Productivity Commission Review of GST Distribution

A case for stability, productivity and national prosperity

Chamber of Commerce and Industry WA

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Executive Summary

The Goods and Services Tax (GST) is expected to raise almost $100 billion dollars this year and is central to each State's ability to **fund essential services and long-term infrastructure**. [1]

GST distribution outcomes matter because they directly affect service delivery and long-term investment across Australia. In Western Australia (WA), a geographically vast and commodity-exposed State, GST stability is particularly critical. WA's economic competitiveness, in turn, underpins national productivity and Commonwealth revenues.

THE 2018 REFORMS: TOWARDS STABILITY AND PRODUCTIVITY

The 2018 changes created a **more stable system,** with the relativity floor providing greater certainty for state budgets and, in turn, encouraging spend on investments that aim to deliver long-term growth. This is particularly important for States exposed to commodity markets with potentially volatile associated revenue.

Stable GST revenue underpins credible **long-term investment pipelines that deliver productivity gains across the nation**, including in water security, transport, regional connectivity and export supply chains.

Revising the equalisation standard to the stronger of New South Wales (NSW) or Victoria (Vic) strengthened incentives for **productivity-enhancing reform**, by not penalising States, like WA, that work hard to drive the nation forward.

WA's economic performance supports jobs, investment and fiscal sustainability across Australia. The GST system should not discourage States from growing the national economy.

A strong WA is good for Australia. WA businesses and industries, particularly its world-class mining and agricultural sectors, underpin nearly half of the nation's exports and are vital for Commonwealth revenue.

RECOMMENDATIONS

The Chamber of Commerce and Industry of Western Australia (CCIWA) recommends:

1. **maintaining the 2018 GST Reforms**, specifically:
   a. the **current equalisation standard**, as the stronger of NSW or Vic; and
   b. the **GST relativity floor of 0.75**.
2. supporting targeted opportunities to **further strengthen incentives** and **integrity of the GST system, over the short and the longer term,** by:
   a. reviewing the factors the Commonwealth Grants Commission (CGC) applies when determining reasonable equalisation, such as **royalty discounts**, and improvements to the **transparency** of the GST distribution system.
   b. examining the longer-term merits and risks of an **Equalisation to the Average (ETA)** GST distribution model.

[1] Commonwealth Treasury. Mid-Year Economic and Fiscal Outlook 2025-26. December 2025.

ABOUT THIS SUBMISSION

CCIWA has more than 7,000 members who employ more than 300,000 people. This submission is made on behalf of the business community in WA, and on behalf of the real people and families that contribute significantly to employment, revenue and growth across the nation.

This submission will address how the current GST distribution system is working and the extent to which the 2018 changes have addressed the issues of disincentives and instability highlighted in the Productivity Commission's 2018 findings.

While the 2018 Reforms are less than a decade old, and continuous legislative change could cause uncertainty, CCIWA outlines how further improvements to productivity could be made in the CGC's assessments in the short-term, and through transitioning to an ETA system in the longer term.

Why GST Distribution Matters

GST is a tax collected by the Commonwealth and shared to the States under the principle of horizontal fiscal equalisation (HFE). HFE now ensures that, no matter where you are in Australia, the States can deliver a reasonable level of services. However, this was not always the case.

Before 2018, the GST was shared under the principle of *full* HFE. Each State was tasked with delivering the same level of services as the fiscally strongest State. Yet this was a flawed process as large, sudden shifts in a State's assessed fiscal capacity could have a significant impact on their GST share.

This can result in an **immediate and material impact** on the provision of public services, such as health, education, housing, and policing, as well as budgetary planning and investment in long-term infrastructure.

Due to this, the GST distribution system matters not only for annual State Budget processes, but for **long-term investment** that drives national economic performance, productivity and social cohesion.

In 2018, the Commonwealth tasked the Productivity Commission (PC) with reviewing the GST distribution system, to identify recommendations to improve the ways in which GST supports long-term investment, secures stability and strengthens incentives for productivity-enhancing reforms.

The PC found that:

- Australia was the only nation in the Organisation for Economic Co-operation and Development seeking to achieve full HFE, with no comparable nation seeking to fully eliminate disparities in fiscal capacity between sub-national jurisdictions.
- The task of full HFE fluctuated between 14-17% of GST revenue between 2000-08, rising to 70% in 2016-17, reflecting the increased disparity in fiscal capacity.
- HFE could lead to perverse outcomes, incentivising States to receive more GST by not investing in economic growth.
- Features of Australia's HFE system can exacerbate the fiscal impact of economic cycles when States experience large economic shocks.
- HFE should not unduly influence State policies or hinder efficient allocation of resources between States, however, it can distort State policy for mineral and energy resources.
- There were a series of **structural flaws** in the GST distribution system, including an overly narrow interpretation of equity, poor policy neutrality with disincentives to reform, and insufficient reward for policy effort, especially in mineral and energy resources sectors.

