

30 September 2026

Alex Robson
Deputy Chair
Productivity Commission
GPO Box 1428
Canberra ACT 2601

Sent via email: gst.reforms@pc.gov.au

GST distribution reforms: Interim report

Dear Commissioner,

The Chamber of Minerals and Energy of Western Australia (CME) is the peak representative body for the resources sector in WA. CME is funded by member companies responsible for 18 per cent of Australia's company tax receipts, with iron ore members contributing almost 60 per cent of this share.¹

In 2024-25, the WA resources sector accounted for 55 per cent of resources exports, 52 per cent of resources capital expenditure and 51 per cent of resources employment in Australia.² CME's Economic Contribution Survey found that the WA resources sector supported 6.5 per cent of national employment and 10.5 per cent of national gross domestic product.³

Key views

CME supports retention of the 2018 reforms to the goods and services tax (GST) distribution system. We do not support the Productivity Commission's (PC) interim recommendations to return to a pre-2018 GST distribution system.

As noted in the PC's interim report, the pre-2018 system produced volatile and unpredictable outcomes, with WA's GST relativity falling to record lows while royalty revenue fell sharply.⁴ In addition, the pre-2018 system was based on full horizontal fiscal equalisation (HFE), which meant that states and territories (states) were penalised for developing their economies via the GST distribution. This led to the PC recommending in 2018 that the HFE objective be changed to 'reasonable' rather than 'full', consistent with the rest of the OECD.

The 2018 distribution reforms have delivered a more reasonable level of HFE and improved revenue certainty in a fiscally sustainable way for the Commonwealth.

We welcome the Prime Minister's and the Treasurer's commitments that WA's GST deal will not change.⁵ Transitioning back to a pre-2018 system would disincentivise the economic and productivity growth Australia so desperately needs.

Delivering a reasonable level of fiscal equalisation

The current system delivers a reasonable level of HFE.

¹ Excludes fringe benefits tax, petroleum resource rent tax, fuel excise duty, offshore royalties and levies. CME, [2024-25 Economic Contribution: Australia, 2024-25 Economic Contribution: WA Iron Ore](#), 30 March 2026. The Treasury, [Final Budget Outcome 2024-25](#), Australian Government, 29 September 2025, Note 3: Taxation revenue by type, p 39.

² Department of Mines, Petroleum and Exploration, [2024-25 Economic Indicators Resource Data File](#), WA Government, 4 December 2025. Investment refers to capital expenditure measured by gross fixed capital formation at current prices. Australian Bureau of Statistics, [5220 Australian National Accounts: State Accounts](#), table 25. [5206 Australian National Accounts: National Income, Expenditure and Product](#), table 34. [6291 Labour Force, Australia, Detailed](#), table 5.

³ Direct and indirect jobs and economic activity. CME, [2024-25 Economic Contribution: Australia](#), 30 March 2026.

⁴ 2015-16 financial year. PC, [Appendix C: PC modelling - outputs](#), 'PC GST Model relativities' tab.

⁵ Prime Minister of Australia, [Press conference - Henderson, WA](#), transcript, 24 August 2026. Treasurer, [Q&A, Chamber of Commerce and Industry WA Business Breakfast, Perth](#), transcript, 19 November 2025.



The PC's definition of reasonable equalisation as the 'highest level of equalisation that can be achieved without unacceptable costs to sustainability, efficiency or certainty' leaves full HFE as the primary goal of the system, constrained by a judgement call as to what constitutes an 'unacceptable' cost. CME believes the pre-2018 system did impose unacceptable costs with regard to the efficiency, certainty and fairness of the arrangements. The Australian Government's response to the 2018 inquiry supports this view, reforming the system in a way designed to ensure all states were better off.⁶

Digging deeper, the definition of 'efficiency' focuses only on changes to tax rates or expenditure changes and ignores all the policy efforts state governments can take to attract investment such as approvals reform, land release, project facilitation and more. As outlined in CME's remarks at our public hearing on 16 September, there is a clear inconsistency in the treatment of state policy decisions around gambling and mining that calls into question whether the GST relativity calculation truly delivers policy neutrality (efficiency).

We do not believe the likelihood of perverse outcomes arising from the equalisation to the standard state benchmark, as suggested by the PC's interim findings, warrants a reversion to a pre-2018 system. External shocks like natural disasters and pandemics can be addressed within the current system or the broader federal financial relations system. CME would support further consideration of recommendation 8.1 from the 2018 inquiry in the longer term – changing to a benchmark that equalises states to the average fiscal capacity of all states may help encourage states to improve their average service level. Such a standard would better balance efficiency and policy neutrality than the pre-2018 system.

Improving the certainty of GST revenue streams to support state fiscal planning

The current system has reduced volatility in GST relativities, supporting more stable fiscal planning as intended to 2030. As noted in the interim report's appendix, WA has had lower expense growth in recurrent service delivery and the highest share of capital investment through government trading enterprises compared with other states.⁷ Maintaining the current GST relativity floor improves the certainty of revenue streams to support fiscal planning, particularly for states vulnerable to large revenue-estimation errors.

Supporting service delivery

Providing equitable and adequate public goods and services in regional and remote WA is critical to regional liveability and attracting the workforces that underpin the wealth generated by the WA resources sector for all Australians.

The current GST system significantly undercompensates WA for the costs associated with providing services across such a vast and remote state. In 2025-26, WA receives \$234 per person for regional costs while Tasmania and the Northern Territory receive \$1,401 and \$6,708 per person, respectively.

We also highlight the PC's report that Australia's tax and transfer system is outdated and ineffective in providing individuals in remote areas with equal services and that it suggested increasing the remoteness loading for GST distribution.⁸ The 2026 Census provides an opportunity to revise the remoteness expenditure assessment to better reflect diversity in service delivery costs between and within states.

Fiscal sustainability

The current distribution system is fiscally sustainable for the Australian Government. While much has been made of higher iron ore prices driving larger-than-forecast No Worse off Guarantee (NWOG) payments, the corresponding increase in the Commonwealth's company tax receipts from WA's iron ore sector has been three to four times larger.⁹ The Australian Government is therefore well placed to

⁶ Australian Government, [PC inquiry into HFE: Government interim response](#), July 2018.

⁷ Since 2020-21. PC, [Appendix D: State fiscal sustainability](#), figures D.5 and D.8.

⁸ PC, [Remote Area Tax Concessions and Payments - Study Report](#), February 2020.

⁹ Up to four times greater. Government of WA, [GST distribution reforms - Public inquiry](#), submission to the PC, February 2026, p 86. [Attachment: Economic Impacts of the 2018 HFE Reforms](#), commissioned study by ACIL Allen, February 2026. Chamber of Commerce and Industry WA, [GST distribution reforms - Public inquiry](#), submission to the PC, February 2026, p 12.



support revenue stability and certainty for the states in this manner.¹⁰ We suggest the PC place additional weight on the Australian Government's policy commitments to bear the fiscal risks and upside of the current system in the final report's recommendations.

Thank you for the opportunity to attend the public hearing and we look forward to engaging further with the PC on these important fiscal matters impacting the WA resources sector.

Should you have any questions regarding this submission, please contact Aaron Walker, Head of Economics.

Yours sincerely,

Aaron Morey
Chief Executive Officer

¹⁰ Majority of long-term national fiscal scenarios are sustainable. Parliamentary Budget Office, [2026-27 National Fiscal Outlook](#), Australian Government, August 2026, p 15. The degree of vertical fiscal imbalance will also increase as capital gains taxing rights expand.