



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



**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  
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**A NEW TAX SYSTEM (GOODS  
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—GENERAL) BILL 1998**

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**A NEW TAX SYSTEM  
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**A NEW TAX SYSTEM (GOODS AND  
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**A NEW TAX SYSTEM (WINE  
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**A NEW TAX SYSTEM  
(LUXURY CAR TAX) BILL 1999**

**A NEW TAX SYSTEM (LUXURY CAR TAX  
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**A NEW TAX SYSTEM (LUXURY CAR TAX  
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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**

**In Committee**

**SPEECH**

**Thursday, 13 May 1999**

BY AUTHORITY OF THE SENATE

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## SPEECH

**Date** Thursday, 13 May 1999  
**Page** 4969  
**Questioner**  
**Speaker** Murray, Sen Andrew

**Source** Senate  
**Proof** No  
**Responder**  
**Question No.**

**Senator MURRAY** (WA) (12.24 pm)—I must respond to a few of the questions put to us, since it was our amendment. Thank you for your questions, Senator Brown. I actually think they are quite helpful in fleshing out a couple of issues. Let me try to respond to you.

One of the questions you asked related to item 6, which is that a supply of goods and services by a school tuckshop or canteen is input taxed. At the moment what happens with a school tuckshop or canteen is that they cop whatever taxes are there, for example, wholesale sales tax on cool drinks that they sell. The government proposes that they be taxed if they exceed the \$100,000 level, as I understand it. We did not want them to be taxed on food and we discussed the matter. It was put in evidence, as you are probably aware, to the committees. We looked for a measure which would be most likely to keep them below the \$100,000 level and would be most likely to reduce compliance costs, and the best way we could work out to do that was in fact to make them input taxed so that they did not charge a GST and did not make any GST claims. It simply kept them pretty well clear of all the admin and everything else that has to go with this. We saw that as the easiest way to deal with it. You may have a different view, but that was our best method of keeping their prices down and keeping them free of having to charge GST to their students.

The jobs issue is a key one. The Australian Democrats are not a well funded political party. It might be of interest to note that we get one seat for every 375,000 votes that are recorded for us, so we tend to be very under-represented in relation to our public support.

**Senator Cook**—Oh!

**Senator MURRAY**—It is true. The number of seats for the Labor Party, by comparison, is about one for 80,000 or 90,000 votes, so that gives you an idea. Despite that great support, we do not have great funds. That is simply a longwinded way of saying that we have not got the funds to do the modelling. So we did not develop this definition prior to the select committee's considerations, we developed it after the select committee's considerations. It was the select committee that did the modelling. Plainly, our definition could not be exactly modelled. What was modelled was the following. Again I will use the presence of the chair of that committee, Senator Cook, as a reference point in case I slip up with my memory. Professor Dixon, using the Monash model, modelled a very basic definition of food which he costed at around \$2.5 billion. Mr Murphy, using his model, modelled a slightly wider definition than we are using, which I recall was costed at around \$4.5 billion. Anyone knows that the consequence of modelling is that you cannot be exact, and Mr Murphy's figures were that there would be an 8,000- to 12,000-job improvement in the short term from making food GST free.

**Senator Kemp**—What about the long-term effects?

**Senator MURRAY**—He said that the long-term effect was that it evened out, and he said that for the entire GST package. That is why I qualified it with 'short-term'. The point to make is one which all economists would make, and those with economic training in the chamber would know that. If prices go up, jobs fall. That is why people argue against major increases in wages, in prices of goods, in prices of services and so on.

It is accepted by all the modellers and commentators that, for instance, raising the prices of the tourism sector, which will happen, will result in a fall in jobs. It is accepted that a fall in prices in the manufacturing sector will actually increase jobs. So the six to seven per cent increase in food prices will result in a loss of jobs and, if you take that increase away, which is our intention, obviously the potential loss of jobs falls away and there is a possible job increase. You want a specific, modelled answer to this definition. There is not one. This definition was not modelled. A narrow definition was—by Professor Dixon—and a slightly wider definition was modelled by Mr Murphy, and the best I can do is refer you to the evidence accordingly.

Senator Kemp, you made a number of remarks about the OECD and the fact that most of its members do in fact tax food. You are accurate in that assessment, but on equity grounds they differentiate, in the taxation of

food, from the standard rate. Belgium: basic food is six per cent; the standard rate is 21 per cent. The difference is 15 per cent, which is greater than the 10 per cent you seek to impose, Minister. Germany: the basic food rate is seven per cent and the standard rate is 15 per cent; the difference is eight per cent. So you can see in each of these cases that a major differential is offered. It is offered on equity grounds; that is why it is there.