Ultimately, the PC concluded that a revised objective for HFE was needed. The Commonwealth Government responded by seeking to reduce these disincentives through two key mechanisms: **a relativity floor and changing the equalisation standard.**

In what follows, we outline how the pre-2018 flaws disincentivised economic development and exposed State Budgets to uncertainty.

Disincentives for economic development and tax reform

Under full HFE, States were disincentivised from investing in their economies because these States were rewarded with higher relativities, and therefore a greater share of GST, by not sustainably growing their economies.

The impact of this perverse outcome was particularly profound for State economies underpinned by the mining and energy sectors.

In the CGC's calculations, States that develop mineral and energy resources can be assessed as having higher fiscal capacity from greater royalty revenues and may only receive their population share of the increased GST revenue. In other words, while these States bear the political burden and costs of developing these industries, **there is a lack of reward and recognition for the long-term policy effort and investment**.

As a result, there was a consistent redistribution away from high-potential growth States, with strong industrial bases, to lower-potential growth States. This arguably has a **direct impact on national productivity**, because it impacts the ability of States to invest in the long-term planning required for major infrastructure that lifts productivity and national prosperity.

Further disincentives have existed and continue to exist, due to the way the CGC factors tax revenue. For example, a State would essentially lose all but their population share of an increase in their tax base, but would retain more of the gains from a tax rate increase. Thus, States were disincentivised from implementing efficient tax mixes that would support economic investment, encouraging over-taxation through higher tax rates instead. This disincentive is still present, in part, in our current GST system.

Some commentators have argued that States, like WA and Queensland (Qld), do not deserve to retain more reward for their policy effort because those natural resources merely happen to be there. This argument ignores the long-term, deliberate private and public investment decisions, **including regulatory, policy and funding settings**, that support and enable these industries to grow, and major projects to occur.

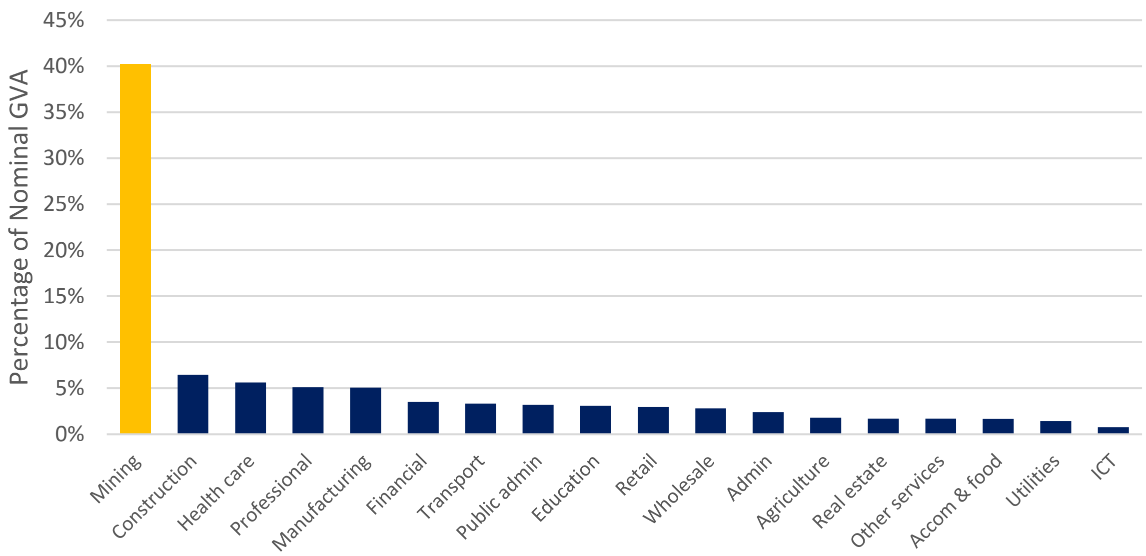
As a case in point, the combined $300 million dollar Exploration Incentive Fund, in place since 2009, and the Nickel Financial Assistance Program, in place for 2024-25, are specific examples of WA directing public funds into enabling and supporting these industries.[2]

[2] WA Government. Cook Government acting to protect WA nickel industry jobs. February 2024.

Commodity Exposure and GST Volatility

WA's economy is underpinned by mining, with iron ore a major export and a significant driver of State royalty revenue **[Figure 1]**. Like other resource dependent economies, this exposes WA's revenue base to cyclical and highly volatile global commodity price market movements. The 0.75 relativity floor introduced in 2018 secures stability for State Budgets facing unpredictable revenues.

Figure 1: WA's Economy (GVA) 2024-25 - The dominance of the mining sector in WA[3]



When iron ore markets do well, WA's economy does well. This has become well documented over the years, as commodity markets deliver a 'boom and bust' cycle, a phenomenon that many State Governments have tried to mitigate through policy initiatives designed to diversify the economic base – in WA's case currently, *Diversify WA.*

However, despite being largely outside direct State control, royalty income has a material impact on GST relativities. This is largely due to the way they are assessed by the CGC.

