# TAX TALKS 5: The effects of a higher GST on households

## Overview of modelling undertaken by NATSEM for ACOSS

**Who we are**

ACOSS is the peak body for the community services and welfare sector and the national voice for the needs of people affected by poverty and inequality.

Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life.

**What we do**

ACOSS leads and supports initiatives within the community services and welfare sector and acts as an independent non-party political voice.

By drawing on the direct experiences of people affected by poverty and inequality and the expertise of its diverse member base, ACOSS develops and promotes socially and economically responsible public policy and action by government, community and business.

**Join ACOSS**

Anybody can become an ACOSS member. We have memberships available to organisations, both national and local, and free to individuals. Go to http://www.acoss.org.au/take_action/join/ to find out more.

First published in 2015 by the
Australian Council of Social Service

Locked Bag 4777
Strawberry Hills, NSW, 2012 Australia
Email: info@acoss.org.au
Website: www.acoss.org.au

ISSN: 1326 7124
ISBN: 978 0 85871 064 1



This paper should be read in conjunction with the NATSEM Report: *The Distributional Impact of the GST* (2015) which was commissioned by ACOSS with the support of the Carnegie Foundation.

All views and opinions expressed are those of ACOSS.

# Contents

Summary....4

Key findings....5

Policy implications....9

Why ACOSS requested modelling about the GST....10

What NATSEM modelled....11

Results of the Modelling....13

1. The impact of removing exemptions....14
2. The impact of increasing the GST rate....16
3. The impact of increasing the GST to pay for income tax cuts....16
4. Impacts on different household types....19

# Summary

Increases in the Goods and Services Tax (GST) are being advocated to help fund services provided by the States such as health care; to replace other indirect taxes such as Stamp Duties or Payroll Taxes; or to pay for income or company tax cuts.

Many people are concerned about the impact of a higher GST on low and modest income households and the overall equity of the tax system. Advocates of a higher GST argue that this can be fixed with compensation. Yet if a tax reform requires a major compensation package, this is a sign that its fairness is in doubt. Compensation may not last, and too much reliance on it shifts the risk of reform to people who are least able to bear it. So we need to know the impact of GST changes *before* any compensation is offered.

To assess the equity impacts of changes to the GST, ACOSS commissioned the National Centre for Social and Economic Modelling (NATSEM), with support from the Carnegie Foundation, to model the impact of a number of scenarios involving an increase to the GST. ACOSS also commissioned NATSEM to model using revenue from an increase in the GST to fund personal income tax cuts, a direction for tax reform currently being debated.

The NATSEM Report models the following changes (among others) on different households[1]:

1. An expansion in the 'base' of the GST to include fresh food; water; health and community services; and education;
2. An increase in the GST rate off the existing 'base' from 10% to 15%;
3. Using the revenue from an increase in the GST rate to 15% off the existing base to reduce all personal income tax rates by 5 percentage points. These across-the-board tax cuts are not designed to compensate for the increases in the GST, but instead to show the 'pure' impact of a change in the 'tax mix' from income to consumption, as some advocate.

[1] The NATSEM report, which provides more detailed results, is available at http://www.acoss.org.au/wp-content/uploads/2015/11/ACOSS-GST-Report_NATSEM.pdf. ACOSS appreciates the work of the authors, Ben Phillips and Matt Taylor, but views expressed here should not be attributed to them or to NATSEM.

# Key findings

## Impact of the current GST:

+ The GST is regressive, raising almost twice the share of household income from the lowest 20% of households compared with the top 20% (13.4% compared with 5.9%). Although high income earners pay more in dollar terms, the GST has a bigger impact on low income households because they have much less income to spend.
+ The reason the GST has a bigger impact on the lowest-income households is that they need to spend more than their income (e.g. by borrowing or drawing down savings) in order to meet living costs while the top 20% save much of their income.