The Greeks tax basic food at eight per cent; the standard rate is 18 per cent—a 10 per cent difference, so that would be just the same in our society as giving your rate of 10 per cent and giving food nought, the same difference. Spain: the basic food rate is four per cent; the standard rate is 16 per cent—a 12 per cent difference, greater than your 10 per cent rate. France: the basic food rate is 5½ per cent; the standard rate is 20.6 per cent—only the French would rather have 0.6 when everybody else's is a straightforward number—and the difference there is 15 per cent, which is 50 per cent greater than your 10 per cent.

Ireland: the basic food rate is nought and the standard rate is 21 per cent—a 21 per cent gift on equity grounds. Italy: the basic food rate is four per cent, the standard rate is 19 per cent; the difference is 15 per cent, again 50 per cent greater than your 10 per cent. Luxembourg: the basic food rate is three per cent; the standard rate is 15 per cent—a 12 per cent difference. The Netherlands: the basic food rate is six per cent, the standard rate is 17½ per cent; the difference is 11½ per cent—greater than your 10 per cent. Austria: the basic food rate is 10 per cent and the standard rate is 20 per cent, a difference of 10 per cent. That is exactly what we are suggesting in Australia: a difference of 10 per cent between a standard rate and zero rated food.

Portugal: the basic food rate is five per cent; the standard rate is 17 per cent—a difference of 12 per cent. That is a greater gift to equity than your rate. Finland: the basic food rate is 17 per cent; the standard rate is 22 per cent—a difference of five per cent. It is less than yours. Sweden: a basic food rate of 12 per cent and a standard rate of 25 per cent; 13 per cent is the difference. Great Britain: a basic food rate of nought per cent and a standard rate of 17½ per cent; the difference is 17½ per cent. Canada: a basic food rate of nought per cent; the standard rate is seven per cent, so the difference is the full seven. Iceland: a basic food rate of 14 per cent and a standard rate of 24½ per cent, a difference of 10½ per cent—again greater than your 10 per cent.

Mexico: a basic food rate of zero and a standard rate of 15 per cent, a difference of 15 per cent. Switzerland: a basic food rate of two per cent and a standard rate of 6½ per cent, a difference of 4½ per cent. Turkey: a basic food rate of one per cent and a standard rate of eight per cent, a difference of seven per cent. Poland: food is zero rated and the standard rate is 22 per cent, a difference of 22 per cent. The Czech Republic: a basic food rate of five per cent and a standard rate of 22 per cent, a difference of 17 per cent. Hungary: a basic food rate of 12 per cent and a standard rate of 25 per cent, a difference of 13 per cent. Korea: food is zero rated and the standard rate is 10 per cent, a difference of 10 per cent.

I have taken you somewhat painfully through all of that to indicate that, whilst it is true that out of the countries I have listed only six zero rate food, all the others apply a differential which in nearly every case is greater than the differential between the 10 per cent you are proposing for the GST and the zero rating we are proposing. The reasons they do that are that it does not harm the economy, it is not overcomplex and it produces greater equity. So that is my answer to that remark of yours.

The second thing that I have found intriguing throughout this debate, Minister, and perhaps you would like to answer this question a little later, is this: I would like to know if in 1993 Mr John Howard, Mr Peter Costello and you were parliamentarians, if you fought the election in 1993 and if you went to that election arguing that food should not have a GST on it. If you did, I want to know if you publicly supported that position or if you publicly opposed that position and why you and the other two individuals would think it perfectly acceptable to fight an election in 1993 on food not being taxed when suddenly in 1999 this is an unbearable evil. That is an important issue.

**Senator Cook**—The unbearable likeness of being.

**Senator MURRAY**—Yes.

**Senator Kemp**—We lost that election with food out.

**Senator MURRAY**—Yes, but it is an interesting idea, isn't it? Here is something which you find so appalling in 1999—you say we will gut the package, we will ruin the economy and send us all into doom and disaster—but which the rest of the world coped with quite well and for which in 1993 you went to the people and said, 'Yes, let's not have food taxed.' That is a very strange approach. I will leave it there. I think there was a major

question on equity and I will deal with that at length further on. I think, Senator Cook, you might have wanted to follow on with additional questions.