2015/01: Should Australia extend the GST to include fresh food?

What they said

'I think there's general agreement that the broader the base [of the GST], the better, obviously. And the lower the personal tax, the better'
Federal Minister for Trade, Andrew Robb

'The Goods and Services Tax is not a fair tax because it has no regard for a person's capacity to pay... and it won't be made any fairer by putting it on food, the absolute staple of life'
Victorian premier, Daniel Andrews

The issue at a glance

In an article published in The Financial Review on January 5, 2015, the Liberal backbencher, Dan Tehan, declared his support for an extension of the GST (Goods and Services Tax).
Mr Tehan argued that the tax should be applied to fresh food, education, health and financial services.
On January 7, 2015, Queensland LNP senator Ian Macdonald and West Australian Liberal senator Dean Smith also expressed support for the GST to be applied to fresh food.
On January 9, 2014, the Minister for Trade, Andrew Robb, became the first member of the federal Cabinet publicly to support this proposal.
The Prime Minister, Tony Abbott, has promised that no attempt to change the GST will be made before the next federal election. Despite this, the suggestion has attracted significant attention from the media, the Opposition, economists, welfare groups, the agricultural sector and representatives of the different states.
Arguments for and against the proposition have been presented.

Background

(The information below is an abridged version of that found in the Wikipedia entry titled 'Goods and Services Tax (Australia)'
The full entry can be found at http://en.wikipedia.org/wiki/Goods_and_Services_Tax_%28Australia%29)

The Goods and Services Tax (GST) in Australia is a value added tax of 10% on most goods and services sales. It is an indirect, or consumption tax, levied on what is consumed or purchased, rather than a direct tax, such as income or company tax, which is levied on monies earned. The GST is levied on most transactions in the production process, but is refunded to all parties in the chain of production other than the final consumer.

GST revenue distributed to the States

The GST revenue is then redistributed to the states and territories via the Commonwealth Grants Commission process. Whilst the rate is currently set at 10%, there are many domestically consumed items that are effectively zero-rated (GST-free). Food, health and education services, water and sewage are exempted, and so are financial services, as well as exemptions for Government charges and fees that are themselves in the nature of taxes.

Introduction of the GST

The tax was introduced by the Howard Government and commenced on 1 July 2000, replacing the previous federal wholesale sales tax system and designed to phase out a number of various State and Territory Government taxes, duties and levies such as banking taxes and stamp duty.

Economic and social effects

Critics have argued that the GST is a regressive tax, which has a more pronounced effect on lower income earners, meaning that the tax consumes a higher proportion of their income, compared to those earning large incomes. However, due to the corresponding reductions in personal income taxes, state banking taxes, federal wholesale taxes and some fuel taxes that were implemented when the GST was introduced, former Treasurer Peter Costello claimed that people were effectively paying no extra tax.
The preceding months before the GST became active saw a spike in consumption as consumers rushed to purchase goods that they perceived would be substantially more expensive with the GST. Once the tax came into effect, consumer consumption and economic growth declined such that by the first fiscal quarter of 2001, the Australian economy recorded negative economic growth for the first time in more than 10 years. Consumption soon returned to normal however. The Government was criticised by small business owners over the increased administrative responsibilities of submitting Business Activity Statements (BAS) on a quarterly basis to the Australian Taxation Office.
A study commissioned by the Curtin University of Technology, Perth in 2000 argued that the introduction of the GST would negatively impact the real estate market as it would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent. The real estate market returned to boom between 2002 and 2004 where property prices and demand increased dramatically, particularly in Sydney and Melbourne. During the 2004-2006 period Perth also witnessed a sharp climb in real estate prices and demand.