## Extending the GST to exempt items:

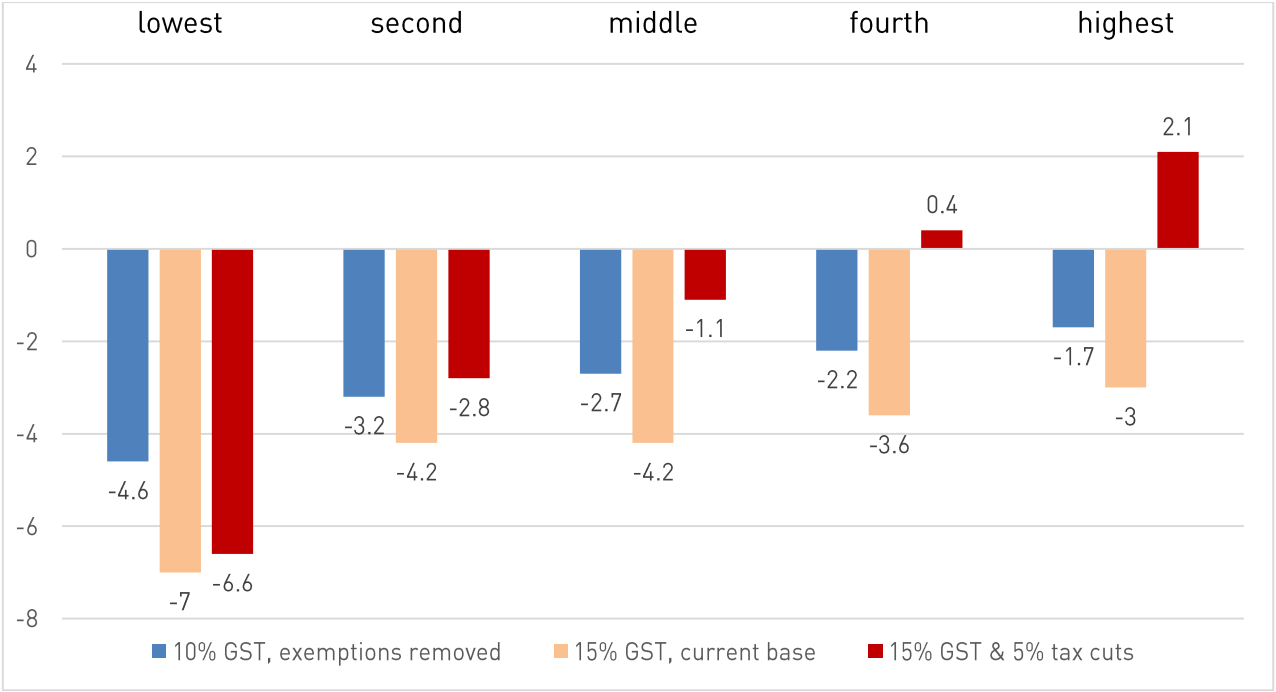
+ Extending the GST to fresh food, health, or water would make it more regressive. This is because these changes would increase a regressive tax and also because people on low incomes spend a higher share of their budgets on these items:
    - Extending the GST to fresh food would cost an additional 2% of income for the lowest 20% compared with 0.6% for the highest 20% (three times as much) and 1% for the middle 20%.
    - Extending the GST to health would cost an additional 1.6% of income for the lowest 20% and 0.6% for the highest 20% (over twice as much) and 0.8% for the middle 20%.
    - Extending the GST to water would cost 0.4% of income for the lowest 20% compared with a negligible impact on the highest 20% and 0.2% for the middle 20%.
+ Extending the GST to education would have a similar impact across the income distribution (0.6% of income for all groups). The different impact of this option is due to higher spending by high income households on education fees, which is offset by the fact that it would also raise the overall level of a regressive tax.
+ Overall, the extension of the GST to all of these exempt items would make the GST more regressive:
    - The lowest 20% would pay 4.6% more of their income compared with 1.7% for the top 20% (over twice as much) while the middle 20% would pay 2.7% more.

## Increasing the rate from 10% to 15% off the existing base:

+ Increasing the GST to 15% off the existing base would also make the overall tax system less progressive, with greater impacts on all households because more revenue would be raised:
    - The lowest 20% would pay 7% more of their income compared with 3% for the top 20% (twice as much), and the middle 20% would pay 4.2% more.

Figure 1 below shows the ways in which either increasing the rate or broadening various bases of the GST would affect different household groups.

**Figure 1: Impact on household spending power of GST changes (% of disposable income, 2015-16)**




Note: Impact of tax changes is the increase in prices from a higher GST offset in the third case by income tax cuts. This is presented as a percentage of average household income after tax for each 20% of households, from the lowest incomes to the highest.

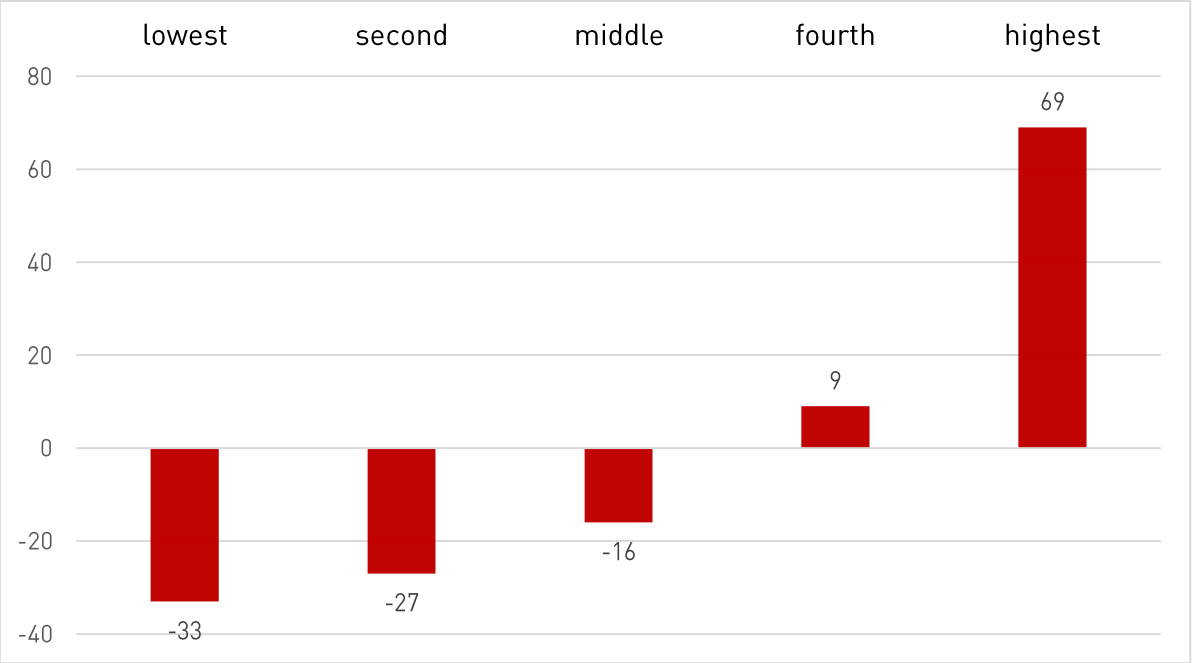
## Increasing the rate to 15% and using all of the revenue to reduce all personal tax rates by 5%:

