

18 July 1998

GST Plan Will Hurt the Poor: Four Tax Experts

A new report from the Australia Institute, *Perspectives on the GST Package*, highlights the perils for lower income families of a GST on food. The report, written by four of Australia's leading tax analysts, argues that the proposed 10% tax on food is the major cause of inequity.

One of the authors, Julian Disney, President of the International Council on Social Welfare and former President of ACOSS, notes that while international experience suggests there is a good, though not overwhelming case for introducing a GST, it should not be introduced "at any price".

The Howard GST, he says, comes at an unreasonably and unnecessarily high price for both the economy and social equity. Disney recommends key changes that need to be made as a matter of urgency. In particular, the zero-rating of food would be a major step in minimising the growth of the 'great divide' – the yawning gap in disposable incomes between the richest and poorest Australians.

Professor John Nevile argues that while Mr Howard's GST has a number of good features, it is fatally flawed by its lack of concern for equity. He too calls for food to be exempted from the GST. He also points out that the likely deterioration in Australia's economic situation would probably see a re-elected Coalition government making further large cuts to public expenditure, something which especially hits lower income earners.

Professor John Quiggin argues that taxing food is highly regressive and that exempting food would have little impact on economic efficiency. Quiggin lists 12 goods and services that are already treated differentially in the Coalition plan. Six of them are zero-rated including private education, overseas holidays, private health care and insurance.

Quiggin attacks the Government's arguments that exempting food would raise definitional difficulties. The claim, he says, that low income households should pay billions of dollars in food taxes because the Government is incapable of distinguishing between a bag of groceries and a restaurant meal is not worthy of serious consideration.

Julie Smith observes that the integrity of the Coalition's tax package depends critically on the public's trust that the promised compensation will be delivered, but this comes at a time when trust in Australia's political parties is at a low ebb.

Contacts: Julian Disney – 02 9804 8824; John Nevile – 02 9953 2273
John Quiggin – 07 4781 4798; Julie Smith – 02 6241 8861