



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  
AND SERVICES TAX IMPOSITION  
—CUSTOMS) BILL 1998**

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

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**A NEW TAX SYSTEM  
(GOODS AND SERVICES TAX  
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**A NEW TAX SYSTEM (GOODS AND  
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**A NEW TAX SYSTEM (AUSTRALIAN  
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**A NEW TAX SYSTEM (AGED CARE  
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**A NEW TAX SYSTEM (WINE  
EQUALISATION TAX  
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**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  
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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, 24 June 1999**

BY AUTHORITY OF THE SENATE

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## SPEECH

**Date** Thursday, 24 June 1999  
**Page** 6296  
**Questioner**  
**Speaker** Murray, Sen Andrew

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

**Senator MURRAY** (WA) (1.18 pm)—I must say that yet again Senator Cook has raised some issues of real substance. I will start with the last, because it is a fundamental issue. All politicians of character and integrity regret that our profession is looked down upon by so many people in Australia. The issue of trust does loom large, not only in this debate but in everything we do.

Attached to my earlier questions of the Labor Party about its views on tax, hidden behind them, was the trust issue. If there is a weakness in our agreement, it is that, if the Labor Party combined with a future coalition to tax food, we could not stop it. That is why the attitude of Senator Cook's party to the food issue is germane. I have not been rounding on the senator but that is why I have wanted to know what his real position on food is, whether he wants it all taxed or not taxed, or where the definition should be. Frankly, if the Labor Party went to the next election saying that it would tax food and the coalition said the same thing, we would be up the creek. We could not stop it. So an issue of trust is important there.

The second issue of trust relates to the remainder of the package, as to whether compensation can be withdrawn. I must say that the committee process really did reinforce, yet again, the value of the Senate and the way it operates. Whoever you were, from whatever side of the argument, it really did flesh out and flush out the issues in a very commendable manner. One of the things the process did was to result in some people who were very ardent supporters of the government's ANTS package actually highlighting some of the weaknesses. One of the best examples of that was Geoff Carmody, from Access Economics, who said, in conjunction with the Australian Food and Grocery Council, 'Look, if you continue with the compensation package as it is, it will be eroded.' That issue was then taken up by a number of people and political parties, not least our own, and the consequence of our agreement is that it will not be eroded.

How could compensation, allowances or anything else of that sort be taken away in future? It is very difficult, because to do that not only does the government have to break an agreement, not only does the government have to go back on its word, not only does it have to change laws, not only does it have to introduce new budgets, but it has to get it all through the Senate. So in all this—particularly since in the next parliament the non-government parties will be principally Labor and the Democrats—the attitude of the Labor Party is critical. The question to Senator Cook is, 'Would you let it happen?' My assumption, knowing him to the extent that I do, is that he would not. But he needs to say that to us. That is an important starting point.

The next area in my notes—and I will wander my way through your contribution, if you do not mind, probably not in a sequential way—is some elements you read out of our policy that we put to the Australian people in September 1998. I freely admit that some of those things in there either changed or were not achieved. The principal one not achieved, as you know, was our commitment to take GST off books. It is a failure we regret, but we were unable to achieve it in agreement. You know what we got in return, which was the \$240 million worth of grants, bounties and so on for the book industry. That, we know, is something that we have been criticised for.

The second one you mentioned was the non-negotiability of food. I think you ought to be fair to us and acknowledge that, within that document, we actually did spell out the kind of food that we believed should be defined as GST free. We specifically said that restaurants and takeaway food should be taxed.

I want to turn to pages 372 and 373 of the main report of the Senate select committee because that outlined that matter. What we said in that report was that Treasury costed our option of food, other than restaurants and takeaway food, which we described as the British option, as costing \$4.45 billion in 2000-01 and \$5.24 billion in 2001-02. It has been the definition used in most modelling of this committee and the one on the table for debate by witnesses. This is the definition that the Democrats proposed during the election campaign. We based our position broadly on the UK and Canadian situations, where restaurants and takeaway foods and some snack foods are taxed. Our principal reason for moving to not include restaurants and takeaways in the food definition was that the taxation of meals out is strongly progressive. Meals out make up six per cent of the total expenditure of the top 20 per cent of households but just 3.6 per cent of the spending of the bottom 20 per cent of households.

Further, meals out make up 18 per cent of the food bill of low income earners but 35 per cent of the spending of the high income earners' food bills.

