

Media release

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TAI challenges CPA on GST modelling

The Australia Institute (TAI) has challenged modelling and analysis used in a report from the Certified Practising Accountants (CPA) which argues for increases to the GST.

The CPA report assumes that the economy will grow more quickly because of cuts to taxes funded by the increase and broadening of the GST.

“The economic model used assumes that lower marginal tax rates will encourage people to work more,” said TAI Senior Economist, Matt Grudnoff.

“But also the model also assumes that the economy will move back to full employment over the next few years, which means that there will be jobs available that will allow people to work longer hours.”

“This suggests the model is built on the premise that the only reason we have rising unemployment is because the dole queue is filling with people just waiting for their marginal income tax rate to fall 2 by per cent.

The Australia Institute undertook a survey last year asking Australian workers if they knew their marginal rate of tax. Only 30% of people knew what it was. This suggests that the link between working hours and marginal tax rates may be quite limited.

“If employment and the economy do not grow as quickly as the model assumes because of the cuts in taxes paid for by an increase in the GST then the benefits of this change will not materialise.”

“As limited as the modelling is, even it shows that most of the benefits flow to the most well off. While 41% of the benefits flow to the highest income households, only 7% flow to the lowest income households. Even these benefits will quickly vanish if the boost in economic growth and employment promised by the model does not appear.”

“The GST is a highly regressive tax meaning that lower income households pay more as a percentage of their income than higher income households. By broadening and raising the GST it shifts the burden of tax from higher incomes households to lower income households.”

“With most of the benefit of these cuts flowing to high income households, this further shifts the burden. After this proposed change in taxes we will have a less progressive more regressive tax system where low income people will be expected to pay more and high income households pay less,” Grudnoff said.

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