The CGC assessed, and continues to assess, royalty revenues based on average policy across the States that develop specific commodities. For example, 99% of iron ore mining occurs in WA, and as a result, the State only retains its population share of any benefits from reforms to WA's iron ore royalty policy. This is not the case for royalty policy settings for other commodities because their production is spread across multiple States, such as coal mined across Qld and NSW, moderating impacts of unilateral policy decisions to GST relativities.

The CGC reviews fiscal capacity based on the previous three financial years, which creates a lag effect in the amount a State receives. For example, **when the iron ore price peaked in 2010, the impact was not felt until 2013, when the iron ore price tumbled**. Such rapid change was not anticipated at the time, however, had double the

[3] CCIWA analysis of WA Government Budget figures and Australian Bureau of Statistics data.

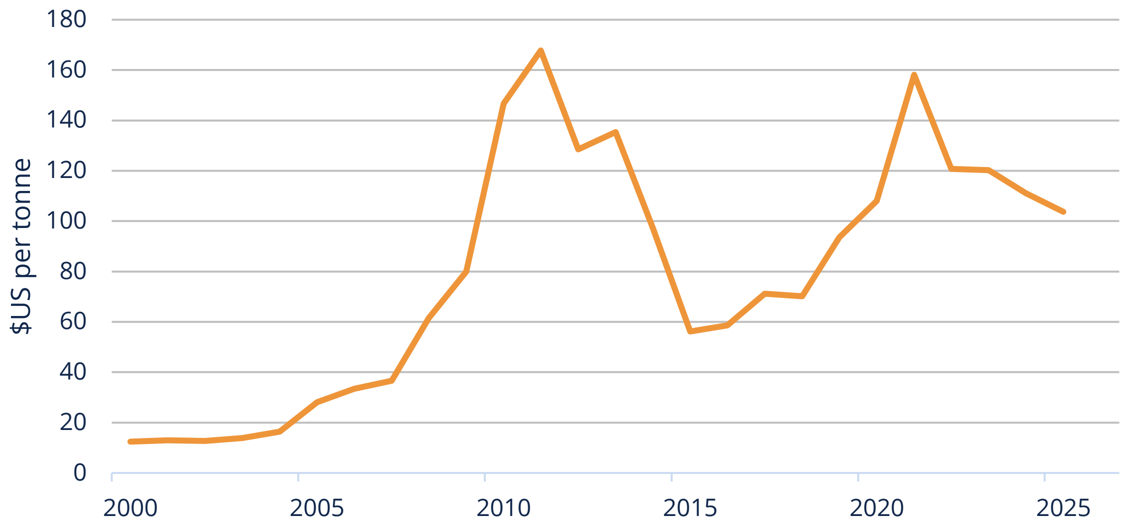
impact as low iron ore prices meant lower royalties and the three-year lag meant lower than projected GST.

This perverse issue was highlighted during the 'iron ore boom' in the 2000s, and again, during the 'COVID boom', when iron ore prices peaked once again **[Figure 2]**.

The higher royalty receipts experienced during that first iron ore boom increased WA's assessed fiscal capacity, thereby reducing WA's GST relativity from **1.0 in 2006 to 0.68 in 2010, and** by **2015** WA's relativity had fallen to its lowest point, 0.3 – that is, WA received just **30% of its population** share of the GST.

At time of writing, no other State **has ever** received less than 83% of its population share.

Figure 2: International iron ore price 2000-2025[4]



When iron ore prices fell, the combination of lower royalties and lagging GST assessments meant that WA faced a severe budgetary shock. WA's debt increased from **$3.6 billion (2007-08)** to **$22 billion (2013–14)**, to fund key service delivery and infrastructure.

This materially constrained WA's ability to maintain a national average level of services and invest in productivity boosting infrastructure, a situation the PC described as **unprecedented** in 2018.[5]

If full HFE had continued beyond 2018, WA would have seen a relativity of just over 0.1 **in 2022-23** (i.e. just **10% of the State's population share** – even lower than when the Reforms were introduced), returning a mere **$870 million, or just over 1% of the $83 billion** GST pool in that financial year.

[4] CCIWA analysis of Federal Reserve Economic Data (FRED) and CGC figures.
[5] Productivity Commission (PC). Inquiry Report No. 88: Horizontal Fiscal Equalisation, Overview and Recommendations. May 2018.

The 2018 Reforms and why they work as intended

In 2018, the PC recommended moving away from full HFE to 'reasonable equalisation', with ETA identified as the preferred mechanism to deliver a balance between equity and efficiency objectives.

