HOUSE OF REPRESENTATIVES

A NEW TAX SYSTEM (COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS) AMENDMENT BILL 2003

Second Reading

SPEECH

Thursday, 19 February 2004

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES
Mr COX (Kingston) (10.10 am)—The A New Tax System (Commonwealth-State Financial Arrangements) Amendment Bill 2003 amends the A New Tax System (Commonwealth-State Financial Arrangements) Act 1999 to allow the Commissioner of Taxation to account for all GST refunds before distributing GST to the states, to change the date for making final determinations on the amount of GST payable to the states, and to introduce a mechanism for making adjustments to GST payments to the states. Consistent with the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations 1999, all states and territories have agreed to the amendments. Labor will support these amendments but will be moving a second reading amendment to highlight the government's treatment of the GST as a state tax and its use of the tax liability method, rather than the economic transactions method, to estimate tax collections. Both are matters on which the Auditor-General has seen fit to qualify the Commonwealth's accounts.

Currently, the act does not allow the Commissioner of Taxation to take into account refunds made under the Tourist Refund Scheme and other GST refund schemes when determining the GST collected in a year and, therefore, the amount to be paid to the states. This results in excessive GST being paid to the states. As most states are now moving off budget balancing assistance, this will begin to have a negative impact on Commonwealth revenue and was not the intention of the act. Allowing the Commissioner of Taxation to account for all GST refunds before distributing GST to the states will ensure that the amount of GST actually collected is used as the basis for distributions to the states. This amendment is designed to protect the Commonwealth's revenue, and Labor will support it.

Under the act, the commissioner must make a final determination of GST payable to the states on 10 June each year. However, ABS population statistics and ministerial determinations on hospital grants to the states are also made on 10 June each year and directly impact on the amount of GST which is payable to each of the states. This does not allow sufficient time for final determinations to be made. The bill seeks to defer the final determination of GST payable to the states for up to six days to allow the estimate to be made more accurately, and Labor will support it.

At present, the act has no mechanism to adjust payments to the states as they come off budget balancing assistance to fully account for any overestimate or underestimate of payments for GST collected in the previous financial year. When a state was on budget balancing assistance, overestimates or underestimates did not affect the Commonwealth or state bottom line, because the total figure of payments to the states was predetermined. However, as states move off budget balancing assistance, overestimates or underestimates will impact on the bottom lines of both the Commonwealth and the states. By introducing this mechanism, the bill will ensure that, in these circumstances, adjustments can be made.

This bill also provides an appropriate opportunity to deal with two GST and revenue related government accounting issues. There is a statutory requirement for the Auditor-General to conduct audits of Commonwealth departments and agencies and the consolidated financial statements of the Australian government but not the budget papers, mid-year review or financial budget outcome. Audit report No. 22 of 2003-04, which is the summary of results of the audits of the financial statements of Australian government entities for the period ended 30 June 2003, contains qualifications as to the treatment of revenue and GST. I will move a second reading amendment to highlight these qualifications and the government's record as the highest-taxing government in Australia's history, which is a direct consequence of the introduction of the GST and other measures that accompanied the new tax system.

The first qualification to the Howard government's consolidated financial statement is the use of the taxation liability method to prepare the consolidated financial statements, which is not in conformity with the relevant Australian accounting standard on financial reporting by governments, AAS 31, and which understated revenue on an accruals basis, not an underlying cash basis, by $1.8 billion in 2002-03. I will read that qualification into the Hansard. It says:
2.6 As in past years, the CFS for 2002-03 have been prepared using the taxation liability method (TLM). This method recognises taxation revenue at the time when tax payments are due and payable. The adoption of TLM does not conform with AAS 31 Financial Reporting by Governments, in that it does not recognise all taxation revenue, assets and liabilities in the period in which the underlying transactions occur.

2.7 In contrast, the Australian Taxation Office (ATO) has continued to recognise taxation revenue in its annual financial statements on an accruals basis using the economic transactions method (ETM). Under ETM, taxation revenue is recognised in the period when underlying economic activity giving rise to a taxation obligation actually takes place. As a result, the ATO reports estimates of accrual revenues in relation to taxation assessments that will be raised in the following reporting period; the amount of revenue reported takes into account estimated refunds; and/or credit amendments to which taxpayers may be entitled. This treatment is also consistent with the requirements of taxation legislation wherein a taxation liability exists prior to a formal assessment.

2.8 The ETM basis of estimating taxation revenue for accounting purposes is stronger both conceptually and on legal grounds than the TLM and, most importantly, clearly meets the requirements of AAS 31 including reliability of measurement. The TLM is aligned to modified cash accounting. This view is supported both by expert legal and accounting advice and reflects the basis on which the Commissioner for Taxation has prepared his financial statements in recent years (which were unqualified).

