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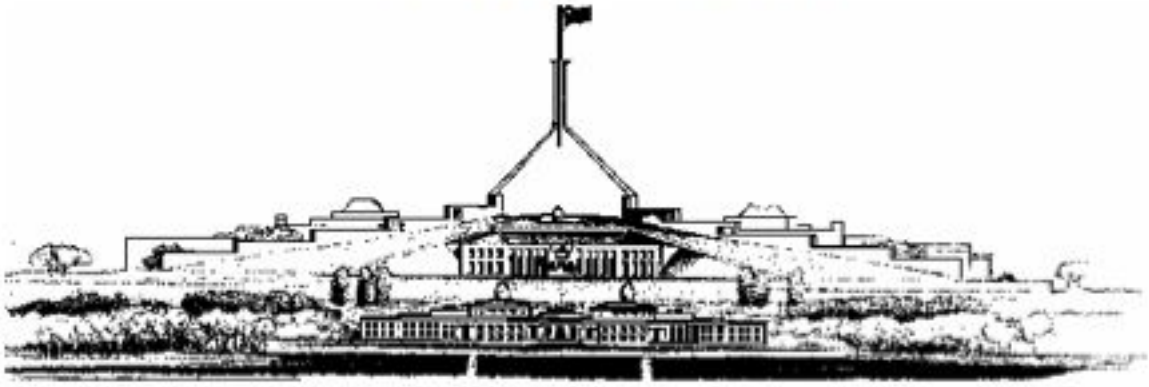

HOUSE OF REPRESENTATIVES

BILLS

Tax and Superannuation Laws Amendment (2015 Measures No. 2) Bill 2015

Second Reading

SPEECH

Wednesday, 19 August 2015

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date	Wednesday, 19 August 2015	**Source**	House
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Questioner		**Responder**	
Speaker	Leigh, Andrew, MP	**Question No.**	

Dr LEIGH (Fraser) (11:52): I say at the outset that the opposition supports this bill, which contains four schedules. Schedules 1, 3 and 4 are non-controversial, technical changes with no fiscal impact. Schedule 1 provides tax relief for certain mining arrangements. Schedule 3 deals with income tax look-through treatment for instalment warrants and similar arrangements. Schedule 4 deals with certain categories of company losses.

Schedule 2 is the material schedule of the bill; it increases the statutory effective life of in-house software from four years to five years. This means that deductions will be claimed over five years for expenditure allocated to software development pools. The measure is recognition of the fact that software developed in-house has a longer effective life now than it had in the past. The saving is not inconsiderable—$420 million over the forward estimates.

It is a measure of Labor's constructive and bipartisan approach to budget savings measures that we support this bill. We believe it meets the key tests of being equitable and efficient by aligning the statutory life of in-house software with its practical life span. I would, however, contrast Labor's constructive approach to this particular measure with the approach that the coalition took in 2008, when the effective life of in-house software was last changed. In the 2008 budget Treasurer Swan recognised that the effective life of in-house software had risen and moved that it be extended from 2½ years to four years. The member for Cook, Scott Morrison, referred to that move as 'a completely fruitless and pointless exercise' and 'a grab for tax'. In 2008 the coalition displayed a lack of bipartisanship when facing exactly the same measure we are considering today. They chose the cheap political grab over sensible and constructive support.

The opposition will not be doing that today. We recognise that the depreciation of in-house software ought to reflect its practical life span; we recognise that the practical life span of in-house software has increased. Software is now doing its job for longer in the real world, and the tax laws need to keep up with that. We will not be suggesting, as the coalition did in 2008, that this is 'a completely fruitless and pointless exercise' and 'a grab for tax'. We do recognise that in-house software development is an extremely important part of innovation in a modern economy. It is supported through the tax deduction for software development itself and through the research and development tax credit.

