

# **Kim Beazley's Plan for a Fairer GST**

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## Overview

*Many Australians supported the GST because they believed John Howard's promise that it would be good for the country. Whatever they thought then, they now know that the Howard Government has made a mess of it. The tax system we have ended up with is not the tax system John Howard promised.*

*The GST has hit hardest those who are least able to afford it – young families, pensioners, charities, people on low incomes.*

*John Howard's only plan for the GST is to put it on everything and to increase the rate.*

*Labor has a better plan for the GST. Labor will take the GST off \$1 billion worth of essential goods and services.*

*In doing so, Labor gives all Australians a four-part guarantee.*

- 1. Labor will make the GST fairer, without making it more complex.*
- 2. Labor will not increase the rate of the GST.*
- 3. Labor will not put the GST on anything that it is not on now.*
- 4. Labor will make the GST simpler for small business.*

*Labor's plan to take the GST off some essential goods and services is a tax cut that lasts forever. Once something becomes GST-free, it is GST-free forever. Unlike John Howard's 'tax cuts', it won't disappear over time as inflation erodes its value.*

*And unlike John Howard's 'tax cuts', everyone benefits from Labor's plan, not just the wealthy.*

*Labor will make the following goods and services GST-free:*

- Household electricity and gas supply.*
- Long-term caravan park and boarding house rentals.*
- Text books through an expanded subsidy.*
- Women's sanitary products.*
- Cloth and disposable nappies.*
- Funeral services and pre-paid funerals.*

*Labor will lift the GST burden from charities' emergency relief services. This will be funded by cutting tax deductibility for political donations from individuals from \$1 500 to \$100.*

*Labor will direct the ACCC to examine claims of exploitation of the GST through smaller package sizes.*

*Despite the difficult budgetary position John Howard has deliberately created, Labor's commitment amounts to giving back around \$1-in-30 of all GST collected. This is a billion dollar commitment to making the GST fairer.*

## The Howard Government's Failures

*"Perhaps one of the most telling and recurring comments centred on the view that we had gone out of way to 'get' the very people who put us there. The self-funded retirees, the small-business sector, self-employed, professionals, farmers – all middle Australia."*

*(Liberal Party President Shane Stone, as reported in The Bulletin, 8 May 2001)*

### THIRTEEN BROKEN GST PROMISES

The new tax system promised by John Howard is not the tax system he has delivered.

It has been bad for the economy, bad for families, bad for older Australians, bad for small business and bad for people on low incomes.

John Howard had to make a lot of promises to convince people that his GST would be good for them. All of these promises have been broken.

He promised that everyone would be better off except for tax cheats. In fact the GST has made the tax cheats better off and hit almost everyone else.

He promised no small business would go to the wall because of his GST. Instead, bankruptcies have soared.

He promised small business red tape would be slashed by his GST. Instead, family life is suffering as small business owners struggle under a mountain of GST paperwork.

He promised the GST would create more jobs. Tell that to the 66,000 workers who have become unemployed since the GST was introduced.

He promised the GST would close down the black economy. Who hasn't been offered a cheaper rate if they pay cash since the GST was introduced?

He promised the GST would not be a tax-on-a-tax. But dozens of taxes, levies, fees and charges have GST added on top of them, including petrol excise, tobacco excise, alcohol excise, import duties, fire levies in some States, camping fees, national park entry fees, swimming pool entry fees, sporting field hire from local councils, community hall hire from local councils, and library fees.

He promised that everyone aged over 60 would get a \$1,000 savings bonus. In fact many over-60s missed out, with 40 per cent receiving nothing.

He promised pensioners a 4 per cent pension increase. Then he clawed back half of it.

