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Moving Australia's income and wealth to areas where it can have greatest impact: supporting state and territory budgets

As ACT Greens Leader and Deputy Leader, we welcome the opportunity to submit to the Australian Government's Productivity inquiries – most particularly Pillar 1, *Creating a more dynamic and resilient economy*.

Our particular emphasis is on the imbalance between the service delivery expectations of State and Territory governments and the revenue streams to pay for these.

Key recommendations

- **Acknowledge that GST revenue has not grown in line with Australian economic growth with an inevitable impact on state and territory revenues.**
- **Take action to manage the budget outcome of states and territories – which are in consistent deficit.**
- **Engage new revenue sources to restore funding to states and territories. The Productivity Commission 24 June 2025 report, authored by Chris Murphy, identified options for Government in changing revenue sources. Murphy found an excellent potential revenue source – with the Petroleum Resource Rent Tax offering the lowest excess tax burden, at -8%, meaning to tax it would deliver more economic good than harm. This is clear opportunity for states and territories.**

GST has been a major source of tax revenue for states and territories since its inception. It was intended to be the primary source of tax for states and territories to fund the services we need to provide to our people. As our populations and service needs have grown, GST has not kept pace. The link between economic growth and tax revenue no longer holds. This can largely be attributed to growing inequality - low wage growth for low-income earners and rising living costs mean that households are purchasing less and GST revenue has waned.

The Australia Institute's recent paper on GST reform[1] shows that, had spending continued to grow as promised, an additional $231bn GST revenue would have been raised over the 23 years since the introduction of the GST. Based on the promised growth, the GST could have generated $22 billion in 2023-4 alone – over $800 for every Australian. Adjusting for population, for the ACT this would translate to $377m in revenue for that year. Unfortunately, the promised growth of the GST has not been realised.

As the gap between high income and low-income earners in Australia has broadened since the introduction of GST, we have seen low-income earners purchasing less and high-income earners spending larger proportions of their income on items which don't attract GST. In addition, as housing

[1] Denniss et al (2025) *GST Reform: How to stop the states being short-changed*, https://australiainstitute.org.au/report/gst-reform/

costs have outpaced income, an increasing proportion of people's income is tied up in rent or spent servicing mortgage debt.

The ACT lacks the tax base of other jurisdictions. It has no resource sector so we cannot raise revenue from royalties. The large proportion of APS employees based in the ACT narrows our tax base because we do not charge payroll tax on Commonwealth agencies. Despite this lower tax base, we must still provide the same Government services as other states and territories. Schools, hospitals, roads and public transport are used by all Canberrans, irrespective of whether their job pays payroll tax. In fact, we must provide a higher level of services than our population requires in some instances – we are, for instance, providing health and education services for a large proportion of people living in the broader region who do not live in the ACT or pay ACT rates or other taxes.

The recent 2024-25 ACT Budget delivered a $1.1bn deficit. Meanwhile the cost of delivering services continues to grow along with our population. Without other options to raise revenue it is hard to see how the ACT Government can continue on this trajectory without having to make significant cuts to services.

It is therefore prudent for the Commission to consider options to expand the ACT's revenue base.

The ACT Greens are calling for the Government to implement the findings of the Productivity Commission's June 2025 report2, authored by Chris Murphy, and move to implement taxes which do the least harm, and may even do good to productivity. Specifically, we are calling for the introduction of the Petroleum Resource Rent Tax (PRRT). The Murphy report finds this tax to have the lowest excess tax burden of all available taxes at -8%, and a negative average excess burden (-8%). Having a negative marginal and average excess burden makes the PRRT an excellent source of additional revenue. The low average excess burden suggests not only that a considerable amount of revenue could be raised at little cost, but that it would likely have a net benefit.

This additional revenue could be added to the pool of revenue that goes to the states and territories. In return, states and territories could swap out productivity sapping taxes like commercial conveyancing duty, residential conveyancing duty and insurance taxes.

We urge you to consider these recommendations and we remain ready to support your inquiry investigations.

Yours sincerely,

Shane Rattenbury, Leader of the ACT Greens

Jo Clay, Deputy Leader of the ACT Greens

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[2] Murphy (2025) *Corporate Tax Reform Modelling Scenarios: First Stage Report*, https://www.pc.gov.au/inquiries/current/resilient-economy/interim/tax-reform-modelling-murphy.pdf