
Productivity Commission Inquiry into GST distribution reforms

Tasmanian Government Submission to Interim Report

September 2026

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For further information please contact:

Intergovernment and Financial Policy Branch

Department of Treasury and Finance

GPO Box 147, Hobart, Tasmania 7001

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Summary of Key Matters

- Every Australian has an equal right to access similar services, regardless of where they live. That principle defines the Federation.
- Tasmania has always advocated for full horizontal fiscal equalisation (HFE). There has never been evidence that the full HFE system needed to be 'fixed' or was not working as intended.
- The interim report substantially validates that position. Tasmania's initial submission aligns with the Productivity Commission's (the Commission) interim findings that the 2018 reforms to GST distribution arrangements (2018 reforms) have not delivered their intended outcomes.

The 2018 reforms have created a dual federation

- Western Australia has repaired its fiscal position and built infrastructure, while every other state's net debt has substantially worsened.
- The reforms have distorted the flow of capital and people. They were justified as improving resilience to shocks, stability and predictability of revenue, and making all states better off. The Commission finds none have been achieved.
- While economic shocks are episodic, the 2018 reforms introduced permanent, system-wide mechanisms that weaken equalisation whether or not the underlying concern is present.
- Western Australia was not experiencing a temporary economic shock. Interim Finding 1.2 confirms the mining boom delivered a sustained increase in fiscal capacity, extending well beyond royalties into Western Australia's broader own-source revenue base.
- A state's GST share is supposed to fall when its fiscal capacity improves. As Tasmania has consistently raised, that is HFE working, not failing.
- The reforms did not remove volatility; they reduced it for Western Australia and shifted the fiscal consequences to other states and, ultimately, to the Australian Government.

The scale of the disparity is now established

- Without change, the permanently entrenched fiscal gap between the strongest and all other states will continue, as will the reliance on the Australian Government's no-worse-off guarantee.
- Under the reforms, Western Australia was funded to 113 per cent of its assessed fiscal need in 2024-25; every other state received 98 per cent.
- The Commission estimates the reforms have delivered Western Australia an additional \$22 billion in GST above its assessed need, with no significant reform or service improvement identified.
- The Commission also estimates that to lift all states to the same fiscal capacity as Western Australia in 2024-25, would require an additional \$47 billion in Australian Government funding.
- But this is not a single-year issue.

- Tasmania estimates that over 2021-22 to 2026-27, the funding shortfall between Western Australia and all other states amounts to \$243 billion.
- The no-worse-off guarantee does not fix this. It lifts other states to 100 per cent of assessed need while Western Australia remains at 113 per cent.

A relativity floor should not remain in the GST system

- A floor is a blunt and unresponsive mechanism, applying whether or not a state faces an economic shock or dominant state effects are present.
- Any floor level is arbitrary. No evidence was ever provided to justify the existing 0.75 level.

The Commonwealth Grants Commission's (CGC) independence must be preserved

- Tasmania strongly endorses Interim Finding 5.1. The CGC has the structure, procedures and expertise to undertake its role effectively. Problems with the 2018 reforms are due to the settings imposed, not from the CGC's exercise of its functions.
- Tasmania does not support Option 1 – not because of the return to full HFE, but because of the Commission's requirement that the Treasurer directs the CGC on dominant state effects.
- The direction is unnecessary. The CGC has examined this issue repeatedly over a decade and continues to do so through its Forward Work Program.
- No alternative to the CGC's current mining assessment has withstood scrutiny. Each introduces an arbitrary judgement to a varying degree.
- Ultimately, a state's dominance in a particular mineral does not remove the revenue generated by mining it. This is the fundamental reason that the CGC continues to ensure that HFE is the primary consideration.

Tasmania endorses Option 2

- Option 2 fully revokes the 2018 reforms, restores full HFE, removes the escalating cost to the Australian Government and leaves the CGC's independence intact.
- The GST system exists to equalise fiscal capacity, not to reward extraordinary revenue generation or economic contribution.
- Any recognition of national economic benefits, including those associated with dominant states in the mining industry, should occur outside the GST system, negotiated directly and transparently with the Australian Government and sized to the benefit at the time.
- Tasmania does not support Option 3. Retaining a 0.75 floor perpetuates the dual federation, is estimated to cost the Australian Government around \$6 billion each year, and leaves the underlying problems unresolved.
- Option 2 would also permit immediate reversion.
- Under any arrangement other than Option 2, both transition arrangements and a legislated in perpetuity no-worse-off guarantee that ensures no state receives less than its pre-2018 full HFE share, would be the minimum requirement.

Introduction

Tasmania welcomes the opportunity to respond to the Commission's interim report on the 2018 reforms.

Tasmania's position has been consistent and longstanding: the HFE system was not broken and did not require fundamental reform. Prior to the 2018 reforms, the system was operating as intended, automatically and transparently adjusting to changes in states' fiscal capacities, under the independence of the CGC. Tasmania has never seen evidence that the system had failed, or that its outcomes were inconsistent with the principles it was designed to deliver. The case for reform was asserted at the time, rather than demonstrated, and the arrangements that followed were built on modelling and assumptions that most states, including Tasmania, identified as flawed at the time.

The interim report substantially validates that position. Tasmania's initial submission to this inquiry is broadly consistent with the Commission's interim findings on the effects of the reforms. In particular, Tasmania agrees that the reforms have:

- not delivered their intended outcomes;
- established a reduced standard of equalisation that has created a dual federation, in which one state is funded significantly beyond its assessed need, while others equalise to a lower standard;
- come at a very high and escalating cost to the Australian Government, principally through the no-worse-off guarantee and pool top-ups; and
- introduced significant and unnecessary complexity into a previously coherent and internally consistent system.

Tasmania supports Interim Finding 1.1 that a lack of understanding of the HFE system has undermined the quality of public debate on the topic, and acknowledges the clarity provided in the interim report. Tasmania also appreciates the Commission's efforts in the interim report to address common misconceptions with the GST system.

Tasmania also agrees with the Commission's observations regarding the perverse incentives created by the reforms. These include the capacity for Western Australia's GST allocation to rise as a result of natural disaster expenditure in New South Wales, or even as its own-source revenue increases; and the perverse outcomes that emerge where one state is afforded the fiscal capacity of around 113 per cent of its assessed need. These structural inconsistencies need to be addressed.

Most significantly, Tasmania supports the Commission's conclusion that the 2018 reforms have failed to make all states better off. That commitment was central to the political case made for the reforms and to the acceptance of the arrangements by the states. The Commission's analysis shows that the commitment has only been sustained through substantial and ongoing Australian Government transfers and that without those transfers, all states excluding Western Australia would be materially worse off. Tasmania suggests that an arrangement requiring billions of dollars in annual Australian Government compensation cannot reasonably be described as durable or successful reform.

Tasmania endorses Option 2: fully revoking the 2018 reforms and returning to full HFE, including preserving the independence of the CGC. In Tasmania's view, the body of the interim report and the Commission's own evidence overwhelmingly support this course. It would restore a system that adjusts automatically to changing fiscal circumstances and remove the perverse incentives and dual standards introduced by the 2018 reforms.

Importantly, Option 2 would remove the Australian Government's substantial and escalating costs associated with the no-worse-off guarantee. It would also restore the purpose of the GST distribution system: to provide each state with a comparable fiscal capacity to deliver services and provide infrastructure. This is distinct from broader questions of whether, and how, the Australian Government should recognise nationally significant economic activity. The proposition that GST distribution should reward a state for its contribution to the national economy conflates two distinct policy objectives and is inconsistent with the purpose of HFE. The GST system was never intended to reward productivity, national economic benefits or revenue generation. As outlined in Tasmania's initial submission, any such recognition should be transparent, negotiated bilaterally and in accordance with the benefit provided at the time, and funded by the Australian Government.¹

Tasmania also welcomes the Commission's examination of the broader governance arrangements underpinning federal financial relations, and agrees that these arrangements must be administratively efficient and capable of delivering their intended policy objectives. Tasmania strongly endorses Interim Finding 5.1 that the CGC has the structure, procedures and capabilities to undertake its role well. Moreover, Tasmania strongly agrees that the CGC's independence, consultative practices and transparency are central to the legitimacy and durability of the GST system. This finding reinforces that the problems associated with the 2018 reforms arise from the policy settings they imposed, rather than from the CGC's exercise of its functions. Tasmania is concerned that the preferred option in the interim report sits uneasily with the Commission's own conclusions about the value of arm's-length decision-making, and risks creating a perception that the CGC's work program and methodologies are subject to political direction.

Tasmania supports Interim Recommendation 5.1 that the Australian Government should monitor whether the HFE system is contributing to diverging fiscal outcomes between states. Tasmania also supports efforts to restore a substantive role for the Council on Federal Financial Relations (CFFR) as the appropriate forum for collective consideration of these issues by the Australian Government. As noted in Tasmania's initial submission, Tasmania considers that the treatment of Commonwealth payments within the GST methodology should remain a matter for the CGC's independent assessment and is, therefore, broadly supportive of the decision not to pursue prescribed guidelines, notwithstanding the Commission's 2017 recommendation that such guidelines be considered. However, the proposed

¹ In its submissions to the 2017 Productivity Commission's Inquiry into Horizontal Fiscal Equalisation, including on the Commission's draft report and the current inquiry, Tasmania has consistently argued that HFE should focus on equalising states' fiscal capacities, while broader objectives such as economic development, productivity and efficiency should be pursued through separate Commonwealth policy mechanisms.

approach to publish correspondence and decisions around this treatment may need further consideration to ensure it adds value to the existing framework.

The balance of this submission sets out Tasmania's response to the interim findings in more detail and explains why Option 2 would restore GST distribution arrangements to a sustainable, equitable system capable of ensuring all Australians can access a comparable standard of services regardless of where they live.

Key Issues

2018 reforms

As noted in the interim report, and above, the stated purpose of the 2018 reforms was to make the GST system more resilient to economic shocks, improve the stability and predictability of state revenues, and ensure that all states were better off as a result of the changes. The Commission's interim findings show that the reforms were not well matched to those objectives and have instead reduced the level of HFE achieved in Australia through the creation of a "two-tiered GST distribution system".² Tasmania supports that assessment and considers that the reforms have permanently embedded system-wide mechanisms that weakened fiscal equalisation and entrenched a dual-level of federation.³

Importantly, economic shocks and fiscal volatility are inherently variable and episodic, with differing timing, duration, magnitude and (potentially) geographic impact. As Tasmania argued at the time, these challenges were better addressed through the existing HFE framework, which is designed to respond to changing circumstances over time.⁴ By contrast, the enduring and untargeted mechanisms introduced by the 2018 reforms were poorly suited to addressing such challenges. Contrary to Tasmania's submission to the 2017 PC Inquiry into HFE (2017 PC Inquiry), the GST system was modified in response to circumstances being experienced by one or two states that were purported to be temporary. The 2018 reforms have resulted in a system that has fundamentally undermined the capacity of the GST system to achieve its core purpose of equalising fiscal capacity across the Federation.

GST relativity floor

One of the key problems with the 2018 reforms is the inclusion of a GST relativity floor. As Tasmania argued in its initial submission, a relativity floor is a blunt mechanism. This static, unresponsive element applies irrespective of whether a state is experiencing an economic shock, whether dominant state effects are present, or whether there is any broader threat to the operation of the GST system.

Ordinarily, economic or fiscal shocks would be expected to decrease a state's revenue, increase its expenditure, or both. Prior to the 2018 reforms, the GST system was well-placed to respond to such events by increasing that state's GST allocation, albeit on a lagged basis. Conversely, a state's GST allocation would be expected to fall in response to a comparative increase in revenue and/or decrease in expenditure. These were established and well-understood features of the system,

² Interim Finding 2.1 concludes that the 2018 reforms have created a two-tiered GST distribution system. Interim Finding 3.1 concludes that the GST pool boost has contributed to a divergence in fiscal capacities between the states and failed to achieve its intended objective of making all states better off.

³ Consistent with Tasmania's initial submission to this inquiry, the 2018 reforms reduced the standard of equalisation delivered through the GST system, introduced a dual-level federation, and provided a disproportionate fiscal advantage to the strongest state.

⁴ Tasmanian Government, Initial submission to the Productivity Commission Review into Horizontal Fiscal Equalisation, June 2017.

which provided states with sufficient certainty to manage their fiscal positions over time in response to changing circumstances.

