

30 September 2026

GST Distribution Reforms Interim Report
Productivity Commission
Submitted via website
<https://www.pc.gov.au>

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Dear Commissioners,

RE: GST Distribution Reforms Interim Report

The Australia Institute welcomes the opportunity to make a submission on the Productivity Commission's interim report on GST distribution reforms.

The interim report interprets its terms of reference as having “4 objectives for the GST distribution system (equity, efficiency, sustainability and certainty). Within these competing objectives, the Productivity Commission views the primary role of the GST distribution system to be driving horizontal fiscal equalisation (HFE) between states (equity).” (page 39)

Based on this view, the bulk of the interim report is devoted to the equity or inequity of the 2018 GST reforms. This is unfortunate. While we welcome the Commission's belated criticism of the 2018 reforms in the interim report,¹ the narrow focus on equity between the states means that the interim report is almost silent on certainty, sustainability and efficiency.

Given the importance of GST revenues to the states, the certainty and sustainability of GST revenues warrant close attention. To assist, we attach our recent report highlighting how GST revenue has grown more slowly than overall economic growth – contrary to what was promised by the Howard Government when the GST was introduced. A key section of our report explains:

In the 25 years from 2000-01 to 2025-26 the economy grew at an average annual rate of 5.9%, but the GST only grew at an average annual rate of 5%. The total cost of slow growth in GST revenue has reached more than a quarter of a trillion dollars (\$279 billion) over the 25 years from the introduction of the GST in 2000-01 to 2025-26. This includes \$24 billion in lost revenue in 2025-26 alone.²

Our report demonstrates that GST revenue to the states overall is uncertain – at least relative to what was originally promised. The magnitude of the GST revenue shortfall presents a major challenge for the sustainability of state finances and the overall federal-state funding system.

¹ Denniss (2026) *I want to see the Productivity Commission abolished – and even I think Labor's attack on it was unfair*, <https://thepoint.com.au/opinions/260831-i-want-to-see-the-productivity-commission-abolished-and-even-i-think-labors-attack-on-it-was-unfair>

² Grudnoff (2026) *GST shortfall: How to better fund the states*, <https://australiainstitute.org.au/post/the-quarter-of-a-trillion-dollar-shortfall-leaving-states-and-territories-scrambling/>

The interim report, and Supporting paper 1,³ touch on the history of the GST, noting that “GST was also marketed as reducing the states’ reliance on Commonwealth grants” and this meant that “emphasis [shifted] to how the pool was to be allocated between states, rather than a negotiation about the size of the pool” (page 13 of Supporting paper 1, also interim report page 11).

The interim report does not assess whether the GST has lived up to the initial “marketing”. It misses the opportunity to amplify this under-emphasised discussion about the size of the GST pool. Our research makes it clear that the marketing was misleading and that a bigger pool is needed.

In making the pool bigger, there is an opportunity to make the funding of the GST pool more efficient. The Commission’s own research shows that the most efficient tax in Australia in terms of “excess burden” is taxing offshore oil and gas.⁴ The simplest and fastest way to do this would be via the Australian Council of Trade Union’s proposal for a 25% export tax, as discussed in our report.

Given the efficiency of taxing gas, it is surprising that the interim report does not include the words “gas”, “oil” or “petroleum”. This is despite mining royalties being central to the entire GST reform discussion and repeated references to “mining activities in the North West Shelf” in the interim report (page 9) and Supporting paper 1 (pages 3 and 7). These “mining activities” are, as the Commission is aware, offshore gas projects.

The fact is that a key Australian jurisdiction charges no royalty and raises minimal revenue from globally significant “mining activities” in its waters. This astonishing fact goes unmentioned in the interim report, supporting paper and numerous submissions. For example, the Queensland Government devotes five pages of its submission to criticising gas policy in Victoria and NSW, without once mentioning the Commonwealth’s role in Australia’s great gas giveaway.⁵

We recommend that the final report of this inquiry be expanded to include discussion of certainty and sustainability - how GST revenues have not kept up with economic growth – and of how a bigger GST pool could be efficiently funded by raising revenue from Commonwealth gas resources. We would be happy to meet again with the Commission to assist with these topics.

Yours sincerely

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³ Productivity Commission (2026) *Supporting paper 1: Understanding Australia’s system of fiscal transfers*, <https://www.pc.gov.au/inquiries-and-research/gst-reforms/interim/>

⁴ See chart in Kehoe and Mizen (2025) *Expanding GST better for economy than company and high-income taxes*, <https://www.afr.com/policy/tax-and-super/expanding-gst-better-for-economy-than-company-and-high-income-taxes-20250804-p5mk5z>, which is based on Table 6 of Murphy (2025) *Corporate Tax Reform Modelling Scenarios: First Stage Report*, <https://assets.pc.gov.au/2025-09/tax-reform-modelling-murphy.pdf?VersionId=b9D8XgH9kTqrswmn86WPjr4CmvCAUIbj>

⁵ Queensland Government (2026) *Productivity Commission Inquiry into GST distribution reforms: Queensland submission to the Issues Paper*, https://assets.pc.gov.au/2026-03/sub062-gst-reforms.pdf?VersionId=OHOLivcOBgkDLjfMeYIfAbAvwQwWgzKT&_gl=1*1a258ai*_gcl_au*ODc1OTQwODQxLjE3ODcxMDMzMjQ.*_ga*MTMzMjI1MjM4Mi4xNzg3MTAzMzY0*_ga_XNW84J8HF8*czE3OTA2ODkxOTAKbzYkZzEkdDE3OTA2OTU4OTUkajU4JGwwJGgw