

**Date:** August 12, 2017

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## **Fairer distribution of GST revenue needed**

The debate over fair distribution of GST has reached fever pitch recently due to the Productivity Commission's inquiry into Australia's system of Horizontal Fiscal Equalisation (HFE), which underpins the distribution of GST revenue.

The inquiry comes at a time when it is becoming increasingly evident that Western Australia is getting a raw deal on GST distribution, and a fairer formula for distribution is required.

UDIA is working with other peak industry bodies, including the Chamber of Commerce and Industry in Western Australia (CCIWA), to advocate for a new formula for the distribution of GST that improves WA's share while also ensuring that the national economy will benefit.

CCIWA recently made a submission to the Productivity Commission inquiry which UDIA has endorsed.

In its submission, CCIWA noted that greater incentives were required for other states to contribute to national economic growth.

The current HFE model was established to ensure each state had the same capacity to provide an equivalent standard of services to its residents.

That means when working out each state's GST share, the service delivery capacity of each state is raised up to that of the leading state, before distributing any remaining GST equally on a per capita basis.

While this formula might seem fair on face value, in reality it means states are not incentivised to grow their local economy because they can rely on the fact they will receive enough GST revenue to deliver services regardless of efforts to improve their own economy. This approach is at the detriment of the highest growth state. CCIWA has proposed, and UDIA supports, two recommendations that we believe will create GST revenue stability for the leading state and encourage greater national economic growth.

The first recommendation is to introduce a 0.7 ratcheting relativity floor for all states. A relativity floor ensures a minimum GST relativity for each state.

The floor should be introduced at WA's current relativity and increased each year WA exceeds that floor, until the floor reaches 0.7.

Secondly, phase in partial equalisation to strengthen incentives for states to develop their industries. Partial equalisation could be undertaken in one of three ways: equalising to a predistribution average (rather than to the lead state's capacity); excluding 20 per cent of revenue from the calculation or excluding 25 per cent of mining royalties.

UDIA recently met with several federal MPs, including Ben Morton and Michael Sukkar, and put forward our perspective on this important issue, and we will continue to advocate on behalf of Western Australians to secure a better deal for our future.