Despite these recommendations, the Commonwealth Government identified an alternative fix to the structural flaws that exist in the GST distribution system. The 2018 Reform shifted Australia from full HFE to reasonable equalisation as defined by:

- A revised equalisation benchmark to **the fiscally stronger of NSW or Vic.**
- A legislated relativity floor, of **0.70 from 2022-23,** increasing to **0.75 from 2024-25**; and
- Transitional arrangements, including GST pool top-ups and a no worse-off guarantee (NWOG), to help the other States transition to the reformed system. The NWOG and top-ups were set to cease in 2025-26, but have been extended to 2029-30, as part of a negotiation with the States to support reform to the National Disability Insurance Scheme by the Commonwealth Government.

The measures were legislated, providing certainty in the transition. When introducing the Reforms in 2018, the Commonwealth Government said both a **strong, growing economy** and the **management of revenue volatility** were the primary objectives.[6]

Since then, States have been raised to the fiscal capacity of the stronger of NSW or Vic. This degree of reasonable HFE has provided a level of equity between States, providing them with the capacity to deliver a similar level of services across the country, as well as secured greater economic efficiency by enabling funds to more effectively go where they best support national economic development.

The Reforms directly addressed the structural weaknesses of the previous system and restored a workable balance between equity and efficiency, through:

- The revised benchmark **strengthens incentives** for States that have better fiscal capacity than NSW and Vic.
- The floor acting as a key instrument to reduce the risk of commodity market volatility, regardless of the type of market. This **gives States certainty** by guaranteeing a minimum GST share; and
- The NWOG providing six years of stable income, to **help States transition** their budgets to the new system.

[6] Commonwealth Treasury. Government interim response to Productivity Commission inquiry into horizontal fiscal equalisation | Treasury.gov.au. 5 July 2018.

A strong WA supports the nation

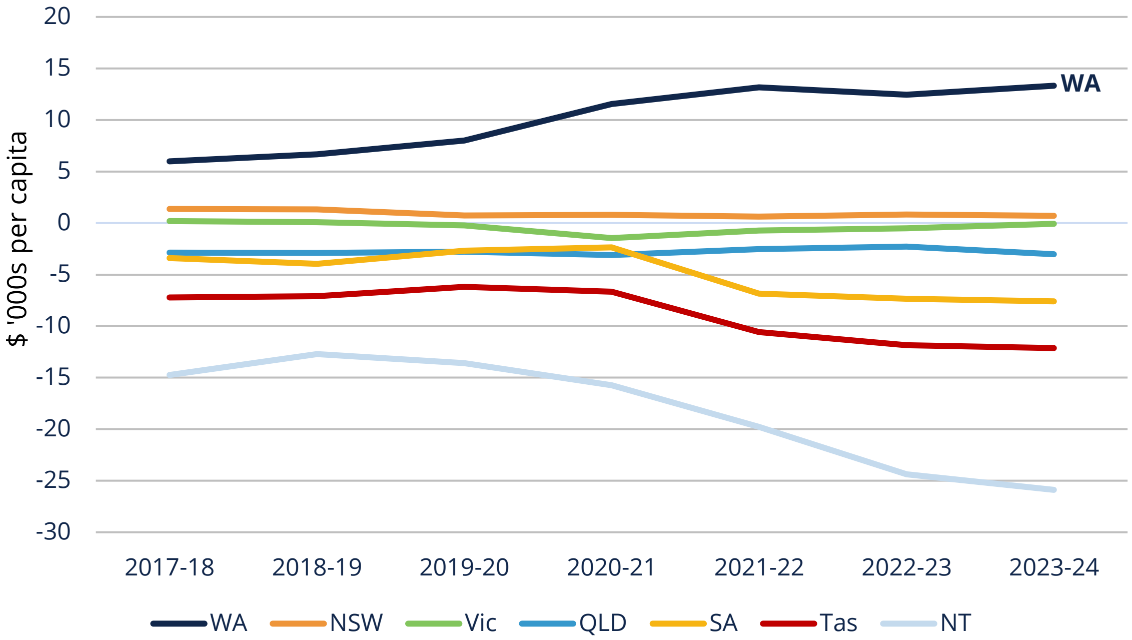
Due to the impacts that policy decisions can have on States' GST shares, there can be disincentives from pursuing policy reforms that enhance economic efficiency in the national interest. In 2018, the PC identified that these disincentives were important to consider when revising the GST distribution system.

The current equalisation standard, of the stronger of NSW or Vic, represents reduced disincentives for reform for our strongest States. This is particularly important for WA, as it is currently the fiscally strongest State.