+ There are both winners and losers from this change in the 'tax mix'. If it maintained the overall progressivity of the tax system then we would expect them to be evenly distributed among households at different income levels. However the outcome is very different.

- This option would reduce the overall progressivity of the tax system even more than raising the GST alone. This is because across-the-board tax cuts would disproportionately benefit the highest two quintiles:
    - Almost two thirds of households (64%) would be worse off overall.
    - The average impact is negative for the lowest three quintiles (households of up to around $100,000 in income) and positive for the top two quintiles.
- Over 90% of each of the lowest two quintiles and 67% of the middle quintile would be worse off, by 6.6% of income ($1,700 per year) on average in the case of the lowest quintile.
- In contrast, 75% of the top 20% and 64% of the fourth quintile would be better off, by an average of 2.1% ($3,600 a year) in the case of the top 20%.
- On average, younger (under 20) and older (over 60) households are worse off, households headed by women are more likely to lose (77%) than those headed by men (58%), 84% of sole parent families would lose, along with over 98% of households relying mainly on social security payments, and 42% of those households whose main income is wages (mainly low-paid workers).
- The main winners include 59% of households whose main income is wages (mostly those with higher pay), 42% of households headed by men, 60% of married couples with children, and just over half of households headed by people aged 30-50 years.
- **The common denominator in all of these shifts in household fortunes is that those with higher incomes would gain at the expense of those with less.**

Figure 2 below shows the average impact on different households (in dollars per week) of using an increase in the GST to 15% off the existing base to pay for a 5% reduction in all personal income tax rates.

Figure 2: Impact on household spending power of a 15% GST & 5% income tax cut ($pw in 2015-16)



# Policy implications

This report confirms that while the current GST is needed to help fund State Government services, it is a regressive tax. Raising more revenue from consumption taxes rather than income taxes would reduce the overall progressivity of the tax system. This applies whether the GST is increased by raising the rate and keeping the exemptions, or by removing exemptions such as fresh food and health.

The NATSEM modelling reinforces ACOSS' view that, while an increase in the GST should not be ruled out, it is one of the last options that should be considered to fund services. The best place to start is concerted action to limit the ability of taxpayers to avoid paying their fair share of personal income tax by using tax shelters such as superannuation, capital gains tax concessions, negative gearing and private trusts and companies. In this way, both the fairness and economic efficiency of the tax system can be improved at the same time[2].

The NATSEM modelling also reinforces our opposition to the extension of the GST to fresh food. This would disproportionately affect low income households, not only because it would increase a regressive tax but also because they spend more of their budget on fresh food. While the distributional impact of extending the GST to education costs is more equal, we do not support the extension of the GST to education or other basic community services for a different reason. Since these services are mainly publicly funded it would lead to a large revenue 'churn' between governments and taxpayers, and encourage governments to expand user charges for essential services.

While ACOSS does not rule out any increase in the GST, we do oppose increases that are used to pay for personal income tax cuts above and beyond what is needed to compensate low and middle income households for a higher GST. A large change in the 'tax mix' from income to consumption would do nothing to improve public budgets and provide limited if any economic benefit[3]. It would simply transfer resources from low income households to high income ones, shifting taxes to people with the least ability to pay.

---

[2] For a summary of our views on wider tax reform, see ACOSS (2015) *Tax Talks 4: Re-think, Re-engage, Re-design* Available at: http://www.acoss.org.au/wp-content/uploads/2015/06/ACOSS_tax_reform_submission-final.pdf

[3] See Australian Government (2015) *Rethink: Tax Discussion Paper*, p25. Available at: http://bettertax.gov.au/files/2015/03/TWP_combined-online.pdf

# Why ACOSS requested modelling about the GST

As previously stated, increases in the GST are being advocated for a number of different purposes: to help fund services such as health care; to replace other indirect taxes; and to pay for income or company tax cuts.

Many people are concerned about the impact of a higher GST on households with low or modest incomes and the overall equity of the tax system. Advocates of a higher GST argue that these concerns can be dealt with through 'compensation' (a combination of higher social security payments and tax cuts). Yet if a tax reform requires a large 'compensation package' for people on low incomes, this is a sign that the fairness of the reform itself is questionable. Compensation may not last, and excessive reliance on it shifts the risk of reform to people who are least able to bear it.

