THE SENATE

A NEW TAX SYSTEM
(COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS) BILL 1999

A NEW TAX SYSTEM (COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS—CONSEQUENTIAL PROVISIONS) BILL 1999

A NEW TAX SYSTEM (WINE EQUALISATION TAX) BILL 1999

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

A NEW TAX SYSTEM (LUXURY CAR TAX) BILL 1999

A NEW TAX SYSTEM (LUXURY CAR TAX IMPOSITION—GENERAL) BILL 1999

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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

Wednesday, 21 April 1999

BY AUTHORITY OF THE SENATE
Senator HARRADINE (TAS) (10.11 am)—I have been deeply involved in the minutiae of the tax package in attempting to understand it with as much completeness as I can. I was going to deal with the details of the package in this speech during the second reading, but I realise now that speeches in the second reading are to address the principles which should govern our approach to measures such as this. So, if you will excuse me, I will attempt to express some general principles and viewpoints and then come to certain specifics.

The mere mention of taxation in any forum at all will of course get a reaction—there is no doubt about that. If you talk about taxation, you immediately get a reaction because everybody has an opinion on it. The government has now presented to the parliament, and through it to the people, a taxation package which is nothing less than revolutionary. It has far-reaching consequences. The government is to be congratulated on addressing this very important issue in our society. The ACCI and others called the tax summit in 1985, and there has been consideration given by various governments to it, but at least this government has attempted to bite the bullet. Whether that is ultimately good for society or whether it is not depends on how it measures up to certain principles.

The government has had a long-term plan on this particular issue and on other areas as well. I do congratulate the government for the way it has sold the package and on how opinion makers appear to have grasped the package as if it were a lifebuoy thrown over in turbulent economic seas. Even those who are going to be shafted by this particular package—for example, the farmers—seem to have accepted it. During a committee hearing in one state, it was the first time in my long experience in this parliament that I heard any group at all say, 'Please tax my products.' That is precisely what is occurring in respect of the producers of food in this country.

Not unexpectedly, we have had an enormous response to the package. Some 1,300 actual submissions were made to the ANTS committee of the Senate. They were very useful indeed. I felt that the committee system did work. I know the Treasurer had another view about the matter, but the committee system enabled people to come before the committee and to express their views for or against—or to suggest certain amendments. I found that very useful indeed.

I would like to take this opportunity of congratulating the secretary of the committee and the committee staff for the extremely professional way that they approached their task. I feel they are not often given credit where credit is due. This was somewhat of a different type of committee from the ones I have been used to in this place in that people—and I am talking about the government and the opposition—appeared to have a fixed point of view that they did not deviate from, and that was a bit of a problem. Nevertheless, I found the committee inquiry useful.

I also found very useful the thousands and thousands of letters and phone calls that I received from people throughout Australia. I have to apologise that I have not been able to answer them all or even a majority of them. Let us face it: unfortunately in a position like mine, which is an undesirable situation, you do get a huge volume of mail. One day in December last year 2,300 actual pieces of mail came to me—and that is not counting the email. Whoever invented email ought to be strung up! So I do apologise for not answering them all. I take this opportunity of thanking my very dedicated staff for the way they have handled all of these matters.

Tax has a social as well as an economic dimension. It has social and economic consequences. It does raise questions of what is best or better, what is good or bad, what is right or wrong. There are moral as well as economic consequences; and there are moral choices to be made by the government. These must be made by the government. Books have been written about the purpose of government, but the purpose of government is simply the administration of the common good preferably in a free, equal and life-affirming society.

The object of a free society is not laissez faire; the object, surely, of a free society is the genuine flourishing of the individual human beings living within that society. To achieve that, democracy and the market must be disciplined by a vibrant moral culture which is grounded upon a shared public conviction as to what is 'moral truth'. The cynics will say, 'What is truth?' If the government allowed that situation to exist, then of course you would have a laissez faire situation where the rich got richer, the poor got poorer, and you had the survival of
the fittest. I believe none of us would adhere to that cynical view of unrestrained economic rationalism or heavy-handed dictatorial government.

Tax is a very much needed tool for governments to administer the common good. Surely, in the consideration of this very vital subject of taxation, we should all have a shared public conviction of what is moral truth and what are the principles which should guide such an important consideration. Could I suggest that among those principles are the need to build a nation and to protect its people and the need to create an economic and social order in which the citizens can live with freedom and dignity and pursue both their spiritual development and material wellbeing in conditions of equal opportunity and economic security.

