THE SENATE

A NEW TAX SYSTEM (COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS) AMENDMENT BILL 2003

Second Reading

SPEECH

Tuesday, 9 March 2004

BY AUTHORITY OF THE SENATE
The goods and services tax has been one of the most divisive issues in Australian politics ever since the Hawke-Keating Labor government first floated a version in 1985. That Labor idea was supported by the Democrats even then. Australia finally introduced the goods and service tax in July 2000, negotiated by the Democrats and the coalition and opposed by Labor. I am sure some Labor people genuinely opposed the goods and services tax, but I always thought there was more politics than policy in many Labor members' opposition, especially when various Labor luminaries from the states sidled up to me and said, 'Well done.'

Since its first introduction four decades ago, three-quarters of the countries in the world have instituted a GST style consumption tax, all featuring major exemptions for particular goods and services. It always amused me vastly to get constituents ringing up and complaining about the fact that a GST was going to be introduced in Australia, and I would ask them if they were foreign, if they had been migrants or if they had travelled overseas. I would say to them: 'How did you find the value added tax, or the GST, in England or in Greece?' or wherever, and they would say, 'What—have they got one?' Of course, they never realised that everywhere in the world this sort of consumption tax is apparent.

This A New Tax System (Commonwealth-State Financial Arrangements) Amendment Bill 2003 amends the GST financial arrangements between the states and the federal government. The amendments ensure that, in calculating payments to the states, the Commissioner of Taxation can take into account all GST refunds, including the Tourist Refund Scheme, which is currently excluded. Without this amendment the exclusion of the Tourist Refund Scheme means that the Commonwealth would pay the states more than it would receive from the GST.

The bill also makes some technical changes to the timing of final determinations and the mechanism for making adjustments. The states have agreed to these changes—and that is all they can agree to at the moment, because the state governments are currently squabbling over the $32 billion-plus amount of GST collections for this financial year. My home state of Western Australia and the state of Queensland are both, together, $500 million better off than they would have been under the old arrangements. The other states are saying that they want lots more. Nothing really changes with the states and the feds. I think it was former Treasurer Paul Keating who coined that wonderful phrase: 'Never stand between a premier and a bucket of money.' I think that regardless of who the government is that is an important element.

The Bills Digest conveniently summarises the main features of the intergovernmental agreement which affects the new tax system, and those main features are:

- the Commonwealth must pass all GST revenue (net of administrative costs) to the States
- the States may spend the GST as they wish—

  in other words, it is not hypothecated or directed in any way—

- the Commonwealth has guaranteed that in each of the transitional years following the introduction of tax reform, no State will be worse off than had the reform not been implemented. To fulfil this commitment, each State is entitled to receive a Guaranteed Minimum Amount (GMA)—

  and it is true that a number of states are now receiving in excess of the amount that was originally guaranteed. The intergovernmental agreement further goes on:

- the Commonwealth meets the difference between each State's GMA and GST entitlement in the form of budget balancing assistance (BBA)

- the inter-State allocation of the GST revenue is based on the relativities calculated by the Commonwealth Grants Commission based on the fiscal equalisation principle—
and, of course, that is where the squabbling is, and I would hesitate to get involved in that fight because it is a very tough and bitter one. It goes on:

the States undertook to abolish a number of taxes, reduce gambling taxes and administer a new uniform First Home Owners Scheme, and

the establishment of the Ministerial Council to oversee the implementation and operation of the IGA.

It is worth reminding the Senate why the Democrats negotiated the GST with the coalition and the successes that were achieved. I will acknowledge that the decision was a difficult one. In many respects, the Democrats have felt the political effects of that probably more than any other party, but we took the decision in the public interest. It has affected the self-interest of the senators who took that decision, but we recognised that the old wholesale sales tax was taxing goods only, off a narrow base. We could never understand why Labor thought it was all right to tax goods but not services. We thought the old wholesale sales tax distorted business investment decisions, disadvantaged exports and was not growing with changes in the economy. The tax system had not been raising sufficient revenue to fund legitimate public needs in health, education and community services and was not taxing equitably. As an aside, although I think the income and revenue stream to the Australian government has drastically improved, it just never seems to be enough—all politicians of all parties know that there is an endless demand for more services and more expenditure on worthy causes.

Supporters of the new tax system, including the GST, argued that it would deliver a better, more secure, fairer and more competitive funding flow, for both the Commonwealth and the states, compared with our previous tax system. They believed it would enhance exports, increase efficiencies and remove distortions in the economy. My strong belief and my judgment based on the evidence is that our decision to support the GST has been vindicated. We did not support the original GST model proposed by the coalition government, because we believed it needed to be made fairer. The Democrats included basic and fresh food as exempt from GST and extended the exemptions in the health, education and charitable services sectors. I have remarked before at the appallingly ignorant remarks I sometimes see in the newspapers, including from people who should know better, that it was the Democrats who prevented all goods and services being taxed on a GST basis. The fact is that the government always intended one in five dollars to be GST exempt. That is the effect of exempting health, education, financial services and other areas.

In the end, the government was forced by Labor opposition to the package and by the Democrats' refusal to pass their total package to agree to what was at that stage $4 billion worth of changes to the GST itself, principally aimed at low-income households, with exemptions for basic and fresh food and further exemptions for the health, education and charity sectors. We gained an additional $750 million increase in compensation paid to pensioners, the unemployed, families and other social security beneficiaries. Independent modelling by the National Centre for Social and Economic Modelling—NATSEM—before implementation showed these changes represented a real increase in income for these groups. This was again confirmed by NATSEM research after implementation, showing that social security beneficiaries were better off in real terms under the new tax system.