In order to judge whether a higher GST is 'worth' these risks, we need to know three things:

1. How it will impact different households before any compensation measures are considered; and
2. Whether a higher GST has advantages over alternatives such as curbing the use of income tax shelters which do not raise the same equity concerns; and
3. The public revenue impact of a higher GST.

ACOSS commissioned this NATSEM modelling in order to shed light on the first and third of these questions: the public revenue and household impacts of policy options to raise more revenue from the GST.

ACOSS is releasing this modelling in order to inform the community debate on these issues[4].

[4] This overview of the results of modelling by the National Centre for Social and Economic Modelling (NATSEM) was prepared by ACOSS. NATSEM has prepared a separate more detailed research report which is available at: http://www.acoss.org.au/wp-content/uploads/2015/11/ACOSS-GST-Report_NATSEM.pdf.

# What NATSEM modelled

We asked NATSEM to model the effects on public revenue and households of the following nine scenarios:

An expansion in the 'base' of the GST to include:

1. All food and non-alcoholic beverages;
2. Water and sewerage;
3. Health and community services;
4. Education services;
5. All of (1) to (4).

An increase in the GST rate off the existing 'base' from 10% to:

6. 15 per cent;
7. 13 per cent

Using all of the revenue gained from the following options to pay for uniform reductions in all personal income tax rates:

8. Removal of the four exemptions listed above to fund a reduction of 3 percentage points in all personal tax rates;
9. An increase in the GST rate to 15% off the existing 'base' to fund a reduction of 5 percentage points in all personal tax rates.

These across-the-board tax cuts are not designed to compensate for the increases in the GST (which would require reductions in the lowest tax rates only). Instead these scenarios were developed to show the 'pure' (before compensation) impact of a change in the 'tax mix' from income to consumption, as advocated by some commentators.

The impacts of the nine options on public revenues and inflation are shown in Table 1. In 2015-16, extending the GST to fresh food would raise an extra $7.1 billion, extending to health and community services would raise $6 billion, and these together with education, water and sewerage would raise a total of $18.6 billion. Increasing the GST to 15% without changing the 'base' would raise $29.4 billion. All of these changes would increase consumer prices, for example by 2.8% in 2015-16 in the case of the 15% GST.

Table 1: Scenarios modelled and revenue raised by each option in 2015-16

| Scenario | GST Revenue (billions) | Change in total revenue (billions) | Increase in CPI |
|---|---|---|---|
| GST (current) | $58.9 | - | - |
| 1. Food (fresh) | $65.9 | $7.1 | 0.7% |
| 2. Water & Sewerage | $59.9 | $1.0 | 0.1% |
| 3. Health | $64.9 | $6.0 | 0.6% |
| 4. Education | $63.4 | $4.5 | 0.4% |
| 5. GST current base + (1) to (4) | $77.5 | $18.6 | 1.8% |
| 6. GST 15% current base | $88.3 | $29.4 | 2.8% |
| 7. GST 13% current base | $77.5 | $18.6 | 1.8% |
| 8. Scenario (5) and a 3% cut in all personal tax rates | $77.5 | $0.4 | 1.8% |
| 9. Scenario (6) and a 5% cut in all personal tax rates | $88.3 | $0.6 | 2.8% |

NATSEM estimated the impact of these changes on the 'purchasing power' of different households, divided into five equal groups (quintiles) according to household income. 'Purchasing power' includes the rise in the cost of goods and services from the higher GST, offset by any income tax cuts received. To assess the equity impact of reforms, changes in purchasing power are expressed as a percentage of household disposable (after tax) income. This reflects the fact that a dollar increase in the cost of living makes a bigger difference to people with less income. So, for example, the highest 20% of households pays an average of $10,154 in GST compared with $3,576 for the lowest quintile, but when this is expressed in proportion of after-tax income, the lowest quintile pays 13.4% compared with 5.9% for the highest. This is why the GST is a 'regressive' tax.

# Results of the Modelling

Table 2 summarises the GST currently paid by households (top row) and what they would pay if each of the first seven changes were made. For example, if all four of the exemptions listed were removed, the lowest quintile would pay $4,785 compared with $3,576 now, rising from 13.4% to 17.9% as a share of their household income. The bottom row shows the average (before tax) income of each quintile.

**Table 2: GST as a share of disposable household income and amount of GST paid by quintile of equivalised household disposable income for scenarios (1) to (7), 2015-16**