A floor effectively overrides the relationship between fiscal need and GST allocation by providing a guaranteed minimum level of GST funding. It is funded from within, and operates across, the GST system rather than responding to a specific issue. As noted by the Commission in finding 8.3 of the 2017 PC Inquiry, final report:

The introduction of a relativity floor would blunt the equalisation task and introduce greater incentives for policy effort for the beneficiary State(s) — Western Australia for the foreseeable future. But a floor represents a band-aid solution, as it is not well targeted to broader efficiency and fairness problems.⁵

The level of the floor selected in 2018 also appears to have been chosen arbitrarily rather than being linked to a risk threshold or triggered by observable economic events. At its current level of 0.75, the relativity floor currently directs a guaranteed allocation of GST revenue to Western Australia regardless of its fiscal strength or changes in revenue and expenditure.

The Commission has examined floors of 0.3, 0.5 and 0.75 in its interim report and found that a lower floor delivers stronger equity outcomes because it allows the GST distribution to respond more fully to differences in fiscal capacity and expenditure need. The Commission also found that lower floors are more fiscally sustainable, either for the states if the no-worse-off guarantee is allowed to expire, or for the Australian Government where a permanent guarantee applies, as shown in Table 1.⁶

Table 1: Impact of various floor levels compared to full HFE arrangements, 2024-25 (\$m)

One year impact of various relativity floors									Cost of permanent no-worse-off guarantee to the Australian Government
	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	
0.3 floor	(638)	(526)	(422)	1 836	(145)	(45)	(37)	(23)	(1 836)
0.5 floor	(1 333)	(1 096)	(879)	3 819	(299)	(92)	(76)	(45)	(3 819)
0.75 floor	(2 201)	(1 809)	(1 450)	6 297	(491)	(150)	(125)	(71)	(6 297)

Source: Australian Government's 2024-25 Final Budget Outcome, CGC's 2024 Update and Tasmanian Department of Treasury and Finance calculations.

Tasmania suggests that, although a lower floor would reduce its fiscal impact, at any level a floor would continue to compromise HFE and, as such, is not supported.

As noted in Tasmania's initial submission and the interim report, since the 2018 reforms were introduced, the floor has not been required for its intended purpose. The stated purpose of the floor was to protect Western Australia from experiencing a significant decline in GST revenue following an adverse economic or

⁵ Productivity Commission, Inquiry Report - Horizontal Fiscal Equalisation, May 2018.

⁶ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.79.

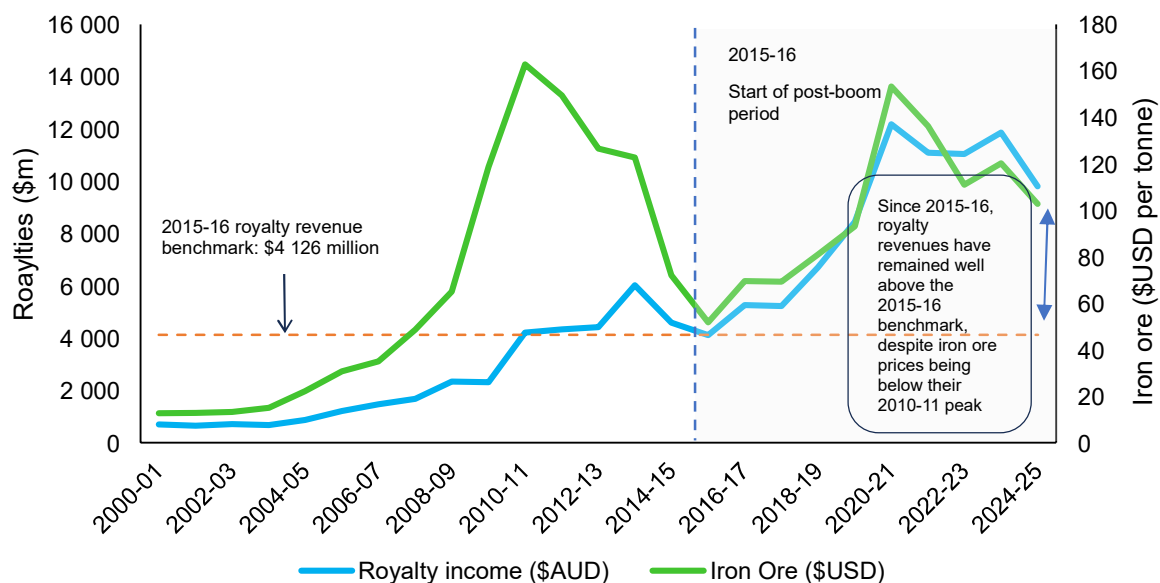
fiscal shock, particularly after the end of the mining boom. To date, however, Western Australia has not experienced such a shock. As such, since its commencement, the floor has only boosted the fiscal capacity of the strongest state in the Federation.

Moreover, as was evident during the COVID-19 pandemic, the level of the floor failed to provide meaningful protection to recipient states such as Tasmania, while simultaneously delivering a level of fiscal support to the strongest state that was well beyond any reasonable interpretation of equalisation. Effectively, the floor has continuously weakened equalisation regardless of economic conditions rather than providing targeted assistance during periods of stress. Tasmania does not support the inclusion of a relative floor, particularly at a level comparable to current arrangements. As such, and further discussed in the section on Alternative Arrangements, Tasmania does not support the Commission's proposed arrangement outlined as Option 3.

As noted in the interim report, the mining boom resulted in an unprecedented increase in Western Australia's capacity to generate its own-source revenue and fundamentally altered the State's relative fiscal position over an extended period.

Chart 1 illustrates the scale, persistence and long-term nature of this change. Western Australia's royalty income increased markedly during the resources boom and has remained well above pre-boom levels, while iron ore production continued to expand and remained elevated long after commodity prices moderated.

Chart 1: Western Australia royalty income and iron ore price, 2000-01 to 2024-25



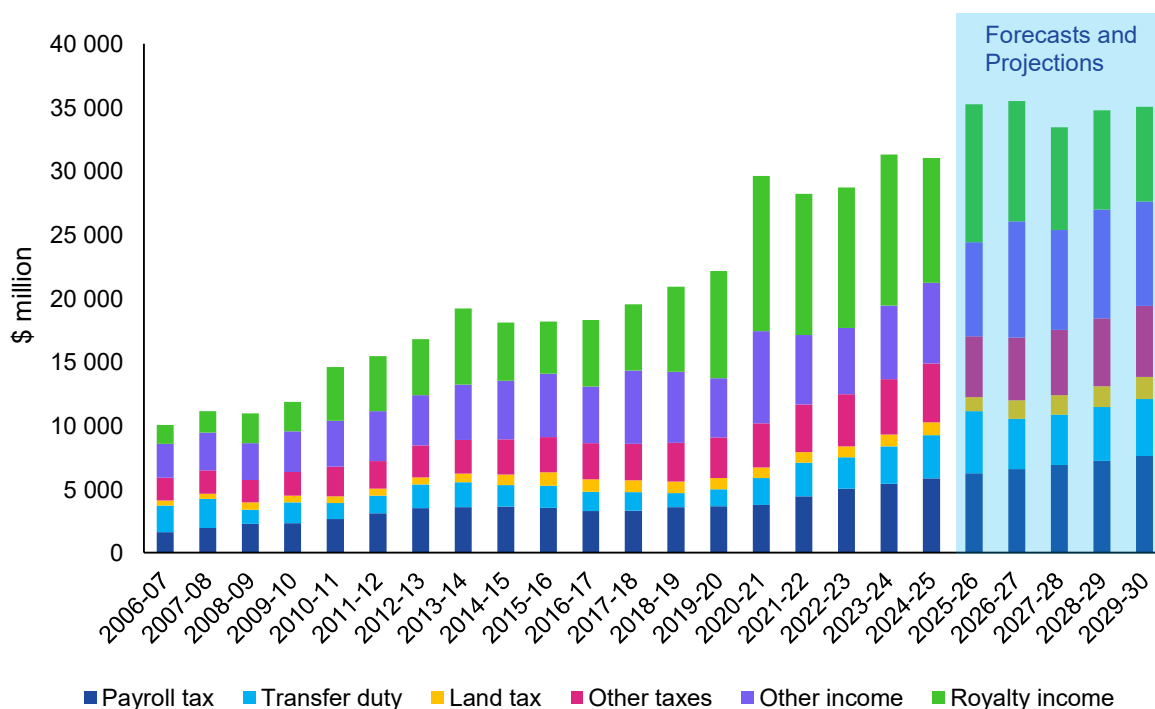
Source: Government of Western Australia State Budgets and Treasurer's Annual Reports on State Finances, various years, and Global Iron Ore Prices (1990-2025) database. Revenue data reflects reported actual outcomes from 2000-01 to 2024-25.

Significantly, in Interim Finding 1.2, the Commission found that the mining boom resulted in a sustained increase in Western Australia's fiscal capacity. This finding is consistent with Tasmania's longstanding view that Western Australia's circumstances were not analogous to a temporary economic shock. Unlike events such as natural disasters, financial crises or the COVID-19 pandemic, which create sudden and

often temporary fiscal pressures, the effects of the mining boom were long-lived, progressively observable and heavily concentrated in a small number of jurisdictions. As the boom unfolded, governments and businesses increasingly invested and planned on the basis that elevated mining activity and royalty revenues would remain a significant feature of Western Australia's economy. The continued funding of these initiatives indicates that royalty revenues have become embedded in Western Australia's longer-term budget planning, which is more consistent with structural economic change than a temporary fiscal shock.⁷

The broader strengthening of Western Australia's own-source revenue base further suggests the effects of the boom extended beyond a single revenue stream and became embedded more broadly within the State's economy and fiscal capacity, as shown in Chart 2.

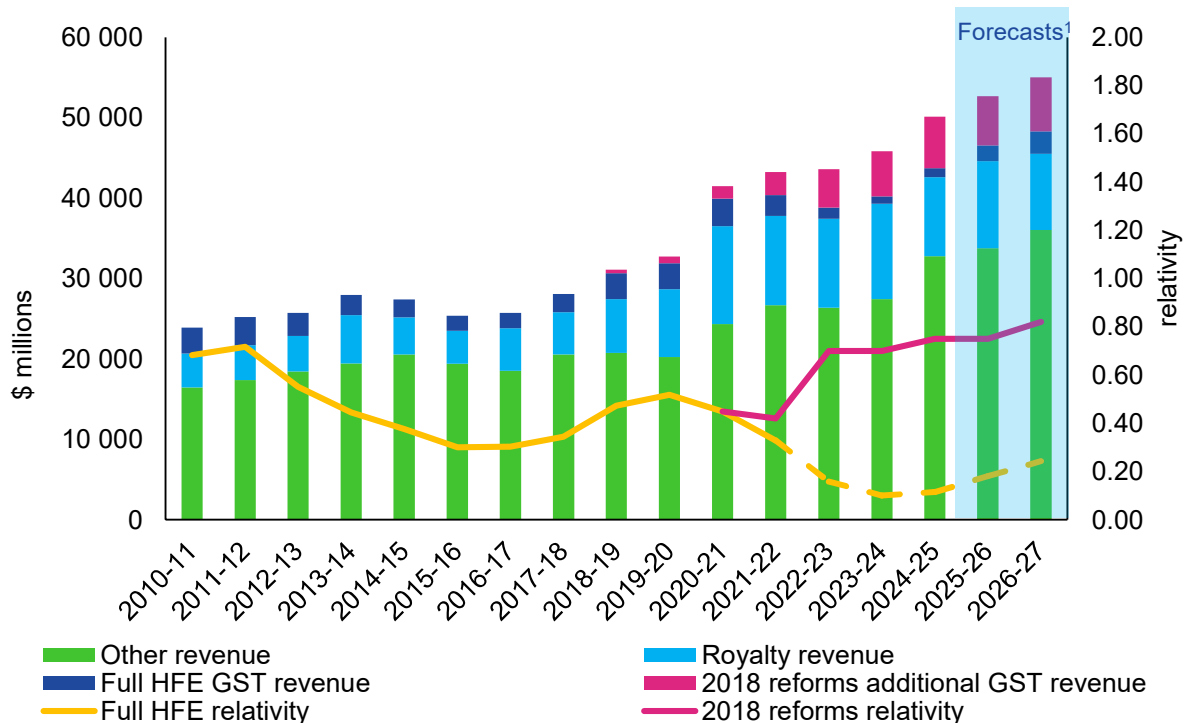
Chart 2: Western Australia own-source revenue, 2006-07 to 2029-30



Source: Government of Western Australia State Budgets and Treasurer's Annual Reports on State Finances, various years.

