

## Turnbull government says no losers in its new GST carve-up plan

Written by Michelle Grattan, Professorial Fellow, University of Canberra

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The federal government promises to subsidise the transition to a new formula for carving up the GST revenue, after rejecting an alternative proposed by the Productivity Commission inquiry it ordered.

The government's plan, to be released by Treasurer Scott Morrison on Thursday, would ensure the fiscal capacity of all states and territories was "at least the equal of NSW or Victoria, whichever is higher".

"Benchmarking all states and territories to the economies of the two largest states will remove the effects of extreme circumstances, like the mining boom, from Australia's GST distribution system," Morrison said.

A "floor" would also be set, below which no state could fall. From 2022-23, this would be 70 cents per person per dollar of the GST, rising to 75 cents from 2024-25.

The changes follow years of complaint by Western Australia, after its share of the GST revenue fell drastically. The GST has threatened to be a federal election issue in WA, where the Liberals have several vulnerable seats.

In its report, commissioned by Morrison last year, the PC recommended distribution being equalised on an average of all states and territories. But Morrison said the PC's model would move too far from the "fair go" principle - it would risk leaving behind the smaller states.

As well, it would cause "unnecessary disruption and transition costs that most states, and the Commonwealth, would not be able to reasonably accept or absorb", he said in a statement.

The PC report was sent to the states and territories on Wednesday. When details started leaking late Wednesday Malcolm Turnbull quickly declared its proposed model had been rejected. He told a news conference that under the government's plan "no state will be worse off and indeed every state will be better off".

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The transition to the new system would be over eight years from 2019-20, eased by funds from the federal government.

Short term untied funding would be given over three years from 2019-20 to ensure no state received less than 70 cents per person per GST dollar.

Also, Morrison said, “a fair and sustainable transition to a new equalisation standard will be ensured through an additional, direct, and permanent Commonwealth boost to the pool of funds to be distributed among the states”.

The Commonwealth would put in \$600 million in 2021-22, with a second injection of \$250 million in 2024-25. The additional Commonwealth funding would be indexed.

Morrison will go on a road show to sell the plan to the states - their agreement is needed for the change to happen - with a special meeting of the Council on Federal Financial Relations to be held in September.

The government is aiming for agreement on transition arrangements being reached by the end of the year.

Morrison said: “This will be the first time real changes have been made to fix problems in how the GST is shared since the GST was introduced almost 20 years ago”.

In its report, the PC said the current approach to horizontal fiscal equalisation (HFE), though having strengths, “also has significant weaknesses. Reform and development opportunities are likely being missed at the expense of community wellbeing over time”.

While equity should remain at the system’s heart, “there is a need for a better balance between equity and efficiency”. The Commonwealth should set a revised objective for HFE “to provide states with the fiscal capacity to deliver a reasonable standard of services,” the PC said.

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The present system “seeks to give all states the same fiscal capacity to deliver public services. To do this, all states are brought up to the fiscal capacity of the fiscally strongest state”.

*Michelle Grattan does not work for, consult, own shares in or receive funding from any company or organization that would benefit from this article, and has disclosed no relevant affiliations beyond their academic appointment.*

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