Internet information

On January 15, 2015, The Wimmera Mail-Times published an article outlining the member for Wannon, Dan Tehan's, support for the GST on food.
The full text of this article can be found at http://www.mailtimes.com.au/story/2798201/dan-tehan-gst-should-be-broadened-to-fresh-food-education-health/

On January 14, 2015, The Stock Journal published an article titled 'Coalition feathers fly on GST'
The article considers the disagreement within the federal Coalition on a proposal to introduce the GST on fresh food.
The full text of this article can be accessed at http://www.stockjournal.com.au/news/agriculture/agribusiness/general-news/coalition-feathers-fly-on-gst/2720938.aspx

On January 12, 2015, the ABC's opinion site, The Drum, published a comment by Paula Matthewson titled 'Abbott follows the Howard blueprint on GST'
The piece considers the political strategies being employed by the Abbott government as it moves toward making changes to the GST.
The full text of this comment can be found at http://www.abc.net.au/news/2015-01-12/matthewson-abbott-follows-the-howard-blueprint-on-gst/6011596

On January 10, 2015, The Advocate ran a news report detailing the opposition of the Tasmanian Farmers and Graziers Association to a GST on fresh food.
The full text of the article can be accessed at http://www.theadvocate.com.au/story/2808117/gst-extension-to-fresh-food-a-disaster-davis/

On January 9, 2015, The Courier ran a report titled 'Daniel Andrews won't support any increase to the GST'
The report details Daniel Andrews's objections to an increase in the rate or the base of the GST.
The full text of this report can be accessed at http://www.thecourier.com.au/story/2806964/premier-wont-support-any-increase-to-the-gst/

On January 6, 2015, The Sydney Morning Herald ran a news report titled 'GST on fresh food would make Australia sick: Health groups'
The item brings together the views of a range of health authority, all opposed to a GST on fresh food because of its supposed ill effects on public health.
The full text of this article can be accessed at http://www.smh.com.au/federal-politics/political-news/gst-on-fresh-food-would-make-australia-sick-health-groups-20150106-12ivaa.html

On January 5, 2015, The Australian Financial Review published a comment by Liberal MHR for Wannon, Dan Tehan. The piece is titled 'Broaden GST before anything else'.
In the opinion piece Tehan argues for an expansion of the GST to include, among other things, fresh food.
The full text of this comment can be found on Mr Tehan's Internet site at http://www.dantehan.com.au/news/692/59/BROADEN-GST-BEFORE-ANYTHING-ELSE.html

On January 5, 2015, the National Farmers Federation (NFF) Internet site posted a media release titled 'GST on fresh food not good for farmers or families'
The release details the objections of the NFF to the GST being extended to fresh food.
It can be accessed at http://www.nff.org.au/read/4842/gst-on-fresh-food-not-good.html

On January 5, 2015, The Guardian published a report focusing on Dan Tehan's justifications of his support for an extension of the scope of the GST. The report is titled 'Poor people could be compensated if GST base broadened, says Liberal MP'
The report can be accessed at http://www.theguardian.com/australia-news/2015/jan/05/poor-people-could-be-compensated-if-gst-base-broadened-says-liberal-mp

On December 29, 2014, the West Australian premier, Colin Barnett, indicated his support for an extension of the GST to include fresh food.
His comments were published in a report published in The West Australian titled 'Barnett backs GST on fresh food'
The full text of this report can be accessed at https://au.news.yahoo.com/thewest/a/25867325/barnett-backs-gst-on-fresh-food/

On October 27, 2014, The Financial Review ran a report titled 'Abbott puts GST hike on the table'
The full text of this report can be found at http://www.afr.com/p/national/politics/abbott_puts_gst_hike_on_the_table_fkPnjYQ3abPRkA0ajjNwkO

On May 27, 2014, The Conversation published a comment by Gary Sacks, Senior Research Fellow, WHO Collaborating

Centre for Obesity Prevention at Deakin University. The comment is titled 'Adding GST to fresh food is a recipe for poor health'
The full text of this comment can be accessed at http://theconversation.com/adding-gst-to-fresh-food-is-a-recipe-for-poor-health-27120

