



Western Australia's response to
the Interim Report for the

2026 Productivity Commission inquiry into the GST distribution reforms

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Acknowledgement of Country

This report was prepared by the Department of Treasury and Finance on the traditional Country of the Whadjuk people of the Noongar Nation.

Department of Treasury and Finance respectfully acknowledges the Traditional Custodians of Country throughout Western Australia and their continuing connection to Country, Culture and Community.

We pay our respects to all members of Western Australia's Aboriginal communities and their cultures and to Elders past and present.

We acknowledge and pay tribute to the strength and stewardship of Aboriginal people in sustaining the world's oldest living culture and value the contribution Aboriginal people make to Western Australia's communities and economy.

We recognise our responsibility as an organisation to work with Aboriginal people, families, communities, and organisations to make a difference and to deliver improved economic, social and cultural outcomes for Aboriginal people.

Further information relating to this report may be obtained by emailing gst@dtf.wa.gov.au.

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Submission on Interim Report

Key Points

- The Productivity Commission's (PC's) Interim Report seeks to **redefine** 'reasonable' fiscal equalisation as a return to the pre-2018 system of **full** equalisation. This is **clearly inconsistent** with the will of the Australian Parliament (as reflected in the legislation giving effect to the 2018 GST distribution reforms), and with arrangements in every other federation in the OECD. The PC has not adequately explained why Australia should return to being an **international outlier** in relation to our system of fiscal equalisation.
- The Interim Report is **entirely inconsistent** with the PC's 2018 report on Horizontal Fiscal Equalisation (HFE). Nor does it provide sufficient justification or reconciliation between the very different findings and recommendations reached in these two reports. This includes the PC's finding in 2018 that "the [HFE] system is not policy neutral" and "can deter them [States] from the politically difficult task of improving the efficiency of their tax mixes or expanding their tax bases", which is diametrically opposed to the finding in the PC's Interim Report that the underlying HFE system "was and is broadly policy neutral".
- The PC's Interim Report does acknowledge the dominant State problem with the underlying HFE system, with the most notable examples of this being Western Australia's (WA's) dominance of iron ore and lithium production. This leads to a situation whereby almost 90% of any increase in WA's iron ore or lithium royalties (from either an increase in the royalty rate or an increase in the value of production) is redistributed to other States and Territories through the GST distribution system – effectively, **a marginal tax rate of around 90%**.
- However, the Commonwealth Grants Commission (CGC) has been grappling with the dominant State problem for over 20 years, and has been unable to find a solution. Nor does the PC's Interim Report offer a solution. The WA Government strongly contends that the 2018 GST Reforms **are** the solution to this problem.
- Moreover, the lack of policy neutrality with the underlying GST distribution system extends well beyond iron ore and lithium royalties. This includes how the system incentivises States to: **restrict** the extraction of mineral and energy resources; **increase tax rates** on existing (generally narrow) tax bases; and maximise revenue from **poker machines**. These are hardly economically efficient incentives or outcomes.

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- Further to this, the PC's Interim Report places **too much weight and too narrow a focus on fiscal equality** between the States, paying insufficient attention to incentivising States to grow and develop their own economies and revenue bases — which ultimately, is the most effective way to raise living standards and improve fiscal sustainability for all jurisdictions, including the Commonwealth.
- Since the 2018 GST Reforms, the WA Government has pursued an active economic development agenda designed to expand and diversify the State's economic base. The GST distribution arrangements should not create a situation where the vast majority of the resulting fiscal benefits are redistributed away from the jurisdiction that contributed the capital and bore the risk to unlock private investment and establish new industries. Doing so **weakens incentives** for States to pursue growth-enhancing reforms and investments that generate broader benefits for the national economy.
- Following implementation of the 2018 GST Reforms, the WA Government negotiated (in 2022) the Resources Community Investment Initiative (RCII) with a number of major resources companies. Under this initiative, these companies have committed a total of \$750 million in funding for regional infrastructure and community assets, with \$382 million in RCII funding for specific projects (like Government Regional Officer Housing) announced to date. **Without the 2018 GST Reforms, it is unlikely that this initiative would have progressed**, as almost 90% of the contributions would most likely have been redistributed to other States through the GST distribution system.
- The PC's Interim Report does not acknowledge the **other mechanisms** in Australia's federation for achieving equity objectives. For example, Commonwealth funding under the Better and Fairer Schools Agreement directly targets equity via a needs-based model that aims to capture disparities in disadvantage between schools and students. That is, the GST distribution system does not (and should not) have to do all of the 'heavy lifting' in terms of achieving equity of fiscal opportunity between States.
- A return to the pre-2018 GST distribution system would see WA's population share of GST revenue fall from 82% currently, to just 24% (in 2026-27). This is simply **not sustainable** – for either WA or the federation – and would see this State's GST subsidy to the rest of the nation increase from around \$2 billion per year currently, to **over \$8 billion per year**.
- The PC's Interim Report does not adequately acknowledge that even with the 2018 GST Reforms, WA still makes the **equal largest per capita contribution** to the fiscal equalisation task of all States. On a per capita basis, Tasmania still receives more than double the GST revenue that WA does, and the Northern Territory still receives over six times more. WA does not oppose this reasonable level of equalisation – we simply request that the PC's Final Report provide a much more **balanced** assessment of WA's contribution to the federation (both through the GST distribution system, and more broadly through the tax and transfer system).

- The Interim Report's analysis and commentary on the standard State benchmark under the 2018 GST Reforms (whereby States are equalised to the fiscally stronger of New South Wales or Victoria) is **highly selective**. Moreover, many of the issues with this benchmark raised in the Interim Report would not even eventuate if States were instead equalised to the **average** fiscal capacity of all States, as originally recommended by the PC in its 2018 report. Indeed, the PC found in 2018 that equalising to the average of all States provides a more stable benchmark and performs well on efficiency grounds. Yet this option isn't even examined in the Interim Report. We request that this be addressed in the Final Report.
- We also request that the Final Report much more fulsomely acknowledges, analyses and quantifies the direct link between higher-than-expected iron ore prices and the higher-than-expected cost of the Commonwealth's No Worse-Off Guarantee (NWOG). This link provides a **natural hedge** for the Commonwealth, whereby the increased cost of its No Worse-Off payments is **more than offset** — by a factor of 3-4 times — by the additional company tax revenue resulting from higher iron ore prices.
- Indeed, **all jurisdictions are significantly better off** since the 2018 GST Reforms due to higher iron ore prices — a fact which is not acknowledged in the Interim Report. This should also be addressed in the PC's Final Report.

Introduction

The WA Government's very clear position is that the current GST distribution arrangements must be retained. These arrangements provide a reasonable balance between supporting the smaller States and Territories, while not punishing States like WA for growing, developing and diversifying their economies and associated revenue bases.

As the PC itself concluded in its 2018 report, the pre-2018 system of HFE:¹

does not systematically provide for States to retain a reasonable share of the fiscal dividends of their policy efforts without them being 'equalised away' through lower GST payments.

This is a critical and fundamental point that has been lost in the PC's Interim Report.

The other fundamental point that has been lost is that under the current GST distribution arrangements, WA is still making the equal largest per capita contribution to the fiscal equalisation task of all States, with a GST subsidy (relative to our population share) of over \$2 billion per year.

¹ Productivity Commission (2018), *Horizontal Fiscal Equalisation*, Report No.88, page 18.

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Moreover, this is just one part of WA's overall net fiscal subsidy to the federation (such as our contribution to the Commonwealth's company and personal income tax revenue), which is by far the largest of all States. This is also not acknowledged.

The current arrangements also prevent extreme, unforeseen and unsustainable outcomes, such as WA's population share of the GST falling to just 10% in 2023-24 and 24% in the current year, in the absence of the 2018 reforms. Since the introduction of the GST in 2000-01, no other State has ever had a share below 80%. And the current arrangements also bring Australia more into line with every other federation in the OECD, all of which have varying models of partial — rather than full — equalisation.

This debate cannot just be about how the existing pie is divided up. It must also consider how we encourage States to grow the pie — not just for the benefit of their own citizens, but for the benefit of the entire nation. The PC's Interim Report focuses too much on fiscal equality between the States, and not enough on incentivising economic development and productivity. This must be addressed in the PC's Final Report.

Impacts of 2018 GST Reforms

The PC's Interim Report lists five impacts of the 2018 GST Reforms that are described as "primarily negative".² The **first** of these stated impacts is that the 2018 reforms have reduced the level of HFE achieved in Australia.

This is, of course, by design, with the Australian Parliament deliberately moving to a system of partial equalisation to better balance equity and economic objectives.

The PC suggests that WA is now receiving more GST revenue than it needs, estimated at 113% of what is needed to provide the average level of services.³ However, this uses the CGC methodology as the unquestioned benchmark against which to assess 'need'. For all the reasons and examples outlined in our February 2026 submission, we have significant concerns with this benchmark. Moreover, the PC's analysis of 'needs' in its Interim Report ignores the dominant State issue that the Commission itself has identified as a problem that needs to be addressed. We believe the Interim Report is internally inconsistent in this regard.

To illustrate just how much WA's dominance of iron ore production impacts the HFE system, if the State were to cease collecting iron ore royalties and make up the lost revenue through increased payroll tax, the CGC would assess that rather than needing just 24% of our population share of the GST, WA would now need around 100% of our population share — even though our total own-source revenue would have remained unchanged. This is obviously a hypothetical example, but it clearly illustrates the dominant State problem that the CGC has been unable to address for over 20 years, and that the PC has not reflected in its analysis of WA's 'needs'.

