COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

SELECT COMMITTEE ON A NEW TAX SYSTEM

Reference: A new tax system

MONDAY, 22 FEBRUARY 1999

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SENATE

SELECT COMMITTEE ON A NEW TAX SYSTEM

Monday, 22 February 1999

Members: Senator Cook *(Chair)*, Senator Ferguson *(Deputy Chair)*, Senators Conroy, Gibson, Murray, O'Chee and Sherry

Substitute members: Senators Brownhill, Chapman or Watson for Senators Ferguson, Gibson or O'Chee; Senators George Campbell, Mackay or Murphy for Senators Cook, Conroy or Sherry; Senator Lees for Senator Murray

Participating members: Senators Brown, Colston, Harradine and Margetts

Senators in attendance: Senators Brownhill, George Campbell, Chapman, Conroy, Cook, Ferguson, Gibson, Harradine, Murray and Sherry

Terms of reference for the inquiry:

(1) That a select committee, to be known as the Select Committee on a New Tax System, be established to inquire into and report, on or before 18 February 1999, on the economic theories, assumptions, calculations, projections, estimates and modelling which underpinned the Government's proposals for taxation reform, contained in *Tax reform: not a new tax, a new tax system*.

(2) That, in conducting its inquiry, the committee examine the following matters:

(a) the estimated levels of revenue to be generated or foregone due to the proposed changes, including the estimated level of revenue to be generated by imposing a goods and services tax (GST) on the basic necessities of life (such as food, clothing, shelter and essential services) and books;

(b) the effects of the proposed changes on:

(i) national Gross Domestic Product,
(ii) national export performance and national debt,
(iii) the national Consumer Price Index, and
(iv) the distribution of wealth in the Australian community;

(c) the effects of the package on future federal budget revenues, expenditures and surpluses, including a critical assessment of the economic assumptions underpinning the Treasury's projections in this regard;

(d) the effects of the taxation and compensation package on disposable income and household spending power for a range of 'cameo profiles', including but not limited to those presented in the proposals, under the following scenarios:

(i) a GST extended to the necessities of life (such as food, clothing, shelter and essential services), and

(ii) a GST not extended to the necessities of life (such as food, clothing, shelter and essential services);

(e) with the aim of identifying families and groups who may be disadvantaged by the Government's proposals, focusing on lower and fixed income individuals, families with dependent children or adult members, groups and organisations, and those with special needs, such as people with disabilities;

(f) the assumptions made as to consumption and saving patterns and the cost of living for the various 'cameo profiles';

(g) whether the stated objectives of the package can be met by using an alternative and fairer approach; and

(h) such other matters as the committee considers fall within the scope of this inquiry.

(3) That the committee also inquire into and report, on or before 19 April 1999, on the broad economic effects of the Government's taxation reform legislation proposals with regard to the fairness of the tax system, the living standards of Australian households (especially those on low incomes), the efficiency of the economy, and future public revenues, including:

(a) the effects on equity, efficiency and compliance costs of including, or not including, food or other necessities of life in the GST, together with any related adjustments to the package if food or other necessities of life were GST zero-rated;

(b) the effectiveness of the package in easing the poverty traps facing people on low incomes, and reforming and streamlining tax and income support for families with children, taking into account the static and life-cycle impacts on families with children;

(c) options for amending the income tax schedule to make it more equitable;

(d) the findings of the Tax Consultative Committee chaired by David Vos;

(e) options for improving the effectiveness and fairness of the tax system and reducing inequitable or unreasonable tax avoidance and minimisation, including consideration of alternative areas for tax generation, either where there are current tax concessions or where Australia's taxation system does not address major tax potential, and without limiting the foregoing, the consideration of taxation of foreign companies operating in Australia, including the relative merits of resource rent taxes, royalties or land taxes as compared to company tax in securing a fair compensation to Australia for use of its resources, whether the 150% tax concession for research and development should be restored and whether small companies should be allowed to be taxed as partnerships.

(f) the potential for tax avoidance and evasion, including an examination of the effects on the cash economy, and the potential impact of electronic commerce on the future viability of a GST;

(g) the effects on compliance costs;

(h) the potential for reducing payroll tax, including by providing incentives to create long-term employment and by replacing payroll tax with a carbon tax;

(i) whether there are other means available for rebating or reducing the indirect taxes or excessive user charges embedded in exporters costs;

(j) excises, including those on fuel, tobacco and alcohol - identifying the industries which benefit, and to what extent, from the proposed changes to taxes on fuels;

(k) the effects on interest rates;

(l) the effects on investment, in both physical and human capital formation;

(m) the effects on small business;

(n) the effects on the non-profit sector, including the total amounts of money contributed by the sector, administrative costs, impacts on the viability of the organisations, and the consequent effects on the wellbeing of the community;

(o) the effects of the GST on particular industries, including:

- (i) key service industries such as tourism,
- (ii) the Australian automobile and related industries, having particular regard to the effects of changes to fuel excises,
- (iii) other 'invisible' export industries, such as education and financial services, and
- (iv) the international competitiveness generally of Australian industries;

(p) the implications of not requiring that the GST component of goods and services be itemised on receipts;

(q) the effects of the taxation reform legislation proposals on rural and regional stakeholders, including:

- (i) the effects on particular regions,
- (ii) the effects on rural and regional communities of different tax regimes on fuel - especially the cost of transport of goods to rural communities,
- (iii) the effects on primary industry of replacing the current sales tax exemption on agricultural machinery with a GST, and
- (iv) the effects of imposing a GST on food and other necessities of life on remote communities, including Aboriginal and Islander communities;

(r) the effects of the Government's taxation reform legislation proposals on state and local government administration, including:

- (i) the effects of the package on future federal-state financial relations and the capacities of state and local governments to adequately finance their respective responsibilities in both the short-term and the long-term, including the effects of the proposed transfer of responsibility for local government financial assistance to the states, and whether it discriminates between states,

- (ii) the implications for specific purpose programs,
- (iii) mechanisms required to lock in commitments made by federal and state governments with regard to the new arrangements,
- (iv) the implications for future federal-state financial relations of not extending the GST to the necessities of life (such as food, clothing, shelter and essential services) and books, and any adjustments to the proposed arrangements which would be required to federal-state financial relations,

(v) the implications of the package for the quality and affordability of public utility services and for the public utility concessions for social security recipients,

(vi) the effects of application of the GST, and of changes to tax status, on local government and its activities, particularly commercial activities,

(vii) the implications for the delivery of Commonwealth Government services, including employment services, welfare and other social and cultural services, and

(viii) the extent to which the proposed compensation arrangements are secure from change to below adequate levels;

(s) the adequacy of measures to ensure that consumers fully benefit from the abolition of existing taxes;

(t) the effects of the taxation reform legislation proposals on legal and constitutional matters, including:

(i) the constitutionality of the proposed mechanism for future changes to the GST, including whether such changes would present a significant hurdle to future increases, or reductions if deemed necessary to stimulate the economy,

(ii) the constitutionality of the proposed reorganisation of federal-state tax arrangements and whether the powers and functions of states and territories are materially affected by this reorganisation, and

(iii) the effects of the proposals on the cost of access to justice; and

(u) options for amending the proposed legislation to improve its fairness or efficiency.

(4) That, in reporting on the matters referred to in paragraph (3), the committee have regard to the reports of the references committees referred to in paragraph (17) and integrate the findings of those committees into its final report where relevant.

(5) That the committee consist of 7 senators, 3 nominated by the Leader of the Government in the Senate, 3 nominated by the Leader of the Opposition in the Senate, and 1 nominated by the Leader of the Australian Democrats.

(6) That the committee may proceed to the dispatch of business notwithstanding that not all members have been duly nominated and appointed and notwithstanding any vacancy.

(7) That:

(a) senators may be appointed to the committee as substitutes for members of the committee in respect of particular matters before the committee;

(b) on the nominations of the Greens or independent senators, participating members may be appointed to the committee; and

(c) participating members may participate in hearings of evidence and deliberations of the committee, and have all the rights of members of the committee, but may not vote on any questions before the committee.

(8) That the committee shall elect as its chair a member nominated by the Leader of the Opposition in the Senate.

(9) That the committee shall elect as its deputy chair, immediately after the election of the chair, a member nominated by the Leader of the Government in the Senate.

(10) That the deputy chair act as chair when there is no chair or the chair is not present at a meeting.

(11) That the committee have power to send for and examine persons and documents, to move from place to place, to sit in public or in private, notwithstanding any prorogation of the Parliament or dissolution of the House of Representatives, and have leave to report from time to time its proceedings and the evidence taken and such interim recommendations as it may deem fit.

(12) The quorum of the committee shall be a majority of the members of the committee.

(13) The committee set 29 January 1999 as the date for receipt of submissions.

(14) That the committee hold hearings in each state and territory as required.

(15) That the committee be provided with all necessary staff, facilities and resources and be empowered to appoint persons with specialist knowledge for the purposes of the committee with the approval of the President.

(16) That the committee be empowered to print from day to day such documents and evidence as may be ordered by it and a daily Hansard be published of such proceedings as take place in public.

(17) That the following matters be referred to references committees in accordance with the schedule below for inquiry and report by 31 March 1999, and that in undertaking these inquiries the committees have regard to the report of the Select Committee referred to in paragraph (1) and consult widely, holding hearings in each state and territory, as required. Submissions to these inquiries are to be made by 29 January 1999.

Committee	**Matters for Inquiry**
Community Affairs	The impacts of the Government’s taxation reform legislation proposals on the living standards of Australian households (especially those on low incomes), including: (a) the scope and effectiveness of the proposed arrangements on charities, child care services, aged care services, welfare services, local government human services and all not-for-profit organisations in maintaining the quality and affordability of essential community services, including the implications for the public funding of these services and the implications for the commercial activities of these organisations, and whether unconditional GST-free status should apply to *bona fide* charities; (b) a detailed examination of the zero-rating of health services, including an examination of which services should be zero-rated; (c) the effects on community sector organisations of changes to their tax exempt status, and of the compliance costs of the proposed tax arrangements;

	(d) the effects of the proposed private health insurance rebate; (e) the effects on people with disabilities; (f) the effects on public, community and private housing, including the levels of rents; and (g) options for amendments to improve the fairness or efficiency of the proposed legislation.
Employment, Workplace Relations, Small Business and Education	The employment incentive and education impacts of the Government's taxation reform legislation proposals, including: (a) the scope and effectiveness of the proposed zero-rating arrangements for education in maintaining its quality, accessibility and affordability; (b) the effects on employment; (c) the effects of the proposed GST treatment on the quality, accessibility and affordability of employment services; (d) the effects on education of imposing a GST on, or zero-rating or exempting books and associated education resources; (e) the effects on education of imposing a GST on ancillary resources, services and commercial activities, including the effects on overseas students; (f) the effects of the proposed changes to the tax system on employment; (g) the effects on wage costs, particularly if the basic necessities of life are taxed; (h) the scope and effectiveness of changing the unemployment benefits, pensions and Newstart Allowance 'tapers'; (i) the effects of the proposed changes to the tax system on training and adult education; and (j) options for amendments to improve the fairness or efficiency of the proposed legislation.
Environment, Communications, Information Technology and the Arts	The broad effects of the Government's taxation reform legislation proposals on the environment, the arts and information technology, including:

(a) the environmental effects, and likely impacts of changes to fuel excises, particularly but not only diesel, and the replacement of WST with GST on vehicles and other transport services including:

(i) possible increases in greenhouse gas emissions,
(ii) increases by amount and type of air pollution,
(iii) the effects on public and rail transport,
(iv) the effects on alternative energy use in transport including, but not limited to, compressed natural gas,
(v) the changed effects on native forests of logging or woodchipping due to the tax package, and
(vi) the changed effects of mining in environmentally sensitive areas due to the tax package;

(b) the environmental effects of the replacement of Wholesale Sales Tax by the GST and associated changes in fuel excises on electricity and natural gas;
(c) the impacts of the proposed tax changes on the prices and existing and potential use of renewable energy particularly but not only solar energy technology and energy efficiency equipment;
(d) the environmental effects of any changes to taxes on exports;
(e) the consistency or otherwise of the proposed changes in taxation and excise arrangements with Australia's international treaty obligations, including its obligations under the Framework Convention on Climate Change;
(f) options for a tax system which better achieve environmental objectives,including incentives for fuel efficiency and alternative energy sources, such as measures which promote both environmental protection and employment generation;
(g) the extent to which environmental impacts were considered in the drafting and final copy of the Government's tax package;
(h) the scope of any consultation on environmental matters with experts in Environment Australia or any other Government departments other than the Treasury and Finance departments;
(i) the impact of a GST on ticket sales for the performing arts;
(j) the effects of a GST on the transfer of grant monies for arts projects;

	(k) the effects of the tax proposals on sponsorship provided by the private sector to individual artists and arts organisations; (l) the extent to which the package will block consideration and introduction of 'ecotaxes'; (m) the effects of a GST on not-for-profit conservation and arts organisations; and (n) options for improving the environmental effects of the package.

(18) That the provisions of the bills implementing the proposed new tax system stand referred to the previously mentioned committees for inquiry and report in conjunction with the terms of reference authorised by this resolution, as soon as the bills have been introduced in the House of Representatives.

(19) That when the bills referred to in paragraph (18) are first introduced in the Senate and a motion is moved for the second reading of the bills, debate on that motion shall be adjourned at the conclusion of the speech of the senator moving the motion and resumption of the debate shall be made an order of the day for 19 April 1999 without any question being put.

WITNESSES

Committee met at 9.00 a.m.

SCHULTZ, Ms Ronda Angela, AMCO Committee Member and Regional Manager, Mission Australia and Association of Major Community Organisations (SA)

FITZPATRICK, Mrs Colleen Astrid, Director, Lutheran Community Care, and Member, Association of Major Community Organisations

CRAFT, Ms Libby, Senior Project Officer, Port Adelaide Central Mission Inc.

ROBINSON, Ms Debra, Information Services Manager, Port Adelaide Central Mission Inc.

RICHARDS, Mr Stephen John, Chief Executive Officer, Adelaide Central Mission Inc.

CHAIR—Welcome. Today the committee continues its inquiry into the proposed changes to the Australian taxation system. During the first stage, the committee concentrated on the economic theories, assumptions, calculations, projections, estimates and modelling which underpin the government's proposals for tax reform. A report on the first stage of the inquiry was tabled in the Senate on 18 February 1999—last Thursday.

This hearing is the first in the second stage of the inquiry. In this stage, the committee will examine the broad economic effects of the government's taxation reform legislation proposals. It will have regard to the fairness of the tax system, the living standards of Australians, especially those on low incomes, the efficiency of the economy and future public revenues.

The Senate referred the inquiry to the committee on 25 November 1998. For three related inquiries by references committees—Community Affairs; Employment, Workplace Relations, Small Business and Education; and Environment, Communications, Information Technology and the Arts—the scheduled reporting date is 31 March 1999. This committee will then report on the second stage of its inquiry by 19 April 1999, taking into account the findings of the references committees.

This committee called for submissions to be lodged by 29 January 1999. In fact, the committee is still accepting submissions and so far has received well over 1,300. This is the first public hearing to be held by the committee in Adelaide in the course of this inquiry. In addition to this hearing, the committee will be conducting further public hearings around Australia.

The committee has released the submissions relating to stage 1 of the inquiry and the submissions of those witnesses who gave evidence at earlier hearings. The committee does not intend to release all of the remaining submissions as yet, except for the submissions by witnesses who are giving evidence today.

Is it the wish of the committee that submission Nos 738, 765, 819, 866, 880, 881, 906, 938A and 938B, 946 and 952 be made public? There being no objection, it is so ordered. I now declare that those submissions to this inquiry, together with their attachments, be released.

For the record, this is a public hearing and as such members of the public are welcome to attend. Before we commence taking evidence, let me place on record that all witnesses are protected by parliamentary privilege with respect to submissions made to the committee and evidence given before it. Parliamentary privilege means special rights and immunities attached to the parliament, or its members and others, necessary for the discharge of the functions of the parliament without obstruction and without fear of prosecution. Any act by any person who operates to the disadvantage of a witness, on account of evidence given by him or her before the Senate or any committee of the Senate, is treated as a breach of privilege.

In order to set the record straight, I was surprised to hear this morning on ABC radio that this is the government committee. It is in fact the Senate committee. I was also equally surprised to hear that we had cancelled a hearing in Adelaide for Wednesday when I do not think the committee ever had any intention to hold a hearing in Adelaide on a Wednesday. In a note of ecumenical enthusiasm for our presence in the city of churches, I welcome Phil Gaetjens from the Treasurer's office. I also welcome Ms Ronda Schultz and her colleagues.

Ms Schultz, the normal format is that we invite you to address your submission in synopsis—to give us an overview of it—and to supplement any remarks from any of your colleagues and then, if you would, to make yourself available to questioning from the committee. The ball, as they say, is in your court.

Ms Schultz—Thank you for the opportunity to speak to the Senate committee. Can I say in opening that we are elaborating on four submissions: the three submissions put in by Port Adelaide Central Mission, the Adelaide Central Mission and Lutheran Community Care, and in addition the submission on behalf of the Association of Major Community Organisations in South Australia, of which the other three organisations are members but there are also a number of other organisations which are members of that group.

We are representing community service providers who serve people on low incomes and in disadvantaged situations. We wish to focus this morning on the impact of the GST on the services provided to those people. Others have focused directly on the impact of the GST on incomes and other aspects of life circumstances of people on low incomes, so we wish to confine ourselves to the issue of service provision. Our concern for the impact on non-profit community organisations or public benevolent institutions—PBIs—is solely on their capacity to provide needed services.

In the current climate, the number of people seeking services is increasing and the complexity of the problems that are presenting to our organisations are also increasing. Government funding is not keeping pace with the needs and the fundraising dollar is increasingly hard to obtain, particularly in a state like South Australia that is fairly economically depressed and has very high unemployment. The community sector, in recent years, has faced many pressures, from the implementation of things like competitive tendering and processes such as quality accreditation.

There have also been award increases that are unmatched by government funding increases. So the GST adds another process that is going to create an administrative burden for the sector and impose additional costs. Once again, we are going to see more pressure and reduction in services. For those who rely on community services, this means increasing frustration at being able to obtain needed services, being placed on waiting lists, being charged fees for services that they cannot afford and ultimately going without the supports that may assist them to escape the cycle of poverty or simply provide for an urgent daily need that the rest of us take for granted. For our presentation, we have an overhead of the outline.

Overhead transparencies were then shown—

Ms Schultz—There were quite a lot of issues addressed in the submission and we would like to bring forward a few examples to highlight some of the impacts: firstly, the impact of the GST on service delivery to people on low incomes; and, secondly, the impact on organisations which has a secondary impact on service delivery. We have three examples of the first group: emergency relief, housing related issues and community services to older Australians. I will ask Colleen Fitzpatrick from Lutheran Community Care to lead off with some issues regarding emergency relief.

Mrs Fitzpatrick—I work at Lutheran Community Care, which is situated in Kilburn, Blair Athol. It is an area with a very high percentage of public housing. Many of our clientele are single parents. We find that 70 per cent of those who are first time users of our emergency financial assistance program have been in the area for a week or less. They have no family resource so they have nobody to help them to set up a home.

We are aware that so far in the last quarter for which we have collected statistics the number of people applying for emergency relief are up 20 per cent on the figures from this time last year. We are in fact turning away as many people as we are seeing each month. For example, in January we saw 111 people who were applying for assistance. Those people who come to us are not good financial managers and planners; they are trapped in the cycle of poverty. So the assistance we are providing is very basic—most of it is for food. The Commonwealth guidelines we received on distributing the emergency relief funds are that we hand out cash to people, which has implications when we considering the fringe benefits tax.

We are concerned at the increasing number of people who are facing poverty. Last year we spent an extra $50,000 that had been contributed by the state in assisting with the provision of food hampers at Christmas, for providing white goods for people, and a significant amount of that was spent on providing bedding for people leaving supported accommodation services. So we are seeing people who are fleeing domestic violence, people who would otherwise be homeless, and we are assisting them with the provision of very basic needs.

Our concern and our fear is that with the introduction of the proposed tax reforms their situation is going to be made much worse—that even though they will receive an increase in their government allowances this will not keep pace with the increases they are going to have to pay to purchase appropriate and safe appliances to meet their most basic needs. It is not unusual to see people caught up with really basic needs. For example, we saw two women who were sharing a pair of spectacles because one could not afford to pay the $20 difference to pick up her new ones from the optician. And that is not an isolated incident. So we agree that we need tax reform but our concern is to see that the gap between rich and poor is not widened and that no increased burden is placed on those in poverty.

Ms Schultz—I emphasise that with the provision of cash emergency relief payments obviously when a person goes to the supermarket and there is a 10 per cent GST they are going to receive less value in goods for the same amount of cash payment. So, to keep pace, the emergency relief funds would have to increase by 10 per cent just to provide the same level of services. Debra is going to speak to some housing issues and the GST.

Ms Robinson—I would like to give some specific examples of how the GST in its present format will decrease our ability to provide services by increasing our costs. Following on from emergency relief, our service provides food and other services for families in need and is federally funded by Health and Family Services for $105,000. This includes only $5,000 for service delivery. We contribute a further $40,000 on food and clothing plus the balance of the administrative expenditure required for service delivery. Last financial year this was a total of $84,000. The source of this additional funding is our commercial activities, which includes things like commercial property rentals. Paying GST on those activities will directly decrease our ability to make that organisational contribution to emergency relief. We also provide independent living units for elderly people and community housing for low income families and people with mental health related disabilities.

Under the proposed legislation independent living units will be input taxed. This accommodation is provided to aged people with low incomes on a break-even basis. Seventy per cent of our unit residents are pension dependent. We have calculated that it will cost us at least $23,000 per annum to pay GST on the inputs to those properties. This will need to be funded by raising residential rents, thus having a direct impact on our low income residents.

There will also be significant difficulties in managing compliance for rental properties, particularly in community housing, because some tenants will pay less than 50 per cent of the market rent and inputs for those clients will be GST free. Other tenants will be paying market rents and therefore attract the 10 per cent tax on inputs. The mix of tenants and variations in their incomes are highly volatile and impossible to predict. For example, it is possible that GST payable on the same plumbing service for two adjacent properties may differ, depending on the rent paid by the tenant. This will require an increased administrative effort to monitor.

Ms Schultz—Stephen Richards is going to speak to the issue of the GST and services for older people in the community.

Mr Richards—I wish to touch on a slightly broader area than that and also pick up on two aspects. One is the GST that I think is going to inadvertently end up on the community services and then the impact of the new tax system on profit organisations, which will have the result of reducing their capacity to deliver services. We believe that both these aspects are detrimental to the community and are perhaps unintended consequences of the way that the new tax reform has been structured to date.

Within the community services sector at the moment things in South Australia are really on a knife edge. In a survey that SACOSS, which is the South Australian Council of Social Services, conducted last year, over 50 per cent of the respondents indicated that they were below break-even in their budget situations. A further 10 to 15 per cent said they were struggling. Only a minority of community services at the moment are in a comfortable position.

At the same time we are finding that the number of people seeking services from community non-profits is increasing and that the complexity of the issues with which they are presenting is also increasing. We are facing problems with definitional requirements in terms of government services, because as the funding within the government sectors is getting tighter they are trying to target more and more precisely with their funds. The difficulty is that as that occurs gaps are opening up in service provision right across this state—and I am sure the same thing is occurring interstate. Consequently the financial stress on non-profits at the moment is really quite high.

Adelaide Central Mission, by way of background, turns over just under $20 million per year. We employ 550 staff, have 1000 volunteers, conduct about 36 different community services across a whole range of activities, and touch the lives of about 50,000 South Australians each year.

This year we are battling a deficit of $400,000 because of a whole range of issues. Facing us at the moment is a capital cost of about $200,000 to $250,000 to address the Y2K issue. We have increasing administrative costs associated with the new contract regime that both state and federal governments are coming in with. On top of that, we also have the issue of now trying to deal with a new tax system.

I would like to show senators how the new tax system may negatively impact on services.

Overhead transparencies were then shown—

Mr Richards—This is a model of the continuum of care required by a lot of older Australians—ranging from low care to high care—and how that care is met. At one dimension we have family and friends who are able to provide a lot of support, but that diminishes as it goes across. They are still there even up to the nursing home and hostels but, in terms of primary care it is really at the low care end. Right through this spectrum we have GPs and the hospital system, which is largely government funded and GST free. Up higher we have the HACC services, which are largely government funded and GST free. Up here we have what is called the community aged care packages—government funded, GST free.

Once the complexity of need increases to the degree a person cannot be supported in the community, we cross over into institutional care. That is very expensive, largely government funded and GST free. Nobody would say that the resources coming from the state governments or federal government are adequate to meet all the requirements, and we are not arguing for that.

What has happened though, especially over the last 15 years, is the development of a range of services that have tried to fill the gap. One of those, and I will use only one example—I will show you the figures in a minute—is Constant Care, which is a personal support monitoring service which Adelaide Central Mission has pioneered. We now have over 3,300 people using that system whereby, because of their frailty, disability or whatever, they may require support at any time of the day or night. We have many hundreds of emergency calls now each and every month. We have invested over $1 million of our own funds to try to get this service up and going. This service plugs a hole in terms of being able to support people in the community. Without this and a range of other services there would be more pressure thrown on to HACC services, CACPs and the hostel and nursing home sector.

A problem arises because of the definitions. There are some services which agencies like Adelaide Central Mission cannot fund at all. In those cases where there is a fee for service, people make a choice. Out of those 3,300 people, about 95 per cent are on the age pension. They make sacrifices in terms of supporting themselves in their own home. This is not normal rental or food expenditure, these are costs directly related to their disability or their health status. Because of the definitions, that expenditure will attract a GST, and yet it is actually part of the matrix of services that support older Australians in the community and keep the pressure off these other government funded areas.

That same matrix occurs in the area of disability as well. So what has happened is that in a range of areas—because of the insufficient time allowed to look at the complexities of this—the unintended consequences of the current structure are that many community services are going to be taxed and a lot of people will not be able to afford it. They are going to drop out and we believe that they are going to put pressure on the other systems—because we certainly will be.

CHAIR—Would you like to table that slide?

Mr Richards—Yes, if possible.

CHAIR—We have copies of it.

Mr Richards—Adelaide Central Mission has had a look at which types of our income may be affected by the GST. We do have some commercial activities which we run to try to raise funds. GST will be charged and collected on those activities and we will pass that on. There are also our service activities. Constant Care, for example, will raise about $108,000 from services which, if they were government funded, would not attract the GST.

We also have another range of services which are exactly the same. We have, say, Take Five, which is a service used to support respite services in the disability area. Fees generated from that are often paid by people who are struggling to make ends meet. They have a child or a partner with severe disabilities who requires assistance and they cannot get support anywhere else. They make decisions about where they spend their money. They will be paying GST on that. That will be a straight 10 per cent. There will be no reduction in cost because that is predominantly labour. As a consequence, we raise an additional $43,000 from that type of service. I could go through all of those but I will not. There is a range of services where we have developed ways of meeting the needs in communities. But altogether, what we have is $150,000 worth of GST on community services that, if they were government funded, would be free.

From the commercial activities, the services and potentially the GST on government contract payments, Adelaide Central Mission will be collecting and passing on $670,000 worth of GST, although in some instances we will not be collecting it—we will just have to absorb it because we do not believe people will be able to pay it.

I will not go into all the details, but we have estimated the overall impact on Adelaide Central Mission. The GST on services to vulnerable people that we believe we might have to absorb is about $43,000. GST losses on fundraising—dinners, et cetera—we believe are going to be about $10,000. Because of the complexity of Adelaide Central Mission we believe that compliance costs will be an extra staff member. There will be cost increases due to the FBT. They have been brought to the Senate's attention. Out of a salary bill of $6 million we are talking about just over $100,000. Constant Care will lose income. We cannot absorb Constant Care's GST because it is too great. The feedback we have from polling our staff working in that area, and they know the sensitivity on funding—for a lot of people it is touch and go whether they can afford to stay on it—is that we believe there will be a net loss to us of $100,000 which we will have to pick up. I have already mentioned the circumstances. In relation to our current finances we believe that, overall, we are going to lose about $290,000 directly as a result of the impact on services.