On May 26, 2014, the ABC's opinion site, The Drum', published a comment by Mungo MacCallum in which he considers the political and economic motives behind the apparent move toward an extended GST within the Abbott government. The comment is titled 'OK, let's talk about this regressive GST'. The comment opposes changes to the GST.
It can be accessed at http://www.abc.net.au/news/2014-05-26/maccallum-ok-lets-talk-about-this-regressive-gst/5477338

On May 20, 2014, ABC Rural News broadcast an item detailing the objections of a number of rural industry spokespeople to the introduction of a GST on fresh food.
The full text can be accessed at http://www.abc.net.au/news/2014-05-20/nff-no-gst-on-food/5464788

On September 27, 2013, The Guardian published an analysis titled 'Australia's tax mix: examining the case for a rise in GST'
The full text of this article can be found at http://www.theguardian.com/business/grogonomics/2013/sep/27/grogonomics-gst-tax-mix

On January 5, 2013, The Sydney Morning Herald published the views of a number of economists regarding the measures necessary to secure state revenues. A number of them suggested alterations to the GST.
The article detailing these views is titled 'Raise the GST, urges expert panel'. It can be accessed at
http://www.smh.com.au/business/raise-the-gst-urges-expert-panel-20130104-2c8na.html

Arguments in favour of charging a GST on food
1. Indirect taxes are more efficient than direct taxes
Direct taxes are those placed on income or profits. Indirect taxes, such as the GST, are essentially consumption taxes, placed on goods and services consumed. Direct taxes have been condemned as a disincentive to employees to become more productive as their increased income will only attract increased income tax. Similarly, increased company taxes have been condemned as a tax on productivity, discouraging manufacturers from expanding and so exerting a dampening influence on the economy.
Indirect taxes are also recommended as being easier for a government to collect and harder for a taxpayer to avoid. It is not possible, for example, to construct tax shelters or other devices to evade paying a consumption tax.
The Liberal member for Wannon, Dan Tehan, has stated, 'We all understand on both sides of the house that we have to tax people, and my view is that if we are going to tax people, we should do it as effectively and efficiently as possible. All the economic evidence points to the more you rely on revenue from direct taxes such as company and income tax, the bigger the handbrake it places on your economy, whereas the GST is a growth tax.'
Mr Tehan added, 'If our tax system is to remain efficient and internationally competitive, then we have to reduce our reliance on direct taxes, such as income and company tax, and look to replace that with indirect taxes such as the GST.'
In an opinion piece published in The Australian Financial Review, Mr Tehan said broadening the GST would deliver up to $21.6 billion in extra revenue each year and enable further serious reductions in direct taxes.
Mr Tehan compared New Zealand's broadly applied consumption tax to Australia's limited one and argued that the broad-based indirect tax had allowed New Zealand to reduce direct taxation.
Mr Tehan stated, 'Since its introduction in 1986, New Zealand has raised its GST twice. It also recognised from the start that the only way to reap a full GST benefit is to have minimal exemptions.
Their GST covers 96 per cent of their consumption. Australia's only covers 47 per cent and is shrinking, down from 53 per cent a decade ago.
As a result, the Kiwis now enjoy a company tax rate of 28 per cent and a top marginal income tax rate of 33 per cent.'

2. Increasing revenue gained from the GST is necessary to allow states to fund schools, hospitals and other services
In January, 2013, a range of economists declared that in order for the states to meet growing demands for schools and hospitals, as well as other services they provide, the revenue derived from the GST would have to be increased.
AMP Capital's chief economist, Dr Shane Oliver, claimed that broadening the GST's base to cover all goods and services, including fresh food, was the most urgently needed tax reform. In return, states could remove payroll tax and stamp duty.
Dr Oliver stated, 'The tax base for the GST is too narrow and likely to grow too slowly to satisfy state revenue needs.'
Nigel Stapledon, the associate head of the University of New South Wales School of Economics, stated, 'An increase in the states' tax base is the key to genuine reform. That means an increase in the GST to allow dependence on the most inefficient taxes, such as property and transfer taxes, and gambling taxes, to be wound back.'
In September 2013, the Organisation for Economic Co-operation and Development released a paper, Tax Policy Landscape: Five Years after the Crisis, which showed that Australia's taxation revenue declined much more dramatically than in most OECD nations - primarily because of Australia's high dependency on company and income taxes, and low dependency on consumption taxes (the GST).
Company and income taxes are hit harder by economic downturns than consumption taxes. This makes direct taxes a

