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

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

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

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

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
Senator KEMP (VIC—Assistant Treasurer) (10.41 am)—The bills being debated in the Senate, A New Tax System (Goods and Services Tax) Bill 1998 and related bills, establish a new tax system for Australia. This is the most comprehensive reform of taxation in the history of this country. The bills set out a new tax system for the new century. The legislation sweeps away an outdated, inefficient tax system that does not serve the needs of the modern nation. The new tax system rewrites Commonwealth-state financial relations.

The government's proposal was released before the last election and we put the plan to the Australian people. The taxation plan, Tax Reform: not a new tax, a new tax system, was the central focus of the election campaign. It was debated on a daily basis in all the media. After that prolonged debate, after the consideration of the government's proposals to reform the taxation system in the country, the people of Australia endorsed it at the last election. We asked for a mandate and we received that mandate. The government's tax plans, which are now before the Senate, encapsulate these changes to deliver to our great country a more productive and more competitive tax system. It will help our exports, deliver more jobs and work to improve the standard of living in this country. We believe that, after this very prolonged debate which has ensued since the government's plans were first released in the middle of last year, we have received overwhelming support. We have received the mandate that we sought from the people and which I mentioned.

Business groups have been very supportive. Businesses have already noted that they will enjoy lower costs and be able to grow and give more Australians jobs. For example, the Business Coalition for Tax Reform said:

We believe that measures in `A New Tax System' form an integrated approach to tax reform that will improve our international competitiveness, encourage investment and job creation, encourage savings and improve fairness.

The farming sector has been particularly supportive of our tax reform plan. The National Farmers Federation stated that, for farms modelled, the benefits range from an average increase of $1,825 up to $49,000 per annum. The increase in disposable income was typically in the range of one per cent to two per cent per annum.

We went to the people; we received a mandate. Farmers support this measure; and people in rural Australia, we believe, support the measures we put forward. Business groups large and small support the tax package. But also all state premiers and territory chief ministers endorsed on 9 April 1999 the intergovernmental agreement on the reform of Commonwealth-state financial relations. This is the largest single transformation of Commonwealth-state financial relations since at least the Second World War. It improves the financial position of the states by providing them with access to a robust and growing tax base. This is needed to secure the funding for important community services like roads, hospitals and schools.

There has been some debate in this chamber about the reaction of state premiers to the tax reform package. The state premiers, not surprisingly, as some have noted, want a growing source of income. But we should ask ourselves why they want that growing source of income. Of course, they want that growing source because state governments provide important community services like roads, hospitals and schools. This is why the state governments want to put intergovernmental financial relations on a sounder basis.

Let me make it clear. This path-breaking reform of Commonwealth-state financial relations is only possible because of our tax reform plan. If we are going to help the schools and welfare services in the states, and if we are going to help the states to carry out their important health functions, people who support that will vote for these bills. Let me quote Premier Kennett of Victoria, who said:

I think the Premiers Conference is a seminal day in Australia's history. It is now up to the Senate to recognise its responsibilities and to discharge them in the same way.
As Premier Beattie said: "The Howard government got a mandate for the GST in the last election." This is a historic opportunity for Australia. The government had the courage to put a comprehensive tax reform plan to the people before the last election and, unfortunately, we have seen that the Labor Party has adopted its usual "no" approach to any major reform program. This is in contrast to the very different attitude that the coalition took when we were in opposition. Of course, the former ministers of the Keating government now run away as fast as they can from the reforms that were carried out by the Keating government, but the fact of the matter is that these reforms were supported by the coalition parties when we were in opposition.

The Labor Party has basically turned its back on reform of the tax system and has mounted what is seen to be an outrageous scare campaign. The Labor Party refuses to accept that Australia voted for tax reform, for major tax cuts and benefits for Australian families, and for generous compensation for low income Australians. It is interesting to note the difference between the attitude of the federal Labor Party and the approach that Labor premiers and their state branches are taking. As I said, you have only to look at the comments by Mr Bacon, the Premier of Tasmania, by Mr Carr, the Premier of New South Wales, and by Mr Beattie, the Premier of Queensland, to see that the federal Labor Party is quite isolated in its completely negative attitude to tax reform.

