The three factors that determine a state's GST share are all, to variable extents, responsive to changing circumstances:

- the pool of GST available for distribution - which is inherently volatile since it is highly sensitive to changes in consumer spending patterns;
- a state's share of the national population – an individual's decision to move location is based on a complex range of factors including employment opportunities, housing availability and prices, family and other social connections and cost of living standards. While population is generally less volatile than other factors, there is potential for changes in population shares to impact the GST distributions, as evidenced during the COVID-19 pandemic which triggered unusual changes in migration; and
- a state's GST relativity as recommended by the CGC – which is updated annually when new data becomes available, with the underlying methodology regularly reviewed through the CGC's five-yearly Methodology Reviews. Since changes to the methodology have the potential to materially impact states' GST shares, the reviews involve extensive consultation with all states.

Through its guiding principle of practicality, under both full HFE and the 2018 reforms, the CGC aims to capture the major influences on state expenses and revenue to ensure that the GST distribution each year is responding to changes faced by states.<sup>35</sup> It also is transparent in its approach to achieving contemporaneity and balancing this with the desire to reduce volatility in assessments. These concepts and the CGC's guiding principles are well-established and regularly reviewed. Most recently, the CGC's 2025 Methodology Review concluded that its existing approach to use the most recently available three years of actual data remained appropriate.<sup>37</sup> While the CGC's methodology is complex, the lagged relationship between improved fiscal capacity and reduced need for GST is well-established and has always been well understood by all states.

Achieving the right balance between the changing circumstances of states and the need to provide revenue certainty was extensively examined as part of the 2017 PC Inquiry, with the Commission noting:

*Several features of Australia's HFE system promote predictable and stable GST payments. This stability is primarily achieved by applying a three-year moving average to relativity calculations, plus a two-year data lag (to ensure robust data are available). A consequence of this emphasis on stability is that equalisation is less contemporaneous. Less contemporaneous equalisation can exacerbate the budget cycle where State fiscal situations change abruptly — as happened to Western Australia during the mining boom. In this instance, the three-year assessment period and two-year lag in the system resulted in declining GST relativities coinciding with falls in royalty revenue, thereby intensifying the effects of the economic cycle on Western Australia's budget.<sup>36</sup>*

In its final report, the Commission noted that trying to increase the contemporaneity of the CGC's assessments could introduce additional complexity and volatility. As a result, it considered the most effective response was for states to factor the assessment period and GST lag into their budget management processes.<sup>38</sup>

Tasmania agreed with this assessment, on the basis that while complex, the GST distribution system can be modelled with reasonable accuracy for budgeting purposes. As such, Tasmania argued and continues to maintain that complexity and potential volatility is not a valid reason to simplify the GST distribution system based on the justification that it will increase states' forecasting accuracy.

Despite the Commission's findings, the 2018 reforms were introduced and purported to reduce volatility and protect against economic shocks.

### ***Interactions between the 2018 reforms and impacts of changing economic and social circumstances***

Since the 2018 GST distribution reforms were implemented, all states have faced a wide range of changing circumstances and economic shocks, many of which are

<sup>35</sup> Commonwealth Grants Commission, 2025 Methodology Review: Review Outcomes, March 2025.

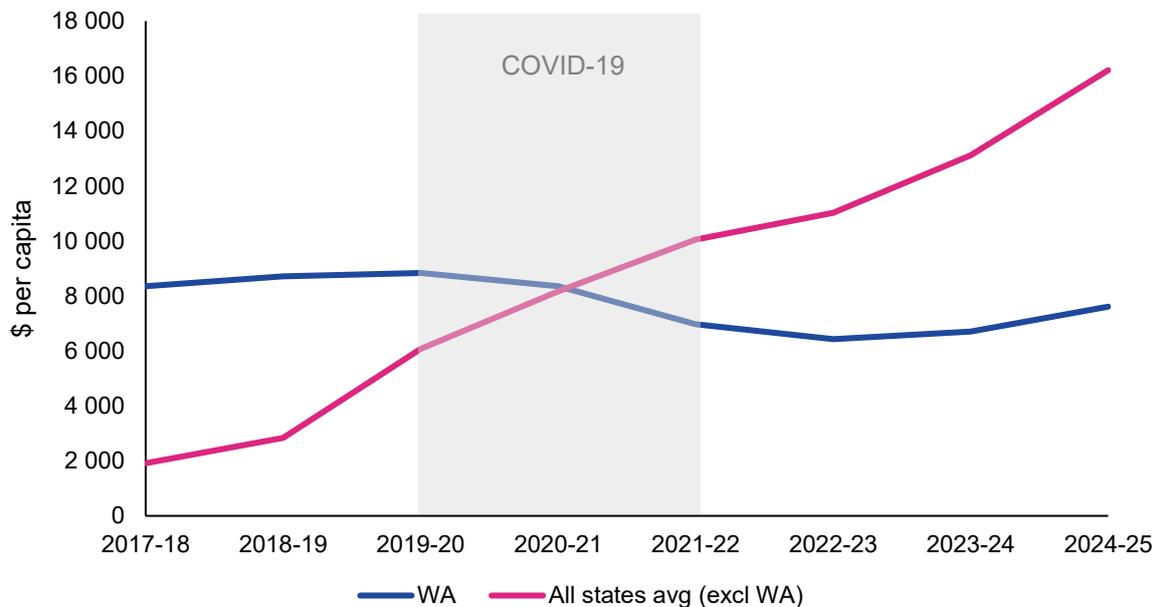
<sup>36</sup> Productivity Commission, Inquiry Report - Horizontal Fiscal Equalisation, May 2018.

outside states’ control such as the COVID-19 pandemic, and which have significantly affected their fiscal capacity and service delivery.

The 2018 reforms have not resulted in any improvements in states’ ability to respond to such events, except for Western Australia, which has a significantly increased fiscal capacity to absorb shocks and respond to unanticipated events. The inclusion of the no-worse-off guarantee to temporarily mitigate the negative fiscal impacts on other states is also expected to have constrained the ability of the Australian Government to provide fiscal support to states in response to shocks.

The higher benefits afforded to Western Australia compared to all other states was particularly evident during the COVID 19 pandemic, which impacted all jurisdictions. However, the impact of commodity price surges combined with the arbitrarily high level of the floor enabled Western Australia to improve its fiscal position over this period. Chart 3.1 shows that, in contrast, other states are still recovering from the adverse fiscal impacts of revenue declines and increased expenditure.

**Chart 3.1: Net debt, Western Australia and an average of all other states, 2017-18 to 2024-25**



Source: State Governments’ annual financial reports.

The differing fiscal consequences of the COVID-19 pandemic on states clearly indicates that partial equalisation divides the nation. It differentiates the experience of the strongest state from all others, whether through economic shocks or more broadly. In particular, the level of the floor included in the 2018 reforms appears to have been arbitrarily chosen, as opposed to specifically linked to major risks or through a mechanism triggered by economic events. As was evident during the COVID-19 pandemic, the level of the floor fails to provide any viable protection for recipient states like Tasmania and delivers far in excess of any ‘reasonable’ level of equalisation for the strongest state.

Tasmania considers that, as a result, the 2018 reforms have only reduced volatility (and provide unprecedented levels of support) for the strongest state. Once the reforms have fully transitioned, should the no-worse-off guarantee be allowed to

expire absent any other changes to the GST distribution system, this unprecedented support will come entirely at the expense of other states.

Outside of the 2018 GST distribution reforms, the CGC's methodology recognises that the fiscal impact of certain shocks, particularly natural disasters, cannot be reasonably anticipated. The CGC's approach recognises the amount states spend (per capita) above the national average to respond to natural disasters. This reflects that this spending is largely outside state control and not influenced by state-specific policy choices. As a result, states who experience more frequent or costly natural disasters receive a higher share of the GST pool, ensuring that the cost of responding to these events is broadly shared across all jurisdictions. This approach helps maintain a state's capacity to deliver essential services and infrastructure, without being compromised by disaster-related expenditure.<sup>37</sup>

In its 2025 Methodology Review, the CGC also updated its methodology to be more responsive by including the capacity to change its methods between reviews.<sup>38</sup> As noted above, the need to capture the impact of the COVID-19 pandemic on the GST distribution was a key driver for the need for flexibility in the CGC's assessment to respond to the impact of external shocks.

Tasmania supports the CGC's approach to capturing the fiscal impact of economic shocks in its methodologies. Long before the 2018 reforms were implemented, Australia experienced numerous periods of economic uncertainty or shocks that impacted states. However, the purpose of the GST system was not to provide protection to economic shocks. The purpose of GST is to provide all states with untied revenue source and the fiscal capacities to provide services to the national average level. It was also not envisaged to be a system that came at any cost to the Australian Government, providing it with the fiscal capacity to support states in extreme circumstances when needed. Tasmania continues to consider that it is not the role of the GST distribution system to respond to every shock experienced by states, but rather, on balance, it should provide states with sufficient flexibility to respond to a range of events.

Economic shocks are diverse and unpredictable and permanent structural changes to the GST system are not the most effective or equitable way to manage their effects. On this basis, Tasmania continues to maintain its position that there was no need to depart from a full HFE system in order to appropriately balance the changing circumstances of states and the need to provide revenue certainty.

### ***Impact of 2018 reforms on the volatility of state finances***

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<sup>37</sup> Commonwealth Grants Commission, Occasional Paper No. 7: Natural disaster relief and the GST distribution, September 2022.

<sup>38</sup> Commonwealth Grants Commission, 2025 Methodology Review: Review Outcomes, March 2025.

