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
Dr Emerson, Craig, MP

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The A New Tax System (Commonwealth-State Financial Arrangements) Amendment Bill 2003 amends the A New Tax System (Commonwealth-State Financial Arrangements) Act 1999 in three ways. First, the bill allows the tax commissioner to account for all GST refunds before disbursing GST revenue to the states. This measure is fair enough; the original legislation did not allow for GST refunds to be taken into account in working out what the Commonwealth should give to the states in GST revenue.

A clear example of this is the tourist refund scheme. Under that scheme, tourists taking Australian purchases overseas are able to claim a refund of GST paid. In the whole scheme of things that is not a huge amount of money, but it does mean that the Commonwealth has been disbursing to the states slightly more revenue than the net GST it has been collecting, because the GST it has been collecting is obviously gross GST minus GST refunds. That is a sensible measure, which has been agreed to by the states, and we support it.

Second, the bill defers financial determinations on the amount of GST payable to the states by the grand total of up to six days. It is not a massive shift in the date by which those determinations need to be made, but it is to accommodate data releases which are very relevant to determining the revenue each state gets. It is important that the Commonwealth has all the necessary data at its disposal, particularly population statistics that I believe come out on 10 June, which under the current legislation is the date by which the determinations have to be made. This amendment would shift that 10 June date by up to six days. This is not a significant amendment in terms of imposing burdens on anyone, but it certainly does allow the Commonwealth to make its determinations with all of the relevant information at its disposal. Labor, being a very reasonable party, will support reasonable legislation, so we support this measure.

Third, the bill introduces a mechanism for residual budget balancing assistance adjustments. When the states come off their budget balancing assistance, any overestimates or underestimates of GST payments that are payable will affect the budget bottom lines of the Commonwealth and the states. When budget balancing assistance is payable at present it is picked up in swings and roundabouts. The more GST revenue goes to a state, the less budget balancing assistance is required, and so there is effectively a way of adjusting. But once the states go into a net positive revenue situation—that is, when the budget balancing assistance arrangements are no longer necessary—then this amendment becomes important in allowing overestimates or underestimates to be taken into account and in keeping the true intent of the intergovernmental agreement. Again, the states support this particular amendment as being reasonable, and being a reasonable party the federal Labor Party also supports it.

We also support the second reading amendment that has been moved by the member for Kingston. The essence of the second reading amendment is accountability—proper accounting so that the Australian public knows exactly what is going on in the budget. It is ironic. George Orwell has been at it again. The government some time ago brought down the Charter of Budget Honesty. Under the veil—without intentional reference to the Minister for Trade now at the table—of the Charter of Budget Honesty, I regret to inform the parliament that the government has not been full and frank with the Australian people and has managed to concoct a few devices for disguising the true state of the accounts.

There is a very political reason behind this. This is not just a pointy headed academic argument or a debate amongst accountants; the political reason is that the government wishes to disguise the true size of the revenue that it collects. In doing so it wants to disguise most particularly the amount of GST revenue that it collects, to pretend that it is not the highest taxing government in Australia's history when in fact it is.

The second reading amendment addresses the Auditor-General's Audit Report No. 22 of 2003-04, which contains qualifications relating to the treatment of revenue from GST. It would be important to a business owner if they produced their accounts at the end of the year and the auditor had a look at them and said, 'I can't really sign off on these; I'll have to put some qualifications in for the financial markets and the stock market.' People get pretty concerned about auditors putting qualifications in the accounts of a business. Indeed, a sporting association or any
other community group would be pretty concerned about that, and so the Australian public should be concerned about the fact that the Auditor-General attaches a qualification in relation to the government's treatment of GST.

For example, the way that the government treat GST understates revenue on an accruals basis by $1.8 billion. But, even more significantly, the Howard government, in the most farcical way, do not recognise GST as revenue of the Commonwealth government. It is pretty astonishing. They would be the only people in Australia who continue with this ridiculous assertion that the GST is not a Commonwealth tax. They might as well drop the pretence, because everyone in Australia knows that the Howard government collect the GST and that now, under this legislation, they will adjust for any GST refunds that have been given—we support that—and then give that money to the states.

