THE SENATE

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

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

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

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

A NEW TAX SYSTEM (AUSTRALIAN BUSINESS NUMBER) BILL 1998

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A NEW TAX SYSTEM (END OF SALES TAX) BILL 1998

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A NEW TAX SYSTEM (COMPENSATION MEASURES LEGISLATION AMENDMENT) BILL 1998

A NEW TAX SYSTEM (BONUSES FOR OLDER AUSTRALIANS) BILL 1998

A NEW TAX SYSTEM (INCOME TAX LAWS AMENDMENT) BILL 1998
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A NEW TAX SYSTEM (INDIRECT TAX ADMINISTRATION) BILL 1999

A NEW TAX SYSTEM (WINE EQUALISATION TAX AND LUXURY CAR TAX TRANSITION) BILL 1999

Second Reading

SPEECH

Tuesday, 20 April 1999

BY AUTHORITY OF THE SENATE
The new tax system proposed by the Howard government in these bills is bad for the economy and bad for jobs. More importantly, it is intrinsically unfair. One of the principles of the new tax regime is that no-one will be worse off under a GST. This has been clearly demonstrated not to be the case. Mr Stan Wallis, former Chairman of the Business Council of Australia, warned last week against anxiety to get this tax package through and said that Australia would wait another decade for tax reform if it squandered this opportunity. He then conceded to welfare and community groups opposed to the GST package, `You can't make economic reform work unless you've got the community with you. The community will buy reform if it passes the smell test.' These new taxes do not pass the smell test. There is no real reason to throw out the existing system of taxation and replace it with one that offers inadequate compensation for the aged and low income earners and that will mean extra hours spent poring over additional paperwork for small business owners. Australia needs real tax reform, not a GST.

It is also wrong that the Senate should report and decide on these bills before the review of business taxation is completed. You cannot separate out the implications for changing to an indirect tax base while the situation of another major sector of the taxation base is still inconclusive and indecisive in terms of what the outcomes might be from that review.

The first report of the Senate Select Committee on A New Tax System looked into the economic theories, assumptions, calculations, projections, estimates and modelling underpinning the ANTS package. The second report, tabled yesterday, examines the broad economic effects of the government's taxation reform legislation proposals with regard to the fairness of the tax system, the living standards of Australian households—especially low income households—the efficiency of the economy and future public revenues. The Senate select committee, of which I was a substitute member, heard from 1500 individuals and organisations representing various business, welfare, church and community groups in submission form and at public hearings all over the country.

A diverse range of issues arose, some of which I wish to canvass today. The main differences of opinion were the results of economic modelling to determine the impact of the GST on Australian society undertaken by a number of different groups from Treasury to academics and private consultants. Despite the Treasurer's claim that `We've done a lot of modelling', Treasury confirmed in the first round of the Senate inquiry that they had done no modelling of the macro-economic impact of the tax package, including employment, GDP and wage effects. In fact, the macro-economic effects of the package were nothing more than guesses.

From other modelling undertaken there certainly were some interesting results, most of which provided no comfort for Australia's low income earners. Professor Peter Dixon from the Centre of Policy Studies at Monash University showed that the government's GST package would actually damage the Australian economy. While the Monash model projects a short-run increase in employment of 30,000—which is entirely due to spending the budget surplus on income tax cuts and has nothing to do with the GST—it will in the long run be job destroying, resulting in the region of 100,000 jobs lost under certain conditions. Professor Dixon also highlighted the importance of the movement of individual industry costs relative to the movement of costs in other industries.

The ANTS package will have a negligible impact on long-run economic growth and efficiency and will cause a small reduction in average Australian living standards. Furthermore, claims made by the government that the existing system of taxation needs revamping because the wholesale sales tax is incapable of generating the necessary revenue for Australia's future needs were disproved by the Monash modelling. In fact, there would be a decline in indirect taxes due primarily to the discretionary decision making by governments and in particular to the significant decline in tariffs that have occurred over the past decade or so.

The Society of St Vincent de Paul was critical of the modelling done by Treasury. The society outlined that Treasury had focused on national aggregate indicators of the burden of a GST and had applied those averages to specific sections of the Australian community, especially the poor. However, the actual burden for the poor is significantly higher, so compensation was a crucial issue for the society. Its submission showed that it is quite
possible that for many households, lower income earners and families the adverse price impact from a GST package might be as much as five times that estimated by Treasury.