2.9 The use of TLM, rather than ETM, has a material effect on the CFS. The financial effects of employing the former approach are as follows:

- the operating result for the year is understated by $1.8 billion (2002: $2.8 billion); and
- there are understatements as at 30 June 2003 in accrued revenues of $31.3 billion (2002: $25.7 billion) and liabilities of $21.9 billion (2002: $18.1 billion). Reported net liabilities are overstated by $9.4 billion (2002: $7.6 billion).

2.10 The difference between TLM and ETM revenue is the result of ETM revenue being recognised at an earlier point in the taxation cycle, other things being equal. In a growing economy, ETM revenue would generally be higher than TLM revenue. For this reason, the use of TLM in the current financial year has reduced the size of the surplus reported in the Statements of Financial Performance. A qualified audit opinion was issued on the 2002-03 CFS due to the material understatement of taxation revenue associated with TLM being used as the basis for the recognition of taxation revenues.

2.11 Currently, the use of the TLM method is consistent with the treatment adopted for the 2002-03 Budget. The Departments of Finance and Administration and Treasury take the view that the ETM method does not currently provide a reliable measure of taxation revenue recognition for both budget and actual reporting purposes. However, both departments recognise that the comparable reliability of the two methods should be reviewed in future years. The Minister for Finance and Administration has been made aware of the issues involved.

The government's explanation that TLM is a more reliable measure of taxation revenue recognition for both budget and actual reporting purposes is not something that we should simply accept at face value. The ETM was used by the government 1998-99, when the change was made to TLM. The Auditor-General qualified the accounts then, as he has done now. This was just before the government introduced accrual based accounting.

ETM is a conceptually superior methodology than TLM for valuing taxation for accruals purposes. When accrual accounting was finally adopted, the Treasurer seemed very enthusiastic about focusing on the fiscal, or accruals, balance. But that was before he realised he was setting the bar a bit high for himself and went back to concentrating on underlying cash balances, because that would give him more and bigger surpluses, or smaller deficits. Why then might he have adopted accrual accounting but moved away from the best method of valuing taxation revenue? Because by this accounting change he was reducing the amount of reported revenue. It resulted in a small but material reduction in the amount of tax he had to report collecting.

While Treasury and Finance, who are subject to the dictates of the Treasurer and finance minister, have dutifully accepted these accounting changes in preparing the government's consolidated financial statement, the Commissioner of Taxation has not. He continues to prepare the tax office's own financial statement using the ETM. He does not do this just because he wants to avoid having his financial statements qualified by the Auditor-General; he does it because it better reflects the value of the taxation receipts he is charged with collecting. Why does the government not choose to see it the same way?

The departure from longstanding accounting practices and standards was part of a pattern to reduce the amount of revenue the government would report collecting. There was also a qualification of the consolidated financial statements of 30 June 1999, which reported another change of accounting policy:
1.25 The Commonwealth collects a number of revenue replacement taxes as an agent for the States and Territories. Reflecting the Commonwealth's agency role in the collection of these taxes, they have not been recognised in this financial report. Under the previous accounting policy, the revenue replacement payments were reported on a gross basis. The relevant amounts for 1997-98 and 1998-99 are outlined in Note 41. The change has no impact upon the consolidated operating result.

1.26 There have been no other material changes in accounting policies during the reporting period.

This was a prelude to the non-reporting of GST revenues when the new tax system was brought in. That is the second qualification to the Howard government's consolidated financial statement this year. The GST has not been recognised as revenue of the Australian government, and so revenues have been understated by $31.8 billion and expenses by $30.8 billion. I will read the Auditor-General's qualification of the CFS on that, which states:

2.12 As in the previous year, the CFS for 2002-2003 have been prepared without recognising the GST as a revenue of the Australian Government.

2.13 The Australian Government's reason for excluding GST and associated grant payments to the States is based on the view that the GST is a State tax collected by the Australian Government in an agency capacity, in accordance with the intent of the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations.

2.14 From an accounting perspective, the GST is a revenue of the Australian Government. It is imposed under Australian Government legislation and the Australian Government therefore controls the revenue raised. The Government's decision to enter into an agreement to pass the GST revenue collected to the States is a separate transaction conducted to meet its particular objectives.

2.15 The Australian Government's control of the GST revenue is also illustrated by the fact that the distribution of GST revenue is based on population share adjusted by a relativity factor embodying per capita financial needs. The relativity factor is determined by the Australian Government Treasurer based on advice given by the Commonwealth Grants Commission and following consultation with the States and Territories. Thus, the actual distribution could only ever coincidentally reflect the amount of tax collected within the jurisdictions of the beneficiary governments, as there is no direct connection between the tax revenue arising in, and the tax revenue returned to, a particular State or Territory.