| Scenario | Quintile 1 | Quintile 2 | Quintile 3 | Quintile 4 | Quintile 5 | All |
|---|---|---|---|---|---|---|
| *GST as a share of disposable household income* | | | | | | |
| GST (current) | 13.4% | 8.5% | 8.3% | 7.2% | 5.9% | 7.4% |
| 1. Food (fresh) | 15.4% | 9.8% | 9.4% | 8.0% | 6.4% | 8.3% |
| 2. Water & Sewerage | 13.7% | 8.7% | 8.5% | 7.3% | 6.0% | 7.5% |
| 3. Health | 14.9% | 9.6% | 9.2% | 7.9% | 6.4% | 8.2% |
| 4. Education | 14.1% | 9.1% | 8.9% | 7.8% | 6.4% | 8.0% |
| 5. GST current base + (1) to (4) | 17.9% | 11.7% | 11.0% | 9.4% | 7.6% | 9.8% |
| 6. GST 15% current base | 20.1% | 12.7% | 12.5% | 10.8% | 8.8% | 11.1% |
| 7. GST 13% current base | 17.6% | 11.2% | 11.0% | 9.5% | 7.8% | 9.8% |
| *Dollar amount of GST paid per year* | | | | | | |
| GST (current) | $3,576 | $4,217 | $6,296 | $7,551 | $10,154 | $6,358 |
| 1. Food (fresh) | $4,112 | $4,887 | $7,117 | $8,442 | $11,084 | $7,124 |
| 2. Water & Sewerage | $3,656 | $4,302 | $6,401 | $7,675 | $10,303 | $6,467 |
| 3. Health | $3,987 | $4,768 | $6,931 | $8,268 | $11,087 | $7,007 |
| 4. Education | $3,758 | $4,515 | $6,753 | $8,178 | $11,044 | $6,849 |
| 5. GST current base + (1) to (4) | $4,785 | $5,821 | $8,315 | $9,890 | $13,056 | $8,372 |
| 6. GST 15% current base | $5,364 | $6,325 | $9,445 | $11,327 | $15,231 | $9,537 |
| 7. GST 13% current base (5) revenue | $4,708 | $5,551 | $8,289 | $9,940 | $13,367 | $8,370 |
| Average gross household income | $26,131 | $49,636 | $75,931 | $105,503 | $172,638 | $85,953 |

# 1. The impact of removing exemptions

Table 3 (below) shows the increase in GST paid if each of the four exemptions was removed, and if all four were removed. This shows that:

- Including fresh food in the GST is regressive, having three times the impact on the lowest 20% of households, whose purchasing power falls by 2% of income (compared with 0.6% for the highest 20%). Despite the fact that the highest- income households would pay more in dollar terms ($937 compared with $537) the impact falls disproportionately on the lowest income-earners.
- Including health and community services and also water is similarly regressive. Removal of the health exemption costs the lowest income household 1.6% of income compared with 0.6% for the highest. The result for health probably reflects the fact that older people and people with chronic illness outside the paid workforce are the main users of health services, and often face co-payments for services such as pharmaceuticals and specialist appointments.

There are two reasons these increases in the GST are regressive. First, the highest income households save one quarter (25%) of their income on average, so that at most three quarters of their income is subject to the GST. In contrast the lowest income households spend on average one quarter more than their income (125%) because they are retired and drawing down savings, or borrowing to meet their basic needs on inadequate incomes. This means 125% of their income is subject to the GST. The second reason is that low income households have different spending patterns, typically spending a higher share of their budget on essentials such as fresh food and health care.

The above results are due to both of these factors. For example, a tax on fresh food that raises the same overall revenue as the current GST would be more regressive. Extending the GST to fresh food has 3.3 times as much impact on the lowest quintile compared with the highest (as a proportion of income), compared with 2.3 times for the current GST. At the same time, extending the GST to fresh food increases the overall level of taxes on consumption by $7.1 billion. This makes the overall tax system less progressive due to the above saving patterns.

Table 3: Average absolute and percentage change in purchasing power by quintile of equivalised household disposable income scenarios (1) to (5), 2015-16

| Scenario | Quintile 1 | Quintile 2 | Quintile 3 | Quintile 4 | Quintile 5 | All |
|---|---|---|---|---|---|---|
| *Average percentage change in purchasing power* | | | | | | |
| 1. Food (fresh) | -2% | -1.4% | -1% | -.8% | -.6% | -.8% |
| 2. Water & Sewerage | -.4% | -.2% | -.2% | -.2% | 0% | -.2% |
| 3. Health | -1.6% | -1.2% | -.8% | -.6% | -.6% | -.8% |
| 4. Education | -.6% | -.6% | -.6% | -.6% | -.6% | -.6% |
| 5. (1) to (4) | -4.6% | -3.2% | -2.7% | -2.2% | -1.7% | -2.3% |
| *Average change in purchasing power ($p.a.)* | | | | | | |
| 1. Food (fresh) | $-537 | $-665 | $-819 | $-869 | $-937 | $-765 |
| 2. Water & Sewerage | $-80 | $-84 | $-106 | $-124 | $-150 | $-109 |
| 3. Health | $-406 | $-554 | $-635 | $-718 | $-930 | $-649 |
| 4. Education | $-176 | $-290 | $-458 | $-631 | $-887 | $-488 |
| 5. (1) to (4) | $-1,199 | $-1,593 | $-2,018 | $-2,342 | $-2,904 | $-2,011 |
| Current GST | 13.4%<br>$3,576 | 8.5%<br>$4,217 | 8.3%<br>$6,296 | 7.2%<br>$7,551 | 5.9%<br>$10,154 | 7.4%<br>$6,358 |
| Average gross household income | $26,131 | $49,636 | $75,931 | $105,503 | $172,638 | $85,953 |

Unlike food and health, extending the GST to education (school and other education fees) does not increase the regressivity of the GST. It would have an equal impact (a 0.6% reduction in spending power) on households at different income levels. This is because the effect of differences in household spending patterns (e.g. high income households spend proportionately more on private school fees) is offset by differences in household saving levels (low income households spend more than their income).