² Productivity Commission (2026), *GST distribution reforms: interim report*, page 25.

³ *ibid.*, page 3.

And finally on this point, the Interim Report notes that despite the lower level of HFE under current arrangements, it still:⁴

compares favourably [in terms of equity] to international comparators.

Given this, it is not clear why the PC believes the current arrangements — i.e. the 75% floor that protects all States' GST shares from falling unreasonably low, and the standard State benchmark — do not strike a reasonable balance between equity and productivity.

The PC's **second** stated impact of the 2018 reforms is that they have introduced perverse outcomes to the GST distribution system.

The Interim Report focuses heavily on one, very selective example to make this point — which is the example of a bushfire or other natural disaster in New South Wales leading to an increase in WA's GST share (in line with New South Wales), but a decrease in other States' shares.

We believe the PC should have been more balanced in its commentary on this, by providing other examples that show a reduction in WA's GST share, while other States' shares increase. Examples like:

- another property boom in New South Wales, which would decrease their — and hence WA's — GST share, while increasing other States' shares; and
- in the CGC's 2024 Update, Kiama, Googong and Stanwell were reclassified as 'major cities', which reduced WA's GST share, while increasing other States' shares.

These are equally 'perverse' examples as the one used by the PC, and illustrate that being pegged to the standard State benchmark cuts both ways for WA.

Furthermore, these so-called perverse outcomes would not even eventuate if instead of equalising to the fiscally stronger of New South Wales or Victoria, we equalised to the average of all States — as recommended by the PC in its 2018 report. Curiously, however, this option is not even mentioned in the Interim Report. We believe this is a significant shortcoming that needs to be addressed in the PC's Final Report.

A greater perverse incentive in the underlying GST methodology is the treatment of mining revenue. While the dominant State issue is acknowledged by the PC, other States do not acknowledge the severity of the impact, which sees WA losing around 90% of royalty income it generates from commodities including iron ore, lithium, and North West Shelf petroleum grants — effectively a 90% marginal tax rate.

No other State experiences such a high degree of redistribution of revenue. Queensland loses around 40% of its coal royalties, and New South Wales loses just 20%. While WA has had pro-resource policies for decades and makes significant investments to support mining activity, there is no consequence for States choosing not to develop their resource sectors.

⁴ *ibid.*, page 41.

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WA's February 2026 submission included the additional recommendation of a 25% mining revenue discount in addition to the 2018 reforms, which does not provide any additional benefit to WA, but reduces the cost of the NWOOG to the Commonwealth, and provides a better return for States that choose to develop their resource sectors, such as Queensland. The PC's Interim Report did not acknowledge this.

In contrast to mining revenue, the underlying GST system effectively incentivises States to increase gambling revenue, which receives a 100% discount under the CGC's methodology. States are incentivised to grow poker machine revenue because they are able to retain all additional revenue, which already totals some \$6 billion, having grown by more than 50% between 2021-22 and 2024-25. So, while WA experiences a 90% marginal tax rate for iron ore and lithium royalties, the marginal tax rate for pokies is zero.

The PC's **third** stated impact is that the 2018 reforms have come at a significantly higher cost to the Australian Government than expected.

This is true, but only because iron ore prices have been significantly higher than forecast in 2018. These higher prices have delivered a revenue windfall to the Commonwealth that has more than offset – by a factor of 3-4 times – the cost of the 2018 GST Reforms.

This is only very briefly (and somewhat begrudgingly) acknowledged in the PC's Interim Report, and certainly is not quantified. We would like to see more analysis of this in the Final Report.

We estimate that for every \$US1 per tonne increase in the iron ore price, the NWOOG to underwrite the pass through of this revenue to other States increases by \$95 million, while the company tax revenue benefit to the Commonwealth is \$396 million.

We also note that the Commonwealth's forward estimates are internally inconsistent in this regard, with their estimates of the future cost of the NWOOG not aligning with their iron ore price forecasts. If the iron ore price fell to \$US60 per tonne by March 2027, as per the Commonwealth's 2026-27 Budget, then the cost of the No Worse-Off payments would be significantly lower than forecast. Conversely, if the iron ore price remained at current levels, the Commonwealth would receive a significant revenue windfall that would more than cover the cost of the No Worse-Off payments.

The PC's **fourth** stated impact of the 2018 reforms is that they have had mixed impacts on States' fiscal positions, with WA being better off and other States no worse off.

In fact, all jurisdictions have been better off since the 2018 reforms were implemented due to higher-than-expected iron ore prices. Through the GST distribution system, other States have still received their population share of WA's increased iron ore royalties, underwritten by the Commonwealth's NWOOG.

The impact of higher iron ore prices is expected to result in other States receiving around \$34 billion in additional GST over the period 2020-21 to 2029-30.

There is also a common misconception that WA's Budget is in a strong position purely because of elevated iron ore prices and the 2018 GST Reforms. These factors have obviously helped. But in contrast to many other States, the WA Government has consistently demonstrated disciplined budget management over the last decade.

For example, between 2017-18 and 2024-25, WA had the lowest growth in general government expenses per capita of all States, at 4.1% per annum compared to 5.8% per annum for other States. Had WA's expense growth been at the average rate of other States over this period, the State's finances would be in operating deficit.

In reaffirming the State's triple-A credit rating earlier this year, both Moody's and S&P Global highlighted the WA Government's strong financial management and robust expenditure control, with Moody's highlighting our "well entrenched framework of fiscal discipline that extends beyond cyclical revenue windfall gains".⁵

Finally, the PC's **fifth** stated impact is that the 2018 reforms have increased the complexity of the GST distribution system, making it less transparent. We believe this is a red herring. The pre-2018 system of HFE was a 'black box' that was fully understood by only a handful of people across the country. Returning to this system would do nothing to improve understanding or transparency.

Economic Efficiency

- The PC concludes in its Interim Report that "there is little evidence that significant departures from HFE result in notable efficiency gains".⁶
- However, economic efficiency gains are much broader than just tax or royalty rate changes, which is the **very narrow lens** through which the PC has assessed the impact of the 2018 GST Reforms on efficiency.
- In addition to negotiating the RCII (as noted earlier), the WA Government has invested heavily and undertaken significant legislative, regulatory and policy reforms since 2018 to boost the productive capacity and improve the efficient functioning of the State's economy.
- This includes initiatives like establishment of a \$1 billion Strategic Industries Fund to support project-ready industrial land; investment in enabling or common user infrastructure to unlock private investment such as the \$US4.5 billion Perdaman urea project; establishment of a \$455 million Investment Attraction Fund to attract new industries and diversify the State's economy; \$366 million in approvals reform initiatives, including a significant boost to frontline approvals staff and creation of a Coordinator General function and associated legislative framework to streamline complex approvals and accelerate major developments; and an extensive regulatory reform agenda in planning and zoning.

⁵ WA Government press release (May 2026), *Moody's reaffirms Western Australia's triple-A credit rating, reflecting strong financial management*.

⁶ Productivity Commission (2026), *GST distribution reforms: interim report*, page 77.

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- These initiatives illustrate that growth in WA's economic and revenue base since 2018 has been driven not only by commodity prices and resource endowments, but also by deliberate and proactive State Government decisions aimed at increasing productive capacity, supporting economic diversification, and creating new sources of employment, exports and revenue.
- These examples illustrate why GST distribution arrangements should remain neutral to economic development and productivity-enhancing initiatives. States that undertake long-term reforms and investments to grow productive capacity and improve the functioning of their economies should retain sufficient fiscal benefits to preserve incentives for future growth-enhancing activity.
- Reducing those incentives by returning to the pre-2018 system of GST distribution risks weakening investment in initiatives that ultimately contribute to stronger economic opportunities and outcomes for both WA and the nation as a whole.

Conclusion

In conclusion:

- we strongly disagree with the findings outlined in the PC's Interim Report, including the underlying premise that the system of HFE administered by the CGC was and is "broadly policy neutral";⁷
- the Interim Report makes a value judgement that fiscal equality is the overriding objective, and pays insufficient attention to other objectives – particularly the need to encourage States to develop and reform their own economies and revenue bases;
- the Interim Report largely ignores the beneficial impact of higher-than-expected iron ore prices on all jurisdictions, including the Commonwealth; and
- while our very clear position is for the current arrangements to continue (along with a discount on the mining revenue assessment), we would like to see the PC's Final Report explore the option of equalising to the average of all States (as it recommended back in 2018), as this option would address many of the issues raised in the Interim Report.

We also reiterate the earlier point that this debate cannot just be about how we divide up the existing pie. Equity is obviously important, and WA is happy to continue supporting the smaller States and Territories under the current arrangements – we are not pushing for our full per capita share of GST. But we must also consider how we encourage States to grow the pie. Ultimately, increased economic opportunities will do more to lift living standards than any system of fiscal equalisation.

⁷ *ibid.*, page 44.



Submission on Interim Report

The rest of this submission provides a detailed rebuttal of the PC's Interim Report (Appendix A), a list of WA arguments not addressed in the Interim Report (Appendix B), WA arguments at least partially addressed in the Interim Report (Appendix C), and recommendations on governance where we agree with the PC (Appendix D).

