

Your Tax Activity 5

Years 7-12

WHAT OTHER TAXES DO I HAVE TO PAY?

Fact sheet

OTHER PERSONAL TAXES

In addition to income tax, you may have to pay other personal taxes, such as capital gains tax (CGT) and goods and services tax (GST).

GOODS AND SERVICES TAX (GST)

The GST was introduced on 1 July 2000. It is a tax on the supply of goods and services in Australia and on most goods imported into Australia.

The introduction of GST was a major change in Australia's tax structure. At the same time GST was introduced, sales tax was removed and personal income tax rates decreased. All individuals are consumers and therefore pay tax on most things they purchase.

The GST is a consumption tax. This means that tax is paid at each step along the chain of transactions from the maker to the end user who has to pay the cost of the tax.

The GST is 10% added to the cost of the good or service and must by law be included in the price. If you buy a bicycle from a GST-registered retailer for \$1,100 then 1/11th of this total amount (in this case, \$100) is GST. The retailer must collect the GST from you (the purchaser or consumer) and forward it to the ATO.

Some goods and services are 'GST-free'. The GST-free list includes:

- ▶ basic foods
- ▶ most education
- ▶ child care
- ▶ certain health goods and services.



CAPITAL GAINS TAX (CGT)

This tax was introduced in 1985. It was introduced because some taxpayers received amounts known as capital gains that were not regarded as income under the income tax laws and so were not taxed. This was identified as unfair, so laws were introduced to include capital gains as assessable income and liable for income tax.

Generally, you make a capital gain when you sell or dispose of a CGT asset for more than it cost. 'Cost' includes purchase costs, maintenance and loan interest. CGT is a tax on the gain or profit from selling certain assets such as shares, rental properties, collectables (art and antiques) and the sale of businesses. Cars are not subject to CGT and the family home is generally exempt from CGT unless it has been used as a place of business or for income producing purposes.

There is no set tax rate for CGT. The net capital gain is added to your other assessable income and taxed at your applicable income tax rate. The capital gain amount may be reduced by a discount provided you have owned the asset for at least 12 months. A discount of 50% applies only to individuals and trusts, while a 33.33% discount applies to super funds.

You may make a capital loss if an asset is sold for less than it cost. No tax is payable on a capital loss. A capital loss can only be offset against a capital gain. If you don't have a capital gain, your capital loss is carried forward to future years to be offset against future capital gains.

TAXES ON OVERSEAS TRAVELLERS

Australian citizens are liable to pay the passenger movement charge (often called a departure tax) when they travel overseas unless they are under 12 years of age. This tax is pre-paid with your international airline or ship ticket. If you bring goods like gifts and souvenirs back into Australia and the total value is above the 'duty-free limit', you may be liable to pay duty on these goods.

Information on taxes and duty on overseas travel can be found on the Department of Home Affairs website (<https://www.homeaffairs.gov.au/>).

THE CASE FOR GST

In July 2000, the federal government introduced a 10% goods and services tax (GST), based on the value-added tax (VAT) model, as part of a broader package of taxation reform. The GST replaced the wholesale tax (WST) and a range of inefficient state taxes. Revenue from the GST is paid to the states and territories, providing them with a stable and growing source of revenue and removing their reliance on general assistance grants from the federal government.

The GST is a consumption tax. Before the GST, wholesale taxes were charged on products, but this occurred during the stages of production, which increased production costs and distorted economic decisions. The tax also aimed to reduce tax avoidance by charging tax directly to consumers at the cash point.

Tax reform is not a simple process. Each change has an impact on other aspects of the complex financial system. In weighing up the effects of changing the WST and other taxes, the federal government made significant changes to personal income taxes and social security payments. This included significantly reducing personal income taxes and large increases in government payments to families, pensioners and low income earners. Adjustments were also made to excise taxes and some specific indirect taxes to adjust for the removal of the WST and imposition of the GST.

In order to achieve passage of the tax reform bill through Parliament, several compromises were made to the proposed GST. The most notable of these was the removal of basic food and personal products from the GST base.

