Parliamentary Budget Office

Policy costing

GST threshold change		
Person/party requesting the costing:	Senator Gerard Rennick, Gerard Rennick People First	
Date costing completed:	30 April 2025	
Expiry date of the costing:	Release of the next economic and fiscal outlook report	
Status at time of request:	Submitted outside the caretaker period	
	☐ Confidential	☒ Not confidential
Summary of proposal: The proposal increases the mandatory turnover threshold for GST registration from $75,000 to $250,000 for businesses and non-profit organisations. The policy would start 1 July 2025, and be ongoing.		

Overview

The proposal would be expected to increase the Federal Government fiscal balance by around $78 million and the underlying cash balance by around $283 million over the 2025-26 Budget forward estimates period. This impact reflects a decrease in GST revenue, offset by a decrease in GST payments to the states and territories, an increase in business income tax revenue, and a small decrease in departmental expenses.

The fiscal and underlying cash balance impacts are different due to a timing difference between when GST revenue is recognised and when tax receipts are collected and subsequently paid to the states and territories.

The proposal would have an ongoing impact that extends beyond the 2025-26 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2035-36 is provided at Attachment A.

The Australian Government collects GST on behalf of the state and territory governments. This means that all GST revenue, less the cost of collection, is paid to the states and territories. Businesses that choose to de-register for GST would generally be expected to maintain the price of goods and services they supply to consumers and businesses. The taxable income of profitable businesses would increase by the value of those businesses' net GST liability. Businesses that are registered for GST claim back from the ATO the GST they have paid on the inputs they use to make the supply. This is called an input tax credit, or a GST credit. This may be offset against GST amounts a business is liable to pay to the ATO, which is collected when GST is included in the price paid for goods and services by a consumer.

Departmental expenses for the ATO would be expected to decrease as the proposal would reduce the number of business activity statements submitted to the ATO and the costs associated with processing them (especially paper forms).

The financial implications of this costing are uncertain and are sensitive to assumptions around the estimated number of businesses in 2025-26 and beyond that would be eligible to forego GST registration, the behavioural response of businesses to the increased GST registration threshold, and the number of those businesses that would be profitable.

Table 1: GST threshold change – Financial implications ($m)[(a)(b)]

	2025-26	2026-27	2027-28	2028-29	**Total to 2028-29**
Fiscal balance	-103.8	68.7	61.0	51.9	**77.8**
Underlying cash balance	64.8	80.6	73.0	64.2	**282.6**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal.

- Around 95% of eligible businesses between the current and new turnover thresholds that receive a net refund of GST would remain registered and stay in the GST system.
- Around 80% of eligible businesses (by GST value) with net GST payable would remain registered, given:
  - the benefits associated with GST registration such as being able to claim input tax credits and ease of conducting business – especially if the small business is an input into another business's supply chain which requires its suppliers to be GST registered; and the compliance cost of registering should their turnover exceed the new turnover threshold at some point (including in future years).
  - Taxi and ridesharing businesses would remain mandatorily registered for GST.
- Businesses with net positive GST owing who choose to de-register would eventually pass-through 50% of the cost decrease to their prices. The near-term effects of the proposal will likely increase business taxable income as prices adjust slower than the immediate removal of the requirement to remit GST (a business cost). To reflect the stickiness of price settings, a linear increase in the pass-through was applied, starting at 0% in the first year of the policy and increasing to 50% by year 5 – where it is held constant to the end of the medium term.
  - This assumes businesses do not immediately adjust their prices in response to de-registering for GST, but overtime competitive market forces drive the final sale price down.[1] A full pass-through was not assumed given the heterogenous effects of an effective business tax cut across different industries, goods and services. This may include relatively inelastic demand for particular goods and services. There is also conflicting literature on the proportion of the pass-through following a cut to the GST.
- The average income tax rate applicable to eligible business's change in profit would be 25%.

[1] See for example: Estimating VAT Pass Through | International Monetary Fund. *'The extent and timing of VAT pass through thus become empirical issues—which remain unresolved. Empirical studies report a variety of results, often finding evidence of less than full pass through, though some find evidence for full pass through or over shifting.'*

- Affected businesses that are registered for GST would lodge their business activity statement quarterly or annually. Businesses that choose to de-register for GST would likely move to lodge an instalment activity statement annually for income tax purposes.
- The cost to the ATO for processing business activity statements in hard copy paper form would remain at approximately $30 per statement[2].
  - Around 18% of business activity statements submitted to the ATO would be in hard copy paper form.
  - The volume of activity statements submitted to the ATO would grow at around 4% per year.
- The GST revenue of eligible businesses would grow at around 4% per year.

Methodology

Eligible businesses' GST transactions were extracted from de-identified business activity statement data from 2022-23.

The annual GST revenue under the current settings was estimated based on the average GST transactions (sales net of expenses) of eligible businesses from 2022-23. The financial impact of the proposal in 2025-26 was calculated by comparing the total GST revenue under the current setting and the proposal using the extracted data and the assumptions listed above. A timing factor was also applied, to determine the revenue profile and payments to the states and territories.

For the purposes of estimating the increase in income tax revenue, profitable businesses were identified by the value of the income tax instalments reported on their business activity statement. The estimated increase in income tax revenue was calculated from the net GST revenue of eligible businesses, multiplied by the proportion of eligible businesses that would de-register for GST, detailed in the assumptions listed above.

Departmental expenses were estimated by multiplying the estimated cost to the ATO of processing a business activity statement by the expected reduction in lodgements.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.[3]

Data sources

The ATO provided business activity statement data for the 2022-23 financial year.