WA's resource-based economy provides significant contributions to the State and national economy. **WA delivers up to 48% of the nation's exports with only 11% of Australia's population**.[7]

Indeed, WA's net economic contribution to the Commonwealth Budget has been consistently the highest across all states over time, as reported in consecutive WA State Budgets **[Figure 3]**.[8]

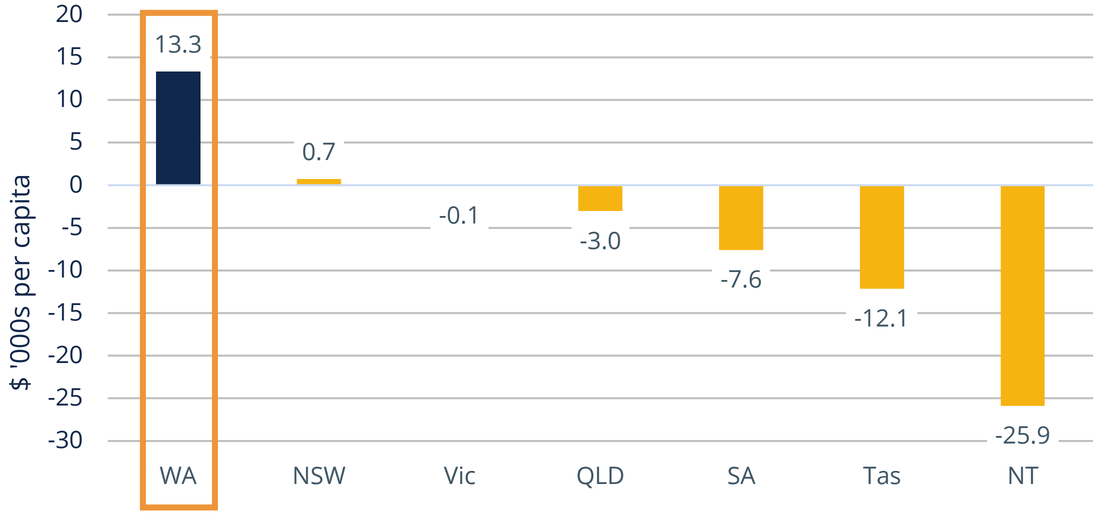
Figure 3: Net contributions of each State to Commonwealth Budget, time series[9]



The most recent data set, from 2023-24, shows that NSW was the only other net contributor to the Commonwealth Budget and that WA's net contribution of $13,300 per capita was **19 times that of NSW [Figure 4]**.

[7] CCIWA analysis of WA Department of Treasury and Finance, and WA Budget figures.
[8] CCIWA analysis of WA State Budgets, 2020-21 to 2025-26, Budget Paper 3, Appendix 11.
[9] CCIWA analysis of WA Budgets. All Commonwealth outlays and revenue relating to the Australian Capital Territory (ACT) are allocated to the other States according to population shares. This recognises that the ACT would be unlikely to exist as a separate entity if the Federation dissolved.

Figure 4: Net contribution of each State to Commonwealth Budget, 2023-24[10]



WA was forecast to receive $7.8 billion through the GST distribution in 2025-26.

Meanwhile, on a per capita basis, WA continues to receive the least amount of GST across all States **[Figure 5]**. In 2025-26, **WA received just $2,563 per capita in GST**. This is more than $300 per person less than that received by Qld, $2,183 less than South Australia (SA), and $3,727 less than Tasmania (Tas). However, without the 2018 Reforms, this would have been even less, **at just $610 for each Western Australian**.

WA's current GST share enables the State to provide services and invest further in its productive sectors, with more capacity than previously. This results in a net economic gain for the Commonwealth and, via reasonable HFE, other States.

Figure 5: GST per person for each State, 2025-26[11]

[10] WA Budget data 2025-26.

[11] CCIWA analysis of CGC data.

Without the 2018 Reforms in place, WA would have likely contributed less to the Commonwealth Budget. For 2022-23, WA would have been $5.4 billion worse off under the pre-2018 system, and for 2025-26, **the loss in GST would have grown to $6 billion**.

All things being equal, WA would have subsequently shifted from an operating surplus to an operating deficit, having an impact on the State's ability to:

- deliver a nationally similar level of services across its vast and dispersed communities; and
- to invest in economy-boosting infrastructure that keeps WA's regions strong, connected, competitive and productive.