As Tasmania has repeatedly observed, the decrease in Western Australia's assessed need for GST support, as a result of the strong growth in its resources sector, reflects precisely how the HFE system is intended to operate. All other things being equal, such an increase should result in a reduced need for GST support to maintain equivalent fiscal capacity across states. As shown in Chart 3, the evidence suggests that declining full HFE GST relativities reflect HFE responding to a sustained increase in Western Australia's revenue-raising capacity rather than to a temporary period of fiscal disruption.

⁷ Western Australian Government, 2026-27 Budget Paper No. 3: Economic and Fiscal Outlook, ch 7, 'Investing in Regional Western Australia', report \$9.5 billion in regional infrastructure investment, including \$4 billion through Royalties for Regions, over 2026-27 to 2029-30.

Chart 3: Western Australia revenue and relativities

¹ Reflects forecast revenue, but actual relativities for 2025-26 and 2026-27.

Source: Australian Government, Final Budget Outcomes, various years; Australian Government, Budget 2026-27,

It is Tasmania's view that, due to its capability to adjust automatically to changes in fiscal capacity, the most durable response to potential economic shocks is the reinstatement of a full HFE system. Tasmania continues to support the purpose of the GST system as providing each state with similar fiscal capacity. Issues that fall outside that purpose should be addressed through fully transparent, temporary or targeted responses outside the GST system.

Improve the stability and predictability of state revenue

Tasmania supports the Commission's observation that the 2018 reforms have only materially reduced volatility for Western Australia, with little effect on other jurisdictions.⁸ Importantly, the reforms have not removed volatility. Rather, they transferred its fiscal consequences from Western Australia to all other states and, ultimately, the Australian Government through the no-worse-off guarantee.

As noted above, the growing cost of these arrangements demonstrates that all states excluding Western Australia are funding a floor that is around seven times the assessed fiscal need of the strongest state. The Commission observed that the no-worse-off guarantee is expected to cost around \$6 billion in 2025-26 and could increase to \$12 billion if commodity prices strengthen.

Tasmania also supports the Commission's evidence-based assessment that states have historically been able to predict both total revenue and GST revenue with a reasonable degree of accuracy.⁹ A number of states' submissions also noted that

⁸ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.34.

⁹ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.61.

GST revenue remains adequately predictable and that the three-year averaging process appropriately balances responsiveness and certainty.¹⁰

Taken together, the Commission's analysis reinforces Tasmania's longstanding position that there was never evidence to support the proposition that the HFE system was broken and needed changing.¹¹

Dual Federation

Tasmania notes that initial submissions from every state other than Western Australia agreed that the 2018 reforms have improved Western Australia's relative fiscal capacity.¹² The Commission noted that these states submitted that the current system provides Western Australia with greater relative capacity to fund services, reduce taxes or debt, and support stronger growth, and that this will create an economic gap between Western Australia and other states over time.¹³

As such, Tasmania supports Interim Finding 2.1 that the 2018 reforms have created a two-tiered GST distribution system. The Commission also concluded that Western Australia is over-funded relative to its assessed fiscal need¹⁴ as a result of top-up payments ahead of the transition to the 2018 reforms, and from 2021-22 through the combined effects of the reduced equalisation standard, the boosted GST pool and, fundamentally, the floor. As Tasmania has previously submitted, the floor weakens equalisation, even when the circumstances it was intended to address are not present.

The Commission estimates that Western Australia has been provided with an additional \$22 billion in GST revenue compared to its assessed need under full HFE.¹⁵ The Commission also noted that:

Prior to 2018, all states received enough GST revenue to meet 100 per cent of their assessed fiscal needs, consistent with the principle of HFE. However, as a result of the reforms, Western Australia received enough GST revenue to meet 113 per cent of its assessed fiscal needs in 2024–25 – compared with 98 per cent for all other states.¹⁴

¹⁰ Victorian Government, Response - Productivity Commission Inquiry into 2018 GST distribution reforms, February 2026; Government of South Australia, Submission to Productivity Commission Inquiry GST distribution reforms, February 2026.

¹¹ Tasmanian Government, Initial submission to the Productivity Commission Inquiry into GST distribution reforms, February 2026.

¹² Government of South Australia, Productivity Commission Inquiry GST Distribution Reforms, February 2026; ACT Government, GST Distribution Reforms, February 2026; Northern Territory Government, GST Distribution Reforms Initial submission, February 2026; Tasmanian Government, Initial submission to the Productivity Commission Inquiry into GST distribution reforms, February 2026; Victorian Government, Productivity Commission Inquiry into 2018 GST distribution reforms, March 2026; NSW Government, NSW Government Initial Submission to the Productivity Commission Inquiry into the 2018 GST distribution reforms, March 2026; Queensland Government, Productivity Commission Inquiry into GST distribution reforms, March 2026.

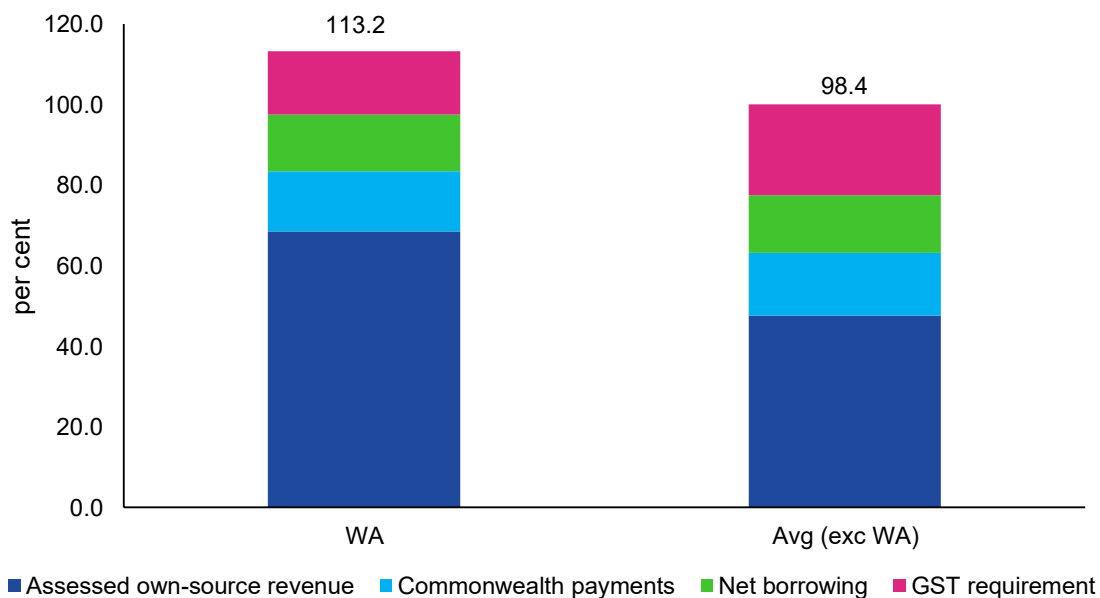
¹³ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.33.

¹⁴ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.3.

¹⁵ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.36.

Furthermore, the Commission estimated that around an additional \$47 billion (on top of the no-worse-off guarantee) would be required to provide all states with the same fiscal capacity as Western Australia. This illustrates the extent of the fiscal disparity between Western Australia and all other states. It also highlights the significance of the opportunity provided to the strongest state in the Federation. For context, the Commission has advised that Tasmania would have required around \$1.2 billion in additional funding to be afforded the same fiscal capacity as Western Australia in 2024-25. Such a significant one-year increase in untied funding would have provided the State with the flexibility to address its priorities, whether pressures in health services, investing in critical infrastructure or improving the State's fiscal position.

Chart 4: Western Australia and all other states (average) assessed fiscal need by distribution system and revenue source under 2018 reforms, 2024-25



Source: Tasmanian Department of Treasury and Finance calculations using Commonwealth Grants Commission 2024 Update data.

This outcome is not confined to 2024-25. The 2018 reforms have directed materially more GST revenue than Western Australia's assessed fiscal need every year since they were introduced. Using the Commission's modelling approach, Tasmania estimates that from 2021-22 to 2026-27, the Australian Government would have had to provide over \$243 billion in additional funding to afford all other states with the fiscal opportunity provided to Western Australia. To illustrate the significance of this fiscal disparity, Tasmania's share is estimated to be approximately \$6 billion over the period, an amount close to 75 per cent of Tasmania's projected 2026-27 net debt. This disparity would continue under both the current arrangements and the Commission's third proposed option, as discussed further under Alternative Arrangements.

By legislating a permanent relativity floor, the reforms embedded a significant and enduring fiscal advantage for the strongest state in the Federation. As was noted by Tasmania and other jurisdictions at the time of their introduction, the simplistic modelling underpinning the 2018 reforms assumed commodity prices and resource revenues would return to historical levels.¹⁶ As shown in Chart 5, that assumption did not eventuate, yet the structural features of the reforms remain in place.

Chart 5: Western Australia and average all other states' assessed fiscal need under 2018 reforms (excluding no-worse-off guarantee), 2021-22 to 2026-27



Source: Tasmanian Department of Treasury and Finance calculations using Commonwealth Grants Commission data and Australian Government Final Budget Outcomes.

While recognising that the fiscal opportunity provided to Western Australia has never been offered to any other state, Tasmania has undertaken modelling to illustrate the magnitude of the advantage.

This modelling indicates that had Tasmania been afforded a similar fiscal opportunity since 2021-22, absent any other decisions by the Government, the State would have been able to largely repair its fiscal position by 2024-25 and be expecting fiscal surpluses from 2025-26.

Divergent net debt positions

Tasmania notes that Figure 3.6 of the interim report provides compelling evidence of the fiscal divergence arising from the 2018 reforms. It shows that between 2014-15 and 2024-25, total non-financial public sector net debt to revenue ratios increased in every jurisdiction except Western Australia, with this divergence projected to persist through to 2029-30.

¹⁶ Submissions by Tasmania, South Australia, New South Wales, Victoria, Queensland and the Australian Capital Territory to the Senate Economics Legislation Committee inquiry into the Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Bill 2018 [Provisions], raised concerns regarding the assumptions and limited scenario testing underpinning the Commonwealth's projections.

The underlying debt outcomes are similarly divided. Between 2018-19 and 2023-24, average net debt across all states other than Western Australia increased by \$11 062 per capita, while Western Australia's net debt fell by \$3 736 per capita.

Tasmania considers that the absence of a corresponding divergence in observable service provision, including in data reported through the Commission's *Report on Government Services*, does not undermine this evidence. Rather, it helps to explain it. State governments are providers of last resort and must meet demand for essential services, regardless of their fiscal position. This obligation is reinforced by increasingly prescriptive Commonwealth-state funding arrangements. Consequently, jurisdictions with less fiscal capacity are unlikely to reduce services to match their revenue base. The empirical evidence suggests that they are more likely to borrow to meet demand pressures.

By contrast, as the Commission notes, Western Australia has used the fiscal opportunity created by the 2018 reforms to strengthen its balance sheet.¹⁷ Since establishing its Debt Reduction Account in the same year the 2018 reforms were introduced, Western Australia has applied \$8.2 billion towards reducing its net debt. Its 2026-27 Budget also confirmed that its strong fiscal position will enable it to fund its \$44.3 billion Asset Investment Program from operating surpluses rather than borrowings.

Tasmania accepts that the full extent of this divergence has been moderated to some extent by the no-worse-off guarantee. However, the underlying disparity is already well-established. The reforms have enabled one jurisdiction to improve its fiscal position while every other state has accumulated substantially higher debt. If the no-worse-off guarantee is allowed to expire, these pressures will become structural and increasingly difficult for affected jurisdictions to absorb.

Elevated debt levels also reduce fiscal resilience and increase exposure to economic and financial shocks. One of the intended outcomes of the 2018 reforms was to improve all states' resilience to such shocks. While this outcome appears to have been achieved for Western Australia, the net debt positions of all other states suggest that they have not been afforded the same benefit. As debt burdens continue to rise across all states other than Western Australia, the reforms risk entrenching an increasingly unequal fiscal landscape, characterised by divergent fiscal capacity, borrowing requirements and balance sheet strength. Such an outcome is inconsistent with both the principle of HFE and the underlying objectives of the Federation.

Economic reform, fiscal divergence and labour mobility

In the interim report, the Commission considers concerns raised both through this inquiry and previous reviews that HFE may discourage states from pursuing economic and fiscal reform because increases in revenue capacity can be partly offset through lower GST distributions.

