



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

A NEW TAX SYSTEM (TAXATION LAWS AMENDMENT) BILL (No. 1) 1999

Second Reading

SPEECH

Tuesday, 31 August 1999

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date Tuesday, 31 August 1999
Page 9525
Questioner
Speaker Cox, David, MP

Source House
Proof No
Responder
Question No.

Mr COX (Kingston) (9.56 pm)—The A New Tax System (Taxation Laws Amendment) Bill (No. 1) 1999 will introduce the new pay-as-you-go system for business tax. It is supposed to be a tax simplification measure, and the Treasurer is very proud of it. He came into the House on 11 February and answered a dorothy dixer in question time. You can look it up on page 2508. He got the member for Grey to ask it. It was designed to give him an opportunity to show off, and he did. It was a real dog and pony show. The member for Grey asked:

Is the Treasurer aware of reforms due to be undertaken to streamline tax forms for business? If so, could the Treasurer outline how these changes will improve and simplify compliance costs for Australian businesses?

The Treasurer's answer began:

. . . not only can we improve the tax system but also we can dramatically reduce the compliance burden on business as a result of their taxation obligations.

What followed was a convincing demonstration that the Treasurer does not know the difference between compliance costs, which will grow massively under his new tax system, and the relatively minor part of the process, filling out a form and sending it to the Taxation Office. The Treasurer said:

. . . we are abolishing five existing tax and payment reporting systems: prescribed payments, PAYE, reportable payments, provisional tax and company instalments, and replacing them with one system of pay-as-you-go tax.

Then he moved on to the thing he says facilitates all of this streamlining, the GST:

Because we are introducing a broad based indirect tax which requires business to report sales and purchases on a quarterly basis, we can, from the back of that return, make it possible for a business to do all of its tax requirements on one form quarterly—one form quarterly.

The Treasurer implied that he was abolishing taxes when, in fact, pay-as-you-go changes only the reporting and payment systems. The underlying tax liability remains the same. The Treasurer went on to say:

At the moment a small company and its directors typically need to make about 16 payments to the ATO and, for some businesses, up to 32 payments in any one year. Under Labor's tax system, companies have to put in provisional tax reporting forms and get instalment notices in return. They have to put in their fringe benefits returns on different forms and get assessments. And they have to put in their company and superannuation forms on another set of compliance documents and get their returns.

While he was saying this, the Treasurer was standing at the dispatch box with a pile of tax office return books and going through them, trying to demonstrate how much paperwork was involved. He talked about wholesale sales tax:

Under Labor's wholesale sales tax, if they are in the wholesale sales tax system—

I have to say that is a pretty big `if', given that there are only about 70,000 businesses liable to remit sales tax—

the system that the Labor Party loves—they get a book like this with all their sales remittances. If they have a prescribed payment system under Labor's tax system, they get a book like this which they have to fill in. Under the PAYE system—Labor's PAYE system—

by that I assume the Treasurer meant `the PAYE system that former barristers have probably never been closely acquainted with', and he therefore thinks is some kind of curious anachronism—

they get this booklet which they have to fill in on a separate and different set of records and, if they come into the reportable payment system under Labor's tax system, they get this book as well. Up to 32 payments to the

Australian Taxation Office: that is a business's reporting requirements to the Australian Taxation Office under Labor's loved tax system.

He then pulled one piece of paper out of his pocket to emphasise his personal ownership of the new system. It was the draft version of his revolutionary quarterly PAYG return. He unfolded it, and went on:

Under the tax system which the government proposes to introduce, you will have this one page four times a year. This is a draft return—the business activity statement—which is filled in four times a year on which you put sales and purchases and on which you get your assessment for all withholding tax obligations, company taxes, reportable payments system, prescribed payments system, diesel fuel excise credit and every other requirement. That is what tax reform under the coalition will bring in benefits to small business.

It was very impressive if you did not think about it. What the Treasurer did not say or does not realise is that you still have to do the calculations and maintain the paper trail to substantiate the figures that go on that one piece of paper. That is where the compliance costs are, not in filling out the forms. That is the easy part when you have distilled the number that must go onto the return. I do not know whether the Treasurer has ever been personally responsible for employing someone or whether he has ever filled out an employer's PAYE form. It is a simple thing to do and no more complicated than putting the relevant figure on his new quarterly business activity return. Certainly there may be some advantages for business in a single form. Principal amongst these is, I expect, the extension of the running balance account arrangements so that taxpayers can receive a single statement which tallies their net tax paying or tax refund position in respect of their entire taxation liabilities.