When considering the volatility of state finances, it is important to recognise that GST revenue forms only part of the states' fiscal position. In reality the volatility of a state's fiscal position is dependent on a wide range of factors including:

- policy decisions;
- capacity of the state to raise own-source revenue;
- infrastructure needs;
- election cycles at both the state and federal level;
- ability to respond to external events including external economic shocks; and
- service challenges including topography and population dispersion.

A number of state own-source revenue streams can also cause volatility in state finances. For example, the often-variable housing cycle can cause significant volatility in states' conveyance duty, changes to land values can impact states' land tax revenue lines and fluctuating global demand for commodities can cause significant volatility in a states' mineral royalties.

There are also many other factors on the expenditure side of a state's Budget that can cause volatility in state finances. For example, state expenditure can be influenced by a range of external factors, including unforeseen circumstances like COVID-19 and natural disasters (discussed above). Innovations and technological developments may also result in changes to state expenditure, such as the costs to implement new and emerging health treatments to support community expectations.

State finances can also be significantly influenced by election cycles both at a state and federal level. While there is inherent volatility with state finances around the time of a state election cycle due to the need to fund and implement a range of election commitments, state finances can also become volatile around the time of a federal election through potential increases in the Australian Government's expenditure as a result of election promises, which can in turn constrain its ability to provide the necessary funding to states for key services.

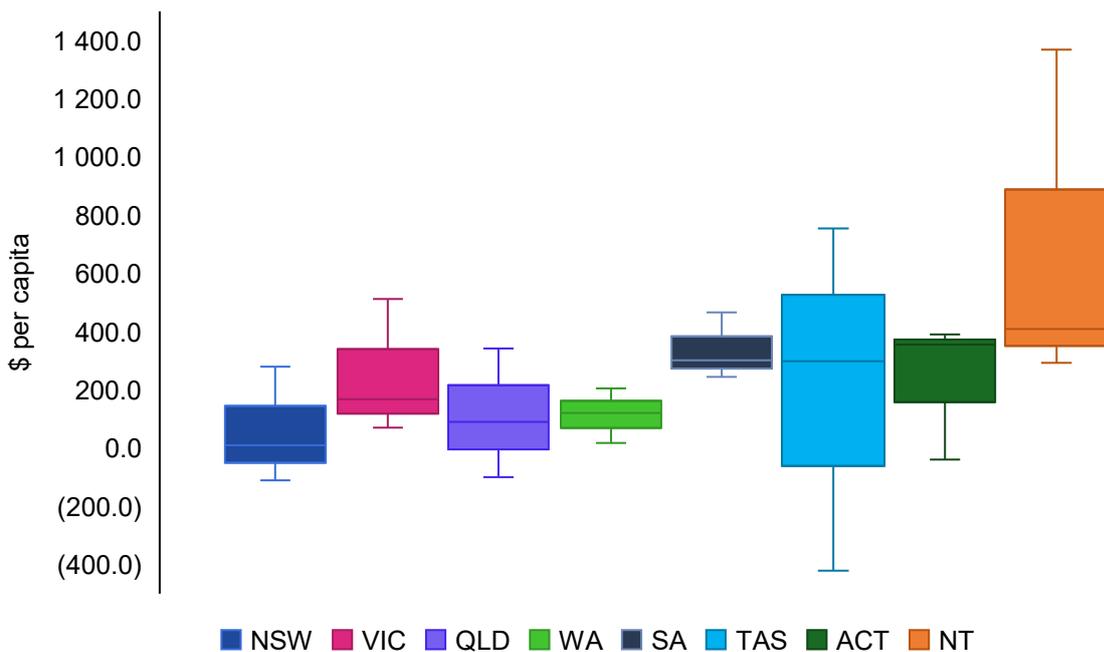
While volatility in state finances is a major budgetary concern, states have developed strategies to mitigate and manage this. For example, states including Tasmania have developed fiscal strategies that guide Budget processes, with volatility being one of several factors that these strategies seek to address. Tasmania's fiscal strategy comprises a combination of Strategic Actions and associated Targets to provide a range of measures through which fiscal sustainability can be assessed. The Tasmanian Government is constantly monitoring its Fiscal Strategy to ensure it remains fit-for-purpose. This has included bringing forward the planned review of its Fiscal Strategy to coincide with the upcoming 2026-27 Budget.

Several states have also developed policies that have set funds aside to account for upcoming challenges and to repair Budget positions. For example, Tasmania is currently progressing a GST windfall fund that will set aside a proportion of any GST windfalls Tasmania receives in a financial year to pay down its superannuation liability. While there are many avenues through which states seek to manage volatility in their finances, challenges remain with state forecasting and particularly GST revenue forecasting due to the complex range of factors that drive the GST pool, states' relativities and to a lesser extent population.

As discussed above, the 2018 reforms have not addressed the inherent volatility in the GST system for any state other than Western Australia. Instead, they have delivered stability to Western Australia’s GST revenue at a level that exceeds its need under a full HFE system by over \$6 billion per annum. This has allowed Western Australia to move from a deteriorating fiscal position to being the only state to run a consistent budget surplus each year since 2018-19. This has resulted in a fundamental difference between the economic and fiscal capacity of the states. Under the 2018 reforms, Western Australia’s budget certainty is provided through a minimum share of GST revenue equivalent to a relativity of 0.75. The last time Western Australia’s GST relativity was 0.75 was in 2009-10, when its mining royalty was \$2.32 billion.<sup>39</sup> Since the reforms were enacted, Western Australia’s mining royalty revenue has trended upwards, and is forecast to be \$9.97 billion in 2025-26.<sup>40</sup> Under a full HFE system, this would have resulted in Western Australia’s relativity declining to 0.18 in 2025-26, which would significantly reduce its share of the GST revenue.

Since its introduction in 2022-23, the GST relativity floor has ensured that Western Australia has experienced minimal volatility in its year-on-year GST revenue (in \$ per capita), compared with all other states, as shown in Chart 3.2.

**Chart 3.2: Year-on-year variation in GST revenue since implementation of GST floor, 2022-23 to 2024-25**



Source: States’ Annual Financial Reports, Tasmanian Department of Treasury and Finance calculations.

<sup>39</sup> Western Australian Government, 2009-10 Annual Report on State Finances, September 2010.

<sup>40</sup> Western Australian Government, Government Mid-year Financial Projections Statement 2025-26, December 2025.

All other states are temporarily protected from the adverse effects of the 2018 GST distribution reforms and provided a degree of revenue certainty through the no-worse-off guarantee. However, should this guarantee be allowed to expire and the 2018 reforms otherwise continue, all states except Western Australia will see significant deterioration in their share of GST revenue. This is expected to result in other states' finances potentially becoming more volatile, and will undermine states' capacities to undertake fiscal planning and deliver services. Ultimately, this would necessitate a return to historic requirement of the Australian Government providing support for 'recipient' states outside the GST distribution system. As referenced earlier in this Submission, historically, such 'special grants' were largely subjective and prone to political conflict.<sup>41</sup> Such an approach would result in no budget certainty for recipient states, and the cost of this to the Australian Government is unclear but potentially material. As such, Tasmania considers a return to this historical approach would be undesirable for all parties.

Tasmania notes that uncertainty regarding future changes to GST distribution arrangements following this Inquiry further compounds the challenge of medium to long-term fiscal planning.

Tasmania has long advocated for GST distribution arrangements to respond appropriately to changes in states' circumstances. There was never evidence to prove that the system in place prior to the 2018 reforms was not responding appropriately or was otherwise broken. Despite the Australian Government's assurances at the time, there was also no evidence to demonstrate how the 2018 reforms would improve all states' positions. What has clearly eventuated is a dual level of federation in which one state benefits from reduced volatility and a comparative benefit in responding to economic and fiscal shocks. A return to full HFE would resolve these inequities.

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<sup>41</sup> Commonwealth Grants Commission, Occasional Paper No. 10: 90 years of the Commonwealth Grants Commission, October 2023.

## Information Request 4

### **Do the current GST distribution arrangements impede states and territories pursuing service delivery or revenue raising reforms?**

What are the elements of the current arrangements that impede the pursuit of reforms?

Should there be amendments to the current arrangements to remove impediments to reforms?

Should there be amendments to the current arrangements to provide support for reforms?

Have states and territories pursued service delivery or revenue raising reforms since the 2018 GST distribution reforms?

As Tasmania noted in its submissions to the 2017 PC Inquiry, there is no evidence that HFE either encourages or discourages state economic or fiscal reforms. In its draft report, the Commission considered the impact of the GST distribution system on reform and argued:

*Though there is no direct evidence that GST effects have played into specific policy decisions in the past, this in itself is not proof that GST effects do not and will not influence State policy. In other words, an absence of evidence is not evidence of absence.<sup>42</sup>*

Tasmania maintains its position from the time that ‘*an absence of evidence is not evidence of absence*’ is not a sufficiently sound justification for recommending a change to the current HFE system that sees most states receive significantly less GST, with a major redistribution to the fiscally strongest state. However, despite a lack of evidence to support the need to change the distribution of GST – whether to support national efficiency, productivity, or growth – the 2018 reforms were implemented under claims that they would ‘fix’ certain elements of the system.

However, as Tasmania argued at the time and has outlined above, the GST distribution system in place prior to 2018 was not broken. The role of the GST distribution system is to provide a source of untied funding to states, delivered on a basis that provides them with capacity to deliver services to the national average level. This ensures states have the sovereignty and flexibility to undertake service delivery or revenue raising reforms according to their priorities and circumstances.

<sup>42</sup> Productivity Commission, Horizontal Fiscal Equalisation Draft Report, October 2017.