Finally, there is the question of where we are going to get that from. We will have to get it from services like Youth and Parent Services, which we fund to about $33,000 and provide 6,800 hours of counselling; or In Your Street, a volunteer support program for older people, and Do Care Telelink, which we fund combined to about $30,000. There again there are literally thousands of people being supported. We have no choice. We have a huge deficit. We have a number of other non-profits at this stage. Any increased costs now have to come out of services.

Ms Schultz—I realise we are running out of time, but I would like to conclude by addressing the issue of fringe benefits tax. I have some summary points which are included in a number of our submissions. As you are aware, fringe benefits tax exemption is available to PBIs and the vast majority of these organisations use it as a legitimate tool to maximise the use of available resources in service delivery to people on low incomes. The proposal under the new tax system is that FBT exemption be capped at a flat rate of $17,000.

We strongly disagree with this proposal for a number of reasons. PBT exemption enables PBIs to offer salaries competitive with commercial and public services. These salaries are needed to attract the calibre of people needed to deliver good quality services. This enables more of the fundraising and subsidy dollar to be directed towards service provision. This facility has been available since 1986 and PBIs have become reliant on it in order to meet the ever increasing demand for services and the sorts of award increases that have not been matched by government funding increases. The proposed changes have the potential to have a major negative impact on service delivery.

The changes also mean that PBIs will be worse off than profit organisations which can claim FBT costs as a deduction from tax payments. Because PBIs pay no tax we cannot claim that as a deduction.

There is a proposal that this fringe benefits capping creates a level playing field in cases where for-profits and non-profits are competing for service contracts in the government sphere; however, the level playing field argument does not take account of the fact that PBIs provide vast amounts of their own resources, as Stephen has demonstrated, and vast numbers of volunteer hours towards service delivery. When the for-profits are also willing to put in that amount of their own resources then we will consider it a level playing field. The proposed changes have no indexation provision so there is no chance to increase the $17,000 flat rate limit as salaries increase.

We have just given some examples of the potential impact on service delivery of changing the FBT exemption rate. Mission Australia, which is the parent organisation of my organisation, Mission South Australia, has estimated the national impact at $1.35 million. Adelaide Central Mission, as Stephen has mentioned, estimates its loss at over $100,000 and Port Adelaide Central Mission estimates its loss at $84,000. This is money that will need to come out of services in order to fund the salary increases that will result from losing the FBT exemption. I will put forward a number of scenarios.

Overhead transparencies were then shown—

Ms Schultz—The $17,000 is actually a grossed-up value, so the effective fringe benefit is only $8,755. Commonly in non-government organisations there is 30 per cent salary packaging which may include or exclude a vehicle. We are proposing that a fair amount would be a 30 per cent fringe benefit including a car if needs be or a $35,000 fringe benefit limit of grossed value—whichever is the lesser. That retains fringe benefits tax exemption up to that limit but puts a cap on it to remove the possibility of organisations exploiting it, which I think is very rare, but that is one of the reasons given for capping the FBT limit. I have some examples here of what that would actually mean for individuals.

In summary, our organisations are recommending that three major areas be addressed. One is that PBIs become GST exempt, in the same manner as currently operates with sales tax, to reduce the compliance costs and the enormous administrative burden that will result for them. The second is that PBIs be exempt from paying GST on commercial activities where the total surpluses are retained for charitable purposes. As we have demonstrated, those commercial activities fund services. They are not there for any profit to individuals or to organisations; they are there to fund essential services. The third is that, as we have recommended, the fringe benefit limit be set at 30 per cent of income or $35,000 grossed value.

Senator FERGUSON—Mr Richards, in showing your slides earlier you put on a slide and said, 'This is a scenario we believe may occur,' and, when you were showing various other slides, you were saying, 'We believe that this will occur' and 'We believe this is the effect it will have.' Who did the research for you or is it work that you have done yourself? Most people who have come before this committee have been much more definite than saying 'we believe' or 'something may occur'.

Mr Richards—The modelling on Adelaide Central Mission was done by our corporate general manager. We have gone through some of the services, trying to get an exact definition of what is in and what is out, for example. Also, with the government contract payments, there is still a lot of work to be done on those. We are limited in the resources we can apply, but we think they are pretty accurate.

In terms of the losses—for example, the number of people that would make the decision to drop off services like Constant Care—without having the resources to do detailed market survey studies that is impossible to get exactly. We spoke to our staff. We asked them what degree of sensitivity they believed that pricing had, based on their experience in trying to work with people saying yes or no—they were going to be on the system or not—and that is how we arrived at some of those figures. We tried to the best of our ability to get accurate figures.

Senator FERGUSON—I just noticed in the submission there is mention of the fact that there will be a GST on food vouchers and that this means there will be an additional cost to those who are supplying those food vouchers. Did you take into account the fact that, if it is a current $50 food voucher, necessarily you would have to give them a $55 food voucher because of the 10 per cent? The $5 that you have to add to that is an input cost and so it would be rebatable. So, in fact, at a cost of $50 to your charitable organisation, the recipient actually gets $55 to spend. No-one has suggested that the increase in the CPI is going to be 10 per cent, yet you would be giving them 10 per cent more than you would be today.

Mr Richards—That actually may not be the case all the time. The government guidelines on emergency relief actually require us to give them the cash, not the voucher, in all cases. Under emergency relief, for example, if somebody comes to us and they have got bills coming out their ears and we have to pay it, we have to pay their particular bill plus their GST. Because we are not the party levied with the GST or are not paying it directly, we cannot claim that GST back. The only time that we can get a reimbursement for the GST is if we have a deal with a local supermarket. We give the person a voucher, the organisation gets billed directly and then there is a GST on that. That is in fact not necessarily the standard modus operandi in most situations.

Senator FERGUSON—It was just that you mentioned vouchers in your submission. You do not talk about handing out cash; you talk about giving vouchers.

Mr Richards—In the Adelaide Central Mission submission in fact both cases are mentioned.

Ms Schultz—There are also cases in which organisations actually provide the food themselves in which case, if they purchase the food, the GST will be on that purchase as well. If individuals purchase it and donate it to the organisation, they will be paying a GST.

Senator FERGUSON—Also in your submission you talk about the cost of compliance and the cost of training your people to be able to assist them with the introduction of the goods and services tax or the tax package. Are you aware that the government set aside $500 million to assist organisations such as yours?

Mr Richards—Yes.

Senator FERGUSON—Do you give that any consideration at all in your thinking?

Mr Richards—The $500 million has been targeted at small businesses. There has been no clarification of whether it is going to go to non-profits. If it is going to go to non-profits—and there are 400,000 of us—that does not leave a lot of money per non-profit to address the system.

The other issue is that, in relation to compliance costs, we have actually spoken with our accountants and various accounting bodies and said, 'If we have no taxation regime at the moment—in our case we are sales tax exempt, so we do not—and we also have a complex situation, what would be the impact on an ongoing basis?' They have said that you would probably need a reasonably good clerk to make sure you track it and that you claim back everything that you are entitled to.

So we are looking at ongoing costs of around $33,000 per annum for a clerk plus the overheads—the office space, et cetera—plus we have to go through the change to our accounting software, which we have not included in those costings. The accounting software that we, being a large organisation, use is quite complex. We are looking at changing over to a new system at the moment largely because of the GST. It will probably cost us $30,000 to $40,000 to do so, but that is not in the figures. If the government could pay that, that would be great.

Senator MURRAY—It seems to me that we can divide this rather crudely into two areas. One is your internal cost, which is principally your salary cost as I understand it, and the other is the services you provide. On the salary cost side, you have cost increases which are consequent to the taxation changes on FBT and the GST but the government has also proposed income tax cuts and ways in which 'compensation'—as it describes it—will actually improve the disposable income of individuals. In your costing, have you done both sides of the equation? Have you evaluated what the income tax cuts and other benefits will deliver to the person, less the extra costs?

Ms Schultz—Do you mean to staff or to the people who receive services?

Senator MURRAY—To your staff, because you are indicating to us that part of the whole purpose of salary packaging is to ensure that you are relatively competitive in the commercial sector. The assumption is: if costs go up, you will either have to meet those extra costs or in fact cut your salary packaging.

Mr Richards—I think I get the drift of the question. The difficulty is that people in commerce and industry are also going to get those tax cuts, so the relative costings stay the same. I am not too sure that it would actually be valid to claim those tax cuts as a part of the organisational cost saving process when in fact that is not going to occur in commerce and industry.

Senator MURRAY—As a generalisation, though, it would be true that the people who work for your sector are not motivated by money. They have to look after their families but, generally speaking, there is a very strong slice of altruism in their job, of necessity.

Mr Richards—That has been taken advantage of for many years.

Senator MURRAY—And the community is grateful for it. Let us take a notional figure. If somebody wants a net after-tax benefit in terms of their total salary package of $30,000, it may be possible for you to drop the salary you offer to account for your increasing costs and their increase in benefit from income tax cuts. Is that a feasible approach for you to take?

Ms Schultz—It still makes it very inequitable and it makes it difficult to attract qualified and competent staff. If their relativities are going to go so much below those of government sector and private sector employees when—as Stephen mentioned—all of them are going to receive the tax cut benefits, the staff of PBIs will be significantly disadvantaged by the lowering of the FBT limit.

Mrs Fitzpatrick—Furthermore, the increasing industrialisation of our sector with the introduction of awards means that we are less reliant on the altruism. Perhaps those of us at senior executive level are there for more altruistic purposes, but the other wages are comparable within the Public Service or within the award system.

Mr Richards—Another point is that we are no longer just competing against the for-profits for, say, HR managers or accountants. The salary structure at both the state government level and the federal government level for public servants has gone through the roof in the last 10 years, absolutely gone through the roof. Some of the people that we are trying to attract are the ones that are now getting $100,000 salary packages inside the state and federal governments. We just cannot compete with that.

We have got gaps in our management ranks between what we have costed between, say, Adelaide Central Mission and what somebody could expect to get in the for-profit area of between $30,000 up to $50,000 and more for the senior executives. The tax cuts are not going to help buffer that and, given that everybody gets them, it is not going to close those gaps. There is a degree to which people are driven by altruism, yes, but, at the same time, given the uncertainty of the future, people are also saying, 'But I also need to have a reasonable salary commensurate with my abilities to be able to address my needs now and also buffer myself against an uncertain future.'

Senator MURRAY—Your industry is a very labour-intensive one, is it not? Nearly all of your service delivery is relative to people.

Mr Richards—It is labour-intensive but we are struggling to get cost efficiencies and not all of the time being supported by change. For example, in age care, we changed the method of providing the services and got cost efficiencies of over 300 per cent and yet when we went to the contracting body to ask whether we could share in those the answer was no.

While it is labour-intensive, and while we struggle to be able to deliver more services, the general environment in which we are doing that is not necessarily conducive to supporting that thrust.

Senator MURRAY—In economic terms, the classic relationship is that if your prices go up you lose jobs because demand falls for your services. If we use the example of the tourism sector, they maintain that this package will in fact result in job losses because of a fall in tourist numbers. Is it likely that your costs will go up and you will have to get rid of people?

Ms Schultz—If the costs increase and there is no increase in government funding and no increase in public fundraising dollars then, yes, we will have to get rid of staff and we will have to close services.

Senator MURRAY—Let us move on to the services side of things. With the cost increases in services, I noticed in your schedule that, in nearly every case, there was almost a complete carry through of the 10 per cent. You did not have many input credits put against it. Can you explain the reason for that? The net increase for business is often about two or three per cent and not a 10 per cent increase, but you are nearly 10 per cent throughout.

Mr Richards—Most of those are on the fee side, the income side. We do have an expenditure side which complements that in terms of how much we will be paying on our inputs. Our single largest cost is in relation to salaries and wages and not in relation to the other types of costs and services. It will be almost a direct transfer, I guess, as you say, a flow through. But that also excludes a lot of age care. We have to complete those calculations, but certainly our rough calculations at the beginning would indicate that there is almost going to be a direct increase.

Senator MURRAY—Twenty three out of 27 OECD countries have a VAT or GST system and they all have a very strong charitable sector. Have you had the opportunity—I appreciate how limited your resources are—to consult with overseas colleagues as to what the impact was in their sector when the GST or VAT came in and how they coped with it?

Mr Richards—Not in relation to that because, as you said, you have to look at the country and the whole configuration. If we have a look at the majority of those OECD countries, certainly in the area of Western Europe, they actually have a higher taxing regime overall, including a GST. What happens is that there are significantly more funds going across the community services sector, so they were not buffeted anywhere near as much.

If you have a look at Japan, there is not much of a community services sector in Japan. If you have a look at England, it has been absolutely devastated. The number of community services that are currently in good shape in England, outside the ones that are the traditional middle-class services, is almost non-existent. America has a massive amount of public philanthropy, most of which has come from foundations of companies that have gained their profits by culling from the rest of the world. Unfortunately we do not have that here. So, when you look at it, it is actually very hard to judge. If we have a look at the model that is being touted at the moment, which is New Zealand, the community services over there, through a range of services—and you cannot really unpack them—and through a range of government initiatives in the last 15 years, have been decimated.

Senator MURRAY—If I go to your own proposals, would making your industry GST free, coupled with the government's proposed tax cuts and the way in which they are addressing the poverty trap and all of those kinds of things, result in a significant boost and lift in your ability to deliver services? In other words, the people receiving your services may be better off through compensation, income tax cuts or addressing the poverty trap, and you would be without a GST. Would that make life better for you than it is at present?

Mr Richards—In relation to the GST, as the Vos committee said, where transactions are going around the system, and only between registered entities, the net gain to government is nil. That is the case in the majority of non-profits except when it gets caught in some community services or a small number of commercial activities. Overall, we believe the net gain to government coffers from levying a GST on non-profits is going to be marginal, if that.

Therefore, it would be better off to provide an exemption, as it currently exists with the sales tax. That means that we would not incur the costs that are associated with compliance, for very little gain. For those services that are related to our service delivery, and are akin to GST services already, they should be exempt. There is a debate around commercial services and perhaps that has to continue. But, overall, even if they were exempted, the number of commercial services run by non-profits in this country is very small indeed and certainly does not skew it. In terms of maintaining our ability to deliver services, the process of exempting all community non-profits would certainly assist.

In relation to the people receiving the services, the moves that are being taken to remove the poverty traps are welcomed with open arms. We think they are absolutely terrific. With the tax cuts, and the impact of the GST—and I look at different reports—it depends on whose modelling you see as to whether there is to be a marginal gain or a marginal loss. Given that you are dealing with the vulnerable people, our view is that we should be able to demonstrate clearly in the majority of models that there is a significant benefit to those people on low incomes, and that is not the case at the moment. We believe that erring on the side of conservatism should be the case. In which case, if there are to be tax cuts, they should be more heavily skewed towards those on low incomes and away from those on high incomes.

Senator CONROY—Following up from that point: from what you have seen in the ANTS document, do you have any estimate of what the tax cuts will deliver to the people that you actually deal with on a day-to-day basis? Have you been able to look at the cameos, the packages, and say, 'These people will get $20, these people will get $80 and these people will get $3'?

Mr Richards—From an organisational viewpoint, no; we have only seen the same analyses that the senators would have received from the various modelling agencies. Our opinions would have been drawn from those.

Senator CONROY—It would be fair to say, though, that the people you deal with would be at the bottom end of the tax cut range.

Mr Richards—Absolutely.

Senator CONROY—We are talking of being $3 and $4 a week better off under the cameos.

Ms Schultz—The majority would be on pensions and benefits of some sort.

Mr Richards—Some of the estimates we have done of our services show that well over 90 or 95 per cent of people are on some sort of pension or social support.

Senator CONROY—The question of compensation has come up in the last few days and whether or not, with your long experience in this area, you would believe that a government could lock in compensation. Last week, Mr Reith released a document in which he argued for further cuts in government expenditure. At the weekend, VECCI—a Victorian employer group—demanded a further $3 billion cut in government expenditure. How much store do you think you can put into the question of government locking into a permanent compensation package, even if it were an increased permanent compensation package?

Mr Richards—I think governments—and they move from one government to another—have always had the freedom to change laws and legislation and they have demonstrated that consistently. Therefore, I do not think it is possible to lock future governments into compensation programs. We have also seen governments of both persuasions be very tardy in keeping place with inflation, et cetera. The people being affected by that are those on—

Senator FERGUSON—Governments of both persuasions?

Mr Richards—As I said, governments of both persuasions at both state and federal levels. We are a little nervous about expecting a compensation package to last. We do not think it is the way to go. We do not think it would keep pace with what is required.

Senator SHERRY—Do you think that exempting food from a GST will solve your problems?

Mr Richards—This is getting outside the area of what we submitted. I am sure all of us are happy to comment personally—and I am—as long as it is understood that it is outside the bounds of our submission. From my own personal viewpoint, the best figures I have seen so far indicate that there is only a very marginal benefit and the majority of figures say that the risks are too high.

Senator SHERRY—From the Adelaide Central Mission, there is a case example—'the charity fete that the GST killed'. I was quite fascinated and interested by the range of fundraising activities that are affected by a GST—everything from the barby to the square dance and the skittle game to the raffle prizes. Can you explain more about the fete that was killed?

Mr Richards—We developed that cameo to demonstrate the complexity of the current laws and the way they have been put up. If an organisation is a non-profit one and is a registered organisation, any fundraising events are going to be caught. If you unpack that in terms of the laws associated with the type of donated goods, et cetera, you find that, to run an ordinary fete and to keep the documentation to unpack it, it becomes incredibly complex. Given that fetes are generally run by volunteers, it means that they are also caught by the GST if they are working for Adelaide Central Mission.

The feedback we are getting is this: 'We don't want a bar of it. We are here to raise money. We are here to put in the efforts that we can. If I am going to make jams and I am going to pay for it and the government is going to impose a GST, I'm not going to make the jams.' I have had that comment back from a couple of people in different forms, and it was those sorts of comments that pushed me to develop that cameo.

CHAIR—It sounds like bootscooters of the world unite!

Senator SHERRY—I notice there is a specific example of the concerns of a Mrs Mavis Sutherland, who is 72 years of age and who has been helping you out for years. Apparently she is having some problems coping with the glories of a GST that is approaching.

Mr Richards—Not only for the Adelaide Central Mission but also for a number of organisations, many of the people who are volunteering and putting in the work are older people. We have a dolls hospital where people make clothes and they get second-hand clothes, et cetera. When I have spoken to one or two of them—

Senator FERGUSON—None of those will be subject to GST.

Mr Richards—Yes, they will.

Senator FERGUSON—No, they will not.

Mr Richards—Which ones will not?

Senator FERGUSON—You assert on page 12 that donated homemade items will attract a GST when, in fact, they will not. Households are not registered, so a GST is not applied. In the same way that any other cottage industry makes goods and sells them, a GST is not applied. You will not have to charge a GST.

Mr Richards—It is not a GST on the transaction between the household and us, but when we sell them. At the moment the legislation says that if we sell new donated items we are subject to GST.

Senator FERGUSON—Have you read it? You did sign it?

CHAIR—Order! Senator Ferguson, you are taking time over the Labor side, but I have allowed you to do so.

Senator FERGUSON—I am sorry.

CHAIR—Are you satisfied with your interjection? Do you want to pursue that further?

Senator FERGUSON—No.

Senator SHERRY—You made that point clear, but there was a bit of gaggle from another section of the committee. Can you outline the last point again?

Mr Richards—Where somebody makes a new item at home and donates it to Adelaide Central Mission, on that transaction there is no GST but, as soon as we sell it, we are selling a new item and that is subject to GST. In that respect, by the way, there is double GST because the people at home who have bought the goods have already paid the GST on it. They cannot claim the exemption back. Yet, when we sell it, we have to charge a GST. So, in effect, there is double dipping on the GST in those circumstances.

Senator BROWNHILL—In the figures that you submitted, how much account was taken of the changes in the taxation reform, the fact that all household taxes are abolished, et cetera? Many people make submissions and assertions assuming that 10 per cent will be added to the cost of things; whereas, in many cases, the wholesale sales tax has gone. You may be wholesale sales tax free yourself; however, the input into those products that you buy wholesale sales tax free still have wholesale tax implications on them. Has any account been taken of that?

Mr Richards—We are wholesale sales tax free. At this stage in our modelling, we have not done an accurate analysis of many of the costs coming through. We do not believe, from what we have seen to date, that it will have a significant impact.

Senator BROWNHILL—But you only believe: you have not put proper qualitative and quantitative figures on it.

Mr Richards—No, we have not. We certainly appreciate the resources to be able to do that and to have a look at the impact on non-profits. If we can get those, I think it will be tremendous.

Senator BROWNHILL—Has any account been taken of the tax reductions?

Ms Schultz—You mean to householders?

Senator BROWNHILL—The wage earner—the fact that they are paying less tax and, therefore, have more disposable income.

Mr Richards—In relation to people using our services, the tax cuts will be pretty minimal. The modelling in other areas indicates that, at best, they will be only marginally better off anyway. I don’t see how that impacts on the services that we are offering, which are outside the normal scope of day-to-day expenditure requirements.

Ms Schultz—If everyone is willing to donate their tax cuts to charitable organisations, that will be wonderful, but somehow I doubt it. I suspect we will not see a lot of those tax cuts but, as I say, if we do, it will be wonderful.

Senator FERGUSON—But at least there will be compensation for welfare recipients and low income earners.

Ms Schultz—We won't necessarily see it.

Senator FERGUSON—No, but it will help.

Ms Schultz—It should help those individuals. But, as we have already demonstrated, all the services are currently overstretched because the current income support available to people is inadequate—things like emergency relief and so on and the amounts that people have to pay in fee-for-service to receive services that they cannot get. For example, the Northern Domiciliary Care Service in South Australia has actually closed its waiting list for the last 12 months. So if you need home care in the northern suburbs, it is bad luck. You have to pay for that out of your pension or benefit. With those restrictions on people, the minimal gains that they will receive out of any compensation will disappear immediately.

Senator BROWNHILL—In your figures, how much account was taken of the fact that pensions will increase?

Mr Richards—The emphasis on the figures we were looking at was on the organisational impacts, not the disposable income available to people. In relation to some of the figures we have seen, most of the expenditure items that are taken into account are normal living type costs. The sorts of services we provide are normally not adequately taken into account in determining that. For example, in relation to the home care support services that people have to provide out of their own money, those sorts of increased costs are generally not weighted heavily enough in the averaging processes. But, again, if we can get the modelling to look at that it would certainly help us a lot, and it would help the people because then we could actually put up a better submission to the government to get bigger increases for those sorts of services.

Mrs Fitzpatrick—I would like to reiterate as well the fact that we are seeing a great increase in the numbers of people who are coming for emergency financial assistance. It is significant; it is up by 20 per cent from last year. In November we saw 150 clients, which is 1½ times what we usually see. There are more and more people on low incomes who are not going to be able to cope, even with the $3 a week increase.

Senator FERGUSON—Mr Richards, you said that even under the existing system your cost base is going up now—that is, without a GST—why won't you be better off under a GST system where you will get a rebate for taxes on your inputs to start with? Currently you are not getting any rebates of any sort in comparison with the rest of the community, plus your services are GST free, so the benefits of that go to the people you are serving in the community. You would be working in a world where, in fact, a GST is generally applied to all other services so do you not think that, even in this scenario, charities are still considerably better off than they would be otherwise?

Mr Richards—No.

Senator FERGUSON—I cannot see why.

CHAIR—Were you about to answer that rhetorical flourish, Ms Schultz?

Ms Schultz—I think we have already addressed those questions in the evidence that has been presented.

CHAIR—Were you, or the charitable organisations as a group, to your knowledge, consulted at all by Treasury about the types of problems you now face, as you have articulated them to us, over this tax package?

Ms Schultz—No.

Mr Richards—No. Nor were we consulted by the Vos committee.

CHAIR—Obviously your core function is to provide charitable services, not well-researched—I am not criticising the quality of your submission—perfectly authenticated, university impartially modelled submissions to committees of the Senate, or anyone else for that matter, and all your funds and time are dedicated to delivering the service that you exist to provide. It is set out to some extent in your submissions, but what I am very keen to do in this phase of the Senate inquiry is to compile a list of changes that organisations wish to make to the existing package so that when this committee reports to the Senate, we can have a comprehensive list of what organisations have sought by way of change and senators can be advised of what organisations seek and make judgments for themselves as to whether they agree, disagree, partly agree or whatever. Could you provide us with a very brief summary of what particular changes you would like to make?

Mr Richards—Do you want us to table that at a later date?

CHAIR—Yes.

Senator FERGUSON—Isn’t there one in there?

CHAIR—There is, across a series of things, but I am just trying to bring it together a little more.

Ms Schultz—Certainly.

CHAIR—With those words and with a particular mark of appreciation to Mrs Fitzpatrick—not that I want to play favourites with your group—I grew up quite near the suburb of Blair Athol and I know exactly the circumstances you talked of and, therefore, have a personal relationship to the problem.

Senator FERGUSON—I am not sure why you left, Senator Cook.

CHAIR—I left and went to Western Australia. With those remarks, I thank you all for the evidence you have given today.

Proceedings suspended from 10.05 a.m. to 10.19 a.m.

BATTAGLENE, Mr Anthony Nicholas, General Manager, Canberra Wine Bureau, Winemakers Federation of Australia

CROSER, Mr Brian John, President, Winemakers Federation of Australia

McGREGOR, Ms Margo, Executive Officer, Australian Regional Winemakers Forum

MITCHELL, Ms Caroline Jane, Board Member, Winemakers Federation of Australia

STRACHAN, Mr Stephen Francis, Senior Analyst, Winemakers Federation of Australia

SUTTON, Mr Ian William, Chief Executive, Winemakers Federation of Australia

CHAIR—Welcome. Who is the designated hitter from your side? Mr Sutton, would you introduce your colleagues and express, in synopsis, an overview of your submission? Then your team might answer questions from the committee.

Mr Sutton—Mr Brian Croser is executive chairman of Petaluma Winery and is here as President of the Winemakers Federation. Mr Tony Battaglene is General Manager of the recently opened Wine Bureau in Canberra. Ms Jane Mitchell is a principal of Mitchell's Wineries, one of the regional wineries in Clare and also representing the Australian Regional Winemakers Forum. Mr Stephen Strachan is the Senior Analyst from the Winemakers Federation, and Ms Margot McGregor has recently joined the federation as the Executive Officer of the Australian Regional Winemakers Forum. I would like to explain what some of those positions represent in terms of our structure.

The Winemakers Federation has been operating since 1990. It consists of two electoral colleges. The Australian Regional Winemakers Forum was established in 1984 specifically to look after the interests of small regional winemakers and has representation on its board from all states of Australia. It represents 332 members, primarily small and regional winemakers, and has a very strong focus on the regionality of the Australian wine industry as it applies to investment and tourism and the general contribution to the Australian regional economy. The other electoral college, which has been in operation since the 1920s, is the Australian Wine and Brandy Producers Association. It represents some 51 large wineries.

Each of those two electoral colleges contributes five councillors to the Winemakers Federation executive council. All executive council decisions require an 80 per cent majority. The reason for that is that all decisions need to have a substantial degree of support from both sides, both large and small in the industry. The Winemakers Federation membership represents over 90 per cent of all wine production in Australia. I will hand over to Mr Croser, who can give a synopsis of the federation's position.

Mr Croser—Thank you for hearing our case. We understand the pressures on your time and we feel quite privileged to be here. The Winemakers Federation of Australian represents the industry on a whole range of issues, although sometimes I think probably we focus on tax a bit too much. Research, education, environment, industrial relations, health, trade regulation and tourism, to name a few, are the important issues that our industry is involved in.