I hope this new reporting system also provides the Australian Taxation Office with some administrative efficiencies which will reduce its running costs as well as help it provide its business clients with a better service. But the new PAYG system is not simple. The Treasurer's own explanatory memorandum is 104 pages, and the bill, including schedules, 181 pages. That is 285 pages to change the reporting arrangements, and the bill does not include recovery, procedural and evidentiary provisions for PAYG. The point is that the Treasurer claims that PAYG will reduce compliance costs, but it cannot do away with the requirements for businesses to substantiate what they are reporting. The liabilities of business taxpayers have not diminished with the new tax system. They have increased very substantially with the introduction of the GST which, as much as the Treasurer and the Prime Minister might like to avoid saying it, is the centrepiece, the whole reason, for the so-called new tax system. When he is pressed on the GST as part of the new system the Treasurer tries to portray the other elements—any improvements like the Australian business number or the abolition of provisional tax—as the benefits of the GST. But they are conceptually and in practical terms quite separate things. They could all have been achieved without a GST. In fact, the GST brings with it administrative burdens which far outweigh any of the benefits of the so-called new tax system.

The Treasurer conveniently keeps forgetting that only 70,000 businesses were collection points for the wholesale sales tax. With his GST that number will grow to something like 1.4 million. His own regulatory impact statement for the GST bills admitted that the cost to Australian business of compliance would be \$1.9 billion in an ordinary year after set-up costs. The cost to the tax office would be a further \$300 million a year. One of the things I am really looking forward to as deputy chair of the Joint Committee of Public Accounts and Audit is the inevitable efficiency audit of GST administration which will have to be done by the Auditor-General.

I recall that the Prime Minister as Treasurer in the Fraser cabinet in 1981 told the parliament that government had rejected a GST because of the huge administrative burden it would place on taxpayers and taxing authorities. Mr Howard has since disowned that comment. He says it was a ministerial statement made on behalf of the Fraser government and a decision with which he did not agree. He says that you have to look at both sides of the balance sheet before making a judgment about whether the benefits of the GST outweigh its costs. Over the years he has made many conflicting statements and been on both sides of the GST issue—at least in his public statements—depending on his own political convenience at the time. The thing that will weigh heavily upon the Prime Minister's political convenience over the next couple of years is the enormous inconvenience and cost the GST will mean, particularly for small business. If you look at the so-called new tax system as a whole, the modest benefits to business of the pay-as-you-go system will be outweighed by the compliance cost nightmare of the GST.

A couple of aspects of the measures contained in this bill deserve particular mention. Pay-as-you-go has two parts: a PAYG withholding system which replaces the existing pay-as-you-earn prescribed payments and reportable payments systems, as well as six other withholding arrangements such as non-resident and TFN

withholding; and a PAYG instalments system which will replace the current provisional tax and company tax instalment systems. The first issue is one relating to the withholding tax component of the PAYG system. The new system will see the abolition of the prescribed payments system. This covered industries including construction, road transport, car repairs, joinery, professional services in the construction industry—including architects, engineers and surveyors—and the cleaning industry. The government claims that because there are significant compliance costs with the PPS, and because if it continued to operate it would impede a smooth transition to the GST, PPS requirements will not be incorporated in the PAYG system except in three areas: payments to a worker from a labour hire firm, payments for work or services where there is a voluntary agreement to withhold part of a payment, and payments requested on an invoice that does not include quotation of an Australian business number.

Persons who were previously subject to PPS deductions will be expected to meet their obligations under the PAYG arrangements with quarterly instalments. There was already a problem of inequity with workers paid as contractors being subject to a lower rate of deduction than PAYE taxpayers. Not only were their deductions limited to 20 per cent but also they were able to claim a larger amount of work related expenses. The possibility that the company tax rate may be cut to 30 per cent will compound this inequity and increase the incentive for high income earners across a large range of occupations to operate as contractors through companies. This is a real problem both in terms of equity and in terms of protecting the revenue base. If this problem continues to be ignored by government, it has real potential to enlarge the disparity between the disposable incomes of affluent and low paid wage earners. This growing disparity will be in large part because of the operation of the tax system. What was once a progressive tax system for most people will become highly regressive as the affluent choose to opt out.

The second issue relates to the payments component of the PAYG system. Many people have applauded the proposal to abolish provisional tax because they felt provisional tax made them pay tax in advance. As the name implies, PAYE taxpayers pay their tax as they earn income. With provisional tax—if you assume income is earned evenly over the financial year—you pay nothing for the first nine months, then you pay the full value of the estimated year's income, with an adjustment when you submit your tax return. A deferral of any tax liability for nine months is offset by bringing forward the liability for the last three months.

Under PAYG, this provisional arrangement will be replaced by quarterly payments designed to extract the tax as income is earned. This is fairer. The problem for some people is they will actually be worse off. Do not listen to the Treasurer's empty rhetoric about his new tax system. It is just a group of measures put together to provide some plausible cover for bringing in the GST in the guise of reform of the whole tax system. Ask the question: who will get more out of the new tax system—the taxpayer or the government? When you look at how the small administrative benefits of PAYG are so massively outweighed by the compliance costs associated with the GST you can see that it certainly will not be the business taxpayer who will be better off.