As outlined in Tasmania's initial submission, there is no evidence that HFE either encourages or discourages state economic reform. States pursue tax, regulatory and service delivery reforms for a wide range of reasons, including improving

¹⁷ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.33.

productivity, responding to fiscal pressures, addressing housing and infrastructure constraints, and meeting community expectations.¹⁸

The Commission's latest analysis supports this conclusion. While its modelling suggests that the 2018 reforms marginally improved incentives for reform, the improvement was limited and largely reflected the additional protection provided to the strongest state.¹⁹ More importantly, the Commission found little evidence that the 2018 reforms were associated with increased state reform activity. Where reform activity did occur after 2018, the Commission found it was more readily explained by state-specific factors, including COVID-19-related pressures, or the need for budget repair.²⁰

These findings are significant because they challenge one of the key justifications for the 2018 reforms. Despite providing substantial additional fiscal capacity to Western Australia, the Commission found no evidence that the additional funding resulted in increased reform activity. Instead, Western Australia's six-year windfall has largely been reflected in stronger balance sheet outcomes, including reduced debt and investment in infrastructure at a level beyond any other state.

Tasmania notes that recent reform activity in Western Australia has broadly mirrored developments occurring in other jurisdictions. For example, both Western Australia and Tasmania have implemented Automatic Mutual Recognition with relatively limited exemptions. Similarly, planning and housing reforms recently announced by Western Australia under the National Competition Policy framework are reforms that Tasmania has already implemented. These examples support Tasmania's position that reform activity continues to be driven primarily by policy circumstances and national reform agendas rather than GST distribution outcomes.

While the Commission found little evidence that HFE influences reform activity, it identified a different and potentially more tangible risk arising from persistent differences in fiscal capacity. As the Commission found in its interim report:

States with persistently higher fiscal capacity are structurally advantaged to provide higher quality public services to its residents, which could both produce inefficient labour mobility and undermine public support for the system.²¹

This observation aligns with Tasmania's concerns regarding the long-term consequences of the 2018 reforms. As highlighted in Tasmania's initial submission, Western Australia recorded the strongest growth in both employment and population of any state between 2021-22 to 2024-25.¹⁸ Combined with persistently high labour force participation, these outcomes point to a strong and resilient labour market. While many factors influence migration decisions, sustained differences in fiscal capacity give one jurisdiction a greater capacity to invest in infrastructure, public services and amenity, potentially reinforcing existing economic advantages over time.

¹⁸ Tasmanian Government, Initial submission to the Productivity Commission Inquiry into GST distribution reforms, February 2026.

¹⁹ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.5.

²⁰ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.45.

²¹ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.68.

Importantly, this concern is fundamentally different from the argument that HFE discourages reform. The purpose of HFE is not to reward economic activity, stimulate investment in particular jurisdictions or create superior fiscal conditions in individual states. Its purpose is to ensure that all Australians can access broadly comparable public services regardless of where they live, provided states make similar revenue-raising and expenditure efforts.

Tasmania, therefore, welcomes the Commission's clarification in the interim report that HFE is not designed to incentivise or discourage productivity-enhancing reforms. The stronger policy concern identified by the Commission is not the existence of HFE itself, but the potential for persistent differences in fiscal capacity to create divergent outcomes between states. This reinforces Tasmania's broader position that GST distribution arrangements should focus on equalising fiscal capacity, while any additional support provided to individual jurisdictions should occur transparently outside the GST system.

Role of the Commonwealth Grants Commission

Tasmania's initial submission focussed primarily on the operation and outcomes of the 2018 reforms rather than the institutional arrangements that underpin the system. Nevertheless, Tasmania recognises the fundamental role of the CGC in Australia's HFE framework, and has long supported its integrity, independence and consultative approach.

In the interim report, the Commission acknowledges the importance of the CGC's institutional design, noting that it is an independent statutory authority, operating under its own legislation and led by appointed Commissioners.

These features support the CGC to undertake its functions at arm's length from governments and reduces the risk – or any perception – that its recommendations are influenced by political considerations.²²

Tasmania strongly agrees with this assessment.

The importance of maintaining an independent body to advise on interstate financial distribution has been recognised for almost a century. The CGC was established in 1933 to provide impartial advice to the Australian Government on the equitable distribution of financial assistance to states and territories, and remove the need for prolonged intergovernmental negotiations and political bargaining over fiscal transfers.

The CGC has supported this objective through the use of nationally consistent data, robust analytical processes and extensive consultation with jurisdictions. Although its methodology has evolved over time to reflect changes in state activities and circumstances, economic structures and service delivery demands, it has remained firmly anchored to the overarching objective of HFE. Supporting principles guide the CGC's assessments, but these remain subordinate considerations to the primary goal of equalising the fiscal capacity of states and territories.

Tasmania acknowledges that some degree of tension is inevitable in any system that distributes tens of billions of dollars annually between jurisdictions with differing fiscal

²² Productivity Commission, GST distribution reforms: Interim report, August 2026, p.90.

circumstances and interests. However, the CGC's integrity and independence underpin the credibility of Australia's GST distribution system. They provide confidence that distribution outcomes are based on objective assessments, at arm's length from governments.

As such, Tasmania agrees with Interim Finding 5.1 that the CGC possesses the institutional structure, processes and capabilities necessary to perform its role effectively. The CGC's independence, technical expertise and consultative process have enabled the GST distribution framework to maintain broad acceptance across jurisdictions over an extended period, notwithstanding ongoing debate regarding individual assessment outcomes.

Against this backdrop, Tasmania is concerned that in Option 1, the Commission appears to compromise the role and independence of the CGC. In light of Interim Finding 5.1, it is unclear why the interim report recommends a specific direction by the Australian Treasurer to address dominant state issues. Tasmania's concerns with this proposal are discussed further in the section addressing Option 1.

Under current arrangements, the Australian Treasurer already has the ability to issue Terms of Reference for the CGC's annual updates and methodology reviews. This mechanism provides an established process for the Australian Government to request examination of specific issues, while preserving the Commission's independent role in determining the most appropriate analysis and treatment. Given these existing powers, Tasmania sees little justification for, and does not support, the Commission seeking a more prescriptive direction from the Australian Treasurer.

Tasmania is concerned that such an approach risks creating a perception that the CGC's work program is subject to political direction. While the intention may simply be to ensure consideration of dominant state issues, the broader consequence could be to weaken confidence in the CGC's independence and, in turn, diminish trust in the integrity of the HFE system itself. The long-term strength of Australia's equalisation arrangements has rested on their administration by an independent expert body operating at arm's length from governments. Given the Commission's findings on the 2018 reforms,²³ as noted above, Tasmania would suggest that any future reforms to the GST system should seek to reinforce, rather than dilute this principle.

Overriding the CGC's methodology with a permanent direction to a potentially temporary issue also reduces the responsiveness of the GST system, much like the 2018 GST floor. For these reasons, Tasmania considers that any future reforms should continue to preserve the CGC's independence, analytical discretion and consultative processes. Maintaining confidence in the institution responsible for administering HFE is critical to maintaining confidence in the system itself.

²³ The Commission's interim report found that the CGC "has the institutional structure, processes and capabilities necessary to perform its role effectively" (Interim Finding 5.1), while also finding that the 2018 reforms have created a "two-tiered GST distribution system", are "not operating efficiently, effectively or as intended", and that the GST pool boost has "contributed to a divergence in fiscal capacities between the states and failed to meet its intent" (Interim Findings 2.1, 2.2 and 3.1).

Dominant State effect

Tasmania continues to strongly support the CGC as being best placed to independently review the effects of dominant state revenue streams on its methodology. However, the Commission's interim report places significant emphasis on the issue of dominant state effects, particularly in the assessment of mining royalties. The Commission describes the dominant state effect as follows:

It [dominant state effect] arises where a state's share of an assessed revenue base is much larger than its population share, so its policy can strongly influence the average policy used in the assessment and produce large changes to GST payments.²⁴

In recent years, the dominant state effect has been most closely associated with Western Australia's iron ore industry, reflecting the scale and concentration of iron ore production within that jurisdiction. Tasmania acknowledges that dominant state effects present a methodological challenge. However, these effects are neither new nor evidence that the HFE framework is fundamentally flawed. Rather, they reflect the inherent tension between the objective of full fiscal equalisation and the supporting principle of policy neutrality when a single state dominates a particular revenue base.

Importantly, a state's dominance in a revenue stream does not alter the fiscal capacity that revenue confers. The purpose of HFE is to equalise fiscal capacity, not to compensate states for the size of their industries or their contribution to national economic activity. While dominant state effects may create assessment complexities, they do not diminish the revenue generated and retained by the dominant state. Indeed, recognising those fiscal advantages is central to the operation of HFE.

This principle remains relevant following the 2018 reforms. Tasmania, along with several other jurisdictions, argued during the 2017 PC Inquiry that Western Australia's GST outcomes reflected growth in its mining revenue capacity and did not justify departures from full equalisation.²⁵ However, the standard state benchmark and GST relativity floor introduced through the 2018 reforms provided special treatment to Western Australia rather than its assessed fiscal capacity alone. The Commission itself noted that a relativity floor would blunt the equalisation task and introduce greater incentives for policy effort for the beneficiary state(s) – Western Australia for the foreseeable future.²⁶

Chart 6 shows the CGC's assessed own-source revenue for 2024-25 by state. Western Australia remains a clear outlier, with assessed own-source revenue of \$10 694 per capita, compared with an average of \$6 466 per capita across all other states. This disparity helps to explain why the CGC has consistently concluded that achieving HFE should take precedence over other supporting principles, including

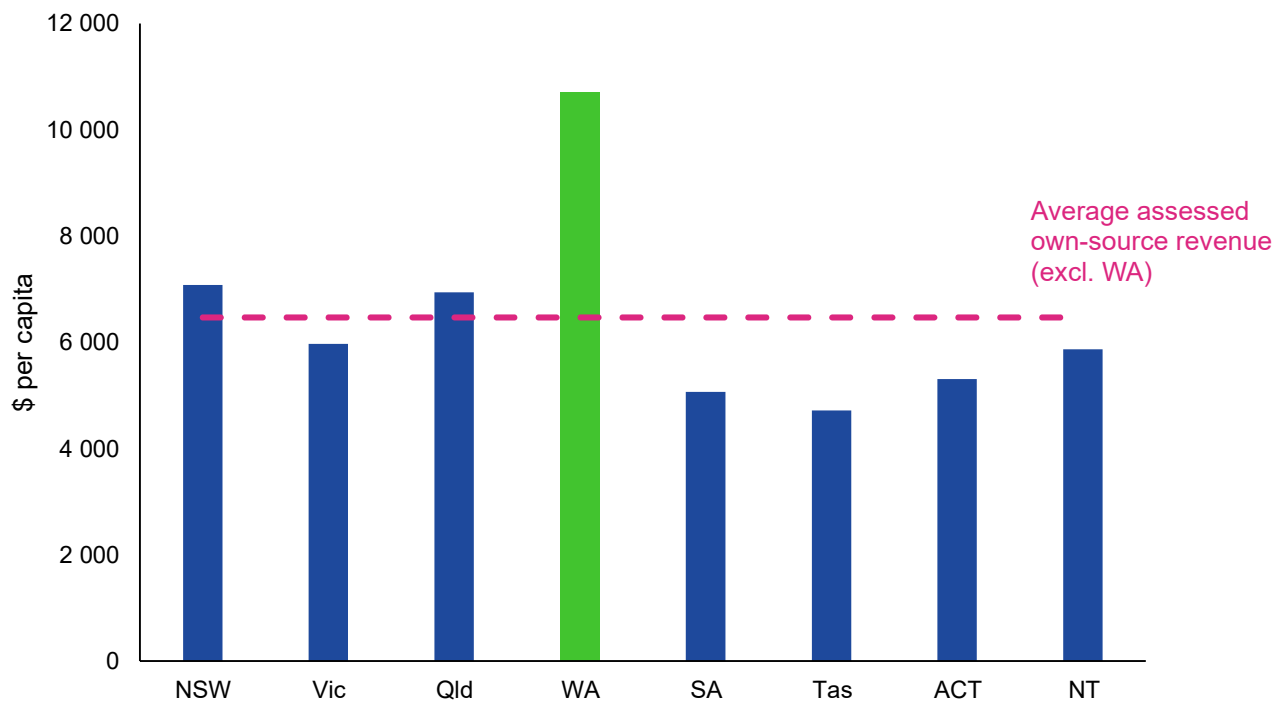
²⁴ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.48.

²⁵ In their submissions to the 2017 PC Inquiry, Tasmania, Victoria, South Australia, the Northern Territory and the Australian Capital Territory all argued that Western Australia's GST outcomes reflected growth in its own-source mining revenue and did not justify a departure from full fiscal equalisation.