The society undertook its own household expenditure survey of 271 households. It found that low income earners spend 27 per cent of their income on food and a further 34 per cent on essentials, utilities, clothing, etcetera, all of which will attract the full 10 per cent GST. High income households, by the society's reckoning, spend only nine per cent of their income on food. While Treasury may have questioned the statistical validity of the survey due to the small sample, it certainly brings into clear focus the inherently regressive nature of a goods and services tax.

The modelling commissioned by the select committee—undertaken by NATSEM, the National Centre for Social and Economic Modelling—clearly highlights the inadequacy of the compensation for low income earners. Ten scenarios were modelled by NATSEM to provide an indication of the likely impact of the proposed tax reform. The co-authors of its report, Professor Ann Harding and Professor Neil Warren, suggested an extra $1.1 billion in compensation was needed to make the package fair, which amounts to a six per cent rise in pensions. This is a lot more than the ANTS package offer of four per cent. Particular options of the NATSEM modelling make it patently clear that single income families do better than dual income families in the ANTS package.

Professor Neil Warren, from the University of New South Wales and co-author of the NATSEM report, commented last week in the *Australian Financial Review* that there were considerable problems with the ANTS package. These were that the compensation package is inadequate, those who are not taxpayers or social security recipients are forgotten and the compensation package will simply not last the distance—any benefits will in time be eroded. Dr Greg Smith, the head of the Commonwealth Treasury tax group, admitted this last point. He said that compensation for pensioners was likely to merge into normal pension increases—specifically, that if average wages rise ahead of prices the value of the 1.5 per cent guarantee would be eroded over time. In further correspondence to the committee following the 8 April hearings, Dr Smith, responding to Senator Harradine, said:

. . . comprehensive estimates of those outside of the tax paying or social security receiving spheres simply are not available.

He hypothesises that those people outside these areas could be (a) already operating in the cash economy yet avoiding existing tax liabilities; (b) on a low income for a short term or not yet eligible for social security benefits, such as the self-employed with business losses, new persons arriving in Australia and so on; and (c) people entitled to benefits but who do not claim them.

Dr Smith says that it is impossible to compensate these people so Treasury has simply chosen to ignore them. Treasury seems to have forgotten about these one million retirees living off their savings, working age people living on workers compensation benefits, youths living at home until the age of 21, low income farmers and new migrants.

Dr John Hewson, that great advocate of a goods and services tax back in 1993, defended the comments of Professor Warren when he said that `the NATSEM analysis confirmed that the government's GST compensation package is inadequate and that there will be losers'. He advised the government to admit there will be losers and to revamp the compensation package to ensure there will not be, and to ensure that the benefits of compensation are preserved into the future. Even John Hewson can see that there are losers from this tax package and that they will be the aged and other low income earners. The only ones who cannot see it are the Prime Minister and the Treasurer, who are simply looking at their package through rose-coloured glasses.

In evidence to the committee, Professor Peter McDonald argued that `the model that is proposed and, more particularly, the compensation aspects are unfair to families with children' as `households are indicated in the model by their income only, not in any way by their composition'.

Even the Australian Combined Pensioners and Superannuants Association have called for a complex $1 billion rescue plan to salvage the compensation package. More than one million pensioners will not be adequately compensated by the package as it stands.

The Prime Minister, who did not give his best display on last week's *Sunday* program, did not accept the Senate committee's findings that the compensation is inadequate and shrugged off Professor Warren's concerns about this inadequacy as merely an `expression of opinion'. He went on to say, `The tax expert I take notice of is the
Australian public, and they voted for our plan. Yet John Howard and his government received less than 50 per cent of the vote at the 1998 federal election—in fact, a majority of Australians voted against his government.

The Prime Minister did concede, however, that 'some kind of finetuning at the margin' was possible, although he clearly indicated that that would be limited. He further promised that 'pensioners will be fully compensated for every increase in the cost of living . . . and, in addition, they will always be one and a half per cent ahead of that'. But how could you trust him based on his record? He said that no-one would be worse off.

No amount of compensation will make this package fair as it is inherently regressive. As has been shown, even the experts the Prime Minister has relied on for support are now saying that the compensation measures should be modified and food should be excluded. Professor Ann Harding said in the public hearing on 8 April that food should be exempted as a matter of equity. The Labor Party says that the government should go back to the drawing board and try again, as the ANTS package is not about tax reform; it is about attacking those who are least able to defend themselves.