The Howard government have been saying, 'The states have got this terrific bonanza. The Commonwealth collects $31.8 billion in GST revenue and we now give it to the states, so they're absolutely awash with money.' That is in fact not true. The Commonwealth have neglected routinely to point out that on the day that the GST was passed the Commonwealth abolished untied grants to the states of $18 billion. You do not hear them talking about the fact that they abolished those grants. I understand why they did, but they do not draw that to the public’s attention. This is one area where the story is not as pretty as the Howard government might like us to believe.

The other area is indirect taxes. Pre-election, pre-1998, the Howard government said that the GST would result in the abolition of 10 other indirect taxes. That is untrue. Many of those taxes are still in place. One of the taxes that was supposed to go—I think it did in the end—was a small bed tax that applied in the Northern Territory. They regarded that as a great achievement, abolishing one of the 10 taxes that they said would go. The fact is many of those taxes are still in force.

The net effect of this is that the states are only coming now, one by one, to a situation where they are in a revenue neutral position. That is, these budget balancing assistance payments which were meant to top up the states for the financial position that they would have been in in the absence of the GST are now only coming to an end as the states move into a revenue neutral position. The A New Tax System was brought in in the year 2000. We are now in 2004. The states have been waiting until around now—and some will still be waiting—just to be in a revenue neutral position. Let us not get carried away over government members talking about how the states are awash with GST revenue because untied grants to the states were abolished and $18 billion dollars out of the $31.8 billion went on the first day. The states have not been in a revenue neutral position until around now. So there is not a lot of money sloshing around there.

But the great farce of the whole ongoing GST debate as far as the Commonwealth government are concerned is that they look you in the eye—and they are pretty good at this—and say, 'The GST is not a Commonwealth tax.' Every person in Australia, other than members of the parliamentary Liberal Party and The Nationals, knows that the GST is a Commonwealth tax. Why is the government pretending otherwise? The answer is because they are trying to disguise this reality: that the Howard government are the highest taxing, highest spending government in Australia's history.

Each time that the budget comes down, sensible people like the member for Kingston, the shadow Treasurer and others have to go into the budget lockup, add back in the GST and make the necessary adjustments so we can show the people of Australia what the true state of the books is. If this government were adopting proper financial accounting standards and were serious about the Charter of Budget Honesty, those budget statements would show the true state of the books, but they do not. It is time for this rort and this misrepresentation to end.

At the time of the GST's introduction, I and others were warning that in addition to abolishing the untied grants to the states the Commonwealth would start fiddling with the tied grants to the states. Of course, the reaction was: 'We wouldn't do that.' That is exactly what they have done. The warning that I issued at the time was that, notwithstanding the intergovernmental agreement, the Commonwealth would allow inflation to erode the real value of tied grants to the states so the Commonwealth would effectively be clawing back the GST that it would be giving to the states. That has come to pass in a number of areas, but most spectacularly in the area of health funding.

In just the last budget the Commonwealth offered a package of financial assistance to the states under the Australian health care agreements—that is, hospital funding—and, when it realised how much trouble it was in with respect to Medicare, it took back $1 billion of that. The budget papers show that that is exactly what the government did. It took back $1 billion of the money that it was going to give to the states—clawed it back.
—to fund its failed A Fairer Medicare package, which even the government abandoned and replaced with the 'MedicareMinus' package. That money is now being used to fund the 'MedicareMinus' package.

Overall, as a result of that roundabout, there is no increase in the funding that the government was originally going to give to the states. It clawed back $1 billion of that and said: 'Look at us. We are terrific people. We now have the "MedicareMinus" package.' But that has come straight out of hospital funding. It is exactly the sort of manipulation that we were warning about some three years ago and—surprise, surprise—it has come to pass. This government has form. The government is saying its 'MedicareMinus' package should go through the Senate, and $1 billion of it has come straight out of hospital funding to the states. That is why the states objected so strongly.