²⁶ Productivity Commission, Inquiry Report - Horizontal Fiscal Equalisation, May 2018.

policy neutrality. While the concentration of iron ore royalties may create assessment challenges, they do not alter the underlying fact that Western Australia retains a substantially stronger revenue-raising capacity than other jurisdictions.

Chart 6: States' assessed own-source revenue, 2024-25



Source: Commonwealth Grants Commission 2024 Update.

The treatment of mining revenue has been examined extensively by the CGC for more than a decade. Through its 2015 Methodology Review, the CGC adopted a mineral-by mineral approach specifically because it considered that methodology best measured differences in states' mining revenue capacities. In doing so, the CGC explicitly reaffirmed the precedence of its primary objective, concluding:

Our objective is to achieve HFE and primacy should be given to achieving that objective. The supporting principles - what States do, policy neutrality, practicality and contemporaneity, while important, should be subsidiary to this objective. Therefore, in relation to the mining assessment, we have decided the approach that best achieves HFE is to separately assess minerals where it is material to do so.²⁷

The CGC recognised that this approach inevitably increased the prominence of dominant state effects in some mineral categories, but in its 2025 Methodology Review, considered the resulting improvement in the accuracy of fiscal equalisation assessments to outweigh those concerns.

²⁷ Commonwealth Grants Commission, 2015 Methodology Review: Final Report, April 2015.

If policy neutrality is not an issue, a mineral-by-mineral assessment accurately captures differences in states' mining revenue capacities. If policy neutrality is the sole issue, grouping minerals together addresses policy neutrality, but at a cost of producing an assessment that does not reflect the underlying differences in states' capacities.²⁸

The lack of consensus around an alternative approach is reflected in both the CGC's reviews and the submissions made by jurisdictions. Western Australia has itself previously acknowledged that amalgamation of mining revenues at a fixed royalty rate, discounting mining revenue assessments, and partial or full revenue aggregation are “by themselves unlikely to address outlier circumstances”.²⁹

Similarly, New South Wales, Victoria, South Australia and Tasmania raised concerns regarding the judgement-based decisions required to address dominant state effects, particularly in the absence of a clear, evidence-based threshold for determining when a state, or royalty stream, should be considered dominant.³⁰ Tasmania has consistently maintained that any definition of a dominant state would require the adoption of contestable thresholds that are inherently sensitive to changing market conditions. As commodity prices, production volumes and relative state shares change over time, states or individual minerals could move across those thresholds, resulting in unstable and potentially inconsistent assessment outcomes. Similar concerns arise under a discounting approach, which would require the selection of a discount rate that is not derived from underlying fiscal capacity, and would therefore involve a further discretionary policy judgement.

Consistent with their concerns regarding dominant state thresholds, New South Wales, Victoria, South Australia and Tasmania also expressed concerns with profitability-based approaches, noting that they do not reflect ‘what states do’, are likely to increase volatility in the mining assessment, rely on data that are not currently available, and would introduce significant additional complexity into the methodology.³⁰

The Commission reached a similar conclusion in the interim report, recognising the trade-off between reducing dominant state effects and accurately measuring mining revenue capacities. It noted that grouping iron ore with coal reduced Western Australia's influence on the assessed average royalty rate compared with a separate iron ore assessment, but only by reducing the direct connection between the assessment and underlying revenue capacity.³¹ The Commission also referenced the difficulties arising from Western Australia's 2011 iron ore royalty changes, which ultimately prompted temporary intervention through the Australian Treasurer's Terms of Reference. Together, these findings highlight the persistent challenge in

²⁸ Commonwealth Grants Commission, 2025 Methodology Review: Review Outcomes, March 2025.

²⁹ Government of Western Australia, Western Australia's Submission to the Commonwealth Grants Commission's 2025 Methodology Review, September 2024.

³⁰ NSW Government, 2025 GST Methodology Review: Tranche 1 Consultation, October 2023; Victorian Government, Victorian response to CGC 2025 Review consultation: Tranche 1 assessment papers, October 2023; Government of South Australia, 2025 Review Consultation Papers Tranche 1: South Australia Treasury Submission, October 2023; Tasmanian Government, 2025 Methodology Review: Tranche 1 Consultation Papers, October 2023.

³¹ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.50.

addressing dominant state effects without introducing new judgement-based thresholds, increasing complexity, or reducing the accuracy of fiscal equalisation.

Most importantly, the CGC reviewed the mining assessment in its 2025 Methodology Review and concluded, following extensive consultation and analysis, once again, that its mineral-by mineral approach remained the most appropriate method for measuring states' mining revenue capacities. While acknowledging the continuing tension between fiscal equalisation and policy neutrality, it found no alternative approach better achieved the objective of HFE.³²

The significance of these findings should not be understated. Across multiple methodology reviews spanning more than a decade, the CGC has repeatedly examined dominant state effects and the treatment of mining revenues. On each occasion, it has concluded that, notwithstanding the trade-off with policy neutrality, a mineral-by-mineral assessment remains the approach most consistent with achieving HFE.

During the September 2026 public hearings, the Commission indicated that its proposed direction is intended to place greater weight on policy neutrality relative to HFE in the mining assessment. However, Tasmania notes that the case for doing so remains largely theoretical.

Tasmania notes that the CGC's policy neutrality principle is intended to ensure that the GST system neither incentivises nor disincentivises particular state policy choices. However, while both the Commission and CGC have acknowledged a theoretical risk that dominant state status could influence royalty policy decisions, successive reviews have struggled to find actual evidence that it does so in practice.

As Tasmania noted in its initial submission, there is no clear evidence that state royalty decisions have been influenced by HFE outcomes. The Commission itself acknowledged in its interim report that a dominant state effect on GST distributions does not mean it determines royalty policy. Recent experience supports that conclusion. Queensland introduced a new progressive coal royalty regime despite GST consequences, while Western Australia has not altered its royalty settings despite the protections provided by the 2018 reforms. These examples suggest that royalty decisions are generally driven by broader economic, fiscal and community considerations rather than GST outcomes.

In the absence of evidence that dominant state effects materially influence state policy decisions, Tasmania does not consider a direction to the CGC to rebalance its guiding principles and overarching objective of HFE to be justified.

For Tasmania, the key point is that dominant state effects continue to be actively considered by an independent expert body. Their existence should not be used to justify either broader departures from full HFE, as occurred through the 2018 reforms, or a direction compelling the CGC to revisit, or amend its methodology, on an issue it has repeatedly examined. Such a direction risks being perceived as an attempt to influence distributional outcomes rather than improve

³² Commonwealth Grants Commission, 2025 Methodology Review: Review Outcomes, March 2025.

methodology, potentially undermining confidence in the integrity and independence of the CGC itself.

Importantly, Interim Finding 3.2 concludes that the GST distribution system is broadly policy neutral and that dominant state issues are best managed through targeted responses.³³ While the Commission acknowledges that dominant state effects can create uneven and uncertain GST consequences for some mining decisions, it also places less weight than the 2017 PC Inquiry on the effect of policy changes on GST payments as a rationale for system-wide reform. These findings support continued consideration of dominant state effects through the CGC's established review processes, rather than through directed intervention.

Tasmania has previously argued that the dominance of a particular revenue stream does not justify abandoning full HFE. Any recognition of extraordinary revenue or broader national economic benefits should occur transparently outside the GST system. Consistent with this position, in the interim report, the Commission notes that if the Australian Government wishes to provide additional support to a state beyond that required for HFE, this could be delivered more transparently through payments outside the GST distribution system. The Commission also notes substantial precedent for the Australian Government to support activities that generate national benefits or fiscal overlaps through mechanisms such as National Competition Policy.

Given the CGC's repeated consideration of dominant state effects, and the Commission's own findings regarding the value of independent and evidence-based decision making, Tasmania does not support Option 1's proposal that the Australian Treasurer direct the CGC to resolve the dominant state effect in its methodology.³⁴

The CGC's established review process allows competing policy objectives to be assessed through evidence, analysis and consultation. Having concluded in Interim Finding 5.1 that the CGC possesses the structure, procedures and capabilities necessary to perform its role effectively, the proposed direction sits uneasily with the Commission's broader endorsement of independent, arms-length decision making.

Tasmania acknowledges that dominant state effects are a genuine methodological challenge. However, they do not justify weakening full HFE or directing the independent umpire toward a preferred outcome. Rather, their existence reinforces the importance of maintaining an independent CGC with the expertise, analytical capability and institutional legitimacy to continue resolving such issues through evidence-based review and consultation.

³³ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.51.

³⁴ Productivity Commissioner Angela Jackson stated that "the system should be able to operate and there should be a solution within the GST pool itself" and that "that probably is first best to have the Commonwealth Grants Commission again as the independent umpire": interview on The Prodcast, How should Australia's GST be shared? | Interim report (Productivity Commission, 27 August 2026).

Governance arrangements

Interim Recommendation 5.1 proposes that the Australian Government should monitor whether Australia's fiscal arrangements, including HFE, are contributing to increasingly divergent fiscal outcomes between jurisdictions.³⁵ Given the Commission's findings that the impacts of the 2018 reforms have differentially impacted Western Australia and all other states, and the potential for outcomes to diverge further over time, Tasmania sees merit in this recommendation. Crucially, the growing divergence between Western Australia and the fiscal capacity of all other states is the primary reason Tasmania does not support Option 3. Any arrangement that continues the 0.75 floor will continue to divide the Federation, even if the no-worse-off guarantee is maintained in perpetuity.

However, the design of any monitoring framework warrants careful consideration. Monitoring alone will not address the underlying causes of fiscal divergence, or correct them. Tasmania considers that any such assessment should be undertaken by an independent body, such as the CGC, with findings reported transparently to governments. In Tasmania's view, the purpose of monitoring should be to identify persistent divergences in fiscal capacity, service delivery demand and state balance sheet strength, and to inform policy responses where existing arrangements are contributing or entrenching them.

Tasmania broadly supports Interim Recommendation 5.2, which seeks to improve transparency and accountability around the quarantining of Commonwealth payments.³⁶ However, Tasmania questions whether additional formal reporting requirements are necessary. Quarantining decisions remain relatively uncommon, reflecting the long-standing principle that quarantined payments confer a fiscal benefit beyond that provided through HFE. The Commission's own analysis indicates that payments quarantined through Treasurer discretion typically represented between two and seven per cent of total Commonwealth transfers, or around \$7 billion in 2024-25.³⁷ Importantly, decisions to quarantine payments are already communicated through the Treasurer's Terms of Reference and the CGC's established consultation and review processes. As such, Tasmania considers that existing arrangements already provide a high degree of transparency. Additional reporting obligations risk increasing administrative processes without materially improving accountability or decision-making.

Tasmania supports the Commission's observations regarding tied Commonwealth payments, including those outlined Interim Recommendation 5.3,³⁸ and the objective of improving the effectiveness of intergovernmental funding arrangements.

Tasmania does not support substantive renegotiation of the Intergovernmental Agreement on Federal Financial Relations (IGA-FFR), which remains a sound and contemporary framework. In its current form, the IGA-FFR gives states greater flexibility and reduces unnecessary Australian Government prescription in areas of state responsibility. It also explicitly provides that National Agreements should avoid

³⁵ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.94.

³⁶ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.97.

³⁷ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.95.

³⁸ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.99.

unnecessary financial or other input controls and should not prescribe delivery mechanisms. As such, Tasmania strongly supports greater adherence to the IGA-FFR. However, Tasmania supports Recommendation 5.4 only to the extent that it updates outdated references and administrative elements of the IGA-FFR, rather than reopening its core principles and architecture.

Tasmania also supports efforts to restore a substantive role for the CFFR as the appropriate forum for genuine collective decision-making between the Australian Government and the states on financial and economic matters. Effective governance arrangements, however, ultimately depend on clear and consistent adherence to the agreed principles underpinning them. For Tasmania, those principles remain equality of fiscal opportunity, state autonomy in service delivery and the independent assessment of fiscal capacity. These principles underpin Tasmania's support for a return to full HFE, the continued independence of the CGC and any recognition of unique state-specific circumstances occurring transparently outside the GST system.

Proposed alternative options

The Commission's interim report proposed three principal options.