less reliable source of states' revenue than the GST. It has been noted that the Victorian and NSW governments depend on the GST for about a quarter of their revenue, so the slower GST growth is hitting state budgets. Other states have also complained about their diminishing share of the state budget allocations made by the federal government.
State and territory finances have also come under pressure from revenue write-downs and the federal government's decision to cut budgeted funding for hospitals and schools.

3. Other countries in the world have a tax on food
Critics have argued that compared to many other countries Australia's GST is low and its non-taxing of fresh food items places it out of step with many other nations.
The concept behind consumption taxes such as a GST was developed by a French tax official in the 1950s. In some countries it is known as VAT, or Value-Added Tax. Today, more than 160 nations, including the European Union and Asian countries such as Sri Lanka, Singapore and China practice this form of taxation. Roughly 90 percent of the world's population live in countries with VAT or GST.
Countries without a VAT tend to be small, with the notable exceptions of the United States and India (prior to 2005, when some state-level VATs were introduced; the 2006 budget speech announced the intention to adopt a central VAT in Indian.) Supporters of consumption taxes claim they are a valuable means of allowing economies to grow while generating sufficient taxation revenue to provide services.
Most indirect taxation in OECD (Organisation for Economic Co-operation and Development) countries is generated through various taxes on goods and services. Australia has the fourth lowest level for goods and services taxes and total indirect taxation in the OECD.
Australia's indirect tax burden relating to these items is 9.7 per cent of GDP which is significantly lower than the OECD average of 12.9 per cent. Australia's GST rate of 10 per cent is significantly below the unweighted OECD average of 17.6 per cent.
There is a range of rates used when applying consumption taxes in OECD countries. The rates vary from 25 per cent in Denmark, Hungary, Norway and Sweden, to 5 per cent in Japan. For members of the European Union, a minimum standard rate of 15 per cent is prescribed. Australia's GST rate is only 10 percent. Some economist recommending the inclusion of fresh food in the GST tax base claim that the only way of avoiding an increase in the rate of tax, that is to lift it beyond 10 percent, is to increase the number of goods and services upon which it is imposed.
Australia is one of only five countries (the others being Canada, Mexico, Ireland, and the United Kingdom) that apply a zero rate to certain food items. Most European countries apply reduced rates to various food items.
New Zealand is sometimes cited as a country with a comparable economy to Australia's which imposes a GST on fresh food. New Zealand's GST captures everything except housing, rents and financial transactions.

4. Those on low incomes could be compensated
It has been claimed that those on low incomes could have the impact of a tax on fresh food overcome by government-funded compensation.
The Liberal MHR for Wannon, Dan Tehan, who has proposed extending the GST to fresh food, has also argued in favour of compensation for the economically disadvantaged. Mr Tehan has stated, 'You would have a compensation package which would be applied directly to those that it would impact on. The OECD have made this point clear: you address welfare through direct welfare payments; you don't address welfare through exemptions to everyone in your tax system.'
Mr Tehan has further argued, 'This [impact of GST on fresh food] can be dealt with through compensation payments. Also, I'd make the point: if you have taxes in place which shackle our economy, over time they are regressive in nature because they limit employment and your ability to grow.'
In May 2014, the head of World Vision, Tim Costello, argued that the GST should be extended to as many goods and services as possible, including food, and that the poor should be compensated for its particular effects upon them.
Mr Costello stated, 'The preference in terms of simplicity and reducing cost is to have the broadest base possible and deal with it in the compensation.
The starting principle should be "don't exempt anything", because it's simpler and clearer and more transparent and then build that back into the compensation for those that are poor.'
Mr Costello said the GST was already affecting the poor. He cited the fact that the tax is levied on processed food but not fresh food as an example, saying poor people ate more processed food. He said a compensation package would have to include tax cuts for people on lower incomes as well as a reduction in payroll tax and stamp duty.