Of course, we have had people like Mr Bob Hogg, a former federal secretary of the Labor Party and a former state secretary of the Victorian division, who has called on the Labor Party to pass these bills. I put it to you, Mr Acting Deputy President, that the federal Labor Party, even within its own ranks, is becoming increasingly isolated as the wider community continues to appreciate the significant benefits of the government's tax reform program.

The introduction of our tax reform program will be a very significant change to the taxation system in this country. Wholesale sales tax will be abolished. This is the system which the Labor Party thinks is a good system, but in its views it is completely isolated. The federal Labor Party is the only institution in this country which believes that the wholesale sales tax system is a good system.

In consultation with the states, we are abolishing nine types of taxes—which again will help make sure that we have an efficient tax system. Let me list some of the taxes that will be abolished by state governments: financial institutions duty; the debits tax; the stamp duty on marketable securities; conveyancing duties on business property; stamp duties on credit arrangements, instalment purchase arrangements and rental hiring arrangements; stamp duties on leases; stamp duties on mortgages, bonds, debentures and other loan securities; stamp duties on cheques, bills of exchange, promissory notes; and, of course, the so-called bed taxes.

The abolition of the wholesale sales tax and other taxes is vital to reduce the cost of doing business. At present, half the money raised from the wholesale sales tax comes from taxing goods purchased by business. It imposes a hidden tax on exports and import-competing industries. The introduction of the GST will change this. As businesses are entitled to full import tax credits, the hidden burden will be removed. In fact, business costs will fall by more than $10 billion, as a result of the GST and the abolition of current inefficient and unfair taxes.

The GST will also lead to a $4.5 billion fall in the cost of exporting. Lifting this burden will increase the competitiveness of Australia's export industry. The bill provides for GST-free activities which include exports of goods and services, international air and sea travel, and domestic air travel purchased by non-residents, taxes and charges at all levels of government—excluding local government rates and water and sewerage rates and charges. The price of GST services will fall, because tax will be removed from the purchase of those supplying them. The GST will be broadly based, providing simplicity for business and consumers.

The government has not neglected important community services. In its plan the government proposed that virtually all health, education and child-care services, charitable activities and religious services should be GST free. The recommendations of the Voss committee further extended the GST-free areas proposed in the government's tax policy. They recommended GST-free treatment for a wide range of medical and allied health services. They provide for comprehensive GST-free treatment for residential and community care for the aged and the disabled, provided that care is at a sufficiently high standard. They provide for GST-free treatment for a wide range of aids and appliances specifically designed for people with illness or disabilities. They provide for GST-free treatment for all secondary and tertiary courses, including vocational courses, provided students are eligible for income support. They provide generous rules for charities. All of these recommendations were adopted in the legislation which is now before the Senate.

One major issue is constantly ignored by the Labor Party as they attack the government's reform program. We are providing major tax cuts to the Australian people. The tax cuts will more than compensate taxpayers
for the introduction of the GST and will also make it possible for ordinary Australians to save and invest. The personal income tax bill gives effect to the cuts in rates of income tax and provides extra assistance to families by increasing the family assistance tax-free thresholds. The tax-free threshold increases to $6,000 and the lowest rate decreases from 20 per cent to 17 per cent. This helps all taxpayers but is of particular benefit to low income earners.

Under the old system incomes between $20,700 and $50,000 were subject to rates of 34 per cent and 43 per cent. The new system applies a lower rate of 30 per cent to all those on incomes between $20,000 and $50,000. I stress that this will mean that around 81 per cent of taxpayers will have a top marginal rate of 30 per cent or less compared with 30 per cent of taxpayers at present.

Lower and middle income taxpayers in particular will keep more of their wages. This incentive encourages Australians to seek promotion, extra training and overtime. More effort will now mean more reward for individuals as well as a more productive Australian economy. The top rate remains unchanged at 47 per cent for those with annual incomes of more than $75,000. The $75,000 threshold will be equal to around 1.7 times average earnings, and this will ensure that average earners do not drift into paying the top marginal rate, which would have otherwise occurred early in the next century.

I mentioned the significant gains for rural and regional Australia. The reform package also acknowledges the high cost of transport, particularly for rural and regional Australia. The new diesel fuel credit scheme will effectively reduce diesel excise for all off-road—including marine—users from around 37c per litre to zero. For the larger transport users, including rail, the reduction will be from around 37c per litre to 18c per litre. This is on top of savings of 7c per litre for business users of petrol and diesel through their access to a refund of the GST paid on fuel. Alternative fuels will remain excise free on the introduction of the GST tax. The reforms to diesel fuel are now to be opposed by the Democrats, although we are yet to see their amendments. They have been promised as soon as practicable, and we look forward to seeing them. As the Deputy Prime Minister pointed out in the House, this opposition by the Democrats will overtly penalise those who live in rural and regional Australia.