In this vein, the significant cuts to the research and development tax credit contained in the Tax and Superannuation Laws Amendment (2015 Measures No. 3) Bill puts in jeopardy the $9.3 billion of in-house software development carried out by companies with turnovers larger than $20 billion. The Parliamentary Library has estimated that research and development spending will be 0.56 per cent of GDP in 2014-15. That is the equal lowest level since records began in 1978-79. It is hardly surprising, given that this is a government that came to office without a science minister, a government which has been slashing jobs from the CSIRO and a government which has been cutting the research and development tax credit. It is hard to imagine how Australia goes forward as a strong and innovative nation when we have a government which is so anti-science—shutting down the Climate Change Authority, cutting back on funding to the CSIRO and the research and development credit. Many on this side of the parliament have a passion for research and development, for the development of new firms and for the ability of existing firms to innovate. But you do not get any of that when you cut back on research and development assistance.

This is a tax reform measure and so it is appropriate that we look at the government's overall record on tax. If we look at tax as a share of GDP and at tax receipts, we see that tax receipts are predicted to rise from 22.3 per cent of GDP in the current fiscal year up to 23.4 per cent of GDP at the end of the forward estimates. That puts tax considerably higher than it was under Labor. During the Labor period of office, the tax share of GDP sat around 20 to 21 per cent. So Australians will find it strange when they hear Mr Abbott and Mr Hockey bellowing about this being a low-taxing government. All you have to do is look at the budget papers—I am looking at Budget Statement No. 1, pages 10 to 12 and 10 to 13—to see that they give the lie to the suggestion that this is a low-taxing government. This is a government which aims to have a tax share of GDP considerably higher

than Labor did. The last budget brought down 17 new or increased taxes, and when this government brings down taxes almost invariably they are taxes that hit low- and middle-income Australians.

We on this side of the House believe in serious tax reform. That is why during the first half of this parliamentary term we brought out a policy on fair taxation and multinationals—a move unprecedented, I believe, since the 1990 to 1993 parliamentary term. It is a policy that will raise over $7 billion over the course of the decade by allowing more careful treatment of hybrid instruments—by allowing the Australian Taxation Office to look at how other tax offices deal with hybrid instruments, rather than being blind to the tax treatment of hybrid instruments in other jurisdictions.

Labor's multinational tax package says that rather than allowing companies to pick their favourite debt deduction rule, all companies should have to use the debt deduction rule that makes economic sense. That is the worldwide gearing ratio, a rule that, put simply, says that if you owe a lot of money to the banks you can deduct a lot of money for your Australian operation. If you do not owe much to the banks you cannot claim large debt deductions for your Australian operation. It is economically sensible, it is grounded in work that the OECD has been doing in their Action Plan on Base Erosion and Profit Shifting, and it adds to the budget bottom line to the tune of $7 billion over the course of the next decade.

This year Labor has also announced a package curtailing excessive superannuation tax concessions. The government's own Financial System Inquiry found that 10 per cent of Australians receive 38 per cent of Australia's superannuation tax concessions; more than the bottom 70 per cent of Australians receive. Indeed, if we go further up the distribution we know that the top one per cent of Australians get more superannuation tax concessions than the bottom 40 per cent. This is why the government's own Treasury secretary, John Fraser, has said that we need a rethink of superannuation tax concessions. This recognises that the superannuation tax concessions are the fastest growing tax concessions in the budget.

As the shadow Treasurer has pointed out, our superannuation tax concessions are not fair and they are not sustainable. The forgone budget revenue from superannuation tax concessions almost doubles over the next four years, from $11.8 billion in 2014-15 to $22.4 billion in 2017-18. The forgone budget revenue, as a result of the superannuation tax concession, will soon exceed the total expenditure on the pension. The government's own tax white paper, the curiously ungrammatical *Re:think* tax white paper, suggests that superannuation tax concessions are an area that ought to be looked at. The government has eschewed that recommendation, saying instead that they will not change superannuation. When they say that, they are not saying that they will not take away the low income superannuation contribution, which benefits three million low-paid Australians, two-thirds of whom are women. No, they are willing to scrap that! They do not mean that they will not continue to increase the universal superannuation contributions, frozen at 9½ per cent. No, they intend to do that, despite the fact that they themselves benefit, as those who have served as parliamentarians in the House since 2004, receive a 15.4 per cent superannuation contribution. Nine and a half per cent is apparently good enough for the low paid—15 per cent is good enough for those who serve in here. We on the Labor side of the House are deeply concerned that the government is not willing to tackle the unfair and unsustainable superannuation tax concessions, as so many business groups, the head of the Treasury, and the government's own tax white paper have said.