5. Extending the GST would be part of a general tax reform
The Prime Minister, Tony Abbott, has suggested that any discussion of expanding the base of the GST should take place as part of a much broader discussion of a reform of the taxation system and a reconsideration of respective state and federal responsibilities.
In a speech given at the Sir Henry Parkes Commemorative Dinner on October 25, 2014, Tony Abbott asked, 'Might the states be prepared to accept responsibility for broadening the indirect tax base [the GST]; might they be prepared to surrender some of their responsibilities to the Commonwealth; might there be new funding formulas that wouldn't solve the blame game but could at least give it a new and more realistic starting point?'
Prime Minister Tony Abbott has claimed that the federal government is open to reforms that 'improve' the states' indirect tax base with 'compensating reductions in income tax'.
The Prime Minister has stated that the Coalition 'is determined to avoid anything that increases the overall burden of tax'.

The states now spend about $230 billion a year but raise only about $130 billion, with the GST funding about $54 billion of the shortfall, and a further $46 billion coming from the Commonwealth through specific purpose payments or partnership agreements.
The Prime Minister has suggested that if more money were raised through the GST the federal government would be required to give less in grants to the states and so would be able to reduce the taxes that it had to impose. Key among the taxes being considered for reduction are company tax and income tax.
Thus some supporters of an extension of the tax base of the GST to include fresh food claim that this would have negligible impact on the cost of living as there would be reductions in other taxes.

Arguments against charging a GST on fresh food
1. A GST in fresh food would disadvantage those on low incomes
Opponents to the GST being imposed on food point to the fact that consumption taxes are generally 'regressive', that is, take a larger percentage from low-income people than from those earning high-incomes.
Those on higher incomes spend a smaller percentage of their personal wealth on items such as food than do the unemployed and the poor. Thus the impact of a consumption tax on necessities is far greater on the economically disadvantaged than it is on the wealthy.
This point was made by Greg Jericho in an article published in The Guardian on October 30, 2014. Jericho explained, 'Regardless of what you earn, you pay the same amount of GST on an item. And because poorer people spend more of their income on goods and services than do wealthier people, a GST is invariably regressive - it hurts you more the less you earn.'
In an article published on the ABC's opinion site, The Drum, on May 26, 2014, Mungo MacCallum stated more vividly, 'Ten per cent of a grocery bill...is bugger all to someone on $100,000 a year, but for a single mother on Newstart it can gouge a huge hole in the weekly budget.'
An Australian Bureau of Statistics survey for the financial year 1993-4 showed that low income earners spent five times as much of their income on food as people in the highest income quintile.
Public Health Association of Australia president Heather Yeatman has stated, 'Not only will they [poor households] be more affected by a change in the GST on basic foods because of their lower income, but also because it is where most of their food dollar is currently spent.'
The Victorian premier, Daniel Andrews, has stated, 'The Goods and Services Tax is not a fair tax because it has no regard for a person's capacity to pay... and it won't be made any fairer by putting it on food, the absolute staple of life.'

