



Committee Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Inquiry into the Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Bill 2018

The GST is a pillar of the Australian taxation system and the distribution of the revenue it collects is a major source of states' revenue. The Minerals Council of Australia (MCA) has welcomed the Federal Government's initiative to reform the GST distribution which has for some time not delivered an equitable share of funding to states that promoted economic growth through the development of their natural resources.

In our submission to the Productivity Commission inquiry, the MCA highlighted many of the deficiencies with the GST distribution's policy settings, methods of assessing states' fiscal capacity and the perverse incentives that the system creates. The need for reform is clear and has been documented in the Productivity Commission's final report as well as many of the third party submissions to the inquiry.

The MCA supports the government's intent to introduce GST distribution reforms that will reduce fluctuations in state funding. The legislated funding guarantees for all states is a positive initiative to address the large swings in funding that have resulted as part of commodity price cycles of the past decade. These cycles have left the states that have prioritised the development of their natural resources exposed to greater funding risks during commodity price downturns while still sharing the benefits of higher prices when they are delivered.

The MCA supports the government's efforts to address the state funding imbalances that the current GST distribution assessment system delivers through the proposed legislation. However, many of the issues with the GST distribution assessment methods remain unresolved. The proposed legislation instead aims to increase funding to all states by topping up the GST pool with other forms of federal government revenue as a means of moderating the outcome of the unsound assessment system. Such a measure is not designed to deliver the type of productive reforms that the government originally tasked the Productivity Commission to consider in its inquiry into horizontal fiscal equalization. As a result it is unlikely that this legislated funding increase will achieve economic reform; instead it will increase the reliance of states on the federal government for funding. There are no simple solutions to the challenge of vertical fiscal imbalance; however, both federal and state governments must commit to further fiscal reforms and deliver more efficient funding models for essential public services.

The MCA notes that the proposed reforms include directing the Productivity Commission to review the new distribution system in 2026-27 to assess whether it is working efficiently and delivering the intended results. We recommend that this review be brought forward to align with the Commonwealth Grants Commission's major update of distribution methods that is scheduled for 2025.

Yours sincerely

TANIA CONSTABLE PSM
Chief Executive Officer