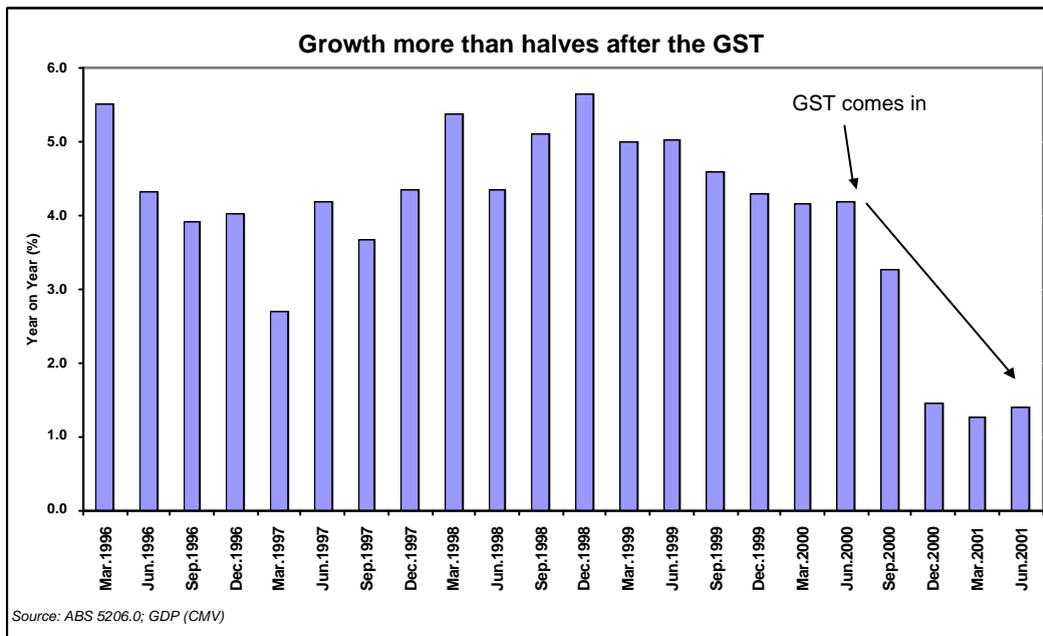
He promised health and education would be GST-free. Education costs such as school uniforms, school shoes, public transport, books and school bags and cases all bear the GST, as do health items such as skin creams, denture repairs, sanitary products, vitamins and minerals.

He promised the Australian dollar would be worth more. The last time the Aussie dollar was worth more than 60 US cents was the day before the GST was introduced. Now it is battling to stay over 50 cents.

He promised nothing would go up by the full 10 per cent. No one believes that!

He promised petrol prices wouldn't go up because of the GST. Petrol prices rocketed after the GST was introduced. The GST has increased the fuel tax take to record levels.

He promised that the GST would make the economy grow faster. Instead, economic growth collapsed, from 4.1% to 1.4%.



### JOHN HOWARD'S PLAN FOR THE GST

John Howard and Peter Costello do have a plan for the GST.

They want to put it on everything and they want to put the rate up.

They want to cut payments to the States and wash their hands of responsibility for education, health and aged care.

How do we know? They have said so.

**HOWARD:** *Well Steve ... I think the GST should cover just about everything.*  
(John Howard, Today Program, 24 January 2000)

**MITCHELL:** *So you're providing less funding [to hospitals]?*

**HOWARD:** *No, well we're providing less dollars... The nominal dollars will be less because the need will be less because the operating costs will be less.*

(John Howard, 3AW 11 February 2000)

How can they do it? Simple.

Four lines of legislation is all that John Howard needs to put the rate up as high as he wants it.

And putting the GST on fresh food, health and education is just as easy for him.

No approval of the States is required.

John Howard will deny it now, but everyone knows that the 'Never ever' man will put the GST up and put it on food and other essentials if he gets the chance.

Remember that John Howard and Peter Costello campaigned strongly in 1993 for a GST at the rate of 15%.

## Kim Beazley's Plan for a Fairer GST

Labor fought hard to stop the GST.

Now that it is a reality, we must do everything we can to make it simpler and fairer.

The best way to make it fairer is to get rid of the GST on some essential goods and services.

Labor has designed a package of reforms worth \$1 billion a year to ease the GST burden on Australian families.

### LABOR'S FOUR-PART GUARANTEE ON GST REFORM

This package is built around Labor's four-part guarantee on GST reform.

#### **Labor will make the GST fairer, without making it more complex.**

The GST has only made life harder for Australian families already under financial pressure. Taking the GST off some of life's essentials will ease that pressure. In doing so, Labor will not add to the complexity already facing hard-pressed small businesses.

Labor will not increase the rate of the GST.

Labor always opposed the GST because it hurts the most those least able to pay it. Under Labor, the GST will never go higher than 10%. Under John Howard and Peter Costello, it won't be a question of 'Will the rate go up?' it will be a question of 'How much?'