Source: Reinhardt, S. and Steel, L. (15 June 2006). A Brief History of Australia's Tax System. Tax Analysis Division, the Australian Treasury.

Points of view about the GST

Proposing and implementing tax reform generates intense national debate. Individuals and groups from many sectors of society express their points of view based on their values and the impacts such changes will have on them or their representatives. Proposals and debates continue today about the role, advantages and disadvantages of GST. For example, there has been debate as to whether the GST should be increased to 15% to fund society's increasing needs.

Source 1

A significant advantage of a GST is that it is a transparent (clear) tax that is well understood and widely accepted by both business and consumers. However, critics argue that a goods and services tax is regressive, because poorer people spend most of their income on living expenses, and therefore most of what they earn is taxed. That is, those on lower incomes are hit with a larger share of tax on a given basket of goods and services than is a rich person buying the same basket of items.

Source: Nedra Fongalland, 15 March 2016, <http://www.lockwood.com.au/gst-debate>

Source 2

Others agree but say that "bracket creep" is a much bigger threat to low-income households than a GST increase. They explain that people's wages have gone up but the income tax rates haven't been adjusted. Therefore, soon, some low-income earners on 23 cents in the dollar will be paying 28 cents in the dollar, which is actually a 20% increase in tax.

Source: (6 February, 2016) <http://www.abc.net.au/news/2016-02-06/gst-reform-is-needed-to-avoid-us-style-health-system-weather/7144170>

Source 3

Many people are now arguing that the GST should be increased by another 5% points to 15%. At that level it would collect another \$33 billion in revenue each year. However, 15 years from now, as Australia's growing aged population demands more of the national budget, people may wish to take the GST from 15% to 20%. With the average personal rate of income tax currently at 24%, this would mean Australians would have two large blocks of tax to pay – a 20% tax on consumption and a 24% tax on income, that is, a burdensome 44% that is hard to undo.

Source: Paul Keating (former prime minister), 3 February 2016, Sydney Morning Herald on increasing the GST

TASK 1

INVESTIGATING OTHER TAXES

Worksheet

YOU WILL:

- ▶ analyse points of view about the advantages and disadvantages of the GST
- ▶ complete a costs and benefits analysis of the GST
- ▶ identify the considerations that influence government decisions about tax

YOU WILL NEED:

- ▶ *Activity 5: Fact sheet - What other taxes do I have to pay?*
- ▶ Post-it notes

INTERPRET TEXTS AND SHARE POINTS OF VIEW

Independently:

1. **Read** "The case for GST" in *Activity 5 - Fact sheet: What other taxes do I have to pay?*
2. **Review the first three paragraphs.** Highlight or underline:
 - ▶ the reasons for GST being introduced
 - ▶ the desired effects for GST being introduced
 - ▶ how other taxes and systems were changed to balance the imposition of a GST.

With others:

3. **Share** your findings.

Independently:

4. **Read the points of view** expressed about the GST.

With others:

5. **Discuss** each source to be clear about the key messages.
6. Use highlighters or codes to **identify** the advantages and disadvantages of the GST expressed in these points of view.
7. Complete the following **cost-benefit analysis** matrix.



COMPLETE A COST-BENEFIT ANALYSIS

	Benefits (advantages)	Costs (disadvantages)
Goods and Services Tax (GST)		

COLLABORATIVELY CATEGORISE FINDINGS

With others:

Bundling: Get to the essence of things...

8. **Discuss** and **identify** some key ideas that appear in the debate about the advantages and disadvantages of the GST.
 - ▶ On separate post-its, write words or simple phrases that represent the key factors that influence government decisions about tax planning and implementing.
 - ▶ Bundle the post-it notes into similar categories.
 - ▶ Name these bundles by their big idea. Test the usefulness of each name by asking: "Is this a factor that influences government decisions about tax planning and implementing?"

DEVELOP A CONCLUSION

Independently:

9. **Write a concluding statement** using the bundle names to answer the question: "What are the factors that influence government decisions about tax planning and implementation?"