Independent Schools
Council of Australia

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Tax White Paper Task Force
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Tax White Paper Task Force – Re:think Tax Discussion Paper

The Independent Schools Council of Australia (ISCA) welcomes the opportunity to present this submission to the Tax White Paper Taskforce in response to the Re:think Tax Discussion Paper released in March 2015.

ISCA is the peak national body representing the Independent schooling sector. It comprises the eight state and territory Associations of Independent Schools (AISs). Through these Associations, ISCA represents a sector with 1,078 schools and 576,000 students, accounting for approximately 16 per cent of Australian school enrolments. ISCA's major role is to bring the unique needs of Independent schools to the attention of the Australian Government and to represent the sector on national issues. More information on the diversity of the Independent schools sector can be found in Attachment 1.

ABOUT INDEPENDENT SCHOOLS

The Independent school sector is the third largest school education provider in Australia (after the New South Wales Government and the Catholic education systems) and at secondary level is the largest provider of schooling services.

Independent schools are individual not-for-profit (NFP) institutions that are established and governed independently. All Independent schools are registered by the relevant state or territory education authority, and are entitled to charitable status in accordance with the *Charities Act, 2013*. Key decisions around education provision, school development and staffing are usually made by governing boards. Unlike other educational sectors, the majority of Independent schools operate autonomously, without reliance upon central bureaucracies which enable redistribution of funding and economies of scale. All are separately accountable to their parent and school communities.

The Independent sector encompasses considerable diversity in size, location, mix of students and fees charged. With a greater percentage charging less than $1,000 per year than those charging over $20,000, it is clear that Independent schools cater to the full spectrum of Australian society. The median annual fee charged per student is $4,270 per year (excluding full fee paying international students), with almost 60% of recurrent income being derived from non-government sources.

Independent School Fact

Number of Independent schools	1,078
Number of low fee Independent schools	400
Number of Independent school students	576,000

(NB - The statistics provided in "Independent School Fact" tables are primarily derived from the 2014 Financial Questionnaire and Non-Government School Census provided by Independent schools to the Department of Education and Training, unless otherwise noted.)

Independent schools cater to specific groups of disadvantaged students including: high needs students with disability attending special schools; Indigenous students attending remote 100 per cent Indigenous schools in Western Australia and the Northern Territory; and highly disadvantaged urban youth who have been excluded from both government and non-government schools attending Independent special assistance schools.

The numbers of disadvantaged students in Independent schools, including students with disability, Indigenous students and students with a language background other than English, have been increasing at a higher rate than overall sector enrolments for many years.

CHAPTER 7: NOT-FOR-PROFIT (NFP) SECTOR DISCUSSION QUESTIONS

In considering the implications of the NFP discussion questions (Questions 47-50) raised in the Discussion Paper, ISCA would like to make the following points.

Question 47 - Are the current tax arrangements for the NFP sector appropriate? Why or why not?

The current tax arrangements for the NFP sector as applied to Independent schools are appropriate and should be expanded.

Applicable Commonwealth taxation arrangements include Fringe Benefits Tax (FBT) rebates, income tax exemption, Deductible Gift Recipient (DGR) status, and Goods and Services Tax (GST) concessions, the latter being addressed at both Questions 47 and 51.

State and Territory tax concessions, such as exemptions from payroll tax, land tax and stamp duty, are also appropriate and beneficial.

FBT Rebates

As with many other NFP organisations, FBT concessions act as an equaliser, enabling Independent schools to enhance staff remuneration which might otherwise be below market expectations. Staff of non-government schools broadly access benefits across the areas of in-house benefits (school fees in particular), remote area housing benefits (extremely important for schools in rural and remote areas) and salary packaging (a means of attracting, rewarding, and keeping highly competent staff in the sector). FBT concessions play a significant role in attracting good staff, particularly to more rural or remote areas, and ultimately to ensuring the affordability of the provision of Independent school services to the general public.

Income Tax Exemption

Independent schools employ over 83,000 staff, and hence contribute $1.8 billion in PAYG tax annually.