No bills before the Senate have been subjected to greater inquiry than these bills. No bills that have ever come before the Senate, as far as I am aware, have received such intensive Senate scrutiny. If you add together the number of months that Senate committees have met, we can probably reach at least 52 weeks and possibly more. Every possible aspect of these bills which are before the Senate have been subject to intensive inquiry. Hundreds of submissions have been received. We believe that everyone who had a question to raise certainly was able to use those vehicles.

We believe that there is no credible evidence to demonstrate, on reasonable assumptions, that any modelled household type would be worse off as a result of the government’s tax reform package. The recent evidence to the inquiries overwhelmingly supported food remaining in the GST base on efficiency, simplicity and equity grounds. The Democrats have unfortunately refused to acknowledge that, when informed witnesses addressed issues of equity and fairness, they supported the use of direct compensation rather than narrowing the broad-based design of the goods and services tax. Yesterday the Democrats provided some further signs of their proposals to amend the bills before the Senate. We believe that the measures announced by Senator Lees yesterday would not only greatly increase the complexity of the taxation system but also favour the higher income earners. We believe the measures ignore the evidence that was presented to the committee.

Let me take the example of baking products. Baking products, with the exception of bread or fruit bread, will not be taxed. But what if, as the Baking Industry Association itself says, the baker runs cheese or other products on the bread? What is bread? Is a cheese and bacon roll bread? Is a bagel bread? Is a fruit bun bread? These are just some of the examples. There is a plethora of examples which could be used to demonstrate the complexity that the amendments proposed by the Australian Democrats will lead to in the tax system. After this very prolonged period of inquiry, we believe that the overwhelming weight of evidence supports the government’s position. We believe that that is yet another reason why these bills should be passed, and be passed forthwith, by the Senate.

Let me turn briefly to the personal tax cuts and increased family assistance. From the outset, one of the government’s guiding principles for tax reform was that there must be no overall increase in the tax burden. We have delivered on that. The tax cuts will more than compensate taxpayers for the introduction of the goods and services tax and will also make it possible for ordinary Australians to save and invest. The personal income tax bill gives effect to the cuts in rates of income tax and provides extra assistance to families by increasing the family tax assistance tax-free thresholds. We believe, therefore, that in so many ways the system that we propose
across the broad range of Australian society provides huge benefits for the nation, for its people, for its families and for the people who run business. Indeed, as I said, across the broad sweep of the nation, we believe that the system that we propose is one which deserves the support of the Senate.

A number of amendments have been moved by non-government senators. It will not surprise senators that we will be opposing the amendments which have been moved. Senator Cook’s amendment in particular attempts to defeat the second reading of the bill. Of course, if that particular amendment is passed, that will end the debate forthwith. This again shows the incredibly negative attitude of the Labor Party to tax reform. The Labor Party is now attempting to stop proper debate on these bills.

**Senator Sherry**—Defeat them—no GST.

**Senator Kemp**—The Labor Party not only is ignoring the mandate that the government received at the last election, not only ignoring the weight of evidence that was put to the Senate committee, but also is now, through the amendment proposed by Senator Cook, attempting to defeat the second reading of these bills. The government, quite naturally, strongly opposes this move by the Labor Party. To repeat myself, this will mean, if that amendment is carried, that there will be no further debate on these bills.

Senator Cook sits here in the chamber and smiles and nods in agreement. Senator Cook, the truth of the matter is, I think, if you move down this route, that the Labor Party will properly stand condemned. We had an election on these bills. We won the election. We are now going through the proper parliamentary procedures in putting our proposals to the parliament. It is fascinating that the Labor Party seeks to stop debate that other non-government parties may wish to have on these very important bills and to prevent the government delivering on its election promise. Make no mistake: it is an attempt to prevent the government delivering on the promise that we went to the Australian people on and that we were elected on.

I am foreshadowing a number of government amendments to the GST bills that we will be moving in the committee stage. The amendments will incorporate suggestions made to the government during the wide-ranging and very constructive consultations we have undertaken since the bills were introduced. These changes do not alter our GST proposals but merely refine the legislation to ensure that the government’s policy is carried through in the most practical, efficient and cost-effective way possible.

