

Why a GST Increase is a Bad Deal for Low Income Households and for South Australia

There has been a range of economic modelling of the impact on households and revenue of both broadening the GST base and increasing the rate. The only South Australian-specific modelling has been done by the National Centre for Social and Economic Modelling at the University of Canberra (NATSEM). They estimate that the average South Australian household currently pays \$5,019 p.a. (\$97 a week) in GST, equivalent to 6.2% of disposable household income.

A Regressive Tax

The NATSEM modelling confirmed the regressive nature of the GST. That is, it impacts more on lowest income households because poorer households spend a greater proportion of their income than other households. For example, in South Australia, the current GST accounts for 9.8% of disposable household income for the lowest income households, but only 4.9% of income for the highest income households.

Broadening the base of the GST to include fresh food, education, health, financial services and other miscellaneous goods and services would make the tax even more regressive. Based on the NATSEM modelling, SACOSS has calculated the impact of broadening the GST. Table 1 shows the impact with lowest income households paying 41.8% more GST than currently, while the highest income households would pay only 36.7% more.

Increasing the rate of GST to 15% would add \$48 per week in GST for the average South Australian household.

A Tax that Impacts More on South Australians

The GST currently accounts for 6.2% of household *expenditure* nationally, but 6.4% in South Australia (although as a percent of household income the SA figure is lower). Of the various changes proposed to broaden the GST base, NATSEM concluded that:

- Applying GST to fresh food, financial services and other miscellaneous goods and services would impact more on South Australian households as those commodities all form a larger share of household expenditure than the national average
- Applying GST to Health would have proportionately less impact on South Australian households, but
- The overall impact of a broader GST would be larger in SA than in other parts of Australia: the proportion of household expenditure going to GST would increase by 2.5 percentage points in SA compared to 2.2 nationally
- For households in the lowest income quintile, the proportion of household expenditure accounted for by a broader based GST would increase by 3.3 percentage points, by comparison with 3 percentage points nationally

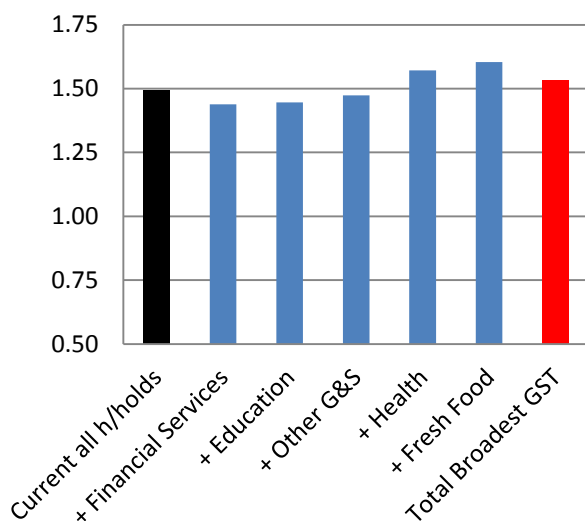
Table 1: Impact of Broader Base GST on South Australian Households

Household Type	Current GST - \$pw	Broad-based GST \$pw	Increase \$pw	Increase %
Lowest Income Quintile	\$50	\$71	\$21	41.8%
Average All Households	\$97	\$133	\$36	38.3%
Highest Income Quintile	\$164	\$224	\$60	36.7%

Picking and Choosing Won't Help (Much)

Again, based on the NATSEM modelling, SACOSS has looked at options for “cherry-picking” some goods and services to add to GST. We have calculated “regressive ratios” for each category of expenditure – essentially the ratio of the percent of household expenditure spent on the GST for lowest and highest income households if each category of goods was included (A figure of 1 would mean that the percentage of household expenditure was the same for each household type – greater than 1 means that it is a higher % of expenditure for low income households – eg. 1.5 times higher). The results are in Figure 1 and show that while including some categories like education or financial services in the GST would make it slightly less regressive, none make it a progressive or even a flat tax (in its impact).

Figure 1: Regressive Ratios for GST on Particular Items



Compensation

Major changes to taxation policy in Australia often come with compensation packages to compensate households, particularly low income households. This was the case when the GST was introduced by a Liberal government, and again when the carbon tax was introduced by a Labor government.

Almost all proponents of increasing the rate or broadening the base of the GST recognise the need for compensation.

But there are problems with compensation:

- Compensation can disappear over time – either by changes in government policy or simply because the payments they relate to are not indexed adequately;
- Even where compensation payments do address the issue of household disposable income, they do not address inequality or make the tax system fairer;
- Compensation would be set at national rates, but if GST changes impact proportionately more on South Australian households they may not be fully compensated;
- Compensation is complicated because it is an indirect way of fixing a regressive tax, as opposed to relying on a tax which directly targets those with a greater capacity to pay.

The Need to Fund Vital Services

If the proposal to increase or broaden the GST is about cutting other taxes such as business or progressive income taxes, this is essentially taking money from the poor to give to the rich and should be rejected out of hand.

However, if GST proposals are around how we fund vital services, then that is a legitimate question and the GST should be *part* of a broad debate. But given the issues above, the GST clearly should not be seen as a panacea and the debate about tax reform should not be limited to the GST. It must include land taxes, superannuation tax breaks, capital gains tax, negative gearing, wealth and “sin” taxes, and other areas of taxation.

The question of what services we as a community require of our governments and how we fund those vital services is crucial to how our state, society and country function. If we want a fair society where everyone is included and has access to good services, we need a fair tax base.