As mentioned above, Independent schools are defined as charities under the *Charities Act 2013* and therefore have income tax exempt status. A major requirement of being a (school) charity is that any retained earnings must not be disbursed to members, and must be used for the original charitable purpose. Schools predominantly use any retained earnings for paying down debt or for asset purchase. Independent schools save public monies by reinvesting significantly more than their operating surplus, and borrowing the difference. The sector's current debt levels represent a $3.6 billion saving to the government debt burden.

Independent School Fact

School gross revenue (recurrent & capital)	$10.40 billion per annum
Surplus (after interest & depreciation)	$0.80 billion per annum
Reinvestment (funded from surplus & loans)	$1.40 billion per annum

Overall, the Independent school sector relies primarily on parents to fund schools, with 56 per cent of recurrent income coming from private sources. This willingness and commitment of Independent school parents to pay school fees saves all levels of government an estimated $4 billion per annum in recurrent schooling costs. In addition, through fees and donations, parents and donors nationally provide 82 per cent of capital funding for Independent school buildings, grounds and equipment (this figure excludes one-off funding provided under the Building the Education Revolution).

Independent School Fact

School debt	$3.60 billion
Average debt per student	$6,700

Income tax exemptions go some way to maintaining reasonable costs for educational services from Independent schools. Should the Independent schooling sector not be able to meet their community's educational need, the impact on government would be significant and dramatic in attempting to provide the same services.

Independent School Fact

Number of school employees	83,204
Salaries and wages all staff	$6.4 billion
PAYG tax paid	$1.80 billion
Superannuation contributions	$553 million

Deductible Gift Recipient Status

Independent schools rely on the receipt of tax deductible gifts (DGR funds) to support the ongoing operations of the school for such activities as school building funds and scholarship/bursary funds. The school building fund is critical in enabling schools to undertake development of a capital building program. Independent schools fund the majority of their capital costs (building and equipment) through three sources – external (borrowed) finance, DGR gifts and any retained earnings. While there is access to small amounts of capital funding assistance provided by the Commonwealth and state/territory governments through the Block Grant Authorities, the majority of the capital funding burden falls directly upon the school to source.

As a broad principle, Independent schools should be able to access DGR status and therefore tax deductibility for voluntary donations to support specific activities in a school setting. The ability to offer tax deductibility for donations greatly assists schools in sourcing support that may not be otherwise available, and enhances their capacity to offer appropriate educational resources.

Independent School Fact

Average school recurrent income from parents	56%
Average capital income from parents	82%

GST Treatment of Ancillary Services

The schooling sector currently accesses GST exemptions on the supply of educational activities.

Independent schools apply GST to any commercial activities they undertake, such as canteen services. The sector understands the current requirements of selecting the appropriate GST treatment.

Question 48 - To what extent do the tax arrangements for the NFP sector raise particular concerns about competitive advantage compared to the tax arrangements for for-profit organisations?

The Independent sector believes that competitive neutrality and equity are important principles in creating a level playing field for all schools.

Government and non-government schools in each state and territory draw their enrolments from the same pool of potential students. While Independent schools rely on individuals, religious or community groups to establish schools and then depend on gaining and maintaining enrolments to provide the resources to provide education services, government owned schools are supported by the full weight of state/territory government resources.

This disparity is most clearly reflected in that the Independent school sector relies primarily on the willingness and commitment of parents to pay fees from their after-tax dollars in order to fund the costs of operating schools.

In addition, through fees and donations, Independent school communities nationally provide 82 per cent of capital funding for schools buildings, grounds and equipment, and in many schools, 100 per cent.

Providing income tax deductability for non-government school fees would go some way to enhancing competitive neutrality in the schooling sector.

Independent School Fact

Average Government recurrent funding per student	2012-13
Government schools	$15,703
All non-government schools	$8,812
Independent schools	$7,668

Question 49 - What, if any, administrative arrangements could be simplified that would result in similar outcomes, but with reduced compliance costs?

The FBT calculation regime is complex and often because of the complexity needs to be outsourced to a specialist agency to ensure compliance. A simplification of this regime to reduce the compliance burden would be supported. As employment in a charity does not attract the same salary scales as in a for-profit entity, the FBT benefits allow an opportunity to make the package more attractive.