With the assistance of a number of professional and industry bodies and through input from community organisations we have continued to look for ways of making the design and operation of the GST even better. I am pleased to report that this has resulted in a number of innovative changes which will continue to support our claim that our GST is world’s best practice.

There are around 30 issues on which amendments are proposed. These amendments are in the nature of finetuning of the bill. However, half a dozen or so of these changes are of particular note. They include the changes we are making to the GST treatment of insurance and to the general anti-avoidance provision, to extending the benefit of the grouping provisions to small business structures and to corporate treasuries, to making it clear that the separate sale of farmland and improvements will be GST free and to making a number of changes that will make administration easier for charities.

The model we are adopting in Australia for the goods and services tax treatment of general insurance is an elegant solution to a set of circumstances other countries are still struggling with, and it gets the right result. This approach provides complete treatment for both the insured and the insurer. It means that input tax credits will be available for payouts when the GST is paid on premiums and, conversely, that no credits are available if no GST is paid on premiums. Payouts under insurance policies will have no GST consequences for unregistered persons.

The government is also responding to concerns raised about the general anti-avoidance provision. That is, I think, one of the issues that Senator Harradine raised in his remarks. We will amend the provision to make its scope and operation clearer, to ensure that it does not apply to anything done or any arrangement entered into before 2 December 1998, to make it clear that it will not apply to the exercise of an option provided for under the legislation and so that it applies where the tax benefit obtained is the principal effect of the arrangement and not simply a principal effect.

The GST grouping provisions that apply for the benefit of companies will be extended to trusts and partnerships. This will ensure that small family businesses which conduct their businesses through several
entities, including trusts and partnerships, will be able to share in the compliance cost benefits of grouping in
the same way as a group of companies.

There are also a number of amendments in this package which will make dealing with the GST easier for
charities. Under the GST, entities can choose to account on a cash basis if their annual turnover is $500,000 or less.
Businesses will generally account for GST on the same basis as they currently account for income tax. However,
charitable institutions and gift-deductible bodies do not need to account for income tax and often account for their
activities only on a cash basis. Under amendments I will move in the committee stages, charitable institutions,
gift-deductible bodies and trustees of charitable funds will be able to choose to account on a cash basis regardless
of their turnover.

The government's expressed intention was that no net revenue would be raised from applying the GST to
gambling. This would be achieved by reducing state and territory taxes by a similar amount to the GST. However,
in the case of raffles conducted by charities, no state or territory taxes will be levied. To ensure our policy is
achieved in the simplest possible fashion, such raffles and bingo run by charities will be GST free.

Amendments will also make it clear that the sale of the family farm and improvements as a going concern will
be GST free. However, farms are often sold piecemeal, that is, the stock and machinery are sold separately in
clearing sales and then the land and buildings are sold afterwards. Selling the farm land in these circumstances
may not constitute the sale of a going concern. The amendments will ensure that the separate sale of farm land,
including improvements, will be GST free.

In addition, to remove any practical difficulties for business under the government's proposal to reduce the 32
per cent wholesale sales tax to 22 per cent, I will also be moving amendments to specify a change to the date of
effect of this measure. The reduction of the 32 per cent rate will come into effect 21 days after the date on which
the GST bill receives royal assent. This is in response to concerns from businesses that they need sufficient notice
to implement the necessary changes, such as altering prices.

The amendments we are proposing reflect the consultations which we have had with groups. We believe that
they are an appropriate response to issues which have been raised with us. Senator Harradine has raised quite a
number of questions in the debate. I will make sure that a response is given to those questions.

The committee stage of the debate is a time to outline the general positions and general principles that various
parties in the Senate are adopting. The government's position is quite clear: we believe that we need major reform
of the tax system. The Labor Party position is equally clear; it is utterly opposed to reform. The Labor Party went
to the election with a very poorly thought-out and poorly developed tax policy and was appropriately defeated.
They wasted their first period in opposition and I think they were judged correctly by the public.

I believe the Democrats have come to this debate recognising that the tax system is broken. The Labor Party
does not accept that. The Labor Party thinks that Australia has a great tax system. We do not.

Senator Cook—We want reform without the GST.

