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Where next for Australia’s tax system?

How GST reform can help reboot prosperity for Australia

Key findings

The economic impact of COVID-19 and the steps taken to support businesses and individuals through the pandemic have resulted in ballooning government expenditure and shrinking government revenue. Even prior to this, Australia’s tax system was ill-equipped to support a growing economy due to a number of structural factors including an over-reliance on personal and corporate taxes. Efficient revenue collection will be necessary for economic recovery and budget repair in this environment, and reform to consumption tax is a clear option for investigation.

In the wake of COVID-19, reform of the goods and services tax (GST) in the medium term could help address fiscal issues and structural challenges and inequities in Australia’s tax mix. This report investigates various scenarios including a broadened GST base and an increased GST rate.

Any change to Australia’s GST system requires the cooperation of the Commonwealth, states and territories. The COVID-19 economic recovery necessitates this coordination and cooperation.

The GST is Australia’s value-added or consumption tax that levies 10 per cent taxation on the domestic purchase of most goods and services. As a consumption tax, it is comparatively efficient to collect but can be regressive, as lower-income households spend a greater proportion of their income to meet everyday needs.

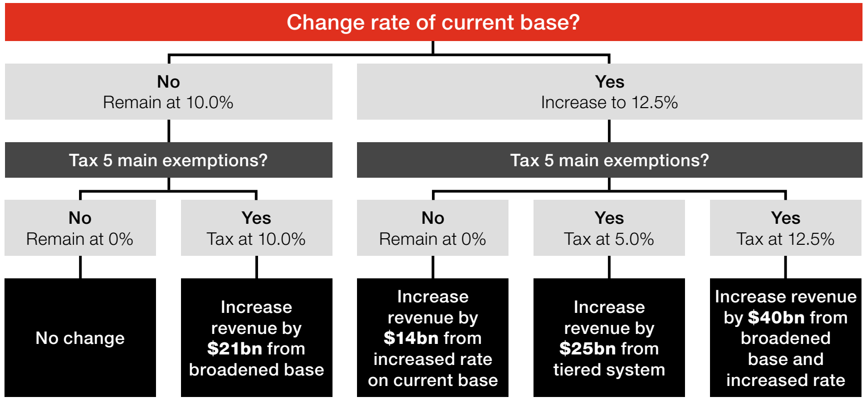
However, the GST does not cover all forms of consumption. Exemptions were introduced – food, education, childcare, financial services – which aim to address equity concerns but also add to complexity.

GST is collected by the Commonwealth for distribution to the state and territory governments. In 2018-19, the GST represented more than 30 per cent of total state, territory and local government revenues (excluding transfers). By comparison, payroll tax, the largest state and territory-levied tax, represented around 13 per cent of total state, territory and local government revenues in the same year.*

Following the 2008 global financial crisis (GFC), the steady but moderate growth of GST receipts has not always kept pace with broader activity. As a proportion of state, territory and local revenues, GST collections have still not regained pre-GFC levels. In part, this is because people are spending a higher proportion of their income on GST-exempt goods and services, such as housing, healthcare and education, as well as adopting stronger saving rates.

PwC modelling shows that broadening the base and/or increasing the main rate to 12.5 per cent can increase GST collections by between $14 billion and $40 billion (on a base of GST collected in 2018-19). This is the scale of all state, territory and local tax collections on payroll ($26 billion in 2018-19) or stamp duties on conveyances ($19 billion in 2018-19).*

GST reform scenarios modelled



The different reform options identified above have different equity impacts, as measured by the proportion of collections that come from low and high-income households and the immediate impacts on their household budgets. Broadly however, all reform options would cause all households to pay more GST. While this means that there may be no significant increase in the equity of GST collections from these reforms, PwC analysis demonstrates that the reforms do not make the existing equity issue worse. Accordingly, equity concerns should not preclude reform, especially when paired with appropriate compensation.

It is well recognised that, as is the case with current GST collections, broadening the GST base and/or increasing the rate of GST will affect low-income households the most, in that more of their income would be required to pay the increased GST. The critical issue for implementation of any reform of Australia’s GST will be an accurate understanding of the impact on low-income earners and designing robust compensation for that.

Some compensation will occur automatically, in that welfare and transfer payments are indexed, but appropriate compensation of at least the bottom two income quintiles of households will require further mechanisms. These will be complicated to design, but must be confirmed and safeguarded before reform occurs to maintain community confidence in the equity of reforms.

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* Australian Bureau of Statistics (ABS) (2020a), *5512.0 – Government Finance Statistics, Australia, 2018-19*, available at https://www.abs.gov.au/ausstats/abs@.nsf/mf/5512.0

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