Senator HARRADINE—And quality of product.

Mr Croser—That is inherent in research and education as the drivers of that, plus our wonderful environment.

The Winemakers Federation has taken, quite responsibly, a whole of industry, whole of economy approach to taxation reform. To make sure that we had academic integrity in our deliberations and our recommendations, we commissioned the Centre of International Economic Studies, a subunit of the University of Adelaide run by Professor Kym Anderson, to model quite specifically the effects of various tax regimes on the Australian wine industry. From those studies, which we make available to you—and we do have a summary of the outcomes—it is quite clear that a GST only was highly beneficial to the Australian wine industry as a component of the Australian economy relative to the current situation of a wholesale sales tax of 41 per cent. Wine is one of the victims of the I guess very targeted and not broad spread current taxation system; $100 million of benefits accrue to the economy and to the Australian wine industry from a GST only environment.

We quickly recognised that the government had revenue imperatives which were legitimate in the taxation reform process and that it was most unlikely, in fact improbable, that the wine industry would be asked to produce less revenue than it currently produces for government. So we established a plank of our policy as revenue neutral.

The next question was: should we be pursuing an ad valorem tax or a volumetric tax, which has different implications for different segments of the Australian wine industry? Ad valorem is a continuum of the wholesale sales tax system which the industry has lived with on and off in different magnitudes over 50 years. So we had that modelled to raise the same revenue as the current wholesale sales tax system, which is $560 million, and ad valorem was significantly better than volumetric for the total industry. Specifically, ad valorem protected the viability of the MIA, Riverland and the majority of the 5,000 independent grape growers that exist within our industry and are such an important part of it.

Overhead slides were then shown—

Mr Croser—Significantly, with GST, ad valorem or volumetric produces a positive result for our industry, which is an agriculturally based manufacturing industry with a high export component that is growing rapidly. But volumetric is better than ad valorem, as the figures to my left demonstrate. Sorry, have I said that the wrong way around? Please expunge that. I have only been doing this for 10 years. Ad valorem is significantly better than volumetric, and in terms of relative percentages that is demonstrated by the charts on my left. Everyone wins, but some segments are favoured more than others. Under an ad valorem system, which is a continuation of the current system, the non-premium wine sector benefits more than the premium wine sector, but both sectors benefit under a GST plus whatever top-up tax system.

Further, the ad valorem system recognises the distinct difference between wine and other alcoholic beverages. Both our research and the research that was presented during the wine inquiry of 1994-95 demonstrated quite clearly that there is little cross-elasticity of demand between wine and beer and spirits. That is wine of any sort, either in bag and box, in $8 bottles or in expensive bottles. They are not substitutes. They are used differently in the community and are not directly substitutable. Of course, beer and spirits are taxed under the volumetric regime, and we feel very comfortable that wine should remain in the ad valorem mode of taxation. We would advance the case that wine makes a lesser contribution to the negative externalities of alcohol abuse in this country. We have quite a deal of evidence presented in our submission to you. Regardless of whether it is bag and box or bottle, that is the case; there is no significant difference in a research between bag and box and bottle in contribution to externalities. The thing that is every day raising its head in the international media and in Australia and from respected international medical research organisations is the fact that moderate alcohol consumption has positive externalities, so the story for wine in particular is not all negative.

We have looked at the ad valorem taxation regime that might apply to the wine industry and have made recommendation to government that the continuation of the ad valorem system should be as near to the wholesale sales tax mechanism as possible, for simplicity and for the minimisation of compliance costs. The WET tax that is now proposed by Treasury meets those specifications. It is applied at the last point of wholesale and it is a continuation of the existing system of application. We are very happy with that mechanism.

If in fact revenue neutrality is the goal, the $560 million of wholesale sales tax currently collected from the industry would be collected by a 19.5 per cent WET tax plus GST. That would collect $560 million. We recognise as an industry that the government is introducing a new tax, a GST, in which the S stands for service and taxing a new section of the community. We recognise that we will not achieve total revenue neutrality at $560 million. There will be some contribution from our industry, specifically from the on premise restaurant trade and cellar door sales, which represents the tax on service. In restaurants and in cellar door sales, where the small winemakers of Australia concentrate their products, there is significantly higher mark-up than in the retail stores, the off premise sale points, and the GST picks up an added revenue from the industry through taxing that service.

So we have suggested to Treasury that 24.5 per cent should be the WET tax rate applied, which would raise $634 million, which is $70 million more than the current wholesale sales tax—I guess, a government bonus as the tax on service for our industry. The columns on my left demonstrate the wholesale value broken up between the various sale points—the retail off-premises stores, the restaurants on premises and the cellar door sales—translated to retail values. So $1.4 billion of wholesale value Australian wine in the domestic marketplace translates to $3.2 billion of retail sales. Currently the 41 per cent wholesale sales tax collects $559 million from those sales. The WET at 24.5 per cent, as we suggest, would collect $634 million, the bulk of the difference—in fact all of the difference—coming from the cellar door sales, $28 million to $47 million, and from the on-premises sales, $139 million to $194 million; from that area of the industry where the small winemakers are concentrating their sales.

Treasury, we have divined, in their papers have rated 31.7 per cent, which represents a windfall to government above the present situation of some $147 million. Again, the extra money that Treasury would be raising would be raised squarely from on-premises and cellar door, where the premium wine of Australia is sold. As background to our submission, the states have always recognised the role that the small winemakers play in regional economies.

They have recognised the very important infrastructure provided by small wineries in the 50-odd wine regions of Australia and in doing so they have exempted, in the past, those small wineries that have legitimate cellar door sales. I am talking not about the large mail order wine lists of large mail order corporations but about the small wineries of Australia.

The states have exempted those small wineries from the licence fee that was a state tax on the right to be a vigneron and sell wine at the cellar door. They exempted that until the High Court case turned over the state collection of licence fees. It was converted to a 15 per cent wholesale sales tax to add on to the hard fought and won 26 per cent wholesale sales tax regime, to make a total of 41 per cent wholesale sales tax. We have had the pretty onerous and tortuous circumstance of having the Commonwealth government collect that 15 per cent, return it to the state governments, and then the state governments return it to the cellar door sales operators as a rebate on cellar door sales for those small operators. That is under threat with the change of fiscal arrangements between states and the Commonwealth.

Our position is that the neatest, best and most targeted way to recognise the role of small winemakers in the Australian regional economy—which is significant—and the neatest way to compensate for the additional tax that is being raised by the WET plus GST regime, largely from the small winemakers and quality producers of Australia in on-premises and cellar door sales, is to exempt those small winemakers from WET tax at legitimate cellar door. For all of those 800 small cellar door operators selling 100 tonnes or less than 100 tonnes—this is about 6,000 cases of wine; almost the consumption level of the average Australian—our suggestion is to exempt them from the WET tax, up to the level of $500,000 of retail sales at cellar door. This level would exclude the large, mail order operators.

The cost of that exemption to the Treasury would be $20 million to $30 million. On their model they are already picking up $140 million extra through service charge and on our model they are picking up $70 million. So it is not a very big return and our model has very targeted and beneficial effects for these community operators. That of course would mean that there would be no tax on samples at cellar door. Currently there is: the wholesale sales tax is paid on samples that are given to consumers and potential purchasers. There is no GST on samples, because there is no sale, but we would advocate strongly that there should be no WET on cellar door sales at all for the 800 regional contributing small winemakers of Australia. I rest our case there, unless any of my colleagues have anything to add. I do emphasise that we are supporting ad valorem, not volumetric, tax!

CHAIR—It is my normal procedure to invite the deputy chair of the committee to ask the first question but, given that this is the wine industry and Senator Murray has a background in it I might, with respect to you, Senator Ferguson, concede the honour to Senator Murray.

Senator MURRAY—I no longer have extensive investments in your industry; my conflict of interest now arises from about two glasses a day. Let us go through the various elements. The first is the export side. Is there any downside to the government's tax package from the point of view of exports?

Mr Croser—From the point of view of exports alone and for our modelling, we have commissioned ACIL to do an examination of the effect on the costs to a large winery, a medium sized winery and a very small winery. The cost structure of Australian winemaking is very important to export competitiveness—and the tax package as proposed by government reduces the input costs to the winemaking process by about 1.2 per cent, which is less than the average reduction of costs across the economy of three per cent. That 1.2 per cent reduction in costs is concentrated at the high end because the cost reduction for small operators is significantly less, which is another disadvantage of the system for the small operators.

Because the level of domestic demand increases, because the level of economic activity from our industry in the domestic market increases and benefits from the cashflow and profitability of that under the proposed tax package, that creates an industry that is healthier to support the very extensive growth that is going on in exports. The industry is a very capital intensive industry, $2 of capital for $1 of sales. There is no other industry, I think, that has that sort of ratio. It needs a very healthy and profitable domestic market to support the large inventory increases and the large marketing efforts that are being made in export markets. The answer is that the package, as we perceive it for the wine industry alone, is supportive of the export endeavours of the industry.

Senator MURRAY—Is it true that the volume growth in wine exports is very much dependent upon remaining price competitive?

Mr Croser—Extremely.

Senator MURRAY—Are you aware that both the Treasury and the very skilled professional modellers maintain that over the longer term, which they define as I think about eight years or more, the benefits of the tax package will be wiped out by currency appreciation? In other words, there is an automatic adjustment. Do you think that is a plausible or realistic assumption, that currency will automatically adjust for greater price competitiveness from Australia?

Mr Croser—We have not looked at that length of time or, specifically, at that issue. Currency is an important factor in the Australian wine industry’s competitive platform but it is not the most important. The Australian wine industry has prospered for the last 12 years in exports through some fairly substantial variations in the relative value of our currency and I think it has been quite clever in hedging at the appropriate times—and hedging for the appropriate length of time—and in producing products by cross blending between regions that hit a cost point as well as a price point in international markets, dampening the effects of currency fluctuations. I would rank currency fluctuations as being a major issue but, of the major issues affecting our competitiveness overseas, the more minor of those major issues. The most important is the quality and consistency of Australian wine and the high reputation it has for integrity and purity.

Senator MURRAY—Turning to the domestic side, the committee is hampered somewhat in its evaluation of the effects by the publicly available statistics because the Bureau of Statistics and the Treasury agree that people underestimate their expenditure on alcohol. Therefore, the effects of the tax package on demand and disposable income available for your industry is less clear than for other categories. Given the difficulties put up by the WET and its various alternatives, do you consider the net result of the tax package changes, particularly as they affect income tax cuts, for instance, particularly for the higher income earners, will be to grow domestic demand considerably?

Mr Croser—Yes, I do. That is based on the increased income for Australians which has a net effect in increasing sales of wine. Wine is cross-elastic with other Australian products; it is discretionary consumer expenditure. It is cross-elastic with holidays, music, books and a whole range of things Australians spend their discretionary dollars on. In being so, any increase in the perceived net wealth of Australians will increase the consumption of that whole gamut of products. And the package, complete with WET tax, does not change the relativities of those products, the price of those other products which are the competitive products with wine, in a negative sense. For that reason, wine is modelled to be advantaged under this package. But that is for wine: that is all we have looked at.

Senator MURRAY—Principally it would be for off-premise, I would assume, because on-premise is affected by the fact that the restaurant sector's overall cost structure will increase with a loss of jobs and turnover, and the tourism sector is estimated to be falling by about 4.5 per cent. There will be a decrease in demand there. So you will see a greater shift in demand at the off-premise rather than the on-premise level. Is that how you see it?

Mr Croser—That is as we would perceive it because the price rises are exacerbated by the GST being added on to by retail margin in on premises and in cellar door sales where the mark-up from the wholesale price to the retail price is greater in percentage terms. Therefore, there will be a magnified effect. To put that into numerical perspective, under the Treasury's 31.7 WET tax proposal, the off-premise retail store cost of wine to Australians would be increased by three per cent, cellar door sales by four to five per cent and the on-premise restaurant by six to seven per cent. So you are correct.

Senator MURRAY—With regard to the abuse side of things, and no discussion about alcohol can leave that outside consideration, it would be I guess self-evident that alcohol abuse is more likely to occur from off-premise consumption than on-premise, simply because that is where most of the volume is, and because restaurant consumption generally speaking does not produce that binge drinking. Alcohol pricing is affected by the sin tax attempt to reduce consumption at the unacceptable levels, so we have the promotion of lower alcohol products.

With regard to the wine industry, however, low alcohol products are not really a major feature in the same sense that you have low alcohol beers—and the same applies for spirits, as you would be aware. Would the profitability of your industry, and jobs and turnover, be affected by a pricing regime which continued to differentiate between, and in fact tried to increase, the gap between higher alcohol by volume products and lower priced products and the rest of the market? With regard to your industry, if the large-scale consumption of, say, bag-in-the-box wines were to be decreased and bottled wine were to be increased, would that affect the profitability and jobs impact of your industry materially?

Mr Croser—The answer is yes, and significantly. But let me say that, first of all, that scenario would have no net effect on the abuse of alcohol per se through the medium of wine. Wine is the most benign of the three alcoholic beverages in that it is mostly consumed, whether it is cask or bottled, at home with a meal or in a restaurant with a meal. Our own

ABS-commissioned survey demonstrates that there is no difference in fact between the levels of abuse of bottled wine and cask wine.

Senator HARRADINE—What is the latest evidence in print?

Mr Croser—There is, however, a significant difference between cask wine and bottled wine, which the economists have pointed out, in that cask wine is more price elastic than bottled wine. The response to price is significantly stronger. Wine as a category is relatively price inelastic but, inside that, disaggregating it, cask wine is relatively sensitive.

If you raise the price of cask wine and wine in bottles at less than $8, which is 70 per cent of the wine consumed by ordinary Australians, you will in fact have a significant effect on the volume of wine consumed, on the livelihoods of 5,000 independent grape growers, on the major enterprises that are exporting our wines—because they are the producers, by and large, of Australia’s affordable wine—and on regional economies up and down the riverland system of Australia. Our modelling clearly demonstrates that.

Senator MURRAY—In my state of Western Australia you get rural and regional areas which have a very high instance of alcohol abuse. Interestingly, they often have very substantial numbers of people in their populations who are actually abstainers, and the abuse is limited. But the abuse, principally, appears to reside in the consumption of cask wine, full strength beers and alcohol mixes—the bottled pre-mixed drinks. Is it your view that it is possible for this tax package to be used to promote a price regime which might result in the discouragement of alcohol abuse, focused on communities such as that, where full strength or particular types of alcohol predominate as the abused item?

Mr Croser—Our opinion that price would not affect that situation is based on the fact that those abuse circumstances are very specific. They are tragic and they are, I guess, a stone in the shoe of all Australian winemakers and in the shoe of the community. They are highly visible and they are emotive. We as a community should be doing something about eliminating the base causes of those very highly focused and visible abuse circumstances, and we as an industry are dedicated to doing something about that. However, we would propose that, first of all, price will not affect the abuse of whatever substance it is under those circumstances; it has to be a much deeper social change that will affect that consumption tragedy—beer, spirits, wine, petrol or whatever. However, on a broader basis, the costs of alcohol abuse in the community are not largely centred there; they are the visible circumstances. The costs of the abuse of alcohol, as the economists would tell us, range across the costs to businesses of absenteeism and poor performance at work, the motor car accidents and the health problems. The very broad-ranging effects of alcohol across the community cause most of the costs, the negative externalities, which are the legitimate concern of government in collecting back, as you termed it, the sin tax from the alcohol industry.

We as an industry would make a case that in fact of all of the alcoholic beverages, because of the circumstances under which wine is consumed and because of the size of the industry relative to the other alcoholic beverage industries, our industry is the more benign. Given the international evidence, the medical and social research that have been done and accumulated, that says that the conservative and moderate consumption of wine as an alcoholic beverage has actual beneficial effects to specific aspects of health—coronary, prevention of stroke and all sorts of things—adding to the value and extent of life and health, the wine industry in fact is a lesser contributor to those negative externalities.

Senator MURRAY—Thank you for the length of time you have given me, Mr Chairman.

Senator CONROY—I am looking at one of your submissions, dated 29 January. You indicate that you have had some modelling done on the general CPI increase. I think you say that you have come up with a five per cent figure. Is it possible to get a copy of your modelling? It is noted at page 8 of that submission. Was that by ACIL or by Dixon and Rimmer?

Mr Battaglene—We can supply that to you.

Mr Strachan—It was done by the Centre for International and Economic Studies out of the University of Adelaide—Wittwer and Anderson.

Senator CONROY—On page 9 of that submission it states:

> If the level of a WET tax is set at such a rate as to increase the prices and thus reduce demand, it is likely that a large number of small wineries will become sub-economic.

'Sub-economic'—in less economic jargon does that mean they close down?

Mr Croser—Our page 9 says different things from yours. I think perhaps it from one of my colleagues.

Mr Battaglene—'Sub-economic' means that they could close down. It would definitely have an adverse effect on them, particularly on cellar door operations. I guess that is a key area of concern, that it may cause them to lay off people who are at the cellar door. It depends very much on the level of the WET tax.

Senator CONROY—It goes on to say:

> . . . the pressures on these to reduce costs usually in the form of reducing labour costs will increase.

That is economic jargon for job losses.

Mr Battaglene—Yes.

Senator CONROY—I was interested in your comments earlier to Senator Murray. Further on in that submission on page 9 you talk about exchange rates, and you say that 'the wine industry is likely to lose from the package'. You indicated earlier that you did not think that was the case. The submission argues that, because your industry already has a lot of exemptions from WST and different inputs, the savings are much less than the average figure that Treasury has calculated and, therefore, because of the exchange rate appreciating, your cost savings—which is the Treasury argument—have to be greater than the exchange rate for you to be better off, export more and all those sorts of things. But in actual fact your industry is not going to gain all the cost savings that Treasury is calculating. Therefore, as you went on to say, 'The wine industry is like to lose from the package.'

Mr Battaglene—That is correct. Based on the Treasury assumptions, if we get a three per cent appreciation in the currency, because we are looking at only a 1.2 per cent decrease in prices, and probably less for small wineries, there may certainly be a transitional loss in that respect. Certainly we expect the increase in demand and the increase in discretionary spending from tax cuts to compensate in the domestic market. As Mr Croser pointed out, we think there are a lot of other effects on the exchange rates that will come through in the future.

Senator CONROY—No, this is a one-off, permanent effect—not short term. Fluctuations come and go, as you said, on a range of things. But the impact of this change is a one-off permanent change in exchange rate. There may be other fluctuations around it. Arguing that other factors may come in later does not take away from what you describe as the transitional effects. I wonder if you could expand a little on those transitional effects.

Mr Battaglene—Certainly, as you say, it is going to be a one-off effect and it will probably come in fairly quickly. Given that—as I think Senator Murray pointed out—price points are very important on our export market, we could be looking at a case there where there could be impacts on demand. We have not really tried to model longer term effects, and I do not think we have the expertise to model them here.

Mr Croser—There is no doubt that the difference in arithmetic says we will be worse off in that sense, but the hedging arrangements of the industry are a long way forward and any transition will be smoothed by the currency hedging arrangements of the industry.

Senator SHERRY—On that hedging issue: how can you hedge indefinitely? Eventually it must catch up with you.

Mr Croser—It is smoothing out the variations. Nobody pretends that we as an industry win. We just smooth out the variations.

Senator SHERRY—Effectively there is a one-off short, sharp penalty that you can hedge against, but in the longer term the impact has to hit. You can defer the day—

Mr Croser—It might occur in an accumulative sense over a longer period of time rather than, as you have just suggested, as a short, sharp hit. I am sure the industry would not feel a short, sharp hit.

Senator SHERRY—It must hit eventually, because hedging can only put the day off, depending on the individual decisions of sellers and companies in the market.

Mr Croser—And that has to be traded off against other benefits that we see accruing to the industries through the tax package and the domestic market.

Senator SHERRY—With the current calculation you have done, the bottom line is that you are concerned about the rate at which the WET tax is set. You have estimated it is being set at a rate of 31.7 per cent. You say 'Treasury'—where did you get that information from?

Mr Croser—Could I hand over to Stephen?

Mr Strachan—As you know, in the tax reform package that was released in the middle of last year, there is a summary table that looks at the price impacts and the tax impacts on a cask, a medium priced bottle of wine and a low priced bottle of wine, if I recall correctly. If you work through that, it is principally a process of elimination with the available data to work out that the rate is approximately 31.7 per cent. We have spoken to Treasury since then—we have met with them on two occasions—and they have confirmed that 31.7 per cent is very close to the rate they used in their analysis.

Senator SHERRY—What is your estimate of the revenue that you think the government would raise as a consequence of a rate of 31.7 per cent versus 19 per cent or 24.5 per cent, which we have figures for?

Mr Strachan—Are you looking at additional revenue or total revenue?

Senator SHERRY—Total.

Mr Strachan—The revenue at 31.7 per cent is $706 million—that includes the GST—compared with the current revenue of about $560 million. I will just point out, and I suspect this might answer your next question: in the analysis that Treasury have done in that document, they have flagged the fact that the wine equalisation tax will net about $600 million in revenue—I think in about 2002.

Senator SHERRY—I am just intrigued at your term 'Treasury document'. This is the government's document.

Mr Strachan—Sorry—the government's document.

Senator SHERRY—This is a political document. It is not Treasury we are arguing about; it is the government policy of the day that we are examining. It is the government policy of the day that wants to get extra tax out of your industry. That is the bottom line, isn't it?

Mr Croser—We take your point.

Senator SHERRY—You agree. Is that a yes or a no? Sorry; Hansard cannot pick up a nod.

Mr Croser—The document is a government document; we accept that.

Senator SHERRY—Have you had any success to date in convincing the government that it is wrong; that it should adopt a rate that you very generously want set at 24.5 per cent?

Mr Croser—We are in the process of discussion with government. The tax reform package is a massive exercise for government and bureaucracy, and our part in it is a very small component of it—and we recognise that. We are just in the process of discussing with government and with Treasury the implications of these rates for our industry. There has been no conclusion either way as to what the final rate set will be, as far as we are aware. We believe the 31.7 per cent is a proposed rate. The details of that still have to be finalised between us as an industry and government.

Senator SHERRY—You believe the government has got it wrong; that it is too high?

Mr Croser—If government finally support the 31.7 per cent, we believe that is too high.

Senator SHERRY—But we are told this is not negotiable in the Senate. This is it—the legislation we have got—bang.

Mr Croser—We have not seen the details of the legislation, and I do not think anybody has, including a WET rate.

CHAIR—The legislation has been carried in the House of Representatives—

Senator HARRADINE—And it is in the Senate—

Mr Croser—Not the WET tax.

Mr Battaglene—I guess the legislation is yet to be introduced, and quite clearly there is no rate set there, so we are still hopeful that they are just calculations used in a government document to basically get end revenue results. If we can correct some erroneous assumptions and get that rate to what we think is the right amount, we hope that that will carry the day.

Senator SHERRY—An increase in revenue—if it was 31.7 per cent—to government from $560 million to $706 million is a fairly substantial increase. That would impact on the industry, and downscaling and job losses are inevitable, aren't they?

Mr Croser—Quite specifically it would impact, as I said before, on the on-premises and cellar door sales small operators of our industry. We are proposing to government a quite targeted ameliorative measure, which would be WET exemption at cellar door sales to compensate. But we would hope we are not negotiating over $140 million of extra tax to government. We hope we are negotiating around the $70 million which our industry recognises as the service contribution from the GST tax.

Senator SHERRY—I was going to come to that issue of the regional impact. I have been lobbied—and I do not think I am any different from others—by the small wine growers from Tasmania. I know that there is very grave concern amongst small wine growers and producers who have restaurants and substantial cellar door sales about the impact of this tax. I think it is fair to say that Tasmania is no different. It is a rapidly growing industry. It is very successful with rapid expansion and very high employment growth in rural and regional areas. If this tax level is maintained, what are the implications for areas such as Tasmania and Western Australia? There are numerous areas where wine tourism is very important.

Mr Croser—Quite explicitly, we have put in a submission that the implications are that some of those marginally economic enterprises—small family enterprises—could be made subeconomic unless the tax rate is a moderate increase on the current tax take from the industry and unless there is compensation, an ameliorative effect, specifically targeted at the 800 small winemakers and grape growers of Australia—which would not cost the government a lot of money.

Senator SHERRY—Mr Sutton, you presented us with a submission which has actually gone to another committee. I just wanted to ask a question about the fuel excise impact. It is of interest to me because of the pass-on effect of reductions in prices. You say:

> Because of the relatively small contribution of fuel costs in proportion to other costs to the production chain for wineries, it is unlikely that the proposed excise changes will alter investment of resource allocation decisions by the wineries.

Do you believe there will be any cost savings as a result of the change to fuel excise?

Mr Sutton—I might ask Tony to answer that question, if you don't mind.

Mr Battaglene—We relied, for our figures, on some research by ACIL Economics. Your question is: will there be any savings? I think there will be some savings. I think the larger companies will be able to get more savings than smaller companies because of their greater market power, but it is not possible to quantify it at this stage, from my perspective.

Senator SHERRY—You are saying there will be some savings. There is a one to 1.5 per cent figure mentioned in the submission. Can you guarantee to this committee that those price savings will be passed on to consumers?

Mr Battaglene—No.

Senator SHERRY—Why not?

Mr Battaglene—I am not in a position to guarantee anything that the market will do. We can give you the best research and opinions we have, but I do not think any one of us has the knowledge to see how cost savings will or will not be passed on. Certainly, some will be. Large companies have a lot of market power out there and they can pick and choose between suppliers, so there will certainly be some pass on. I think we can be positive about that. But whether the full cost savings are passed on I am not in a position to make a judgment about.

Senator SHERRY—The estimated inflation rate depends on the effective full 100 per cent pass on of these tax changes, these tax reductions, where they occur? Why can't you give us that guarantee, that undertaking?

Mr Croser—I would think that the ultracompetitive nature of the Australian wine industry among the large players would ensure that those savings—whatever they are, and we estimate them to be 1.2 per cent—would be passed on at that level. I think where Mr Battaglene would have difficulty is in saying what will happen in the 800 small cellars or sales operations around Australia where they already feel—and I think quite rightly—victimised as against other products in wearing this 41 per cent wholesale sales tax. They would view any relief from cost or taxation as being a support for their marginal enterprises. I think Mr Battaglene is basically saying he cannot underwrite the actions of those small producers. Their total sum of action would be inconsiderable.

Senator HARRADINE—Going to your submission on page 7, the second paragraph, you say:

> However, the industry is also concerned the Department of Treasury (Treasury) policy position is inconsistent with the rider that the WET 'will be levied at such a rate that price of a four-litre cask of wine will increase by 1.9%'.

Could you explain that to us.

Mr Croser—Quite specifically, revenue neutrality has been our policy. We are prepared as an industry to front up to the fact that this tax reform process implies that the industry will produce no less revenue to government. Even though we could make some arguments that we perhaps should, that was politically and economically not possible. Revenue neutrality is really the central plank of our policy. Treasury's statement or the government's statement that the price of a cask of wine will increase by 1.9 per cent implies that there will be greater price increases for bottled table wine sold in retail, even greater price increases for bottled wine sold at cellar door, and even greater again price increases for bottles sold at the restaurant. The implication is a large increase in revenue to the government, which we have estimated at in fact $140 million.

Senator HARRADINE—Why do you use the figure of 1.9 per cent, or why are you accepting the figure of 1.9 per cent as the accurate figure?

Mr Croser—Implicitly, we do not. We would argue that in fact the real issue for us and for government is the revenue neutrality of the—

Senator HARRADINE—I am sorry; I will put the question another way. Why are you putting down 1.9 per cent? Are you not aware that in evidence to this committee the Treasury has amended that in the first year to I think at least 3.9 per cent?