Question 50 - What, if any, changes could be made to the current tax arrangements for the NFP sector that would enable the sector to deliver benefits to the Australian community more efficiently or effectively?

As mentioned briefly above, employment in a charity does not attract the same salary scales (including bonus structures) as in a similarly sized for-profit entity, however benefits such as FBT rebates for example, allow an opportunity to make the remuneration package more attractive. Any structure that maintains the benefit to the employee and therefore to the NFP entity and reduces the burden of compliance on the employer is worthy of consideration. Currently, the ability to provide in-house fringe benefits allows the employer to offer a benefit to the employee at an overall reduced cost to both the employer and the employee.

CHAPTER 8: THE GOODS AND SERVICES TAX DISCUSSION QUESTIONS

Question 51 - To what extent are the tax settings (that is, the rate, base and administration) for the GST appropriate? What changes, if any, could be made to these settings to make a better tax system to deliver taxes that are lower, simpler, fairer?

Whilst understanding the importance of increasing revenue, ISCA does not support any broadening of the GST base to include household spending on education. ISCA disagrees with the Discussion Paper's framing of the issues immediately preceding Q51.

The conceptual basis for GST is household *consumption* of goods and services within Australia. As noted by the Henry Review into Australia's taxation system, "a broad-based tax on consumption is one of the least damaging taxes to economic growth"[i]. Moreover, compared to taxes that discourage savings or investment, international policy advisers generally advocate consumption taxes because they "encourage the accumulation of human and physical capital"[ii].

The benchmark used by the Commonwealth Treasury for assessing GST treatment 'tax expenditures' includes most household spending on goods and services in Australia. Currently, Treasury's benchmark includes private education spending[iii]. Accordingly, Treasury regards the tax treatment of private education expenses as a concessional departure from the GST benchmark.

We note that this view is also reflected in the Discussion Paper's charts (8.4 and 8.5) on p 137 which identify the financial impacts on households of exempting private education expenditure (amongst other things) from GST. The discussion of these charts twice refers to the 'benefits' received by households of exempting educational expenses (again, amongst other things) from GST.

These charts (based on Household Expenditure Survey data) will presumably include the GST 'concessions' associated with all household expenditure on education.

ISCA notes that education is broadly defined in *A New Tax System (Goods and Services Tax) Act, 1999*:
195-1 'education course means:

(a) a *pre-school course; or
(b) a *primary course; or
(c) a *secondary course; or
(d) a *tertiary course; or
(f) a *special education course; or
(g) an *adult and community education course; or
(h) an *English language course for overseas students; or
(i) a *first aid or life saving course; or

(j) a *professional or trade course; or
(k) a *tertiary residential college course.

In ISCA's view, all of these expenditure items are investments in human capital, not consumption. Consistent with the theoretical underpinnings of a consumption tax and the policy appeal of Australia's GST – and consistent with the treatment of other capital investment – household spending on education should not bear GST.

Accordingly, ISCA regards the Discussion Paper's framing of GST exemption of household education expenses as a 'benefit', as lacking rigour and being conceptually flawed. ISCA also disputes Treasury's current assessment that private educational expenses form a structural aspect of the GST benchmark.

ISCA supports the economic principle underlying the initial development of the GST that it is inappropriate to apply GST to education due to its inherent status as a service supplied by Government to the people in the same manner as other Government services such as defence of the nation and the police force.

What is to Gain from Applying GST to Schooling?

Items of public spending – such as government provided schooling – are specifically excluded from both Treasury's GST benchmark and the analysis underlying the Discussion Paper's Charts 8.4 and 8.5. Non-commercial activities of governments – including those of government schools – are specifically exempt from Treasury's GST benchmark[iii].

Another reason for not applying GST to education is noted by the Discussion Paper on p 133 to the GST pre-implementation decision to make health and education GST-free 'because of the significant public sector provision of these goods and services and concerns that applying the GST to them would put private providers at a competitive disadvantage.'

Further to this, ISCA supports the economic principle underlying the initial development of the GST that it is inappropriate to apply GST to education due to its inherent status as a service supplied by Government to the people in the same manner as other Government services such as defence of the nation and the police force. This is compounded by the fact that school attendance is mandatory between certain ages, as is legislated by each and every state and territory. Again, it would be inappropriate to apply GST to school attendance when citizens are required to attend by law.

