THE SENATE

A NEW TAX SYSTEM (GOODS AND SERVICES TAX) BILL 1998

A NEW TAX SYSTEM (GOODS AND SERVICES TAX IMPOSITION—EXCISE) BILL 1998

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A NEW TAX SYSTEM (WINE EQUALISATION TAX IMPOSITION—EXCISE) BILL 1999
SECOND READING

SPEECH

Tuesday, 20 April 1999

BY AUTHORITY OF THE SENATE
Senator SHERRY (TAS) (9.31 am)—We are considering in the second reading debate the Liberals' tax package, which contains two main elements: a goods and services tax, replacing the current wholesale sales tax and nine other taxes; and, secondly, reductions in income tax. There has been a considerable range of claims and assertions made by the Liberals to support their radical reforms.

Amongst the claims that have been made are claims that the tax system is broken and inefficient and that consequently modernisation is required—which, it is argued, will result in improved efficiency and simplicity. It is claimed that economic growth will be boosted, that jobs will increase and that exports will be stimulated. It is claimed that investment and savings will improve and also that there will be greater incentive. These are what they are: claims and assertions. They are a mixture of half-truths, gross generalisations and political rhetoric—glib assertions with little or no supporting evidence or research. They are simply not fact.

Let us firstly look at the proposed reductions in income tax. Most importantly, the reductions in income tax are funded by the budget surplus. They are not dependent upon the introduction of a goods and services tax. Australians can have the income tax cuts tomorrow without a goods and services tax. Regrettably, I do not think this is widely understood in the community.

In themselves the income tax cuts are inherently unfair: they are biased towards higher income earners. Let us look at a couple of examples drawn from what is referred to as the government’s ‘ANTS package’. Take a dual income family, where each adult is contributing equally to the family income, with two dependent children. If that dual income family has an income of $25,000 per year, there is a tax reduction of $17.65, or 3.1 per cent. For the same family with a dual income of $50,000 per year, there is a tax reduction of 1.8 per cent. A dual income family with income of $75,000 per year gets a tax reduction of $61 per week, or 5.6 per cent.

Take a single person earning $25,000 per year. They will get a tax reduction of $5.10 per week, or 1.3 per cent. A single person earning $75,000 per year will have a tax reduction of $68 per week, or 7.3 per cent. A single income family with two dependent children and earnings of $25,000 per year will have a tax reduction of $16 per week, or three per cent. A single income family with two dependent children and earnings of $75,000 per year will receive a tax reduction of $106 per week, or 10.9 per cent.

The irrefutable fact is that the top 20 per cent of income earners in this country will receive over half of the proposed income tax cuts. Those figures speak for themselves. The income tax cuts favour the rich in our society—and, of course, lower and middle income earners are left to tackle the problems of a goods and services tax. The Liberals call this ‘incentive’. But, in reality, the income tax cuts squash low and middle income Australians, particularly with the Liberals' approach to industrial relations. The sad reality is that it is impossible for the vast majority of Australians who earn below average weekly earnings—currently about $36,000 per year—to reach $75,000 per year, which is where the maximum benefit is received under the Liberals' income tax cuts.

I now turn to the goods and services tax. Firstly, we have to ask ourselves these questions: is the current tax system broken? Is it bankrupt? Is it failing to collect the tax revenue that is necessary to finance government? In this context, the current wholesale sales tax is widely criticised—and, I would argue, unfairly criticised. On the latest evidence, the wholesale sales tax collections for the six months to the end of December 1998 increased by nine per cent. You would not think that—given the claims of this government. Wholesale sales tax collections have been increasing. They increased by nine per cent, well in excess of current economic growth.

Even the most pessimistic projections about the future collection of revenue from wholesale sales tax—and I refer here to a recent study by Access Economics—reveal a possible decline in revenue from wholesale sales tax of at most $100 million a year. That is a minuscule decline in revenue in the context of current government revenue and budget surplus. The other point about a wholesale sales tax is that it is certainly a more efficient tax to collect than the proposed goods and services tax, because there are only 70,000 tax collectors involved in the collection of a wholesale sales tax.
The current income tax system is clearly being evaded, particularly by high income earners, with the use of such vehicles as trusts, and effective action is needed in that area. But a GST does not magically solve the problems of Australia's tax system, just as it has not solved the tax problems or the economic problems of those other countries that have introduced it. They are continually having the same debate that we are having, and they have had VATs, as they are known, or GSTs in most cases for many years.

The GST is a regressive tax. It is a flat rate tax—in this case, 10 per cent—on most goods and services. So the lower a person's income, the greater the impact on a person's living standards. That is why compensation is required. Even the Liberals will admit that compensation is required. The GST brings into the tax net the essentials of life: most food, clothing, power and rent. This will hit hard at those least able to afford it: low and middle income earners, the unemployed, the retired—and when I say retired, I mean those who are pre- and post-65 years of age—and families with children.

I have already indicated briefly how unfair the income tax cuts are. The evidence before the Senate committee of which I have been a member confirms that there will be up to two million losers as a result of a GST. And even Treasury have confirmed that many people cannot be compensated, because they do not have a relationship with government in terms of transfer payments, social security payments. A few examples include: many retirees, working age people on workers compensation or transport or accident compensation, new migrants and low income farmers. They are but a few examples of people it is extraordinarily difficult to compensate.

But even if people could be compensated, will the compensation last? What is to prevent a future government cutting the compensation in the name of budget responsibility? I can predict one thing for sure: that will happen at some point in time. It will not be high income earners who suffer as a result of having to balance the budget and having to cut government expenditure; it will be the low and middle income earners whom some attempt has been made to compensate in this package. This is exactly what occurred in New Zealand. The GST came in. Compensation was paid to low and middle income earners. And then, five years down the track, low and middle income earners had to bear the brunt of reductions in the compensation to offset the impact of the GST.