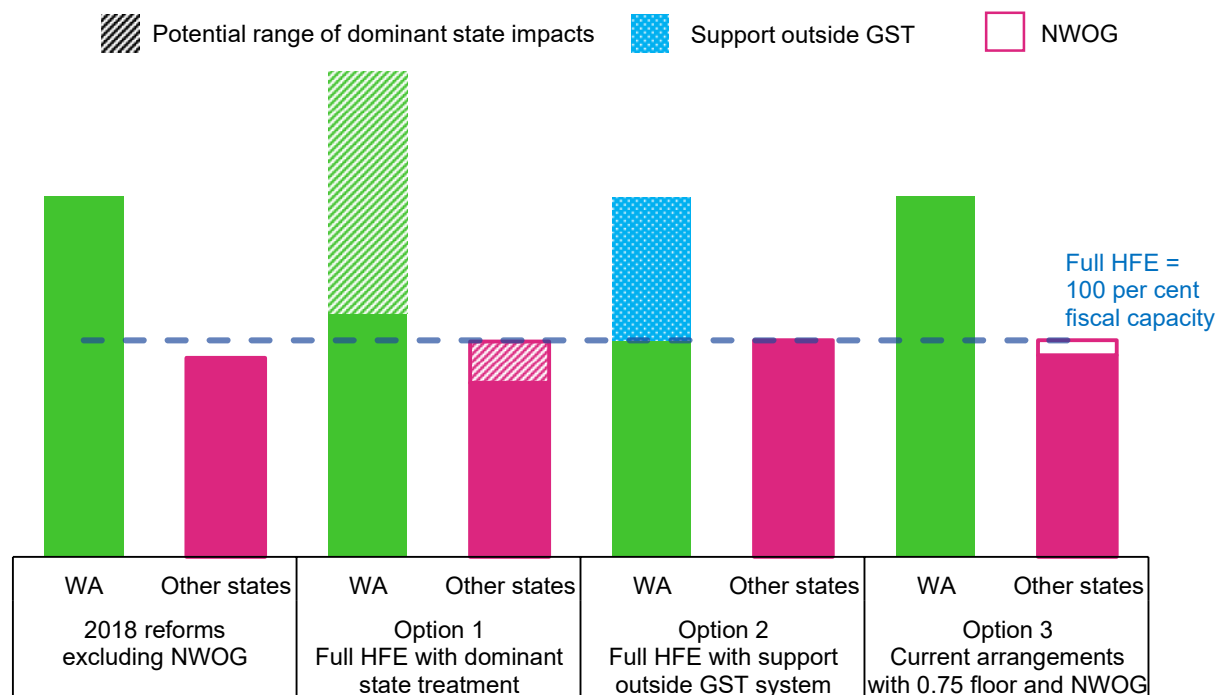
The Commission's preference is to return to the pre-2018 full HFE system with the Australian Treasurer directing the CGC to address dominant state effects (Option 1).³⁹

If the Australian Government does not pursue Option 1, the Commission recommends a return to a pre-2018 full HFE system with direct Australian Government payments to states it considers are affected by dominant state issues (Option 2).³⁹

However, if the Australian Government does not wish to pursue either Option 1 or 2, the Commission proposes 'minimum changes' to the 2018 reforms, which include removing the standard state benchmark and pool boost, and making the no-worse-off guarantee a permanent fixture (Option 3).³⁹

Tasmania strongly supports Option 2, consistent with the position advanced in its initial submission. Option 2 is the only approach that fully restores HFE, preserves the CGC's independence and separates any additional support for a state from the equalisation task of the GST system. The following sections explain why Option 2 is more principled, equitable and sustainable than Options 1 and 3.

Chart 7: Conceptual example - States' fiscal capacity under interim report options



Source: Department of Treasury and Finance calculations.

The Commission also considered, but rejected, equal per capita and other fixed-share arrangements. Although administratively simpler, these approaches would weaken equalisation and impose an even greater cost on equity than the

³⁹ Productivity Commission, GST distribution reforms: Interim report, August 2026, pp.86-7.

2018 reforms.⁴⁰ Tasmania supports that conclusion for the reasons set out in the State's initial submission.⁴¹

Option 1 – not supported

Option 1 is the Commission's preferred option: a return to the pre-2018 full HFE system, with a direction from the Australian Treasurer for the CGC to address dominant state effects.⁴²

Tasmania strongly supports the return to full HFE but does not support making that return conditional on a direction from the Australian Treasurers to the CGC on the treatment of dominant state effects. As set out in the Key Issues section and Tasmania's initial submission,⁴¹ the CGC's established review processes are the appropriate forum for weighing competing policy objectives through evidence, analysis and consultation, rather than ministerial direction.

The CGC is specifically constituted to assess competing jurisdictional claims. While states will legitimately advocate for outcomes that advance their own interests, the CGC's role as the independent arbiter is to test those claims against an established framework in which achieving HFE is the primary objective. As evidenced through the Commission's public hearings, jurisdictions can, and do, hold differing views on the appropriate design and operation of the GST distribution system. These differing perspectives underscore the importance of retaining the CGC as the independent body to assess competing claims on the basis of evidence, analysis and established methodology, rather than through intergovernmental negotiation or ministerial direction.

A direction from the Australian Treasurer would, therefore, risk undermining the CGC's integrity, independence and consultative approach, notwithstanding the Commission's finding in Interim Finding 5.1 that these features are central to the CGC's effectiveness and the legitimacy of the GST distribution system.⁴³ Accordingly, a proposal to direct the CGC toward resolution of a particular assessment issue sits uneasily with that finding.

The direction also appears unnecessary. The CGC has examined dominant state effects and mining revenue methodology through successive reviews in 2015, 2020 and 2025.⁴⁴ Most recently, the CGC concluded in its 2025 Methodology Review that:

*The mineral-by-mineral approach will be retained as the preferred method of assessing states' mining revenue capacity.*⁴⁵

⁴⁰ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.82.

⁴¹ Tasmanian Government, Initial submission to the Productivity Commission Inquiry into GST distribution reforms, February 2026.

⁴² Productivity Commission, GST distribution reforms: Interim report, August 2026, p.5.

⁴³ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.92.

⁴⁴ Commonwealth Grants Commission, Report on GST Revenue Sharing Relativities, 2015 Review: Volume 2 – Assessment of State Fiscal Capacities, April 2015; Commonwealth Grants Commission, Report on GST Revenue Sharing Relativities, 2020 Review: Volume 2 – Methodology for measuring state fiscal capacities (Part B), March 2020; Commonwealth Grants Commission, 2025 Methodology Review: Review Outcomes, March 2025.

⁴⁵ Commonwealth Grants Commission, 2025 Methodology Review: Review Outcomes, March 2025.

In line with its existing process of constant improvement, the CGC is continuing to examine dominant state effects through its Forward Work Program.⁴⁶ A further direction would add little to that work, and risks prejudging its scope or outcome.

That risk is not hypothetical. There is direct precedent for Australian Treasurer-issued Terms of Reference that constrain the CGC's methodological work. The CGC began considering options to address dominant state effects during its 2020 Methodology Review, informed by the final report of the 2017 PC Inquiry.⁴⁷ Before that work could be completed, however, the then Australian Treasurer issued Supplementary Terms of Reference in October 2019 directing the CGC to make no changes to the mining assessment.⁴⁸ This precedent demonstrates that a direction can constrain, rather than strengthen, the CGC's analytical and consultative role.

Option 1 also creates a substantive risk that the CGC would be expected to modify one assessment to produce a preferred distributional outcome, rather than determine the methodology that best measures fiscal capacity. As previously stated, during public hearings, the Commission suggested that the proposed direction is intended to encourage the CGC to balance HFE and policy neutrality differently in the mining assessment. However, as identified earlier in this submission, given the lack of tangible evidence that the current mining assessment influences policy decisions, Tasmania does not agree that such a direction, or rebalance, is warranted.

Tasmania notes that the CGC regularly reviews its objectives and the competing primary and supporting principles in consultation with states. It has repeatedly concluded that its primary objective remains fiscal equalisation. As set out in the Key Issues section, Tasmania strongly supports that the principle of HFE should not be compromised in order to deliver a particular outcome, including to address dominant state effects. The CGC has consistently reached that conclusion across successive methodology reviews.⁴⁹

Tasmania's position, as stated in its initial submission, is that the GST system exists to equalise fiscal capacity across states. Supporting principles are important, but they are intended to support the achievement of HFE, not to displace or dilute it. Tasmania notes that concepts such as "reasonable equalisation" are inherently contestable, with different jurisdictions likely to reach different conclusions depending on their circumstances and interests. By contrast, the objective of HFE provides a clearer and more enduring basis for assessing GST relativities, anchored in the measurement of fiscal capacity rather than subjective judgements about the desired distributional outcome.

Where the objective of HFE conflicts with a supporting principle, such as policy neutrality, the objective of HFE must prevail. For example, approaches that discount or partially disregard a revenue source may reduce dominant state effects, but only by recognising less of the fiscal capacity generated by that revenue source. The resulting reduction in equalisation is the trade-off inherent in addressing

⁴⁶ Commonwealth Grants Commission, Issues Paper: Dominant state issues in the mining assessment (not publicly available), December 2025.

⁴⁷ Commonwealth Grants Commission, Improving the Policy Neutrality of the Mining Revenue Assessment, November 2018.

⁴⁸ Australian Government, Supplementary Terms of Reference for the 2020 Methodology Review, October 2019.

⁴⁹ Commonwealth Grants Commission, Report on GST Revenue Sharing Relativities, 2015 Review: Volume 2 – Assessment of State Fiscal Capacities, April 2015; Commonwealth Grants Commission, Report on GST Revenue Sharing Relativities, 2020 Review: Volume 2 – Methodology for measuring state fiscal capacities (Part B), March 2020; Commonwealth Grants Commission, 2025 Methodology Review: Review Outcomes, March 2025.

dominant state effects through the assessment methodology. A dominant state may create policy neutrality concerns, particularly in the case of iron ore. However, those concerns do not extinguish the associated substantial fiscal capacity generated by the relevant revenue base. Increasing a fiscally stronger state's GST share by disregarding that capacity would respond to policy neutrality concerns by weakening the very equalisation the GST distribution system is intended to achieve.

The Commission identified several possible approaches to dominant state effects that it intends to consider further before its final report.⁵⁰ However, jurisdictions may not have an opportunity to respond to the specific methodology ultimately recommended before the Commission finalises its report. By contrast, the CGC's established processes ordinarily enable states to examine and respond to specific methodological proposals before implementation. This procedural safeguard is particularly important where a change could materially redistribute GST revenue and alter the balance between HFE and supporting principles. It is a further reason why detailed mining assessment design should remain with the CGC.

Without accepting that the Commission should prescribe detailed assessment methodology, Tasmania notes that many of the options identified in the interim report have already been examined through previous CGC and Commission review processes. Tasmania agrees with the CGC that its current methodology remains the most effective way to assess mining revenue, including for dominant states.

Concerns with more commonly proposed alternatives include that:

- discounting revenues in the mining assessment would, by definition, understate states' fiscal capacity and weaken HFE;
- aggregation approaches do not reflect 'what states do', similarly reduce HFE and may place too much emphasis on policy neutrality;
- other approaches considered by the Commission in its interim report, such as profitability-based methods, also risk moving away from 'what states do', because royalty revenue is largely driven by production value; and
- while unlikely to be pursued, removing the mining assessment altogether would represent a significant departure from the egalitarian principles of HFE.

Further observations on these approaches identified in the interim report are shown in Appendix B.

No-worse-off guarantee

If the Australian Government nevertheless pursues Option 1, a permanent no-worse-off guarantee would be essential. Although Option 1 would formally restore full HFE, and thereby a unified Federation, a directed change to the mining assessment could produce substantial departures from equalisation within the methodology itself. The modelling included in Appendix B shows that some approaches could impose losses on individual jurisdictions comparable with, or greater than, those caused by the 2018 reforms. This risk is material, given the Commission's finding that the existing arrangements are fiscally unsustainable.⁵¹

Accordingly, Tasmania considers that any implementation of Option 1 must include a legislated and permanent guarantee to ensure no state receives less than its distribution under an undirected full HFE assessment. The guarantee should protect

⁵⁰ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.78.

⁵¹ Productivity Commission, GST distribution reforms: Interim report, August 2026, pp.67-8.

the full HFE benchmark, not merely preserve an outcome against a transitional or selectively modified methodology.

Option 2 – fully supported

Tasmania fully supports Option 2: a return to the pre-2018 full HFE system, with the Australian Government making direct payments to any state it considers affected by dominant state issues.⁵²

Option 2 addresses the central defects identified in the interim report. It removes the relativity floor, GST pool boost and the need for a no-worse-off guarantee. It restores the single, responsive system of full HFE and leaves the CGC to assess state fiscal capacity independently. It also restores arrangements that, as Tasmania has consistently argued, were never shown to be fundamentally deficient.⁵³ In Tasmania's view, this is the outcome overwhelmingly supported by the Commission's own evidence.