Mr Battaglene—That 1.9 per cent does not relate to the CPI; in fact, it is how Treasury calculate their wine equalisation tax. So they have worked out 1.9 per cent on that price for wine, and that is how much revenue they want to increase by. And then they calculate the WET tax on that 1.9 per cent increase. It is not related to the CPI and whether they have amended that. It is a figure that we have got from the document and that is a policy figure, I believe.

Senator HARRADINE—You have made submissions to Ralph, have you?

Mr Battaglene—We have made a submission to the first part, and we will be making another one following the release of this final paper.

Senator HARRADINE—Many of your small winemakers operate with family trusts: are you happy with the proposal that family trusts and those sorts of entities be taxed as companies?

Mr Battaglene—We have not either consulted with our members widely enough or done the research on that yet. We will be making a full submission to the Ralph that will deal with those issues. I think it would be premature for us to comment when we have not talked to all our members on it.

Senator HARRADINE—Is it premature for us to ask you questions about that and expect a more positive answer as to what your policy is in respect of the taxing of that type of entity as company?

Mr Croser—We have no knowledge of the extent of use of trusts as a mechanism within our community of winemakers. We certainly will be asking them about that and other aspects of the Ralph committee's terms of reference and how it might affect them. To be quite frank, we have been preoccupied with the discussions of WET tax to this point of time, but we are putting forward to the Ralph committee a submission and we will be putting to our members basically a question of what it is in the Ralph committee terms of reference that they would like us to address. I happen to feel that perhaps that will become an issue.

Senator HARRADINE—But the proposal has been around for more than a year and was focused fairly clearly, was it not, by the government as part of its general tax reform policy?

Mr Battaglene—We just do not have a policy position on it yet. While I think it is going to become a key issue, it is one that we have not come to a policy decision on. As members of the executive I do not think we can say something without getting our members to agree on that position. It will be a key issue.

Senator FERGUSON—Before I ask a question, Mr Chairman, I would like to correct the record. I note that in your welcomes this morning you welcomed Mr Phil Gaetjens from the Treasurer's office. I would like to correct that. He does not work for the Treasurer's office but in fact is a member of the government's legislative tax reform unit. You also at that stage omitted to welcome Mr Chris Fry from the shadow Treasurer's office who has travelled with this committee to every day's hearing. I think that perhaps you should have welcomed Mr Fry as well as Mr Gaetjens to this hearing.

CHAIR—Thank you. I stand corrected.

Senator FERGUSON—Mr Croser or Mr Sutton, on page 7 you talk about Wittwer and Anderson's research, which is down as 1988. I take it that that is research that was done 10 years ago, or is it meant to be 1998?

Mr Sutton—No, it is in fact 1998.

Senator FERGUSON—Could you just give us a very brief outline of the research they did which showed that the combination of a GST and the WET tax would make the industry and the national economy substantially better off?

Mr Sutton—I hand over to Steve Strachan who interacted directly with the Centre of Economic Studies.

Mr Strachan—The model they used was a general equilibrium ORANI model. What they essentially did was model the industry as at 1996-97 and look at the differences between the ad valorem and the volumetric tax. So taking the total tax revenue in 1996-97, looking at collecting that revenue under a GST, WET or volumetric type system, the model used the standard income elasticities, price elasticities. Would you like me to go into that sort of detail?

Senator FERGUSON—No, I just wondered what research was done, that was all.

Mr Strachan—Essentially it was a comprehensive general equilibrium model. What it showed was that the income tax cuts did deliver reasonably substantial benefits to the wine industry due to the income elastic nature of wine demand and that most of those benefits would accrue to the premium sector of the industry. Then when you look at it in the context of the volumetric tax the sort of price increases you would be looking at for the non-premium sector of the industry—up 40 to 50 per cent—would have a fairly substantial negative impact on demand.

Senator FERGUSON—You would be aware that there is not unanimous support for your position in the wine industry for having an ad valorem top-up tax. This committee is going to the evidence from the IWA in Perth. What are the basic underlying reasons for the differing views?

Mr Croser—I am very aware that there is never a unanimous opinion on anything in the wine industry.

CHAIR—This committee can hardly tell you about unanimity of opinion, I might say, Mr Croser.

Mr Croser—This industry is an extraordinarily successful and cohesive industry, despite appearances to the contrary. It has supported greater than 25 per cent growth in exports per annum over the past 12 years. It is regarded as the world leader in the technology of grape growing and winemaking, and it has a plan to the year 2025 that will protect and enhance all the competitive elements that are so important to the continuation of that success.

All I would say is that the central trunk of the tree of the industry is extremely cohesive and very determined that it will not be diverted or perverted by the self-interest of any sector, whether that be the independent grape growers, large winemakers, small winemakers or whatever. The federation representing the bulk of the industry will continue to pursue just two things: the benefit of the total industry and the benefit of the whole Australian economy.

In saying that, I know there are unintended consequences in that some people are—and I use these words very carefully—benefited less than others in the change in the taxation system. It is not that some people and some size of operations in the industry are being negatively impacted by the taxation changes; it is that they will be less benefited—they will receive less beneficial effects—than others in the winemaking and grape growing community. As we have put forward, the large winemakers of the industry, the medium size winemakers of the industry and even down to the 200-tonne to 500-tonne operations will be significantly advantaged, relative to the small operations.

We as a federation recognise that as being the consequence of having to take a whole of industry, whole of economy approach and we have therefore proposed that the government produce some ameliorative decisions that are specifically targeted at the small sector of the industry. For legitimate cellar door sales operations of less than $500,000 in revenue, a WET tax exemption would not only specifically target those 800 premium producers and produce substantial economic benefits for them but also reduce the compliance costs of running those very small businesses. So a WET tax exemption is our proposal for that compensation.

Senator FERGUSON—I want to go back to the issue of the 1.9 per cent increase in the price of casks. You are aware that the government's proposals were that the WET tax would be set at such a rate that the rise in price of casks would stay in line with the general 1.9 per cent increase in overall CPI. Are you saying to us that, if the current proposals went ahead, the price of a cask would rise in fact by more than 1.9 per cent?

Mr Croser—The current government proposal is that the current cask price would go up by 1.9 per cent, which implies that the price of a bottle of wine in retail would go up by three per cent, which then implies that the bottle of wine in cellar door sales will go up by five per cent and that the bottle of wine in the restaurant will go up by six per cent or seven per cent.

Senator FERGUSON—But are you agreeing that in fact the proposals that the government has put forward will only have a 1.9 per cent impact on the price of a cask of wine?

Senator HARRADINE—And not 3.1 per cent?

Mr Croser—As we understand it—and this has nothing to do with the CPI—the calculation of the 1.9 per cent is a policy decision related to casks. We believe that it is probably related to the effect of the price of a full strength beer. I think that is part of the justification. What we would say is that there is no cross-elasticity of any significance between beer and wine; therefore, to relate the increase in price in any segment of the wine industry to beer will have no net effect on the efficient allocation of resources in Australia.

Senator HARRADINE—I might be totally misunderstanding this, but this goes to the point that I was asking about. You had better settle for the 1.9 per cent. You say that it has got nothing to do with the CPI increases, but in fact it is written here on page 87 of ANTS and it is repeated in your submission that the wine equalisation tax will be levied at such a rate that the price of a four-litre cask of wine need only increase by the estimated general price increase associated with indirect tax reform—that is, 1.9 per cent. You are saying that it has nothing to do with the CPI. I cannot understand that; I would like you to elaborate on that. As I pointed out, the short-term increase is now quoted in evidence by Treasury at 3.1 per cent. Why do you not settle for 1.9 per cent?

Mr Battaglene—You are quite correct that 1.9 per cent is their estimated CPI increase. We have been advised by Treasury that they are still using that figure and that the figure is in the ANTS and that there has been no change—

Senator HARRADINE—But I thought you said it had nothing to do with the CPI.

Mr Croser—I said that, and I apologise; my colleague is better informed that I am.

Senator HARRADINE—I thought I was going mad.

Mr Croser—You are perfectly correct, Senator.

Senator FERGUSON—To go back to the business of small wineries, some of my colleagues have had representations from smaller wineries which claim to be doing it pretty tough at present. Could I get some idea of numbers of wineries, if they are doing it so tough? Are there more people exiting the industry than there are entering the industry?

Mr Croser—No. The numbers are burgeoning all around Australia of small winemakers, family enterprises who are entering an industry that, as they see it, gives some hope to the region and their own families for economic viability. Because of the long lead times for investment in our industry, there are a lot of grapes and a lot of aspirations being planted around the country in the 50 winemaking regions that have not yet got to fulfilment and are still a long way from fulfilment.

One of the major forces within our industry for the status quo, which is what we keep arguing for—we are not arguing for concessions; we are just asking not to receive a major knock right now—is that there is so much unrewarded investment in our industry. It needs the stability and the surety that the taxation environment in which this investment is made will not be altered detrimentally during the maturation of those investments, before they come to fruition.

Senator FERGUSON—One final question, Mr Croser. Has there been more consultation in the preparation of the ANTS package and more consultation with your industry in relation to the proposals for tax reform than there was prior to the proposed six per cent wholesale sales tax increase in the 1993 budget?

Mr Croser—Some is better than none, I should say.

Senator BROWNHILL—On page 7 of your submission, you made very clear that from 1984, the previous government introduced a 10 per cent wholesale tax and then increased it to 22 per cent. How many jobs were lost in the industry because of that increase in tax, which was absolutely astronomical and was done without any regard to anyone? And how many jobs will be lost in the industry because of the GST increase?

Mr Croser—I would couch the question in a different way, Senator Brownhill. I would ask what effect it had on the potential job gains of the industry. I am sure that the industry will—regardless of the taxation regime and because of its international competitiveness, the marketplace demand for its product, and the ingenuity and the natural advantages that we have—continue to grow. It is a matter of whether in fact the government and the taxation regime will allow it to optimise its potential.

I would say that, with the 26 per cent tax regime that was imposed on the industry, firstly, all goods went to 22 per cent and so the relative change for the industry was only four per cent. Secondly, it was put in over time, after heavy negotiations, and so any effects were ameliorated by that negotiated agreement. But I would still say that the potential of the industry was truncated to an extent by that increase in taxation at that time.

CHAIR—I am going to have to leave the chair, and so may I offer my thanks and congratulations to you all for your submissions. The chair will be in Senator Ferguson's hands. It is no insult to you that I have to leave at this point. I do have to step aside. Thank you very much.

ACTING CHAIR (Senator Ferguson)—Senator Gibson now has questions.

Senator GIBSON—I note that you mention in your submission that your ACIL results were that the industry's costs would go down by 1.2 per cent but that that would be largely concentrated on the large end rather than the small end. I note that in the ANTS paper on page 167 the Treasury estimate is also a 1.2 per cent reduction in costs. Leading on from there, you made a proposal with regard to some relief for the small wine growers with less than 100 tonnes of production. Do many of them actually export from Australia? The whole tax package is, in effect, encouraging exports out of Australia in a general sense. Do many of these small growers export, or are the exports largely concentrated with the large firms?

Mr Croser—The exports are largely concentrated with the large firms, if you are talking about volume or dollars. Many of the small winemakers do in fact export, but many do not. There are 800 of them, and it is just too costly for them to set up the infrastructure to do it. I would make a case that those who do so make an extraordinarily valuable contribution to our exporter endeavours—far beyond the economic value of what they do—because of the colour variation and the reputation they bring to the export endeavour of Australian wine.

Senator GIBSON—Can you give us some statistics about the proportion of small growers that are involved in the Australian wine export industry?

Mr Croser—I am advised that there are in fact registered with the Wine and Brandy Corporation—every exporter of wine has to be formally registered—320 out of 1,000-odd players. We had some statistics which demonstrated that the collection of the export levy, which is specifically related to the wine going offshore, indicated that far in excess of 90 per cent in value terms is exported by the top 50 exporters of the industry.

Mr Sutton—That is an approximate figure on the export numbers.

Senator SHERRY—Senator Cook asked me to ask this. If the government does not accept your recommendations, at bottom line do you support the package?

Mr Croser—We would have to reserve our judgment, I guess. From our viewpoint, looking at our industry in isolation, even with the 31.7 per cent, the package is positive for our industry. We believe the 31.7 would be very punitive on an important segment of our industry, which is the small producers; and that is really why we are reserving judgment.

Senator SHERRY—Because that is where the job impact will be greatest in regional areas?

Mr Croser—Yes; the regional impact would be greatest there.

Senator SHERRY—Senator Harradine asked a couple of questions about trusts. When you have a position on that, I certainly would appreciate a copy of any documentation that you prepare.

ACTING CHAIR—As there are no further questions, I thank all the representatives from the winemakers organisations for appearing before the inquiry today.

Proceedings suspended from 11.29 a.m. to 11.41 a.m.

LAWLER, Mr Luke, Senior Adviser, Public Affairs, Credit Union Services Corporation (CUSCAL)

TAYLOR, Mr David Andrew, General Manager, Public Affairs, Credit Union Services Corporation (CUSCAL)

ACTING CHAIR (Senator Sherry)—Welcome. I invite you to make some introductory remarks about your submission and then the committee will ask questions.

Mr Taylor—Thank you to the committee for giving us this opportunity to outline our concerns with the government's proposed tax reforms. As we explained in our submission, the GST will cause a dramatic increase in credit union costs. The proportionate increase in costs for credit unions will be substantially higher than that incurred by our major competitors—the banks. Unless remedial measures are taken, credit unions will cease to be a competitive force in the financial services market. Before explaining the precise impact of the GST on credit unions, I would like to make some brief comments about the operations and structure of the credit union industry. Understanding this structure is pivotal to understanding why the GST as currently proposed will have such a serious adverse impact on our industry. There are 237 credit unions, all of which are, by any measure, small financial institutions. In aggregate, however, these credit unions have combined assets of $19 billion, which makes them larger than most Australian banks, larger than the building society industry and larger than the mortgage originators.

Viewing the credit union industry in this collective way is important for a number of reasons. Firstly, it is a reminder that credit unions are a significant competitive influence in the Australian financial system. Secondly, it reminds us that a substantial proportion of adult Australians—3.5 million, in fact—elect to use credit unions for their financial needs. Thirdly, it emphasises the cooperative structure of the credit union industry.

Credit unions have grown strongly in recent years amidst a very cluttered and competitive financial system. They have grown because there has been a need and indeed a preference for their services as a genuine alternative to the major banks. They have also grown because they have done things differently with an emphasis on personal service and customer needs rather than on profit. However, credit unions have only been able to compete and therefore grow because they have aggregated their resources to maximise economies of scale. As stand-alone institutions, credit unions would not have the capacity to compete with the major banks. They would not be able to provide the full range of financial services or offer them at a competitive price.

CUSCAL, which is the major national credit union body, is owned by credit unions and was established for the sole purpose of assisting credit unions to provide competitively priced services to their customers. It must be emphasised that this structure is not unique to Australia. It exists all over the world in countries with credit unions and cooperative banks. This structure exists because it is the only way that 237 small institutions can derive sufficient critical mass and operational efficiencies to compete with the major banks. It is a delivery structure built on cooperation and the sharing of resources. It enables credit unions to meet the needs of local communities while also being part of a large, sophisticated national support structure.

In its proposed form, the GST will impact unfairly on credit unions and will reduce competition in the Australian financial system. Our submission explains why this is so, offers some potential solutions to overcome these problems and, above all, emphasises that we are seeking solutions which are entirely consistent with the government's objectives for tax reform and competition in the finance sector. I would like to briefly summarise the size and nature of the problem faced by credit unions.

While there are varying community views on the merits of a GST, few would dispute that one of its major benefits is the removal of taxes from business. This significant benefit, however, will not be enjoyed by Australia's credit unions. The absence of such a benefit for credit unions is a direct result of the government's decision to input tax financial services. Without appropriate remedial measures, the input taxing of financial services will re-create and indeed exacerbate all of the well-known deficiencies of the existing indirect tax system. In particular, input taxing will increase, not reduce, the level of taxation borne by credit unions. It will significantly increase the level of hidden or embedded taxation in the price of financial services. It will impact unfairly and disproportionately on smaller financial service providers. It will undermine efficiencies which credit unions currently derive from outsourcing and aggregation and it will impede competition in the Australian financial system. These adverse outcomes run directly counter to the government's tax reform objectives.

If you provide financial services, you will be required to pay GST on your inputs but you will not be able to deduct this tax cost from GST collected from your customers. It follows that, if the cost of your business inputs increases, in this case because of a new tax, then one of two things will happen: either you will increase the price of your services in order to retain your previous profit margin or you will reduce your profits. If all financial services providers incurred the same proportionate increase in costs as a result of the GST, then there would be a uniform increase in prices or decrease in profits, but this is not what will occur. Rather, credit unions will incur a proportionately much higher increase in costs than their competitors, the banks. This is because the GST will only be added to an input cost where the input is supplied to the financial service provider from another taxpaying entity.

If you provide the service yourself in-house, then no tax will be added. If you are a small entity like a credit union, which, of necessity, must source most of its inputs from external suppliers like CUSCAL, then you will incur a major increase in tax costs. This input taxing approach turns a GST into a tax on business. More particularly, it becomes a tax on outsourcing and cooperation. It is a tax which will fall disproportionately on credit unions which, in order to be efficient and competitive, have sourced their supplies from cooperative service organisations like CUSCAL. The fact that input taxing will have these adverse effects is well established both by independent commentators and by official reports from countries with VAT systems.

The government's own modelling, however, forecasts that the proposed tax changes would produce a net reduction in costs for the finance industry including credit unions. While there do appear to be some reasons why the government modelling did not anticipate the dramatic adverse impact of the GST on credit unions, it is only through a detailed analysis of actual credit union accounts that the real impact of the tax changes can be seen.

As explained in our submission, we commissioned Price Waterhouse Coopers to conduct this detailed examination of credit union balance sheets. The PWC analysis shows that the extra tax burden from the GST will be three to four times the value of savings from the removal of other taxes. The difference is an estimated $40 million cost increase for the credit union industry per annum. This represents around one-third of the total surplus or profit for the industry in 1997-98.

Since the entire surplus of credit unions is retained for prudential purposes to meet capital ratios, this cost increase simply cannot be absorbed through reduced profits. Credit unions could seek to increase their fees or interest rates to cover this extra tax, but this would render them uncompetitive as banks will not incur the same proportionate increase in costs. If credit unions cannot reduce their profits to offset this additional tax burden but also cannot increase their prices, then what is the future of the industry? This is a question which we hope we will not need to answer for it was clearly not the government's intention to increase credit unions' costs, nor to create a new competitive impediment which will reverse the community benefits of the much heralded Wallis reforms. It is in this sense that we can only conclude that the adverse impact of the tax on credit unions is an unintended consequence of the tax package.

The amendments sought by CUSCAL as outlined in our submission are designed to address this unintended consequence. We are seeking two particular amendments. Firstly, and consistent with the approach adopted in Canada, we are seeking recognition for the unique cooperative structure of the credit union industry. Under the Canadian approach, services provided to credit unions by their collective support organisations do not attract GST. The Canadian government justified this policy on the basis that the taxation of such services would be discriminatory and would undermine competition in the Canadian financial system. The same logic applies in Australia. Secondly, we are seeking minor changes to the definition of financial services so that credit unions' outsourced supplies will attract the same tax treatment as supplies sourced in-house by banks.

I must emphasise that these changes should not be viewed as concessions for credit unions. Rather they will help achieve a competitively neutral tax system under which the impact of the GST on credit unions will be comparable to that on banks. In seeking this outcome we have drawn on the experiences of overseas countries with similar credit union systems and similar tax regimes. The legislative changes sought by CUSCAL are straightforward, are based on established overseas precedent and will redress the competitive inequalities in the proposed legislation.

In conclusion, we believe that our recommended amendments will improve the policy integrity of the tax package. They will enable credit unions to continue providing much needed consumer choice and competition in Australia's financial system, which was the primary objective of the government's Wallis reforms.

ACTING CHAIR—Thank you. Is there anything you would like to add, Mr Lawler?

Mr Lawler—No.

Senator GIBSON—I guess the first point I should make is that it is true, isn't it, that the government has been good to your industry in recent times in giving you access to the cheque system and also to the national prudential scheme, to make it a more level playing field with the banks? You did have a disadvantage previously.

Mr Taylor—That is quite right. In fact, the credit union industry has struggled for many years to remove a whole raft of impediments, some arising from the regulatory structure, some arising from particular laws like the Cheques and Payment Orders Act. The current government has been very supportive in its reforms to those areas. It has justified those reforms on the basis of improving competition in the finance sector. Indeed, one of its often repeated comments is that the four pillars policy will not be removed until such time as the extra competition by credit unions and others flows through to the system. This is precisely why we find it a little odd that such a dramatic adverse impact would be permitted, which really turns the clock back on all of those reforms that the government has put in place.

Senator GIBSON—Going on to what you propose, that is, the grouping provisions a la Canada, if that was done specifically for credit unions wouldn't that put you at an advantage relative to small banks? As you know, a lot of the banks do outsource a lot now, particularly the smaller banks. Would they thereby be disadvantaged relative to the advantage that this provision would apply to you?

Mr Taylor—The structure of the credit union industry and its delivery of services to customers are unique in Australia. It is a cooperative, mutual industry in which the delivery of services occurs through individual credit unions and all of the back office work and supplies are done through their support organisations. That is a mutual structure which exists all over the world: in Europe through their corporate banks, in Canada where the credit unions are almost identical in size and penetration to those Australia. So we are really asking the government and the committee to recognise the importance of that structure for providing competition. There aren't any other institutions, whether regional banks or anyone else, that operate on that basis, that actually own their own collective support structures through which they receive services.

Senator GIBSON—You are still having negotiations with the government, aren't you?

Mr Taylor—That is right; we are. In fact, we have been discussing these concerns with the government now for eight to 10 months, since our initial submission on the legislation well before we actually had legislation. We are now continuing our private bilateral discussions with Treasury and the Treasurer's office.

Senator MURRAY—If you did not get your recommendations accepted, would you support the government's tax package overall?

Mr Taylor—The impact we are talking about here on credit unions is not one at the margin. This is not a matter of credit union services going up marginally or down marginally; this is a series of tax changes which fundamentally undermine the structure that has been put in place by credit unions for the delivery of services. Whatever else is in the tax package is irrelevant to the credit union industry by comparison to this specific change. So I guess in short the answer to that is no. Our members, 237 credit unions, on behalf of their 3.5 million members, would not have access to the sorts of services they have now from a credit union if changes are not made.

Senator MURRAY—The government has made the point, and the committee accepts, that it is all or nothing; it has to be the acceptance of the total package. Moving on from that, have you identified how different or how similar the credit union structure is in Australia to other OECD countries that have taken on a GST or VAT system? You have mentioned Canada, but have you done an overall appraisal?

Mr Taylor—Yes, we have. The fact is that credit unions are very strong in the United States, where of course there is no federal GST system, though we have spoken to them about the impact of some similar state taxes of a much lesser order. In Europe the term ‘credit union’ is not used. They refer to themselves as cooperative banks, but they have the same mutual structure. VAT is not charged on exchanges within the cooperative banking groups, whether in France, Germany, Scandinavia or any other OECD country. In Canada, however, they do use the term ‘credit unions’. They have a structure which is as good as identical to ours in terms of structure and their market penetration and share of the industry are very much the same. We did look to them as a very good example because that was the most recent introduction of a GST or VAT in a country which had a very similar credit union industry. So we have looked at other countries. Canada is the best example only because that is the place where the credit unions are most similar.

Senator MURRAY—My understanding of the government’s decisions on ANTS concerning the financial services and banking industry is that they have very much drawn on international experience to devise their system. In doing so have they in fact neglected to carry through international practice on credit unions or cooperative mutual banking services?

Mr Taylor—Certainly they have, in our view. There is no other country in the world that we are aware of where there is a VAT system which has the effect on credit unions or cooperative banks, as the case may be, that this proposal will have. There are basically two reasons for that. One is because of the absence here of any recognition of the grouping of these mutual entities, and the other is because the definition of financial services here is far narrower than it is anywhere in the EEC, where of course the VAT regimes are now synchronised, with similar exemptions and similar lists of financial services, and in Canada. The definition of financial services here is very restrictive, so that services provided in-house by banks are free from the GST net and if provided by a credit union sourced through someone else they are not. I will give one very brief example of that, only because it is one that the government itself uses in its explanatory memorandum. That concerns a valuation service. If a bank provides you with a loan but also provides you with a valuation service, there is no GST because the valuation is done by the bank. But if the credit union provides you with a loan and the valuation is done by CUSCAL, because CUSCAL provides that valuation service for credit unions, then there is GST. It is the same service, it may be the same potential customer, but a different price.

Senator MURRAY—But if the bank went outside for a valuation that valuation would carry GST, wouldn’t it?

Mr Taylor—That is right. But as you look at the structure of the credit union industry—as we indicated in the diagram on page 12 of the submission—and you look at what banks provide in-house, that covers all of the big ticket items which, for credit unions, are sourced externally. The banks have a choice. Some banks might choose to outsource some functions, but they have a choice. Credit unions, at the size they are—237 of them—can only provide their services on this cooperative basis. That is the way the industry has always been structured.

Senator MURRAY—I might have missed this in your submission or your remarks: have you put a revenue cost to the government of your proposals? Is there a figure that you know it would cost them?

Mr Taylor—This is an interesting question because it raises the whole issue of the government's own projections and forecasts for the impact on the financial services industry. The government have stated publicly and to us in discussions that they did not predict an increase in costs for the financial services industry, whether it be for banks or for credit unions.

Senator MURRAY—Sorry, I think you are misunderstanding my question. If they were to change their system to what you want, what would be the revenue cost to government, not the cost to your own industry?

Mr Taylor—I was just clarifying that, compared to the government's forecast of a reduction in costs, there would be no change because all we are doing is actually restoring what was intended out of this package. Clearly, if the changes that we are recommending are put in place, there would be some forgone revenue as a result of us paying less GST.

Senator MURRAY—Do you know how much?

Mr Taylor—We have estimated that the additional impact of the GST on the industry is about $40 million per annum. We are seeking to remove as much of that as possible, so you could say $40 million.

Senator SHERRY—I am continuing from the point Senator Murray raised. Looking at the ANTS document, under 'Cost effects by industry' it has banking minus $670 million and then it has the non-bank finance minus $80 million. Are you included in the non-bank finance sector?

Mr Taylor—Yes, we are—along with merchant banks, money market dealers, finance companies and a whole lot of others.

Senator SHERRY—There is obviously a lot of difference between minus $80 million, and whatever your share is purported to be, and a plus $40 million increase in cost. Can you explain how that has happened?

Mr Taylor—This is the question that we have been trying to explore with the government, with Treasury. What we can say is that the modelling that was done by the Treasury was at a very macro level. They were utilising the ABS input/output tables. At the end of the day, the modelling analysis that was done really got nowhere near a micro-analysis of the credit union industry, as we see even from the category used—'Impact on non-bank finance', assessed through the Treasury model to be a reduction in costs of $80 million. But that includes merchant banks, money market dealers and finance companies, none of which are structured anything like the credit union movement.

It could well be the case that there are some cost reductions there. What we have done is take actual accounts—this is not modelling per se—actual credit union figures for 1997-98 and have Price Waterhouse do the analysis. They have assessed the tax on every expenditure and revenue item. So it is, in a sense, not modelling; these were our actual accounts and this is the extra tax.

Senator SHERRY—This is the real world.

Mr Taylor—Yes.

Senator SHERRY—You have talked about the $40 million cost increase and you have said in your introductory remarks, if I have quoted you correctly, that credit unions will cease to be a competitive force. Why can't you simply put up the price of your services?