States pursue service delivery reforms for a range of reasons. This may include establishing new or improved supports to respond to state need or demand, increasing efficiencies or scaling services, or adopting new technologies. By way of an example of states implementing reform to address local need, Tasmania is one of only two jurisdictions to provide universal Kindergarten (early childhood education for the year-before-full-time school) in schools. This was a unique service delivery choice by the State in 1968, in response to evidence that Tasmanian children who were most in need of a Kindergarten education were those most likely not to be receiving it. As a result, Tasmania chose to embed Kindergarten in the school system, which has proven to be a successful strategy in alleviating this risk with almost all eligible children in Tasmania attending Kindergarten since then. To this day, Tasmania maintains this policy decision and service delivery model, despite unfavourable funding arrangements with the Australian Government and irrespective of the changes to the GST distribution model in 2018.

As will be discussed further below, Tasmania, like other states, has also undertaken a range of service delivery reforms since the introduction of the 2018 legislative reforms, suggesting GST distribution arrangements are not they key factor in governments' decisions to undertake reform.

Before considering states' decisions to undertake revenue raising reforms, it is worth noting there are some own-source revenue lines that all states collect, for example those relating to property transactions and payroll taxes. However, there is also significant variation between states in their capacities to raise other taxes, for example, mineral royalty revenue. This is usually not a state policy decision, but rather the result of nature's fortune providing abundance for one state over another and, as such, requires recognition in any future GST distribution approach.

The CGC's methodology currently considers these differing capacities to raise own-source revenue.<sup>43</sup> As noted above, Tasmania considers this is appropriate and supports the CGC's independent role in making these assessments, as well as its approach to continually review and evolve its methodology.

In relation to reforms associated with the tax system, there are a range of factors states consider, including revenue raising capacity, impact on the environment and the economy, and impact on the cost of living. Impediments to reform are generally a result of such factors, or from pushback from taxpayers or communities impacted by proposed changes to the tax system, rather than because of the impact on a state's GST share. This indicates that HFE is not a primary factor in states' decisions to undertake reform.

States' ability to undertake revenue raising reforms is also impeded by Constitutional restrictions and, as was discussed earlier in this Submission, agreements with the Australian Governments such as the IGA-RCSFR which have reduced state tax bases. Under the Australian Constitution, the Australian Government has the exclusive right to levy excise and customs duties, which include specific taxes on goods such as fuel, alcohol and tobacco. While the High Court interpretation of the Constitution was reasonably narrow in the early stages of federation, in that powers that had not been expressly transferred to the Australian Government were considered by the High Court to be the rights of the states, over time the High Court's interpretation of the external affairs power and the corporations powers have widened the Australian Government's exclusive taxing authority.

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<sup>43</sup> Commonwealth Grants Commission, 2025 Methodology Review: Review Outcomes, March 2025.

The most recent of example of this is the High Court decision in *Vanderstock v Victoria* [2023] HCA 30, which found the Victorian zero and low emission vehicle road user charge (ZLEV RUC) was invalid as it imposed a duty of excise within the meaning of section 90 of the Australian Constitution.<sup>44</sup> This decision caused a number of states, including Tasmania, to stop work towards implementing their own state-based ZLEV RUC and called into question the constitutionality of several existing state taxation revenue streams. The impacts and risks of this decision for state own-source revenue are still being assessed and worked through. However, it is widely regarded to have further restricted states' own-source revenue raising ability.

The combined impact of these factors has reduced states' flexibility to raise revenue from broader tax bases. As noted above, states also have various bases from which they are able to generate taxes. In the Tasmanian context for example, there is a comparatively modest mining industry from which the State can generate revenue, while the State's economic structure limits the ability to increase revenue from other sources such as payroll tax. Tasmania considers such limitations to be a greater impediment to states pursuing revenue raising reforms than the current GST distribution system.

The level of equalisation in the GST distribution system determines whether all states are provided with the same capacity to deliver services, or reforms to those services. As noted throughout this Submission, full HFE levels the playing field for all states. By reducing the level of HFE, the 2018 reforms have fundamentally divided the nation.

Despite this bias, and the barriers to reform outlined above, all states have progressed reform since the introduction of the 2018 legislation. This suggests states continue to pursue productivity, service delivery and revenue reforms to improve outcomes for their communities, not because of how GST is distributed.

### ***State reform effort since the 2018 GST distribution reforms***

States have undertaken a wide range of reforms since the introduction of the 2018 GST distribution reforms. From a Tasmanian perspective, revenue raising reform opportunities have been limited, in part due to the factors raised above and in part due to the Tasmanian Government's 2024-25 decision to not increase or introduce new taxes for Tasmanians.<sup>45</sup> Despite this, the Government continues to review current tax settings to ensure that they remain appropriate, including consideration of taxation thresholds and rates.

An example of reviewing existing taxation occurred in 2020, when Tasmania changed its definition of a foreign investor and increased the rate of foreign investor duty surcharge on residential land, which is now in line with other jurisdictions<sup>46</sup>. It also increased the surcharge on primary production land, and in 2022, introduced a foreign investor land tax surcharge.<sup>47</sup> Consistent with all other states, in 2020 Tasmania also introduced a Point of Consumption Tax on wagering at a rate of up to

<sup>44</sup> *Vanderstock & Anor v The State of Victoria* [2023] HCA 30.

<sup>45</sup> Tasmanian Government, 2024-25 Budget Speech, September 2024.

<sup>46</sup> *Duties Amendment Act 2020* (Tas).

<sup>47</sup> *Land Tax Amendment (Foreign Investors) Act 2022* (Tas).

15 per cent, after consultation with stakeholders, on the net wagering revenue of betting companies.<sup>48</sup>

More recently, in the lead-up to the 2024 Tasmanian State Election, the Government announced the introduction of a five per cent levy on short stay accommodation. While yet to be introduced, the Government released the draft Short Stay Levy Bill 2025 and Discussion Paper inviting feedback on the mechanics of the levy in December 2025.<sup>49</sup> The Government is currently considering consultation feedback ahead of finalising the Bill, which is expected to be introduced during the Autumn 2026 session of Parliament.

Other jurisdictions, including Victoria and the Australian Capital Territory, have already introduced short stay accommodation levies.<sup>50,51</sup> Victoria has also undertaken several other revenue raising reforms. In July 2024 Victoria implemented its Commercial and Industrial Property Tax (CIPT) Reform, under which individual commercial and industrial properties will transition away from conveyancing duty after the next dutiable transaction to being liable for a new CIPT.<sup>52</sup> Victoria was also the first state to introduce a road-user charge as a way to replace lost revenue from the Australian Government's fuel excise, though as noted above, this has ceased following the High Court's Vanderstock decision that Victoria's ZLEV RUC was invalid.<sup>53</sup>

Notwithstanding the Vanderstock decision, New South Wales is progressing its 2021 legislation to introduce a road user charge to apply to eligible electric vehicles (EV) from 1 July 2027 or when EVs make up 30 per cent of all new vehicle sales.<sup>54</sup> In November 2022, New South Wales also passed legislation to provide first home buyers purchasing a property valued at up to \$1.5 million with the option to pay property tax instead of stamp duty.<sup>55</sup> While this legislation was repealed in May 2023, this was on the basis of an election commitment made during the campaign, with no evidence that this decision was related to the State's GST share.<sup>56</sup>

A notable outlier with respect to states undertaking tax reforms is Western Australia, which has not undertaken any significant revenue raising reforms despite the material fiscal advantages it has enjoyed under the 2018 legislative changes. Economic development in Western Australia has largely been associated with the mining boom, and private sector decisions which consider external factors such as access to natural endowments, exchange rates, interest rates, commodity prices, and national tax settings rather than fiscal equalisation transfers to the states.

Western Australia's lack of reform effort may indicate that being funded to a level of around seven times its full HFE assessed need reduces the need for it to undertake additional reforms to raise revenue, impeding its incentive to undertake reform.

It is also unclear whether the disproportionate benefits that the 2018 reforms have provided to Western Australia have delivered greater benefit to the nation than what

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<sup>48</sup> *Gaming Control Amendment (Wagering) Act 2019* (Tas).

<sup>49</sup> Tasmanian Government, *Tasmania Short Stay Levy Discussion Paper*, December 2025.

<sup>50</sup> *Short Stay Levy Act 2024* (Vic).

<sup>51</sup> *Short-Term Rental Accommodation Levy Act 2025* (ACT).

<sup>52</sup> *Commercial and Industrial Property Tax Reform Act 2024* (Vic).

<sup>53</sup> Victorian Government, *Vic Roads: Zero and Low Emissions Vehicles*, July 2024.

<sup>54</sup> New South Wales Government, *A fair and sustainable road user charge*, July 2025.

<sup>55</sup> *Property Tax (First Home Buyer Choice) Act 2022* (NSW).

<sup>56</sup> New South Wales Labor Party, *More First Homebuyers Paying No Tax Under Labor* Media Release, January 2023.

could have been achieved with the funding the Australian Government has spent delivering its assurances of better off. Tasmania has long questioned the relationship between directing fiscal benefits to the strongest state as a mechanism to deliver greater benefit to the nation. As noted in the State's submission to the 2017 PC Inquiry, Tasmania considers that there are likely greater benefits to providing smaller 'recipient' states with their full HFE fiscal capacity, enabling equitable access to national standards of health and education services, supporting productivity.

Despite the inequities embedded in the Federation as a result of the 2018 reforms, all states have been expected to progress service delivery reforms for a range of reasons including review and refinement of services to meet national standards. However arguably, under the dual federation created through the 2018 reforms, Western Australia should have delivered more, and / or other states should have been required to deliver less.