As the Commission states in its interim report, the primary role of the GST distribution system is to achieve HFE:

The Productivity Commission views the primary role of the GST distribution system to be driving horizontal fiscal equalisation between states. The primacy of the fiscal equalisation task for the GST distribution system was generally supported by states submissions to the inquiry, and is consistent with both the governing legislation of the Commonwealth Grants Commission and the Intergovernmental Agreement on Federal Financial Relations agreed between all jurisdictions when the GST was introduced.⁵⁴

This is not merely policy preference. It reflects the statutory role of the CGC, and the intergovernmental framework agreed when the GST was introduced. Option 2 gives practical effect to that established purpose without qualifying equalisation to accommodate a preferred outcome for one state.

Of the three proposed alternatives, Option 2 most completely restores the responsiveness, coherence and integrity of the GST distribution system. It addresses the causes of the problems identified in the interim report rather than embedding compensating mechanisms within either the distribution formula or the CGC's methodology. Removing the blunt and untargeted relativity floor would allow GST relativities to again respond to changes in states' assessed fiscal capacities. It would end the structural divergence created by raising a fiscally stronger state above its assessed need while other states are reduced below full HFE. Removing the GST pool boost and no-worse-off guarantee would also end the Australian Government's enduring budget exposure created by the 2018 reforms. As noted in Tasmania's initial submission, this would strengthen the Australian Government's fiscal position, potentially increasing its capacity to fund other federal financial relations priorities.⁵³ Importantly, Option 2 separates two distinct policy questions – the equalisation of state fiscal capacity, and any Australian Government recognition of wider national economic benefits or policy response to dominant state effects. The former belongs

⁵² Productivity Commission, GST distribution reforms: Interim report, August 2026, p.5.

⁵³ Tasmanian Government, Initial submission to the Productivity Commission Inquiry into GST distribution reforms, February 2026.

⁵⁴ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.39.

within the GST distribution system; the latter should be considered transparently outside it.

The purpose of the GST system is to give every state a comparable capacity to deliver services and infrastructure, not to reward revenue generation or economic contribution. Option 2 preserves this definition by allowing other policy objectives to be pursued outside the GST distribution system. If the Australian Government considers that a state generates material national benefits warranting additional recognition or reward, any such support should be negotiated directly with the state(s) concerned, funded at the Australian Government's expense and separately identified. This would make the policy rationale, amount and duration of the assistance transparent, while allowing support to be recalibrated as circumstances change.

There is established precedent for addressing policy objectives and spillovers through Australian Government payments outside the GST pool. National agreements and Federal Funding Agreement schedules allow the Australian Government to support agreed activities without altering the measurement of state fiscal capacity.

Critically, Option 2 leaves the CGC to determine relativities on the basis of evidence through its established review, consultation and forward work processes. Tasmania does not suggest that this would necessarily preserve the CGC's current methodology or prevent further consideration of dominant state effects by the CGC. Rather, absent restriction through Terms of Reference, Option 2 ensures that any methodological change will be the result of independent analysis and consultation.

This approach is also consistent with Interim Finding 5.1, in which the Commission found that the CGC has the structures, procedures and capabilities necessary to perform its role effectively.⁵⁵ Option 2 is the only option that fully gives effect to that institutional finding.

Consistent with Tasmania's initial submission, full HFE remains the only approach that does not deliberately confer a comparative fiscal advantage on one state at the expense of others. It reflects the fundamental federal principle that Australians should have access to comparable state services regardless of where they live. There was never evidence that the GST system was failing. Option 2 restores it.

Option 3 – not supported

Tasmania does not support Option 3 because it preserves the fundamental flaw of the 2018 reforms – a dual federation in which one state continues to receive funding above its assessed fiscal need while all others remain dependent on an Australian Government funded no-worse-off guarantee.

The Commission has framed Option 3 as representing the minimum changes the Australian Government should make to the 2018 reforms if it does not pursue Options 1 or 2.⁵⁶ These include removing the standard state benchmark, removing the pool boost and the Australian Government permanently funding the no-worse-off guarantee.

⁵⁵ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.92.

⁵⁶ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.87.

This option satisfies the Terms of Reference requirement to include an arrangement retaining a relativity floor “comparable to the current level”.⁵⁷ While Tasmania regards a legislated, permanent no-worse-off guarantee funded by the Australian Government as essential under any arrangement retaining a relativity floor, Option 3 does not address the underlying problems created by the 2018 reforms. Instead, it mitigates their consequences while leaving the source of the distortion intact.

The Commission estimates that without the no-worse-off guarantee, the 2018 reforms provide Western Australia with funding in excess of its assessed need, while all other states are funded under their assessed need. In 2024-25, Western Australia received 113 per cent of its assessed fiscal need, at the expense of all other states, who received 98 per cent of their fiscal need.⁵⁸ Importantly, this outcome is primarily driven by the relativity floor itself, rather than the GST pool boost. The floor alters the distribution of GST away from assessed fiscal need, while the no-worse-off guarantee subsequently compensates other states for part of that loss.

While the Commission notes that the no-worse-off guarantee effectively restores all states other than Western Australia to around 100 per cent of their assessed need, it does not address the continuing advantage provided to Western Australia. The Commission estimates that funding every other state to the same relative position as Western Australia in 2024-25 would have required a further \$47 billion in Australian Government funding on top of the no-worse-off guarantee. That single-year impact illustrates the scale of the fiscal divergence embedded within the system.

Unless iron ore prices and volumes fall below their long-run average, Option 3 is expected to continue to deliver a similar fiscal advantage for Western Australia every year. The result is a continuing divergence in fiscal capacity, allowing Western Australia to maintain a greater capacity than other states to deliver services, invest in infrastructure and/or strengthen its balance sheet.

Option 3 also retains a significant and potentially growing fiscal commitment for the Australian Government. Even under current conditions, the no-worse-off guarantee is estimated to cost the Australian Government around \$6 billion per year. As Tasmania noted in its initial submission, funding of this magnitude may already be constraining the Australian Government’s capacity to make other Commonwealth payments to states.⁵⁹

Relativity Floor

The Commission concludes that a relativity floor is a blunt policy instrument that continues to affect GST outcomes even when the circumstances that allegedly justified its introduction do not exist. The Commission therefore considers that while a floor may improve efficiency in some very specific circumstances, it does so “unevenly and at the cost of equity”.⁶⁰

While the policy rationale for a floor in the GST distribution system is to protect against low GST outcomes, the current 0.75 floor is set at a level that does far more

⁵⁷ Australian Government, Terms of Reference for the Productivity Commission Inquiry into GST Distribution Reforms, September 2025.

⁵⁸ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.26.

⁵⁹ Tasmanian Government, Initial submission to the Productivity Commission Inquiry into GST distribution reforms, February 2026.

⁶⁰ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.72.

than provide protection against volatility. It systematically directs substantial additional GST revenue to the fiscally strongest state.

As Tasmania raised in its initial submission, the 0.75 floor was never supported by a clear analytical basis.⁶¹ Its practical effect has been to create a dual federation in which Western Australia is funded significantly above its assessed need while all other states remain below it (113 per cent compared with 98 per cent in 2024-25).

Consequently, even after removing the standard state benchmark and the GST pool boosts, Tasmania estimates that Western Australia would still receive around \$6.3 billion more than its assessed need in 2024-25 under a 0.75 floor. While the Commission has included a 0.75 floor in Option 3 to meet the Inquiry's Terms of Reference, it has indicated that it will continue to consider an appropriate level for a relativity floor.⁶²

The relative merits of different floor levels can be debated, but as Tasmania argued in its initial submission, any floor will be an arbitrary choice. More fundamentally, a floor remains a blunt and unresponsive mechanism regardless of where it is set, directing additional GST revenue to the strongest states at the expense of all other states (or the Australian Government under a no-worse-off guarantee). As such, Tasmania does not support retaining a relativity floor as a permanent feature of the GST distribution system.

No-worse-off guarantee

As the Commission notes, removing the standard state benchmark while retaining a 0.75 relativity floor would still:

*Have an enduring detrimental impact on the fiscal position of states other than Western Australia relative to the pre-2018 system.*⁶³

Without the no-worse-off guarantee, Tasmania would have been approximately \$150 million worse off in 2024-25 under Option 3. All else being equal, a funding reduction of this magnitude would have had a material impact on Tasmania's fiscal position and capacity to deliver services, and could have required either additional borrowing or expenditure restraint.

Given these potential impacts, Tasmania considers a legislated and permanent no-worse-off guarantee funded by the Australian Government essential under Option 3. While such a guarantee is necessary to protect states from the adverse consequences of the floor, it does not address the underlying source of the problem. It does not remove the two-tier level of federation created by the floor, restore equalisation, or eliminate the substantial and open-ended cost borne by the Australian Government. For this reason, Option 2 remains the only option supported by Tasmania. Unlike Option 3, it addresses the substantive issues caused by the 2018 reforms and allows any Australian Government support for individual states to occur transparently and responsively, outside the GST distribution system.

⁶¹ Tasmanian Government, Initial submission to the Productivity Commission Inquiry into GST distribution reforms, February 2026.

⁶² Productivity Commission, GST distribution reforms: Interim report, August 2026, p.67.

⁶³ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.6.

Conclusion

Tasmania's position remains unchanged following the interim report: only a return to the pre-2018 system of full HFE will deliver a sustainable and equitable distribution of GST. The Commission's own analysis demonstrates that the 2018 reforms have created a persistent divergence in fiscal outcomes, weakened the responsiveness of the GST system and imposed a substantial ongoing cost on the Australian Government.

Tasmania continues to support the independence of the CGC and its established processes for reviewing methodology through evidence, analysis and consultation. For this reason, Tasmania does not support Option 1. While Option 1 would restore full HFE, it would do so by directing the independent umpire on a particular assessment issue that it has repeatedly reviewed and continues to consider through its own work program.

Tasmania, therefore, considers that if the Australian Government wishes to recognise national economic benefits arising from the activities of particular jurisdictions, or provide additional support in response to dominant state concerns, this should occur transparently outside the GST distribution system under Option 2. This approach restores the GST distribution system to its intended purpose of achieving full HFE. Moreover, it preserves the independence of the CGC and ensures that any policy decision to provide additional support is funded by the Australian Government rather than through reduced GST shares for other states.

Option 2 also provides the clearest pathway for implementation. Australia could immediately revert to the pre-2018 full HFE system while the Australian Government and Western Australia negotiate any transitional support arrangement outside the GST system, potentially including support broadly commensurate with the benefits currently provided under the 2018 reforms through to 2029-30, if considered appropriate.

If alternative arrangements are pursued that materially alter states' GST distributions, appropriate transition arrangements would be required to enable states to manage fiscal impacts and accommodate budget planning requirements. At a minimum, Tasmania considers that any such arrangement should include a legislated, permanent no-worse-off guarantee to ensure that no state receives less than its entitlement under a pre-2018 full HFE system. However, such arrangements address the symptoms rather than the underlying cause. Option 2 remains the only option that restores full HFE, preserves the integrity and independence of the GST system and reunifies the Federation under a single equalisation framework.

Appendix A – Commission’s Interim Recommendations and Findings

Interim Recommendations	Tasmanian Government Position
4.1: Australia should return towards the pre-2018 system but the Australian Treasurer should direct the CGC to address dominant-state effects.	Does not support
4.2: If the Australian Government is not minded to pursue interim recommendation 4.1, Australia should return to a pre-2018 system and the Australian Government should make direct payments to states it considers are affected by dominant-state issues.	Supports in full
4.3: If the Australian Government does not pursue interim recommendations 4.1 or 4.2, it should make the minimum changes to address the critical issues in the current system.	Does not support
5.1: Monitoring the potential for the HFE system to contribute to diverging state outcomes.	Supports in-principle
5.2: There should be a more transparent approach for quarantining Commonwealth payments.	Supports in-principle Tasmania supports in-principle noting previous challenges with seeking to change the quarantining process.
5.3: Ensure Federation Funding Agreement schedules provide net benefits for the community.	Supports in full
5.4: Update the IGA-FFR, its schedules and the enabling legislation.	Partly Supports Tasmania supports updating/removing outdated references in the IGA-FFR but is not supportive of broader changes noting Tasmania considers stronger adherence to the IGA-FFR presents the most direct means to addressing the Commission’s concerns raised in the interim report.

5.5: Improving the functioning of CFFR.	Supports in full
5.6: Enhancing the GFS.	Supports in-principle Tasmania supports further enhancing the accuracy and utility of the GFS and considers its current processes effectively validate the GFS data provided to the ABS.
5.7: Improving governments' long-term fiscal sustainability reporting.	Supports in-principle Tasmania supports long-term fiscal sustainability reporting to inform judgement on the fiscal outlook of jurisdictions. However, Tasmania considers the Commission should not specifically direct states to make this a legislative requirement.