#### **Labor will not put the GST on anything it is not on now.**

The GST should be taken off essential goods and services, not put on more. John Howard and Peter Costello are well known supporters of putting the GST on everything.

#### **Labor will make the GST simpler for small business.**

The GST has become an enormous unwanted burden for Australian small businesses. The government's message to small business is, 'just get used to it'. By contrast, Labor has a plan to dramatically reduce the GST complexity that they face.

## TAKING THE GST OFF SOME ESSENTIAL GOODS AND SERVICES

Across the world, many countries are recognising the negative impacts of the GST on people who can least afford it, and the way it leads to a growing black economy. These countries are getting rid of the GST from some essential items.

In Britain, the Blair government has cut the VAT (Britain's GST) on women's sanitary products and heating. In Europe, the VAT has been cut on a range of building services. In Canada, the VAT burden has been lifted from charities.

In fact, in almost every industrialised country with a GST different essential products and services face a concessional rate of GST.

Why is it that only John Howard and Peter Costello think the GST can't be taken off some of life's essentials?

Labor has a plan to take the GST off some essential goods and services to ease the pressure on Australian families.

**Labor will take the GST off:**

- **electricity and gas supply.**
- **long-term caravan park and boarding house rentals.**
- **textbooks through an expanded subsidy.**
- **women's sanitary products.**
- **cloth and disposable nappies.**
- **funeral services and pre-paid funerals.**

These measures amount to a \$1 billion a year GST tax cut for all Australian – a billion dollar commitment to making the GST fairer. It amounts to giving back \$1-in-30 of all GST collected.

Taking the GST off some of life's essentials is permanent. Once the GST comes off, it will never be put back on. Nor will it be eroded by inflation in the way that John Howard's tax cuts already have been.

A GST tax cut is a growing tax cut – its value increases over time as the cost of goods and services increase.

A GST tax cut is also a fair tax cut as it provides a tax cut to everyone.

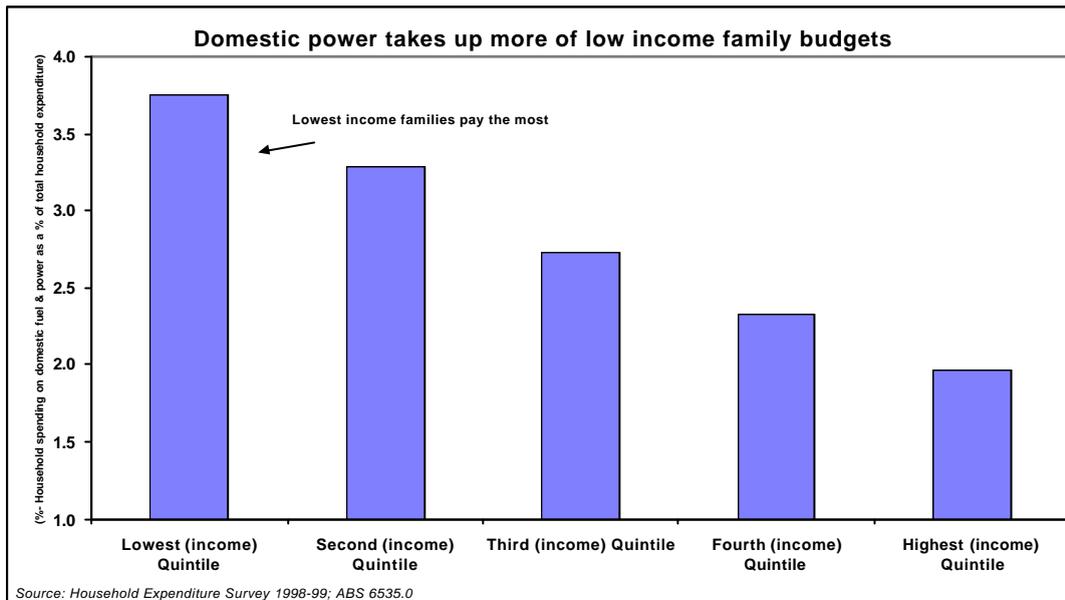
### **GST-FREE ELECTRICITY AND GAS SUPPLY**

Labor will take the GST off electricity and gas for domestic users.

This measure will commence on 1 July 2003.

It amounts to an average saving of around \$100 for every household, which will grow every year, and will return close to \$3 billion to the pockets of Australian families in its first three years of operation.