In a Tasmanian context, notable examples of reforms pursued directly for the purpose of improving the welfare and wellbeing of Tasmanian communities include:

- implementation of the Long-term Plan for Healthcare in Tasmania in 2023 which outlines a whole-of-system reform strategy for Tasmania's healthcare system;<sup>57</sup>
- introduction of Care@home during the COVID pandemic which remotely supported patients using virtual care technologies and has since been expanded to cover a range of other short and long-term illnesses, improving patient health outcomes and reducing potentially preventable hospital admissions;<sup>58</sup>
- the introduction of a new ferry service running Bellerive Pier and Brooke Street Pier in 2021;<sup>59</sup>
- establishing six new Child and Family Learning Centres which work in partnership with families and communities to improve the health, wellbeing and learning outcomes for children in their early years by providing a range of integrated services and wraparound supports;<sup>60</sup>
- introducing the Healthy School Lunch Program to support students' wellbeing and learning through access to nutritious food;<sup>61</sup> and
- expanding the Private Rental Incentive Scheme to provide housing to eligible low-income Tasmanians at an affordable rent.<sup>62</sup>

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<sup>57</sup> Tasmanian Government, Long-Term Plan for Healthcare in Tasmania 2040, June 2023.

<sup>58</sup> Tasmanian Government, Care@home Model of Care, May 2025.

<sup>59</sup> Tasmanian Government, 2022-23 Budget Speech, May 2022.

<sup>60</sup> Tasmanian Government, 2020-21 Budget Speech, November 2020.

<sup>61</sup> Tasmanian Government, 2023-24 Budget Paper No. 2 Volume 1, May 2023.

<sup>62</sup> Tasmanian Government, 2023-24 Budget Speech, May 2023.

***Amending the GST distribution system to provide support for, or remove impediments to, reforms***

As discussed above, the GST distribution system is not the key consideration for states when considering whether to undertake reforms. However, the most significant element of current arrangements that impedes service delivery reforms for all states other than Western Australia is the comparatively fiscally constrained environment in which they currently operate. Despite this, all states have undertaken reforms since the 2018 legislative changes were implemented, strengthening Tasmania's position and providing evidence that HFE neither encourages nor discourages economic or fiscal reforms.

As outlined above, Western Australia's favourable GST distribution allocation under the 2018 legislative changes has compounded its fiscal advantage in addition to its sustained, substantial mining royalty income, which have enabled it to run seven consecutive budget surpluses. This provides it with ample funds to undertake service delivery reforms. In contrast, all other states have been required to operate in constrained fiscal environments. Under the 2018 legislative arrangements, over the period to 2025-26, the pool of GST revenue available to states other than Western Australia has been reduced by \$6.7 billion due to the presence of the floor. Without the no-worse-off guarantee this would have directly reduced the amount of untied revenue available to other states to pursue service delivery reforms. Should the no-worse-off guarantee expire with no other changes to GST distribution arrangements, the decision of states other than Western Australia in determining which service delivery reforms they have the fiscal capacity to pursue will only be exacerbated. For Tasmania the no-worse-off guarantee has provided an additional \$321 million to date and is conservatively forecast to reach \$779 million by the end of 2029-30. The absence of this guarantee would materially impact the State's ability to provide essential services and infrastructure.

It is important to note that the CGC does not equalise GST based on the individual efficiency of state governments. Its methodology distributes GST based on the average of what states do, which removes the need for the CGC to make judgements on what states could or should do or particular reforms they undertake. As a result, its assessments based on factors that are beyond the control of governments. For example, it considers the age groups of people that are the heaviest users of hospital services, the number of school students in each jurisdiction and so on. One of the CGC's key principles aims to ensure that its assessments are policy neutral. Under full HFE, states therefore have the incentive to undertake reforms that improve efficiencies and to not suffer any penalty if they do so. Similarly, if states are less efficient or choose to provide a higher standard of service, they gain no compensation or reward.

For there to be redistribution effects through HFE, a state would have to undertake a reform that materially impacts national average spending on that service or the average taxation rate. This scenario would likely only occur through reform choices of the most populous states which predominantly determine the population weighted national average standard. However, as stated above, these effects are a secondary issue as the primary reason for undertaking reform is to increase efficiency and to improve the general welfare of the community.

In terms of progressing reforms in the national interest, Tasmania considers any provision of Australian Government funding to the states to encourage national efficiency is better dealt with outside the HFE process. The Australian Government has other avenues to support states to pursue reforms that are in the national interest, or where there is benefit to a harmonised approach. The revitalised National Competition Policy (NCP) framework, which was signed in November 2024, is one such example. The implementation of the NCP agenda is supported by a Federation Funding Agreement (FFA) Schedule that specifies the reforms to be pursued by states. It is intended that the reforms listed in the NCP FFA Schedule will be reviewed and updated several times over its 10-year duration. States are provided with incentive payments in exchange for progress towards the reforms, which is assessed by an independent National Competition Council.

Of note, payments made to states under the NCP FFA Schedule are classified as National Partnership facilitation and reward payments. As discussed above, the Terms of Reference the Australian Treasurer issues for the CGC's annual relativity updates specifically direct the CGC to treat such payments as not affecting GST relativities. This to ensure that states retain the benefit from achieving specified outputs sought by the Australian Government, rather than it being redistributed to other states through the HFE process.

National Agreements or FFA Schedules can also be used to specify clear objectives and measurable outputs in areas where the Australian Government wants to provide support to implement its own, or shared national priorities. Such funding arrangements can be tailored to specifically address the reform that is required in the national interest. For example, the six major National Agreements<sup>63</sup> demonstrate that the Australian Government and the states are able to cooperatively agree on, and pursue, shared policy objectives. At no stage has any party made a convincing case that HFE could be used to enhance this process or better achieve these objectives.

Tasmania strongly considers it is not, nor should it be, the role of the GST system to provide support for reforms. The original purpose of GST distribution system was to provide a source of untied revenue to be distributed by full HFE in order to provide all states with the fiscal capacity to provide services to the national average standard. Given that the 2018 legislative arrangements have already eroded Australia's level of HFE and created a dual-level of federation, Tasmania does not support any further restrictions on how GST revenue should be spent. The 2018 GST reforms should be unwound, with full HFE returned.

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<sup>63</sup> National Agreements include the National Health Reform Agreement, the National Mental Health and Suicide Prevention Agreement, the Better and Fairer Schools Agreement, the National Access to Justice Partnership, the National Agreement on Social Housing and Homelessness, and the National Skills Agreement.

## Information Request 5

**Should alternative arrangements for GST distribution be adopted? What could alternative arrangements look like?**

**Would alternative arrangements:**

- result in a reasonable level of horizontal fiscal equalisation?
- provide stability and certainty to state and territory budgets?
- provide incentives to, or not impede, the pursuit of policy reforms that lead to higher prosperity and productivity?
- require additional funding from the Australian Government or other states? Could the proposal proceed without this additional funding?
- retain the independent basis for determining the fiscal needs of states?
- result in significant changes in Commonwealth transfers to states, in total and individually? If so, what are the likely transitional implications of the change?
- present any implementation challenges or risks?

The most appropriate process for distributing of GST revenue has been debated on many occasions over the decades. Tasmania's position has always been informed by the principles of the agreement reached by all states and the Australian Government when the GST was introduced, as outlined in the IGA-RCSFR and, more recently, the IGA-FFR. Under those agreements, the revenue raised by the GST is fully distributed as untied revenue on the basis of HFE, which aims to provide all states with the fiscal capacity to deliver broadly similar levels of services.

As has been discussed above, there are a broad range of drivers of divergence between states from a revenue, expenditure and capital perspective. When GST was introduced in 2000, there was agreement that this divergence inevitably leads to some states needing more GST to reach a national average level of fiscal capacity than others. This is given effect through full HFE, which was the fundamental principle that defined the distribution of GST to states until the 2018 reforms.

The 2018 reforms to distribution arrangements were purported to broadly continue those principles, albeit with a revised standard of fiscal equalisation and a mechanism to overcome economic shocks.

As reflected throughout this Submission, Tasmania does not support the 2018 reforms and believes that they have not achieved their intended purposes.

The primary undelivered intent of the reforms is the Australian Government's claim at the time that all states would be better off under the 2018 reforms. This was despite most states, including Tasmania, arguing that the assumptions and modelling upon which the Australian Government's claim was based were flawed and failed to consider several other more realistic alternate scenarios.

The 2018 reforms include the Australian Government's policy decision to provide support for the strongest state by amending the level of equalisation. To date, the 2018 reforms have resulted in Western Australia being better off by \$22.4 billion

when compared to the original GST distribution arrangements.<sup>64</sup> The 2018 reforms have also cost the Australian Government \$2.9 billion in annual GST pool boosts and \$14.6 billion as a result of the guarantee which only ensures that states are not worse off compared to previous GST distribution arrangements. Should that guarantee be allowed to expire with no other changes to GST distribution arrangements, the dual-level of federation created by the 2018 reforms will be exacerbated by the strongest state's advantage being fully funded at the expense of the comparatively weaker states.

The direct funding implication for the Australian Government included in the 2018 reforms through the inclusion of annual, indexed, GST pool boosts is enduring under legislation. Although these boosts partially reduce the negative impacts of the reduced standard of HFE and relativity floor for smaller states, Tasmania believes that, consistent with the intention of GST being a 'states' tax', a sustainable GST distribution system should not involve policy decisions, conditions or funding from the Australian Government. Moreover, it is reasonable to assume that removing the pool boosts would provide the Australian Government with greater capacity to provide other funding outside of the GST pool, support for natural disasters and other unforeseen circumstances.

Finally, as discussed in Information Request 3, the arbitrary level of the floor included in the 2018 reforms has provided protection for Western Australia and not for other States.