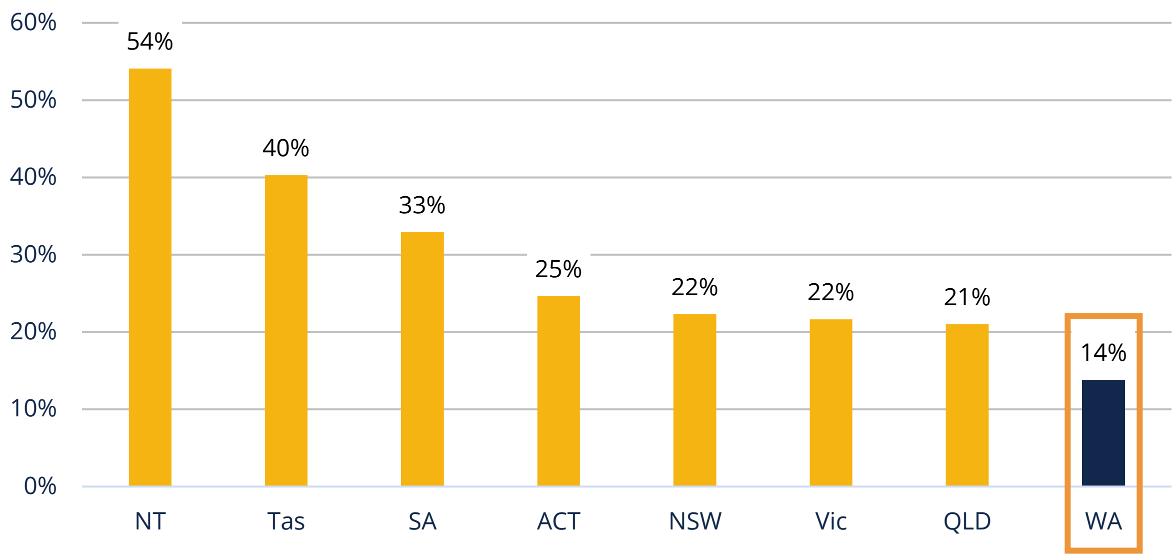
To ensure the delivery of a reasonable level of services, WA would have had to accrue more debt, or the Commonwealth would have had to provide adequate funding. This is due to the broad understanding that the Commonwealth effectively agreed to underwrite State borrowings in the 1950s, and the International Monetary Fund noted some credit ratings agencies consider the Commonwealth is a de facto guarantor for the States.[12,13]

Neither scenario delivers a productive outcome for the national economy. Therefore, the reduced disincentives that the lower equalisation standard represents, encourage Australia's strongest State to continue to develop its economy, at the same time as providing a reasonable level of services across the nation.

Stability of GST revenue: Importance of the floor

All States share a common desire to achieve revenue stability and certainty. GST payments amount to a significant portion of State revenue. According to the latest PC data, GST makes up at least 20% of seven of the eight States' total revenues **[Figure 6]**.

Figure 6: Percentage of total State revenue that is GST distribution, 2023-24.[14]



[12] Commonwealth Government, Economics Legislation Committee. Report into the Guarantee of State and Territory Borrowing Appropriation Bill 2009 [Provisions]. June 2009.
[13] International Monetary Fund. IMF Country Report No. 26/38 Australia. February 2026.
[14] CCIWA analysis of Productivity Commission data.

As a result, **significant changes to GST distributions year-on-year have material impacts on service delivery and long-term infrastructure investment** in those States and the ability to plan with some certainty.

The relativity floor has helped to reduce the risk of volatility, as well as moderated the impact that lagging GST calculations can have on year-to-year GST shares. A floor enables effective fiscal planning for State Treasurers by providing a stable GST distribution – particularly important when planning for multi-year capital infrastructure projects, which require significant long-term expenditure, across the project cycle.

This is particularly important for States that are heavily exposed to international markets, as is the case for WA.

State Treasuries should now be basing their budgets on the 0.75 floor, with any extra GST revenue a bonus to be invested in economic growth or used to moderate the impacts to State Budgets of volatile revenue sources. The NWOG was introduced to help State Treasuries achieve the transition in a timely manner.

Top ups and NWOG necessary for a smooth transition

The Commonwealth noted some financial barriers to transitioning from the pre-2018 GST distribution settings to the new model of reasonable HFE. The first was the impact to State forecasts, with States planning their Budgets four or five years in advance, and the second that there may be costs associated with ensuring a floor during the transition to the new GST distribution model. To provide certainty for State revenue in the years immediately following the implementation of reasonable HFE, two temporary payments were introduced:

- GST pool top-ups to support delivery of the relativity floor. The top-up payment was initially $600 million (indexed) annually with a 0.70 floor. In 2024-25, this was increased to $850 million (indexed) when the GST floor became 0.75.
- NWOG, to assist the States with transitioning to the new model.

These are two separate mechanisms. However, it has not stopped some from conflating the NWOG with benefits to WA. In 2025-26 the Commonwealth Government contributed $4.94 billion in NWOG payments across all States, except WA. In the same year, the Government contributed $1.03 billion to the GST pool, benefitting all States.

Some have expressed concern that the costs to the Commonwealth have been far higher than originally expected. The principal reason for that difference is that iron ore prices have been much higher than originally assumed by the Government, meaning that WA's assessed fiscal capacity has been higher than anticipated.

At the same time, however, **WA remains a net contributor to the Commonwealth Budget.** The Commonwealth has received far more in increased revenue from the private sector as a result of the higher iron ore prices than it has paid out in the NWOG and top-ups. Some estimates put this at a factor of over two times.

Ultimately, if iron ore prices fell to the level of the original assumption, the cost of the NWOG would be small, but the Commonwealth Budget would be much worse off, to the detriment of the nation. The PC must weigh the cost of reforms against the benefits to the national Budget from the growth of Australia's productive sectors.