Appendix A: Rebuttal of specific statements in the Interim Report

Reasonable HFE and the intent of the reforms

Level of equalisation

The Interim Report made a value judgement that ‘reasonable equalisation’ means achieving ‘the highest level of equalisation’, thereby valuing equity as the primary goal of GST distribution:

...the PC defines the reasonable level of HFE to be the highest level of equalisation that can be maintained without creating material costs to efficiency, sustainability or certainty that cannot be addressed by other parts of the federation’s policy toolkit — page 39

This judgement is inconsistent with the legislation that requires this current Inquiry. When the Australian Parliament enacted the 2018 GST Reforms, it explicitly moved away from a system of full equalisation to one that balances other objectives. As the Explanatory Memorandum to the 2018 Bill explained:⁸

*The Productivity Commission’s recommendations maintain equity at the heart of horizontal fiscal equalisation, but seek to also **better balance equity and efficiency**. The key element of the Productivity Commission’s recommendations involve moving away from the current system of full equalisation...towards a system of reasonable equalisation ... the Government accepted the recommendation to move to **reasonable equalisation**.*

The PC’s 2018 Inquiry into HFE definitively found that full equalisation was shortsighted:⁹

Many of these problems are due to the pursuit, above all else, of comprehensive equalisation of fiscal capacities. In doing so, it is likely that opportunities are being missed to achieve broader equity outcomes (which incorporate fairness by rewarding States for their policy efforts) and to improve efficiency in the Australian economy.

⁸ Australian Government (2018), *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Bill 2018: Explanatory memorandum*, paragraphs 1.20 and 1.22.

⁹ Productivity Commission (2018), *Horizontal Fiscal Equalisation*, Report No.88, page 163.

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Furthermore, the PC's 2018 Inquiry explicitly differentiated between full and reasonable equalisation:¹⁰

The primary objective of the HFE system should be to provide the States with the fiscal capacity to supply services and associated infrastructure of a reasonable (rather than the same) standard. A similar objective has been adopted in several other countries, including Canada, where equalisation is intended to achieve 'reasonably comparable' levels of public services at reasonably comparable levels of taxation across provinces.

The definition of reasonable equalisation should be changed in the PC's Final Report, to ensure the PC is not overturning the will of Parliament and its own findings.

The PC's Interim Report acknowledged that the level of equalisation under the reforms is favourable compared to our international peers:¹¹

The equalisation rate for the current system, with or without NoWO payments, compares favourably to international comparators.

However, the Interim Report failed to build on this observation and acknowledge that the reforms bring Australia more in line with those of comparable federations. While Figure 3.2 of the Interim Report shows that Australia (with the reforms) pursued a relatively high degree of fiscal equalisation by international standards, the analysis does not sufficiently examine how Australia compares with the most relevant comparators, Canada and Germany, which both featured prominently in the PC's 2018 Inquiry. A more detailed comparison would have provided necessary context for assessing whether the current level of equalisation remains appropriate.

Far from the default choice, full equalisation is an international outlier. The reforms bring Australia closer to mainstream international practice and there is no compelling case for a return to full equalisation.

Intent of the 2018 GST Reforms

The Interim Report expressed concern that the reforms have reduced the level of HFE:

The current distribution system now delivers a lower degree of equalisation, with Western Australia receiving a higher amount of GST revenue than required to meet their assessed expenditure, with all other states' total assessed revenues (excluding NoWO payments) failing to cover their assessed expenditure — page 26

However, it is pertinent to note that the reforms have reduced the level of equalisation **by design**.

¹⁰ *ibid.*, page 18.

¹¹ Productivity Commission (2026), *GST distribution reforms: interim report*, page 41.

Appendix A: Rebuttal of specific statements in Interim Report

The PC was instructed to assess if the 2018 GST Reforms have operated ‘as intended’. Reducing equalisation while improving other objectives is precisely the intent of the reforms. The reforms intended to find a better balance between equity and other objectives, namely efficiency and certainty. Although the reforms have only been fully implemented for one year, evidence strongly suggests these other objectives have been met.

When the WA Treasurer met with the PC on 26 August 2026, the Commissioners suggested that, by asking for efficiency concerns to be addressed, WA was seeking an equal per capita GST distribution.

The WA Government is not advocating for GST to be distributed on an equal per capita basis. We believe in a **reasonable** level of horizontal fiscal equalisation in Australia. Even with the reforms, WA still provides the equal largest per person GST subsidy of all the States and Territories (hereafter referred to as “States”). We are not asking for every efficiency problem to be solved, but for a better balance, consistent with the PC’s 2018 Inquiry Finding 8.4:¹²

No alternative benchmark for equalisation is unambiguously superior to any other. All have costs and benefits that are difficult to comprehensively identify, let alone quantify. Determining which alternative benchmark is most likely to provide the greatest net benefit — the right balance — involves judgment about whether the benefits of greater policy neutrality (efficiency) and reward for policy effort and risk taking (fairness) outweigh the fiscal equality impacts.

Efficiency has improved, as dominant State issues in mining have been curbed dramatically¹³ and the reforms have allowed WA to invest billions in economic infrastructure to the benefit of the nation.

GST payments are less volatile, as States are protected from economic shocks like the mining boom, which we demonstrated on page 50 of our previous submission.

WA has been prevented from being an outlier while the iron ore price boom has continued, and Queensland had its falling GST relativity increased in one data year of the 2025 Review when the coal price boom hit its peak.¹⁴

The Commonwealth Government specifically identified this as an intent of the reforms in their response to the PC’s 2018 Inquiry:¹⁵

Benchmarking all States to the economies of the two largest States would remove the effects of extreme circumstances, like the mining boom, from Australia’s GST distribution system.

¹² Productivity Commission (2018), *Horizontal Fiscal Equalisation*, Report No.88, page 43.

¹³ As the Commonwealth decided on the less ambitious equalisation to the standard State (strongest of New South Wales and Victoria) instead of equalisation to the average of all States, the dominant State problem has so far only been addressed for WA. However, the most significant dominant State issues arise for WA.

¹⁴ Had that boom lasted longer, the reforms would have been much more significant to Queensland.

¹⁵ Australian Government (July 2018), *Productivity Commission inquiry into horizontal fiscal equalisation: Government interim response*, page 16.

HFE is unquantifiable

The CGC cannot calculate perfect HFE

The findings in the Interim Report rely heavily on the notion that HFE, as calculated by the CGC, is accurately achieving equity:

Prior to 2018, all states received enough GST revenue to meet 100% of their assessed fiscal needs, consistent with the principle of HFE — page 3

However, our first submission outlined four reasons why HFE is unquantifiable:¹⁶

1. there are many uncertainties in the CGC's calculations, as illustrated by the changes implemented in each method review;
2. the HFE principle refers to States making the same effort to raise their own revenues, but the CGC does not attempt to calculate what States' revenue bases would be if States had the same policies;
3. the CGC assesses standard policies for service provision and tax/royalty rates, but these standards are arbitrary; and
4. there is an ongoing conflict between complexity of the CGC methods and data robustness.

This was acknowledged in the Interim Report:¹⁷

HFE 'is not an exact science' and involves 'estimates, trade-offs and judgements' (CGC, sub. 34, p. 3). As a result, it is not possible for the CGC to achieve 'perfect' equalisation between states. However, while departures from perfect equalisation are inevitable, different GST distribution systems vary in the extent to which they stray from the best available estimate of perfect equalisation.

Yet, the Interim Report uses the CGC's calculation of HFE as the basis for all comparisons of equity. For example, the PC claims that:

...as a result of the reforms, Western Australia received enough GST revenue to meet 113% of its assessed fiscal needs in 2024–25 – compared with 98% for all other states — page 3

However, this 113% is misleading as it is entirely reliant on the 100% of a State's fiscal need that the CGC calculates being correct. Furthermore, based on the tables presented in Chapter 1 of our previous submission, we consider that the error bounds on the CGC's attempt to measure HFE are so large that it is not possible to tell if the PC's 113% is even close to accurate.

¹⁶ Western Australian Government (February 2026), *Western Australia's submission to the 2026 Productivity Commission inquiry into the GST distribution reforms*, page 8.

¹⁷ Productivity Commission (2026), *GST distribution reforms: interim report*, pages 25 and 26.

In addition to the fundamental challenge that HFE is unquantifiable, our first submission outlined that the CGC does not attempt to fully implement the HFE principle. In particular, the CGC ignores State policies that affect their revenue bases – an approach that is fundamentally misaligned with the policy neutrality principle. This highlights the significant gap between the concept of HFE and its practical application.

Further, the unreliability in some CGC assessments can move large redistributions of GST revenue based on uncertain calculations. For example, a change in WA's iron ore royalty rates could materially affect the GST grants received by other States. These outcomes raise questions about the reliability of the methodology, particularly when significant fiscal consequences can flow from relatively narrow policy changes.

Misconceptions

The Interim Report discusses several misconceptions about HFE.¹⁸ While we generally agree with these, we have comments on the following statements within that section.

*If each state **operated at the national average policy**, the GST pool would simply be distributed on an equal per capita basis — pages 11 and 12.*

This is incorrect. The PC presumably means if each State had national average cost pressures and national average revenue-raising capacity then the GST pool would be distributed equal per capita.

States are not entitled to receive their population share of the GST pool — page 14

Although we agree with this, the PC's Supporting Paper says¹⁹ the CGC starts at an equal per capita distribution and then varies GST grants from this for differences in fiscal capacities. Hence, States are justified in querying the difference in the GST grants from equal per capita.