2. Compensation to low income earners is not reliable and unlikely to be sufficient
It has been argued that placing the GST on fresh food would have an adverse effect on low income earners and the poor, even if compensation were offered.
The 10 percent increase in the cost of fresh food would remain a constant. Any government arrangement to reimburse those relatively most disadvantaged by an increase in food prices, such as pensioners, the unemployed and low income earners, would be subject to change. The situation in New Zealand has been used as an example of this.
New Zealand introduced a GST in 1987 which included most consumables, including fresh food. The effect of this on low income earners was meant to be mitigated by a compensation package. However, these compensations were subsequently removed in across-the-board welfare cuts in 1991.
Critics claim a similar situation exists in Australia. Former leader of the Democrats, Meg Lees, whose party co-operated with the Howard Government in the introduction of the GST in 2000 has stated, in regard to any future extension of the tax, 'I don't trust incoming governments will leave the compensation in place.' Ms Lees has criticised the 2013 federal budget for removing welfare compensations which were part of the original agreement that saw the GST go through Parliament. Ms Lees has stated, 'The government is taking away the compensation we put in.'
It is also noted that even if there are trade-offs offered to the taxpayer in the form of reduced income tax, these would be of no benefit to pensioners and the unemployed. Similarly, reductions in company tax would be no compensation to pensioners, though they might reduce the number of unemployed.
Changes made in the last federal budget will result in a relative decline in the value of the aged pension. From September 1, 2017, the age pension will be linked to CPI alongside other welfare benefits such as the Disability Support Pension, the carer payment and veterans' affairs pensions. The CPI is typically lower than the average male weekly earnings, which means that over time the value of the age pension and the other pensions listed above will fall.
In an article published in The Financial Review on May 14, 2014, it was noted, 'Indexing the age pension to the consumer price index (CPI) rather than average male weekly earnings will erode the value of the benefit by thousands of dollars over the next couple of decades.'
Critics of placing a tax on fresh food have argued that the combined effect of a decline in pensions and an increase in the cost of food will be particularly detrimental to the wellbeing of the elderly and others who are dependent on pensions.

3. A GST on fresh food would harm public health
It has been claimed that placing a tax on fresh foods would boost their cost and thus increase consumption of unhealthy processed foods.
Health groups have rejected the idea that the GST be applied to fresh food, warning that such a change would worsen obesity rates and chronic disease.
Whereas most processed food is covered by the GST, fresh fruit and vegetables, meat, eggs, bread, some dairy

products and other basic items were exempted from the tax under a 2000 deal between the Howard government and the Australian Democrats.
Researchers from the University of Queensland in 2013 estimated that applying the 10 per cent GST to fresh food would reduce fruit and vegetable consumption by about 5 per cent, and would produce an additional 90,000 cases of heart disease, stroke and cancer in the Australian adult population.
Public Health Association of Australia chief executive, Michael Moore, has argued that applying the GST to fresh food would be 'short-sighted' because it would lead to higher rates of obesity, heart disease and cancer which would place an additional burden on the health system.
Moore has stated, 'What we know is that unhealthier foods are getting cheaper and the healthiest foods are already more expensive. Exacerbating that by putting a GST on food would just create much more expense in the long term.'
Jane Martin, the executive manager of the Obesity Policy Coalition, has said that applying the GST to fresh food would be a 'backward step' because it would undermine efforts to encourage healthy eating.
Ms Martin noted, 'Price signals are really critical to the decisions that people make. We need to encourage all people to eat more fresh fruit and vegetables but particularly those on low incomes.'
The National Heart Foundation's chief executive, Mary Barry, has reacted similarly. Ms Barry has claimed that only one in 14 Australians ate enough fruit and vegetables, while one in four adults reported eating no vegetables regularly, and four in 10 did not regularly eat fruit.
Ms Barry stated, 'We're concerned that a GST on fresh food would prevent people from buying fresh food and send them off in other directions.'