Dr Emerson—The member for Mitchell is saying that this is not true. But this is just the standard Liberal Party technique of denying that the government short-changed the states by $1 billion and that it took that out of the budget that it had stuck it into, as the documents show and as the member for Mitchell would know if he read the budget statements. It took out that $1 billion to fund the 'MedicareMinus' package. The Australian people know that, because the state and territory governments have been conveying to the people of each and every state and territory that they have been short-changed on hospital funding. That is exactly what we warned about—that the Commonwealth, the Howard government, would breach the spirit, if not the law, of the intergovernmental agreement and make sure that it started clawing back the tied grants to the states. It has been doing that in other areas but of course the most spectacular area is in relation to Medicare and hospital funding.

The GST was supposed to be a streamlined new tax system for a new century. We said at that time that this would not be a streamlined new tax system for a new century but a very complicated tax system. You might recall the government saying, 'We have to get rid of this wholesale sales tax because it is very complicated, and we are going to replace it with this simplified GST, a streamlined new tax system for a new century.' The Prime Minister was asked by Alan Jones on 14 August 1998 whether this streamlined new tax system for a new century would result in a reduction in the size of the Income Tax Act—whether this simple GST would mean that the Income Tax Act could be simplified. His answer was:

Yes it will because some of the anti avoidance measures which take up a lot of pages are going to disappear. I don't know by how many pages but it will be some reduction I understand.

There has of course been no reduction in the size of the Income Tax Act. The Income Tax Act has exploded under this government. The Income Tax Act has doubled in volume, doubled in size, under a government that set out promising to cut red tape by 50 per cent. The Treasurer has been running around the country saying: 'Look at my streamlined new tax system for a new century. Look at how simple it is going to be.' In the first year of the GST, 80,000 private binding rulings were issued to explain to taxpayers how the GST would affect their particular circumstances. I have a question on the Notice Paper to find out how many more private binding rulings have been issued since the introduction of the GST, which was supposed to be simple and readily understood.

Labor certainly understands that the GST is anything but a simple tax. In fact, there are respectable estimates that for every dollar of net GST collected—which then goes to the states in that $31.8 billion—$6 is collected and $5 is refunded through input tax credits. This is supposed to be an efficient tax, a simple tax, yet you have to collect $6 to get $1. That is what the government is doing. Rather than simplifying the tax system, the government has made it ever more complex. In response to this, Labor has developed its own policy on GST for very small businesses, which it has called the ratio method, in which the historical ratio of GST to input tax credits is calculated and the tax office simply issues that ratio in subsequent periods. A small business would simply be able to multiply GST sales by the ratio to calculate its GST liability and then send it off to the tax office. That would be it. There would be no reconciliation at the end of the quarter or at the end of the year; it would just be a simple multiplication.

What would the ratio be? It would ordinarily be somewhere between zero and 10 per cent. If you had no input tax credits whatsoever such that everything you did was totally value-added, it would be 10 per cent—that would be very unusual—and in other circumstances, at the other extreme, it would be zero per cent. But more readily it would be somewhere between zero and 10 per cent. That ratio is then issued by the tax office and multiplied by GST sales. And there you have it: Bob's your uncle, you have finished your work and you can get on with your life of being a small business person and being a parent, balancing work and family life and doing a little bit more work to bolster the viability of your small business instead of being an unpaid accountant and tax collector for the Howard government. The government talks about small business but it has imposed a very substantial burden on small business in this country.
There is great merit in our ratio method. The government ought to adopt it. There is a private member's bill in this parliament, and the government should pick up the ratio method from it. I well remember that the member for Groom, when he was the small business minister, got a briefing note prepared by his department and went scurrying around the press gallery saying, 'This is what my department says about this ratio method.' Of course, he did not underline the bits where the department said, 'This is a pretty good idea; you ought to have a look at it.' The government ought to have a look at it—and, if it were serious about taking the paperwork burden off small business, it would do that.

It promised to cut red tape by 50 per cent. It has increased red tape; it has massively increased the burden. It is not a simplified tax system; it is a very complex tax system and a big burden on small business. Labor has very good policies in the public domain and has had for about three years now. The government ought to pick up those policies and simplify the GST. The government ought to come clean on its shonky accounting methods and admit, finally, that the GST is a federal tax and that this is the highest taxing, highest spending government in Australia's history. (Time expired)