In effect, if GST was applied to household educational expenses – in full and without rebates – then it would amount to a lopsided tax on school choice.

- Non-government school fees (and probably other private income) would be fully subject to GST. (School inputs would be rebated – which is in effect the same as the current zero rated treatment.)
- By contrast, Government schools would not be taxed, although their relatively small fee income would be subject to GST.
- The GST would be passed through to the States and Territories. (The Commonwealth would also levy a GST collection fee on the jurisdictions, altering slightly the distribution, but not the quantum, of the GST collected.)

- The 'free' government school option would become relatively less costly from the perspective of parents/guardians.
- As a result some parents of non-government school children would doubtless switch their children to government schools. This would result in savings to the Commonwealth and costs to the States and Territories.
- Higher school fees would be reflected in the CPI. That would have knock on impacts on Commonwealth outlays in particular.

The full year impact on the budgets of both levels of government has been modelled by ISCA (as detailed in an Attachment 2). These impacts are summarised in Table 5 from the attachment and presented below.

Table 5: Impact on governments' finances, 2012-13, $million

Budget impacts: gain(+) loss(-)	Extra GST	CPI indexation	Change in school funding	Total
Australian Govt	$ -	-$ 194.6	$ 511.8	$ 317.2
State/Terr'y Govt	$ 746.3	$ -	-$ 1,292.3	-$ 546.1
All Governments	$ 746.3	-$ 194.6	-$ 780.5	-$ 228.9

Overall, ISCA contends that applying GST to school fees (and school's private income more generally) would damage public finances by about a quarter of a billion dollars each year.

37% or 400 Independent schools have under 200 students enrolled, and 10% have less than 50 students. Assuming Treasury's elasticity assumption applied uniformly across all Independent schools then a 10% reduction in demand in these schools would leave them in significant, if not inevitable, danger of closure. Many of these schools are in regional, rural and remote locations, or meet specific needs such as for students with disability or in need of special educational assistance. Their closure would impose impossible pressures upon government school systems, not only financially but also on achieving appropriate educational outcomes. The unemployment burden of teachers and support staff, and the detrimental flow on effect to ancillary services such as local food suppliers would be significant.

There is no doubt that the expansion of GST to education would result in a significant cost to government.

CONCLUSION

Independent schools operate in a dynamic environment which is influenced not only by changing societal expectations, demographics and world financial markets, but also by changing government policy. The Australian Government's education reform agenda has a significant impact on the operations of individual Independent schools, including through non-government schools' obligations under the *Australian Education Act, 2013*. Any additional levels of uncertainty or increase in operating expenditures relating to their role and responsibilities as charitable service providers and employers could have a significant impact on the operating environment for Independent schools. This would no doubt put more pressure on all levels of Government to provide additional financial assistance to allow for the appropriate administration and delivery of educational outcomes by the Independent schools sector.

I would appreciate the opportunity to meet with you and your staff to further discuss or clarify the issues raised in the attached paper.

Yours faithfully

Dr Yvonne Luxford

Executive Director

Attachment 1

About Independent Schools

Independent schools are a diverse group of non-government schools serving a range of different communities. Many Independent schools provide a religious or values-based education. Others promote a particular educational philosophy or interpretation of mainstream education. Independent schools include:

- Schools affiliated with larger and smaller Christian denominations for example, Anglican, Catholic, Greek Orthodox, Lutheran, Uniting Church, Seventh Day Adventist and Presbyterian schools;
- Non-denominational Christian schools;
- Islamic schools;
- Jewish schools;
- Montessori schools;
- Rudolf Steiner schools;
- Schools constituted under specific Acts of Parliament, such as grammar schools in some states;
- Community schools;
- Indigenous community schools;
- Schools that specialise in meeting the needs of students with disabilities; and
- Schools that cater for students at severe educational risk due to a range of social/emotional/behavioural and other risk factors.

