

Aboriginal Communities and the GST in the North

Owen Stanley

James Cook University

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1.0 Introduction

This paper is concerned with the impact of the Commonwealth Government's proposed tax and compensation package on the economic welfare of Aboriginal communities in the north. The implications of the introduction of the goods and services tax (GST), and the proposed changes to income tax and welfare payments will be discussed. The comments made here are general and more definitive statements would need detailed information on expenditures and incomes, and the analysis of the operations of business and non-business activities for particular communities.

2.0 Some general comments about the Australian tax system

The proposal for the introduction of a GST has been made in the context of tax reform, so that before addressing the main subject of this paper, some comments need to be made about some misconceptions concerning the Australian tax system. These misconceptions and the reality about the issues are as follows:

- *Australians are heavily taxed by comparison with other comparable countries and so we must attempt to reduce taxes whenever possible.* This is widely believed by the Australian public but it is untrue. Figure 1 illustrates this. This figure shows the value of all taxes collected as a percentage of GDP for the member states of the Organisation for Economic Cooperation and Development (OECD), and it can be easily seen that Australia is lowly taxed by comparison with other wealthy countries.
- *Taxes on goods and services are an usually small proportion of all taxes raised and so the Australian government must redress the imbalance by reducing income tax and/or increasing taxes on goods and services.* John Quiggin (1998(a)) has provided a figure which shows the importance of these taxes by comparison with six other OECD countries. It is clear from this that Australia is not substantially different from the other countries represented. See Figure 2.

Figure 1: Total tax revenues

Error! Unknown switch argument.

Source: *The Economist*, September 5th 1998

Figure 2: Tax revenue as a share of GDP for seven OECD countries

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Source: Quiggin, J. *Taxing Times, A guide to Australia's Tax Debate*, UNSW Press, Sydney.

3.0 The GST proposal

The GST will be a widely based tax imposed on the sale of most goods and services. It will replace the existing wholesale sales taxes (WST) and certain other taxes. The following items will be GST-free: exports, international travel, health care, education, child care, charitable activities and religious services, local government rates and water and sewerage charges, and Commonwealth and State government taxes. The remaining items will be taxed at 10% of the final sale price.

It is intended that the GST revenue will just replace existing indirect taxes, so that it will be budget neutral. A shift to greater reliance on indirect taxes by comparison with income taxes will be achieved, however, by the proposed reduction in income taxes.

The most controversial aspect of the GST proposal, and one which is of critical importance to Aboriginal communities, is that grocery food purchases are neither GST-free, nor are they subject to a lower rate of tax. By world standards, this is an unusual decision, as can be seen from Figure 3. This figure shows the situation in a number of countries in relation to their value added tax (VAT), which is very similar to the GST. As can be seen, most countries in the European Community (EC) have three tax rates: the standard rate, the reduced rate which is applied to "worthy" items, and the food rate. In general, the food rate is either zero or much lower than the standard rate.

The reason for this is obvious. Taxing grocery purchases is highly regressive. That is, the proportion of income which a poor person pays in such a tax is much greater than the proportion paid by a wealthy person. This is because people spend about the same amount on store food regardless of their income. Quiggin (1998(b)) has shown, using the ABS Household Expenditure Survey, 1993-94, that people spend about \$31.00 per person per week on food and non-alcoholic beverages, excluding restaurant meals and take-aways, regardless of income. ACOSS (1998) and Johnson et al (1998) obtain a similar result by showing that low income earners spend about 24% of their income on food, compared to wealthy people who spend only about 13%. They also show that low income earners spend more than they earn (about 120% of income), while high income earners spend only 60% of their income. Thus food expenditures as a proportion of income are four times higher for the poor than for the rich. A 10% tax on food becomes a 2.8% tax in relation to income for the poor, compared to a tax of 0.7% for the rich (Quiggin 1998(b), pg 9). Thus a tax on food is highly regressive. Since Aboriginal people living in communities are the poorest of the poor in Australia, it is likely that this tax is very oppressive for them.

The increase in the cost of living is intended to be offset by a compensation package, which has the following elements:

- Lowering income tax rates, with the greatest benefits being enjoyed by persons earning incomes between \$30,000 and \$50,000 pa.
- A new rebate to encourage private health insurance.
- Changes to the fringe benefits tax provisions
- Increased assistance to families through the income tax system.
- Increased social security payments.

It will be argued below that this compensation package is inequitably small for Aboriginal people living in communities and for many people it may not be sufficient to offset increases in the cost of living caused by the GST.