The impact of GST on domestic fuel costs is a regressive one. The proportion of family income spent on domestic power generally decreases as income rises.



Taking the GST off domestic power and gas bills will especially benefit people with larger families, pensioners and those on low incomes.

Therefore, removing the tax on domestic heating costs makes our tax system much fairer.

This measure will only be available for households – businesses are already effectively exempt, because they receive a refund of the GST they pay on business power bills.

There will be no additional complexity for small business from this measure. And if a business is run from a domestic residence then it will also qualify for GST-free status. In these circumstances no GST credit will be allowed on the business component of the electricity or gas bill. This will simplify the GST paperwork facing these businesses, as they will no longer have to claim an input tax credit on the business portion of these bills, as they currently have to.

The compliance impact on electricity and gas suppliers will be minor. Labor will work closely with Australia's utilities and other interested parties to settle the fine detail of this important measure to ensure that it delivers maximum simplicity and fairness, and is implemented smoothly. The implementation timetable will allow plenty of time for suppliers to be ready to deliver this major concession to their clients.

### **GST-FREE LONG-TERM CARAVAN PARK AND BOARDING HOUSE RENTALS**

Labor will take the GST off long-term caravan park and boarding house rentals. This will make these forms of accommodation GST-free.

This measure will commence on 1 July 2002.

Over its first three years it will put \$68 million back into the pockets of long-term residents of caravan parks and boarding houses.

Tenants of caravan parks and boarding houses are generally from the most disadvantaged socio-economic groups. Rent is often a significant proportion of their income.

John Howard promised that there would be no GST on residential rents. He broke that promise. Long-term residents of caravan parks and boarding houses face a special GST rate of 5.5% – they rightly resent the fact that they have been singled out for discriminatory treatment.

Labor's GST measure reverses this discrimination. Whereas most rents are input taxed, Labor will make caravan park rentals for long-term residents GST-free. This will make the rent they pay cheaper.

Making this type of rental GST-free recognises the fact that these residents are usually among the most needy in our society. It will also minimise the compliance burden already faced by park owners, who will have to cope with complexity if they were to use the Government's input taxing model.

Labor will ensure that no one has their rent assistance reduced as a result of making their rent GST-free.

### **GST-FREE TEXT BOOKS**

Labor will take the GST off educational textbooks by increasing the Educational Textbook Subsidy Scheme to fully offset the 10% GST.

This measure will commence on 1 January 2002 - in time for the new school year. Administrative arrangements will remain unchanged other than an increased subsidy will be available for sales made after 1 January 2002.

Over the next four years this will put an additional \$15 million back into the pockets of Australian students and parents.

Access to textbooks at a reasonable price is vital if Australia is to become a Knowledge Nation. The cost was already high enough before John Howard imposed his 10% GST. The taxing of books can only retard the level of literacy in the community as the higher prices make it harder for low-income students and parents to access the books they need for study.

On 1 January 2002 Labor will increase the subsidy scheme to offset the full 10% GST. Over the longer term Labor will examine the feasibility, in consultation with the industry, of making educational textbooks GST-free. This should simplify administration for booksellers as they will not have to deal with two Commonwealth agencies as now, but would only have to deal with the ATO.

Textbooks will continue to be defined as they are now under the Educational Textbook Subsidy Scheme.

### **GST-FREE CLOTH AND DISPOSABLE NAPPIES**

Labor will take the taxman out of the nursery by taking the GST off cloth and disposable nappies.

This measure will commence on 1 July 2002.

Nappies are an unavoidable cost of parenthood. Making them GST-free will give \$159 million of tax relief to young families caring for babies at the time when they are under the greatest financial pressure.

Through our GST Review Committee, Labor will work with retailers, particularly pharmacists and baby product retailers, to ensure that this measure does not increase GST complexity or disadvantage them in any way.

Retailers using Labor's Simple BAS Option will have their ratio adjusted to take account of the new classification.

### **GST-FREE WOMEN'S SANITARY PRODUCTS**

Labor will take the GST off women's sanitary products. This measure will commence on 1 July 2002 and will cover sanitary pads, tampons and similar items.

It will directly benefit millions of Australian women.

John Howard promised that health would be GST-free. Women's sanitary products are clearly health-related costs, yet they are subject to GST. Only Health Minister Michael Wooldridge disagrees – he says they are the same as shaving cream!

