



**Victorian
Chamber of Commerce
and Industry**

ABN 37 650 959 904
Level 6, 2 Lonsdale St
Melbourne
Victoria 3000 Australia
T: +61 3 8662 5333
F: +61 3 8662 5462
info@victorianchamber.com.au
victorianchamber.com.au

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Productivity Commission
GST Reforms Consultation
By email: gst.reforms@pc.gov.au

To whom it may concern,

The Victorian Chamber welcomes the opportunity to make a submission to the Productivity Commission's GST Distribution Reforms inquiry.

The Victorian Chamber of Commerce and Industry (Victorian Chamber) is the largest and most influential not-for-profit business organisation in Victoria, informing and supporting our members, clients and reach of more than 100,000 businesses and individuals across Victoria. We provide programs, information and support to members and non-members to ensure a diverse and robust business community in Victoria.

In summary, the Victoria Chamber recommends:

1. The 2018 amendments to GST Distribution should be unwound. The amendments are inconsistent with Australia's long-standing approach to Horizontal Fiscal Equalisation (HFE) by overwhelmingly benefitting one jurisdiction while financially disadvantaging all others once the 'No Worse Off' guarantee lapses.
2. Should the 2018 amendments or some variation be retained, that the Australian Government's 'No Worse Off' guarantee must be maintained beyond its planned cessation after 2029-2030 to avoid financial harm to affected jurisdictions.

Horizontal Fiscal Equalisation (HFE) has been an enduring principle underpinning our Federation for almost a century. It reflects the shared commitment to Australia's federation and achieving equitable and comparable access to quality public services across Australian jurisdictions.

The 2018 amendment to GST distribution arrangements fundamentally undermined these principles, establishing an effective WA exception, and introducing expensive top-up arrangements to support other jurisdictions that would otherwise be worse-off because of these arrangements.

The crux of debates over GST distribution effectively asks what is Australia's shared approach to working as a federation. While understandable, the debate is at risk of populist attitudes to distribution without regard for the long-term benefits to individual states, and collectively across Australia. Arguably, this temptation has been exacerbated during and since the pandemic with arguments around obtaining 'fair shares' of GST effectively arguing for the abandonment of HFE and moving towards a 'per capita' distribution model.

HFE is not designed to protect the richest or strongest state. Yet the 2018 amendments provided

the Western Australian Government with a significant uplift of GST revenue despite successive years of strong economic performance as a result of the mining and resources boom. The inclusion of the relativity floor and new equalisation benefit will disproportionately be of benefit to Western Australia, as past relativities illustrate, and therefore serves as an additional protection to Western Australia without enduring benefit or recognition to other jurisdictions.

We note that the Australian Government has publicly committed to not changing current GST distribution arrangements for WA including the relativity floor and reasonable equalisation. On the basis that these flawed arrangements are maintained, it is essential that the “No Worse Off” guarantees are continued. The rationale to protect other jurisdictions from the negative financial impacts of protecting WA have not changed and will cause significant financial detriment to their budgets should the guarantee be allowed to lapse. Allowing the guarantee to lapse would be grossly unfair.

HFE has served the nation for almost a century. Abandoning this long-established approach should not be done lightly and in a manner that overwhelmingly favours a single jurisdiction. The Victorian Chamber does not suggest that there are no opportunities to refine the methodology and processes underpinning the Commonwealth Grant Commission assessments, but blunt reforms have done nothing to improve the performance and support of the federation and ultimately risks undermining our longstanding shared commitment to our federated approach.

Thank you for the opportunity to make this submission.

Kind regards,

Sally Curtain
Chief Executive
Victorian Chamber of Commerce and Industry