Figure 3: VAT Rates applied in the Member States of the European Community Situation at 1st May 1998

Member States	Standard Rate in % and dates	Reduced Rate in % 1998	VAT Rate in % Foodstuffs 1998
Belgium	18 1971 21 1998	6	6
Denmark	10 1967 25 1998	9.25	25
Germany	10 1968 16 1998	7	7
Greece	18 1987 18 1998	8	8
Spain	12 1986 16 1998	6	4
France	16.66 1968 20.6 1998	5.5	5.5
Ireland	16.37 1972 21 1998	12.5	0
Italy	12 1973 20 1998	10	4
Luxemburg	8 1970 15 1998	6	3
Netherlands	12 1969 17.5 1998	6	6
Austria	16 1973 20 1998	10	10
Portugal	16 1986 17 1998	12	5
Finland	22 1994 22 1998	8	17
Sweden	11.11 1969 25 1998	12	12
United Kingdom	10 1973 17.5 1998	5	0

Source: European Commission, Directorate General XXI, *Customs and Indirect Taxation*, XXI/900/98-EN, Brussels 1998, from Wolfgang Fischer, JCU.

4.0 The nature of remote Aboriginal communities

Remote Aboriginal communities have a number of things in common which are relevant to the impacts of the government's proposed tax and welfare package. These are:

Per capita incomes are very low. Most Aboriginal people in most communities are in low paying occupations or are in a CDEP (Community Development and Employment Program) scheme where they receive incomes which are either equal to, or almost equal to unemployment benefits. The better paid workers, such as professional and trade workers for the council, school, clinic, store, cattle company and tourism business are usually non-Aboriginal people. Because of the scarcity of jobs, there are very few opportunities for people to supplement their social security incomes by employment.

Because people are so poor, a large proportion of their income is spent on food, clothing and other essential items.

People pay much higher prices for store goods in the communities than people living in less remote places, because of high transport costs and because suppliers are often in a monopoly position in relation to the community. These factors also result in the costs of obtaining the services from outside the community required to maintain the communities are higher than elsewhere. These services include those from the building and motor vehicle trades, windmill maintenance, etc.

Goods for the community store, vehicle workshop, housing and infrastructure development and maintenance are transported to the communities in various ways, depending on the nature of the goods and the location of the community. Highly perishable goods are usually imported by light plane. Communities in the remote inland generally receive non-perishable goods by truck, while those on the coast will often receive them by barge.

Fresh foods are either expensive or not available from the community store. This results in excessive consumption of highly processed food contributes to poor nutrition and poor health. Again, because of remoteness, private motor vehicles are important. In most communities they were purchased second hand, in relatively poor condition and need constant maintenance.

Housing is usually provided by the community housing organisation, which is funded by government. The costs of construction are very high by comparison with costs elsewhere and there is almost never enough housing. Overcrowding is very common.

Health and education services are provided free of charge by the relevant government authority. Remote communities are usually deficient in clerical, accounting and managerial skills and any increased burden in this area will create difficulties.

The businesses found in almost all communities include the retail store and the fast food outlet. Then, depending on the circumstances, there may be a cattle company, a fishing business, arts and craft wholesaler and retailer, a road contracting company, building construction company (mainly houses), a tourism business and even an airline company.

5.0 The government's package

There are two basic elements to the Government's package: (i) **the introduction of the GST** and (ii) **changes to income tax schedules and to welfare payments**. The latter are intended to more than offset the increased cost of living caused by the introduction of the GST. This package will impact on Aboriginal people living in communities in three ways: (a) the GST will increase their cost of living, (b) the compensation package will increase their after tax incomes, and (c) the GST will affect organisations within the communities, such as the council, store, cattle company, etc.

5.1 The effect on real cash incomes

As a first step in analysing the impacts of this package on the real incomes of community people, the government's calculations of the benefits contained in its cameos will be accepted. This will be followed by a critical examination of the assumptions underlying the cameos and an assessment of their relevance to community people.

The data in Figure 4 have been derived from the government's tables of cameos (Commonwealth of Australia 1998). They show the government's calculations of the increase in real disposable incomes which will result from the difference between the inflationary effect of the GST on the one hand, and the increases in cash incomes which result from the reductions in income tax and increases in social security support, on the other. The cases reported in the left hand side of the table are a selection which is intended to represent typical cases to be found in the communities. They are pensioners, and single and double income families with dependent children with no independent income. The best case in terms of increases in real disposable income for a comparable case are reported on the right hand side of the table.