Women's sanitary products were tax-free for decades before the GST. Labor will make them tax-free again.

Through our GST Review Committee, Labor will work with retailers, particularly pharmacists, to ensure that this measure does not increase GST complexity or disadvantage them in any way.

The Pharmacy Guild of Australia has confirmed that this change can be accommodated easily without complicating compliance.

The Pharmacy Guild also confirms that since it is already selling items that are both GST-free and subject to GST, it can accommodate changes to the GST classification of some health goods, such as making women's sanitary products GST-free, with ease.

This simple change will not complicate the administration of the GST for pharmacists and the Guild supports Australian women being able to purchase these vital health items tax-free."<sup>1</sup>

Retailers using Labor's Simple BAS Option will have their ratio adjusted to take account of the new classification.

### **GST-FREE FUNERAL SERVICES**

Labor will get rid of John Howard's death tax by taking the GST off funeral services, including pre-paid funerals.

This measure will commence on 1 January 2003.

Services provided by funeral directors which go towards a funeral service will be made GST free. This includes, for example:

<sup>1</sup> Pharmacy Guild of Australia, Press Release, 12 October 2001

- the funeral notice;
- venue hiring;
- securing a grave or memorial plaque;
- the celebrant;
- coffins; and
- wreaths and floral tributes.

As well as paying GST on funeral services since July 2000, taxpayers pre-paying funerals have had to pay GST on the pre-paid funeral. Labor will refund the GST already paid on pre-paid funerals where the service has not been delivered by the time the GST is removed from funerals. The Funeral Director will provide the refund to their client with recovery being made from the ATO.

Imposing a GST on funeral expenses is an unfair burden on Australian families, especially the elderly. It is the equivalent of a death tax.

It is a terrible time in any families when someone loses a life partner or other family members and it's particularly tough on older Australians. The last thing they need is a tax bill.

People bear it, as they have to bear their grief. But it is a burden they should not have to bear. Under a Labor Government, it is a burden they won't have to bear.

Older Australians, their families and the people who provide the funeral service regularly raise the unfairness of imposing a GST on funerals with Labor members, senators and candidates.

According to the Australian Funeral Directors Association National President, Mr Stephen Parry, also a Liberal Party Senate candidate:

*"... the GST is perceived by consumers to be akin to the re-introduction of the death duty, ... It is clear from our review that Australian people resent the fact that someone who has worked hard and paid taxes throughout their life, is also taxed upon their death ... The Australian people perceive that the GST unfairly taxes the aged when they are the population demographic least able to afford the additional tax."<sup>2</sup>*

Before the GST was introduced, the service component of funerals was untaxed and specific items such as coffins or wreaths were wholesale sales tax exempt. Now almost all funeral costs are subject to the GST, which has forced significant price rises.

Making funeral services GST-free will allow funeral directors to lower the funeral expenses faced by families in their hour of need. And it won't add to the administrative burden of funeral directors, nor any of their suppliers. These suppliers, such as florists will be completely unaffected by this change. They will operate as they do now.

Through our GST Review Committee, Labor will work closely with Australia's funeral directors and other interested parties to settle the fine detail of this

<sup>2</sup> Australian Funeral Directors Association, submission to the ALP, 5 September 2001

important measure to ensure that it delivers maximum fairness and is implemented smoothly.

### **LIFTING THE GST BURDEN FROM CHARITIES**

Labor will lift the GST burden from charities.

This measure will commence on 1 January 2002.

When John Howard launched his GST he promised to free the charities and catch the tax cheats. Instead, he freed the tax cheats and mugged the charities.

Currently, where a charity pays an electricity bill for a needy person it is not allowed to claim an input credit on the bill because the electricity service was not supplied directly to the charity. As the charities' "clients" are not registered for GST, the input tax credit cannot be claimed by anyone. John Howard gets a tax windfall from the charities.

The same problem also applies in situations where charities, for example, provide expenses to a family providing respite care to a foster child; or providing clothing vouchers for struggling families.

This effectively imposes a GST on the emergency relief activities of charities, contrary to the government's promises that non-commercial activities of charities would be GST-free.

Approximately \$15 million a year is lost to Australia's charities in these unclaimable input tax credits. As an immediate measure Labor will increase the annual Commonwealth Emergency Relief budget by \$15 million as compensation for these lost input tax credits.