Australian Government, 2024, *Strategic objective: C1 Client*, *Commissioner of Taxation annual report 2023-24* (31 October 2024), p. 26.

Commonwealth of Australia (2025) *Pre-election Economic and Fiscal Outlook 2025,* Commonwealth of Australia.

International Monetary Fund (2015) Estimating VAT Pass Through accessed on 28 April 2025.

[2] *Commissioner of Taxation annual report 2023-24*

[3] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Attachment A – GST threshold change – financial implications

Table A1: GST threshold change – Fiscal balance ($m)[(a)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
Revenue													
GST revenue	*-770.0*	*-800.0*	*-840.0*	*-880.0*	*-920.0*	*-960.0*	*-1,000.0*	*-1,050.0*	*-1,090.0*	*-1,140.0*	*-1,190.0*	***-3,290.0***	***-10,640.0***
Company tax revenue	*85.6*	*78.1*	*70.3*	*61.2*	*51.1*	*53.4*	*55.7*	*58.2*	*60.7*	*63.4*	*66.2*	***295.2***	***703.9***
Total – revenue	**-684.4**	**-721.9**	**-769.7**	**-818.8**	**-868.9**	**-906.6**	**-944.3**	**-991.8**	**-1,029.3**	**-1,076.6**	**-1,123.8**	**-2,994.8**	**-9,936.1**
Expenses													
Administered													
GST payments to states and territories	*580.0*	*790.0*	*830.0*	*870.0*	*910.0*	*950.0*	*990.0*	*1,040.0*	*1,080.0*	*1,130.0*	*1,180.0*	***3,070.0***	***10,350.0***
Total – administered	***580.0***	***790.0***	***830.0***	***870.0***	***910.0***	***950.0***	***990.0***	***1,040.0***	***1,080.0***	***1,130.0***	***1,180.0***	***3,070.0***	***10,350.0***
Departmental													
Departmental expense - ATO	*0.6*	*0.6*	*0.7*	*0.7*	*0.7*	*0.8*	*0.8*	*0.8*	*0.9*	*0.9*	*1.0*	***2.6***	***8.5***
Total – departmental	***0.6***	***0.6***	***0.7***	***0.7***	***0.7***	***0.8***	***0.8***	***0.8***	***0.9***	***0.9***	***1.0***	***2.6***	***8.5***
Total – expenses	**580.6**	**790.6**	**830.7**	**870.7**	**910.7**	**950.8**	**990.8**	**1,040.8**	**1,080.9**	**1,130.9**	**1,181.0**	**3,072.6**	**10,358.5**
Total (excluding PDI)	**-103.8**	**68.7**	**61.0**	**51.9**	**41.8**	**44.2**	**46.5**	**49.0**	**51.6**	**54.3**	**57.2**	**77.8**	**422.4**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

\- Indicates nil.

Table A2: GST threshold change – Underlying cash balance ($m)[(a)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
Receipts													
GST revenue	*-580.0*	*-790.0*	*-830.0*	*-870.0*	*-910.0*	*-950.0*	*-990.0*	*-1,040.0*	*-1,080.0*	*-1,130.0*	*-1,180.0*	***-3,070.0***	***-10,350.0***
Company tax revenue	*64.2*	*80.0*	*72.3*	*63.5*	*53.6*	*52.8*	*55.1*	*57.6*	*60.1*	*62.7*	*65.5*	***280.0***	***687.4***
Total – receipts	**-515.8**	**-710.0**	**-757.7**	**-806.5**	**-856.4**	**-897.2**	**-934.9**	**-982.4**	**-1,019.9**	**-1,067.3**	**-1,114.5**	**-2,790.0**	**-9,662.6**
Payments													
Administered													
GST payments to states and territories	*580.0*	*790.0*	*830.0*	*870.0*	*910.0*	*950.0*	*990.0*	*1,040.0*	*1,080.0*	*1,130.0*	*1,180.0*	***3,070.0***	***10,350.0***
Total – administered	***580.0***	***790.0***	***830.0***	***870.0***	***910.0***	***950.0***	***990.0***	***1,040.0***	***1,080.0***	***1,130.0***	***1,180.0***	***3,070.0***	***10,350.0***
Departmental													
Departmental expense - ATO	*0.6*	*0.6*	*0.7*	*0.7*	*0.7*	*0.8*	*0.8*	*0.8*	*0.9*	*0.9*	*1.0*	***2.6***	***8.5***
Total – departmental	***0.6***	***0.6***	***0.7***	***0.7***	***0.7***	***0.8***	***0.8***	***0.8***	***0.9***	***0.9***	***1.0***	***2.6***	***8.5***
Total – payments	**580.6**	**790.6**	**830.7**	**870.7**	**910.7**	**950.8**	**990.8**	**1,040.8**	**1,080.9**	**1,130.9**	**1,181.0**	**3,072.6**	**10,358.5**
Total (excluding PDI)	**64.8**	**80.6**	**73.0**	**64.2**	**54.3**	**53.6**	**55.9**	**58.4**	**61.0**	**63.6**	**66.5**	**282.6**	**695.9**

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

Table A3: GST threshold change – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
Fiscal balance	*1.4*	*4.7*	*8.3*	*11.7*	*14.9*	*18.0*	*21.2*	*24.7*	*28.6*	*32.7*	*37.2*	***26.1***	***203.4***
Underlying cash balance	*1.1*	*3.9*	*7.4*	*10.9*	*14.1*	*17.2*	*20.4*	*23.9*	*27.6*	*31.7*	*36.1*	***23.3***	***194.3***

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the table above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[4].

(b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

[4] Online budget glossary – Parliament of Australia (aph.gov.au)