The government's approach on multinational taxation has been to try to shield big companies from legitimate scrutiny. Extraordinarily, the Treasurer was out yesterday saying that we did not need the Senate economics inquiry into multinational tax, because the government was already requiring firms with a total income over $100 million to report total income, taxable income and tax paid. It might have helped if he had also told listeners to that program that that was the measure he was trying to wind back. That is right. It is such good measure that Mr Hockey is trying to shield almost half the firms that are affected by it.

Multinational taxation is a core part of the taxation reform agenda, which we are discussing in this bill today. Unless the government is serious about tax transparency, unless they are willing to take on Labor's sensible measures on multinational taxation, we are not going to get far with a constructive bipartisan debate that will add to the budget bottom line. The government's own multinational tax measures are so woolly that Treasury cannot cost them. The bits that can be costed raise a desultory $30 million, less than 1/60th of what Labor's package raises. Fundamentally, that is because this government is not serious about cracking down on multinational profit shifting.

When Labor brought a sensible multinational profit shifting package to the parliament in 2013—under the leadership of Wayne Swan and David Bradbury, who a couple of years later received the international tax award given to the 50 most serious tax reformers around the globe—the coalition voted against it. When they came to office the coalition failed to enact $1.1 billion of that package, effectively handing $1 billion back to multinationals. When Labor came up with our package, I have to be honest, given all the government's complaining about the budget emergencies I fully expected the them to embrace part of it. I thought, 'Well, that is a pity, we will not get to see a Labor government embrace it.' But, ultimately, what you want in this place is for your good ideas to be taken up. We were extremely surprised when the government decided instead to back the big end of town. Well, maybe we were not all that surprised after all, because, let's face it, they do have a bit of a track record on this. If on the one hand say that there is a budget emergency and on the other hand you are doling out a billion dollars to multinationals, it does not seem to fit.

Many Australians will be concerned about the sacking of 1,100 compliance staff in the tax office in the past year alone, including 270 from the specific section that investigates private companies. Labor's additional investments in the tax office's compliance program continue to provide dividends in the form of increased revenue for the tax office, significantly exceeding, in increased revenue, what we spend on it. That program is slated to come to an end, and the government has no plans to continue it. Unfortunately, what plan they have is to increase the goods and services tax. Prior to the last election Mr Abbott ruled out any GST increase 33 times. At one point he said:

Let me be as categorical as I can, the GST will not change. Full stop. End of story.

I know that this is going to make some members of the House fall off their chairs, but Mr Abbott does not seem to have kept that promise. When Mike Baird called for a rise in the GST from 10 to 15 per cent, the Prime Minister said that was a 'very sensible proposal.' So we have gone from the GST won't change, full stop, end of story in 2013 to increasing the GST by 50 per cent being a very sensible proposal. This increase in the GST seems to be entirely at odds with what is in the government's own *Re:think* tax paper. Chart 2.9 on page 25 is a very useful graph showing the government's best estimates of the efficiency cost of various taxes. That is an important economic question—you need to know how many cents of economic activity are destroyed when you raise a dollar of revenue. We know that state taxes such as insurance taxes and stamp duties have a very big drag on economic activity, and we know other taxes such as land taxes have a very small drag on economic activity.

The question is where do income taxes and GST sit on the spectrum. Thanks to the tax white paper we now know what the government thinks about that question. The government's own tax white paper estimates that when you raise a dollar of revenue from income tax you destroy about 20c of economic activity, and for the GST you destroy about 20c worth of economic activity. That is right—the government's own tax white paper says that the GST is about as efficient, or about as inefficient, as the income tax. So for all this talk about the GST being a fabulously efficient tax and income taxes being awfully inefficient, that is not what you find from the evidence of the best boffins in Treasury, signed off by the Treasurer.