4. A GST on fresh food would harm primary producers
The Australian farming sector is concerned that it will be adversely affected by a GST on fresh food. The concern is either that consumption of fresh food will drop in response to increased prices or that large scale retailers such as Coles and Woolworths will expect farmers to absorb the tax by being paid less for their produce.
The National Farmers Federation (NFF) is critical of any attempt to place a GST on fresh food.
The NFF's chief executive officer, Simon Talbot, has stated, '"We want Australians to eat more fresh food, not less. Increasing the cost of food could mean consumers demand less fresh fruit, vegetables and protein, leading to a decrease in overall sales and poorer health outcomes.
The reality is that the retailers aren't going to forego profit. This means that farmers are likely to be forced to absorb the increase in costs. They are not able to pass on their costs.'
Tasmanian Farmers and Graziers Association has also condemned any attempt to place a GST on fresh food. The Association's chief executive, Jan Davis, has argued, 'If a GST on fresh food were imposed, a worst case scenario could see retailers increasing the price to consumers and at the same time decreasing the payments to farmers and other suppliers.'
Ms Davis went on to claim that if farmers had to underwrite the GST by taking cuts in prices from wholesalers and retailers 'you are banging nails into the coffin of this industry'.
When a proposal to place the GST on fresh food was made in May, 2014, it met with a similar response from spokespeople for the farming sector.
The National Farmers Federation president, Brent Findlay, stated, 'We wouldn't want to see an increase in the price of food while seeing less being paid back to the producers.'
The president of Australian Dairy Farmers, Noel Campbell, argued that a GST on fresh food could see farmers alter their production patterns, moving away from food production and thus decreasing Australia's food security by requiring greater reliance on imports.
Mr Campbell has stated, 'We think raising the price of fresh food would put producers in a position where they would look to other, less nutritious options.'

5. There are other means of increasing tax revenue
It has been noted that there are other means of increasing tax revenue without placing an indirect tax on fresh food.
The World Health Organisation (WHO) recommends governments consider different economic tools (such as taxes and subsidies) to improve the affordability of healthier foods and discourage the consumption of less healthy options.
Several countries have recently adopted new taxes on unhealthy foods in line with these recommendations. From 2013, Mexico has introduced a 10% tax on sugary drinks and a 5% tax on unhealthy snack foods. Hungary has introduced a tax on unhealthy foods. In January, 2012, Hungary implemented a law imposing special taxes on foods with high fat, salt and sugar content.
Estimates suggest that if Australia were to increase taxes on unhealthy food by 10%, this would greatly benefit health and result in substantial cost savings to the government.
There are also a range of other taxes which the states impose directly and which they might increase. Payroll tax is one possibility. Transferred to the states in 1971 as a growth tax, the states have eroded the base of payroll tax through the years by providing exemptions for small businesses. The states could remove some or all these exemptions and increase their revenue.
There is also the possibility of imposing across-the-board land taxes, which would be an efficient means of tax collection. The states could also enter into a discussion with the commonwealth about imposing state surcharges on income taxation, a common practice in many federations around the world. Tax concessions on negative gearing and superannuation contributions could either be reduced or removed. There is also the possibility of raising income and

company taxes, rather, than is currently the case, suggesting the possibility of reducing them. Finally, the GST could be applied to online purchases worth less than $1000. These are currently exempt.

Further implications

It seems highly unlikely that any attempt to extend the GST will be made prior to the next federal election. The Prime Minister, Tony Abbott, has publicly declared that this will not happen. Further, the proposal would currently be so politically unpopular that it would virtually guarantee that the Abbott government was voted out of power.

However, this clearly does not mean that an extension of the GST is not under consideration by the federal government and others. In its first budget, the Abbott government reduced funding to the states for education and health services by $80bn. This is obviously a major incentive for already cash-strapped state governments to consider how they might attract additional revenues.

In a speech given at the Sir Henry Parkes Commemorative Dinner on October 25, 2014, Tony Abbott asked, 'Might the states be prepared to accept responsibility for broadening the indirect tax base [the GST]; might they be prepared to surrender some of their responsibilities to the Commonwealth; might there be new funding formulas that wouldn't solve the blame game but could at least give it a new and more realistic starting point?' Under current circumstances, the answer to that question might ultimately be 'yes'.

