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TITLE: **Tweaking GST is just a quick fix**

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Our two-speed economy has a two-tiered tax system, with capital-intensive mining companies paying among the lowest rates of corporate tax and the labour-intensive service sector paying among the highest. All companies face the same nominal 30 per cent tax on income but the existence of accelerated depreciation and other tax concessions deliver disproportionately for the miners.

While the resource super profits tax and the mineral resources rent tax were meant to address this issue, the big miners flexed sufficient muscle to ensure that even though coal and iron ore prices are well above historic averages, no “super profits” tax has yet been paid.

Australia is among the lowest taxed countries, according to the OECD. The recent push by business groups to raise the GST is an attempt to shift the debate about where to find more revenue away from miners. The last thing the miners want is to revisit the design of the mining tax, which was a hasty compromise.

Try explaining to someone other than a new prime minister why profits from gold, copper and uranium should be left out.

The problem with trying to push the cost of tax reform onto consumers via an increase in the GST is retailers’ fortunes are tied to those of consumers. And retailers don’t have much of their fortunes left.

Australians pay some of the highest prices in the world for items such as jeans, jewellery and software. And while the 10 per cent GST can’t possibly explain the 100 per cent price premium we often pay, there is no doubt an increase in the GST will see more retail activity go offshore.

The premise of the GST was that it’s more efficient to tax something immobile such as consumption rather than capital or labour which could move more freely around the world in pursuit of low taxes. While this argument may have been valid once, it is flawed today.

Online shopping and cheap freight mean consumption is now the most mobile of all economic activities, especially when information rather than physical product is consumed. Once CDs and books were imported. Now content is delivered directly.

The pressure to raise the GST is happening while retailers are pushing to halve the GST-free threshold for individuals buying from overseas. Leaving aside the fact that the cost of tax collection on such items will exceed the revenue gained, such a response to the threat of online competition is doomed to fail.

Thousand-dollar computers can be sold as individual components, each priced below the threshold. Software and music can be sold as a monthly “service” rather than a one-off fee. There is no holding back sales of imported goods.

The GST was not the disaster its opponents suggested, but neither will it be the success its designers sought. Economic theory says the most immobile tax bases are most efficient as they are the least distortionary.

The more mobile consumption becomes, the less tax we will be able to collect from it. The miners had the power to water down the mining tax but not even they will be able to stop the worldwide shift to online shopping. Trying to shift the burden of tax increases onto retailers makes short-term political sense but not long-term economic sense. The most immobile tax base in Australia is the minerals that sit in the ground.

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