Three observations can be made. First, the net benefits are regressive. That is, in order that a person receive the highest benefit, he/she needs to have a substantial independent income. People living in communities do not have the ability to earn such an income. Secondly, the absolute level of benefits for single aged pensioners, aged pensioner couples and single persons, living in communities, are very low. They are 1.5%, or amounts between \$150 and \$125 per person per annum. These can easily be reduced to a loss by underestimates of the level of inflation caused by the GST or by people having a non-average consumption pattern, though the moral difference between giving the poorest people in Australia such a trivial benefit or imposing a cost on them is a moot point. Thirdly, the government's stated intention to give extra benefits to families appears to have been achieved with this scheme.

Figure 4: Changes in Real Disposable Income as a Result of the GST and Compensation Package

Typical Community Case	%	Best Other Case	%
	\$		\$
Single Aged Pensioner (SAP), no private income, income \$10,000 pa.	+1.5 \$150 pa	SAP with private income of \$15,000 pa.	+7.6 \$1,300 pa
Aged Pensioner Couple (APC), no private income, total income \$16,600 pa.	+1.5 \$250 pa	APC with private income of \$35,000 pa.	+10.6 \$3,360 pa
Single Person (SP), no private income, income \$9,000 pa.	+1.5 \$132 pa	SP with private income of \$75,000 pa.	+7.1 \$3,560 pa
Sole Parent (SoP), two dependent children, one under 5 years, no private income, income \$17,500 pa.	+8.2 \$1,440pa	SoP with two dependent children, one under 5 years, private income \$75,000 pa.	+13.7 \$6,850 pa
Single Income Couple (SIC), three dependent children, one under 5 years, no private income, income \$25,500 pa.	+3.3 \$840 pa	SIC, three dependent children, one aged under 5 years, private income \$80,000	+13.1 \$7,000 pa
Dual Income Couple (DIC), three dependent children, one under 5 years, no private income, income \$25,500 pa.	+3.3 \$840 pa	DIC, three dependent children, one under 5 years, private income \$35,000 pa.	+9.9 \$3,360 pa

Source: Commonwealth of Australia, 1998, *Tax Reform Not A New Tax*, AGPS, Canberra

5.2 The relevance of the government's calculations to community people

How representative the government's calculations of the likely benefits are to community people depends on three things: whether the government's calculation of the inflationary impact of the GST is correct, whether the inflationary impact in communities is the same as the national average, and whether the GST will have an impact on non-cash components of the standard of living for people living in the communities.

The inflationary impact of the GST

The government estimates that the 10% GST will cause 1.9% inflation. Many economists doubt that inflation will be as low as the government calculates. For the purpose of estimating the inflationary impact of the GST the government used PRISMOD which is a price input-output model. While this is an appropriate technique for a first approach, it is by no means faultless. It assumes, for instance, that all of the cost increases and decreases due to tax changes will be passed on to consumers. The accuracy of the predictions of such models are very difficult to test. The usual procedure is to analyse the situation by using a range of models and to make a judgement on the efficacy of one result by comparing it with others and on the basis of the validity of the models theoretical structure and data. Consequently, one would have expected that the government advisers would have used an ORANI model as well as others, and would have presented all of the results so that the reasonableness of the 1.9% could be assessed. This author also believes that the government has underestimated the inflationary impact.

The inflationary impact in communities

Whatever the inflationary impact of the GST for the average citizen, it is certain that the inflationary impact for people living in the communities will be higher.

Food consumption

The first reason for this relates to food consumption. The government's estimate for the inflationary impact assumes that the person whose position is being assessed has the same expenditure pattern as is the national average. This will certainly not be so for community people. As already discussed, people on low incomes spend a much larger proportion of their incomes on food than does the average person. This will be so for community people, firstly because they are extremely poor, and secondly because the prices of food in the communities are much higher than the national average. The government estimates that the GST will cause food prices to increase by 4.4%, so that as the proportion of expenditure spent on food increases from the national average to 100%, for example, the person's inflationary cost increases from 1.9% (assuming that is correct) to 4.4%. A recent report by the AMA suggests that in some communities the proportion is almost 60% (AMA 1997).

Another point will be made here in relation to the higher prices people pay in communities, even though this point concerns equity rather than inflation. It is this. Since the GST is imposed on the final sale price of a good or service, and that includes transport costs and other factors which make prices in remote areas very high, people in those areas will pay more GST tax for a given item than people living in the cities where prices are lower. Given that community people have a consumption pattern which is intense in highly taxed items (relative to the pre-GST state) and they live in very remote and high cost places, it would be surprising if they will not become the most heavily GST taxed group in the nation, measured by the proportion of their incomes paid in GST. This is clearly inequitable.