Mr Taylor—If we could do that—while that would be a bad outcome for consumers—we probably would not be here today. If the impact of this tax were proportionately the same on banks as on us and everyone put up their prices, it would effectively be the same as, for example, a rise in official interest rates. Official interest rates go up, everyone bears the same cost and prices go up for consumers. But, as we have explained, the impact is proportionately different for credit unions—significantly so. That is because of the large degree of outsourcing, which I have mentioned; but it is also because credit unions focus on the household needs of consumers, household financial services. So they provide hardly any taxable supplies; in the Price Waterhouse analysis it is about three per cent. So, whereas banks can recoup some of their GST cost on their taxable supplies, credit unions cannot.

Thirdly, credit unions provide no zero rated activities. Banks get zero rating of their money market, forex dealings and overseas supplies, overseas services. Credit unions do not have overseas supplies, they do not delve in the forex markets, so they do not have anything that is zero rated and therefore they cannot offset their tax costs through zero rating rebates.

Senator SHERRY—I am aware that in recent times, particularly with some banks closing branches in areas of regional Australia, some credit unions have filled some of that gap. They have gone into regional areas that the banks have vacated. What will be the impact of this $40 million impost on rural and regional areas? I come from Tasmania—I do not know whether you are familiar with the state—and it is highly decentralised. What would the impact be on rural and regional areas in particular?

Mr Taylor—Credit unions—or the industry as a whole—have endeavoured to move into as many rural and remote areas as possible as they have been vacated by banks. I think the latest figures are that we have established in the last two years 45 new operations in rural areas which otherwise had no financial service provider. I am sure it will be no surprise to anyone that those operations are not highly profitable—in fact, in their early stages many of them are still running at a loss—but the credit unions are prepared to do that to provide a service. With support from the community, they think that these sorts of operations can at least break even.

Obviously, if you have a big increase in costs, if you cannot increase your prices and if you cannot reduce your profits—as I explained earlier—the only other thing you can do is try and reduce some costs or overheads elsewhere in your business. There is no doubt that some of those rural and remote area operations will be the first sets of services to be scrutinised if there is any need to reduce costs further.

Senator SHERRY—It seems to me that, if you wanted to design a system that put you at a competitive disadvantage vis-a-vis banks, this would do a good job of it.

Mr Taylor—I can only agree with that. It is of great concern to us that we have ended up with a system which will adversely impact on credit unions so greatly at a time when the government's other reforms have been removing competitive impediments. It is not that this is something that we have only realised at the last minute; from our first submission to the government on a GST, we have emphasised the potential disadvantages if they go down this route and we have given to them overseas experience where these problems have been avoided.

Senator SHERRY—So you have been ignored?

Mr Taylor—Our views have not been acknowledged through changes to the legislation at this point. It is true that this government, like its predecessor I might add, has been supportive of the credit union industry and we do not think the government wants to see a reduction in the competition that is being provided very strongly by credit unions.

CHAIR—I apologise for not being here when you commenced your evidence, Mr Taylor, and you may have covered this point. Credit unions, as I understand them, are effectively cooperative savings schemes that lend money at usually lower interest to their members. From a credit union point of view, do you have any idea of the socioeconomic group that we are talking about, the one that your members represent?

Mr Taylor—That is a very difficult question. I should perhaps preface the answer by making the observation that, when credit unions first evolved in Australia 50 years ago, they were very much providing services to low income earners—those who basically could not get finance from other sources. Part of the instigation to set them up was to prevent people getting bound up with high interest money lenders.

As those 50 years have passed there has, of course, been change and development. One of the particular things that caused credit unions to become more mainstream was the imposition of full corporate taxation in 1993. Credit unions used to be exempt from company tax; they now pay full tax. Once that was done it was necessary to be able to provide the full range of services. They have now done that. That has enabled them to compete. So, if you looked at the customer base now, you would find—although I do not have figures available—that the majority of credit union members are employed and probably in the middle income range, if I could use that broad description. I think the very high income earners do not tend to use credit unions. It is focused in the middle income areas.

CHAIR—The interesting feature is, I think, that cooperative is still—

Mr Taylor—That is quite right—no external shareholders. All the reserves of the credit union are owned by the members and the profits of the credit union are only made to meet prudential requirements. We must meet the same prudential requirements as banks—the same capital requirements. Because we do not have capital coming in from external shareholders, we have got to get retained earnings to maintain that capital. That is when we refer to a profit figure in 1997-98 of, I think, $130 million across the industry. This $40 million is around a third of that. But we cannot reduce that. Those profits must be earned to meet prudential requirements.

CHAIR—Is the credit union movement growing? Are more people joining credit cooperatives?

Mr Taylor—Yes, they are. The credit union movement has grown very strongly. The current figure is 3.5 million members, and assets of $19 billion which have grown in the last four years from about $14 billion. They have also grown in areas of business where there has been a need. For instance, in the small business area there has been a particular lack of competition. Credit unions lending in small business areas increased by, I think, 35 per cent—of that order—in the last year. That is because of some of the reforms that the government has made to enable credit unions to provide the full range of services. So, yes, they are growing in assets and membership, and that is consistent with overseas trends where mutual banks—cooperative banks and credit unions—are achieving a higher share of the financial services market.

CHAIR—I suppose this is a philosophical question so I will not engage you on it. I am someone who is a strong supporter of cooperatives where people pool their resources to have greater control over their life and spending patterns. I think that is a good thing, whether it be grower cooperatives in rural Australia, whether it be credit union cooperatives or whatever else. I conclude by asking you this question. You have pointed in your submission and in your oral evidence to a competitive disadvantage that you will now face by virtue of the banks. Have you gone through the bills that we are inquiring into, and are you able to indicate to the committee—later, if you are not in a position to do it immediately—where you would think those bills would be better amended to reflect a balanced approach to all lenders and not an approach such as the one you complained about which disadvantages credit unions?

Mr Taylor—Yes, we have. Without going into it in detail, I think it is fair to say that the amendments that we have sought and which are outlined broadly in our submission—but are being discussed in more detail in direct discussions with the government—are very minor. We are talking about changes to the definition of financial services which itself can be changed by regulation. We are talking about adopting changes which are consistent with those that are well practised and well used overseas. So these are not dramatic amendments. They are ones which have precedent. They do not create major drafting problems. They do not undermine the policy adopted by the government. Financial services will still be input taxed. We are just talking about changes at the margin of the definition but which will have a very substantial ameliorative effect on the credit union industry.

CHAIR—There is probably a follow-up then. You are in discussions with the government about whether the government will agree to these changes. At this stage those discussions are current, they are not resolved and there is no outcome. You, of course, participate in these hoping that you will persuade the government. In the event that you do not, would you be putting to the Senate that the Senate should make the changes?

Mr Taylor—We are participating in this inquiry because we need to bring before the proper processes established by the parliament the changes that we would like to see. We also recognise that the government is in a position itself to make those changes before they ever come before the parliament. If we had a preference we would rather see that; we would rather see this matter resolved amicably.

CHAIR—I realise that I am putting you on the spot, Mr Taylor.

Mr Taylor—The answer is yes. If we do not achieve the changes with the government, we would like to see the parliament make the changes.

CHAIR—Thank you.

Senator MURRAY—I have a question arising from your remarks in answers to questions from other senators. Other industries that have seen the downside of the package have spelt it out to us in terms of numbers of jobs that could be lost or numbers of businesses or organisations that could collapse. That is a reasonable way of outlining a downside. If this package goes through as it stands, is it possible that your industry will shrink in numbers either through merges or loss of operators? Will the smaller or more marginal people fall away? Will there be job losses if it goes through as it presently is?

Mr Taylor—We know that the impact on the industry, if there are no changes, will be substantial. It is difficult to say how long it will take before those extra cost increases lead to mergers of credit unions and job losses from that. It is hard to quantify that. We are also very conscious of the fact that credit unions, like all financial institutions, require public confidence. So we need to be careful about saying publicly what may happen to credit unions if these changes are not made. We have set out for the government and the committee the cost impact and, as I said in my opening remarks, we would rather not answer the question: what if there is no change? There is no doubt that the impact is so severe that the credit union industry would not continue in its current form.

Senator MURRAY—But you must appreciate that you need to be up-front with this committee because, if we go to the Senate and we do not know from you that the consequences will be job losses or merges or marginal operators closing down, then our basis for recommending to the Senate that they make amendments which the government refused to make is thereby weakened. However, if you are straightforward with the potential risks it enables a better evaluation by the committee as to whether it should recommend to the Senate a particular course of action.

Mr Taylor—We are trying to be straightforward. There will be credit unions that will not be able to continue. There will be job losses resulting from that. It is hard to quantify that. But the impact of this will be so severe that it is hard to imagine the credit union industry existing in anything like its current form if there are no changes. This is a $40 million per annum cost impact. The industry simply cannot absorb that.

Senator SHERRY—I have one last question which flows on from the announcement today by the Treasurer. I assume you do not know that in detail. Apparently the Treasurer has ruled out the taxation of the operation of cash management trusts by banks. That would seem to me to be conferring a significant advantage on banks vis-a-vis credit unions. I am not aware that credit unions operate cash management trusts. You might like to comment.

Mr Taylor—We do not manage them in the same way as banks, no. There are similar structures. I cannot really comment on the detail of that because I have not seen it. We have been participating in the Ralph review. I can say that credit unions, as I mentioned earlier, do now pay full company tax. We meet every impost the same as anyone else in the industry. We do not think that what we are seeking should be characterised as concessions. We do not think that there should be a new tax put in place which is designed to reduce the costs of business but which ends up increasing our costs substantially. We are looking at removing an anomaly, not providing a concession.

CHAIR—Thank you for your evidence today.

Proceedings suspended from 12.20 p.m. to 1.38 p.m.

BROWNE, Mr Michael Holgate, Member of the Business Council and Member of the Tax Reform Committee, South Australian Employers Chamber of Commerce and Industry

HARRISON, Mr Ian Alexander, General Manager, South Australian Employers Chamber of Commerce and Industry

ACTING CHAIR (Senator Ferguson)—I welcome the representatives of the South Australian Employers Chamber of Commerce and Industry. Senator Cook will not be here for this portion of the inquiry and Senator George Campbell will be substituting for him, so we will just continue on from there. I welcome Mr Ian Harrison and Mr Browne. Gentlemen, it is over to you.

Mr Harrison—By way of an opening statement, I should say that we have submitted evidence to the committee. It was a short, concise submission. It is worth noting that, in fact, you got the entire amount of it. We had a couple of questions asked of us whether we had missed some attachments. So we have not passed the weight test, but I hope that we have summarised the major points that the employers chamber seeks to put before the committee. We see this as a continuation of a long period of involvement in matters relating to tax reform.

The SA Employers Chamber of Commerce and Industry is the state's peak employer body. It has about 3,200 direct members across the entire business spectrum. There has been a number of mergers of employer bodies in this state over the last 25 years, which has given rise to this organisation with broad coverage. Under the umbrella of the chamber we have 70 trade associations and, through that group, provide direct services to a further 3,000 businesses. So the employers chamber in this state has a membership and a service list that totals in excess of 6,000 businesses. Employment in those businesses would be in excess of 160,000 South Australians. The body is a foundation member of the Australian Chamber of Commerce and Industry—an organisation that we understand is putting submissions to your committee—and we are a member of the Business Coalition for Tax Reform in our own right, also an organisation that has submitted evidence to the committee.

I might simply work through the tabled document—as I said, it is concise enough to allow that—and then I will supplement it as we go through with further comments. We would be very happy to engage in discussion, either on the way through or at the conclusion.

The employers chamber has been a strong advocate for business for tax reform for many, many years. That comes about from a basic premise that the existing system is in need of significant reform. At times we have said that the existing system is broken, and it needs fixing, and that is a view that is held very widely throughout the business community.

We participated in and were involved in organising the tax summit that was held in 1996 in Canberra under the umbrella of our national body and the Australian Council of Social Service. As I mentioned previously, the most recent extension of our involvement in this area is that we have become a participating and financial subscribing member of the Business Coalition for Tax Reform.

We have a range of objectives that we want to see put into place in a tax system, and they really are to secure a tax system which would improve the overall competitiveness of Australian goods and services; encourage employment, savings and productive investment; raise revenue more efficiently, with lower collection and compliance costs; foster adequate, efficient and enduring tax bases for all levels of government; and recognise adequately the need for equity considerations.

The tax system has a big influence on the economy. There are not too many decisions taken in the business community—and, indeed, in many sections of the general community—that do not incorporate a tax element in their determination. We contend that the major compelling argument for a substantial review of the tax system in this country is the growth in economic activity that such a review can engender. Out of that you will get business investment, and out of that we get jobs. We cannot accept that there are not two more fundamental requirements of the tax system in this country from where we are at this point in time than to make the changes necessary to engender business investment and jobs.

I will mention in my conclusion some issues pertaining to those in our package that we are proposing, or that the government has proposed, that are specifically relevant to South Australia, but at this point I would just like to mention something about economic modelling. We have read with interest some of the earlier media reports of your committee's hearings and the debates that have ensued because of recent econometric modellings that have come forward. We do not have in our own right substantive research that underpins the comments that we will be making today, but some of that, of course, has been done by our national bodies and, therefore, we are party to that.

But economic modelling is an interesting science in its own right, and there are a whole lot of assumptions that you have to undertake to make those sorts of modelling projections. I do not want to cast aspersions upon the science of economic modelling, but we at the employers chamber will take our guidance from the views of the business community. The people who make business decisions, who make investment decisions, are telling us what they think has to happen, what they know has to happen, to this system in Australia. They have got international experience in the marketplace—not in academia—to support their views.

So what we are bringing to the committee today is unashamedly a business focus. I make that comment, like many of you, having had some involvement with economic modelling and the matters pertaining to it. It is simply a tool that we can use, but at the end of the day you make a decision based on what you believe is right and on what your experience directs you towards. So it is of no surprise to any of us that the models, whoever produces them, do not agree.

The package of proposals that the employers chamber has developed and that we believe will meet the sorts of objectives we want in the tax system includes a goods and services tax at a rate of 10 per cent with minimal exemptions. We proposed in our original submissions to the government and others that we thought rent and financial transactions ought to be the only exemptions—an absolutely minimal base with exports to be zero rated.

Secondly, the introduction of this tax should be concurrent with the abolition of wholesale sales tax and payroll tax and a range of other indirect taxes as the revenue generated would provide. A fundamental premise of the view of the business community is to move the incidence of taxation in this country from income across to consumption, to get it out of the input costs of business and give business a chance to be world competitive, and to move the incidence of tax, as we have described, through to a GST.

The third area is reform of the income tax and social security systems to encourage greater incentive to earn and save and to provide a better interface between the two systems. The reform of the personal income tax scales we have proposed could include alignment between the top marginal rate of tax and the corporate rate of tax. I understand a report has come out today—which we have not had a chance to look at yet—from the Ralph committee, which obviously goes to that sort of item; I think it probably goes in the other direction. We want to see company taxation simplified to provide greater certainty, lower compliance costs and a business environment that encourages investment and enterprise.

Finally, we want to see a restructuring of the federal-state tax sharing arrangements to reduce the extent of vertical fiscal imbalance in this country and to give states access to a growth tax. We have put forward a proposal that that might be done through an income tax sharing arrangement—a piggyback system where the Commonwealth would collect money on behalf of the states and distribute it back through to them. We found the government's proposal to hypothecate the proceeds of the GST very interesting. It has business support and deserves wide support. This hearing is being held in Adelaide. We made the point, and we should repeat it, that the system of tied grants to states to offset the high costs of delivering certain services in the smaller states—I think we call that horizontal fiscal equalisation—must of course be maintained.

The government's package announced last August did not contain all the elements of what we were putting forward. That is obvious from what I have said. We accept it as a comprehensive set of reforms of the system and it has achieved wide acceptance amongst our membership. So, in terms of the business community in this state, we would say that that package has wide support. It has particular relevance to South Australia. We have a higher reliance on manufacturing activity than other states. It is not the biggest manufacturing sector, of course, but in terms of percentages of GSP, we are more reliant on manufacturing in this state than others and the removal of wholesale sales tax, in itself, is seen as a major advantage to South Australian industry. The rationalisation of a range of indirect taxes will help the manufacturers. Our vehicle industry is a world competitive industry. Our mining industry, like others in the other states, is world competitive—as are our agricultural products. We need to address the fact that they must have whatever costs are imposed through the tax system taken out of their structure.

We understand that wholesale sales tax, for example, puts something of the order of a billion dollars onto the cost of Australia's exports. South Australia's percentage might be close to 10 per cent of that, so we think there might be $100 million that you can take out of the cost base of South Australian exports. In terms of competitiveness, which is one of the basic tenets of our proposal for a new tax system, we think that is very significant.

The disappointment that we have in our organisation about the government's package was the decision not to include payroll tax specifically as one that might be eliminated. We really do not like payroll tax at all. It is discriminatory. It feeds directly into the cost base of goods and services. It offsets our international competitiveness, as I have just mentioned. If we have a GST, which will be a value added tax in some respects, it will pick up labour as well as the capital input into goods and services, so the labour component will be taxed twice. We do not think that is appropriate. At the time of introducing a broad based tax there will be some inflationary impact. We think removing payroll tax offsets that in certain key sectors. We think that ought to be another reason for its abolition.

We also think that the time for removing payroll tax is at its strongest when the reform process is initiated. We will hold out hope that, with the states being given access to a growth tax, individual state premiers will see the need to reduce or abolish this tax in the near future. South Australia, because of our existing debt arrangements, are not as well placed as some other states to achieve that in the time frame that we know is essential. That debate is going on in our state right now, as you would all be aware, but we contend that payroll tax ought to be got rid of. We recognise that it is not a well-understood tax in the community. We see it as a tax on jobs and we do not think it has any place in a community with the unemployment levels that we have had to endure for a long time. There is also sensitivity in the states about maintenance of their own revenue being reduced if they get access to a growth tax.

We come to your committee with a high regard for the intent of this process. We also have a view that the tax reform argument was well debated in the context of the recent federal election and the view of the business community is that we should be able to move ahead now with some speed to introduce a revised tax system for this country. We think that the electorate has had a decent look at it—not the absolute detail; we recognise that—and we would be hopeful that the Senate will deliver back to the government a package of reforms that is acceptable to the government in a timely manner so that we can move ahead. If that is not the outcome, then a tremendous loss of business confidence and, therefore, consumer confidence—and vice versa—will be the outcome. There is growing concern in this country about the ability of our parliamentary process—at state and federal level—to demonstrate the sort of leadership that the community needs.

Finally, I would like to move to the issue of food. We believe that minimising the compliance cost is a major objective of the reform process. A standard rate of broad based tax spread as widely as possible with few exemptions is, of course, the simplest system of achieving a low compliance cost tax system. We would argue, as I have mentioned, that there should be very few exemptions. The government has added health and education and a range of other activities to the list. We accept that there is probably good reason for that. There is certainly a lot of evidence that there is great complexity in some of those areas but we simply do not accept that food ought to be exempted from the GST. Definitional reasons emerge immediately which will create great difficulties so the compliance costs will go up.

Secondly, there are revenue implications of $5 billion or thereabouts. We stressed the issue of payroll tax in our submission because we always thought it ought to go. But, when the package was announced, the first feedback we got from the government about the reason that payroll tax was not identified as a tax to be removed was the question of whether there was enough revenue generated that would allow payroll tax to go in the face of income tax cuts. If we actually exempt food, that is going to cause some revenue questions which will have to be accommodated if the package ultimately holds together. What we fear is that the final outcome of that sort of process might see a tax reform package in place where food is exempted, with all the problems that creates, and payroll tax is retained because there simply is not enough revenue to provide for both. There is probably some impact on other areas to the effect of $5 billion in income tax cuts or whatever. We cannot see that as being anything like an optimal outcome. So we think there are a lot of reasons why food ought to be included in the net, and we would hope that we will reach a time, in the near future, when the governments involved in it—as I said, it might be done at state level if this package goes through—can see their way clear to get rid of payroll tax; get rid of the tax on jobs. I think that is a reasonable summary of what we put forward and, as I said, I have sought to enlarge on it in some areas.

ACTING CHAIR—Your question, Senator Conroy.

Senator CONROY—I was interested in your comments about your experience with economic modelling. Could you briefly give an indication of it?

Mr Harrison—I did an economics degree and I majored in mathematics. I did quite a bit of modelling a long time ago on all sorts of outcomes, including sales projections, regression analyses and these types of models. I have had a fair bit to do with the Centre for Economic Studies here. They have produced some interesting modelling. I did not have a lot to do with the generation of Econtech's model; I had nothing to do with it before the automotive inquiry, but I was very interested in that because we used the outcome of that with some success. I congratulate the government and all those involved in that good decision.

In those sorts of exercises, what has always been clear to me is that you write a set of assumptions and those assumptions are then reflected in how you evaluate real circumstances. One of the worst definitions of an economist—that we all have to endure—is 'somebody who sees something working in practice and tries to describe it in theory'. There is a bit of that in economic modelling. I am not saying you do not need it—because you do need it. At a macro level, which is where this is dealing, it is very important. But you have to balance it against what, from all the evidence and experience, you believe to be the real situation. That is often a great difficulty for those who produce the models, because they are people who have perhaps not had that breadth of experience.

That is the point I was trying to make. I am not trying to be critical. I was trying to say that we will bring a business focus to your inquiry. Others—and you have had them of course—will bring the more theoretical, academic version of their modelling. They have attempted to capture what many business people would say they had learnt some time previously.

Senator CONROY—You said before that you start with the assumptions and then you try and make the model reflect what you want at the end. Are you suggesting that that is what happened in the Murphy Econtech model with cars?

Mr Harrison—We have the view that Mr Murphy got it right, of course.

Senator CONROY—Just by coincidence, or maybe he had good assumptions?

Mr Harrison—He took good advice, perhaps.

Senator CONROY—You suggested that the premise from which you started looking at the tax system was that it was 'broken'—you used the word.

Mr Harrison—That is right.

Senator CONROY—Do you have any modelling or any advice at all to back up that particular claim?

Mr Harrison—No; I can go back to what I said earlier, that the views we have about this system really come from the business people that we deal with. The employers chamber is a business organisation. Our board, our business council, our tax reform committee and all the other groups that we have inside the employers chamber are made up of business people. We go to them and say, 'What are the issues we should look at and, in respect of tax, what are the views we should take?' In many instances these people operate in other tax regimes in other countries—they are exporters and those who own operations offshore. The overwhelming body of evidence that has come back from these people for a long time is that the tax system in this country seems to be more restrictive than the tax systems that they have experienced with other countries. They will say to us that this system really is not too good. There are some specific areas of this system in the business area, like the fringe benefits tax system and the capital gains tax system, that are in massive need of change, demonstrably. It is not an arguable case. Anyone who is in the professional environment that has to deal with these areas would say that they are falling over.

By way of a very personal comment—and Michael might wish to enlarge on this—I have recently had the difficult situation of fixing up an estate of a parent of mine who passed away who had quite a few shares including a long-time shareholding in BHP. It is just about impossible to work out capital gains tax. My tax guy that I went to said, 'It is not worth me doing this, Ian. It'll cost you so much in my fees. You just have to go away and sort it out yourselves.' That is another view of the system, not the business view. Previously I operated in the tax area for a little while, many years ago. I have not heard many people argue in defence of the current system, other than that we cannot seem to fix up the way we should go by way of change. There is political debate that seems to have taken over the actual reality.

Mr Browne—Can I add a little to that?

ACTING CHAIR—Sure, Mr Browne.

Mr Browne—As Ian has put it, FBT and capital gains tax are clearly relevant, but the other issue that seems to come through time and time again is that the current tax system pervades all business decision making approaches. Whenever somebody is looking to do something, the first or second question that seems to come up is, 'What's the tax implication of that decision?'—not whether it is necessarily a good or a bad decision. If you keep having to come back to the tax fundamental in every circumstance, that certainly seems to reflect a view that perhaps the system is broken.

Senator CONROY—Regarding the point he had, when the Treasury start arguing about the system being 'broken', they are usually referring to the level of revenue that can be generated by a tax system, as opposed to an individual bit here or there. They are looking at the macro effect. I was wondering if you had any evidence or advice on whether there was a sustainable base currently for the needs of the community down the track—whatever the definition was. I was wondering if you had a view on that.

Mr Harrison—Yes, we do. We do not believe the current system is sustainable. We do not accept that the income tax scales, for example, are anything like they should be. They are an absolute disincentive to work in this country. We have never, as a community, compensated the middle income earners and the low income earners for the inflationary effects through the seventies and eighties when bracket creep absolutely cruelled the incidence of people who are now at the so-called top marginal rate.

At company tax level, people are telling us that we do not have a system that is world competitive. Businesses that are looking where they should invest their money are telling us that Australia's tax system is not competitive, that the cost of capital in this country is far too high.

At a state level, it is an absolute debacle. We go through a charade in this state each year when the state government has to, what we call, rummage around the bottom of the barrel to find some area to increase revenue. The vertical fiscal imbalance is one of the problems they have despite that. So at state level, the potential sources of tax revenue in the High Court decision 12 months ago put a bullet through the last avenues, I suppose, that they were working towards. The state systems are bereft of opportunity, unless they want to just put more taxes on to the business community, which is widely recognised to be anti-competitive, and that is just going to cost jobs in our jurisdiction.

Senator CONROY—Like yourself, nobody on this committee has seen any modelling from Treasury or any other economist about the potential revenue base, other than what we have commissioned ourselves, which showed that there is actually a sustainable revenue base currently for the projected needs—that is, the current revenue base is projected to grow by about the same level as GDP. I just thought Treasury had shown you something they had not shown us, but I guess not.

Mr Harrison—No, you can rest assured about that.

Senator CONROY—One of the assumptions that has been made in the very little bit of modelling that has been done on the ANTS package is that there will be a 100 per cent pass on of all the savings to consumers. Do you agree that your members will pass on 100 per cent within a very reasonable short term, within months, to consumers?

Mr Harrison—I think either you have confidence in the competitive marketplace or you do not. We see no evidence in the marketplace in South Australia from all the feedback we get—and we survey our members very regularly—that we do not have anything but a very competitive marketplace. Costs are being driven down irrespective of ANTS, irrespective of the outcome of this inquiry.

We would not support any regulatory arrangements, although we understand that different things have been threatened if the pass on does not occur. The time frame for those sorts of things really has to be taken into consideration within a corporate body. There are contracts for the supply of inputs; there are contracts for the outputs. There will be winners and losers in this change, like there has to be in every change. That is where, as a parliament and a community, we have to take a view that is beyond the real short-termism that seems to be reflected in some of that point you just put.

Senator CONROY—So you would accept the argument that that flow through will be reasonably quick, in terms of the 100 per cent pass on by your members?

Mr Harrison—Yes.

Senator CONROY—I am not signing you up to day one, but in a few months when there are contracts and those sorts of things.

Mr Harrison—Yes, we would. We would expect a more competitive Australian economy to win back some of the import competition that we are losing and to expand on exports. So we would expect to see a dividend come out of this process, not just a static arrangement where we are taking from one and shifting the deck chairs. We are really into putting in place some efficiency and some productivity gains for Australian industry which will see jobs and investment.

Senator CONROY—That is what I am trying to come to, because there is not one cent extra profit in this to your members if they pass on the full flow through from the impact.

Mr Harrison—I think that is one of the static assumptions of the modelling—that there is no overall change in the size of the economy.

Senator CONROY—No, employment growth was that particular assumption, that there is no employment change in the long run. It may surprise you but the actual economic modelling we commissioned is roughly the same. It is not actually divergent. I appreciate that the media may have represented it that way, but there is a general consensus between Murphy and Dixon that their results are actually pretty similar—that is, there is virtually no economic growth. I think Murphy was 0.2 per cent, which was the Prime Minister's preferred modeller's view, and Dixon had about minus 0.1 per cent. When you are modelling on that size, that is within statistical error for both of them.

So, no, it was not actually an assumption that was put into the model; that was a different assumption you are talking about. The net macro effects that came out of both the models and the Melbourne Institute were also down between zero and about 0.3 per cent for the general economy.