2.16 The financial effects of not recognising the GST as a revenue of the Australian Government are to understate the net result for the period and to overstate net liabilities as at period end. The financial effects of not recognising the GST, calculated by reference to the amounts that would have been recognised had all other tax revenue been recognised on an accrual basis, are as follows:

- the consolidated statement of financial performance for the 2002-2003 year involves an understatement of revenues by $31.8 billion (2002: $27.6 billion), expenses by $30.8 billion (2002: $26.9 billion) and hence the net result by $1.0 billion (2002: $0.7 billion);

- the consolidated statement of financial position as at 30 June 2003 involves an understatement of accrued revenues by $5.7 billion (2002: $4.7 billion) and liabilities by $0.4 billion (2002: $0.3 billion), and hence an overstatement of net liabilities by $5.3 billion (2002: $4.4 billion); and

- the consolidated statement of cash flows, total operating cash inflows and outflows are each understated by $25.4 billion (2002: $23.1 billion) (that is a difference which takes account of GST-related cash flows within the Australian Government).

2.17 This treatment of GST in the CFS is contrary to the treatment adopted in the financial statements of the administering agencies. The ATO has reported the GST as an Australian Government tax and the associated payments to the States and Territories are recognised by the Department of the Treasury as grant expenses. In addition, the Australian Bureau of Statistics treats GST as a tax of the Australian Government for statistical purposes.

2.18 For the reasons set out above, the GST should be recognised as revenue of the Australian Government in the CFS. The CFS audit opinion includes a qualification in relation to the understatement of taxation revenue caused by the omission of GST from the CFS.

So we have a situation in which a government is systematically cooking its books to understate the amount of tax revenue that it is taking in and is systematically cooking its books to underestimate the amount of outlays—the amount of government spending—that it is making.

Regarding those qualifications, if the Auditor-General audited the Commonwealth's final budget outcome document, it would result in that document also being qualified and it then explicitly revealing that the Howard government is hiding $31.8 billion of Commonwealth taxation revenue and understating its expenses by $30.8
billion. The consequence of that is that the Commonwealth's books are being used to hide an increase that has occurred in taxation revenue since this government took office which, as a proportion of GDP, has been 2.4 per cent. That is, in current money terms, the hiding of $19 billion of revenue.

The previous Labor government used to do all of the things that the current government does—that is, Commonwealth own purpose outlays and payments to the states—using an amount of tax that was equivalent to 23 per cent of GDP. This government, to provide for own purpose outlays and to make payments to the states, requires taxation of 25.4 per cent of GDP. Therefore, I move:

That all words after “That” be omitted with a view to substituting the following words:

“while not declining to give the bill a second reading, the House:

(1) notes that while this bill addresses a number of deficiencies in the treatment of Commonwealth revenue from the GST and its hypothecation as grants to the States there remain a number of issues in relation to the treatment of revenue and GST in particular in the Australian Government accounts that have resulted in the Auditor-General providing qualifications to the Consolidated Financial Statements for the 2002-2003 financial year;

(2) notes that

(a) because of the use of the Taxation Liabilities Method to value revenue, assets and liabilities—that method not being in conformity with the relevant Australian Accounting Standard, and as a consequence—operating results are understated by $1.8b on an accrual basis, and

(b) the failure to recognise GST as revenue has caused revenues to be understated by $31.8b and expenses by $30.8b in an attempt to hide the Howard Government's record as the biggest taxing government in Australia's history, and

(3) requires the Government to:

(a) prepare proper and accurate accounts in conformity with Australian Accounting Standards;

(b) recognise GST as revenue of the Australian Government in accordance with those accounting standards; and

(c) prepare the budget papers, mid-year review and budget outcome documents in accordance with those standards and have them audited by the Auditor-General”.

When government members come into the House to vote on this amendment, I will be very interested to see whether they are prepared to vote against the government preparing proper and accurate accounts in accordance with Australian accounting standards. I rather suspect that, unfortunately, they will. It is a terrible indictment of this government that, for a number of years, we have gone with the government ignoring the qualifications that the Auditor-General has placed on the Commonwealth financial statements.

The government has a very poor track record on accounting standards and on transparency. It pretends to be interested in the governance of government agencies, and in fact has appointed John Uhrig to provide it with advice on that subject. When he was appointed I drew the issue to his attention and said that it was probably a bit difficult to give advice to a government that, for a start, has a track record of ignoring the advice of its own auditor. The government has not yet responded to John's report, which he has given it. The government has not released that report. But when government members return to this chamber to vote in the division that we are going to call and to vote against the notion that the government has an obligation to prepare proper and fair accounts in accordance with relevant Australian accounting standards, we will see why the government is having difficulty coming to grips with notions of governance for its own agencies and for itself.

The DEPUTY SPEAKER (Mr Jenkins)—Is the amendment seconded?

Mr McClelland—I second the amendment and reserve my right to speak.