



## **Submission to the Productivity Commission Inquiry into GST Distribution Reforms**

### **Response to Interim Report**

**Submitted by: Rob Fairs MP, Member for Bass, Tasmanian House of Assembly**

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I welcome the opportunity to provide a further submission in response to the Productivity Commission's Interim Report into GST Distribution Reforms.

I also appreciate the Commission's acknowledgement that the 2018 GST distribution reforms have largely failed to achieve their intended objectives and that the current system requires further reform. The interim report confirms concerns long raised by Tasmania and other smaller jurisdictions that the 2018 arrangements have increased complexity, weakened the principle of Horizontal Fiscal Equalisation (HFE), and imposed substantial fiscal costs without delivering a durable or equitable outcome for the federation.

My initial submission argued that full HFE remains the appropriate foundation for GST distribution because it supports a core principle of the Australian federation: that all Australians should have access to a broadly comparable standard of government services regardless of where they live, provided states make comparable efforts to raise revenue from their own sources.

I remain firmly of that view.

The Productivity Commission's interim findings reinforce the importance of restoring that principle.

### **Support for Full Horizontal Fiscal Equalisation**

Tasmania continues to face structural challenges that distinguish it from larger jurisdictions. A smaller economic base, lower revenue-raising capacity, an ageing population, higher health and service delivery costs, and the geographic realities associated with serving dispersed regional communities all contribute to a comparatively weaker fiscal capacity.

These factors are not the result of policy failure. They reflect enduring structural characteristics that are recognised and appropriately accounted for under the full HFE framework developed by the Commonwealth Grants Commission.



The GST system should continue to address these differences by equalising fiscal capacity between jurisdictions.

The purpose of GST distribution is not to reward or penalise particular states for economic outcomes, nor to compensate for policy decisions. Rather, its purpose is to ensure that all state governments possess the capacity to provide services and infrastructure at reasonably comparable standards.

A strong and properly functioning HFE system strengthens national cohesion, supports regional development, and ensures that Australians are not disadvantaged simply because of the state in which they reside.

## **Response to the Productivity Commission Options**

### **Option 1: Return to Full HFE with Modifications Within the GST System**

While I welcome the Commission's recognition that a return to full HFE should form the basis of future arrangements, I do not support Option 1.

The proposal to address so-called "dominant state" concerns through alterations within the GST distribution system risks recreating the very complexity and distortion that the Commission has identified as problematic. Any departure from pure fiscal equalisation weakens transparency and creates the potential for future departures from the core objective of HFE.

Importantly, preliminary analysis indicates that Tasmania may receive a less favourable outcome under Option 1 than it would under the full HFE system that operated prior to the 2018 reforms. Such an outcome would be inconsistent with the objective of restoring genuine equalisation.

For these reasons, I do not consider Option 1 to represent a complete or sustainable solution.

### **Option 2: Restore Full HFE and Address Other Concerns Outside the GST System**

I strongly support Option 2.

Option 2 restores full HFE as the central objective of GST distribution while recognising that concerns regarding resource revenues and perceptions of a "dominant state" can, if necessary, be considered through separate policy mechanisms outside the GST framework.

This approach preserves the integrity of the GST distribution system while allowing governments to address broader fiscal policy questions through more appropriate and transparent channels.



From Tasmania's perspective, Option 2 provides the clearest path to:

- restoring fairness to GST distribution;
- maintaining comparable fiscal capacity across states and territories;
- reducing complexity within federal financial relations;
- improving long-term fiscal certainty; and
- supporting a stronger and more cohesive federation.

Most importantly, Option 2 returns GST distribution to first principles. It recognises that equalisation should be the sole purpose of the GST allocation process and that unrelated policy objectives should not be pursued through that mechanism.

For these reasons, I urge the Productivity Commission to recommend Option 2 as its preferred course of action.

### **Option 3: Minimal Change with a Permanently Funded No-Worse-Off Guarantee**

Option 3 represents a significant improvement over the current arrangements if accompanied by a genuinely permanent, fully funded, Commonwealth-backed no-worse-off guarantee.

Such a guarantee would provide important protection for smaller states and territories against ongoing financial disadvantage resulting from the 2018 reforms.

However, Option 3 does not address the fundamental shortcomings of the current system. It would retain much of the complexity introduced in 2018 and continue to rely upon ongoing Commonwealth supplementation rather than restoring a principled and sustainable GST distribution model.

Accordingly, while Option 3 may represent an acceptable fallback position if full HFE cannot be immediately restored, it should not be regarded as the preferred outcome.

### **Fiscal Sustainability and National Interest**

The GST distribution system should promote a federation in which all states can contribute effectively to national prosperity.

Weakening equalisation risks concentrating economic opportunity, infrastructure investment and population growth in already advantaged jurisdictions while reducing the capacity of smaller states to



maintain essential services. Over time, such disparities impose broader economic and social costs on the nation as a whole.

Conversely, full HFE helps ensure that all jurisdictions can participate productively in national growth. It supports regional communities, strengthens economic resilience and reflects the longstanding Australian commitment to fairness and equal opportunity.

The benefits of full HFE extend beyond Tasmania. They support the stability and sustainability of the federation itself.

## **Conclusion**

The Productivity Commission has correctly concluded that the 2018 GST reforms have not achieved their intended objectives and that change is required.

As the Commission develops its final recommendations, I encourage it to reaffirm full Horizontal Fiscal Equalisation as the guiding principle of GST distribution and to recommend Option 2 as the most effective means of restoring fairness, simplicity and fiscal sustainability to Australia's federal financial arrangements.

A return to full HFE is not simply in Tasmania's interest. It is in the national interest.

Kind regards,

## **Rob Fairs MP**

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