Mr Harrison—As I said, I have clearly relied on some media reports, but I suspect we will get into a debate about the exchange rate impacts of the modelling, too, and that is where we started to chance our arm.

Senator CONROY—Treasury and everybody else seem to agree that there will be an increase in the exchange rate by three to four per cent. What they argue is that those sectors that have cross structures that will benefit by more than three or four per cent will actually increase their exports. For instance, we had the wine industry here this morning saying, ‘Because of the way the tax system is structured, we in actual fact have only projected savings between one and two per cent. So we are a net loser.’ That was their written submission to us, because they are not going to be able to gain the great cross savings that are flowing throughout. Are they members of yours?

Mr Harrison—Yes, the major wine companies are.

Senator CONROY—They admitted there will be job losses and wine closures in your state as a response. That was in their submission to us this morning.

Mr Harrison—I am not familiar with that.

Senator CONROY—You are welcome to take away their submission.

Mr Harrison—We will have a look at that. That is a bit surprising, because the chief executive of one of the very large wine companies is on our board and, everything I have said today, I am sure he would agree strongly with.

Senator CONROY—I know. It was dragged out of him screaming and kicking, don’t worry. He did as good a job to avoid answering the questions as he could, but it is actually in writing.

ACTING CHAIR—Order! Let us not have a debate, Senator Conroy. Actually, Senator Conroy, I will give you one more question because time has expired.

Senator CONROY—I will throw that one question to Senator Sherry.

Senator SHERRY—You stress minimal exemptions. One of the features of the wine industry submission this morning was exemption for cellar door sales in order to minimise the adverse impact of this package on the wine industry, particularly for small to medium sized wineries. Do you agree with that new exemption that is being claimed by the wine industry?

Mr Harrison—No, we could not agree with that.

Senator SHERRY—You do not.

Mr Harrison—Can I just clarify that? Was that in the context of food being excluded or food being included?

Senator SHERRY—No, it was nothing to do with food, just the cost of the package on the wine industry. They had a range of recommendations. One recommendation to minimise the cost on the wine industry—because of the impact, particularly on smaller wineries in regional areas, on their cellar door sales and restaurants—was for the exemption of cellar door sales. They are a constituent of yours in a major South Australian industry and I am a little surprised at your approach.

Mr Harrison—It is a level of detail that we certainly have not gone to, so I cannot comment.

Senator MURRAY—Mr Harrison, would it be the general approach of your organisation that you want this package passed as a whole as its stands right now?

Mr Harrison—Yes.

Senator MURRAY—I understand that you are a generalist organisation in contrast to, say, industry organisations?

Mr Harrison—That is right, yes.

Senator MURRAY—You would have members in your organisation from the construction industry, from the credit union industry, from tourism and from the wine industry.

Mr Harrison—Yes, we do.

Senator MURRAY—Are you aware that each one of those industries has asked for major changes to the package?

Mr Harrison—Yes, but I cannot give details of what they have actually pursued. I have not sought to incorporate that into our general submission.

Senator MURRAY—Without putting words into their mouths, some of them have said they would rather the package went down if their own particular needs were not met because they are so fundamental.

Mr Harrison—I said earlier when going through the submission that the prospect of getting absolute agreement across the business community on any matter is very small. The business community, by its nature, is made up of competing sections, competing interests, and there will always be winners and losers. If you are an industry or company that will be a loser, no matter what the issue, then the view that we hold is that, while on balance there is a direction that ought be pursued, we fully respect the rights of sections within our membership, or individual companies within our membership—and that is a macro comment at the national level—to take their own case forward and argue it. That is the position you are describing now.

Senator MURRAY—I understand you have large numbers of small business as members.

Mr Harrison—Yes, we do.

Senator MURRAY—We have seen surveys—of course, they can always be manipulated, as you know—which say that 48 per cent of small business do not want a GST. Do you think that would be indicative of the small business members of your organisation?

Mr Harrison—No, I would not.

Senator MURRAY—Have you asked them?

Mr Harrison—Yes. We asked them by a general survey. We do a quarterly survey of business trends. We asked our members two years ago, I think—I have to go back a bit—about tax reform and they were overwhelmingly in favour. We were part of a national survey and got 800 responses. Sorry: it was about three months before the election last year that we did a national survey and the positive response for tax reform was very strong.

Senator MURRAY—But it is possible that within your organisation there are unsubstantiated numbers, unless you have checked them, in those industries I mentioned or in small business who might in fact oppose the totality of the package unless it is changed or alternatively might oppose the GST altogether.

Mr Harrison—I am sure there would be individuals who, for all sorts of reasons, would take that position, yes.

Senator MURRAY—One thing the committee is faced with in these inquiries is the relative ability of organisations to respond professionally; for instance, a charitable organisation will not have the resources often to do the full research and work that are necessary. I want to check from a professional organisation such as yours whether you have read the following documents which helped inform us. Have you read the ANTS document?

Mr Harrison—Not completely. I have read parts of it that I went to to see what we were looking for. I cannot say I have read it from cover to cover, but I am quite familiar with what is there.

Senator MURRAY—I am asking you these questions because we have to take in mind the views of the whole community, not just of business.

Mr Harrison—Can I supplement my earlier answer. There are people in our organisation who have read that document from cover to cover, in the role that they had. I am here in an organisational capacity; I am not here as the font of all knowledge, please.

Senator MURRAY—That is probably a fairer question for those who are forming your policy. Would they have read Labor's tax policy which they put out during the election?

Mr Harrison—Yes.

Senator MURRAY—Would they have read the Democrat's response of 18 September to the government's tax policy?

Mr Harrison—Yes.

Senator MURRAY—Would they have read the first report of Ralph?

Mr Harrison—The principles?

Senator MURRAY—Yes.

Mr Harrison—I am sure amongst our constituency it has been analysed very much. Our own tax committee spent a lot of time trying to come to grips with what we should say to that committee. So the answer to that is yes.

Senator MURRAY—Would they have read Ralph's second report which was the Arthur Andersen report which did comparisons of our tax system internationally?

Mr Harrison—That is under analysis now. It is not a document that we were seeking to comment on.

Senator MURRAY—It has been out for a couple of months.

Mr Harrison—That is right.

Senator MURRAY—And the third one you would not have read, nor would you have read the Senate select committee report which only came out on Friday.

Mr Harrison—No.

Senator MURRAY—The reason I put those questions to you, Mr Harrison, is that during your presentation and in the submission itself, you made a series of subjective judgments, if you had not read the material yourself. Those subjective judgments do not reflect all the views which are now current in this debate; for instance, the modelling questions of Senator Conroy were directed to that question, as was the question of food, the payroll tax question and others. I put to you this proposition: if the government negotiated an outcome with the Senate in whatever form—either with individual parties or on the Senate floor with amendments—which altered the package somewhat but they accepted it, would you accept that outcome as the reasonable outcome of the parliamentary and political process or would you dig your heels in and say, 'Actually no, all we wanted was the ANTS package and nothing else'?

Mr Harrison—We would review in our own forum the proposed amended package and make a decision as to whether or not we would support it. We would not support it automatically because the government supported it. We have a view about the way the tax system ought to be varied. We would want to look at the outcome in our own right. We would do that in conjunction with our national body, the Australian Chamber of Commerce and Industry, and in conjunction with the Business Coalition for Tax Reform. If the package was substantially different, then it could well be for the reasons that we would make clear at that time that we might propose further changes to be necessary before it would be acceptable to the business community.

Senator MURRAY—In view of your remarks earlier about leadership, I hope you would acknowledge, if the government chooses with the Senate to make a decision representative of all the community views, that that is their right, even if you chose to disagree with it.

Mr Harrison—Yes, we would accept that. I think the political process is very important. It is not an end in itself and I guess the concerns that many people have is that political aspects of the debate seem to be dominating what is required out of the debate. That is a concern which gets put to us regularly.

Senator MURRAY—I put to you that, if you are relying on media reports and not on the substance of the reports, you might well get that impression.

Mr Browne—With respect to our attitude to the government's package—and I think it is indicated in the submission with respect to payroll tax—it is clear that the chamber's view was that, notwithstanding that payroll tax was not included, on balance this was a reasonable approach and I am sure that the chamber would continue to adopt it, on an analysis by analysis basis, subject to what the parliament determined.

Senator MURRAY—My last question concerns payroll tax. Obviously any government, this one included, has to lay off different priorities. If this government were to reduce income tax cuts in favour of laying off payroll tax—in other words, reducing payroll tax—would you regard that as being a beneficial choice, or do you not think that that is an option?

Mr Harrison—If another part of the same package was that food was exempted, then we would not think that is an acceptable option, no. If food was included in the GST, as we are proposing it ought be, then we are prepared to accept that payroll tax be retained in the context of the broader package, although, as Michael has just indicated, that was one area where we made a decision to accept the package that had been put forward. If the government were to have offered less in the way of income tax cuts and had moved to abolish payroll tax, then we would have been very happy with that.

Senator MURRAY—So that would be your priority both in the economic sense and the business sense?

Mr Harrison—Yes, but I want to bring food back into that, because that is what we were trying to make clear in the submission. We do not want to see a three-way trade-off that leaves lower income tax cuts and payroll tax and has food exempted. We think that would be a very bad outcome for jobs and for all sorts of reasons.

Senator MURRAY—If there were a choice between payroll tax and income tax cuts to the upper quintiles you would choose payroll tax?

Mr Harrison—Yes. In the context of a restructuring of the income tax scales which are still available.

Senator HARRADINE—I have one question. You say that the Senate 'must deliver in a timely fashion a tax reform package acceptable to the recently elected government'. What is meant by 'in a timely fashion'? What date would you put on that?

Mr Harrison—The short answer to that is yesterday. The view we have, and I have tried to bring it out this afternoon, is that reform of the tax system is an absolute imperative to generating economic growth in our economy. We take the view that any delay in making those changes, every day we do not do it, is an opportunity lost. We think we should get on and do it for economic reasons, notwithstanding the findings put forward by the modelling as we have discussed earlier.

The second side of it is that the recent election was fought with the tax proposals being a major component of the election campaign. All sorts of wise counsel was given to the government of the day by everyone in the media, and other places, that you cannot win an election if you take a tax package to the electorate. That was not the outcome. So, in that context, the business community would look forward to the parliamentary process moving forward. The timely fashion is not intended to pick up 30 June or these other times that have special significance; rather it is a comment that we should get on and do this thing.

We have been arguing about tax reform in this country since 1985 when we ran a tax summit. We have had all sorts of instances since then and all that has happened is that the system gets demonstrably less and less efficient in its performance. We just want to see movement ahead. We are in a world competitive globalised marketplace and we seem to be unable to effect some fundamental change.

If you accept the premise, which we do, that tax is a major determinant of business activity, and economic activity generally in the community, then we should be making progress a lot faster than we seem to be able to.

Senator HARRADINE—For business, the big ticket items include FBT and capital gains tax, don't they? Shouldn't they have been introduced yesterday? Business has been suggesting that action should have been taken a long time ago on those.

Mr Harrison—Yes, that is certainly our view. I think the clear statement by the government is that if this process—the ANTS process—cannot proceed then neither will the Ralph process, despite all the good reports that have been produced. That is of great concern to the business community. We see the Ralph process as very, very important and we look forward to—with the report being released apparently today—analysing the report, debating it to the level required and moving forward to change. To think that the whole thing might in fact be stillborn is of great concern. The government has made it clear that this process needs to be proceeded before that process can move to its conclusions.

Senator HARRADINE—Has it?

Mr Harrison—I thought it did, as I understood it. I keep looking around for support but, yes, I am reflecting on what the Treasurer has said in a number of public statements about that. In fact, when the Ralph committee appeared in Adelaide in December that very point was made by the chairman: John Ralph said, in answer to a question that was asked, that it was his clear understanding that if this package did not go forward—if the ANTS process did not move quickly to a conclusion—the very basis upon which his review had been established would be undermined to the point where it could not continue.

That is not to say that you cannot still make important changes to fringe benefits tax and capital gains tax. The revenue neutrality assumptions underpinning the Ralph review were framed on the basis of implementation of the ANTS package. That is what John Ralph said in response to a question from us.

Senator HARRADINE—Do you think it is reasonable or unreasonable for people to want to know what both packages mean? You see the business taxation processes that the Ralph committee looked at are already in the ANTS package. It also includes the treatment of trust entities. You would have a lot of members who would run their businesses as a family trust, wouldn't you?

Mr Harrison—It is very prevalent in the small business sector.

Mr Browne—That is almost certainly the case.

Senator HARRADINE—That is going to have an enormous effect on small business, is it not? Shouldn't we know what is going to happen there before we go ahead? Obviously the government has the right to bring forward packages at any time it likes.

Mr Browne—Just on that point, it seems to me, in the discussion that we are hearing from small business, that the taxing of trusts—whilst it is clearly extremely relevant in the planning process—does not seem to be the issue that is absolutely front of mind in the business community. Certainly within the groups that I am associated with that is not the key front of mind issue. That may reflect your comment, Senator, that it is not fully articulated yet, but it may also be that there is a perception that, as part of the overall, it is extremely important that we move forward on the process.

ACTING CHAIR—Mr Harrison, can I get some clarification. When you talk about the timely introduction of the government's package, I presume you are thinking June 30 or prior to June 30 and not a lengthier time?

Mr Harrison—Yes. We understand there are some political imperatives relating to June 30. We would like to see the issue resolved as quickly as possible. As I mentioned, yesterday would have been a good time for us. We could then move on to the important issues in the Ralph review with a sense of certainty in terms of the framework within which we understand the Ralph review to have been conducted. We are clear that we would like this matter to be resolved appropriately but with much haste.

ACTING CHAIR—Senator Conroy raised the question with you about whether the tax system is broken. It might be some consolation for you to know that the Labor Party is the only political party that does not believe the tax system is broken. In the report that was put down last Thursday, both Democrats senators and government senators agreed that the current system was broken and that in fact tax reform was necessary.

Senator CONROY—They probably would not have spent the weekend reading the reports.

ACTING CHAIR—Senator Conroy, you were heard in silence, which was quite an effort, I can tell you. I ask you to be silent. In fact, the system is broken. I know Senator Gibson has a question about the percentage of revenue from indirect tax that comes later, but he will ask that. He also talks about a 0.2 per cent real GDP growth when in our report, which you would not have had a chance to read, and in the Democrats' additional report, Professor Dixon's modelling quotes a figure of 0.15 to 0.21. Econtech says that there is a real GDP positive effect of 1.8 per cent. David Johnson from the Melbourne Institute talks about a 1.7 per cent positive growth and Access Economics—

Senator CONROY—Over 10 years—divide by 10!

ACTING CHAIR—Order, Senator Conroy! And Access Economics talks about plus 2.5 per cent. He says that 0.2 per cent is just a mere $600 million—which Senator Conroy would probably leave behind.

Senator SHERRY—Sixty-five cents a week.

ACTING CHAIR—So the fact that some of the things he has said about the tax system not being broken are the results of only one set of economic modelling that we have had done.

Mr Harrison—The issue the models will find very hard to pick up is business investment intentions. We are seeing very important decisions being taken by businessmen as to where they invest their next investment dollar. It is not always in this country. We are trying to attract international investment into this country and our tax system is one of the determinants that those who make those investments will look very seriously at. That will not be captured in modelling.

It follows on, of course, from the recent inquiries by the Industry Commission and others into aspects relating to the auto industry and the textile, clothing and footwear industry, and the tax system sits very much in those baskets. I have not had a chance to look at the 65c per week that Senator Sherry tells us about, but I cannot accept from my own experience and the information that comes constantly to us from our members—the business community; the people making investment decisions—that the impact of a better tax system in our country will not be more pronounced than that.

Senator HARRADINE—What effect will the 36 per cent dividend toll charge have on capital coming into this country?

Mr Harrison—I have not had a chance to analyse that. I am not quite sure of the context of the question.

ACTING CHAIR—In your report you mention the effect on South Australia, which is very important because of its manufacturing base. Could you expand on that?

Mr Harrison—Wholesale sales tax is a tax that impacts very much on goods. South Australia has a strong manufacturing base. Manufacturing is more important to our state than it is to any other state. Victoria is a much bigger manufacturing state, of course, but in terms of percentages we have a stronger reliance on manufacturing. We think the abolition of wholesale sales tax is a major advantage for manufacturing in this country. To that extent we believe it will be very good for South Australia. South Australian manufacturing industry is dominated by the automotive industry—vehicle parts and finished product. They are operating increasingly in global marketplaces. The penetration of imported vehicles is rising all the time. We have to take a view that we could see things go the wrong way pretty dramatically in some key sectors of our economy if we do not do everything we can to make the circumstances more competitive. A review of the tax process and the abolition of wholesale sales tax is a very important part of that.

In our own submissions we argue, as I said earlier, for the abolition of payroll tax, which we put in the same category. Indeed, there has been some research which indicates that the abolition of payroll tax would be at least as favourable as the abolition of wholesale sales tax. If we can get rid of those two taxes, which is our clear objective, it would be a lot better for manufacturing in this country, and if we make it better for manufacturing in this country we are making it better for all Australians. It will take some of the pressure off our external trade balance, our exchange rate and job creation. The dollar moves in response to commodity prices. The evidence and history are clear on that.

Senator GIBSON—On page 34 of the Labor Party Senate report of last week it says that the tax system is not broken. Yet I may quote from the Democrats' report on page 71 with regard to the indirect tax base decline—again quoting basically from the budget papers—showing that Commonwealth indirect taxes have gone down steadily from 7.15 per cent of GDP in 1987-88 to 5.72 per cent in this current financial year. The forward projections for the next three years are that, without any change, they will go down to 5.5 per cent. I might add that 5.72 per cent for this year includes the increases that the Labor Party brought about in 1993.

Senator Conroy interjecting—

CHAIR—Order!

Senator GIBSON—Thank you. The evidence is incontrovertible that the indirect tax take is in fact going down.

Senator CONROY—Absolute rubbish!

ACTING CHAIR—Order!

Senator GIBSON—What comments are you getting from your businesses about this indirect tax take?

Senator CONROY—They enjoyed the lower tariffs. They were very vocal on that.

ACTING CHAIR—Order! Senator Conroy, if you cannot help yourself, please leave the room.

Senator CONROY—Have you tried to chair impartially?

Mr Harrison—We have not engaged in serious debate within the employers chamber on the declining significance of indirect taxes. We accept the expert advice that has been given to our national bodies, in which the employers chamber participates, that the indirect tax system is under stress and for issues of sustainability of revenue in the future we do need to make a change. I recall very clearly that that was one of the agreements of all the participants at the tax summit in Canberra in 1996. The ACOSS people and the ACCI people—and there were 200 of us in total at that forum—

Senator CONROY—I wrote and asked to attend, but was excluded.

Mr Harrison—I do not want to comment on that.

Senator CONROY—Deliberately.

ACTING CHAIR—You can see why he was excluded, Mr Harrison.

Mr Harrison—There were 200 at that forum and it was widely accepted—I believe unanimously—that the sustainability of the tax system as it is currently structured was at great risk. That came to us from the ACOSS people. They were therefore strongly of the view that wholesale sales tax had to go.

Senator GIBSON—I would like to change to the GST and whether food should be included. You made it quite clear to us in your submission as to where your chamber stands. Do you get much evidence coming to your office from businesses concerning problems with the complexity of the wholesale sales tax system?

Mr Browne—I am not sure whether Ian's organisation gets those questions directly because in many instances they are directed to the accounting profession. That is the area that I am involved in.

Senator MURRAY—Just for clarification—Ian's organisation?

Mr Browne—In my capacity as a member of the Business Council I am here supporting Ian, but in my working environment as a professional accountant it is absolutely clear that the indirect tax area does give rise to significant questions in dealing with day-to-day business activity.

Mr Harrison—I can also mention that we offer a hotline service to our members on wholesale sales tax. Years back we handled them in-house but we now send those out directly to the profession. It is a service that we have offered for four years now and it is in constant demand. So my answer is, certainly, yes. I do not know the detail of wholesale sales tax to be able to give advice—Michael and his professional colleagues do that—but it is an area of great disputation.

Senator GIBSON—Given that, I assume that one reason you do not want food exempted from the GST in a new system is to keep it as simple as possible.

Mr Harrison—Absolutely. It is difficult to understand why we would design a new tax system that carried some of the inconsistencies and some of the very litigious aspects of the previous system. As I answered to a question a while ago, the tax summit, which was an expert group consisting of the two broad areas, unanimously agreed that wholesale sales tax had to go for those very same reasons. To think that we might reintroduce that level of complexity and uncertainty in a new system would be to nobody's credit.

Senator MURRAY—Was I right earlier in establishing that you had not read any of the documentation which argues the case for why food should be excluded? That list of documents I outlined included two which argue the case.

Mr Harrison—No, I said that we have read those documents. The fact that I personally may not have read every bit of all those documents is not the issue here. I am here in a representative capacity. The views that I am expressing are those of the representative body. Within that body those documents have been analysed very much, and we are strongly of the view that food should not be exempted from the GST.

CHAIR—Thank you, Mr Harrison and Mr Browne, for appearing before the inquiry today.

Proceedings suspended from 2.40 p.m. to 2.51 p.m.

MARLOWE, Mr Rhett, Chief Executive Officer, Winegrape Growers Council of Australia

PECH, Mr Leo Walter, Executive Council Member, Winegrape Growers Council of Australia

ACTING CHAIR (Senator Ferguson)—I welcome representatives of the Winegrape Growers Council of Australia. I invite you to make an opening statement.

Mr Marlowe—I would like to make a few points which talk to our brief submission that we gave. There are three areas I want to cover: revenue neutrality, wine equalisation tax and the abolition of accelerated depreciation of vineyards.

We see revenue neutrality within the industry as being an important objective in order to provide stability and confidence within the industry. The latest Winemakers Federation of Australia estimate is that the revenue neutrality is maintained at a wine equalisation tax of 19.5 per cent. However, details of this will need to be finalised in consultation with Treasury.

On the second issue of the WET tax, we want it to be applied at the wholesale level in the form of an ad valorem and not a volumetric tax. This is also in accord with the Winemakers Federation of Australia. We see that as important to maintain the balanced base for both the wine grape and winemaker sectors. A volumetric WET would have serious negative repercussions for the wine grape and winemaker sectors of the industry, and is not expected to have any positive impact on the $20-plus bottle market, which is not price sensitive.

The wine grape growers that would be most seriously affected by a volumetric tax would be those in the three 'irrigated regions'—namely, the Riverina, Riverland and Sunraysia regions. In 1998 these regions produced approximately 600,000 tonnes or 62 per cent of Australia's wine grapes, and of these some one-third were multipurpose grapes.

The cask is a packaging medium for well-made wine which is comparable to lower priced, commercially bottled wine, but generally lacking in the flavours required for premium wine. The three irrigated regions produce much of the cask wine and lower priced value for money bottled wine and also contribute much to such wines as Jacobs Creek and Lindemans Bin 65 chardonnay, both of which are pre-eminent in the export market.

The strong base to the wine industry's price pyramid is centred on three regions, which is the fulcrum of the export industry, and provides the market upon which the premier sector can build. To disrupt the economies of this viticultural and processing base through the introduction of a volumetric tax will lead to a significant increase in prices and a decrease in domestic and export sales in a price sensitive component of the market.

The vast majority of cask and commercial wine consumers drink in moderation. It is elitist and arrogant to deprive lower income earners of the pleasure associated with wine consumption. Increasing the price of this component of the market would, firstly, seriously disadvantage sensible drinkers and, secondly, have little impact on premium and superpremium consumption because a volumetric tax would have a relatively small impact on expensive wine. In any event, these consumers are far less likely to be influenced by price.

Solutions to inappropriate consumption do not lie in increasing the price of wine, and for a very small proportion of small winemakers to state that cask wine is toxic is offensive to all wine grape growers, especially those in the Riverina, Riverland and Sunraysia regions. It is essential that this unrepresentative sector of the winemaking industry is not permitted to create an economic situation which destroys the base of the industry with disastrous economic consequences for the wine grape growing and wine processing sectors and for export opportunities.

On the third point—the abolition of accelerated depreciation of vineyards—we are at odds with the Winemakers Federation of Australia. We believe it is essential to abolish that provision in the Income Tax Assessment Act to avoid speculative grape planting based on tax incentives which send an inappropriate message as the industry moves into oversupply. The best available statistical information indicates the possibility of significant oversupply of wine grapes in two to three years even if all planting ceased now. The impact would be borne by independent growers. It is essential that speculative planting cease immediately and not be started again until the future demand and supply balance is apparent.

ACTING CHAIR—Mr Pech, do you wish to add anything?

Mr Pech—Yes. I am an executive member of the council. I have been a viticulturalist for 48 years in the Barossa Valley of South Australia. I would like to support the comments that have just been made. The one that is very near to me is section 75AA, which refers to the depreciation on new plantings. It is absolutely vital for the industry that there is a tax advantage on reconstructing vineyards over further expansion. As my colleague has stated, one of the problems we have in Australia at the present time is that we do not have the statistics to the extent that viticulture has expanded in Australia over the last five years.

You have to bear in mind that if I decide to expand my property it must be done by around April. Before the planting material is actually available, it will take until September the following year. By the time those vines are in full production—they do produce earlier but I carefully stated 'full production'—it will take another five to six years. So it takes up to seven years from the time of my decision to expand until the impact of that tonnage into the industry. Therefore, we feel very strongly that there must be a tax advantage on reconstruction. I will explain the terminology 'reconstruction'. Reconstruction of viticulture is a process that continues forever—even if I were here in 10, 15, 100 or 1,000 years from now. Europe has been continuously under viticulture reconstruction.

Senator MURRAY—Mr Pech, the way genetics are going you might be.

Mr Marlowe—It is the red wine.

Mr Pech—I do not wish to comment. The point I want to make is that viticulture is always in the process of reconstruction—vine age, better planting material becomes available, high yields become available or the fruit is of a higher quality—and the public demand changes also. So the environmental fact is that viticulture is always in a situation of reconstruction. I cannot state heavily enough today that reconstruction of viticulture must have a tax advantage over any expansion. If this is not so, in years to come we will end up with ghetto areas in the industry of the old established areas. I have failed to state that the cost of reconstruction is higher than actually expanding on virgin soil. It is not only changing vines; it is reconstructing the irrigation and the soil, and the soil may have been producing vines for 100 years or more.

The other point I would like to make, which my colleague made earlier, is that it is disappointing that we have not got the compulsory statistics regarding the hectarage that has been planted in the last years, but in analysing the figures we have we anticipate that, by the year 2002, if we only have average harvests and if exports increase by 25 per cent compound every year, we could have a surplus of 130,000 tonnes by the year 2002. That would be 10 per cent at the time. Senators, I want to state to you that that is not the 10 per cent that I am concerned about; it is that winemakers will take their fruit in first and that 10 per cent would end up to be 13½ per cent of the tonnage that is produced by the private individuals in this country. I negotiated in the vine pool in 1985, and I hope I will not have to do that again.

Senator SHERRY—Mr Marlowe, in your submission I think you rightly warn us about the level of the WET tax, as it has become known. Apparently, according to evidence this morning from the Winemakers Federation, it has been set at a level that will raise an additional $72 million. We received warnings from the Winemakers Federation about the impact of this, particularly in regional Australia and particularly amongst small and medium sized operations—loss of jobs, et cetera. Do you concur with that warning?

Mr Marlowe—Yes, we support that. I have only just received this morning WFA's submission that I think you have on hand. Bar 75AA, that is accelerated vineyard depreciation, we share their concerns, definitely.

Senator SHERRY—The level of WET tax is in the government's ANTS package. Just in case you are under any illusions, it is not a Treasury document; it is the government document they went to the election with. What is your attitude if there is no backdown on the level of WET tax that has been set by the government? Do you support this package? Do you still want to see it go through?