Senator Kemp—The Labor Party does not want reform. The Labor Party has no alternative plan. The poorly
thought-out issues which were developed on a piece of paper and put to the Australian public were treated with
contempt by them, and rightly so because the Labor Party refused to do the work. Typically of the Labor Party, it
says no to everything but when you ask it what its alternatives are it does not have any solutions. The Democrats,
I believe, have come to this debate recognising that reform must take place—that is light years ahead of the
Labor Party position.

It is very clear from issues raised today by Senator Murray that there is quite a deal of difference between the
government's position and the Democrats' position on a number of quite fundamental issues. Nonetheless, we
recognise that the Democrats are seeking to raise issues and in the committee stages undoubtedly we will have
a vigorous debate on those particular matters.

I regret that in many ways the Greens seem to have excluded themselves from major debates in the Senate.
That may not be apparent from the amount of time which is taken up with debates with Green senators. The truth
of the matter is that the two Green senators have a balance of power position in the Senate. It is a great pity that
the Green senators relentlessly align themselves with the Labor Party.
Senator Sherry—Not on everything.

Senator KEMP—On just about everything. Senator Sherry is embarrassed by the company he so often keeps, and quite rightly.

Senator Sherry—No, I'm not embarrassed.

Senator KEMP—Because of that embarrassment, I am very glad I raised that issue. We have noted how often the Greens support the Labor Party position. I think it is a great pity that Senator Margetts and Senator Bob Brown do not take part in the wider debates. It is a great pity that you do not encourage wider discussion and negotiation with the government on issues.

Senator Margetts—So does that translate to selling out?

Senator KEMP—Senator Margetts, you have had your say and I might have mine, if you don't mind. I think it is a pity. The Democrats differ from us, but we have discussions. The Independent senators will differ, but discussions occur on many issues. Some of those issues are resolved; others are not. No discussions ever occur with the Green senators. We sit in this chamber and listen to reams of amendments and a torrent of words but the Green senators achieve absolutely nothing, despite the fact that they have the balance of power in the Senate.

Senator Brown interjecting—

Senator KEMP—I am sorry about that, Senator Brown, but when people review what has happened over the last three years and they say, 'What did Senator Brown achieve and what did Senator Margetts achieve?' it will be the shortest list of any senator in this chamber. I think that is a pity, and I put that on record. So I think that as the second reading debate moves to an end—

Senator Margetts—I bet you I got more amendments up than you in the whole time you were in opposition.

The ACTING DEPUTY PRESIDENT (Senator Murphy)—Order! Minister, would you ignore the interjections.

Senator KEMP—Thank you, Mr Acting Deputy President. Unfortunately, I seem to have provoked the senator. Anyway, my remarks stand on the record and others will judge them.

Senator Margetts interjecting—

Senator KEMP—People will judge your records, Senator Brown and Senator Margetts, and they will judge mine. As I said, the second reading debate now comes to an end. There have been many issues which have been raised in the second reading debate. I have no doubt that these are going to be fully canvassed in the hours, days and weeks ahead. Given that the government have a mandate, given that we have put a plan before the public —this plan has been fully discussed, debated and voted upon; we have had the most extensive Senate inquiries in history—we believe that the time has come for the debate to progress, we hope with due speed, so that the Australian people can look forward—

Senator Sherry—You are ready to go, are you?

Senator KEMP—We are ready to go, Senator, but I think there are others that are not quite ready. I leave the detailed arrangements to the Manager of Government Business. I commend these bills to the Senate. They are
very important bills, they are major reform bills and they are bills which will bring great benefit to our nation and to Australians.

Senator Cook—Mr Acting Deputy President, I would like to propose that when the question that the bills be read a second time is put, the bills Nos 1 to 6 as listed on today’s Notice Paper be put separately and as one block.

The ACTING DEPUTY PRESIDENT (Senator Murphy)—The chair will carry that request at the request of any senator. That will be done. Minister, you seek some clarification?

Senator Kemp—Would you explain what is meant by ‘put separately and as one block’?

Senator Cook—I am proposing that when the question is put that the bills be read a second time, bills Nos 1 to 6, as listed in today’s Notice Paper, which are the substantive bills, be put separately and that the block of bills Nos 1 to 6 be the first block to be dealt with.

The ACTING DEPUTY PRESIDENT—As I said, the chair will divide the question at the request of any senator, and that is what we will do.