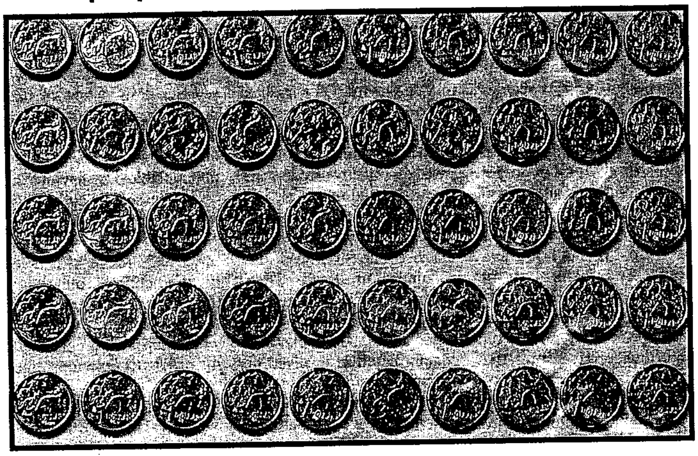
# Taxing times: deconstructing the GST

## Fr Bruce Duncan examines why the Government's controversial new package with its proposed tax on food will hurt the poor



After its narrow win at the elections, the Coalition government faces a difficult task rushing its tax package through a hostile Senate. Moreover, an increasing number of economic commentators have raised major problems with the tax package, especially about the effect of not exempting food from the GST.

Professor Neil Warren of the University of New South Wales, who helped draft the Coalition's *Fightback* package in 1991, recently declared that the proposed GST would bear excessively on lower-income groups. Mr Bernie Fraser, former Governor of the Reserve Bank, also said the GST was unfair.

The Melbourne Institute of Applied Economic and Social Research estimates that the consumer price index will rise by more than the 1.9 percent the government allowed for and hence the 4 percent compensation for those on benefits and pensions will not be enough. The Institute considers that for families with three or more children, the cost of the tax changes will be three to five times more than the government estimated.

Releasing the tax package only weeks before calling the election, Mr Howard left little time for careful independent analysis of it. Nevertheless, the package includes many welcome and innovative features. It attempts to resolve the fiscal imbalance with the States, to interrelate welfare benefits and tax measures, to reduce poverty traps and, as the Prime Minister promised, to benefit families.

On the negative side, the Coalition heavily skewed the tax cuts to its electoral constituency, with more than 50 percent of the cuts going to the top 20 percent of households. Moreover, with the international economy in a parlous state, there are grave doubts whether the government surplus will be enough to pay for the cuts.

Labor's tax proposals were more equitable and primarily benefited low and middle income groups, but did not undertake the fundamental reform most commentators thought needed. Church welfare and justice agencies met with the peak national body, the Catholic Social Welfare Commission and evaluated the various proposals on the basis of how fair were expected outcomes, particularly for low and middle income groups.

The Australian Catholic Bishops in August in a 12 page statement outlined their ethical criteria for tax reform, stressing tax changes should not be regressive; that lower income families and individuals should be "better off in absolute terms", and that "to the maximum extent possible the essentials of life remain free of tax".

Many people instinctively feel that the most essential item for life, food, should not bear the new GST. What they may not realise is that food already bears a burden of 8.2 percent in indirect taxes, flowing on as the effects of payroll, fuel and other taxes.

The GST would eliminate most of these (except payroll tax), but by adding the 10 percent GST the cost of food would still rise by about 5.5 percent. This is not a great amount but it is significant for people on marginal incomes who are least able to afford it. According to 1993-94 figures, households with the lowest 20 percent of in-come paid 19.1 percent of that income in indirect taxes, while the top 20 percent paid 6 percent of their income.

Both Mr Costello and Mr Howard argue that equity demands that food be included in the GST. Mr Costello insisted that the "top 20 percent of income earners (sic) spent 2.8 times more" on food than the bottom 20 percent.

But he has confused household income with individual income. As Tim Colebatch pointed out in *The Melbourne Age* (August 21), the top 20 percent of households have twice as many people as the bottom 20 percent (3.22 per household compared with 1.57). And once you allow for better-off people spending more eating out, it appears that individuals in the top 20 percent of households spend only 10 percent more on groceries than those in the bottom 20 percent, amounting to $3.24 a week, or a tax cut of about $0.17, hardly a windfall for the Tax Office.

Mr Howard still has not understood this point. He told Alan Jones on radio 2UE recently that "if you let food out of the GST you're in effect giving a bonanza to the well off".

If restaurants come under a GST as happens in other countries, then there is very little difference in the amount spent on basic food items, disproving this argument that equity demands a GST on food.

Moreover, as the Melbourne Institute points out, the bottom 20 percent of households spend, as a percentage of their expenditure, more than twice as much on essentials as do the top 20 percent of households. Despite having fewer people in each household, the bottom 20 percent spend 24.6 percent of their expenditure on food and non-alcoholic drinks, 19.3 percent on housing, 5.5 percent on fuel and power and 5.1 percent on health, totalling 54.5 percent of their expenditure. The top 20 percent of households use only 25.9 percent of their expenditure on these items, including food.

Thus lower income households and especially those with children would be much more affected by a GST on food than upper income groups.

On the other hand, exempting food from a GST would mean that the cost of food would drop by about 4.5 percent. A GST on food of 5 percent would do little more than maintain the current price level.

Dropping the GST on food would cost $5-6 billion. The government insists that this is money needed to pay for the tax cuts which total $13.5 billion. But by linking the GST on food to tax cuts, the government is unintentionally emphasising how regressive the GST on food can be, as it would amount to a transfer of money from the pockets of low and middle income groups to the top 20 percent of income earners.

The delay in the Senate presents a welcome opportunity to review the details in the tax package. Moreover, especially since the government still refuses to disclose details of its economic modelling, the package lacks transparency. It needs to be openly assessed by economists and the community for fairness as well as efficiency.

*Dr Bruce Duncan is monitoring the tax debate as a research officer for Catholic Social Services, the peak body for 80 Catholic welfare organisations in Melbourne. A Redemptorist priest, Dr Duncan also lectures in social ethics at Melbourne's Yarra Theological Union.*