Interim Findings	Tasmanian Government Position
1.1: A lack of understanding of the HFE system has undermined the quality of public debate on the topic.	Supports in full
1.2: An unprecedentedly low relativity – arising from the impacts of the mining boom – strained the community acceptance of the HFE system in Western Australia and was a catalyst for the 2018 reforms.	Supports in full
2.1: The new fiscal equalisation standard creates perverse outcomes that invert the logic of HFE – it should not be an ongoing feature of the GST distribution system.	Supports in full
2.2: The 2018 reforms are not operating efficiently, effectively or as intended.	Supports in full
3.1: The GST pool boost has, so far, contributed to a divergence in fiscal capacities between the states and failed to meet its intent.	Supports in full
3.2: The GST distribution system was and is broadly policy neutral, with some exceptions that are best managed through targeted responses.	Partly Supports Tasmania supports the finding that the GST distribution system was and is broadly policy neutral. However, where there is an exception, Tasmania supports this being addressed through the CGC's independent processes.
4.1: The reduction in equalisation under the current system, with or without a permanent NoWO guarantee, has not markedly improved efficiency, fiscal sustainability or certainty.	Supports in full
4.2: Some alternatives perform better at lower cost to HFE than the 2018 reforms	Supports in-principle Tasmania broadly supports this interim finding in-principle noting the Commission appears to only have considered performance of alternatives at a national level.
5.1: The CGC has adopted an independent, consultative and transparent approach to its role, but should strive for continuous improvement.	Supports in full Noting alignment to the CGC's approach

Appendix B – Analysis of Options to address dominant state effects

Discounting

A discount applied uniformly across the mining assessment would reduce the proportion of state mining revenue recognised in the assessments of fiscal capacity.⁶⁴ It would therefore operate as a partial quarantine of mining revenue from equalisation.

Although superficially simple, discounting has not been adopted by the CGC in the mining assessment because it would knowingly understate fiscal capacity and requires the selection of an inherently arbitrary discount rate. The CGC has also specifically concluded that discounting is not an appropriate response to policy neutrality concerns:

Where a conceptual case for an assessment exists but there are some concerns with the data or method (or how well they measure the relevant drivers), a discounted assessment often results in a better measure of fiscal capacities than not making an assessment. This is not the case where an assessment method broadly captures fiscal capacities but involves policy neutrality concerns or general uncertainty. In the latter cases, applying a discount is likely to lead to an inferior assessment of fiscal capacities.⁶⁵

The distinction drawn by the CGC is fundamental. Discounting may be appropriate where measurement or data are materially incomplete, but not where an assessment broadly captures fiscal capacity and the concern instead relates to policy neutrality. Tasmania, therefore, does not support discounting mining revenue to address dominant state effects.

In the interim report, the Commission modelled mining assessment discounts of 10, 20 and 50 per cent and found that:

All three mining discount alternatives modelled produce a higher equalisation rate, but the equity gains fall as the discount rises.⁶⁶

Tasmania cautions against assessing equity solely through an aggregate equalisation rate calculated over a particular modelling period. Such a measure can obscure substantial losses for individual states and will change as commodity prices fluctuate and the geographical distribution of mining revenue changes. For example, if the \$12 billion scenario identified in the interim report eventuated, a 25 per cent discount could produce losses for individual states comparable with the 2018 reforms. As shown in Table B.1, the impact of a 25 per cent discount on Victoria, South Australia, Tasmania and the Australian Capital Territory is estimated to be similar to, or marginally worse than, the impact of the 2018 reforms.

⁶⁴ Productivity Commission, GST distribution reforms: interim report, August 2026, p.78.

⁶⁵ Commonwealth Grants Commission, 2025 Methodology Review: Commission's position on fiscal equalisation, supporting principles and assessment guidelines, June 2023.

⁶⁶ Productivity Commission, GST distribution reforms: interim report, August 2026, p.77.

Table B.1: Estimated impact of a 25 per cent discount to the mining assessment, 2024-25 (\$pc)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Full HFE	3 110	3 436	3 391	378	4 889	6 299	4 228	17 043
Impact of: 2018 reforms	(253)	(254)	(252)	2 368	(249)	(244)	(250)	(213)
25 per cent discount to mining assessment	(121)	(272)	134	954	(223)	(235)	(285)	(60)

Source: Australian Government's 2024-25 Final Budget Outcome, CGC's 2024 Update and Tasmanian Department of Treasury and Finance calculations.

Table B.1 also shows that a 25 per cent discount to the mining assessment would direct a significant estimated GST benefit of \$954 per capita, or around \$3 billion, to Western Australia, which is significantly above its assessed fiscal need. Queensland would also be estimated to receive funding above its assessed fiscal need. Those gains for Western Australia and Queensland would be funded by reductions to the GST shares of the remaining states. Victoria, South Australia, Tasmania and the Australian Capital Territory would each lose more than \$200 per capita in their GST allocations.

For Tasmania, a 25 per cent discount applied in 2024-25 would have reduced the State's GST revenue by approximately \$136 million. Absent an offsetting policy response, a reduction of this magnitude would need to be absorbed through lower expenditure, higher own-source revenue or additional borrowing. For context, this would be equivalent to an increase in Tasmania's net debt by around 2.7 per cent. Alternatively, a reduction of this magnitude may impact frontline staffing. For example, it is equivalent to around 25 per cent of the State's nursing or teaching workforce.⁶⁷

The same concerns arise under a more targeted approach that discounts only those minerals where a dominant state effect is present. While this more targeted approach may result in a lesser impact on HFE, it would retain the arbitrary choice of a discount rate and introduce further judgment in defining a dominant state. As such, the apparent precision would depend on two contestable policy parameters, rather than an evidence-based measure of fiscal capacity.

Aggregation

Aggregation would combine separately assessed minerals, reducing the influence of a state that dominates the production of any single mineral.⁶⁸ While most jurisdictions, including Tasmania, have supported the CGC's current mineral-by-mineral assessment, some larger mining states have advocated for aggregation as a means of addressing policy neutrality concerns.

During the 2025 Methodology Review, New South Wales and Queensland supported combining separate minerals into a single aggregated mining category.⁶⁹ Western Australia also raised policy neutrality concerns but proposed a broader aggregation

⁶⁷ Based on the median wage and number of FTEs for nurses and teachers in Tasmania in 2024-25.

⁶⁸ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.78.

⁶⁹ NSW Government, 2025 GST Methodology Review: Tranche 1 Consultation, October 2023; Queensland Government, Assessment consultation papers – Tranche 1 – 2025 Methodology Review: Queensland submission, October 2023.

of mining and other own-source revenue assessments rather than aggregation within the mining assessment alone.⁷⁰

The CGC considered both alternatives and concluded:

Both assessments would give too much weight to the supporting principle of policy neutrality and insufficient weight to measuring state mining revenue capacities consistent with the objective of fiscal equalisation.⁷¹

It retained the mineral-by-mineral approach as the best available measure of mining revenue capacity and the approach most consistent with fiscal equalisation. Aggregation may improve policy neutrality, but only by placing less weight on observed differences in revenue capacity and the supporting principle of 'what states do'.⁷¹

The aggregation options modelled in the interim report have substantial precedent. Variants were considered by the Commission through the 2017 PC Inquiry,⁷² and subsequently by the CGC before the October 2019 Supplementary Terms of Reference halted that work.⁷³ The 2017 PC Inquiry considered aggregation based on either the value of mining production or mining profits. Table B.2 sets out the estimated 2024-25 effect of aggregating the value of all mining production compared to full HFE.

Table B.2: Estimated impact of fully aggregating the mining assessment, 2024-25 (\$pc)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Full HFE	3 110	3 436	3 391	378	4 889	6 299	4 228	17 043
Impact of 2018 reforms	(253)	(254)	(252)	2 368	(249)	(244)	(250)	(213)
Aggregated mining assessment	146	(4)	315	(897)	(121)	(16)	5	(212)

Source: Australian Government's 2024-25 Final Budget Outcome, CGC's 2024 Update and Tasmanian Department of Treasury and Finance calculations.

Table B.2 shows that full aggregation would result in a smaller departure from full HFE than either the 2018 reforms or a 25 per cent mining discount (shown in Table B.1).

While aggregation may result in a smaller departure from full HFE than either the 2018 reforms or a mining discount, it may still produce perverse outcomes for Western Australia. If applied with the pre-2018 system in 2024-25, the modelled reduction of \$897 per capita would exceed Western Australia's full HFE GST allocation of \$378 per capita. Absent an additional constraint preventing this outcome, the result would imply a negative relativity for Western Australia and require it to contribute to the GST pool. This illustrates that aggregation can generate outcomes requiring further policy rules, rather than resolving the methodological issue cleanly.

⁷⁰ Government of Western Australia, Western Australia's Submission to the Commonwealth Grants Commission's 2025 Methodology Review: Tranche 1 Assessments, October 2023.

⁷¹ Commonwealth Grants Commission, 2025 Methodology Review: Review Outcomes, March 2025.

⁷² Productivity Commission, Inquiry Report – Horizontal Fiscal Equalisation, May 2018.

⁷³ Australian Government, Supplementary Terms of Reference for the 2020 Methodology Review, October 2019.

More fundamentally, aggregation departs from the CGC's supporting principle of 'what states do'. The CGC observed during the 2020 Methodology Review that grouping minerals into a high value and low value group, rather than full aggregation, might provide a better balance between this principle and policy neutrality.⁷⁴ There is direct precedent for this approach. The CGC adopted high-value and low-value groups in its 2010 Methodology Review. The approach was criticised because minerals could move between groups as values changed, exposing the sensitivity and arbitrariness of the threshold.⁷⁴

Table B.3 shows the estimated effect had a high/low value aggregation in the mining assessment applied in 2024-25. All states except Western Australia and the Northern Territory would have been better off compared to full HFE. However, the modelled reduction of \$760 per capita for Western Australia would again exceed its full HFE GST allocation of \$378 per capita. As such, this approach would not resolve the issue of a negative relativity for Western Australia.

Table B.3: Estimated impact aggregating the mining assessment into high and low value mineral groups, 2024-25 (\$pc)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Full HFE	3 110	3 436	3 391	378	4 889	6 299	4 228	17 043
Impact of: 2018 reforms	(253)	(254)	(252)	2 368	(249)	(244)	(250)	(213)
<i>High/Low Aggregate</i>	117	5	225	(760)	(3)	(10)	5	(29)

Source: Australian Government's 2024-25 Final Budget Outcome, CGC's 2024 Update and Tasmanian Department of Treasury and Finance calculations.

Other approaches to addressing dominant state effects

The other approaches identified in the interim report have also largely been considered through CGC processes, including the 2025 Methodology Review and current Forward Work Program, on which Tasmania has fully engaged.⁷⁵ They would require substantial methodological change and raise similar concerns regarding arbitrariness, data availability, appropriate measurement and reduced equalisation.

For example, during the 2025 Methodology Review, the CGC considered assessing 50 per cent of the revenue generated by a dominant state's royalty rate change on an equal per capita basis. The CGC found that the majority of states did not support the proposal because it was arbitrary, lacked clarity, reduced the extent of fiscal equalisation and involved significant design and implementation challenges.⁷⁶ While the proposal was intended to address policy neutrality concerns associated with dominant state effects, the CGC ultimately did not adopt it. This provides a further example of an apparently targeted response failing to establish a principled and workable basis for departing from the measurement of fiscal capacity.

A profitability-based approach was considered by the Commission in the 2017 PC Inquiry, and has subsequently been examined by the CGC on several occasions. The CGC has consistently identified the same obstacle: there is no recognised national dataset breaking down profitability by state, meaning any profitability assessment would require the development of a new measure and the sourcing of

⁷⁴ Commonwealth Grants Commission, Improving the Policy Neutrality of the Mining Revenue Assessment, November 2018.

⁷⁵ Productivity Commission, GST distribution reforms: Interim report, August 2026, p.78.

⁷⁶ Commonwealth Grants Commission, 2025 Methodology Review: Review Outcomes, March 2025.

appropriate data.^{77,78} The absence of reliable national data has prevented this approach from progressing. A profitability assessment would also depart materially from the royalty arrangements actually applied by states and therefore from the supporting principle of ‘what states do’.

⁷⁷ Commonwealth Grants Commission, Improving the Policy Neutrality of the Mining Revenue Assessment, November 2018.

⁷⁸ Commonwealth Grants Commission, Issues Paper: Dominant state issues in the mining assessment (not publicly available), December 2025.