So the GST is not more efficient than the income tax, but it is far less equitable. An article by Greg Jericho in *The Guardian* on 30 October 2014 compared how much different income quintiles spend on food. He found that the bottom quintile spend 18 per cent on food and the top quintile spend five per cent on food. We know that is true for other areas of expenditure which are fully captured by a GST. Across just about any category of spending you want, the poor are spending more than the rich. So the GST is inequitable and it is not particularly efficient either. The member for Wannon wants the base broadened—he wants the GST expanded to food, health care and education; he believes the GST should apply to school fees and to bananas, to dentists and to wheelchairs. If that were to be the case, we know from the analysis that is presented by Mr Jericho that in particular putting the GST on fresh food would have an adverse impact on the bottom quintile. The top quintile save about a quarter of their incomes; the bottom quintile spend all of their incomes. Expenditure taxes tend to hit the poor hardest, and an expansion of the base or an increase in the rate would be a regressive tax reform.

The tax reform conversation is important. A national reform summit has been pulled together by *The Australian* newspaper and *The Australian Financial Review*, and I have been struck in speaking to some of the participants and in looking at some of the early papers coming out that conversations around superannuation tax concessions are in the mix. The Prime Minister might be ruling out curtailing the fastest growing tax concession in the budget, but sensible business groups are not ruling this out. The Prime Minister might be ruling out doing anything on negative gearing, but sensible business groups are calling for a conversation around negative gearing. This sensible and mature conversation the Prime Minister calls for seems only to apply to his favoured policy of

increasing the GST. Certainly it did not apply when we were having conversations about emissions trading schemes in Australia a couple of years ago. Going out and standing in front of rallies with offensive signs is hardly an indication of a sensible and mature conversation. Labor is committed to that sensible and mature conversation, very much in accord with the Hawke-Keating legacy.

I do notice there has been a bit of conversation this week about the degree of bipartisanship the Hawke-Keating governments enjoyed. An opinion piece by John Howard in the *Financial Review* on Monday suggested that the bulk of those reforms enjoyed bipartisan support. Paul Keating begged to differ, pointing out a reform or two not backed by the then coalition. Let me go through only a partial list of those tax reforms and other reforms of the eighties and nineties which were not backed in. Medicare was fought by the coalition, native title was fought by the coalition, the petroleum resource rent tax was fought by the coalition, the HECS scheme was fought by the coalition, capital gains tax was fought by the coalition, the assets testing of the pension was fought by the coalition, the fringe benefits tax was opposed by the coalition. They like to come in here and talk about the legacy of the Hawke and Keating governments; they love to say they were halcyon days when Labor believed in reform and the coalition just backed it in. The fact is that so many of the reforms on which Australia has been built —from universal superannuation to Medicare—were fought tooth and nail by the Liberal and National parties. They have to be dragged kicking and screaming to support good and sensible reform.

By contrast, we on this side of the House are today standing up and supporting the kind of reform that was opposed by Scott Morrison when he was standing at this very dispatch box in 2008. When we see sensible reform we back it in. When the coalition sees an opportunity to score a tagline, a headline, a cheap shot they will always go for it no matter whether it is sensible reform. Labor is going to be supporting this bill and I look forward to that sensible, mature conversation about tax reform that the Prime Minister seems to be praying for but is unable to do his part to deliver. I move the following amendment to the motion that the bill be now read a second time:

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

“whilst not declining to give the bill a second reading, the House condemns the Government’s failure to ensure multinational corporations pay their fair share of tax.”

The DEPUTY SPEAKER (Mr Ewen Jones): Is the amendment seconded?

Mr Perrett: Yes.

The DEPUTY SPEAKER: I thank the member for Moreton. The original question was that this bill be now read a second time. To this the honourable member for Fraser has moved as an amendment that all the words after 'That' be omitted with a view to substituting other words. If it suits the House, I will state the question in the form 'that the amendment be agreed to'. The question is that the amendment be agreed to.