Mr Marlowe—I could not speak on behalf of the council. I think we would have to revisit our position if the WET was struck at 31 per cent with GST on top because that would raise certainly more than currently because of the GST being applied at the retail level.

Senator SHERRY—One of the issues raised in the submission again from this morning—and again this will affect operations that you represent—was the exclusion of cellar door sales and sample products from the WET tax and from the goods and services tax. Do you support that?

Mr Marlowe—Yes.

Senator SHERRY—We have received a range of representations. Do you support the exclusion of food from a GST?

Mr Marlowe—The council has not actually considered that at all, so I would be able to give only my personal opinion on that.

Senator SHERRY—Can you give me that?

Mr Marlowe—I do not think it should be excluded because it would be inconsistent with our approach which was also that there should be a GST only, including on wine as well; there should not be a top-up tax. It would be inconsistent for us to say otherwise.

Senator SHERRY—Do you appreciate the difficulty of arguing a case that says, 'Exclude wine from a GST and WET tax, but keep food in'? Do you see that is a little difficult to advance?

Mr Marlowe—Yes. By memory WFA's submission referred to a GST exclusion for tastings and promotion. You are not selling a product. I would argue that, if you are not selling a product, then you should not be taxed on it.

Senator SHERRY—You are giving it away. That is the argument, is it?

Mr Marlowe—Yes.

Senator BROWNHILL—If there is not a tax before the package goes through the Australian parliament—I will ask the question the other way around—how bad is that going to be for your industry to remain worldwide competitive in the future?

Mr Marlowe—The sums that have been done within the industry and by consultants show that the wine industry would definitely benefit from a GST, and also a GST with the WET tax struck at around 19.5 per cent. We would be better off than with the current wholesale sales tax.

Senator BROWNHILL—I remember the wholesale sales tax increased quite dramatically over a period of time. When we were in opposition, for example, I know most of the wine industry were very upset about the fact that wholesale sales tax increased dramatically. Surely this is going to be better for the industry in the long run in the respect that it is not going to be able to increase at the rate the wholesale sales tax did over that particular period. It is going to be set with all the checks and balances of the states and the Senate. Surely that is going to be of benefit to you. You are not going to have an escalating tax in the future.

Mr Marlowe—That certainly applies to the GST, but I think the WET tax, like the current wholesale sales tax, can still sneak up if Treasury wants it to through regulation.

Senator Sherry interjecting—

ACTING CHAIR—Order! Senator Sherry, your questions were heard in silence. I think the answers to Senator Brownhill's should be heard the same way.

Mr Marlowe—If wine keeps going the way it is, and there is no reason it will not, it will increase in value as time goes on and, as an ad valorem tax, the government will benefit through those incremental increases. One of the main things is that we have confidence in the industry that it is going to stay for five years—or whatever the time that might be agreed on—at a certain rate and be reviewed. That gives confidence for people to invest in infrastructure, because the wine grape growers are concerned about investment in infrastructure by wineries. There has been massive investment in wine grapes but there are some problems in terms of not enough investment in infrastructure, storage and processing of wine.

Senator BROWNHILL—I am trying to get a gauge of the full tax package; it is not just the GST. If an expensively priced bottle of wine did go up by $1 a bottle, all the other advantages of a tax reform package, including the capital gains tax reforms and all the other things, surely are going to help your industry to a massive extent. The fact that there will be lower tax rates for the majority of the people in the community will mean that the consumption of wine will more than likely go up too because people have more money to spend in the way they want to spend it. Would you agree with that?

Mr Marlowe—Do you agree with that?

Mr Pech—No, I do not. You must bear in mind that we are requesting that the tax level, the GST plus the WET tax, be the same as it is at the present time—that is a revenue earning of $560 million. You made the statement earlier that taxes on wine have increased over the last years. That is so. I would anticipate that they would not increase again. Even though the industry is experiencing a buoyant period at the present time, you would be aware that in the early 1980s we were importing more wine than we were exporting. The buoyancy of the industry at the present time is due largely to the situation that our exports—do not hold me exactly to the figures—are getting not too far off the 40 per cent mark, 35 per cent or thereabouts. That is really why the industry is as buoyant as it is at the present time.

When you look at the domestic market, you can see that the domestic sales have increased over the years, but when you analyse the figures carefully it is due almost entirely to the increase in population. When you look at the consumption per head, it has not increased. It may—and I use the word 'may' carefully—have even fallen over the years. I think this has to be borne in mind in the context of the whole picture. Even though the government has increased the tax on wine over the years, we were fortunate to have a good export market, and of course the currency situation helped.

ACTING CHAIR—Does it concern you, Mr Pech, that we are importing a considerable amount of wine at this stage?

Mr Pech—No. I understand that we are importing wine in bulk down the bottom end which is not available in Australia at the present time. We have always imported a small percentage of the premium wines.

ACTING CHAIR—I am only talking about bulk wines.

Mr Pech—No, that is not a concern because I feel that it is not there in the first place. I believe they are just filling in. There are two reasons for it occurring in my opinion: one is the fruit is not here in the first place and the second is that they do not have the infrastructure to actually store the wine. If more fruit were available for them to process for the year 1999, they would not have the storage capacity to hold that stock. So, by importing it further on in the year, there is space in their tanks. That is part of the equation while they are importing also.

ACTING CHAIR—If accelerated depreciation were taken away for new entrants into the wine grape growing, do you think that would actually stop people entering or becoming wine grape growers for the first time?

Mr Pech—This would not stop the investment that will be made for the planting season of 1999 because that decision would have had to have been made by April 1998. I am stating that, if there were a change in government policy on this issue fairly soon, it would affect the amount of planting that would occur in the year 2000.

ACTING CHAIR—Has there been a reasonable increase in the number of new plantings every year up until now?

Mr Pech—The statistical figures are not there. No-one in Australia can really answer that 100 per cent correct. When you look at the ABS figures, they were almost 50 per cent out last year—49 per cent or 48 per cent out; I am not quite sure. Being involved in vine improvement for a long time, I do know that the sales of vine cuttings for 1998 exceeded 1997. Therefore, I would anticipate far more plantings in 1999 than in 1998.

ACTING CHAIR—If you do not know many new vineyards have been planted or new stock, if you say you can be 50 per cent out, how can you accurately predict into the future what the effect of new plantings is going to be?

Mr Pech—Very easily. The industry has a feeling of the vines that go into a nursery. Vines that go into a nursery, except for failure, go out in the field. That is why I stated very carefully that the vines going into nurseries for 1998 were higher than in 1997. The latest Commonwealth statistics were out by about 47 per cent or 48 per cent on what they anticipated was going to be planted. I think this will exceed in 1999.

ACTING CHAIR—Underestimated you mean?

Mr Pech—Yes.

Mr Marlowe—I just wish to clarify that. Every year there is a viticulture survey that goes out to growers and they are asked what they intend to plant before the next vintage. I think the intended plantings for 1998 were around 5,500, but actual was closer to 10,000.

Senator MURRAY—Mr Marlowe, I see you describe yourselves as the Winegrape Growers Council, but I assume your members also have other products. They produce vinegar, industrial alcohol and that sort of thing as well as fortified, natural and sparkling wines. Is that right?

Mr Marlowe—No. We represent independent wine grape growers, so we represent only the agricultural part of the industry. Some wine grape growers—Mr Pech, for example—do have some other agricultural production that they are engaged in.

Senator MURRAY—Let me address Mr Pech, then. Mr Pech, do any of your members also produce grapes for raisins, for the production of industrial alcohol and for vinegar?

Mr Pech—Very few of our members have a small winery. They may process 10, 15 or 20 tonnes per year. It is true that some are involved in the dried sultana industry, but when you analyse the statistics of the dried sultana industry that tonnage has been reduced substantially over the years. In my case, my income from viticulture probably is about 99.5 per cent.

Senator MURRAY—My question really arose from representation. What bodies would represent those people who do sultanas, vinegar, industrial alcohol?

Mr Pech—Yes, there is a winery involved I believe in vinegar and industrial alcohol. Except Tarac industries, who develop an industrial spirit, I do not know of anybody else.

Senator SHERRY—There is a dried fruits association.

Mr Pech—Yes.

Mr Marlowe—And a table grapes one as well.

Senator MURRAY—Moving on from that, I would assume that for your members the bulk of their tonnage goes into the lower priced and cask wines simply because that is where the bulk of sales are. Is that right?

Mr Pech—No. As far as I am personally concerned, I come from the Barossa Valley and that is one of the premium areas of Australia.

ACTING CHAIR—The premium area.

Mr Pech—I would like to repeat my comment. The Barossa is one of the premium areas of Australia. It is true that the Murray-Darling Basin, as evidence was forwarded earlier, is actually producing 62 per cent of the national tonnage. However, the 62 per cent is not in bulk wine. Areas like the Sunraysia, MIA and the Riverland in South Australia also have premium wines.

Senator MURRAY—But it is true that most wines sold by volume are at the lower priced end of the market?

Mr Pech—Yes.

Senator MURRAY—Therefore, any taxation change which disadvantages lower priced sales, such as through casks, would affect the majority of your growers?

Mr Pech—Yes.

Senator MURRAY—It is self-evident in the taxation of alcohol products that they have the same taxes as everybody else and then over and above that they have had excise and other taxes—the so-called sin taxes. You obviously have no objection to a common taxation regime across the whole country, say, a 10 per cent GST, a corporation tax or whatever else it is. Do you as an organisation accept in principle that the government should use tax as a price discrimination measure where it is trying to encourage particular types of consumption? I am talking about the difference between, say, low alcohol beer and full strength beer and the government as an exercise of government policy encouraging people to mix their spirits rather than to drink them straight, for instance. Do you think that is legitimate or do you think there should be no discrimination between alcohol by type whatsoever?

Mr Pech—I believe the wine industry has to be dealt with independently. You cannot compare beer and wine. The consumption of beer and wine is mainly in two different environments entirely. Wine is designed and it is consumed in a way to enhance a meal. Beer is consumed in a different environment entirely. So I would not put beer and wine in the same category.

Senator MURRAY—Aren’t you making those remarks with respect to the consumption of the bulk of bottled wine but not the consumption of cask wine? I will give you an example. In my state of Western Australia there are parts of rural and regional Western Australia where the consumption of full strength beer, spirits with mixers in those pre-mixed bottles or cask wine very definitely is not to enhance the consumption of food. Binge drinking probably would be the approach. Your remark would really relate to informed and educated consumption of wine, wouldn’t it?

Mr Pech—Yes.

Senator GEORGE CAMPBELL—Mr Marlowe, I want to come back to a comment you made some little time ago. In response to a question, you said that any WET plus a GST was better for your industry than the wholesale sales tax. The people who appeared before us this morning, the Winemakers Federation, produced some figures which showed that, with the 31.5 per cent WET that is proposed in this tax package, the additional tax cost to the industry would be $147 million. I would be interested to hear your explanation as to why you say you would be better off under this proposal than you would be under a wholesale sales tax.

Mr Marlowe—That would only be valid if you have got the 41 per cent in toto the same as is currently the case, not if you apply a 31 per cent WET and a 10 per cent GST. Then we would clearly be worse off.

Senator GEORGE CAMPBELL—What you are saying is that you would be worse off under this proposition than you would be under the current wholesale sales tax regime.

Mr Marlowe—Under a 31 per cent rate of WET, I would imagine yes.

Senator GEORGE CAMPBELL—Has your organisation looked at the impact of the totality of this package on your industry, quite apart from those elements of it that directly impact on you—the indirect impact of it and its potential flow-on effects to your industry?

Mr Marlowe—We as an organisation do not have the resources to be able to do that. We rely largely on information that comes through from other sectors of the industry for that.

Senator GEORGE CAMPBELL—Have you made any assessment of what the likely impact is on jobs in your industry if the proposals in this package are implemented?

Mr Marlowe—At 31 per cent plus 10 per cent, I imagine it would be detrimental. I could not venture a guess as to the extent of the impact it would have in terms of employment, but I would imagine it would be detrimental if the 31 per cent was adhered to.

Senator GEORGE CAMPBELL—So essentially are you saying that if the 31.5 per cent that is the proposal is not varied then you would oppose this package being implemented?

Mr Marlowe—I would be pre-empting the council's position, but I imagine we would definitely have to review our position and try to get closer analysis of the numbers in terms of the broader impact, as you say.

ACTING CHAIR—As there are no further questions, thank you very much, Mr Pech and Mr Marlowe, for appearing before us today.

Proceedings suspended from 3.24 p.m. to 3.39 p.m.

GOMEZ, Ms Karen, General Manager, Public Affairs, Royal Automobile Association of South Australia Inc.

CHAIR—Welcome, Ms Gomez. Please excuse us while we conduct a bit of committee business. I have a letter from the Melbourne *Age* which was sent to the committee on 15 February 1999. I intend to table it, thus incorporating it within the records of the hearing. There being no objection, I table the letter.

I indicate to members of the inquiry that I have asked the secretariat to circulate on my behalf a revised hearing agenda for tomorrow which includes new names on it. I do not regard that as yet the agenda for tomorrow because we have not yet as a committee consulted about altering our agenda, but I wanted the proposals for other witnesses who have come forward to be before you for consideration. I propose at the end of the public phase of this hearing to have a short private meeting to approve or modify the agenda for tomorrow. Just regard it as an early warning that we will work harder tomorrow than we thought we would, if the new agenda is adopted.

There are some changes at this table rather like the football interchange. Senator Sherry has stepped down on the Labor side and Senator George Campbell will sit in for this phase of the hearing. On the coalition side, Senator Brownhill has stepped aside and for this session Senator Chapman will take part in the hearing.

We have received your submission, Ms Gomez. The normal practice, as I am sure you have been advised, is that we will invite you to address us for a short time in overview of your submission, and then you might make yourself available to answer questions from the committee.

Ms Gomez—RAA would like to thank the committee for the opportunity to appear at today's hearing. I say from the outset that RAA endorses taxation reform in Australia and considers that it is a great opportunity to improve the current fuel tax regime. A new tax system provides an opportunity for this, so we believe it is necessary that the detail of the reform contained in the package be reviewed and commented upon in order for the desired outcomes to be achieved. RAA's submission discusses key issues in the tax package that affect motorists and is supplementary to the Australian Automobile Association's submission to the committee. The AAA's submission represents a detailed discussion of the issues and other issues contained in RAA's report. I would like to emphasise that RAA fully endorses the AAA submission.

Just by way of background, RAA was established in 1903 here in South Australia and is the peak motoring body in the state. We have some 600,000 members. We are a constituent of the Australian Automobile Association, which represents over six million people across Australia. Our research shows that our members, particularly our less affluent members, are concerned about motoring costs and their ability to fund them.

RAA's concerns with the recommendations and our recommendations for the new tax system, ANTS, can be summarised as follows. It should be recognised that the GST on top of fuel excise is in fact a tax on a tax and that that is contrary to the government's undertakings in relation to introducing a GST. The current treatment of petrol excise under

ANTS will widen the disparity between country and city fuel prices. RAA believes that indexation of petrol should be removed, particularly in the context of the ANTS package and its proposal to wind back excise before applying GST. To address the disparity between city and country prices, petrol excise should be wound back by between 8c and 8.9c per litre from the prevailing level of excise at 1 July 2000.

RAA is concerned that there remain significant uncertainties with the level and allocation of GST revenue to transport. We believe that a transparent and consistent system of road funding allocation must be put in place before 1 July 2000. The federal government should also commit to at least maintaining current forward estimates on national highways funding for beyond 2000.

It also needs to be clarified whether GST will apply to state stamp duties that remain after the GST is introduced. If it is to apply, we say that another condition for state governments to secure GST revenue should be that these state stamp duties are wound back such that when the GST is applied there is no additional cost to motorists.

I will summarise the key issues for motorists as set out in the submission, starting with applying the GST to petrol. Prices in Adelaide, or in metropolitan areas where prices tend to be lower, may in fact fall under the ANTS package. However, in rural areas, where prices tend to be higher, they are likely to increase. Hence the disparity between city and country fuel prices will worsen. The example given on page 4 of the submission shows that, in the case of Coober Pedy here in South Australia, if we take the average fuel prices of December 1998, the difference between the Adelaide price and the country price before a GST was applied was 21.2c a litre. If we apply the ANTS package, we find that the difference increases to 23.3c a litre. So the disparity grows by 2c under the proposed package. This is because petrol excise is a flat rate of tax, but the amount of GST collected will vary because it is 10 per cent of the pre-GST retail price. More GST will be paid on a litre of petrol where petrol prices are higher than where prices are lower.

We commissioned consultants Econtech to evaluate the long-term effects of indirect tax reform contained in the GST package. We found that, after taking account of the long-term cost of reductions possible through indirect tax reform—and that assumes that these benefits are actually passed on to the consumer—there is a negligible benefit for the country. In the majority of situations the difference between city and country petrol prices still increased even after the benefits of indirect tax reform were taken account of. Hence more than 6.6c a litre must be deducted from the prevailing level of excise in the year 2000 to address this problem. This level of 6.6c has been deduced from page 101 of the ANTS document, and using the Australian Institute of Petroleum's projections for petrol demand in 2000. I will point out that the ANTS package is actually silent on the amount which it is proposed that excise would be wound back. I will return to the appropriate level of excise that should be wound back after I briefly talk about indexation.

Indexation of fuel excise lacks transparency and the revenue raised is not allocated back to transport infrastructure or its associated impacts. A GST on top of indexed petrol excise will increase the negative effect of a tax on a tax. Indexation will continue to cause the level of excise to increase twice a year, and hence GST will be levied upon a higher and higher cost base.

RAA believes that indexation of petrol excise should be removed entirely, particularly in the context of the ANTS proposal to wind back excise before applying the GST. Another concern with indexation moving forward is accounting for the initial inflationary impact of the GST and how this would feed back into indexation of fuel excise. The government should factor this into setting the excise rate on 1 July 2000 when the GST is introduced, and I note that Treasury have estimated that the immediate inflationary effect of the GST will be in the order of 2.5 per cent.

This brings us to the amount of excise that should be wound back. If we take only the direct effects of tax reform, and if indexation is also removed, petrol excise should be reduced by 8c a litre before applying the 10 per cent GST. That is, taking it back 8c will not increase the disparity between city and country prices. If indexation is not removed, RAA considers that under this scenario the government should reduce excise by at least 8.9c a litre from the prevailing level of excise at 1 July 2000. This will take account of the immediate inflationary effect I was discussing earlier.

Another key issue will be the change in financial relationships between the state and federal governments. The financial relationships between the Commonwealth, state and local governments will alter dramatically under the proposed tax system. The Commonwealth has given an undertaking to the states that they will not be worse off than if they continued to receive financial assistance grants. The states and territories will receive all GST revenue, subject to certain taxes and duties being abolished. All financial assistance to the local and state governments will end, and that includes the return of business franchise fees.

The states will adopt responsibility for their own funding and general purpose assistance to local government, including the road funding component. ANTS indicates that those payments to local government must be with the same conditions as general purpose assistance payments, and that also includes road funding. It is noted that fulfilment of these requirements will secure GST revenue for the states on 1 July 2000, but there is no guarantee that this funding will be maintained in the future. Hence RAA is concerned that significant uncertainties remain with the level and allocation of GST revenue to transport. To address this concern, a transparent and consistent funding system must be put in place before 1 July 2000.

The construction and maintenance of the national highway system is a major issue and, with that, the maintenance of the national highway funding. In 1997-98, the Commonwealth spent $700 million on the national highways, of which around $90 million came to South Australia. There is no doubt about the economic and social importance of the national highway system, and it is no different here in South Australia. However, our surveys of the national highways in South Australia suggest that the conditions of sections of these roads have deteriorated considerably. In many parts the road standard is no longer appropriate for the mix and volume of traffic. Funding is necessary to ensure that acceptable levels of service are provided to the national highway road users. Hence RAA considers that the federal government should commit to at least maintaining current forward estimates for the national highways beyond 2000.

The final issue is the application of the GST on stamp duties. South Australian motorists have consistently been an increasing source of general revenue for the South Australian government. This situation was exponentially worsened in May 1998, when the state government increased stamp duty on CTP premiums by 300 per cent, along with a whole rash of other charges associated with registering a vehicle. These charges are set out on page 7 of RAA's submission, which gives you a detailed history of the trends in those increases since 1993-94.

While the states must agree to remove some stamp duties and charges to secure GST revenue, it appears stamp duties applying to South Australian motorists will not be abolished. For example, stamp duty will still apply to CTP premiums, motor vehicle insurance and the transfer of vehicle ownership. Therefore, if a GST is applied to these, the motorist will pay tax twice, in the form of a state government stamp duty and then a federal GST. What needs to be clarified is how a GST would be applied to those stamp duties. For example, would it be applied before or after the stamp duty? If it is applied after the stamp duty, each time these duties are increased by a state government the GST will reap more and more revenue. So the tax burden on motorists will be magnified by this levying of a tax on a tax.

RAA considers that, if a GST does apply, another condition for state governments to secure GST revenue should be to ensure that stamp duties are adjusted to ensure that the public do not pay more after the application of the GST. An example of this would be with our stamp duty on CTP premiums, which is currently at $60. That should be reduced by an amount of around $6 so that, when we add on 10 per cent GST, motorists are paying no more than they did prior to the GST.

In conclusion, I would like to re-emphasise that RAA does endorse tax reform in Australia, as it gives us the opportunity to improve the current fuel tax system. Our research shows that our members—particularly the less affluent—are concerned about motoring costs and their ability to fund them. Quite telling are some ABS stats which show that for households in the lowest 20 per cent of income petrol is nearly four per cent of their weekly household expenditure. Yet for the wealthiest 20 per cent of income earners petrol represents only two per cent of their weekly expenditure.

Today I have identified key concerns about the proposed tax package in terms of how it will affect people and their motor vehicles. I commend to the committee the AAA submission, which comprehensively discusses these issues and other ones relating to the ANTS package. We have determined that excise needs to be wound back by 8c to 8.9c per litre to address the disparity between city and country prices, indexation should also be abolished to ensure that these GST measures are not eroded, a transparent and consistent system of road funding allocation must be put in place before 1 July 2000 and the level of national highway funding should be at least maintained at forward estimate levels. On behalf of RAA, I would like to thank the committee for the opportunity to appear today and I would be more than happy to answer any questions.

CHAIR—I will turn in a moment to Senator Ferguson, but I just have a question. On page 3, point 2 of the summary of RAA concerns, you list seven dot points and introduce them by saying:

The following is a summary of the RAA concerns with and recommendations for ANTS.

Do I take it for the record that what the RAA is proposing to this committee is that we amend the legislation before the Senate to reflect those concerns?

Ms Gomez—Yes. I guess in terms of specific issues, we would like to see 2.4, concerning the level of excise and how that is wound back, struck in legislation. A funding allocation system for national roads would certainly be a desirable outcome. There is the commitment to maintaining forward estimates, although I am not sure that is something that can be struck in legislation because it really does become a budgetary issue, I would suggest, unless you want to start hypothecation of excise on roads.

CHAIR—All I am trying to work out is what exactly you are asking us to do. We will be dealing with legislation within a month or so and one of the purposes of these hearings is to hear the views of organisations such as yours as to what you think are the advantages or defects in the legislation. All I am establishing is that these are the views you would want us to take on board when we consider the legislation in the Senate.

Ms Gomez—Yes.

CHAIR—And amend where possible.

Ms Gomez—Yes.

Senator FERGUSON—Miss Gomez, why did you choose Coober Pedy?

Ms Gomez—I guess it is an example of where there is a very high price paid for petrol in country areas, and that is why it was selected. It demonstrates how in Coober Pedy they will end up paying more for fuel under the package relative to Adelaide, and how the disparity grows.

Senator FERGUSON—Have you ever been to Coober Pedy?

Ms Gomez—No.

Senator FERGUSON—I just say that because I have, on numerous occasions, and one of the observations I would make in first going to Coober Pedy is that nearly every vehicle you see is a business vehicle and, in fact, the price per litre for fuel for business vehicles is going to go down by 6.6c a litre.

Ms Gomez—I think the case still stands. The issue that we are presenting here is that the disparity between the city and the country will increase. Even if we took another example in, say, Whyalla, the price may go down, but it will not go down as much as in Adelaide and, hence, the disparity will still increase.

Senator FERGUSON—Do you know how much it costs to freight a litre of fuel to Coober Pedy?

Ms Gomez—Our information is that, across all country areas, it is between 1c and 2c a litre.

Senator FERGUSON—Even as far as Coober Pedy? Do you know what effect the reduction in the transport costs will have on the transport costs from Adelaide to Coober Pedy?

Ms Gomez—Yes. As I mentioned in our submission, the AAA and RAA have taken on the work of Econtech consultants, and I will refer you to the AAA submission, which contains the full report. They have looked at what happens to transport and freight costs and what we have found is that in the country it comes out to between 0.3c and 0.6c a litre. So it is negligible.

Senator FERGUSON—What about overall decreases in business costs and all the other things that will be involved—lower cost structures in upstream petroleum activities, for example? Did you take any of those into consideration?

Ms Gomez—Certainly. Again, I refer you to the Econtech report.

Senator FERGUSON—You have also made the comment about indexation.

Ms Gomez—Yes.

Senator FERGUSON—This government is continuing a longstanding practice of indexation which does not just take into account the things you have mentioned. It takes into account environment issues and revenue issues in the same way that excise is applied to tobacco, alcohol and a whole range of other things, and yet you are saying in your submission to us that in fact the practice of indexation should be stopped.

Ms Gomez—Can you clarify how indexation relates to the environment? There is no allocation of indexation moneys to address environmental issues as far as the motor vehicle is concerned.

Senator FERGUSON—Not specific allocation. But at the time when indexation was introduced—I think it was introduced by a previous government—they announced that it was to take into account such issues as the environment and a whole range of other revenue issues.

Ms Gomez—It may well be the case. It is not apparent that that is what has actually occurred.

Senator FERGUSON—In your press release today you talk, for example, about the stamp duty that will still apply to compulsory third party premiums, motor vehicle insurance and the transfer of vehicle ownership. Is it not a fact that Commonwealth-state negotiations are going to determine which compulsory charges by states will not attract the GST and that it is most likely that the GST will not apply to stamp duties?

Ms Gomez—That is what we are seeking clarification on. In ANTS there were a few state charges that were being abolished in order to secure GST revenue. But, as yet, we have had no clarification as to what happens with these other stamp duties that I have mentioned here.

Senator FERGUSON—In any of your calculations have you taken into account, for instance, the reduction in the cost of new cars and the effect that will have?

Ms Gomez—Yes, certainly. We welcomed the reduction due to the abolition of the wholesale sales tax. Again, I refer you to the AAA submission. Other aspects of owning a car will increase. We estimate that the cost of servicing a car will increase about four per cent per annum. So, yes, there is definitely an issue of swings and roundabouts here. I guess people who cannot afford to purchase a new car or who are not purchasing a new car will suffer an increase in their motoring costs.

Senator MURRAY—Ms Gomez, in my state of Western Australia the state government had a hypothecated tax—I think it was 4c a litre—for road funding. My judgment—others may differ—was that it did not generate that much antagonism from the community. They saw what it was used for and where it was going. Do you believe that the federal government should allow in its legislation state governments to have hypothecated taxes on fuels where they think it is appropriate—in other words, given the authority to do so?

Ms Gomez—We would certainly support that. South Australia currently does have hypothecated funds—known as the Highways Fund—and they are essentially revenues collected from registration and licensing fees. It used to be that a proportion of state fuel business franchise fees were also hypothecated to that fund, but with the recent High Court decision that ruled those fees unconstitutional and the subsequent arrangements put in place with the federal government—return of 8c a litre in federal excise—there is now zero dollars in fuel tax going into that hypothecated fund. I would support what you are saying. Those things are already in place in South Australia, but I would have to say they are under threat. It is a policy of the incumbent government that the Highways Fund be abolished, and RAA opposes such a policy.