Many Independent schools have been established by community groups seeking to meet particular needs. Examples include the Independent community schools for indigenous students in remote areas, special schools for students with disability and boarding schools to educate children from rural and remote areas. There are also schools that seek to reflect the religious values of a particular community or that seek to practice an internationally recognised educational philosophy such as Rudolf Steiner or Montessori schools. Independent Catholic schools are a significant part of the sector, accounting for 10 per cent of the Independent sector's enrolments.

Some Independent schools with common aims and educational philosophies are governed and administered as systems, for example Lutheran systems. Systemic schools account for 18 per cent of schools in the Independent sector. Four out of five schools in the sector are autonomous non-systemic schools.

How much would governments gain by applying GST to non-government schools?

The following modelling is centred on the financial year 2012-13. (This year is a compromise between accessing the most recent publicly available data sources and ensuring consistency and comparability between different data sets.)

Table 1 presents official estimates of per capita and total recurrent public funding of Australian school students in 2012-13. Total recurrent public spending was $47.941 billion. Most of this spending was undertaken by State and Territory governments which provide the bulk of funding for government schools (which in turn enrolled 65.1% of school students). These estimates of recurrent spending include, appropriately, the annualised opportunity cost of government school buildings.

Each non-government school student saved taxpayers $6,891 in 2012-13 – costing the Commonwealth ($4,519) but offset by much larger saving for the States and Territories ($11,410). These averages of course subsume large differences in the savings ‘gap’ at the levels of States and Territories, Catholic systemic schools and Independent schools, as well as between individual schools within sectors. More detailed modelling of the impact of GST (by sector etc.) is not required to generate a total estimate of the potential education-related GST revenue: GST is a ‘flat tax’ and can be applied to ‘averages’ without implications for revenue estimates.

Table 1: Recurrent government funding of schools in Australia (2012-13)

	Per capita Non-Govt schools	Per capita Government schools	Gap
Australian Govt	$ 6,434	$ 1,915	$ 4,519
State/Terr'y Govt	$ 2,378	$ 13,788	-$ 11,410
Total	$ 8,812	$ 15,703	-$ 6,891

	FTE	Enrolment share
Non-govt schools	1,258,298	34.9%
Govt schools	2,346,798	65.1%
Total	3,605,096	100.0%

Total public funding costs ($m)	
Australian Govt	$ 12,591.6
State/Terr'y Govt	$ 35,349.5
Total	$ 47,941.1

Source: ROGS (2015) Tab 4A.6, 4A.8

This note addresses three key modelling issues: (i) GST revenue; (ii) public school funding changes as a result of taxing choice; and (iii) cost of CPI indexation.

(i) GST revenue

Treasury presents estimates of GST exemption for private education in its annual Tax Expenditure Statement. Examples of these estimates are presented in Table 2.

Table 2: Tax Expenditure estimates of GST exemption on household education expenditure ($m)

	2012-13	2013-14	2014-15	2015-16
Revenue forgone (RF)	$ 3,550	$ 3,900	$ 4,250	$ 4,650
Revenue gain (RG)	$ 3,200	$ 3,500	$ 3,850	$ 4,200
Reduction in demand	10%	10%	9%	10%

Source: Treasury Tax Expenditure Statement 2012 (January 2013), p212

Applying GST to private education would raise private education costs by 10%: education inputs are free of GST so GST would apply to the whole of private education expenses. Therefore, Treasury's 'Revenue forgone' (RF) estimate indicates that the relevant education base was ($3,550m/10% =) $35.5 billion in 2012-13.

The 'Revenue gain' estimate (RG) allows for behavioural responses: if GST is applied then household demand will switch to other goods and services (which will in all likelihood bear GST). The RG estimates indicate that Treasury assumed a unitary 'elasticity of demand' for private education expenses.

- The 'elasticity of demand' is the quantitative behavioural response of purchasers of education services to changes in the price those education services and is expressed as: [reduction in demand]/[increase in price].
- The reduction in demand is 10% in each year in Table 2. (Note the rounding to the nearest $50m created the 9% estimate for 2014-15.)
- Note that the reduction in demand is assumed to have an immediate full year impact. (Treasury's estimates assume there is no transition; rather the long run impact is brought forward to the year of implementation of the change.)
- The increase in prices was 10%.
- Therefore the assumed elasticity was (10%/10% =) one. That is, the elasticity is 'unitary'.
- Treasury has consistently applied this assumption in Tax Expenditure Statements that relate to this calculation.
- ISCA agrees with this central modelling assumption.