West Australia, which currently receives some 44 cents in the dollar of GST revenue, has been pushing for some time for a larger allocation. The West Australian premier, Colin Barnett, supports an extension of the GST to include food.

In December, 2014, Mr Barnett stated, 'I think the exemptions for food really just unnecessarily complicate matters. They are not big ticket items like school fees or health expenses and the like. I don't think people would really notice it to any great extent.'

However, not all the other premiers share this view. The Victorian premier, Daniel Andrews, has declared his total opposition to an extension of the GST base or to an increase in the tax rate.

It requires the agreement of all the states and territories for a change to be made to the scope or rate of the GST. Currently, it does not seem likely that that will be achieved. However, there is still a long way to go.

The federal government has sanctioned a review of the taxation system which is due to be completed by the end of 2015. It is anticipated that its recommendations will include increasing the rate and broadening the base of the GST, and increasing taxes on superannuation. If, in the meantime, the federal government continues to reduce the funds available to the states, more of their leaders may be amenable to these changes.

None of the four members of the Coalition calling for a GST on fresh food is a voice crying in the wilderness. This is a discussion that the government wants to be had, well before it makes any concrete proposals.

Newspaper items used in the compilation of this issue outline

The Australian: October 11, 2014, page 18, comment by Adam Creighton, `A strong case for cutting company tax'.
http://www.theaustralian.com.au/business/opinion/theres-a-strong-case-for-cutting-company-tax/story-fnc2jivw-1227086907681

The Australian: October 10, 2014, page 1, background by Peter van Onselen, `The first rule of states' rights club: don't talk publicly about GST reform'.
http://www.theaustralian.com.au/national-affairs/first-rule-of-states-rights-club-dont-talk-publicly-on-gst-reform/story-fn59niix-1227085759125

The Age: October 10, 2014, page 29, comment by Mark Zirnsak, `Wanted: more corporate transparency on tax'.
http://www.smh.com.au/comment/wanted-more-corporate-transparency-on-tax-20141009-113cl1.html

The Australian: November 1, 2014, page 22, comment by Peter van Onselen, `Case for broader, higher consumption tax is compelling'.
http://www.theaustralian.com.au/subscribe/news/1/index.html?sourceCode=TAWEB_WRE170_a&mode=premium&dest=http://www.theaustralian.com.au/opinion/columnists/gst-reform-is-long-overdue-and-should-not-be-a-partisan-debate/story-fn53lw5p-1227108855477&memtype=anonymous

The Australian: October 30, page 12, comment by David Uren, `Abbott right to lead on GST'.
http://www.theaustralian.com.au/subscribe/news/1/index.html?sourceCode=TAWEB_WRE170_a&mode=premium&dest=http://www.theaustralian.com.au/business/opinion/tony-abbott-right-to-lead-on-gst/story-e6frg9qo-1227106392412&memtype=anonymous

The Age: December 2, 2014, page 6, news item by N Khadem, `Lobbyist: Tax rich loopholes to justify GST hike'.
http://newsstore.fairfax.com.au/apps/viewDocument.ac;jsessionid=0174549791138E86CEA8ACE1251A8F41?sy=afr&pb=all_ffx&dt=selectRange&dr=1month&so=relevance&sf=text&sf=headline&rc=10&rm=200&sp=brs&cls=300&clsPage=1&docID=AGE141202BE1PA60UNC0

The Age: January 6, 2015, page 5, news item by Hutchens and Heffernan, `Federal government could raise $6 billion from GST on fresh food'.
http://newsstore.fairfax.com.au/apps/viewDocument.ac?sy=nstore&pb=all_ffx&dt=selectRange&dr=1month&

so=relevance&sf=text&sf=headline&rc=10&rm=200&sp=brs&cls=181&clsPage=1&docID=SMH150106FC7J2575R6K