

27 February 2026

Productivity Commission
GST Distribution Reforms
Productivity Commission
GPO Box 1428
Canberra City ACT 2601
Australia

GST Distribution Reforms

Dear Productivity Commission,

The Chamber of Minerals and Energy of Western Australia (CME) is the peak representative body for the resources sector in Western Australia (WA). CME is funded by member companies responsible for 24 per cent of Australia's company tax receipts in 2023-24.¹

In 2024-25, the WA resources sector accounted for 55 per cent of Australia's resources exports,² 52 per cent of resources capital expenditure³ and 51 per cent of resources employment.⁴ CME's 2023-24 Economic Contribution Survey found that the WA resources sector supported 6 per cent of national employment and 10 per cent of national gross domestic product.⁵

The GST system must incentivise economic development

The GST system should incentivise states and territories to grow their economies and develop the resources at their disposal.⁶ In an environment of sustained poor productivity growth and pressures on the Federal budget, incentivising development is critical as it expands productive capacity, lifts long term growth and broadens the tax base to support public services without requiring higher taxes.

WA is Australia's most productive state (as measured by output per capita) and accounts for almost half of the nation's exports.

However, GST distribution arrangements prior to 2018 penalised WA's success in developing its economy by redistributing large shares of its GST to other states and territories. The successful expansion of the state's iron ore sector from the mid-2000s improved the State's fiscal capacity and meant that WA's GST relativity was below 0.6 from 2012-13 onwards. In 2025-26, the prior system would have seen WA receive a GST distribution of just 18 per cent of its population share. Put another way, WA would donate 82 per cent of its GST share per person to bring up the fiscal capacity of other states.

Such an outsized redistribution of WA's GST receipts would severely hamper the ability of the state to provide public goods and services to its residents, or to invest in the critical infrastructure that supports the development of resources operations that create revenue for local, state and Commonwealth

¹ Excludes fringe benefits tax, petroleum resource rent tax and fuel excise duty. CME, [2023-24 Economic Contribution: Australia](#), March 2025; Commonwealth of Australia, [Final Budget Outcome 2023-24](#), The Treasury, 30 September 2024, Note 3: Taxation revenue by type, p 38.

² Department of Mines, Petroleum and Exploration (DMPE), [2024-25 Economic Indicators Resource Data File](#), WA Government, 4 December 2025.

³ Investment refers to capital expenditure as measured by gross fixed capital formation, current prices. Australian Bureau of Statistics (ABS), [5220 Australian National Accounts: State Accounts](#), Table 25. [5206 Australian National Accounts: National Income, Expenditure and Product](#), Table 34.

⁴ ABS, [6291 Labour Force, Australia, Detailed](#), Table 5.

⁵ Direct and indirect jobs and economic activity. CME, [2023-24 Economic Factsheet: Australia](#), March 2025.

⁶ As articulated in CME's submission to the [2017 Horizontal Fiscal Equalisation Inquiry](#) in 2017.



governments. In 2023-24 the WA resources sector paid \$12.7 billion in taxes and royalties to the State Government and at least \$37.7 billion to the Australian Government.⁷

The current GST distribution arrangements are delivering on their intended outcomes

CME supports the retention of the current GST distribution arrangements, which are delivering on their intended outcomes.

The current GST distribution arrangements are delivering a reasonable level of horizontal fiscal equalisation (HFE). The prior arrangements were effectively designed to achieve ‘full’ HFE which provided no incentive for states to develop their economies or increase their fiscal capacity. In contrast, the current arrangements provide partial or ‘intermediate’ HFE which is consistent with other OECD countries⁸ and the PC’s recommendation in its 2017 Horizontal Fiscal Equalisation Inquiry (2017 Inquiry) to revise the HFE objective to better balance efficiency and equity.⁹ Even under the 2018 reforms one quarter of WA’s GST receipts are currently redistributed to other states, which is significant equalisation.

The minimum GST relativity of 0.75 (the “GST floor”) and the equalisation benchmark to the fiscally stronger of New South Wales or Victoria reduces volatility and improves certainty of GST revenue streams to support state fiscal planning.¹⁰ This is especially the case for WA where swings in commodity prices, particularly for iron ore, can generate significant volatility in measured fiscal capacity. While the Commonwealth Grants Commission’s (CGC’s) use of a 3-year moving average to assess fiscal capacities helps to smooth relativities, it was insufficient to avoid very large swings in WA’s relativity over the past decade.¹¹ It also meant that during commodity price downturns WA received lower GST revenue at the same time it was receiving lower royalties, severely impacting its ability to provide public goods and services to its residents.

The current GST distribution arrangements support fiscal sustainability across states and territories and the Commonwealth in several ways. For states and territories, they help to remove disincentives to increasing their fiscal capacity or implementing reforms and reduce volatility in GST revenue streams. For the Commonwealth, the arrangements involve a natural hedge where increases in GST payments under the No Worse off Guarantee (NWOG) due to higher iron prices (which reduce WA’s relativity) are offset by higher company tax payments.

The current distribution arrangements better incentivise states and territories to pursue reforms by removing the disincentives that full HFE create, in line with the findings of the PC’s 2017 Inquiry.

However, there are opportunities to improve the CGC’s methodology for calculating GST relativities.

Significant perverse incentives remain in the CGC’s methodology for calculating GST relativities. For example, states and territories lose all but their population share from policy reforms that increase their tax *base*, but keep most of the additional revenue from increases in tax *rates*. This discourages the introduction of new, more efficient taxes while encouraging over-taxation – both of which discourage investment.

In addition, the current GST system significantly undercompensates WA for the costs associated with providing services across such a vast and remote state. In 2025-26, WA receives \$234 per person for regional costs while Tasmania and the Northern Territory receive \$1,401 and \$6,708 per person, respectively. Providing equitable and adequate public goods and services in regional and remote WA is critical to regional liveability and attracting the workforces that underpin the wealth generated by the WA resources sector for all Australians. **As such, these regional cost calculations should be revised to better reflect the costs of delivering services in remote and regional WA.**

While these underlying issues within the CGC’s methodology must be addressed, the 2018 GST reforms help to compensate WA in the meantime.

⁷ CME, [Workers, community groups and local businesses share benefits of record WA resources sector spend](#), 24 March 2025.

⁸ Commonwealth Grants Commission (CGC), [Some international themes in fiscal equalisation: an Australian perspective](#), Research paper 3, April 2022.

⁹ Productivity Commission, [Horizontal Fiscal Equalisation](#), Inquiry Report No. 88, 15 May 2018.

¹⁰ CGC, [Mining revenue and GST distribution](#), Occasional Paper 3, June 2021.

¹¹ CGC, [Mining revenue and GST distribution](#), Occasional Paper 3, June 2021.



Alternative arrangements may be simpler but less effective in achieving desired outcomes

Other GST distribution models such as a per capita (population share) distribution would be simpler to administer, would generate stable GST revenue streams and would not disincentivise states from pursuing reforms to develop their economies. Such a model would also increase WA's GST revenue further, worth an additional \$2.5 billion in 2025-26, supporting the state's ability to drive economic development that benefits the nation. However, a per capita distribution model is unlikely to meet the criteria of a reasonable level of HFE.

CME looks forward to engaging further with the Productivity Commission on these important matters impacting the WA resources sector. Should you have any questions regarding this submission, please contact Aaron Walker (Head of Economics)

Yours sincerely,

Aaron Morey

Chief Executive Officer