Current compensation to pensioners, veterans and disabled pensioners will erode over three to four years. Mr Howard finally admitted on Sunday that the compensation being offered to these groups will erode over time. It is a sleight of hand. This is a clear indication that Mr Howard, Mr Costello and the Liberal government have no intention of maintaining the so-called compensation. To the Liberals, compensation is simply a necessary evil to dress up the package and get their highly regressive tax changes through the Senate.

There are a range of other deep-seated problems with a goods and services tax. For example, the goods and services tax is replacing the wholesale sales tax. The Liberals argue that the reductions in costs as a result of the wholesale sales tax will be passed on in full, 100 per cent, from day one—from 1 July next year, if this package is passed, wholesale sales tax is gone and all the cost savings will be passed on to consumers straightaway. I suggest that that is not going to happen, because it is simply not real world. It is not real world for price reductions to be passed on in full from day one.

Let us look at business. The number of tax collectors under a GST increases from 70,000 tax collectors in the wholesale sales tax system to 1.6 million tax collectors. Every business or service, everyone involved in the ownership of those businesses and the management of those businesses, becomes a new tax collector. There are 70,000 businesses collecting the wholesale sales tax, as I indicated. There are about 70,000 taxi drivers in this country, who are obviously not involved in collecting the wholesale sales tax. Those 70,000 taxi drivers alone become new tax collectors.

It is patently obvious that when you have over 1½ million new tax collectors there will be additional paperwork and additional cost. In fact, the additional cost, the compliance cost, to those more than 1½ million new tax collectors totals approximately $2 billion. This falls hardest on small business. It is relatively easy for big business in this country—the BHPs, the Coles-Myers, the banks—to collect a GST, but it is not so easy for the corner store.

This government has assumed that the extra costs of collecting a GST will not be passed on in terms of higher prices. I would suggest that real world experience shows, particularly if you are a battling small business owner—you have to do additional paperwork and there are additional costs, whatever those costs may be, such as start-up costs, a new computer system, a software system, and additional ongoing costs—that you are going to pass the costs on to the consumer. The Liberal government assumes in its package that these costs will not be passed on. It is just not the real world.
It is argued that there is a cashflow advantage. BHP and Coles-Myer will be collecting millions of dollars in GST. They will run out and put it on the short-term money market, so there is an obvious advantage for big business. But I suggest that the corner store will not derive much financial advantage from putting their few thousand dollars of GST tax on the short-term money market.

With regard to the issue of employment, the Monash modelling that was presented to our Senate committee—and this is a worst case scenario—found that up to 120,000 jobs could be lost over five years if wages rise in response to price rises from a goods and services tax. But if we take the best case scenario, Treasury, which advises the Liberal government, has said there will be no jobs resulting from a goods and services tax. And let us take the best case scenario: no net jobs resulting from a goods and services tax. Some industries under a GST do better than others. The mining industry, for example, does gain, but tourism is a major loser. Interestingly, tourism is our largest export industry. One of the arguments which the Liberals advance is that we should not be taxing exports. And here we are introducing a new tax on our largest export industry and, not incidentally, certainly in terms of job growth, one of the most significant industries which Australia has.

Even the modelling by a supporter of a goods and services tax, Mr Murphy—and he is the favourite of the government—indicates that there will be jobs gained in some industries and jobs lost in some industries. This will result in some regions of Australia, notably Queensland and my home state of Tasmania, losing employment as a result of a GST. And in the case of Tasmania, there will be approximately 1,000 jobs lost over five years.

There is the argument of national economic gain. I again refer to Mr Murphy, the Liberals' favourite economic modeller and a supporter of a GST. He estimated initially, in the run-up to the last election, that there would be about $1 billion in national economic gain to Australia. He has revised that figure down since the election and his latest figure is that there will be a national economic gain of $600 million.

Let us put that into some sort of perspective. A national economic gain of $600 million sounds like a lot of money. But that is worth, on average, 65c a week for every Australian. Of course, that is an average figure so, clearly, higher income earners will be a lot better off than the average in the sense of the 65c a week figure, and lower income earners will be a lot worse off than 65c a week. That is the national economic gain.

The GST will not solve the problems of the black or cash economy. It will not solve the problems of tax evasion. Recently, the International Monetary Fund, in a major study of GST tax systems around the world, identified a range of methods by which a GST—or GST type taxes—could be evaded. You have only got to look at what happens in countries such as Italy and France, where tax evasion is massive, to see that it has not solved their problems. They have a VAT. A recent Canadian study—Canada introduced a GST eight or nine years ago—found that tax evasion went up as a result of a GST. It is not the solution.

Most comparable countries around the world, except for the United States, now have a goods and services tax or a VAT. Like us, however, these countries—the United Kingdom, Sweden, Germany, France, Canada and New Zealand—are continually debating how to fix and modernise their tax systems. Interestingly, most of these countries that have introduced a VAT or a GST have higher unemployment than Australia. In all of these countries, savings—which are important for investment and economic growth—have gone down rather than up as a result of a goods and services tax.

The vast majority of those countries that have introduced a GST have increased the GST rate. In the United Kingdom, it was 10 per cent and it is now 17.5 per cent. There are two certainties about a GST: once you have got it, you are always stuck with it, and it always goes up.

New Zealand and Japan are two recent converts to a GST but it has failed to solve the problems of their economies. On balance, a GST—it is not a new tax, it is an old tax—is simply not worth it. It is unfair, unjust and costly, and it should be rejected.