Labor will also examine through the GST Review Committee, and the Community Compact, the impact of the GST on charities with the goal of removing them from the GST web as John Howard originally promised them. The \$15 million a year Emergency Relief measure is an immediate down payment and starting point for this process.

Labor will fund this measure by abolishing John Howard's special tax deduction for donations to political parties. The maximum deduction will remain at \$100 rather than the \$1,500 proposed by John Howard.

### **SHRINKING PACKAGE SIZES**

Labor will direct the ACCC to examine claims of exploitation of the GST through smaller package sizes.

When the Howard Government introduced the GST it declared that no price would rise by more than 10 per cent.

There is a widespread community belief that some manufacturers have successfully avoided the GST price exploitation provisions by changing packaging sizes.

Downsizing can be done to maintain prices at what are called pricing points – usually ending in a 9 (eg \$1.99) – while effectively increasing the price per unit of

weight or volume. Similarly, upsizing can be used to disguise increases in unit prices. For example, a tube of toothpaste might go up from 100 grams to 120 grams while the price rises by more than necessary to account for the 20% volume increase.

These practices allow the unit price of the affected grocery items to be raised by more than would be permissible under the GST price exploitation provisions and, even where price rises are within the price exploitation provisions, it allows them to be disguised.

### **IMPACT ON STATE AND TERRITORY GOVERNMENTS**

State and Territory governments will not carry any of the cost of taking the GST off some goods and services.

Where GST exemptions reduce the revenue that would otherwise have flowed to the States and Territories, the Commonwealth will make up the difference with ongoing budget balancing assistance.

It cannot be claimed, therefore, that making the GST fairer reduces the ability of states and territories to provide services.

### **PUTTING GST EXEMPTIONS IN PLACE**

Labor will propose amendments to the Intergovernmental Agreement on the GST to put in place its GST exemptions. With the States and Territories to be fully compensated for these exemptions, there is no reason why any government will oppose these changes.

Of course, these changes will also have to be approved by the Senate. Only last month the Senate voted in favour of making funeral services, women's sanitary products and caravan park rentals for long-term residents GST free. Labor also notes that both John Howard and Peter Costello have refused to rule out voting for Labor's GST exemption legislation should Labor win the Federal election.

### **GST REVIEW COMMITTEE**

One of the main criticisms of the GST has been the flawed implementation of many of its initiatives. Much of this has been caused by the Government's failure to listen to the views of those whom the tax affects the most. Labor knows that good tax policy requires close consultation with the community, in its design and implementation.

Labor will therefore establish a formal GST Review Committee, comprising respected, independent experts, to ensure proper consultation and a smooth implementation of all GST reforms.

The GST Review Committee will include people with excellent technical expertise – representatives with knowledge and understanding of key sectors, including small business, tax professionals, charities and consumers.

Its basic task will be to help Labor in government to fulfill its two key objectives for GST reform – to make the GST simpler, and to make the GST fairer.

The GST Review Committee will be up and running within the first 100 days of a Labor Government.

## Costing

	2001-02	2002-03	2003-04	2004-05	Total
GST-Free Electricity and Gas Supply	0.0	0.0	800.0	945.0	1,745.0
GST-Free Long-term Caravan Park and Boarding House Rentals	0.0	20.0	23.0	25.0	68.0
GST-Free Textbooks	3.0	4.0	4.0	4.0	15.0
GST-Free Cloth and Disposable Nappies	0.0	46.0	55.0	58.0	159.0
GST-Free Women's Sanitary Products	0.0	23.0	27.0	29.0	79.0
GST-Free Funeral Services	0.0	41.0	59.0	62.0	162.0
Lifting the Burden of the GST from Charities	8.0	15.0	15.0	15.0	53.0
Removing the Tax Break for Political Parties	-15.0	-15.0	-15.0	-15.0	-60.0
Packaging sizes	0.0	0.0	0.0	0.0	0.0
GST review committee <sup>1</sup>	0.0	0.0	0.0	0.0	0.0*
<b>TOTAL</b>	<b>-4.0</b>	<b>134.0</b>	<b>968.0</b>	<b>1123.0</b>	<b>2,221.0</b>

<sup>1</sup> Funding for this initiative was announced as part of **Kim Beazley's Plan for a Simpler GST** on 12 October 2001