Remaining structural challenges

The Albanese Government has a strategic focus on improving national productivity, with an economic reform roundtable led by the Federal Treasurer focused on: resilience, productivity, and budget sustainability and tax reform.

These important concepts provide a foundation for conversations about how the GST system could be further improved to drive gains across the country, and enhance Australian competitiveness, both over the short and longer-term.

Short-term adjustments

While the 2018 Reforms went a long way in addressing many of the concerns raised with the previous GST system, not all structural flaws were addressed. In the short-term, one of the simplest ways to improve on the concept of 'reasonable level of services' is to **close loopholes which embed disincentives in the CGC's assessment methods**.

There are **five key factors** which should be considered by the PC as they have an outsized impact on how the CGC calculates GST share:

- **Industry neutrality:** Revenue raising assessments can result in distorted outcomes when an industry contributes an outsized proportion of State revenue.

  As an example, the CGC assesses royalty revenues based on average policy across the States that develop specific commodities. As outlined earlier, 99% of iron ore mining occurs in WA and, as a result, the State only retains its population share of any benefits from reforms to WA's iron ore royalty policy.

  This is not the case for royalty policy settings for many other commodities because their production is spread across multiple States, such as coal mined across Qld and NSW, moderating impacts of unilateral policy decisions to GST relativities.

  WA only retains 11% of the increase in their GST share from changes to iron ore, lithium and nickel royalty rates. By contrast, Qld and NSW would retain approximately 52% and 80% from changes to coal royalty rates, respectively.

  To incentivise development, the GST system should reward States for their efforts to grow industry. This possibility is not unique to the mining sector, so to grow economies now and into the future, the PC should consider ways to revise CGC assessments to address neutrality between industries in revenue calculations.

- **Mining discounts:** Previously, CCIWA advocated for consideration of a mining discount system similar to Canada's Alberta Model, which excludes a portion of mining royalties from the fiscal equalisation calculation.

  This would reduce disincentives for States to develop their natural resources. In turn, investment in resources sectors would help grow State economies and, ultimately, the pool for distribution. Discounts allow States to retain more royalty revenue, while not rewarding States who do not develop their resources with additional GST. Arguably, this model would also improve the goal of policy neutrality, by discounting the royalty revenue from the CGCs assessment and acknowledging the impact that resource development has on GST share.

Canada has excluded 50% of mining royalties from their equalisation calculations, which has created strong incentives for growth in all Canadian States.

CCIWA again makes the case for the application of a 25% discount on mining royalties in the CGC's calculation of revenue raising capacity. This would enhance incentives for States to prioritise resource industry development, thereby sustainably increasing the size of the GST pool by growing State and national economies overall.

- **Fiscal Management:** Large State debt remains an elephant in the room when the CGC assesses State fiscal capacity.

  If GST is a tool for tax reform and to improve productivity, then fiscal management needs to be considered. One way would be for the CGC to consider if States are responsibly managing their debt. With this in mind, the PC should look at ways to reward State policy effort which helps reduce state debt profiles, and deliver sensible financial management.

- **Regional / Remoteness costs:** The CGC uses aggregated Remoteness Area based on the Accessibility/ Remoteness Index of Australia to determine remoteness costs. This results in an oversimplification of accessibility *vis-a-vis* remoteness, reducing the nuance of geographical disparities.

  Despite being able to fit in WA around 37 times, Tasmania receives $1,167 more per capita than WA does as compensation for regional and remote costs.[15] Obtaining everyday resources and services in Strahan, 296km from Hobart, is not the same as Port Hedland, 1,628km from Perth. Yet the current model considers them equal.

  The PC should review how remoteness is considered by the CGC, to ensure that geographical discrepancies are adequately, and accurately, accounted for.

- **Gambling revenue:** The States, collectively, are expected to raise an estimated $10 billion from gambling revenue in 2025-26.[16] This revenue source is currently exempt from the CGC's calculations, despite being equivalent to 10% of the GST pool.

  This is a significant quantum, and it is expected to grow over the forward estimates. As such, the PC should consider if realised total gambling revenue should impact GST share, and the related social costs that may emerge from such policy decisions.

In addition to reforming the CGC's fiscal capacity assessments, greater transparency of the relativity calculations themselves would enhance trust. We support calls for greater transparency of the calculations, as this would enable State Treasuries to better forecast their GST shares, and facilitate improved fiscal planning.

Publication of formulas, data and calculations used by both the PC and the CGC in making their determinations would reinforce the integrity of these processes and enable more effective understanding by all stakeholders. As a member-based organisation, CCIWA would benefit from this transparency to assist members and the broader WA community in understanding the GST system.

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[15] CCIWA analysis of CGC data. Commission's Assessment Methodology – Geography. March 2025.

[16] CCIWA analysis of State Budget data, from most recent State Budgets.