ACOSS opposes extension of the GST to fresh food, mainly on the equity grounds that low income households would be disproportionately affected. While the distributional impact of extending the GST to education costs is not regressive, we do not support extension of the GST to education and other basic community services for different reasons: Since these services are mainly publicly funded it would result in a large revenue 'churn' between governments and households, and encourage governments to expand user charges for essential services.

## 2. The impact of increasing the GST rate

Table 4 shows the increase in GST paid if the GST is increased to 13% or 15%, without changing exemptions. This shows that:

- Increasing the GST rate to 15% is regressive, having twice the impact on the lowest income households (purchasing power falls by 7% of income) compared with the highest-income households (a 3% fall in purchasing power).
- The impacts on all households are greater than from removing all four exemptions, since this change raises one-a-half-times as much extra revenue.

**Table 4: Average absolute and percentage change in purchasing power by quintile of equivalised household disposable income where the GST rate is increased to 15 per cent and 13 per cent on the current base, 2015-16**

| Scenario | Quintile 1 | Quintile 2 | Quintile 3 | Quintile 4 | Quintile 5 | All |
|---|---|---|---|---|---|---|
| *Average percentage change in purchasing power* | | | | | | |
| 6. GST 15% current base | -7% | -4.2% | -4.2% | -3.6% | -3% | -3.6% |
| 7. GST 13% current base | -4.4% | -2.6% | -2.6% | -2.2% | -1.8% | -2.4% |
| *Average change in purchasing power (p.a.)* | | | | | | |
| 6. GST 15% current base | -$1,807 | $-2,065 | $-3,146 | $-3,798 | $-5,081 | $-3,179 |
| 7. GST 13% current base (5) revenue | $-1,144 | $-1,307 | $-1,991 | $-2,403 | $-3,215 | $-2,012 |
| Current GST | 13.4% $3,576 | 8.5% $4,217 | 8.3% $6,296 | 7.2% $7,551 | 5.9% $10,154 | 7.4% $6,358 |
| Average gross household income | $26,131 | $49,636 | $75,931 | $105,503 | $172,638 | $85,953 |

These results show that whether the GST is increased by removing exemptions or raising the rate off the existing tax base, the overall impact is strongly regressive.
While ACOSS does not rule out any increase in the GST, our firm view is that before an increase in the GST is considered to raise the public revenue needed to fund community services, other more equitable options should be thoroughly pursued. These options include reducing the cost to the budget of income tax shelters such as superannuation, capital gains tax discounts and negative gearing, and private trusts and companies.

## 3. The impact of increasing the GST to pay for income tax cuts

Some advocate a change in the 'tax mix' to tax consumption more and income less. This would be done by increasing the GST and using all or part of the revenue to pay for personal income tax cuts. To show the effect of such a change, NATSEM modelled two

scenarios: one in which removal of the four exemptions pays for a uniform 3% reduction in all personal income tax rates and another in which a rise in the GST rate to 15% pays for a 5% reduction in all income tax rates. This is different to a 'compensation package' designed to offset the impact of a higher GST on low and middle income households, which would usually include increases in social security payments together with tax cuts skewed towards the low income households most affected by a higher GST. NATSEM is not modelling 'compensation' here – the purpose is to show the 'pure' effects of using a higher GST to fund lower income taxes across the board.

**Table 5: Changes to personal tax rates modelled**

| Changes to personal income tax scale modelled | $0-$18,200 | $18,201-$37,000 | $37,001 - $80,000 | $80.001 - $180,000 | $180,001 + |
|---|---|---|---|---|---|
| **Current tax scale** | 0% | 19% | 32.5% | 37% | 45% |
| **Scenario (8): 3% reduction** | 0% | 16% | 29.5% | 34% | 42% |
| **Scenario (9): 5% reduction** | 0% | 14% | 27.5% | 32% | 40% |

Note: Does not include Medicare Levy or temporary deficit reduction levy.

If all of the revenue from a higher GST is used to fund income tax cuts, there are 'winners' as well as 'losers'. If this 'tax mix change' preserved the overall progressivity of the tax system, the winners and losers would be distributed more or less equally across all five quintiles. Table 6 shows that instead, using a higher GST to pay for uniform cuts in income tax rates is strongly regressive. *If the GST exemptions are removed and income tax rates are reduced by 3%*, then:

- The majority of households (59%) lose, including majorities of households in each of the lowest three quintiles (98% in the lowest, 89% in the second and 55% in the middle quintile).
- This means that most households whose incomes are below about $100,000 lose from this 'tax mix change', with average losses in purchasing power for the lowest quintile of 4.4% of income ($1,156 per year), 2.4% for the second ($1,183) and 0.8% for the middle quintile ($602). The largest proportional losses are experienced by the lowest quintile.
- In contrast, most households in the highest two quintiles gain (78% of the highest quintile and 70% of the fourth).
- The lion's share of the gains accrue to the highest quintile - 1.4% of income ($2,411) on average compared with 0.3% ($298) for the fourth quintile.