The GST distribution does not reward states with poor fiscal management — page 14

While this is not the intent, the CGC does not fully apply the HFE principle, as it uses observed revenue bases, not policy consistent revenue bases. Hence, any poor management that reduces revenue bases (including in some cases compliance effort) will result in additional GST grants.

A larger share of the GST pool is not, on its own, a fiscal win – it means more support is needed — page 15

Whilst this is the intent, it assumes the CGC accurately implements HFE, which in Chapter 1 of our previous submission we demonstrated is not the case.

¹⁸ Productivity Commission (2026), *GST distribution reforms: interim report*, pages 14-16.

¹⁹ Productivity Commission (2026), *GST Distribution reforms Interim report, Supporting Paper 1: Understanding Australia's system of fiscal transfers*, page 13.

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GST payments are not intended to influence state policy decisions — page 15

Whilst this is the intent, the lack of policy-consistent revenue bases (for all royalties and almost all taxes) and the dominant State issue result in potential influences.

Interim finding 1.1 of the Interim Report states:

A lack of understanding of the HFE system has undermined the quality of public debate on the topic — page 16

This is true. Although we would argue that, based on its Interim Report, the PC also does not appear to understand that the CGC does not fully apply the HFE principle.

Importantly, we think the PC has missed one very common misconception.

Many commentators have claimed that HFE gives the capacity for every person in Australia to receive the same standard of services regardless of where they live. For example,

- The Treasurer of New South Wales, Daniel Mookhey:²⁰

The Minns government's position is simple:

An Australian living in Fairfield in NSW, Frankston in Victoria, the Flinders Ranges in South Australia or Fortitude Valley in Queensland is worthy of the same support from their governments as an Australian living in Fremantle in Western Australia.

- Commentator on the GST Reforms, Saul Eslake:²¹

Which state you happen to live in matters far less for the quality of the schooling that your children get, or the quality of the health care that you, your parents and your children get, in Australia than it does in the United States, or Canada, or even Germany.

This is not true. The CGC interprets the same standard of services in light of what States do. As States provide a lower standard of services in more remote regions, the CGC only equalises to that lower standard for those populations. It does not give States with more remote populations the capacity to provide those residents the same standard of services as the capital cities.

The PC should include this in its list of misconceptions in its Final Report, to avoid the accusation of cherry-picking misconceptions that support its conclusions.

²⁰ The Daily Telegraph (20 August 2026), *GST clown show has to end* (and repeated at the September 2026 PC public hearings).

²¹ Saul Eslake (8 May 2024), *The Worst Public Policy Decision of the 21st Century thus Far - Address to the National Press Club, Canberra*.

Dominant State is not the only disincentive

The two options favoured in the Interim Report both involve reverting to pre-reform arrangements. The only exception is for either an instruction to the CGC to address dominant State issues (Option 1) or for the Commonwealth Government to provide additional funding to address dominant State issues (Option 2).²²

This is predicated on the view that the dominant State issue is the only substantive efficiency problem with the CGC's pre-reform assessments.

The inquiry has found that – with the exception of the dominant-state effect in the mining assessment and the operation of the new equalisation standard – the current GST distribution system (with and without NoWO payments) are broadly policy neutral. The pre-2018 system was also broadly policy neutral, with the exception of the dominant-state effect in the mining assessment. The inquiry's preliminary analysis suggests that there have been limited efficiency gains from reducing the level of equalisation in the current system — page 67

It is incorrect that the dominant State problem is the only significant policy neutrality problem that needs addressing.²³ As we discuss below, State policies can substantially affect their GST grants through two means – changes to their tax/royalty rates (where the impacts can be significant when there are dominant States) and changes to their revenue bases (where the impacts are almost always significant).

Changes in tax/royalty rates vs changes in revenue bases

The dominant State problem relates to the impact on assessments when States change their tax/royalty **rates**.

The following two tables show the pre-reform impact of changing tax rates (Table A-1) and royalty rates (Table A-2). Instances where the magnitude of this exceeds 10% of the change in revenue arising from the rate change are highlighted.

²² The dominant State issue refers to when one State has a sufficiently large revenue base per capita compared to other States that it has an undue influence on the national average tax/royalty rate. Under these circumstances, if the dominant State changes its tax/royalty rate, it has a significant impact on the CGC's assessment or revenue-raising capacity.

²³ We also reject the claim that the new equalisation benchmark to the standard State is not policy neutral. Policies of States under the standard State have largely no impact on their GST relativity.

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Table A-1

**Pre-reform GST impact of changing tax rate,
as a percentage of the resulting change in tax revenue**
2024-25

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Payroll tax	-0%	+1%	+1%	-4%	+2%	+1%	+0%	-0%
Land tax	-17%	-1%	+8%	+5%	+3%	+1%	+1%	+1%
Transfer duty	-6%	+2%	-0%	+1%	+2%	+1%	+0%	+1%
Insurance tax	-1%	+1%	-0%	+1%	-2%	+0%	+0%	+0%
Light vehicle registration	+2%	-0%	-1%	-1%	-1%	-0%	+0%	+0%
Heavy vehicle registration	+5%	+1%	-1%	-5%	-0%	-0%	+1%	-0%
Stamp duty on vehicle sales	+3%	-1%	-1%	-3%	+1%	+0%	+1%	+0%
Other taxes (including gambling)	-	-	-	-	-	-	-	-

Note: A dash indicates exactly zero impact. +0% and -0% indicate positive and negative impacts that round to zero.

Source: WA DTF calculations using 2024-25 data from the CGC 2026 Update. Results vary across years. Land tax and transfer duty results are an average across all value ranges.

Table A-2

**Pre-reform GST impact of changing royalty rate,
as a percentage of the resulting change in royalty revenues**
2024-25

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Iron ore				-88%	+6%	+2%		+1%
Coal	Loses roughly a fifth	-74%	Loses roughly half	Small gain		Very small gain		
Gold	+21%	+22%	+16%	-62%	+3%	+2%		-3%
Copper	+6%		+1%	+2%	-38%	+1%		
Lithium				-89%				+1%
Nickel				Loses roughly a sixth		Loses roughly a seventh		
Offshore petroleum				-89%				

Note: Cells are blank for the minerals that each State does not produce.

Source: WA DTF calculations using 2024-25 data from the CGC 2026 Update. Results vary across years. Results are not included for all minerals due to confidentiality. Results for coal and nickel are only approximate due to WA DTF not having access to detailed data due to confidentiality.

Appendix A: Rebuttal of specific statements in Interim Report

As shown in the tables, the impacts can be positive or negative. A positive impact means that a rate increase will not only raise tax/royalty revenue, but will also have an accompanying GST gain. A negative impact means that the additional tax/royalty revenue will be partly offset by a GST loss.

The only tax where the impact exceeds 10% is New South Wales' land tax, with a 17% loss. However, more significant changes can be seen for royalties, reflecting greater variations in per capita revenue bases.

By contrast, the following two tables show the pre-reform impact of changing tax/royalty **bases**. This could be through economic development policies, or (for transfer duty, land tax and motor taxes) compliance effort.²⁴ Our previous submission listed ways this could occur.²⁵

Table A-3

Pre-reform GST impact of changing tax base, as a percentage of the resulting change in tax revenue

2024-25

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Payroll tax	-67%	-67%	-89%	-93%	-105%	-107%	-81%	-120%
Land tax	-78%	-55%	-82%	-126%	-97%	-93%	-59%	Loss despite no land tax
Transfer duty	-70%	-63%	-88%	-96%	-95%	-107%	-147%	-75%
Insurance tax	-71%	-71%	-85%	-71%	-99%	-91%	-350%	-86%
Light vehicle registration	-54%	-95%	-87%	-77%	-113%	-115%	-89%	-120%
Heavy vehicle registration	-49%	-91%	-87%	-105%	-108%	-118%	-20%	-192%
Stamp duty on vehicle sales	-76%	-67%	-92%	-72%	-91%	-132%	-115%	-126%
Other taxes (including gambling)	-	-	-	-	-	-	-	-

Note: A dash indicates exactly zero impact.

Source: WA DTF calculations using 2024-25 data from the CGC 2026 Update. Results vary across years. Land tax and transfer duty results are an average across all value ranges.

²⁴ The CGC measures these tax bases by States' recorded tax data.

²⁵ Western Australian Government (February 2026), *Western Australia's submission to the 2026 Productivity Commission inquiry into the GST distribution reforms*, page 11.

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Table A-4

**Pre-reform GST impact of changing royalty production,
as a percentage of the resulting change in royalty revenues**
2024-25

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Iron ore	-69%	-74%	-79%	-89%	-312%	-336%	-98%	-99%
Coal	Loses roughly three quarters	-74%	Loses roughly three quarters	Loses roughly double	-93%	Loses multiple times	-98%	-99%
Gold	-71%	-62%	-24%	-95%	-71%	-101%	-98%	-45%
Copper	-73%	-74%	-58%	-74%	-104%	-133%	-98%	-99%
Lithium	-69%	-74%	-79%	-89%	-93%	-98%	-98%	-99%
Nickel	<i>Loses almost double</i>	<i>Loses almost double</i>	<i>Loses almost double</i>	<i>Loses almost double</i>	<i>Loses roughly double</i>	<i>Loses roughly double</i>	<i>Loses roughly double</i>	<i>Loses roughly double</i>
Offshore petroleum	-69%	-74%	-79%	-89%	-93%	-98%		-99%

Note: Results are in italics for the minerals that each State does not produce. In these cases, it is assumed that if that State discovered that mineral, it would levy the national-average royalty rate for that mineral. Result is blank for ACT offshore petroleum as the ACT has no offshore areas.

