



TREASURER

Mr Greg Smith
Chairperson
Commonwealth Grants Commission
First Floor, Phoenix House
86-88 Northbourne Ave
BRADDON ACT 2612

23 DEC 2014

Dear Mr Smith 

I am writing to you with regard to the Commonwealth Grants Commission's 2015 *GST Methodology Review*.

In the context of the Methodology Review and given the volatility in mining revenues, I am writing to request that the Commission consider the treatment of GST relativities where a particular revenue source is a large and volatile proportion of a state or territory's (state) revenue.

As you would be aware, where a state is reliant on a volatile revenue base and its fiscal circumstances differ significantly between the assessment years and the application year for the GST relativities, applying the usual GST methodology can give rise to significant differences in fiscal capacity between states. In this regard, the Government understands the current challenges facing Western Australia with regard to GST distribution.

To assist in considering this issue, I request the Commission provide me with advice on a possible approach, as well as corresponding GST relativities, that would mitigate negative effects of revenue volatility on the GST distribution system and ensure that states' shares of the GST in a given year are appropriate for their fiscal circumstances in that year.

The principle of horizontal fiscal equalisation will be explored through the *White Paper on the Reform of the Federation*. However, I would appreciate the Commission's recommendation on the above matter to inform consideration of the 2015-16 GST revenue sharing relativities.

I would appreciate your advice on this matter by 28 February 2015, in line with the due date of the Methodology Review and including the supplementary Terms of Reference. I understand the challenging nature of this task and thank you in advance for your timely and independent advice.

Yours sincerely

HON J. B. HOCKEY MP