ACARA's National Report on Schooling (2011) – the most recent publicly available data – provides estimates of per capita non-government school funding (both private and public sources) and expenditure. The first two columns of data in Table 3 provide details.

Table 3: Non-government school funding

	$ per capita (2011)	$m (2011)	GST base $m (2012-13)	GST (RG) $m (2012-13)	GST (RF) $m (2012-13)
Fees and charges	$ 5,392	$ 6,602.9	$ 7,124.0	$ 712.4	$ 648.3
Private donations & income	$ 815	$ 998.0	$ 1,076.8		
Total private income	$ 6,207	$ 7,600.9	**$ 8,200.8**	**$ 820.1**	**$ 746.3**
State govt grants	$ 2,182	$ 2,672.0			
Australian govt grants	$ 6,975	$ 8,541.4			
Total income	$ 15,364	$ 18,814.4			
Recurrent expenditure	$ 12,574	$ 15,397.8	$ 16,612.9	$ 1,661.3	$1,511.8
Capital expenditure	$ 2,731	$ 3,344.3			
Total expenditure	$ 15,305	$ 18,742.1			

The column headed 'GST base' presents 2012-13 estimates of the total GST base for three candidates.

The first candidate for a schools GST base is total non-government 'school fees and charges'. This potential GST tax base was $7.124 billion in 2012-13. This estimate of the base assumes 5% growth in the per capita dollar estimates between 2011 and 2012-13 as well as enrolment growth of 2.8% (reflecting the difference between CY 2011 ACARA estimates and 2012-13 Report on Government Services estimates for total non-government school enrolments).

A base of $7.124 billion would yield $712.4 million in GST using the Revenue Gain methodology. But the application of GST would only yield $648.3 million on the more realistic Revenue Foregone basis as some parents would respond to higher fees and charges by enrolling their children in government schools. The modelling here assumes a unitary elasticity of demand. However, the relative price shift driving the demand response is assumed to be slightly less than the impact of the GST (10%). GST would presumably (for policy consistency) be applied to government school parents' private contributions as well; as a result, the private savings from shifting a child's enrolment to a government school will be a little less than 10%. Instead, the relative price shift is assumed to be 9% (which is consistent with government schools having charged $620 per student in 2011).

The second candidate for a schools GST base is 'total private income'. From the government's perspective, this could seem more attractive because it is larger (yielding $746.3 million) and more robust (if private donations are exempt from GST, then schools may encourage parents to pay less fees offset with greater 'donations').

A third candidate for a schools GST base is 'total recurrent expenditure'. This measure is perhaps closest to the value added concept underpinning GST and would be attractive because it is very large and robust to gaming. However, it is not considered to be a candidate for GST. If GST was applied to public funding of no-government schools, for policy consistency, GST would also need to be applied to public funding of government schools. This is unlikely because "non-commercial activities of governments are exempt from GST under the [Treasury's] benchmark" (discussed in note 3 above).

The most likely estimate of GST is therefore assumed to be 'total private income' of non-government schools as calculated on a Revenue Foregone basis. That is, $746.3 million. Note that the base of $8.2 billion is well short of Treasury's estimate of the total private education GST base of $35.5 billion in the same year (Table 2).

(ii) Changes in enrolments from taxing choice

Following the introduction of GST, a 9% increase in the relative price of non-government schooling would lead to a 9% reduction in non-government school enrolments. Consistent with Treasury's modelling methodology, the reduction is assumed to have immediate full year impacts (technically, the long run elasticity is assumed to apply in the short run). Secondly, the estimate is a 'counterfactual' – an unobservable estimate to be distinguished from the observable 'business as usual' status quo (including time series data).

With non-government school enrolments of 1,258,298 (2012-13), this reduction equates to 113,260 students being re-enrolled in government schools, lifting the enrolment share of government schools to 68.2%.

As government school students access more public funding than non-government school students, the shift in enrolment shares damages government finances (assuming unit (or per capita) funding per student from each level of government to each sector remains constant).