Source: WA DTF calculations using 2024-25 data from the CGC 2026 Update. Results vary across years. Results are not included for all minerals due to confidentiality. Results for coal and nickel are only approximate due to WA DTF not having access to detailed data due to confidentiality. Most results require some WA DTF estimation of royalty rates.

The impacts are all negative, and all exceed 10% in magnitude, apart from taxes included in the CGC's Other Revenue assessment (the most significant of these is gambling taxes).

In many cases, the loss exceeds 100%, reflecting that State having a lower tax/royalty rate than the national average.

What is not shown is that for some land tax value ranges, WA loses up to 213% of increased revenue from a base increase (e.g. higher compliance effort).²⁶

These wide-ranging impacts show the large economic disincentives inherent in HFE as quantified by the CGC. This is because the CGC uses observed revenue bases, not policy-consistent revenue bases as required by the HFE principle.

Unfortunately, the pre-reform system effectively attributes any revenue gains from developing revenue bases to natural capacities and nothing to the underlying policy drivers. In a world of unilateral State actions, the first State to reform arguably takes the greatest political risk, but it then risks losing most, if not all, of the additional revenues generated. Therefore, the underlying system provides an incentive for States to keep their assessable bases small and tax at higher rates rather than to tax a broader or larger base at a lower rate.

²⁶ *ibid.*, page 63.

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This is despite it being more productive and economically efficient for States to focus on developing their revenue bases rather than relying on tax/royalty rate increases.²⁷

This has been the approach taken by WA. Since the reforms have been in place, rather than focusing on increasing royalty rates, WA has delivered investments in regional infrastructure, community assets and economic development that strengthen the State's long-term productive capacity. These investments have helped generate new economic opportunities, supported major project development and improved the attractiveness of resource regions for workers and businesses. As a result, they have expanded the State's revenue base and contributed to a larger economy.

These benefits are not confined to WA. A stronger WA economy generates additional exports, employment, company tax, income tax and economic activity that benefit the entire nation.

This is the type of economic efficiency outcome that the 2018 GST Reforms were intended to support, by reducing the extent to which States are penalised for policies that expand their own revenues and economic capacity.

Implications for Interim Report Options 1 and 2

The Interim Report Options 1 and 2 are not acceptable due to their large economic disincentive effects. It is wrong to only list the dominant State problem as the fix required when there are such substantial issues to revenue bases.

Option 1 would also require the CGC to use policy-consistent revenue bases, instead of observed revenue bases. In the absence of this, Option 2 would require the Commonwealth Government to compensate any State disadvantaged by the CGC not using policy-consistent revenue bases.

For example, at the 2026 Public Hearings on the GST Reforms, the New South Wales Treasurer stated that the GST system is affecting their decision to develop the critical minerals industry (through investment in roads, infrastructure etc.). This is a clear example where a State is disincentivised to grow a revenue base due to the use of observed revenue bases. However, if the CGC were able to use policy-consistent revenue bases, the disincentive would be removed.

²⁷ For example, the PC's 2025 report *National Competition Policy: modelling proposed reforms* shows how economic reforms unrelated to the tax-system can increase economic growth and in turn increase government revenues. The PC's modelling also explicitly fixes tax rates (unless otherwise shocked), so the only way government revenues can increase is through base expansion (see page 218 of Appendix C).

Dominant State policy making

In our initial submission, we outlined a range of reasons why tax and royalty rate changes may not go ahead.²⁸ Whilst these were addressed by the PC in the Interim Report, the PC incorrectly stated:

In the 2011–12 Western Australian Budget, the then Western Australian Treasurer announced that the royalty rate on iron ore fines would be gradually increased to 7.5%, despite the Australian Government warning that this would reduce Western Australia's GST payments (Gillard 2011; Porter 2011, p. 12). As a result of these changes to prices, volumes and policy decisions on royalty rates, Western Australia's iron ore royalty revenue increased from around \$280 million in 2001–02 to \$5.5 billion in 2013–14 (Government of Western Australia 2003, p. 120, 2015, p. 115). — page 19

This is not correct. The implementation of the increase in the fines royalty rate was undertaken to remove a concessional royalty rate that was put in place to facilitate the extraction of fines – a lower quality ore.

The removal of the concession required negotiation with the resource companies given the royalty rate was contained in State Agreement Acts. This took some time and was not simply a 2011–12 Budget decision as outlined in the Interim Report. The revenue benefit was brought to book in that Budget as that is when the amendments to State Agreement Acts were implemented.

At this same time, the CGC were conducting the 2010 Review. In the final report of this review, the CGC amended the treatment of iron ore fines to include it in the 'high rate' category.²⁹ This amendment was not in the CGC draft report nor subject to consultation with the States – it was a complete surprise when released in early 2011. The impact was to effectively result in WA losing more in GST grants than royalty revenue as a result of the royalty rate increase.

To address this absurd outcome, WA argued for the Commonwealth Treasurer to not accept the CGC proposal (the PC incorrectly states it was the Australian Government who warned WA of the impact) and the CGC were subsequently directed to treat iron ore fines in the 'low rate' category in the mining revenue assessment.

This is an example where the dominant State issue was magnified by CGC methods, much like the treatment Queensland faced in the CGC's 2025 Review after changing their royalty rate on coal, providing real-world evidence that full equalisation is not policy neutral and can create uncertainty by exposing States to significant redistribution effects from policy decisions unrelated to their underlying fiscal capacity.

²⁸ Western Australian Government (February 2026), *Western Australia's submission to the 2026 Productivity Commission inquiry into the GST distribution reforms*, page 65.

²⁹ At the time the CGC assessed minerals in two categories, 'high' or 'low' based on their royalty rate.

Fixing the dominant State problem

Recommendation 4.1 of the Interim Report states:

Australia should move back towards the pre-2018 GST distribution system but the Australian Treasurer should direct the CGC to address dominant-state effects — page 86

In its 2004 Review, the CGC first articulated its ‘three pillars of equalisation’, which included policy neutrality.³⁰ In implementing this supporting principle, the CGC has largely focused on the impact of tax/royalty rates, which effectively means the dominant State issue.³¹

However, in all the years since the 2004 Review, the CGC has been unable to resolve the dominant State issue. It would be naïve of the PC to think that this could be dealt with simply through a terms-of-reference instruction to the CGC.

The PC has listed possible options for addressing dominant State issues in the Mining Revenue assessment. Of these, only discounting all mining assessments is acceptable, as it:

- also addresses the disincentives of growing the revenue bases;
- does not discriminate among States according to whether or not they are dominant; and
- does not discriminate among States according to whether they made royalty rate changes in the past or make them in the future.

To mitigate the dominant State issue, we recommend the PC’s Final Report should also include our other preferred approach of setting the standard royalty rates at the levels that applied when the GST was introduced in July 2000.³²

- This would recognise increases in royalty rates as additional revenue raising effort, which would not be equalised away, just as it would largely not be equalised away if a State made a tax rate change.
- Like discounting all mining assessments, it would not discriminate among States according to their dominance and the timing of their royalty rate changes.
- The CGC has considered “external” standards (i.e. international rates) as an option – this would be similar, but would reflect Australian circumstances.

³⁰ Commonwealth Grants Commission (March 2025), *2025 Methodology Review – Review Outcomes*, chapter 30, page 312, footnote 5.

³¹ Ironically, in the 2004 Review, the CGC also re-introduced the dominant State problem into its Mining Revenue assessments by a move to component assessments (which it had abolished in the 1993 Review). This was due to the CGC’s move from a profit measure to value of production as its revenue base.

³² We have proposed this to the CGC and listed it as a way of setting the iron ore standard in pages 16 and 17 of our previous submission.

Standard State equalisation

As its fall-back third option, the Interim Report recommended that equalisation to the standard State be removed from the reforms:

The standard state benchmark has introduced the possibility of the system producing perverse outcomes that invert the logic of HFE. For example, the benchmark means that Western Australia could gain additional GST revenue when New South Wales or Victoria experiences a natural disaster. If New South Wales incurs net fiscal costs associated with a bushfire for example, its relative fiscal capacity decreases, leading to a higher GST relativity and share of GST revenue. While all other states would experience a reduction in their share of the GST pool, Western Australia would have its GST share increased to match the now higher standard state benchmark. In some circumstances, the operation of the standard state benchmark can also mean that increases in Western Australia's own-source revenue can lead to an increase in its share of GST revenue — page 2

The Interim Report also bemoans that equalisation to the standard State only addresses the dominant State problem for States that are fiscally stronger than the standard State:

In the current system, dominant states that also have greater fiscal capacity than the standard state (currently only WA) bear much lower cost through lower GST revenue, but other states still do — page 49

We reject Option 3 and the reasoning that leads to it for reasons outlined below.

Purpose of equalisation to the standard State

The PC 2018 Inquiry recommended equalisation to the strongest State be replaced with a new benchmark of equalisation to the average. It found this would give the best efficiency improvements of the benchmarks it considered.

The Commonwealth Government decided this was too drastic a change from equalisation to the strongest State, and settled for equalisation to the stronger of New South Wales and Victoria. This was a more limited change, with a more limited objective as follows:³³

Benchmarking all states to the economies of the two largest states would remove the effects of extreme circumstances, like the mining boom, from Australia's GST distribution system.

