

THE HOLE TRUTH

GST HIKE WAS ONLY EVER GOING TO BE A CASH GRAB

So after all of the buffing and puffing, where is the tax debate?

A 15 per cent GST is off the table. That should be no surprise. The only surprise is that the government let the idea run so long.

Apparently the Business Council of Australia is going to soldier on with a proposal to lift the GST in return for a company tax cut and some income tax cuts as well. This, they say, would boost the economy by \$9 billion.

Does that sound like a lot to you? Let me put it in proportion. It is a gain of 0.5 per cent — half a cent in the dollar.

Now that, of course, would be the outcome if everything went to plan. But as we all know, what goes into the Senate is not what comes out of the Senate. When the GST was introduced in 2000 it was going to be near universal and cover food. The Senate took that out and punched a big hole in the policy.

There is no way a Senate would let through a policy like the Business Council's without demanding more "compensation" for those on benefits. That would reduce the economic return even further.

That's a big problem when you have so little to start with.

The politics of the Business Council proposal was even worse than its economics. In practice, it would cut tax for foreign investors by getting domestic spenders to pay more. As a result, everyone who votes would pay more at the checkout so those who don't vote could pay less on their investments.

Now you might be able to make that fly if the economic benefit was so big that it created mountains of jobs and boosted everybody's incomes. But at just 0.5 per cent? Not a chance.

The other people pushing a 15 per cent GST were the premiers, who wanted the Commonwealth to raise more tax so they could spend it.

No one ever bothered to talk about an economic benefit from that because there is none. Higher taxes and higher spending would detract from economic growth rather than enhance it.

You have to hand it to Premier Mike Baird for even getting the idea up in the first place.

When we introduced GST in 2000 we estimated the overall economic benefit would be 2-3 per cent — around five times the benefit that the Business Council is now proposing.

People forget that policy was to abolish 10 taxes — yes completely abolish them — the largest of which was the Wholesale Sales Tax. The economic benefit came from abolishing all those taxes on business inputs and replacing them with one broad-based, value-added tax that exempted exports. There were other benefits as well, but that was the main area I looked at a

15 per cent GST as a way of abolishing payroll tax as well. That would have brought further economic gain.

But no one today is proposing to increase GST so we can abolish payroll tax or indeed any other tax. That's why the returns are so low.

This government's idea on a 15 per cent GST was a little different to the Business Council's. It was to pay compensation to low-income earners and put most of the extra money into cutting income tax. It estimated the benefits somewhere south of 0.3 per cent (around 1/10th the benefit of the original GST package).

The top income tax rate, thanks to the Abbott government, is currently at an all-up rate of 49 per cent — the highest in 25 years. Average wage earners are on track to pay the second top tax rate of 39 per cent (including Medicare) in the next year. If this lies untouched we really will begin to choke off economic growth.

To his credit, the Treasurer Scott Morrison is focused on this.

But to offset a 50 per cent increase in GST you have to reduce marginal tax rates very significantly.

Returning "bracket creep" would not be enough. All that would do would be to get us back to the levels of income tax we once enjoyed on a 10 per cent consumption tax, except by paying 15 per cent instead. And what



would happen after a few more years of bracket creep? Presumably the GST would rise to 20 per cent so the government could hand that back.

This is precisely what happened in Europe. The VAT (value-added tax) kept rising and income tax kept rising too.

As is usual, the public had a pretty good nose for the whole thing. An Essential Media Poll reported that 58 per cent of Australians thought the government was looking at tax reform so it could fix the budget deficit. Another 30 per cent thought the talk of tax reform meant the government wanted to raise more money to spend. No one, it seemed, thought this talk of tax reform was about simplicity, efficiency or incentive.

Why would they? There is no chance that the government will be cutting overall tax with the budget in such deep deficit. All of the tax rises that the government and the opposition are now looking at — negative gearing, superannuation, capital gains — are about raising more revenue. They have nothing to do with improving business or economic growth. Spending has blown out, the country's debt is rising and the government wants more money.

The tax system didn't create this problem. Changing it will not solve what did — the blow-out in spending. Until we address that, the public is always going to be a little cynical when it hears the words "tax reform". And they have good reason.

Peter Costello is a former federal treasurer who introduced the GST in July 2000.



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