

# The GST and the New Tax System

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AUSTRALIAN DEMOCRATS ACTION PLAN  
TAXATION, FINANCE & CORPORATE AFFAIRS  
THE GST AND THE NEW TAX SYSTEM

*Australia has moved on. The divisive debate on the introduction of the GST is over. Yet the GST is still raised as an issue for the Democrats, because their Senators' majority decision (2 Democrat Senators voted against) to support a revised GST package is often seen as having damaged the Democrats. There is no doubt that the Democrats GST decision did impact on Democrats support, but by how much? The Democrats went to the 1998 election on an announced platform supporting a GST under certain circumstances. Four Democrats Senators were elected on that platform. The Democrats negotiated the GST in 1999 and the GST was introduced in 2000. A year later, four Democrat Senators were elected in 2001. If the GST was so harmful to the Democrats those four Senators would not have been elected so soon after the introduction of the GST.*

## A most divisive political issue

*“GST revenue to the States has grown strongly since its introduction. The average annual growth since 2001-02 has been 7.9 per cent. Furthermore, GST revenue has increased from 3.6 per cent of GDP in 2001-02 to 3.8 per cent in 2007-08”*

No other issue in modern politics has been so contentious as the debate before the introduction of the GST in 2000. Opponents of the GST claimed it was regressive, unfair and would destroy the Australian economy. The Government argued it was necessary to broaden the tax base and stimulate the economy.

The Democrats engaged in the tax reform debate because we wanted a fairer tax system. The old wholesale sales tax was deteriorating fast and was not raising sufficient revenue to fund public needs in health, education, and community services. We went into the 1998 election tax campaign with a platform that outlined the limited basis on which we could accept a modified GST, calling for major exemptions for food and other categories, for stronger environmental and social outcomes; and a real increase in pension rates. We said we would oppose the Government's model of a GST, but would not oppose it if the tax reform package could be made economically, environmentally and socially responsible.

## The Democrats made the GST fairer

After the Government won the 1998 'GST election', the Democrats subjected its tax package to an extensive seven month Senate inquiry that received over 1700 submissions from business, charities and the public. On the basis of this information, we negotiated exhaustively to make the Government's New Tax System fairer and better. The significant improvements included:

**2007-08 Federal Budget**



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- \$4 billion of changes to the GST proposal, principally aimed at low-income households, with exemptions for basic and fresh food, and further exemptions for the health, education and charities sectors;
- \$750 million increase in compensation paid to pensioners, the unemployed, families and other social security beneficiaries.

Independent modelling by the National Centre for Social and Economic Modelling (NATSEM) before implementation showed these changes represented a real increase in income for these groups. This was again confirmed by NATSEM research after implementation. In addition there was also:

- around \$1 billion increase in tax and spending for environment programs, including tough new fuel emission standards, incentives for renewable and cleaner fuels, and the Greenhouse Gas Abatement Program;
- a \$240 million books package providing a tax rebate on textbooks, assistance to Australian authors and publishers, and additional funding for Australian book holdings in school libraries; and
- a \$1.2 billion reduction (from the original \$13+ billion total proposed tax cuts) in tax cuts for higher-income earners, and a commitment from Government to further explore opportunities to close tax loopholes.

We secured a reduced taper rate on private income down from 50% to 40%, benefiting around 800 000 part pensioners. We extended the self-funded savings bonus from age 65 to age 55 at a cost of \$180 million. We raised the increase in rent assistance from 4% to 10% at a cost of \$66 million.

While not perfect, the Democrats' changes represented significant improvements on the social and environmental front from the original package.

## Where to from here?

Three-quarters of all countries have a GST-style consumption tax like Australia's. The GST and New Tax System are here to stay. There will be no abolition or roll-back of the GST by any Australian government. The GST has produced a better, more secure and competitive funding flow both for the Commonwealth and the States. For 2007-08, the GST is estimated to raise in excess of \$43 billion. GST revenue to the States has grown strongly since its introduction. The average annual growth since 2001-02 has been 7.9 per cent. Furthermore, GST revenue has increased from 3.6 per cent of GDP in 2001-02 to 3.8 per cent in 2007-08. It has also improved Australia's ability to export efficiently, removed distortions in the economy and increased employment opportunities.

The real and valid concern now is how to more fairly allocate Commonwealth tax and GST revenue to the states and territories, who are struggling to meet their health, education and infrastructure obligations in a growing economy and in a changing society. All tax reform is 'work-in-progress' and the Democrats will continue to constantly review our taxation system.



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