GST-free items

Returning to the inflationary effects. The second reason relates to the GST-free items. The relevant ones for this discussion are those for health, education, child care, local government rates and water and sewerage charges. These are of almost no benefit to people living in communities since very few communities have charges for these services. Their provision is usually funded directly by the relevant government body. Thus for Aboriginal people, the GST is a tax without exceptions, so that it is imposed on all of their existing expenditures. This means that the average increase in prices will be greater for community people than for the average person.

Housing costs

The impact of the GST on housing in remote communities is very important and deserves a separate discussion. It is usually provided by a community housing organisation which is funded by government. However, almost invariably, there is insufficient housing and overcrowding in some houses is common. This overcrowding has adverse effects on the ability of school children to study and on health. It also results in higher than normal maintenance requirements. Rents are paid to the housing organisation although they do not usually recoup the cost of housing.

Unless the government exempts welfare housing from the GST, it will cause increased housing costs in two ways. Firstly, the costs of constructing new houses will increase because the GST will be imposed on the materials used in construction and on builders' services. The Housing Industry Association estimates that the cost of new houses will increase by 8% (Australian 15 - 16 August, 1998, pg 24). Unless governments are prepared to spend more on housing in the communities, this means that 8% fewer houses will be built, or the maintenance effort will be reduced. Secondly, the materials and services employed in housing maintenance will also be subject to the GST so that the costs of maintenance will be greater. Under existing circumstances, either of these outcomes will cause hardship.

Private motor vehicles

This impact of the GST on the cost of motor vehicles also deserves special attention because of their importance to remote communities. The GST will affect the costs of private motor vehicles in contradictory ways. The government intends to replace the existing 22% wholesale sales tax on new cars with a 10% tax. This, it estimates, will lower new car prices by 8.3%. Used-car prices normally vary in the same direction as new car prices, so that used-car prices should also fall. However, this may not be so because the government will now tax the service component of used-car prices when sold by dealers. Added to this, maintenance service costs will now also be subject to the GST. Finally, although the 10% GST will be imposed on petrol and diesel, there will be no change in prices to rural consumers because the government will reduce the excise rate so as to achieve this effect. Taking into account the fact that vehicles in communities are generally in poor condition and need constant maintenance, the costs of buying and maintaining private vehicles may well increase.

Diesel fuel excise changes

One factor which may partly offset the inflationary effect of the GST for communities is the fact that under the tax plan, the effective excise rate on diesel fuel for heavy transport and rail is expected to fall from 43c per litre to 18c per litre. Transport industry costs should fall by between 4% and 6%. According to the government, competitive pressures in the transport industry will result in these savings being passed on to consumers.

Some qualifications need to be made to this. Firstly, the benefit will vary greatly between communities depending on their locations. There will be a benefit in terms of reduced transport cost for the transport from a major city to the regional centre. But from there, the goods may travel by truck, plane, barge or private vehicle. It is only in the case where the goods travel by truck that the full benefit will be felt by the transport company. Secondly, whether these benefits will be passed on to the store and other community bodies importing the goods will depend on the competitiveness of the local transport industry. It is frequently very uncompetitive in remote areas.

Another benefit in this area is the fact that diesel used for off-road purposes, including power generation in the communities, will not be subject to an excise or the GST, so that it will be tax free. Both of these changes are welcome and will reduce the inflationary impact of the GST on the communities by a small amount.

5.2.3 Impacts on the non-cash components of the standard of living Nutrition

The introduction of the GST will worsen nutrition in Aboriginal communities. Firstly, the elimination of the WST and its replacement by a GST will change the relative prices of foodstuffs. In particular, processed foods such as soft drink, biscuits, and sweets will become cheaper while fresh foods such as fruit, vegetables, and flour will become more expensive. This will bring about a further deterioration in the diets of Aboriginal people and will increase illness caused by poor diets. Secondly, food overall will become substantially more expensive, thus encouraging people to consume less food and more of other goods and services. Thirdly, it is likely that some people will experience a decrease in real income, as already mentioned, so that those people are likely to consume less food.

Community health services and legal aid

These are very important services and the impacts of the GST on their operations could be substantial. Research needs to be done on this.

6.0 Community enterprises and the GST

The way in which the GST will impact on community enterprises is very important given the shortage of jobs.

The housing association and community health services

The implications of the GST for these organisations have been discussed.