If the GST is *increased to 15% and income tax rates are reduced by 5%*, then:

- A greater majority of households (64%) lose, including majorities of households in each of the lowest three quintiles (99% in the lowest, 91% in the second and 67% in the middle quintile).
- This means that most households whose incomes are below about $100,000 lose from this 'tax mix change', with average losses in purchasing power for the lowest quintile of 6.6% of income ($1,736 per year), 2.8% for the second ($1,400) and 1.1% for the middle quintile ($848). Again, the largest proportional losses are borne by the lowest quintile.
- On the other hand, among the highest two quintiles most households gain (75% of the highest quintile and 64% of the fourth).
- The losses borne by the lowest three quintiles pay for the gains for the highest two quintiles – an average gain of 2.1% of income ($3,594) for the highest and 0.4% ($471) for the fourth.

**Table 6: Change in purchasing power from a higher GST (removing the four exemptions or increasing the rate to 15% off the existing base) to pay for income tax cuts (of 3% and 5% respectively), 2015-16**

| | 1st quintile | 2nd quintile | 3rd quintile | 4th quintile | 5th quintile | Total |
|---|---|---|---|---|---|---|
| **(8) Removing all four exemptions and reducing all income tax rates by 3%** | | | | | | |
| *Share of each quintile that 'wins' or 'loses'* | | | | | | |
| Winners | 1.1% | 10.5% | 45.5% | 69.5% | 77.9% | 40.9% |
| Losers | 98.0% | 89.3% | 54.5% | 30.5% | 22.1% | 58.9% |
| *Average percentage change in purchasing power (% of income)* | | | | | | |
| Winners and losers | -4.4% | -2.4% | -0.8% | 0.3% | 1.4% | -0.1% |
| Winners only | 0.4% | 0.7% | 0.9% | 1.3% | 2.2% | 1.7% |
| Losers only | -4.5% | -2.8% | -2.3% | -2.1% | -1.8% | -2.6% |
| **(9) Increasing the GST rate to 15% and reducing all income tax rates by 5%** | | | | | | |
| *Share of each quintile that 'wins' or 'loses' (%)* | | | | | | |
| Winners | 0.6% | 9.2% | 33% | 63.5% | 75.1% | 36.3% |
| Losers | 99.4% | 90.8% | 67% | 36.5% | 24.9% | 63.7% |
| *Average change in purchasing power (% of income)* | | | | | | |
| Winners and losers | -6.6% | -2.8% | -1.1% | 0.4% | 2.1% | 0% |
| Winners only | 0.8% | 0.9% | 1.3% | 1.8% | 3.15% | 2.5% |
| Losers only | -6.7% | -3.3% | -2.4% | -2.0% | -1.9% | -3% |
| **Current GST** | **13.4%** | **8.5%** | **8.3%** | **7.2%** | **5.9%** | **7.4%** |
| **Average gross household income** | **$26,131** | **$49,636** | **$75,931** | **$105,503** | **$172,638** | **$85,953** |

While ACOSS does not rule out *any* increase in the GST, we do oppose any increase in the GST that is used to pay for personal income tax cuts above and beyond any that are required to compensate households for the higher GST. A large change in the 'tax mix' from income to consumption would seriously weaken the overall progressivity of our tax system and do nothing to raise revenue to fund essential community services. It would simply transfer resources from low income households to high income ones.

## 4. Impacts on different household types

NATSEM also provided estimates of the impacts of changes to the GST and income tax cuts on different household types. Table 7 focuses on two scenarios: raising the GST rate to 15% off the current base without income tax cuts, and the same GST change with a 5% cut in all marginal income tax rates. These estimates do not take account of any 'compensation' measures for low income households, which would increase the cost of the package and offset losses for those who are compensated.

### Increasing the GST to 15% without income tax cuts

In the first case (scenario 6) all households lose (since it increases revenue without any offsetting tax cuts). [5]

Those most affected include younger (under 20) and older (over 60) households, households headed by women, sole parent families and households relying mainly on social security payments (especially Newstart and Youth Allowance). For example, the average increase in living costs for age pensioner households is $30 a week (it would be lower for singles and higher for couples), for Newstart recipients $41 a week (which would include some families), and $33 a week for recipients of Parenting Payment (mainly sole parents). Note that this is before any 'compensation' is paid.

### Increasing the GST to 15% with 5% income tax cuts

In the second case (scenario 9) there is a mix of winners and losers. Around two thirds lose (64%) while only one third (36%) gain.[6] The common denominator in all of these shifts

[5] Note that the data in table 7 is for household types, not individuals (so for example where gender or age is specified this is the gender or age of the household reference person or 'head').
[6] This change is revenue neutral because the average gain among the winners is greater than the average loss among the losers.

in household fortunes is that households with higher incomes gain at the expense of those on lower incomes.

This scenario has adverse effects on younger (79% of those under 20 lose) and older households (over 80% of those over 60 lose), and on sole parent families (84% of whom lose). Households headed by women are more likely to lose (77%) than those headed by men (58%).

Over 98% of households relying mainly on social security payments would lose. For example, the average increase in living costs for age pensioner households is $28 a week (it would be lower for singles and higher for couples), for Newstart recipients $38 a week (which would include some families), and $32 a week for recipients of Parenting Payment (mainly sole parents). Note that this is before any compensation is paid, apart from the tax cuts modelled here.

