

A PROPOSED SOLUTION FOR THE GST DISTRIBUTION

Preamble.

The Productivity Commission, in its Interim Report, stated that the **EPC** system would be **simple and effective** in achieving a significant redistribution of the GST from the better performing states to the poorer performing states.

The EPC method would also remove the debilitating three-year time lag that the complex HFE system currently inflicts upon all states.

However, based upon 2017-18 CGC numbers, the PC concluded that adoption of a **100% EPC** system would still leave the current nett-beneficiary states \$7.9 billion worse off and therefore concluded that the Commonwealth would not accept that alternative.

A Solution:

(1). Based upon the 2017-18 CGC numbers, the adoption of a **90% EPC system** would reduce that \$7.9 billion “shortfall” very significantly and therefore greatly reduce the financial cost to the Commonwealth. This is because:

(2). The remaining 10% of the GST would be distributed to the nett-beneficiary states being South Australia; Tasmania; the NT and the ACT.

These states would receive close to \$7 billion which would maintain their current (2017-18) nett-benefit positions (being made up of \$6.3 billion from 10% of the GST plus about \$700m compensation from the Commonwealth for the reduction of the balance of the GST to 90%).

Queensland would receive a once-off payment equal to its projected compensation for the 2018-19 years. Thereafter, that state would be treated identically to the other three largest states (NSW; Victoria and WA; each to receive their share of 90% of the tax on an EPC basis).

The Outcomes:

The adoption of the **90/10 system** (being 90% of the tax distributed under the EPC system with the remaining 10% distributed under the HFE “guidelines”) **would remove 90% of the GST from any relationship to the formulae used in the current HFE process.**

The poorer performing states and territories would continue to be compensated at a similar level as at present after also allowing for the significant, automatic (in-built) benefit they would receive from the adoption of the EPC for 90% of the tax.

The CGC would continue to manage the redistribution despite the major change (in order to comply with the “political objectives” of the HFE system which would continue to apply in respect of 10% of the tax).

Queensland would be treated (after a one-year “period of grace”) as one of the four largest states capable of surviving under the 90% EPC system. Otherwise, special Commonwealth grants could be considered for that state (to achieve the objectives of the major change).

(David Burt -- April, 2018).