This goal has been achieved — WA and Queensland have both had their mining-induced volatility mitigated.

³³ Australian Government (July 2018), *Productivity Commission inquiry into horizontal fiscal equalisation: Government interim response*, page 16.

An advantage of this benchmark is that the relativities of New South Wales and Victoria, as the two most populous States, are inherently more stable. Furthermore, if the relativity of one of these States trends up, the relativity of the other will almost certainly trend down, as together they account for 57% of the national population.

The Commonwealth Government also implemented a fixed floor of 75% as a safety net:³⁴

A GST relativity floor would provide an additional safety net to guard against the unlikely event of an economic shock that is extreme enough to introduce significant volatility into the HFE system, even under a new equalisation standard.

This floor potentially benefits both New South Wales and Victoria as well.

Movements in standard State benchmark

The equalisation to this standard State benchmark is essentially a floating floor. It floats because it brings any extremely low relativities up to the minimum of the non-extremely low relativities, which is a moving target. However, the movements in that target are comparatively small.

As per the Interim Report, movements in this floating floor may not be consistent with changes in WA's fiscal circumstances. This is nit-picking for the following reasons.

- The benchmark is meant to move.
- The benchmark is meant to ameliorate extreme HFE outcomes, not to mimic them.
- The results are not meant to be precise.
 - Illustrating this, the Interim Report example of WA gaining \$20 million from a bushfire in New South Wales does not even meet the CGC's \$12 per capita materiality threshold for data adjustments.
- Movements in the threshold will have swings and roundabouts.
 - As one of many possible examples, a bushfire in New South Wales may occur at the same time as a property boom in New South Wales reduces the benchmark.
 - A real-life example was given in a criticism that has been raised by the New South Wales Treasury on various occasions:³⁵

It comes after the secretive Commonwealth Grants Commission bizarrely declared the sleepy coastal escapes and regional towns of Kiama, Googong, and Stanwell as "major cities" in a move which cost NSW half a billion dollars in GST revenue.

³⁴ *ibid*, page 17.

³⁵ Daily Telegraph (20 August 2026), *Longer commutes for Sydneysiders could boost WA's tax share under GST "circus"*.

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This change not only reduces New South Wales' relativities significantly, but also reduces WA's post-reform relativities from 2026-27 onwards. However, we have not claimed that this is inequitable for WA – it is simply the reality of a floating benchmark.

- Substantive increases in New South Wales' relativity will be offset, as they will almost certainly correspond to decreases in the Victorian relativity, making Victoria the standard State.

With regard to the oft-quoted New South Wales bushfire example from the Interim Report, pre-reform arrangements have plenty of 'perverse' outcomes. Some examples are as follows.

- As a result of nickel becoming less profitable (due to price falls, which have also resulted in reduced production), in its 2026 Update the CGC increased the royalty rate that it uses to assess WA's capacity to raise nickel royalties.³⁶
- A new coal mine royalty holiday by New South Wales would reduce WA's pre-reform relativity.
- As discussed in the *Dominant State is not the only disincentive* section of this appendix, States which make policy decisions to increase their revenue bases (with the exception of gambling) receive reduced relativities. As discussed in the *HFE is unquantifiable* section of this appendix, it is 'perverse' that the CGC only fully applies the HFE principle for gambling taxes.

Compared to the problems with the pre-reform assessments, the so-called 'perverse' results of equalisation to the standard State are minor.

Also, contrary to the Interim Report, any change in the circumstances of a State below the standard State (e.g. mining production) will have minimal impact on that State's post-reform relativity, as the movements in the relativities of that State and the standard State will largely offset.³⁷

Finally, the so-called 'perverse' results from equalisation to the standard State could be removed by replacing the floating floor with the long-run average of the standard State relativity, as a fixed floor for States other than New South Wales and Victoria. Over time, this would give exactly the same GST grants. Nonetheless, in roughly half the years, States below the standard State would have their relativities raised to above the standard State (offset by being below in other years). However, this would be seen by State Treasurers as unreasonable – far more so than the technical so-called 'perverse' results under the current reforms.

³⁶ Due the CGC assessing nickel within the Other Minerals component (so applying the national average royalty rate across all minerals in that component), rather than continuing assessing it separately.

³⁷ WA DTF has provided PC staff with a spreadsheet to demonstrate this.

Efficiency gains for more States

We note that equalisation to the average would significantly mitigate the Interim Report New South Wales bushfire example. We also note that equalisation to the average would address the PC's concern that efficiency gains are restricted to States with higher fiscal capacity than the standard State.³⁸ We estimate that equalisation to the average would have only raised the 2026-27 NWOOG payments from the \$5.5 billion in the CGC's 2026 Update Report to \$6 billion. Despite this, the PC has not been prepared to list its previous recommendation of equalisation to the average.

Complexity

The Interim Report claims that the reforms add complexity — this is utterly misleading:

Several inquiry participants noted that the 2018 reforms have increased complexity in the GST distribution system (Government of South Australia, sub. 13, p. 4; NSW Government, sub. 61, p. 10; Victorian Government, sub. 59, p. 47). As outlined above, the calculation of relativities has become significantly more involved, with the CGC now required to keep 'multiple books' of relativities: assessed relativities, standard state relativities and GST relativities (figure 2.1) — page 36

The additional steps associated with the reforms are trivial compared to the CGC's immensely complex model for distributing GST. The Interim Report Figure 2.1³⁹ portrays the reforms as expanding the calculation from one step to three, but the first step is substantially more complex than the other two steps combined. For example, the first step includes:

- collecting data on each State's spending and revenues;
- for each area of spending and revenue collection, identifying and measuring cost disabilities and revenue bases;
- for each area of spending and revenue collection, calculating assessed expenditures and revenues;
- determining GST requirements; and
- converting GST requirements to relativities.

In comparison, steps two and three, required for the reforms, only involve a handful of calculations with no additional data. Furthermore, the calculation of the reforms requires no judgement.

³⁸ On the other hand, removing equalisation to the standard State, and only retaining the 75% floor, means that there is less scope for any State other than WA to obtain the efficiency benefits.

³⁹ Productivity Commission (2026), *GST distribution reforms: interim report*, page 24.

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The “simulator” spreadsheets provided to States comprise 284 spreadsheets, typically containing multiple sheets, equating to 0.98 GB. This does not include a large amount of confidential data and processing of that data into non-confidential inputs. The post-reform relativities are calculated in a single sheet and the NWOOG relativities are calculated in another single sheet. Deleting these two sheets reduces the size of the calculations by 60kB or 0.0057%.

In addition, the reforms have not made the task of forecasting GST grants any more difficult. If a State can forecast its pre-reform GST relativity (which is what it will get if the NWOOG applies), then it is a simple mechanical calculation to convert that to a post-reform relativity. Also, any error in that State's pre-reform projections due to WA's mineral production (the biggest source of fluctuation in relativities) will currently be essentially removed from the post-reform relativities.

The reforms are fiscally sustainable for the Commonwealth

Sustainability

The cost of the reforms is a key factor that underpins the Interim Report recommendations. The Interim Report cites that the 2018 reforms have cost more than expected due to elevated NWOOG payments:

The need for ongoing NoWO payments has created an open-ended fiscal liability for the Australian Government that moves in line with commodity prices. These payments are forecast to cost \$6 billion in 2025-26, but if iron ore prices or production increase, the payments could reach \$12 billion per year — Page 4

The cost to the Australian Government is significant and volatile. Making the NoWO guarantee permanent requires payments of \$5.7 billion ongoing at current commodity prices and creates a significant ongoing exposure to commodity prices — Page 86

The Interim Report briefly acknowledges that higher iron ore prices will generate additional tax collections for the Commonwealth, but does not estimate the net fiscal effect:

Higher iron ore prices also generate additional Australian Government revenue through company and personal income taxes. While the PC has not estimated the net fiscal effect, the associated rise in NoWO payments diminishes at least part of that revenue gain — Page 57

It is our argument that the Interim Report should have considered the net fiscal effect. Focusing solely on the higher-than-expected cost to the Commonwealth fails to answer the question of whether the reforms are fiscally sustainable — both costs and benefits must be considered.

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It is simple to calculate how increases in the iron ore price translate to increases in royalties paid to the WA Government and increases in company tax collections paid to the Commonwealth Government.

In our first submission to the current Inquiry, we calculated that increases to the NWOOG due to higher iron ore prices correlate with a company tax increase nearly four times as large.⁴⁰ As NWOOG payments have been \$20 billion higher than expected to date, the Commonwealth has received an additional \$60-80 billion in company tax. If annual NWOOG payments were to double to \$12 billion per annum (an unlikely scenario), the Commonwealth would receive \$18-24 billion in additional company tax each year.

In terms of impact on the Commonwealth Budget, this means that any unexpected increase in the NWOOG will be more than offset by unexpected increases in company tax. This makes the PC's concerns around the open-ended, uncapped nature of the NWOOG unfounded as the Commonwealth is always a net beneficiary from increases in the iron ore price.