Overall, 42% of those whose main income is wages, mainly those from low income households, would lose. For example, 74% of wage earning households in the second lowest quintile of households lose and losses for wage earning households in this quintile average $19 a week. Further, 63% of those whose main income is from a business lose, along with 85% of those whose main income is investments (predominantly retirees).

The main winners include: 59% of wage earning households (mostly those with higher pay (for example 82% of wage earning households in the top quintile gain and gains for wage earning households in this quintile average $66 per week), 42% of households headed by men, 60% of married couples with children, and just over half of households headed by people aged 30-50 years.

Table 7: Average percentage change in purchasing power and % of winners and losers for different household types from a 15% GST with and without tax cuts, 2015-16

| Household type | Increase GST to 15, no tax cuts | | | Increase GST to 15%, 5% reduction in each personal income tax rate | | |
|---|---|---|---|---|---|---|
| | Average impact (% income) | % winners | % losers | Average impact (% income) | % winners | % losers |
| All | -3.7 | 0 | 100 | 0 | 36.3 | 63.7 |
| *Gender of household head* | | | | | | |
| Male-headed | -3.7 | 0 | 100 | 0.3 | 41.6 | 58.4 |
| Female-headed | -3.9 | 0 | 100 | -1 | 23.1 | 76.9 |
| *Family type* | | | | | | |
| Married couple with dependents | -3.6 | 0 | 100 | 1.3 | 60.0 | 40.0 |
| Married couple only | -3.7 | 0 | 100 | -0.7 | 32.0 | 68.0 |
| One parent with dependents | -4.0 | 0 | 100 | -2 | 16.3 | 83.7 |
| One person | -3.8 | 0 | 100 | -0.4 | 29.2 | 70.8 |
| *Age of household head* | | | | | | |
| 15 to 20 years | -4.5 | 0 | 100 | -0.9 | 21.0 | 79.0 |
| 21 to 29 years | -3.6 | 0 | 100 | 0.3 | 47.7 | 52.3 |
| 30 to 39 years | -3.6 | 0 | 100 | 0.7 | 50.5 | 49.5 |
| 40 to 49 years | -3.6 | 0 | 100 | 1.3 | 52.6 | 47.4 |
| 50 to 59 years | -3.6 | 0 | 100 | 0.4 | 43.0 | 57.0 |
| 60 to 69 years | -4.0 | 0 | 100 | -1.5 | 20.1 | 79.9 |
| 70+ years | -3.7 | 0 | 100 | -2.4 | 8.0 | 92.0 |
| *Main source of household income* | | | | | | |
| Age Pension | -4.1 | 0 | 100 | -3.9 | 0.7 | 99.3 |
| Disability Support Pension | -3.8 | 0 | 100 | -3.5 | 0.8 | 99.2 |
| Carer Payment | -4.3 | 0 | 100 | -3.9 | 0 | 100.0 |
| (mostly) Parenting Payment + | -4.0 | 0 | 100 | -3.9 | 0.2 | 99.8 |
| Newstart Allowance | -5.6 | 0 | 100 | -5.3 | 0.2 | 99.8 |
| Youth Allowance* | -20.6 * | 0 | 100 | -20.5 | 0 | 100.0 |
| Business or partnership | -3.6 | 0 | 100 | 0.9 | 37.2 | 62.8 |
| (mostly) investment income + | -3.4 | 0 | 100 | -0.4 | 15.3 | 84.7 |
| Wages and Salary (all) | -3.6 | 0 | 100 | 0.8 | 58.5 | 41.5 |
| Wages and Salary (2nd lowest 20%) + | n.a. | 0 | 100 | -1.7 | 26.5 | 73.5 |
| Wages and Salary (top 20%) | n.a. | 0 | 100 | 2.1 | 81.9 | 18.1 |
| *State / Territory* | | | | | | |
| New South Wales | -3.7 | 0 | 100 | 0 | 37.2 | 62.8 |
| Victoria | -3.8 | 0 | 100 | -0.3 | 32.0 | 68.0 |
| Queensland | -3.9 | 0 | 100 | -0.4 | 37.4 | 62.6 |
| South Australia | -3.6 | 0 | 100 | -0.2 | 30.7 | 69.3 |

| Household type | Increase GST to 15, no tax cuts | | | Increase GST to 15%, 5% reduction in each personal income tax rate | | |
|---|---|---|---|---|---|---|
| | Average impact (% income) | % winners | % losers | Average impact (% income) | % winners | % losers |
| Western Australia | -3.2 | 0 | 100 | 1.2 | 44.9 | 55.1 |
| Tasmania | -4.1 | 0 | 100 | -1.2 | 24.6 | 75.4 |
| ACT and NT | -3.6 | 0 | 100 | 0.1 | 48.0 | 52.0 |

* Results should be treated with caution due to small sample size.
+ Few households in the lowest 20% have wages as their main income source.
# These are coded as 'other income' but would mainly comprise the categories identified.
n.a. not available.


acoss


Australian Council of Social Service

www.acoss.org.au

@ACOSS