Tax should not stifle human initiative. It should reward people for work, it should remove poverty traps, it should be fair and simple and be based on the capacity to pay and it should have high compliance and low evasion. One of the things that is in the minds of people when you go around the country is: how come one of the richest people, probably the richest person in this country, does not pay tax? That may or may not be so, but that is what you get all the time. So the tax should be based on the capacity to pay. It should be progressive, not regressive; that is, falling on those least able to afford it. It should, of course, uphold the principle of distributive justice. In other words, we should uphold the dignity of each individual human person, because the test of a civilised society is in how it treats its most vulnerable.

I come to the final point of what a government should do in respect of tax in our society. The fundamental group unit of society is the family, and its taxation measures should be family friendly. Why is the government proposing to have a GST? The GST is required, according to the government, because of the dwindling tax base. Why do we have a dwindling tax base? Because people are not having children—that is why. We are getting to be an ageing population; we are going to have an enormous problem.

But the burden of that problem is now being placed, through a GST, on families, who are not responsible for the original problem. If Australia needs new taxes to expand the revenue base to pay for pensions and health services for an ageing population, does it make sense to impose a GST on the necessities of life involved in raising children? Does this not mean fewer taxpayers and a smaller tax base in the future? We only have to look at what is happening in Europe. European birth rates have dropped well below replacement rates as the tax cost of children has gone up with increased value added taxes. Should we be making it harder for Australian families to have and raise children? The cost of raising children is assumed to be a form of consumption tax—remember we are talking about a consumption tax. But investment in children is surely a social and economic necessity if the economic system is to continue. We will get the response, ‘But there is compensation in the package.’ May I respectfully suggest that that is not enough and that much of that is doing what ought to have been done previously.

The Labor Party cannot take any solace at all from its continued erosion of the family in the tax system. If it is going to win power it will need to have a look at both the electoral advantage and the economic advantage in Australia and do something about the family. Otherwise that fundamental group unit of society will be left high and dry.

Much has been said about food. I put to the Senate that there is far more than food involved, and I know other honourable senators realise that. There are other necessities of life. If I recall correctly, we heard during the committee inquiry that for the lowest quintile of family groups food represents an outlay of some 24 per cent of household income, whereas the other necessities of life—clothing, rent, transport and the like—represent 38 or 39 per cent. There might be people who are able to go without clothing in this nation; you certainly cannot in my state.

Honourable senators interjecting—

Senator HARRADINE—There was a dump of snow on Mount Wellington this morning. In all seriousness, these are necessities of life, and I believe that the compensation for them that has been suggested by Treasury is not adequate. I will not go into the modelling or the misassumptions that underlie some of the proposals in the tax package.

There are suggested compensation packages for pensioners and people on low incomes, and I am quite convinced that those compensation measures are inadequate. Some people have suggested, ‘Why don’t you go along the way of NATSEM’s option 7 with tobacco and housing in?’ If people are into this business of
compensation, that is certainly well worth looking at and modelling but, as Mr Carmody has said, you do have to lock the compensation in in some way. As far as pensions are concerned, you have to lock them in to the male total average weekly earnings—25 per cent plus, in that case, six per cent.

Whilst we are talking about compensation, let us talk about the other issue: the rate of the GST. The rate of the GST, it is said by the government, will not change unless all the states agree. As Mr Keating said—Senator Lees referred to it the other day—

Honourable senators interjecting—

Senator HARRADINE—That's right—'Don't get between a premier and a bucket of money.' So I do not know whether that is a satisfactory measure at all. If this is going to go through, you have to lock it in in some very severe way so that the 10 per cent will not grow.

I am a believer in the principle of subsidiary function—that power should reside with the smallest group capable of efficiently performing the functions with the power required. That is a very important principle, and I therefore believe in state governments, local governments and the like. I am a bit worried, philosophically, about money just flowing to the states without them having the responsibility to do anything about it. I understand the problem about regressivity of so much of the state taxes. (Extension of time granted)

I am greatly concerned about the fact that certain charities are going to be affected substantially by this measure. These have been mentioned in the debate, so I will not remention them here. At the last meeting of our committee, I did ask the Treasury official who the losers were. I have a response. The response did not satisfy me, and maybe it never will. It is very difficult to determine who are the losers—some you can. But bear in mind that the government has been saying that there are no losers. There are in fact losers, and they must be compensated. The government must consider the ways and means of compensating those losers.