I have read that to you at some length to confirm what our position was. I freely admit we have changed our position as a result of the Senate committee and I have outlined for you the reasons for doing so: that we believe that the jobs and equity issues balanced out. But I will also say to you that consistently the media, in the shorthand version of our view, did keep saying, 'No GST on food.' If some people thought that that meant no GST on restaurant food, it is certainly not what we said.

Another point I noted was your remarks about the regressivity of the GST. 'Regressive'—I keep seeing in letters, emails and whatever else I get—is a word that those who want to participate in this debate have latched on to with alacrity. But we all know who are informed on this matter—and everybody in this chamber is—we all know that every indirect tax is regressive because that is the nature of a flat tax. I think you expressed it very well, Senator Cook, when you said the nature of a regressive tax is that the poor pay the same as the rich. That is so, whether it is a goods and services tax, whether it is a wholesale sales tax, whether it is a financial institutions duty, whether it is a bank account debit, or whether it is an excise. You name it, any indirect tax is regressive. The issue is not whether an indirect tax is regressive but whether it is more or less regressive.

I have consistently said to people who argue to me about indirect taxes, 'Look, if you hold to economic and taxation theory that there should be no indirect taxes at all and that only surpluses and profits should be taxed, I understand that. That has coherence and consistency. But if you hold to the view that there should be indirect taxes, then the question is simply which taxes and what limits should there be on them. If you hold to the view that there should be indirect taxes on goods, I want you to explain to me which goods, which limits, what limits should there be on them and whether you believe there should be no taxes on services, and why.'

There are Labor governments in this country that do believe in taxes on services. The New South Wales government, for instance, taxes beds, which is a service. I agree with that policy. I probably do not agree with the way it was done, but I think it is appropriate to tax services.

The government has taken the view that services should be taxed. The Australian Democrats agree with them. The government has taken the view that not all services should be taxed, and the Australian Democrats agree with them. We do not think that health and education services should be taxed. We are in agreement on that basis. The government took the view that most goods should be taxed, and we agree with them. But there were many goods that they agreed should not be taxed—for instance, health goods. Lots of health goods the government agreed should not be taxed. We have extended that to food goods.

So I think the issue of regressivity and the use of the word 'regressive' is somewhat of a call sign, somewhat of a slogan, in this whole debate because the question is whether something is more or less regressive than it could otherwise be and whether there are means of making sure that those who have the lowest income and who are poor are least affected by it. That is why a great deal of attention has been paid to social security benefits and to compensation, improving allowances, improving rent assistance, improving homeless allowances—all the attention to the props and the assistance that we give those in our society who are worst off. And, of course, from our point of view, making food GST free is also of assistance in that area.

The last area I want to cover in responding to Senator Cook is the issue of compliance costs. You very clearly made the point, Senator Cook, that compliance costs have not been properly factored into modelling and analysis of the entire package. I would suggest to you that in our Senate committee inquiries that might have been one of the weakest areas, that we just did not get enough material on that area. But when we talk about compliance costs we need to make some points. If it is in relation to food, it seems to make relatively little difference to the cost to business. I want to quote to you what the UK National Audit Office, which is the equivalent of our ANAO, stated in their report on VAT compliance costs in 1994. They said:

The incidence of compliance costs in relation to trader turnover is broadly consistent between the United Kingdom, which is zero rated, Germany and The Netherlands, which concessionally tax food, Canada, which zero rates food, and New Zealand, which taxes food.

In other words, it does not vary much. That is because the nature of the problem is similar, regardless of the system. And when people talk about compliance costs, if you are going to start factoring that into your debate and your modelling, you had better start factoring in compliance benefits because one of the benefits of forcing

through major tax change is that new systems, new hardware, new software and a new ability to analyse and assess businesses are introduced. And there are some positive consequences to that.

I think—and Senator Ferguson is in the chamber to remind me—we did get some evidence to the effect that there were benefits as well as costs in the issue of compliance; that new accounting systems resulted in businesses being able to analyse and understand their management accounts and their operation far better. Of course, that is so, particularly at the small business and medium business end. I am quite prepared to debate with you, Senator Cook, the effect of compliance costs, but I also say that in any cost analysis you have to have benefit analysis of whatever size you might compute that to be.

**Senator Sherry**—Sounds like chopping your hand off to me.

**Senator MURRAY**—Don't make me laugh, Senator Sherry. The compliance cost issue has been costed at \$1.9 billion across the entire economy. To that, we concede, you can add between \$40 million and \$100 million for the business of excising food. But the overall benefits to the economy are agreed by us and the government, but not by the Labor Party, to accrue to Australia as a whole; and those cost benefits will result in a positive side to the ledger, not a negative side to the ledger.