As has been discussed throughout this Submission, the 2018 reforms have not met their intended purposes. Instead of all states being better off, the reforms have entrenched a dual-level of federation between the strongest state and all other states. This is inconsistent with the egalitarian principles that were intended to underpin the GST distribution system. On this basis, Tasmania considers the reforms should be revoked.

### ***Expanding the GST Base***

When the Howard Government originally introduced GST, it claimed that GST would grow in line with Australia's economy. Specifically, the then Treasurer, the Hon Peter Costello MP stated in his 2000-01 Budget speech in relation to GST that:

*From 1 July [states] have a revenue base that grows in line with the economy.*<sup>65</sup>

This has not occurred, with the Australian Institute finding that the structural decline of the GST tax base is equivalent to \$22 billion in lost GST revenue to state in 2023-24 alone.<sup>66</sup>

Similarly, the International Monetary Fund in its *Staff Report for the 2025 Article IV Consultation* flagged that an increase in GST rate and removal of GST exemptions offset by changes to Corporate Income Tax settings could improve the efficiency, equity and sustainability of the tax system.<sup>67</sup> For example, the Australian Institute

<sup>64</sup> Total \$22.4 billion includes \$4.9 billion in transitional top-up payments from 2018-19 to 2021-22 and \$17.5 billion under the 2018 legislated changes.

<sup>65</sup> Australian Government, Budget 2000-01 – Budget Speech, May 2000.

<sup>66</sup> Australian Institute, GST reform: How to stop the states being shortchanged, July 2025.

<sup>67</sup> International Monetary Fund, Staff Report for the 2025 Article IV Consultation, January 2026.

estimates that the GST pool would increase by upwards of \$1.2 billion each year should the current exclusion of GST on private school fees be removed.<sup>68</sup>

However, any increase to the GST pool, whether through a change in the tax base, rate or through Australian Government funding, is no replacement for an appropriate level of equalisation, which Tasmania views as full HFE.

Based on the flawed modelling at the time, the Australian Government anticipated that the pool top-up payments included in the 2018 reforms would offset the impact on states' shares. While the top-up payments have undoubtedly lessened the impact to some extent on states disadvantaged by the 2018 reforms, the augmented GST pool has only served to magnify the advantage delivered to the strongest state and the division of the remainder to the other states. In other words, changes to the GST base and / or rate will not reverse inequitable outcomes or reunite the Federation.

### ***Consideration of alternative GST distribution arrangements***

Several alternative arrangements were considered ahead of the 2018 reforms including: full HFE, partial equalisation (either to the average level, or as eventuated, to the stronger of New South Wales or Victoria), equal per capita distribution and hybrid arrangements. Many of these alternatives are expected to be re-prosecuted through this inquiry, with parties inevitably supporting the alternative(s) most likely to deliver the greatest fiscal capacity and/or security for that individual party.

An overview of each of these alternatives is provided below.

#### *Full HFE*

- The longstanding egalitarian approach to address structural fiscal disparities across the federation.
- Provides all states with the fiscal capacity to deliver comparable levels of services under similar revenue raising efforts.
- The CGC continues in its independent role, considering each states' fiscal capacity and recommending each states' share of GST revenue.
- While complex, the CGC's methodology is well-explained and aims to balance a vast range of cost drivers and revenue-raising capacities.
- Each state is provided with its GST distribution as untied revenue, without conditions or reform requirements.
- There is no cost or consequence for the Australian Government.

#### *Partial Equalisation*

- A reduced level of HFE that divides the federation.
- The standard of equalisation determines the level of fiscal advantage provided to some states above the standard. Those states with a fiscal capacity below the standard of equalisation are funded to a lesser level.
- As a consequence, states below the standard of equalisation are provided with less capacity to deliver improved services and infrastructure, or support reforms that its government determines best meets the needs of its state.

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<sup>68</sup> The Australian Institute, GST reform: How to stop the states being shortchanged, July 2025.

- It would be reasonable to expect states disadvantaged through this alternative to seek enduring financial support from the Australian Government to offset, at a minimum, the disadvantages delivered through partial equalisation.
- The CGC continues in its independent role, considering each states' fiscal capacity and recommending each states' share of GST revenue.
- While complex, the CGC's methodology is well-explained and aims to balance a vast range of cost drivers and revenue-raising capacities.

#### *Equal Per Capita Distribution*

- A complete departure from egalitarianism, which would exacerbate the structural fiscal disparities across the Federation, as noted in Information Request 2.
- An approach that only achieves simplicity at the expense of all other principles.
- No recognition that the costs of delivering services are not just driven by the number of people living in a jurisdiction. Larger populations are likely to provide opportunities for economies of scale, such as the capacity of larger states to procure and deliver health services below the National Efficient Price.<sup>69</sup>
- Socio-demographic drivers of service cost deliveries and the comparative advantages due to economically viable mineral resources are also not recognised under this approach.
- The states disadvantaged through this alternative would require enduring and significant financial support from the Australian Government to offset, at a minimum, the disadvantages delivered through partial equalisation.

#### *Hybrid Arrangements*

- Under a hybrid approach, various elements are combined to deliver a compromise that may be more acceptable.
- Tasmania has considered three options based on alternatives previously proposed by various parties, all of which would be funded solely from GST revenue and provided as untied revenue to states without conditions:
  1. full HFE for smaller states, with larger states allocated an EPC share of the remaining GST pool;
  2. full HFE distribution of 90 per cent of the pool of GST revenue, and equal per capita distribution of the remaining 10 per cent; and
  3. full HFE with a GST relativity floor set at 0.3, funded from within the GST pool.
- While these arrangements are unlikely to appeal to all, smaller states are likely to support option 1 as it effectively represents full HFE arrangements.
- Conversely, smaller states are likely to seek enduring financial support from the Australian Government in addition to their GST distribution share under options 2 and 3.

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<sup>69</sup> A key finding in the Mid-Term Review of the National Health Reform Agreement Addendum 2020-2025 Final Report.

Tasmania has taken a principles-based approach, as shown in Table 5.1, to consider the appropriateness of these alternative arrangements. The principles that formed the basis of Tasmania's analysis include:

- **equity**– ensuring all states can provide a similar level of services to states and that the GST distribution system does not favour more populous states, or those with larger revenue raising capacities, at the expense of less populous states or those with comparatively lower revenue raising capacities;
- **sustainability** – the GST distribution system should operate from the discrete pool of funds collected and balance contemporaneity with own-source revenue;
- **simplicity** – while noting the wide variety of drivers of costs and capacity to raise revenue, the GST distribution system should be as simple as possible and seek to remove complexities where possible;
- **objectivity** – the distribution of GST should be independently determined through an objective approach, undertaken by the CGC; and
- **no input from the Australian Government** –the GST distribution arrangement should share the revenue collected through GST in entirety as untied revenue with no conditions, policy direction or funding from the Australian Government.

The first three principles are broadly aligned to the principles used by the Howard Government in its 1998 plan for a new tax system– *Tax Reform: not a new tax, a new tax system*, which included the creation of GST.<sup>70</sup> The remaining two principles have been included because they are considered valuable by Tasmania.

Although some principles are clearly demonstrated in one arrangement over alternatives, other principles are partially met to a greater or lesser extent across arrangements. For example, while its methodology to determine GST relativities (whether full or partial equalisation) is not simple, the CGC constantly considers this principle. Over recent years, it has engaged to improve transparency and provide clearly written publicly-available information papers.

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<sup>70</sup> Australian Government, *Tax Reform: not a new tax, a new tax system*, August 1998.

**Table 5.1: Principles-based comparison of alternative GST distribution arrangements**

Alternative Arrangement	Principles				
	Equity	Sustainability	Simplicity	Objectivity	No input from the Australian Government
Full HFE	✓	✓	—	✓	✓
Equal Per Capita (EPC)	✗	✗	✓	✓	✗
Partial HFE					
<i>2018 Reforms</i>	✗	✗	—	—	✗
<i>Equalise to Average Fiscal Capacity of All States (ETA)</i>	✗	✗	—	—	✗
Hybrid					
<i>Smaller States Full HFE, Larger States EPC</i>	—	—	—	✓	✓
<i>90% HFE, 10% EPC</i>	✗	✗	—	✓	—
<i>Full HFE with a 0.3 GST Relativity Floor</i>	—	✓	—	—	—

**Legend:**

- ✓ Meets the principle.
- ✗ Does not meet the principle.
- Partially meets the principle.

Tasmania's Department of Treasury and Finance has also undertaken modelling of the fiscal impacts of alternative arrangements, based on the Budget and Mid-year updates of the Australian and State Governments,<sup>71</sup> which can be found in Appendix A.

As shown in Table 5.1, Tasmania's review clearly demonstrates that a return to full HFE would best deliver the key principles upon which the GST distribution system was founded.

<sup>71</sup> Treasury's GST relativity model is influenced by the range of differing approaches states employ in forecasting their own-source revenue, including Western Australia's prudent outlook on commodity prices.

### ***Transition to New Arrangements***

Although Tasmania's preference is that full HFE distribution arrangements are reinstated with immediate effect, any alternative arrangement pursued following this Inquiry will likely require transitional arrangements to ensure that the impact of change on all states can be reasonably managed.

The legislation supporting the 2018 reforms included two years for states to prepare for a six-year gradual transition. By 2026-27, the 2018 reforms will be fully transitioned. As such, Tasmania is of the view that should alternative arrangements be introduced, a new transition will need to begin as soon as possible.

As noted throughout this Submission, Tasmania seeks a return to GST being distributed under full HFE arrangements as untied revenue.

Should alternative arrangements be introduced instead, Tasmania would seek a legislated arrangement that provides additional funding from the Australian Government in perpetuity, such that the State is not disadvantaged by the revised GST distribution arrangements compared to a full HFE distribution.