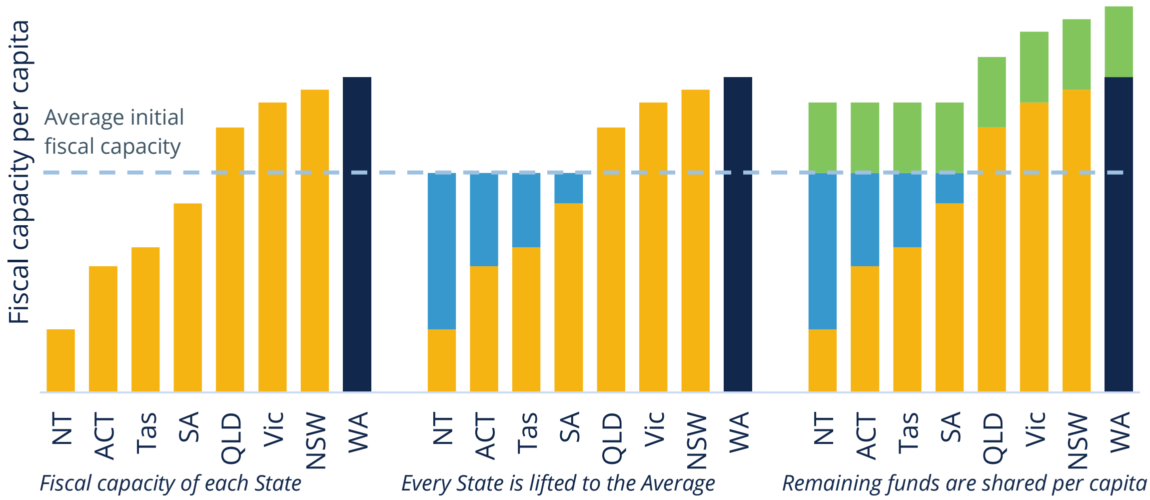
Long-term reform

CCIWA supports a long-term, productivity-focused approach to GST distribution. Since its introduction, GST has consistently been redistributed away from high potential growth States, impacting their investment and productivity growth. Long-term reforms will be required to address this.

In 2018, CCIWA and the PC recommended an Equalisation to the Average (ETA) model to boost productivity and encourage long-term investment.

ETA effectively forces Australia's economies to strive to do better. As noted by the PC in 2018, under ETA, disincentives to reform are reduced for our strongest States, as it allows them to retain a larger proportion of the fiscal dividends of their policy efforts compared with other equalisation standards. Fiscally weaker States would also experience a reduction in disincentives because an increase in their fiscal capacity would raise the average capacity, including for themselves **[Figure 7]**. This would drive growth of the national economy, resulting in a larger GST pool overall.

Figure 7: Example of how ETA could apply to the States.[17]



An ETA system should be considered by the PC as a long-term reform option because it would ensure that everyone living in Australia is able to access a clearly defined level of services, whilst more effectively encouraging States to develop their own economies to self-sufficiently meet their budgets and improve the average level of service.

CCIWA notes that the 2018 Reforms are less than a decade old, and massive reform to the GST distribution model could cause uncertainty at this point in time. However, we are of the view that transitioning to ETA should be a long-term consideration to boost productivity and economic growth.

Any future changes to distribution should be underpinned by widespread consultation, with strong industry engagement.

[17] CCIWA adaptation from PC Inquiry Report No. 88: Horizontal Fiscal Equalisation. May 2018.

Conclusion: Move forward, not backward

Australia cannot go back to the old system. This would have a detrimental effect on the GST pool and the long-term drive to grow Australia's economy.

The GST system can only support sustainable Commonwealth Budgets through the consistent support of productive sectors, not by redistributing funds away from high-potential growth States.

The current system is working as intended, by providing **greater stability and certainty** needed for commodity-exposed economies through the relativity floor, as well as **strengthening incentives** for further productivity-enhancing reform in strong performing States, like Western Australia, through the revised equalisation standard.

In this way, the 2018 Reform has addressed some of the key structural flaws, **but there is more that can be done.**

As Australia's declining productivity dominates the political debate, looking for further opportunities to broaden incentives that **lift the nation overall is critical.**

To this end, we **proposed five key factors** that should be examined to deliver greater incentives in the short-term, being:

1. Adjustments to revenue assessments to incentivise investment in productive industries.
2. Mining discounts of 25% in fiscal capacity calculations.
3. Considering ways to incentivise sustainable management of State debt.
4. Revising the remoteness and regionality indicator; and
5. Consider if gambling and related social costs should be a factor in calculating GST share.

Changes in these areas would not require legislative amendment, but do require directive from the Commonwealth Government.

For longer-term productivity benefits to the national economy, the PC should explore the merits of ETA as a mechanism to incentivise all States to develop their economies and improve competitiveness.

CCIWA welcomes further engagement with the PC on the matter of GST distribution, and the contents of this submission.