The store

Any additional clerical burden which results from the GST will not be easily absorbed by the store and other organisations within communities because clerical skills are in short supply. Indeed, it would be a very undesirable outcome if even more non-Aboriginal people needed to be employed in communities merely to meet the compliance needs of the new tax.

Arts and crafts production

This is a very important activity in most remote communities. It assists in the retention of culture and self esteem, and it provides incomes for the elderly who would otherwise have no other way of earning a cash income. At present, there is no wholesale sales tax on items purchased directly from the maker or on artwork. There are variable rates payable, depending on the item, if the retailer purchases the items from a wholesaler. Presumably, under the tax proposal, the sale of all art and craft work will be subject to the 10% GST at the point of retail sale and industry sources suggest that costs will rise. If this is so, the effect will be a decrease in the price received by the maker and/or a reduction in demand for the Indigenous arts and crafts because of price increases. In either case, the GST will worsen the financial position of the many of the poorest people in the communities.

Tourism enterprises

Many rural and remote communities are associated with tourism enterprises, either as sole owners or in partnerships. Most of their visitors either fly directly to the resort or fly to some nearby airfield and travel by vehicle to the resort. It is estimated that the GST will increase the price of accommodation and dining by 6.7 %, the price of coach travel by 4.4%, and airfares by 8.4%. The price of international travel will not be affected. (Australian 15 -16 August, 1998, pg 25). The increase in the prices of accommodation, dining, coach and air travel will discourage visitors to these Aboriginal tourism enterprises, and the fact

that the price of international travel will not increase, means that there will be some switching of expenditure from domestic tourism to international tourism.

7.0 Conclusion

Three major factors determine how the government's GST and compensation package will impact on Aboriginal people living in communities. First, community people have very low incomes, secondly they live in remote places and thus pay much higher prices for goods and services than people in cities, and thirdly there are few employment opportunities and very few ways to supplement their incomes. As it stands, the government's proposed package is very inequitable and otherwise undesirable from the point of view of Aboriginal people living in communities, for a number of reasons:

- Community people are at the bottom of the income distribution scale and the government's package is highly regressive. This results in their benefits from the government's package, if they exist, being very low in dollar values, and as a proportion of their incomes, compared with the benefits for wealthier people.
- The government's estimated level of benefits are so low, especially for pensioners and people without children, that these "benefits" could easily be detriments. This is because community people spend a higher proportion of their incomes on food than does the average person, or because they face particular circumstances, or because the government has underestimated the overall inflationary impact of the GST.
- The package will worsen nutrition, and will thereby further endanger Aboriginal health. This is because processed foods will become cheaper and fresh foods will become dearer, and because the cost of food will rise by more than the government's estimate of the compensation for almost any group living in the communities.
- The GST will adversely affect some important community business activities and will thereby adversely affect Aboriginal employment.

What minimal change can be made so as to lessen the undesirable impacts of the government's GST and compensation package on Aboriginal communities? The answer appears to be making food GST-free. This would substantially reduce the inequity of the package for all low income people, and especially for Aboriginal people in communities.

Before finishing, some general points may also be made:

- A tax, such as the GST, performs three functions. It affects the allocation of resources by changing relative prices, it affects the distribution of income because people pay differing amounts of the tax, and it collects revenue. The government's proposed GST has two rates, GST-free and 10%. A better scheme is the one commonly used in Europe which involves three rates: the standard rate, the reduced rate and the food rate. The existence of a third rate makes the achievement of goals in relation to resource allocation, distribution and revenue raising easier to achieve.
- The government's package overall is very regressive. Many of the points made above in relation to Aboriginal communities also apply to poor people in general. Also in common with community people, everyone living in remote areas and who pay more for their goods and services will therefore pay more GST, since the tax is imposed on the final sale price which includes transport costs.
- Making exports of goods and services both GST-free and WST-free, while other producers are required to pay the GST, constitutes a very substantial subsidy for farmers, miners and other exporters. Compounding the inequity of this is the fact that the value of the subsidy is proportional to a firm's exports, so that large farmers and miners receive greater subsidies than small producers.
- While there are rigidities built into this proposed system which will restrict the ability of the Commonwealth to vary the GST rate, there are no such rigidities affecting the compensation package, and in terms of international experience, it would be reasonable to fear that elements of the package will be eroded over time.
- Australia is one of the lowest taxed countries in the OECD and it has one of the lowest expenditures on income support. It could be argued that recent governments' emphasis on reducing taxes at the expense of income support and expenditures on health, education and housing, especially for the poorest in the community, is misplaced.

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