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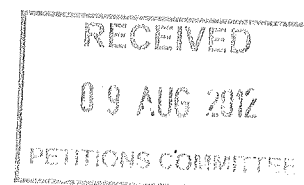
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2 AUG 2012

The Hon John Murphy MP
Chair
Standing Committee on Petitions
PO Box 6021
Parliament House
CANBERRA ACT 2600



Dear Mr Murphy

Thank you for your letter of 13 February 2012 concerning a petition from people of the North Western Region of Victoria, regarding the cost of living for pensioners. I sincerely apologise for the delay in responding to you.

The goods and services tax (GST) applies broadly to goods and services, with a limited number of exemptions in areas such as basic food, education and medical services. The GST replaced a number of Commonwealth and State taxes and is set at a single uniform rate of 10 per cent. Having a single rate that applies to most goods and services minimises complexity and reduces compliance costs.

Revenue from the GST goes to the States and Territories giving them a secure source of funding to assist them in providing essential services, such as health and education. I note that under the *Intergovernmental Agreement on Federal Financial Relations* any change to the rate or base of the GST requires the support of the Australian Government and the unanimous agreement of the State and Territory Governments.

In response to the petition of the people of the North Western Region of Victoria, I note that supplies of water, sewerage and drainage are GST-free. Australian Government taxes, including council rates, are exempt from GST, as are other fees and charges paid to an Australian Government agency for a permission, exemption, authority or license, including car registration.

The GST applies to some goods and services that are considered essential such as electricity and private car and house insurance. However, the Government's policy is not to tax or exempt items on the basis of whether they are essential. The GST operates most efficiently when applied to as broad a range of goods and services as possible.

Extending GST-free treatment to products purchased by pensioners would require a different tax treatment for identical products, depending on who purchased them. Varying the tax treatment in this way is inconsistent with the nature of the transactions-based GST system. Consequently, the Government does not consider it appropriate to waive GST for pensioners.

In 2009, the Government improved the adequacy of the pension through one-off increases and changes to the indexation arrangements as part of the Secure and Sustainable Pension Reform. The maximum pension payment to single pensioners, including supplements and indexation, has increased from \$601.08 per fortnight on 1 July 2009 to \$755.50 a fortnight from 20 March 2012. Across the same period the maximum pension payment to couple pensioners, including supplements and indexation, has increased from \$983.08 (combined) to \$1,139.00 (combined).

The Government recognises that pensioners can sometimes find it difficult to keep up with increases in the cost of living, including increases in essential services such as utilities. As part of pension reform in 2009, the Government has improved indexation arrangements to ensure they better respond to cost of living increases faced by pensioners. The maximum base pension rates are now indexed to the greater of the increase in the Consumer Price Index and the increase in the new Pensioner and Beneficiary Living Cost Index (PBLCI). The PBLCI measures the specific cost of the things pensioners typically buy. Pensions are then compared to the male total average weekly earnings (MTAWE) benchmark and are increased if necessary to bring them in line with MTAWE.

I trust this information will be of assistance to you.

Yours sincerely,

WAYNE SWAN