Although it is true that the reforms divert some of that additional company tax to the NWOOG, this reflects the intent of the reforms, which was to effectively limit how much royalty revenue could be diverted to other States through an extremely low GST relativity.⁴¹

The Interim Report has also commented that, contrary to the intentions of the reforms, the other States have not benefitted:

The GST pool boost that was introduced as part of the 2018 reforms was intended to make all states 'better off' by increasing the amount of GST revenue available for distribution. But the reforms have only materially benefited Western Australia, improving its fiscal position relative to other states — Page 3

While it is true to say that all States have yet to benefit from the GST pool boost, this is only because iron ore prices have been higher-than-expected. What should be recognised is that these higher-than-expected iron ore prices have provided a benefit to all States, as the NWOOG ensures they receive the same GST grants that they would have received without the reforms. In fact, other States are set to receive \$34 billion in additional GST grants due to the elevated iron ore prices to date, compared to what they were forecast to receive if the iron ore price remained in line with 2017-18 forecasts.

⁴⁰ Western Australian Government (February 2026), *Western Australia's submission to the 2026 Productivity Commission inquiry into the GST distribution reforms*, page 86.

⁴¹ Note that under the reforms, a significant portion of Western Australia's iron ore royalties are still effectively diverted to other States. This is featured in Western Australian Government (February 2026), *Western Australia's submission to the 2026 Productivity Commission inquiry into the GST distribution reforms*, Table 1.10, page 31.

Volatility

The Interim Report expresses concern that volatility has been largely only reduced for WA:

...the 2018 reforms have had little effect on year-on-year volatility, except in Western Australia, where volatility is noticeably reduced ... For the other states, changes are minimal — page 34

The priority of the reforms was to reduce the volatility of States undergoing a large economic shock like the 2010s mining boom. This objective has clearly been achieved. The reforms protected WA from unacceptably low GST shares, including just 10% of its per person share of GST in 2023-24. All States would now be protected if they underwent a similar shock.

As the Interim Report points out,⁴² GST distributions are a constant sum game. Reducing volatility for WA will, by definition, reduce volatility for other States.⁴³ The reforms have also insulated the GST system from fluctuations in iron ore prices, reducing uncertainty for non-mining States. We demonstrated both these points in chapter 2 of our initial submission.

The Interim Report also expresses concern that volatility has shifted to the Commonwealth:

...the reduction in revenue volatility for Western Australia has come at the direct expense of the Australian Government, and therefore at the expense of citizens from all states. Consequently, the cost of revenue volatility has not been eliminated; it has merely been shifted and spread between governments — page 34

The Commonwealth is in a better position to manage this volatility than WA is, given its substantially larger Budget, the vertical fiscal imbalance between the Commonwealth and the States, and the outsized benefit the Commonwealth receives in company tax collections as a result of iron ore price increases, relative to the NWOOG increase.

In fact, the NWOOG actually reduces the Commonwealth's volatility by counteracting movements in company tax collections.

⁴² Productivity Commission (2026), *GST distribution reforms: interim report*, page 11.

⁴³ The other States have in practice foregone that volatility reduction in return for the NWOOG.

Economic investment

Lack of recognition in the Interim Report

The Interim Report failed to acknowledge the GST Reform's efficiency improvements because it largely assesses economic efficiency through the narrow lens of tax/royalty rate changes:

...there is little evidence that significant departures from HFE result in notable efficiency gains — page 77

Reforms have only just been fully phased in

It is not clear why the PC has taken the view that a reform, of which one part has only fully come into effect as of 1 July 2026, can be seen as having had no effect on incentives. As with many reforms, it takes time for the full effects to flow through.

The PC's conclusion would be similar to concluding that a series of reductions in the corporate tax rate is an unsuccessful policy because there wasn't an immediate, appreciable increase in business investment and that the policy is largely redundant because businesses were already investing in Australia.

Productive use of increased GST revenue in WA

The GST Reforms have enabled significant economic investment and State policy reform.

Providing highly productive States with more fiscal capacity is in the national interest. WA produces almost half of the nation's goods exports, and our GDP per capita is over 50% above average. Every dollar invested in WA has produced more than it would have in any other State, and WA has made significant investments thanks to the reforms.

Independent analysis by ACIL Allen, provided to the PC, found that the reforms enabled almost \$23 billion in additional economic investment in WA, resulting in a \$68 billion boost to the national economy.

The WA Government has implemented a range of economic diversification initiatives designed to expand the State's productive capacity and create new sources of growth. By supporting the development of emerging industries, attracting private investment, fostering innovation, and strengthening value-added industries, these initiatives help grow the overall size of the economy rather than simply redistributing existing economic activity.

Listed below are a range of initiatives that have grown the State's resources (and revenue) base, at least some of which would likely not have occurred without the GST Reforms.

- \$1 billion Strategic Industries Fund — to support the development and activation of Strategic Industrial Areas across WA.

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- \$750 million Resources Community Investment Initiative — to deliver investments in regional infrastructure, community assets and economic development that strengthen the State's long-term productive capacity.
- \$455 million Investment Attraction Fund — to attract new investment that will create jobs using a targeted and coordinated approach.
- \$230 million Collie Industrial Transition Fund — to develop industrial land in Collie and attract large-scale industrial projects that can provide long-term, sustainable jobs.
- \$182 million Exploration Incentive Scheme — to promote and accelerate exploration in greenfield regions.
- \$180 million Lithium Industry Support Program — providing assistance to the critical lithium industry and advancing the State's push to become a global battery minerals processing hub.
- Enabling infrastructure to unlock the \$US4.5 billion Perdaman Urea Manufacturing facility.

In addition, WA has also invested \$366 million in approvals reforms, which have improved the timeliness of decision-making and facilitated major project development across the State. Similarly, WA has undertaken an extensive regulatory reform agenda to streamline regulations for planning and zoning, which will benefit strategically significant projects such as the Western Trade Coast.

The 2018 GST Reforms changed the incentive structure, making it more worthwhile for WA to invest in these initiatives to promote economic growth and generate productivity enhancing benefits for the nation as a whole.

Funding economic development

...if state activity generates material, uncompensated, policy relevant fiscal spillovers to the Australian Government and there is evidence that in the absence of payments, the state's activity would be inefficiently low, there is a straightforward policy solution available: the Australian Government can subsidise these activities directly... — page 33

This claim fails to recognise that Commonwealth funding can be uncertain, difficult to negotiate, and rarely allows the flexibility to fund innovative and time-sensitive programs.

Splitting responsibility across two levels of governments duplicates efforts and reduces accountability. Fundamentally, WA is responsible for industry development within the State and needs the financial capability to make investments that support both the WA and national economies — which is what the reforms ensure.

Appendix B: WA arguments not addressed in the Interim Report

Table C-1

Arguments in WA's First Submission Not Addressed in Interim Report

Chapter 1

Argument	Page numbers
There are many uncertainties in the CGC's calculations, as illustrated by the changes implemented in each method review (generally every five years)	8-10
The HFE principle refers to States making the same effort to raise their own revenues, but the CGC does not attempt to calculate what States' revenue bases would be if States had the same policies	11-14
The CGC assesses standard polices for service provision and tax/royalty rates, but these standards are arbitrary	14-18
There is an ongoing conflict between complexity of the CGC methods and data robustness	19-20
The reforms are the appropriate response to unquantifiable HFE	20-21
The reforms have addressed perverse outcomes with the system, supporting community confidence	22-23
The reforms provide better balance than equal per capita, or average State benchmark options	24-26
Maintaining the floor is vital to provide a guarantee for all States in extreme circumstances (including Victoria and New South Wales)	27-28
Every other OECD federation has a system of partial equalisation to better balance equity and efficiency	29-31
WA is not compensated adequately through CGC methods for its remote and Indigenous populations	32-35
Contentious CGC decisions can significantly impact State fiscal capacities, such as the CGC's decision to change its treatment of COVID-19 expenses	36-37
The CGC did not introduce a capital assessment until the 2010 review, and would have distributed \$24 billion to WA if it was introduced in the CGC's 1982 review	38-39
The CGC has redistributed all but WA's population share of North West Shelf royalties to other States since its inception, despite historic costs of \$12 billion to WA to secure its development in the 1970's and 1980's	39-40
WA primary industries suffered historically from tariffs to support the eastern States manufacturing industry, leading to inequity between the States	40-42
Initially the CGC recommended special grants to the States, which did not require full equalisation or donor States	42-43
While WA has historically received more than its population share of funding, it has been a cumulative donor State for over a decade	43
WA has by far the largest fiscal subsidy to the nation, with New South Wales being the only other net contributor	44-47

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Table C-2

Arguments in WA's First Submission Not Addressed in Interim Report

Chapter 2

Argument	Page numbers
The reforms improve the ability of all States to forecast their GST revenues as non-mining States are less susceptible to volatility due to royalty fluctuations which they do not have access to data for	51-52
The reforms insulate from periods of instability, especially for mining States during commodity price shocks	53
New South Wales and Victoria have well diversified economies with relatively stable expenditure, which make them suitable benchmarks, especially when compared to the volatility in mining States' revenue strength	53-56
The benchmark's operation in only 18 of 84 years supports its role in exceptional circumstances	57-58
Assessment lags result in the majority of the GST impacts from policy decisions fall outside the forward estimates, which can distort decision making	58
The reforms reduce the impact of the negative amplification of economic downturns due to the CGC's data lag	59