### ***Conclusion***

While the CGC's methodology is not simple, its complexity and granularity are necessary to capture the range of impacts that are material for smaller states. Simplifying GST distribution arrangements to reduce or remove the granularity of the current CGC methodology would likely fail to capture some of Tasmania's unique circumstances that drive its expenditure requirements. This could include Tasmania's socio-demographic composition and population dispersion, which together equate to approximately half of the GST revenue Tasmania is estimated to receive above its EPC share in 2025-26.

As a smaller state, any change to Tasmania's own-source revenue raising efforts are unlikely to materially impact the average efforts undertaken nationally. However, mathematically, larger states have a comparably greater influence on national averages. As the CGC states in its Occasional Paper No. 13 - *Are the GST distribution methods too complex*:

*There is a trade-off between assessing states' relative fiscal capacities as comprehensively as possible and simplifying assessment methods. Distributing the GST based on simpler methods that overlook differences in fiscal capacities would depart from the objective of horizontal fiscal equalisation.<sup>72</sup>*

The CGC constantly considers the balance between simplicity and contemporaneity, through regularly reviewing and evolving its methodology. Given this, as discussed in Information Request 3, Tasmania considers it was unnecessary to amend the GST distribution arrangements to include a blunt mechanism purported to address economic shocks for certain states. Tasmania supports a return to fiscal and / or economic shocks being addressed through the CGC's evolving methodology (as was

<sup>72</sup> Commonwealth Grants Commission, Occasional Paper No. 13: Is the GST Distribution system too Complex, November 2025.

seen in response to the COVID-19 pandemic) or through direct Australian Government contributions outside of the GST distribution, if required.

With respect to whether HFE is a barrier to reform, as noted in finding 3.2 of the 2017 PC Inquiry Final Report:

*HFE is unlikely to directly discourage – nor encourage – States from improving the efficiency of service delivery or addressing their structural disadvantages, given the broader and more significant benefits of doing so to the community.<sup>73</sup>*

Since 2020-21 Western Australia's royalty revenue has consistently exceeded its pre-2018 reforms royalty revenue.<sup>74</sup> While one of the purported needs for the 2018 reforms was to ensure the GST distribution system was responsive to volatility in states' revenue sources, in reality, Western Australia's mineral royalties revenue has largely settled at near historic high levels, rather than remaining volatile. This, combined with the increased GST share it receives under the 2018 reforms has provided Western Australia with a fiscal advantage that has changed the behaviour of capital and people, directly contradicting what the Commission considered to be 'reasonable' HFE.

As Tasmania has outlined throughout this Submission, the 2018 reforms have failed to deliver their intended purpose. The reforms have eroded the level of fiscal equalisation in Australia, resulting in a distinct fiscal disparity between the strongest state and all other states that is inconsistent with the egalitarian principles on which the Australian Federation was built.

Tasmania strongly calls for a return to full HFE, as the only system to support a sustainable federation that delivers a fair share of GST to each state. This would resolve the inequities embedded in the GST distribution system as a result of the 2018 reforms.

Should arrangements other than full HFE be pursued, at a minimum, Tasmania would require a no-worse-off guarantee to be provided in perpetuity to ensure that the State receives the equivalent of at least its full HFE share of the GST pool in untied funding. This enduring guarantee would need to be provided by the Australian Government, outside the GST pool.

<sup>73</sup> Productivity Commission, Horizontal Fiscal Equalisation Inquiry Report, May 2018.

<sup>74</sup> Since 2020-21 Western Australia's royalty revenue has consistently remained around \$11-12 billion until a reduction in its royalty revenue to \$9.8 billion in 2024-25, which still far exceeds its pre-2018 reforms royalty revenue.

## Appendix A: Indicative modelling of alternative GST distribution arrangements

The Tasmanian Department of Treasury and Finance has undertaken preliminary modelling to estimate the fiscal impacts of several of the alternative arrangements expected to be prosecuted through this Inquiry.

The analysis within this Appendix considers the fiscal impacts of each alternative arrangement compared to both full HFE and the 2018 reforms had they been implemented in 2021-22, based on actual data.

To more clearly understand the potential ramifications of alternative arrangements, the impacts of transition arrangements and no-worse-off guarantee payments under the 2018 reforms are not included in this preliminary analysis.

Tasmania's modelling reflects:

- actual GST pool and state populations from 2021-22 to 2024-25 from the Australian Government's Final Budget Outcomes;
- the Australian Government's projected GST pool and state populations in 2025-26 from its 2025-26 MYEFO; and
- actual relativities from 2021-22 to 2025-26, as recommended by the Commonwealth Grants Commission.

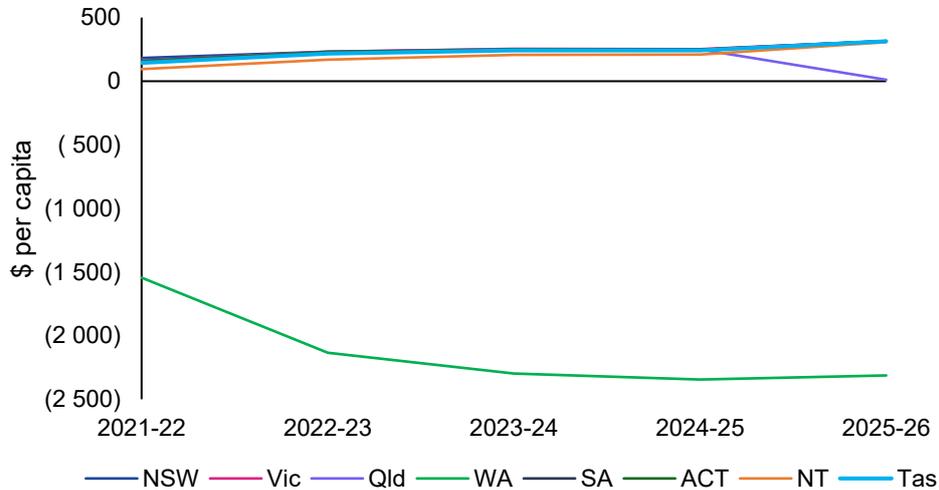
Treasury has not modelled the potential impacts of these alternative arrangements over the Forward Estimates. This is primarily due to the varying approaches to forecasting own-source revenue taken by states, and the potentially material impact of prudent estimates of commodity prices.

Noting that emerging and potentially unforeseen circumstances cannot be meaningfully tested under this approach, Tasmania is of the view that a principles-based approach should support considerations of alternative arrangements.

## Full HFE

As outlined in Information Request 5, under full HFE distribution arrangements, all states are provided with the fiscal capacity of the strongest state.

**Chart A.1: Estimated \$ per capita impact on GST distribution had full HFE distribution arrangements been retained compared to 2018 reforms**



Source: Department of Treasury Modelling

**Table A.1: Estimated Impact of distribution under full HFE compared to 2018 reforms<sup>1</sup>**

	NSW \$pc	Vic \$pc	Qld \$pc	WA \$pc	SA \$pc	Tas \$pc	ACT \$pc	NT \$pc
2021-22	182	162	160	(1 544)	155	144	158	95
2022-23	231	232	230	(2 134)	226	217	229	169
2023-24	252	254	251	(2 297)	248	242	250	207
2024-25	250	251	249	(2 345)	246	242	248	210
2025-26	316	315	11	(2 314)	315	314	315	307
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2021-22	1 477	1 063	840	(4 267)	279	82	71	24
2022-23	1 904	1 561	1 236	(6 050)	414	124	105	43
2023-24	2 127	1 756	1 385	(6 726)	463	139	117	53
2024-25	2 139	1 760	1 398	(7 055)	466	139	119	55
2025-26	2 730	2 246	66	(7 103)	601	181	154	82

Source: Department of Treasury Modelling

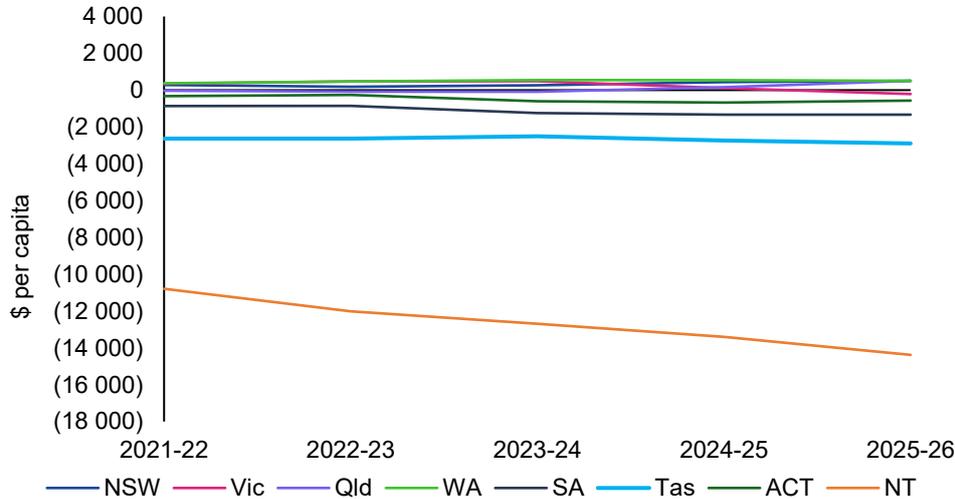
### Key impacts under a return to full HFE

- If full HFE had been retained rather than introducing the 2018 reforms, all states except Western Australia would have been better off from 2021-22.

## Equal Per Capita

As outlined in Information Request 5, an Equal Per Capita arrangement distributes GST based on each state's population.