The modelled impacts are shown in Table 4. In comparison to 'business as usual' in Table 1, the Commonwealth saves $511.8m while the States and Territories need to find an extra $1.292 billion. In sum, the shift in enrolments costs both levels of government $780.5m.

Table 4: Full year impact on school enrolments (2012-13)

	FTE	Enrolment share	Change
Non-govt schools	1,145,038	31.8%	- 113,260
Govt schools	2,460,058	68.2%	113,260
Total	3,605,096	100.0%	

School public funding costs	($m)	Change
Australian Govt	$ 12,079.7	-$ 511.8
State/Terr'y Govt	$ 36,641.8	$ 1,292.3
Total	$ 48,721.6	$ 780.5

(iii) Cost of indexing government outlays to raised CPI

The application of GST to private education expenses will have an immediate impact on the CPI. In turn, a lift in the CPI will impact on CPI-linked government outlays.

Preschool, primary and secondary school fees, alone, account for 1.47% of the CPI basket. (See Australian Bureau of Statistics, "A Guide to the Consumer Price Index, 15th series," ABS cat. 6440.0, 2005.)

Social security and welfare spending, alone, accounted for $132.388 billion of Commonwealth spending in 2012-13. (See Commonwealth of Australia, Budget Paper No. 1 2013-14, p. 6-7.) Most, if not all, of this spending is directly or indirectly linked to movements in the CPI. Therefore, government policies that increase the CPI – such as applying GST to school fees and other income – will raise government outlays.

A conservative estimate of the impact of a 10% GST on non-government school private income on the Commonwealth's outlays is (10% x 1.47% x $132.388 billion =) $194.6 million.

Bringing these estimates together, indicates that applying GST to non-government school private income will very likely worsen overall government finances – see Table 5.

On the assumption that the GST is provided to the states and territories then the states and territories could be $546m worse off, although the Commonwealth could be better off by $317m.

Table 5: Impact on governments' finances, 2012-13, $million

Budget impacts: gain(+) loss(-)	Extra GST	CPI indexation	Change in school funding	Total
Australian Govt	$ -	-$ 194.6	$ 511.8	$ 317.2
State/Terr'y Govt	$ 746.3	$ -	-$ 1,292.3	-$ 546.1
All governments	$ 746.3	-$ 194.6	-$ 780.5	-$ 228.9

[i] 'Australia's Future Tax System, Report to the Treasurer' (Henry Review), 2010
"Empirical evidence indicates that a broad-based tax on consumption is one of the least damaging taxes to economic growth." p51

[ii] 'Taxation, Human Capital Accumulation and Economic Growth', in 'Tax Policy Handbook', International Monetary Fund, 1995, p49

[iii] The GST benchmark used by the Commonwealth Treasury in assessing tax expenditures includes private education expenses.
"Under the GST benchmark, the tax base for the GST is the value of **household final consumption expenditure** plus the value of private dwelling investment where these are supplied in the course of an enterprise. There are structural elements of the GST system that are included in the benchmark. These elements are:

- Non-commercial activities of governments are exempt from GST under the benchmark.
- Exports and other supplies for consumption outside Australia are not subject to GST. This is a fundamental element of the benchmark and is not treated as a tax expenditure.

- Goods and services supplied to oneself are not subject to GST. This treatment is included in the benchmark and is not treated as a tax expenditure.
- Input Tax Credits (ITCs) are provided to registered entities in respect of the GST they pay on business inputs. The provision of ITCs to businesses is a fundamental design feature of the GST and is not treated as a tax expenditure.
- Imputed rent from owner-occupied housing is not subject to GST. Owner-occupied housing is effectively treated as input taxed."

Source: Commonwealth Treasury 'Tax Expenditures Statement 2014', January 2015, p141

Note that **household final consumption expenditure** includes private education expenses.

Source: Australian Bureau of Statistics, 'Australian System of National Accounts, Concepts, Sources and Methods'. (ABS cat. 5216.0)

Further note that **household final consumption expenditure** is defined with reference to the System of National Accounts (SNA) which is the internationally agreed standard set of recommendations on how to compile measures of economic activity.
Statistical definitions evolve over time to reflect improvements in both data sources and methodology.