Table C-3

Arguments in WA's First Submission Not Addressed in Interim Report

Chapter 3

Argument	Page numbers
There is no consideration of holistic revenue raising capacity under the CGC's methods of HFE	62
The significant redistribution of a revenue base is a barrier for States to pursue revenue reforms. This removes the incentive for States to grow their economies	62-63
The system should incentivise growing industry bases in general, and specifically industries that are as productive as the mining sector, rather than penalising them or encouraging over-taxation	71
The cost of public works in regions that support WA's mining industry are significantly higher in these remote communities due to limited local capacity and the cost of importing resources	72
WA has used the additional funds from the reforms to invest in its economy, at the benefit of the whole nation	73
The reforms have allowed WA to commit a record program of asset investment, a substantial share of which is dedicated to economic infrastructure, such as utilities and ports	73-74
The reforms allow the WA Government to make significant investments in economic infrastructure and programs, supporting new sectors and expanding existing industries	75-76
WA has managed its finances responsibly throughout the introduction of the reforms	76-77

Appendix B: WA arguments not addressed in the Interim Report

Table C-4

Arguments in WA's First Submission Not Addressed in Interim Report

Chapter 4

Argument	Page numbers
All States are better off than they expected to be when the reforms were brought in, as the iron ore price has been higher than expected	83-84
States abolished a number of taxes with the understanding that the GST would replace the foregone revenue, which is invalidated by extremely low relativities	90-91
States expected the GST pool to grow at a faster rate to account for foregone revenue, but more exclusions were introduced for goods and services than initially planned	91

Table C-5

Arguments in WA's First Submission Not Addressed in Interim Report

Chapter 5

Argument	Page numbers
WA Government recommended a 25% discount to mining <u>in addition</u> to the 2018 GST Reforms	93
The CGC already discounts assessments for policy neutrality, namely for gambling revenues	94
There is no sharp line between discounting for data/ method uncertainty and discounting for policy neutrality. They fall on a sliding scale	94
Discounting mining revenues aligns Australia with similar Federations, namely Canada and Germany	100-101
A mining discount has wide, long-standing support from industry	103

Appendix C: WA arguments addressed in the Interim Report

- Dominant State effects in mining assessments:
 - WA submission (page 16): When mineral production is concentrated in a State, that State determines the national average royalty rate. This created substantial GST disincentives for a State to increase both the rate and base for that mineral.
 - Interim Report (pages 48-49 and 85-86): Acknowledges the dominant State issue and recommends that the CGC is directed by the Commonwealth Treasurer to address the issue without suggesting a method for doing so. This is despite the CGC previously being unable to resolve the longstanding dominant State issue.
- GST volatility and revenue predictability:
 - WA Submission (pages 49-50): The reforms reduce GST volatility and support fiscal planning.
 - Interim Report (pages 66 and 77): Examines arrangements with and without the NWOOG. In the scenario with the NWOOG retained, the modelled volatility indicator is substantially lower for WA, slightly lower for Queensland and unchanged for other States compared with the pre-2018 system.
- Commonwealth company-tax gains and NWOOG costs:
 - WA Submission (page 86): Higher iron ore prices generate additional Commonwealth company tax receipts estimated at four times the associated increase in NWOOG costs.
 - Interim Report (page 57): Acknowledges additional tax receipts due to elevated iron ore prices but does not estimate the Commonwealth's net fiscal effect or consider the impact on sustainability.
- Specific royalty-rate decisions:
 - WA Submission (pages 65-68): Iron ore fines, the proposed gold royalty rate increase and Queensland's coal royalty changes demonstrate that GST consequences influence policy decisions.
 - Interim Report (pages 49-50): Examines the specified royalty rate episodes but fails to acknowledge the existence of the disincentive. Additionally, it does not address our wider comparison of the GST consequences of revenue base growth versus royalty rate increases.

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- National spillovers as a rationale for additional funding:
 - WA Submission (page 73): State investment benefits other States and the Commonwealth through supply chains, economic activity and taxation.
 - Interim Report (page 33): Explains that targeted Commonwealth payments outside the GST system could address material, uncompensated fiscal spillovers where activity would otherwise be inefficiently low. Our quantified ACIL Allen evidence remains inadequately addressed.
- Protection of other States from direct GST losses:
 - WA Submission (pages 83-84): The NWOOG protected other States from cumulative losses in combined GST and NWOOG receipts relative to the pre-reform system. Such losses do not explain their fiscal deterioration to date.
 - Interim Report (page 32): Confirms that this is the case and identifies expenditure growth and other Budget pressures as drives of fiscal deterioration.
- Other Commonwealth payments and quarantining:
 - WA Submission (page 88): Quarantined payments should follow consistent guidelines and be explained. GST outcomes and perceptions of the reforms may also influence the negotiations of other Commonwealth funding.
 - Interim Report (pages 96-97 and Appendix E pages 6-10): Examines inconsistent exemptions for quarantined payments and recommends increased transparency. The PC did not find that the reforms have influenced other Commonwealth payments. The PC's analysis found that WA's other Commonwealth payments have not been negatively connected to its share of GST payments.
- Mining discount proposition:
 - WA Submission (pages 96-98): Adding a 25% mining revenue discount while retaining the 2018 reforms would reduce GST disincentives for royalty rate changes and revenue base growth. This measure would also significantly reduce the NWOOG costs.
 - Interim Report (pages 77-80): Models mining discount under the pre-2018 system as a possible response to dominant State effects. WA's proposal to retain the 2018 reforms and 25% mining discount is not modelled and the associated NWOOG savings are not assessed.
- Transparency, data access and explanations of CGC decisions:
 - WA Submission (page 118): Confidential data and insufficient explanations limit scrutiny of significant assessment decisions.
 - Interim Report (pages 91-92): Proposes improved data access, disclosure of adjustments and explanations of how competing principles are weighted.

Appendix D: Agreements with the Interim Report

Recommendations on Governance

We are broadly supportive of the overall direction proposed in the governance chapter of the Interim Report, subject to some exceptions. Stronger transparency, clearer accountability and more effective intergovernmental institutions would improve the wider federal financial relations system. Table B-1 summarises our position on some of the governance recommendations.

Table B-1

Positions on Governance Recommendations

Recommendation	WA's position
Recommendation 5.1: Monitoring the potential for the HFE system to contribute to diverging state outcomes	Do not support
Recommendation 5.2: There should be a more transparent approach for quarantining Commonwealth payments	Support
Recommendation 5.3: Ensure Federation Funding Agreement schedules provide net benefits for the community	Support
Recommendation 5.4: Update the IGAFRR, its schedules, and the enabling legislation.	Partially support
Recommendation 5.5: Improving the functioning of CFFR	Support
Recommendation 5.6: Enhancing the GFS	Support
Recommendation 5.7: Improving the governments' long-term fiscal sustainability reporting	Do not support

Recommendation 5.1

We do not support Interim recommendation 5.1 in its current form.

This recommendation risks attributing differences in fiscal and service delivery outcomes between States to the HFE system without adequately recognising the significant role of State policy choices in determining those outcomes.

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States make different decisions regarding economic development, infrastructure, investment, regulation, service delivery and management which the underlying GST system fails to adequately account for. As outlined in our initial submission, observed State revenue bases are themselves influenced by a wide range of State policies, including infrastructure investment, regulatory and approvals frameworks, and regional and business development policies. Consequently, an observed relationship between a State having greater fiscal capacity and achieving different fiscal or service delivery outcomes would not demonstrate that the HFE system itself has caused those outcomes to diverge.

Recommendation 5.2

We support this recommendation. We agree that greater transparency in the process for quarantining Commonwealth payments would improve accountability and consistency in the treatment of payments. Requiring requests and decisions to be publicly documented, including the reasons for each decision, would provide greater clarity around the application of quarantining arrangements.

Recommendation 5.3

We support this recommendation. We agree that Federal Funding Agreement schedules should be consistent with the agreed principles of federal financial relations and provide a clear net benefit to the community. In particular, avoiding low-value agreements with highly localised benefits will help to reduce unnecessary costs and improve the overall efficiency of the intergovernmental funding allocation system.

Recommendation 5.4

We partially support this recommendation.

States and the Commonwealth agreed to updates to the Intergovernmental Agreement on Federal Financial Relations (IGAFFR) following the establishment of the Federal Funding Agreement Framework in 2020, which is reflected in the new Schedule F. While further updates may be desirable, any changes should first be agreed on in negotiations between jurisdictions and balance the benefits of clearer documentation against the administrative burden associated with further amendments.

Recommendation 5.5

We support this recommendation. We agree with the direction to strengthen the operation of the Council on Federal Financial Relations (CFFR) and agree that it would allow for more effective collaboration between the Commonwealth and States. An increased meeting cadence, greater opportunity for State-led matters to be considered, and improved transparency around CFFR outcomes and escalation processes would help strengthen its role within the federal financial relations framework.

Recommendation 5.6

We support this recommendation. We support measures that improve the transparency, consistency and quality of Government Finance Statistics (GFS) data. Greater guidance from the Australian Bureau of Statistics (ABS) would assist in greater public understanding of GFS statistics that underpin the CGC's assessments and States in strengthening validation processes prior to the submission of data.

In particular, there may be value in the ABS providing additional transparency on how each jurisdiction codes 'like for like' transactions. While jurisdictions are expected to apply the GFS manual and relevant accounting standards consistently, any further assistance and guidance would be welcomed. Additionally, it is important to recognise that data quality is a shared responsibility, as the ABS itself may make adjustments to State data as part of its consolidation and economic measurement process.

Recommendation 5.7

We do not support Interim recommendation 5.7. Although we recognise the importance of transparent fiscal reporting, we believe decisions regarding the form and frequency of long-term fiscal sustainability reporting should remain a matter for individual jurisdictions, having regard to their respective fiscal and accountability frameworks.