**Chart A.2: Estimated \$ per capita impact on GST distribution had EPC distribution arrangements been in place compared to 2018 reforms**



Source: Department of Treasury Modelling

**Table A.2: Estimated impact of an EPC arrangement compared to full HFE**

	NSW \$pc	Vic \$pc	Qld \$pc	WA \$pc	SA \$pc	Tas \$pc	ACT \$pc	NT \$pc
2021-22	99	193	(195)	1 917	(1 018)	(2 772)	(491)	(10 886)
2022-23	(49)	236	(307)	2 602	(1 082)	(2 846)	(489)	(12 190)
2023-24	2	229	(339)	2 842	(1 494)	(2 750)	(861)	(12 894)
2024-25	180	(142)	(98)	2 883	(1 580)	(2 975)	(926)	(13 606)
2025-26	189	(529)	493	2 818	(1 643)	(3 210)	(893)	(14 687)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2021-22	803	1 267	(1 027)	5 296	(1 839)	(1 576)	(222)	(2 701)
2022-23	(405)	1 585	(1 652)	7 378	(1 987)	(1 630)	(225)	(3 064)
2023-24	18	1 579	(1 874)	8 323	(2 788)	(1 580)	(405)	(3 273)
2024-25	1 555	(984)	(541)	8 682	(2 986)	(1 712)	(445)	(3 568)
2025-26	1 630	(3 765)	2 815	8 651	(3 139)	(1 850)	(436)	(3 905)

Source: Department of Treasury Modelling

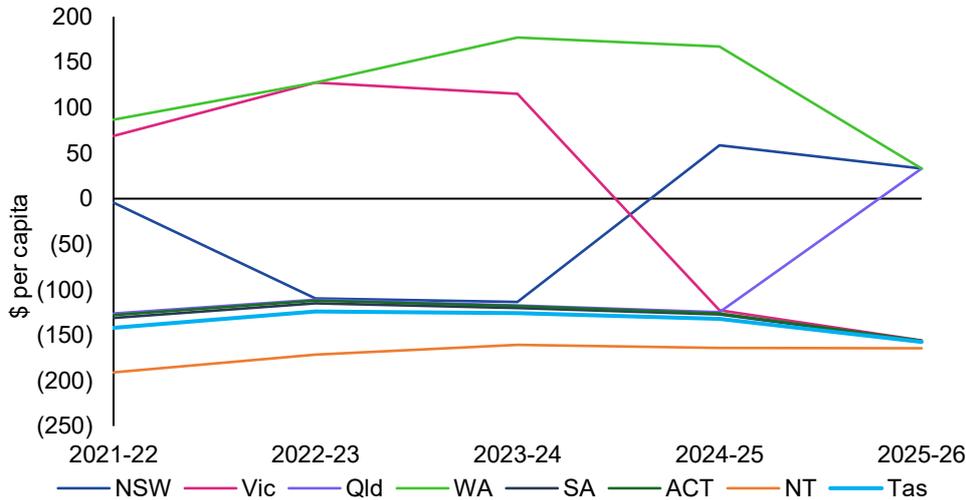
### Key impacts under an Equal Per Capita arrangement

- Had an EPC arrangement been in place in 2021-22, Western Australia would have been the only state to benefit from an EPC arrangement each year. All other more populous states experience periods where they do and do not benefit from the EPC arrangements compared to full HFE, which correspond with periods of relative fiscal weakness.
- The four less populous states would have received a materially less allocation of GST under this alternative.

## Partial Equalisation to the Average Fiscal Capacity of all States (ETA)

As outlined in Information Request 5, any partial approach reduces the standard of equalisation and introduces a dual-level of funding. Under an ETA approach,<sup>75</sup> states with an above average fiscal capacity are provided with greater fiscal support than the states with lower fiscal capacity.

**Chart A.3: Estimated \$ per capita impact on GST distribution had ETA distribution arrangements been in place compared to 2018 reforms**



Source: Department of Treasury Modelling

**Table A.3: Estimated impact of the ETA arrangement compared to full HFE**

	NSW \$pc	Vic \$pc	Qld \$pc	WA \$pc	SA \$pc	Tas \$pc	ACT \$pc	NT \$pc
2021-22	(187)	(93)	(286)	1 631	(286)	(286)	(286)	(286)
2022-23	(341)	(105)	(341)	2 262	(341)	(341)	(341)	(341)
2023-24	(366)	(139)	(368)	2 474	(368)	(368)	(368)	(368)
2024-25	(191)	(371)	(371)	2 512	(371)	(371)	(371)	(371)
2025-26	(283)	(471)	22	2 347	(471)	(471)	(471)	(471)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2021-22	(1 513)	(610)	(1 504)	4 506	(516)	(163)	(129)	(71)
2022-23	(2 810)	(704)	(1 835)	6 412	(625)	(195)	(157)	(86)
2023-24	(3 083)	(961)	(2 035)	7 245	(687)	(212)	(173)	(93)
2024-25	(1 638)	(2 620)	(2 100)	7 557	(707)	(215)	(180)	(98)
2025-26	(2 444)	(3 356)	123	7 204	(900)	(272)	(230)	(125)

Source: Department of Treasury Modelling

### Key impacts under an ETA arrangement

- An ETA arrangement would include an even lower standard of partial equalisation than the 2018 reforms.
- Due to Western Australia's fiscal capacity being so significantly above the average fiscal capacity of all states, had this arrangement been in place in 2021-22, it would have provided a significant benefit to Western Australia compared to the 2018 reforms.
- All smaller states are significantly worse off under an ETA approach compared to both full HFE and the 2018 reforms. Other larger states would have been worse off under this

<sup>75</sup> ETA was the Commission's recommended alternative in its 2017 PC Inquiry.

approach compared to full HFE.<sup>76</sup> The comparison to 2018 reforms demonstrates various impacts on the larger states as their fiscal capacities fluctuate compared to the standard of equalisation.

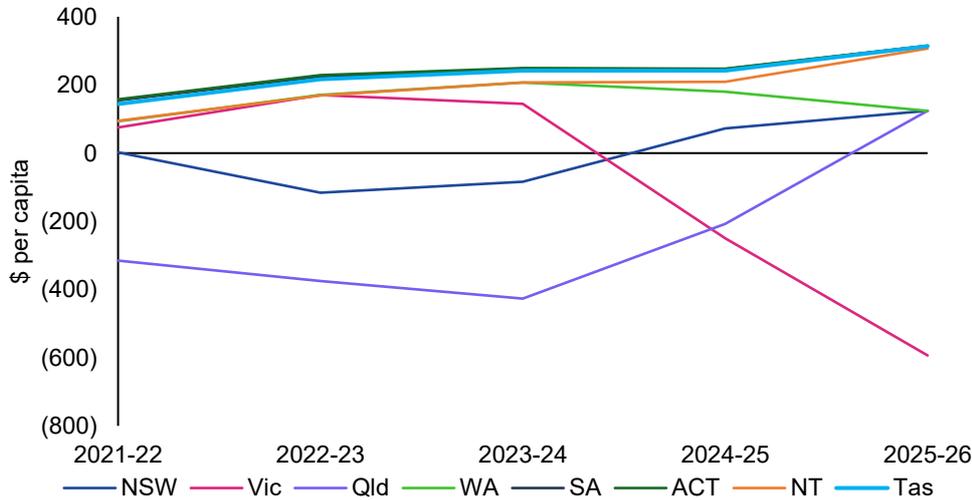
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<sup>76</sup> Except Queensland in 2025-26, due to its increased royalty revenue.

## Hybrid 1: Full HFE for smaller states, EPC for larger states

As outlined in Information Request 5, less populous states (this example considers ACT, NT, TAS and SA) are allocated their full HFE share of the GST pool, while the remaining GST pool is distributed on a per capita basis to the more populous states (in this example, VIC, QLD, NSW, WA).<sup>77</sup>

**Chart A.4: Estimated \$ per capita impact on GST distribution had Hybrid 1 arrangements been in place in 2021-22 compared to 2018 reforms**



Source: Department of Treasury Modelling

**Table A.4: Estimated impact of the Hybrid 1 arrangement compared to full HFE**

	NSW \$pc	Vic \$pc	Qld \$pc	WA \$pc	SA \$pc	Tas \$pc	ACT \$pc	NT \$pc
2021-22	(180)	(86)	(475)	1 637	0	0	0	0
2022-23	(347)	(62)	(604)	2 305	0	0	0	0
2023-24	(336)	(109)	(677)	2 503	0	0	0	0
2024-25	(176)	(498)	(454)	2 527	0	0	0	0
2025-26	(192)	(909)	113	2 438	0	0	0	0
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2021-22	(1 460)	(567)	(2 497)	4 524	0	0	0	0
2022-23	(2 862)	(416)	(3 256)	6 533	0	0	0	0
2023-24	(2 832)	(756)	(3 744)	7 332	0	0	0	0
2024-25	(1 523)	(3 510)	(2 565)	7 598	0	0	0	0
2025-26	(1 656)	(6 472)	644	7 484	0	0	0	0

Source: Department of Treasury Modelling

### Key impacts under Hybrid 1 arrangement

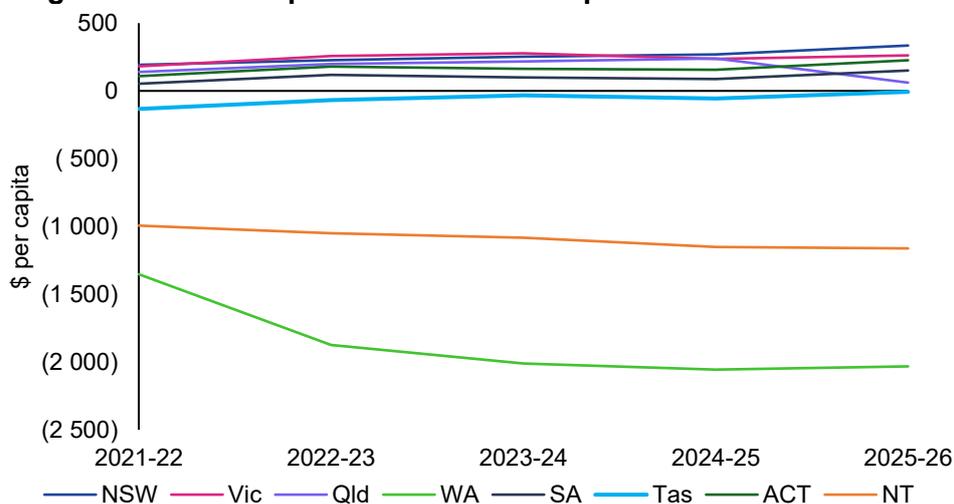
- The four less populous states receive their full HFE share under this arrangement, so there is no impact to their GST share compared to a full HFE arrangement.
- This hybrid arrangement is estimated to provide Western Australia with a greater share of GST revenue because its EPC share of a reduced pool is greater than its GST share under both full HFE and the 2018 reforms.
- As the more populous states experience changes in their fiscal capacities, the impacts to their GST distribution under this hybrid arrangement will vary, however Victoria would have experienced the greatest negative impact under this arrangement in 2025-26.

