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Rethinking Australia’s Tax Reform: Why GST Changes Shouldn’t Be Off the Table

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Australia faces a crucial moment in its economic future, as Treasurer Jim Chalmers calls for a national conversation on reforming the economy to secure prosperity for the next generation. Yet, despite the talk of openness, one major reform seems quietly excluded from the discussion: lifting or broadening the Goods and Services Tax (GST), Australia’s federal consumption tax. This article explores why this reluctance is problematic, what the challenges and opportunities are, and whether meaningful tax reform can happen without addressing the GST.

The GST is a broad-based consumption tax applied to most goods and services, but it currently excludes essentials like fresh food and education. Many economists argue that increasing the GST rate or expanding its base is key to improving the efficiency and stability of Australia's tax system. Additional GST revenue could fund reductions in income and company taxes, potentially boosting incentives to work, save, and invest. However, the current Labor government opposes changes to the GST, citing concerns that it disproportionately burdens lower-income Australians.

This worry is supported by research from Ben Phillips at the Australian National University (ANU), which shows the GST is "highly regressive." Phillips' analysis reveals that the bottom 20% of earners spend about 5.4% of their income on consumption taxes, compared to just 2.6% for the wealthiest 20%. If the GST were expanded to cover currently exempt items, these rates would increase to 7.9% and 3.5%, respectively, deepening the tax's regressive impact. Phillips emphasizes the importance of fairness, noting that any GST reform would require complex compensation measures to protect lower- and middle-income households. Still, he warns that the economic gains from raising the GST are likely to be modest.

Politics also complicates GST reform. Revenue from the GST is collected by the federal government but distributed to states and territories. This separation creates friction, especially after Western Australia secured a highly favorable deal on GST revenue that has disrupted fair distribution. Increasing the GST without fixing these allocation issues could worsen regional inequalities, a point economist Saul Eslake has harshly criticized as "possibly the worst public policy decision of the 21st century."

The question then becomes: Can Australia achieve meaningful tax reform without raising the GST? Ken Henry, a leading tax expert who authored the influential 2010 tax review, argues that reform must be comprehensive. He believes the GST should remain on the table, though major reform might still be possible without increasing its rate or scope. Alternative revenue sources could include higher taxes on natural resources, wealth, and capital gains.

Treasurer Chalmers has signaled his preference for gradual, "bite-sized" reforms over sweeping changes. Upcoming steps for Labor may include tightening rules around family trusts and introducing a road user charge to offset declining fuel excise revenue. Whether these incremental measures are enough remains debated