

Malcolm Turnbull bid to buy time on GST hike

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Malcolm Turnbull is ready to veto a government plan to increase the GST as he demands more work from federal officials on the “growth dividend” from the divisive change, amid growing fears of a voter backlash that will cruel his chances at the next election.

The Prime Minister has asked the new head of the public service, former Treasury chief Martin Parkinson, to test the work done on the tax reform package out of concern that it will not deliver a boost to the economy, despite including income tax cuts for millions of workers.

With ministers at odds and officials sending conflicting signals, the government is buying time as it considers the political cost of a far-reaching reform that it expects to reveal before the federal budget on May 10.

Mr Turnbull used a speech to Liberal Party supporters yesterday to pour more cold water on the push for a bigger GST, declaring that the change would not go ahead if any single group was - disadvantaged.

He emphasised the risk to about six million Australian pensioners and others who do not earn salaries and therefore would not benefit from income tax cuts, said sources who were at the event in the NSW southern highlands.

The remarks to about 600 party supporters at Wombat Hollow, the private residence of former Liberal Party treasurer Michael Yabsley, were taken as another sign that the Prime Minister was stepping back from the GST reform and pursuing other options, including cuts to superannuation tax concessions.

Scott Morrison has emphasised the need to find a way to pay for income tax cuts that would reward workers, lift the economy and reverse the “bracket creep” that puts a heavier burden on workers as inflation pushes their salaries into higher tax brackets.

But Mr Turnbull moved yesterday to highlight the problems with increasing the GST from 10 to 15 per cent in order to pay for the reform, signalling he was yet to be convinced of the case for change.

While the government could raise more than \$30 billion a year by increasing the GST on the existing base and preserving exemptions for fresh food, health and education, the Prime Minister emphasised the cost of the exercise rather than its benefits. He questioned the “trouble and expense” of the change when the economic gains were unclear and much of the proceeds would have to be returned to pensioners and others in compensation.

“We’re not going to raise more tax overall, number one. Two, any changes are going to be rigorously fair, absolutely fair. And three, you have got to drive jobs and growth,” the Prime Minister said.

The government’s indecision was on display as Mr Turnbull and his colleagues kept their options open at the end of the first week of parliament for the year, while Bill Shorten declared that the best way to kill off an increase in the GST was to vote Labor.

“Malcolm Turnbull laughed at Labor when we said we would oppose the 15 per cent GST. He’s not laughing now,” the Opposition Leader said.

Treasury officials have mapped out a potential reform plan but this is now being examined by Dr Parkinson, who started as secretary of the Department of Prime Minister & Cabinet late last month and will lead the preparation of a cabinet submission on the final package.

Dr Parkinson warned last December that “bracket creep” was increasing the tax burden on workers by more than 20 per cent, demonstrating the need for cuts.

But The Weekend Australian has been told the economic modelling done so far does not show a compelling boost to economic growth from a “tax-mix switch” that relies on a bigger GST to pay for income tax cuts.

The biggest economic gain would come from a cut to the company tax rate but this is seen as politically impossible at a time of concern that big companies are not paying their “fair share” of tax.

Deloitte Access Economics director Chris Richardson, who has suggested a \$6bn budget saving by scaling back superannuation tax concessions, told Sky News that an income-tax cut was “eminently doable” without increasing the GST. “You can get a bucket of money from things other than the GST and you can address bracket creep,” he said.