<sup>77</sup> This Hybrid Arrangement was considered by the CGC in its submission post the 2017 PC Inquiry Draft Report.

## Hybrid 2: Full HFE (90 per cent), EPC (10 per cent)

As outlined in Information Request 5, under Hybrid 2 arrangements, 90 per cent of the GST pool is distributed in accordance with full HFE, with the remaining 10 per cent of the GST pool distributed on an Equal Per Capita basis.<sup>78</sup>

**Chart A.5: Estimated \$ per capita impact on GST distribution had Hybrid 1 arrangements been in place in 2021-22 compared to 2018 reforms**



Source: Department of Treasury Modelling

**Table A.5: Estimated impact of Hybrid 2 arrangement compared to full HFE**

	NSW \$pc	Vic \$pc	Qld \$pc	WA \$pc	SA \$pc	Tas \$pc	ACT \$pc	NT \$pc
2021-22	10	19	(20)	192	(102)	(277)	(49)	(1 089)
2022-23	(5)	24	(31)	260	(108)	(285)	(49)	(1 219)
2023-24	0	23	(34)	284	(149)	(275)	(86)	(1 289)
2024-25	18	(14)	(10)	288	(158)	(298)	(93)	(1 361)
2025-26	19	(53)	49	282	(164)	(321)	(89)	(1 469)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2021-22	80	127	(103)	530	(184)	(158)	(22)	(270)
2022-23	(41)	158	(165)	738	(199)	(163)	(23)	(306)
2023-24	2	158	(187)	832	(279)	(158)	(40)	(327)
2024-25	155	(98)	(54)	868	(299)	(171)	(45)	(357)
2025-26	163	(376)	281	865	(314)	(185)	(44)	(391)

Source: Department of Treasury Modelling

### Key impacts under Hybrid 2 arrangements

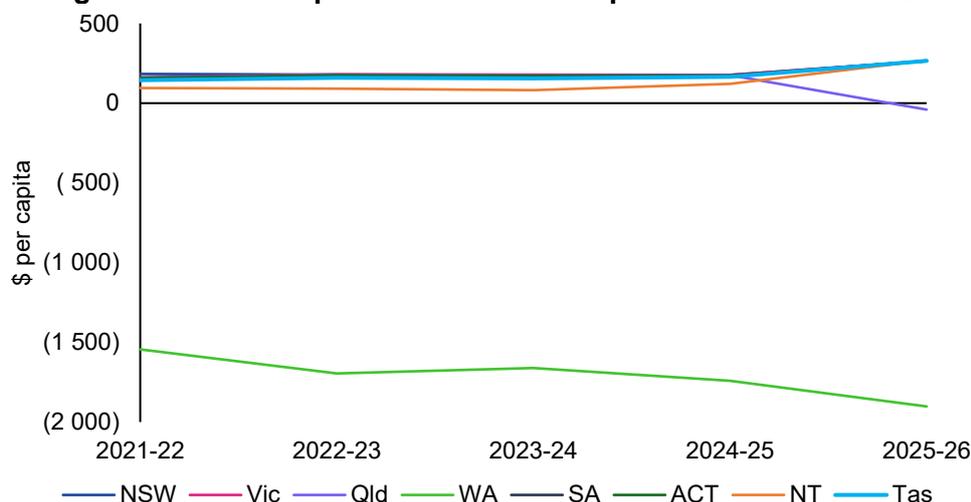
- Distributing only 90 per cent of the GST pool based on full HFE with the remaining 10 per cent distributed EPC would result in states who have a smaller than average fiscal capacity, like Tasmania, receiving less GST revenue compared to a solely full HFE arrangement. In contrast, states with a larger than average fiscal capacity will receive a greater GST share.
- While Western Australia would see a significant reduction in its GST revenue compared to the 2018 reforms, it would receive greater revenue than its full HFE share and therefore still be funded in excess of its fiscal needs as defined by full HFE.

<sup>78</sup> This Hybrid Arrangement was considered by the CGC in its Submission post the 2017 PC Inquiry Draft Report.

## Hybrid 3: Full HFE with 0.3 Relativity Floor

As outlined in Information Request 5, under Hybrid 3 arrangements, all states are initially assessed under a full HFE distribution. Should this initial assessment result in any states' GST relativity being below 0.3, it is lifted to 0.3 with a commensurate decrease in relativity of all other states. The level of the floor was chosen for this example as 0.3 as it reflects the lowest relativity Western Australia had pre-2018 reforms.

**Chart A.6: Estimated \$ per capita impact on GST distribution had Hybrid 3 arrangements been in place in 2021-22 compared to 2018 reforms**



Source: Department of Treasury Modelling

**Table A.7: Estimated impact of full HFE with a 0.3 floor compared to full HFE (\$pc)**

	NSW \$pc	Vic \$pc	Qld \$pc	WA \$pc	SA \$pc	Tas \$pc	ACT \$pc	NT \$pc
2021-22	0	0	0	0	0	0	0	0
2022-23	(52)	(52)	(53)	438	(55)	(58)	(53)	(78)
2023-24	(76)	(75)	(78)	636	(82)	(87)	(80)	(126)
2024-25	(74)	(74)	(74)	604	(76)	(77)	(75)	(88)
2025-26	(52)	(51)	(52)	412	(50)	(49)	(51)	(38)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2021-22	0	0	0	0	0	0	0	0
2022-23	(432)	(348)	(285)	1 243	(100)	(33)	(25)	(20)
2023-24	(642)	(520)	(428)	1 862	(153)	(50)	(37)	(32)
2024-25	(632)	(521)	(417)	1 817	(143)	(44)	(36)	(23)
2025-26	(446)	(363)	(296)	1 264	(95)	(28)	(25)	(10)

Source: Department of Treasury Modelling

### Key impacts under full HFE with a 0.3 GST relativity floor

- Since 2022-23, Western Australia's GST relativity under full HFE is estimated to have been below 0.3. As such, this hybrid option would have provided the greatest benefit to Western Australia compared to full HFE distribution arrangements.
- The level of the floor included in this example is more aligned to Western Australia's full HFE GST relativity, reflecting its sustained strength in mineral royalties revenue. As this floor is lower than the 2018 reforms, while still advantageous for Western Australia compared to full HFE, the benefit it receives is less than under the 2018 reforms.
- Although Hybrid 3 does not provide full HFE shares to all other states, this arrangement does not reduce all other states' GST shares as significantly as the 2018 reforms.

## Fiscal Impacts of No-Worse-Off Guarantee Payments

As discussed in Information Request 5, Tasmania seeks a return to full HFE distribution arrangements as untied revenue.

However, if alternative arrangements are put in place, Tasmania will seek enduring, legislated funding support from the Australian Government to ensure the State is provided with at least its full HFE share of GST as untied revenue.

Table A.8 shows the estimated cost of the Australian Government's current no-worse-off guarantee under the alternative arrangements considered in this appendix. To undertake a more accurate comparison of each arrangement, these estimates exclude the impact of the transition arrangements and are therefore not reflective of the actual costs states have experienced to date.

**Table A.8: Costs to the Australian Government of providing a no-worse-off guarantee under each arrangement (\$m)<sup>1</sup>**

	2021-22 to 2025-26
	\$m
Full HFE	0
2018 Reforms <sup>2</sup>	27 399
EPC	49 580
ETA	33 048
Hybrid 1: Full HFE - Smaller States/EPC - Larger States <sup>3</sup>	0
Hybrid 2: 90% Full HFE/10% EPC	4 958
Hybrid 3: Full HFE w/ 0.3 floor	6 186

<sup>1</sup> Reflects costs to provide no-worse-off guarantee payments to all states whose share under the alternative arrangements is below its full HFE share.

<sup>2</sup> The estimated no-worse-off guarantee payments for the 2018 reforms have been calculated as if there were no transition arrangements.

<sup>3</sup> As Tasmania receives its full HFE share under this arrangement it would not seek enduring legislated funding support from the Australian Government.

The only options that include no additional cost to the Australian Government are full HFE and Hybrid 1.

Two alternative arrangements impose significantly less costs on the Australian Government:

- 90 per cent of GST pool distributed based on full HFE and 10 per cent distributed based on EPC shares; and
- a return to a full HFE distribution with a 0.3 relativity floor.

Alternatively, an EPC or ETA approach would result in even greater costs to the Australian Government than the current 2018 reforms.