One came to mind only yesterday when a friend of mine faxed me, and that is a PhD student living off the smell of an oily rag—well, living off a scholarship. I believe PhD students should live off the smell of an oily rag. It helps their intellectual capability and they perform better. But never having done any of that, I would not know. That is one, and self-funded retirees are another. So quite a large number of people will be in that losers group. How do we compensate them? Treasury says that it is very difficult to do so because they do not have a relationship with government. Mind you, a lot of them do not want a relationship with the government, to be quite frank. I have actually known people who were eligible for the pension and have not claimed it. There are quite a number of those. There are people who are not in the taxation system and they are not in the social security system. The government has plenty of ideas. Maybe it should come up with a tax credit fund or some such plan that would be able to fund the extra taxes which these people will be required to pay without any compensation.

There are other matters that I wanted to briefly mention, but I will just limit them to a couple. I think it is important for me to raise them. One is the question of the international competitiveness of the tax package. It is suggested that international competitiveness would be advantaged by the package as a whole. If the GST does produce claims for compensation—wage claims, for example—and wage outcomes, then it may have a negative result.

I will ask certain things of the minister representing the Treasurer. How does the GST lower the equivalent marginal tax rate if income equals consumption plus savings? Does it matter for economic incentives whether money is taxed going into the purse or pocket or out of the purse or pocket? Is the GST equivalent to an income tax surcharge on income less savings? If a person spends 90 per cent of their income, does a 10 per cent tax on spending amount to a nine per cent income tax surcharge? Can the Senate be provided with tables showing equivalent marginal tax rates after adding back net indirect tax rates to the proposed income tax scales? What about the payment of compensation via social security? Does that involve economic inefficiency in churning money around?

Some of these questions were briefly referred to during the committee hearings. I raised a number of questions—and continue to raise them—about the Ralph committee and how the Senate does not have before it all of the proposals that were mentioned in the document entitled Tax Reform: not a new tax, a new tax system. Are they logically consistent? Indirect tax reform is supposed to bring investment into Australia, but will the direct tax measures drive both domestic and foreign investment out of Australia? I was very interested to read an article by Steve Lewis and Fiona Buffini on page 4 of the Financial Review:
The business community has mounted a strong push to ease the tax impost on offshore earnings of domestic—and multinational—companies in a bid to boost Australia's international competitiveness.

Already there is some considerable concern being expressed in that case by the Business Coalition for Tax Reform.

The indirect tax reforms are meant to reduce the cost of producing in this country. This is supposed to attract foreign investment and expand our capital stock, our employment and our exports. But many of the measures being considered by the Ralph committee have been roundly criticised by both tax professionals and representatives of groups of foreign investors as creating disincentives for foreign companies to invest here or even for Australian companies to retain head offices here. In addition, there are serious concerns about the relative competitiveness of Australian managed funds against incoming US mutual funds, about disincentives to save through life insurance and about the impact on small business and farms, and it might I mention, of taxing trusts like companies. Family farms and small businesses may experience serious cash flow drains. Others have also pointed out that the loss of accelerated depreciation being considered by the Ralph committee would have adverse impacts on exporters such as miners and farmers and tend to negate or offset the benefits of GST refunds on exports.

I did not see any modelling of this, and I asked a number of questions on these particular matters during the committee inquiry stage of the Senate process. No modelling has addressed these matters. We do not have it before us here. Is it fair to ask us to judge all of these things without having the second leg of the package to consider? I just raise that. Maybe the government will be able to advise us on these matters. In this sense the Senate does not have before it all those issues.

The windfall losses of groups of people have been referred to in other speeches, including those who will have to pay increased insurance premiums because of the transitional costs of the package on insurance. There is also the question of how credit unions, Aussie Home Loans and others will be affected. That has all been referred to in other speeches.

Finally, I want to come to the question of whether the GST legislation is constitutionally valid. Is there one subject of taxation as required by section 55 of the Constitution? The High Court decision in the Mutual Pools case seems to indicate that the Commonwealth may not be able to make up a subject of taxation entirely as it pleases, that it cannot tax land and intellectual property, for example, under the one imposition act. These are matters that I think one should raise in a speech on the second reading. I have some advice on this and I just raise it for the government's consideration. I do not think that the enormous anti-avoidance powers that have been given by the GST bill to the Commissioner of Taxation would be regarded in the long run as constitutional.

It would be great if we could have consensus on such an important public policy issue. It would have made it more credible. However, that is not the case. I would have liked to have gone into the question of the mandate, how the Senate is part of the government in the broad sense and how our responsibility is the administration of the common good.

I am concerned, most importantly, about the effects on jobs in my own state of Tasmania. That has been stated quite clearly by the government's preferred modeller, Mr Chris Murphy, who stated that there would be substantial job losses. I would like to hear responses by the government. I thank the Senate for allowing me to continue over time.