I have spoken in this chamber on a number of occasions about the issue of compliance. I want to bring to light some of the comments on this issue that arose from the Senate select inquiry. Michael Walpole of the Australian Taxation Studies Program at the University of New South Wales focused on the impact of the GST and compliance for small business. He detailed in his submission that VAT/GST systems around the world are accompanied by high compliance costs, and these costs are highly regressive and impact heavily on small businesses. Further, the burden is exacerbated by any additional complexities that might be added to the particular GST model chosen. In addition, recent research in the United Kingdom suggests that some small businesses turn work away to stay below the VAT compulsory registration threshold. Thus the level of the threshold can be critical if the GST is not to act as a brake on the economy. Michael Walpole went on to say at the hearing that the 'GST will add to tax compliance costs', that there is a 'regressive nature of compliance costs', and that 'audit activity will be expensive', which increases the administrative and financial burden on small business owners across the country.

The submission from the National Tax and Accountants Association Ltd said:

\[\ldots\] the initial cost and the ongoing cost of the GST compliance and management will be at least \$7,000 per annum for each firm if not higher. This is a far cry from the absolutely ludicrous Government estimate of \$130 and gives no credibility to the Prime Minister's promise in 1996 to halve the costs for tax compliance by business.

When Ray Regan of the NTAA appeared before the select committee, he added that the GST would have a negative impact on jobs, that tax avoidance will be overbearing and that small businesses want to have systems in place to cope with the changes.

I spoke to an owner of a small business just after the 1998 federal election. She runs a beauty therapy business in suburban Sydney. She said that she had not voted for the Liberal Party because of the threat of the GST. When I asked her why, she said that to make things easier for her business she would have to install a computer and an appropriate computer system to cope with the changes. This not only would cost thousands of dollars but would require more time and money to be spent to train herself and her staff to use the equipment. She simply wants to run a business, not to become a tax collector for the government.

The committee received a submission from the Sisters of Charity Australia, a group of 240 religious women who have devoted their lives to helping the needy. The sisters provide a variety of services to many people in the community, such as providing safe houses at Casula in south-western Sydney for women victims of domestic violence, court assistance for families dealing with trauma and many other charitable works. Their representative at the hearings affirmed that the GST would be a disaster. The sisters believe that many pensioners and people on low incomes will go without food because the compensation package is inadequate.

The Sisters of Charity will have great difficulties with compliance. They will need to put the appropriate accounting or financial systems in place. This will be a costly exercise and a skilled one, which means the sisters will need external advisers and new equipment to assist them in these matters. As they will be in a net refund position each month, returns will be lodged on a very regular basis. They will have to divert some of their funds into accounting, away from their charity work.

The Sisters of Charity highlighted other problems they will have to deal with, such as providing food to those in need. Whether or not they are entitled to a tax credit depends on what is served, where and to whom. Their
submission highlighted the significant compliance difficulties charitable organisations will face and proved that the GST is a complex tax—a view supported by accountants and academics alike. The sisters will now have to spend too much time and money collecting taxes for the government rather than helping those most in need. These are even more compelling reasons for the ANTS package to be rejected by the Senate.

The ANTS package is another example of the Howard government's obsession with ideology and their contempt for ordinary Australians. Even small business owners face many difficulties. It is wrong that the Senate should report and decide on these bills before the review of business taxation has been completed. Low income earners, as will those who are outside of the taxation and social security channels, will be the hardest hit.

Young people between the ages of 18 and 21 will be hit hard again—still dependent on their parents, unable to get a job and having to pay up-front fees to get into university. They will not be compensated. Women will again be forced back into the home, with the finding that single income households with dependants will fare better than dual income households with dependants, under certain modelling options.

Retirees living off their savings will not be compensated in any way. After working all their lives they will have to dip even more into their savings for essential items and be forced onto social security benefits sooner than expected or desired. Pensioners do not come out ahead. The increase in their pensions by the estimated rise in the CPI plus an extra 1.5 per cent will be eroded after a period of approximately three years if wage growth is ahead of the CPI. After three years, pensioners will be no better off even after compensation, because it simply is not enough.

The parliament has a duty to protect and support those who need assistance. No amount of compensation will make this package fair, as it is inherently unfair. Even the experts the Prime Minister has relied on for support of his package are now saying that the compensation measures should be modified and food excluded. We say the whole package should be thrown out and replaced with real tax reform.