Part of the negotiation by the Democrats was an additional $1 billion a year, three-year increase in environment programs, with tough new fuel emissions standards, incentives for renewable and cleaner fuels and grants to reduce greenhouse gas emissions. The Treasurer has been on the record recently saying that the top tax rate should cut in at $75,000. He says that the Senate blocked this change. That is true. The Labor Party would not accept that package and neither would the Democrats. But, of course, like a lot of the government's spin-doctoring, this is misleading. To pay for the increase in payments to pensioners and the food exemptions—in other words, things which affected lower income people—the government agreed to a $1.2 billion reduction in tax cuts for higher income earners. So the Democrats reduced the tax cut for the better off and wealthy, and they have never forgiven us.

Senator Sherry—The government accepted it.

Senator MURRAY—That is right. We are proud of that achievement and our priority will always be to the lower income earners over the wealthy in our society. One of the controversial aspects was that we did not obtain an exemption for books from the GST. This was disappointing, because it was a key part of our package. We did, instead, gain a $240 million books package providing a tax rebate on textbooks, assistance to Australian authors and publishers and additional funding for Australian book holdings in school libraries. While not perfect,
the Democrats' changes represent significant improvements on the social, environmental and equity fronts from the original package.

On the compensation side, the Democrats secured a four per cent GST supplement indexed to the CPI and the first real increase in age pensions since January 1993 through a two per cent rise in real terms in social security allowances. We secured a reduced taper rate on private income, down from 50 per cent to 40 per cent, benefiting around $000,000 part pensioners. We extended the self-funded savings bonus from age 65 to age 55 at a cost of $180 million. We raised the increase in rent assistance from four per cent to 10 per cent at a cost of $66 million. We doubled the SAP allocation for the homeless.

Part of the disappointment with the GST was the poor initial implementation by the Taxation Office. While we have to be considerate of the pressures they were under, the government and the tax office proved too slow in responding to legitimate concerns over the paperwork and the systems which were raised by business and members of the public. The government tried to grab extra revenue by breaking key election promises in its post-GST setting of excise rates on petrol and beer. Eventually, pressure from the community forced the government to back down on the overly onerous requirements of the BAS statement and on petrol and beer excises—although as a finance man I think the decision not to index the excise on petrol was a wrong one; I believe petrol should be indexed as are other taxes.

Despite these gains—and we thought them very considerable and in the long-term interest of Australia—the GST was divisive in the community and in the Democrats. Some Democrat senators felt the negotiated outcome did not go far enough and opposed the GST package as a result, exercising the highly valued right all Democrat parliamentarians have to a conscience vote. That decision was respected but I voted for it and helped negotiate the outcome. I believe my decision to vote for that package has been vindicated. But if anyone thinks I am not conscious of the cost, I am—and that is the cost to my party.

Australia is in a period of significant economic growth. Obviously, there are societal issues on which the government has let down Australians and there are still many parts of the community that have not benefited from the economic sunshine, but the reality is that inflation is low, unemployment is low and interest rates, although high by international standards, are low. Despite a global slowdown, the Australian economy is performing very well. As I said, my decision and those of my colleagues to negotiate with the government and achieve a fairer, better GST package has been vindicated.

But it is sometimes forgotten in this place, by the media and in the community that these are long-term issues and long-term decisions. It is common for the coalition to claim all the credit for the economic sunshine that we experience now. But, frankly, those underpinnings, those foundations, were very much laid by the Labor Party in the Hawke-Keating economic liberalisation environment: the floating of the dollar; the reduction in excess tariffs, which originally began all the way back with the Hon. Gough Whitlam; and the introduction of the superb Superannuation Guarantee Scheme. Many, many economic programs have contributed to the long-term strength and resilience of the Australian economy. The coalition has built on those.

We think balancing the books, paying off debt, introducing significant further industrial relations reform—the second wave following the Keating first wave in 1993—the new tax system and many other measures have contributed to a strong economy for Australia. What we are critical of is that it has not been matched by an equal interest in moving forward environmental and social benefits and in protecting the human rights and liberties of our citizens on a truly liberal platform and foundation—and by liberal I mean small 'l' liberal, not big 'c' conservative, which is the government's present character. The government and the Democrats passed the new tax system and between the two of us our parties have ensured that the state governments will benefit for many years to come. Much of the current resilience of the Labor state governments is predicated on that sound financial underpinning.

While we are talking about the GST I, like Labor, continue to remind the government that against the advice of the Auditor-General and all other political parties it refuses to include the GST, which is a Commonwealth tax, in its Commonwealth financial statements. Despite being supporters of the GST we are extremely critical of what we would refer to as creative accounting in the federal accounts. We support the Auditor-General and we would support any amendment at any time which would seek to make the GST a proper financial record within the overall Commonwealth financial statements.

As I mentioned earlier, this year the GST will generate $32-plus billion of revenue. We think the budget statements should reflect that in the Commonwealth statements. We think its not being reflected is in clear
contravention of Australian Accounting Standard 31 and consequently in contravention of both the spirit and letter of the Charter of Budget Honesty. The auditor of the Treasury consolidated financial statements should in our view qualify the accounts due to this refusal to accept those accounting standards. If this were a listed company it would be an embarrassment. I hope, given the remarks I have heard both today and on previous occasions, that if there were to be a federal Labor government they would treat the GST revenue as a Commonwealth tax in their financial statements and properly reflect the reality as they should.

In conclusion, this is a machinery bill in many respects. It is not contentious in itself but I have sought to revisit some of the areas of contention to remind people of the origins of the GST and new tax system, the part played by the Democrats, the public interest served by its passage and the national interest served by its passage. The Democrats will be supporting this bill.