Senator MURRAY—I would distinguish hypothecated taxes at the fuel pump because the High Court specifically said that could not occur. However, my understanding is that if the federal government allowed it to occur it would become constitutional again. I just wonder if that option should be left open for state governments, and I understand you to be saying yes.

Ms Gomez—Yes. We support hypothecation of taxes to roads.

Senator MURRAY—With regard to your Coober Pedy example, I think the point you were making is a good one, regardless of which instance you pick up on, and it illustrates something which has been before this committee. Are you aware that the federal government has assumed a common inflation effect right across the country, regardless of how sold and regardless of geographical area, of 1.9 per cent? Your example illustrates that the components in the basket of goods will vary in price, depending upon whether they are urban or regional, and that the benefit of the new tax system may vary. The government has said, 'Yes, but we will compensate people.' However, the compensation is at a set level according to your particular cameo. Is it your belief as an organisation that, if there is to be a difference between rural and regional prices, the federal government should review its compensation package according to where the price effect is greatest?

Ms Gomez—In terms of fuel pricing and the tax regime that applies to it, our solution would be to apply a road user charge and that all kinds of fuel be taxed at the same level. But people in the country would pay a lower fuel charge because of the lower kinds of impacts in the country compared with the city. I guess I am reluctant to comment in a general sense about what you are proposing across the economy. I really think that I am here to talk about those things that affect motorists.

Senator MURRAY—Yes, you are. But what you have indicated is the disparity in the GST effect, according to where you live in South Australia. One can go on from that and say that that same disparity will occur in a number of areas. I merely want you to carry your principle through—that it is appropriate, therefore, to look at the compensation package, or price effects such as you are looking at, and take into account rural and regional differences from metropolitan areas.

Ms Gomez—I guess it could also be the case that in the instance of fuel you may pay more, but for some other good in the economy you may pay less. Overall, if in the end it was the case that you paid more in the country for a basket of goods than in the city, it would seem to be the case that compensation should reflect that.

Senator MURRAY—Poorer and lower income people in the motoring industry sense get less benefit out of this package than better-off people. For instance, the GST package will definitely deliver very much lower prices for new cars, which are more fuel efficient, so there are environmental and economic benefits. However, the problem we face in Australia is that the fleet is ageing, so you get lower fuel efficiency and higher maintenance costs, which you have indicated will rise by four per cent, and you get the use of more expensive fuels—leaded fuels and so on. Do you believe the government should examine seriously the feasibility of some kind of incentive package or price cut to move people out of the oldest fleet and into newer vehicles?

Ms Gomez—Yes. Certainly there are a number of benefits in doing so. You have highlighted the environmental aspects of them. There are also road safety aspects: newer vehicles are inherently more safe, so we would see significant benefits to the economy and society through those things. So, yes, we would encourage government to find ways in which we can drop the age of the car fleet. Tax incentives are one way, and that is why we welcome the abolition of the wholesale sales tax and replacing it with the 10 per cent GST. That is one aspect of it. There are other initiatives that need to be developed to target movement of people from older cars—perhaps not to brand new cars, but to cars that might be 10 years younger. Realistically, you cannot expect all people to be able to afford new cars, even under the proposed regime.

Senator MURRAY—Is your organisation discussing these areas with manufacturers, retailers and wholesalers of motor cars to see if they can put a package together to offer the government a means of making our car fleet younger?

Ms Gomez—Yes, through the AAA; we have representation on what is called the New Car Benefits Task Force and these are the specific issues that it was formed to address.

Senator GEORGE CAMPBELL—Ms Gomez, I have a couple of questions about a summary of concerns which was outlined in page 3; I think you indicate that those concerns are also the concerns of the AAA. Is that correct?

Ms Gomez—Yes.

Senator GEORGE CAMPBELL—AAA represents six million people Australia-wide. My other question is whether the AAA is made up of all the automobile associations in each of the states around Australia—the NRMA, the RACV and the RACQ?

Ms Gomez—Correct.

Senator GEORGE CAMPBELL—So it reflects the position of all of them?

Ms Gomez—And the AANT—Northern Territory.

Senator GEORGE CAMPBELL—And there is a consistent approach being taken by all of those groups to the package?

Ms Gomez—Yes.

Senator GEORGE CAMPBELL—On the issue which is raised on the last page of your submission regarding stamp duties in South Australia, are you aware of any similar situations that would apply in any of the other states or territories?

Ms Gomez—The issue in broad terms does apply in other states, though the way they may levy stamp duties could differ. For example, the stamp duty on CTP premiums here in South Australia is a straight levy of $60; I understand in other states it is a percentage. So there could be subtle differences between the states but, in a broad rubric, the application of the GST to some of these stamp duties that remain is a key concern and a shared concern.

Senator GEORGE CAMPBELL—It could potentially be a problem in a number of other states as well?

Ms Gomez—It could be. If I can pick up on the CTP, the way it is applied needs to be carefully looked at because we have different CTP schemes across Australia. South Australia has a publicly owned scheme. New South Wales has a private scheme. It is important to ensure that no further anomalies or inequities are brought about by the way the GST is applied across these schemes.

Senator GEORGE CAMPBELL—In respect of the points on page 3—if those concerns and recommendations of the RAA are not picked up by the government, what would your position be in respect of the ANTS package?

Ms Gomez—We would still endorse the need for tax reform but, as far as motorists' issues are concerned, we could not support the package. The basic intention is removing disparity between city and country prices but, if a level of 6.6c per litre is applied, it will not achieve that end—so we could not support it on those things.

Senator GEORGE CAMPBELL—Okay.

Senator HARRADINE—I am looking at the next witness's submission. I do not suppose you have had a chance to read Mr Caldecott's?

Ms Gomez—No, sorry, I have not had the opportunity.

Senator HARRADINE—In Victoria, it appears that the stamp duty on a Falcon is $771.

Ms Gomez—Is that for change of ownership? Sorry—I am not quite sure what stamp duty that is relating to. Is it CTP premium?

Senator HARRADINE—Whatever it is, are you suggesting that it should be dropped by the states—that states should not have it—or not?

Ms Gomez—Certainly we would love to see stamp duty on these things removed, but if they are to remain—and I guess state governments still will have a concern about their revenue base under a GST—

Senator HARRADINE—They should be hypothecated?

Ms Gomez—they should be adjusted so that when a GST is applied it is cost neutral for the consumer, so I pay no more, even though I am paying two taxes.

Senator HARRADINE—Could I go to the question overall of the equity of it all? Who drives cars and for what purpose? Can the RAA tell the committee that?

Ms Gomez—Certainly. The car is an integral part of people's lives. The research we have done through ANOP shows—and we have a membership of six million—that people are concerned about the effects of a car but at the same time they cannot relinquish the use of their vehicle because it is so integral to their standard of living and what they need to do. So I would have to say in answer to your question that a broad cross-section of the community uses cars and they use them for a variety of purposes.

Senator HARRADINE—Out of, say, recreational and work related uses—going to and from work—do you have any idea of the percentage that use them principally for going to and from work?

Ms Gomez—In South Australia, if you look at the number of trips taken by vehicles, to and from work represents around 30 per cent and the rest is leisure, shopping, taking children to school and picking them up. So it is less than a third of trips taken here in South Australia.

Senator HARRADINE—Do you see that they will have an advantage from this package?

Ms Gomez—With business trips?

Senator HARRADINE—To and from work.

Ms Gomez—In the metropolitan area, if fuel prices fall, the advantage to these people will be that the cost of running their car should reduce. But that would also be offset by increased servicing costs for those vehicles. In terms of businesses, commercial trips, they would certainly benefit from the tax input credits they will get.

Senator HARRADINE—I am just talking about to and from work. What about persons who have to catch the bus or train to and from work who cannot afford a car? Won't they be disadvantaged by the GST impost on bus tickets and train tickets?

Ms Gomez—I am not aware if the GST would actually apply. I cannot clarify that for you, because I do not know whether a GST will apply to a bus ticket. A GST does not apply to a number of charges.

Senator HARRADINE—It is proposed to apply to a bus or train ticket, as far as I can see, unless somebody can—

Senator GIBSON—That is right.

Senator HARRADINE—It would be interesting to know what the RAA felt about that. I know you have your interests and you have your people who are members of the RAA, but there is the overall question we need to consider as well.

Ms Gomez—Certainly. RAA's position is that we support an integrated transport system which incorporates things like public transport et cetera; they should not be removed from the picture.

Senator HARRADINE—You support vehicle parking areas at suburban stations and what have you.

Ms Gomez—Yes. What needs to be done is that all road users—be they on public transport, on bicycles, pedestrians or in motor vehicles—need to have optimal access and choice so that we have an optimal transport system. If I want to make the choice of not driving my car to work each day, I need to be able to do that in such a way that in making that change my needs as a road user are met.

A broad based tax applies to all things and, as you say to me, obviously bus tickets are part of that. I suppose that gets caught up in the broad equity question: should a tax be levied on all goods and services? In the motor vehicle there are aspects which are tax advantages, but there are also aspects where we will take a tax penalty. I have listed today quite a number where we are paying a tax on a tax.

As far as public transport is concerned, I think the equity issue is this: if one considers that paying a 10 per cent GST across all goods and services is acceptable, accepting that there will be certain inequities that everyone will bear because we now are moving to a broad based tax, I would consider that paying 10 per cent on a public transport ticket would be fair. It is also complicated by the fact that, with the public transport system, you now have private operators as well as government operators. I think there would be issues there that you would need to work through also.

Senator HARRADINE—This is an issue that the RAA might be able to advise on: yes, there will be a GST on service to a vehicle, but there will be the abolition of the wholesale sales tax and the addition of a GST on motor vehicle tyres. Would that have a beneficial effect? Is that offset by the increased cost of service to a vehicle? Do you have figures that show, over a period of time—say, two years—how much was spent on tyres and how much was spent on repairs or servicing of the vehicle? Do you have anything definite on that; and, if you do and it is not here, could we have a look at it?

Ms Gomez—Again I will refer you to the AAA report that discusses those issues. The calculations that were made with the figure I used before of a four per cent increase overall in servicing take into account things like the depreciation of the vehicle, wear and tear on tyres, the frequency with which the car has to be serviced, the labour component in servicing and the parts component in servicing over the lifetime of a vehicle.

Senator CONROY—This is probably just a typo. You have 'Econotech'; that is Econtech?

Ms Gomez—It is Econtech.

Senator CONROY—That was using the Murphy model 303?

Ms Gomez—Yes, it is Econtech.

Senator CONROY—That is Mr Murphy's company.

Ms Gomez—No, we used the PRISMOD modelling.

CHAIR—That is the Treasury model.

Ms Gomez—No, I am sorry. I beg your pardon. They used the assumptions of the PRISMOD model, but it was the MM303. Yes, you are right. I must apologise for that.

Senator CHAPMAN—As I recall, in response to an earlier question from Senator Ferguson, you indicated that the AAA—and I think it was referred to again just now—had had modelling done by Econtech to factor in the cost savings from the fact that the GST would be rebatable on the cost of transporting fuel to isolated areas, on the reduced business costs that would result from the GST being rebatable on business input costs and on the beneficial effect it would have on upstream refining costs.

However, you do not seem to have included those figures in the example you have given comparing fuel prices in Adelaide with those in Coober Pedy. You simply quote the Coober Pedy fuel price as at December 1998, less what you estimate will be the reduction in excise to take account of the addition of the GST. You do not deduct from that 85.6c per litre estimated December 1998 Coober Pedy price any of those other cost reductions before making your other calculations.

Ms Gomez—Yes. What appears there is the direct effect of the package, and it is taken from the point of view of a consumer. We represent motorists; we are not necessarily there to represent business.

But I would also point out that, in the AAA's submission, when you have an opportunity to review it, you will see there has been quite extensive work done in terms of the upstream costs and the effects of indirect tax reform as it relates to Victoria and New South Wales. It would be a similar case here. We found that the long run effects of this indirect taxation reform will help to reduce the country-city gap by only 0.3c and 0.6c a litre. In a marginal case, when you are talking about the difference between 21c and 23c a litre, 0.3c a litre is a negligible effect.

Senator CHAPMAN—But that also would not vary across Australia. There was some issue raised earlier about whether you could assume that the CPI effect of the GST was uniform across Australia. In fact, you may question whether that analysis of the AAA applies uniformly across Australia. Particularly if you are talking about the transport costs of fuel, it obviously would vary with distance from the refining source or the port source of that fuel.

Ms Gomez—Yes, that is right, and that was taken into account in the analysis. That is why you have the variation of between 0.3 and 0.6; it looks at the various centres across Australia.

Senator CHAPMAN—You have raised also the issue of GST on stamp duty. What leads you to believe that there will be a GST on stamp duty?

Ms Gomez—Merely the fact that there has been no confirmation one way or the other from the government of what is happening. Really, what we are saying is that that needs to be clarified. If it is to apply, then a condition for state governments to secure that revenue should be that these stamp duties are also adjusted to take account of the GST and its effects.

Senator CHAPMAN—You are signalling that it is a concern but not on the basis of a stated policy that there will be a GST on stamp duty.

Ms Gomez—Correct.

Senator CHAPMAN—So your concern may not be justified in that case.

Ms Gomez—Hopefully, yes.

Senator CHAPMAN—In relation to the financial assistance grants, I take you to page 6 of your submission. There you say, 'It is noted that fulfilment of these requirements will secure GST revenue for the states on 1 July 2000, but there is no guarantee that this funding will be maintained in the future.' Are you saying there is no guarantee that the GST revenue will continue to go to the states after the first year?

Ms Gomez—It is a point that requires clarification as well. The whole document and package is drafted in the context of what applies on 1 July 2000. But what happens on 1

July 2010 and 2020? Will those requirements, those conditions, still remain? We have not read anything that waylays our concern as to whether those things will remain.

Senator CHAPMAN—The first of July 2000 simply indicates the commencement date of the new system, with all revenue derived from the GST to go to the states from that date and be locked in place by legislation. That is part of the legislation—that the GST revenue goes to the states.

Ms Gomez—What happens if one of the states does not meet some of those requirements; for example, if it brings back in one of the taxes that were abolished? Does that state cease to get GST revenue?

Senator CHAPMAN—I would have to look at the document to clarify that. But there is no suggestion that that is likely to happen. There is agreement to be reached between the Commonwealth and the states on the new tax system. Once that agreement is in place, a state will not be able to unilaterally renege on that agreement.

Ms Gomez—What is to prevent it from doing so?

Senator GIBSON—It would lose the money.

Senator CHAPMAN—They would lose their revenue, as Senator Gibson has said.

Ms Gomez—What is the authority that will enforce that? To whom do we go if we find that there is one of these conditions not being met, say, at even the local government level—if the appropriations going to local government no longer match what it was receiving from the federal government before the GST? There is concern that, in the tax package, there is no clearly set out procedure or entity or body in which we can address these things and, hence, the concern. There are uncertainties.

Senator CHAPMAN—You are talking about the way in which the state will allocate its revenue to other levels of government after the package is in place.

Ms Gomez—But it is my understanding that those things need to be fulfilled in order to secure the GST revenue.

Senator CHAPMAN—Certain taxes need to be abolished; those ranges of taxes need to be abolished. As I understand it, the issue that you are raising is the possibility of a state reintroducing one of those taxes that has been abolished.

Ms Gomez—I posed that question hypothetically because what happens in that situation, I guess, is the basis of some of our uncertainties with the funding relationship. That is why we are calling for a transparent, consistent system of road funding allocation and levels to be in place. Then everyone can be clear on how the funding relationship, as it relates to transport funding and road funding, will occur. Road funding is something that needs to be planned out many years in advance; it is not something that you can just change from year to year. We are looking at 20-year time horizons.

Senator CHAPMAN—But you will have access to your state government; you will be able to bring pressure to bear on your state government which, surely as a state body, you will find much more effective than if you were to do so on the federal government.

Ms Gomez—That is correct. That is a state issue that we need to deal with, yes.

Senator CHAPMAN—So you acknowledge that that is a state matter, not a Commonwealth matter.

Ms Gomez—Yes.

Senator GIBSON—Mr Chairman, perhaps I could just comment that, in November 1997, the state premiers and heads of territory governments signed off with the Prime Minister and Treasurer that they would agree to back away from the 10 state taxes in return for guaranteed income of their proportion of the GST. The details of that agreement have still to be finalised. But the principles were set out, and they are also set out in the ANTS document. There is no doubt about it.

Ms Gomez—Yes.

Senator GIBSON—In answer to an earlier question you said that, having raised what you perceive to be a couple of problems with the tax package, unless they were fixed, your association would not support the tax package.

Ms Gomez—As it relates to motorists.

Senator GIBSON—Do you think your motorists would be willing to forgo income tax cuts; reduction in excise on fuel, both petrol and diesel, for all businesses; reductions in excise from 43c to 18c a litre for road transport; wholesale sales tax cuts of 22 per cent on all vehicles involved in business, as well as the tyres and as well as parts? Do you think they understand that that is what they would forgo if you did not back the total package?

Ms Gomez—I think you have to consider the view of, if I could say, the average motorist. An aspect such as the reduction in diesel excise from 43c to 18c is not necessarily going to result in as large a quantum of saving as one might end up paying if we were really to address the retail level of fuel excise, the example of which I went through earlier. I appreciate that all these things trickle down and feed through to a general benefit for the economy; I do not deny that.

Senator GIBSON—And the individual motorists.

Ms Gomez—But our motorists and our members are concerned about the cost of running their car, and some of the aspects that you have mentioned perhaps will not be as apparent to them. So perhaps, in response to your question, the answer is: yes, they do not fully understand. But they certainly understand the impost of fuel tax upon their hip pocket, and they will certainly understand the impost, the increase in prices, with the servicing of their vehicle.

With the measures in this package, I think the important thing to do is to ensure that things like fuel excise are set appropriately, because those are the types of things that our members feel most. We are saying that, if the tax package is to achieve what it is set out to do, this is how it needs to do it: it needs to wind back GST by 8c rather than 6.6c.

Senator GIBSON—The general point I make is that your motorists will get the benefit of a whole range of tax changes—

Ms Gomez—Sure.

Senator GIBSON—most of which are aimed at reducing the cost of doing business. These changes will also put extra dollars in their pockets by income tax cuts, so that people have lower marginal tax rates to face.

CHAIR—With regard to the federal-state agreement that has been referred to, it is a matter of fact—and I think it should be mentioned—that Queensland, in evidence given to this inquiry, has not signed on to it.

Ms Gomez, I take it that in answer to Senator Gibson's questions—and he put to you the classic 'take it or leave it' question: this tax package is immutable; therefore, if you wish to change any component of it, you lose the lot—you simply are reflecting the views of your members when you say that there are parts of this tax package that do not suit them. Are you necessarily saying that you want to change other parts of the package, or do you simply want to have the package rearranged to be more reflective of the interests of the motoring public?

Ms Gomez—It is twofold. We are saying that there are aspects that need to be rearranged to suit the motorist's interest. But I think we are also saying that, if you are to achieve what this package is setting out to achieve, you need to do it differently because it will not get there. A reduction of 6.6c per litre will not reduce disparity between city and country prices.

CHAIR—One of the problems I have in debating this package is that the government has labelled it a 'reform package'. That is its description of its handiwork—and governments will do this. Therefore, the language has become that 'it is reform'. Maybe; maybe not. That is a debate we have on this committee: what is tax reform? But I do not think it should be taken as read that a particular version of what one party thinks is reform is necessarily accepted as reform across the board.

Senator CHAPMAN—I have just found the specific details of the package that I was searching for earlier when we were discussing financial assistance to the states. It states quite clearly in the tax document that 'the offer is conditional on the states eliminating some of their worst taxes'—and that is those that have been listed: the stamp duties, the bank account debits tax, FIDs—'and not reintroducing them in the future'.

Then, with regard to local government and roads, it says quite clearly, 'The Commonwealth will make the payment of the GST revenue conditional on the states making these payments in accordance with existing conditions on the payment of general purpose assistance to local government, including the road funding component; maintaining the growth in general purpose assistance to local government on a real per capita basis would constitute one of the conditions to be met by the states in order for them to receive the GST revenue.'

Ms Gomez—If that is enshrined in legislation, that would be a satisfactory outcome.

CHAIR—Would it be a satisfactory outcome? We have debated in the Senate the difference between a surcharge and a tax. The government has imposed a surcharge in one respect which it deems, by its own explanation, not to be a tax.

I thought you were raising the issue that there are ways around these things, and you cannot always trust future governments. Certainly, current governments cannot lock future governments into it, and ways around these things can be found. I thought that you were posting with this committee your concern that that might occur and that, until there is some better way of reassuring you, you have open scepticism. Do I understand your position correctly?

Ms Gomez—What we are calling for is a consistent and transparent system of funding allocation and levels. If that is in place, there can be some mitigation of our concern over the issues raised by Senator Chapman and you; we can have surcharges and taxes and we can have fuel franchise fees that are taxes. If there is a national integrated transport strategy which is fully costed and has time frames, at least then we have a benchmark against which we can measure road funding. That would provide some kind of certainty to this whole road funding issue. That is what our recommendation is. I do not want to become bogged down in this discussion of whether politicians are trustworthy or not. The clear solution is to have that transparent and consistent funding allocation system in place before the GST is introduced.

CHAIR—Speaking as a politician, I do not want you to become bogged down in that either, for fear of what you might say. I do point out that I have stolen the Democrats' thunder—they usually ask this question about trust. Are there any other questions from the committee? I think there are not.

Senator MURRAY—Just one, Mr Chairman. In your answers you have clearly indicated that you do not have an obsession with lower cost, if there is a cost benefit attached to it. For instance, a hypothecated tax may result in increased costs to motorists but, if the benefits are better roads throughout and better economic efficiency, you are prepared to lay off one against the other.

Ms Gomez—What we have found is that the electorate are supportive of road taxes if they can see them going back into roads. Western Australia is a good example of that.

CHAIR—I now think we are clear at this end; we are? Thank you very much, Ms Gomez and the RAA, for your evidence this afternoon.

[4.43 p.m.]

CALDECOTT, Mr John Earle (Private capacity)

CHAIR—Mr Caldecott, you are unique in your appearance before this inquiry, in that the weight and credibility of your submission have meant that you have been selected and recommended to us by our secretariat as a citizen witness not representing an organisation; you are the first one to appear before us. So in a way you are representing a whole group of people, all of whom may have different views but have not put the work into preparing a case as fully as you have. For that reason you have been recommended to us to hear and I congratulate you on that. You know what the procedure is. We invite you to address your submission and then to make yourself available for questions.

Mr Caldecott—I am taking part in this inquiry as a citizen, as a family person with three children and as a pay-as-you-earn business entity. It is late in the day and I do not intend to recite sections of my submission. My evidence relates directly to this Senate inquiry into the tax reforms proposed by the federal government, as they highlight the gross inequity and unfairness of the current taxation system for the majority of wage and salary earners—a situation that the proposed changes do little to correct.

What matters to PAYE taxpayers is income taxes and prices, and prices are something that you do not find part of the day-to-day debate. If the proposed tax reforms do not lead to significant improvement in affordability which matches the best-performing economy in the world then the architects of the coalition's tax reform proposals should be sent back to the drawing board, as we would have introduced the GST for nothing.

My concerns revolve around the following issues. The proposed changes do not plan to provide full transparency of the total direct and indirect taxes paid by PAYEs. I personally have seen no detailed work that tells me as a PAYE what my total tax is. There are no mechanisms planned to prevent the payment of too little or too much total direct and indirect tax to all tiers of government. Real prices are too high versus the earning effort, when benchmarked against the best-performing economy in the world, the United States of America.

I have prepared a number of items for the inquiry for the committee to consider in their own time, and these are attached as supplementary evidence. I would like to draw your attention to some of the attachments. There are price comparisons between Big W and Harris Scarfe for February 1993 and for 1999. If you go to the bottom of page 1.0, you will see that back in 1993 Big W advertised that a basket of goods would cost $215.47 at Big W Cumberland Park whereas at Harris Scarfe Rundle Mall the same basket of goods would cost $326.35. I actually used this advertisement in an earlier paper that I prepared as part of the 1993 election campaign, which is at appendix E of annex B. You can have a look at it later. I did this over the weekend with the help of my wife. I thought I would have a look at the situation in 1999. If you just look at the bottom of the page—and please appreciate that not all of the items are the same; I had to make some choices because I could not get exactly the same articles—you will find again that Harris Scarfe was significantly more expensive than Big W.

The conclusion I like to make from this comparison—and this is documented on page 1.1—is that the introduction of a GST will penalise enterprises that charge more for their goods and services compared to others. More specifically, the example demonstrates that big business will enjoy a significant selling price advantage over medium and small business when a GST is introduced because medium and small businesses do not have the same level of buying power. Big W can buy its goods at a lot cheaper price than perhaps Harris Scarfe can.

Also, you need to think about why a customer of Harris Scarfe should be penalised for shopping there rather than at Big W. The proportion of tax penalty for a customer of Harris Scarfe is going to be in direct proportion to that price difference. I thought that this is actually a useful model to demonstrate that right across the spectrum this is going to be an issue for any business that is charging more than a competitor. Irrespective of the initial mark-up of the GST at the time, the actual extra tax will be in direct proportion to the difference in price because the GST is a percentage based tax.

I would like to make a couple of other points. I took this information off a Woolworths web site over the weekend. Woolworths had a company tax expense for the year ended June 1998 of $160.8 million—just on one per cent of sales. They had sales of nearly $16,841 billion. They employed 80,000 people to achieve those sales. I did a little bit of estimating and came up with a figure for the income tax of those employees of around half a billion dollars. The point is that Woolworths, as they predominantly retail into the Australian market, is going to attract a GST. In a sense that proportion of GST is going to be significantly higher than both the company tax and, I would suggest, their employees' income tax. So you could regard it as one big company tax or one big payroll tax.

Point No. 2: my submission at section 3.2.2 listed a number of products which I sourced from the *San Jose Mercury News* dated 13 June 1998. What I am setting out to do here is to highlight for the inquiry the sorts of day-to-day issues of price that exist in Australia. I refer to the supplementary evidence at the bottom of page 2.0. I should explain that I have compared the number of weeks of medium household earnings it takes to afford a given item in the US versus Australia. So, for example, the seven day per week home delivery of the San Jose newspaper, on a yearly basis, amounts to $US151.80. Using the 1996 US medium household income of $698 per week, that household only needs 0.22 of a week to pay for that subscription cost.

Here in Adelaide, if I include the *Advertiser* and the *Sunday Mail*, the subscription for one year amounts to $338. The medium household income is $635 per week. I would need half a week, and the household affordability ratio of Australia versus the US is 2.4. As for this factor of two, if you look back at my earlier paper in 1993 you will see the same sort of effect. In this set of examples the ratio ranges from 2.4 up to 5.5. One of my central themes is that we must understand why our prices are significantly higher in Australia versus a benchmark economy in the US.

For point No. 3—the GST effect—I have taken some published data from the *Advertiser* dated 1 August 1998 to determine actual wholesale price and retail margin. As a citizen out there, I saw very little published data about what real wholesale prices were. If you go to 3.0, you will see I have presented a table where I have worked out the retailer's margin. I have assumed the retailer has not applied a margin to his buying price inclusive of wholesale sales tax.

You find the retailer's margin for the examples given ranges from as low as seven per cent to 20 per cent. The point is that the lower the retail margin, the higher will be the perceived saving from a GST. So I would question the accuracy of those wholesale margins. Australians need to know what those wholesale margins really are to know whether they are actually making any savings and to know whether their retailers are passing on the GST, should it come in. That was in the *Advertiser*. I have attached a copy of the newspaper clipping.

Over on page 4.0 is an extract from the *Australian*, dating back to 31 July 1998. A similar result arose: where I could work out the retailer's margin, it ranged from two per cent for a Samsung 53.3 centimetre television to around 26 per cent for a toilet roll sixpack. Those margins I think are probably pretty low. Again, it has created an illusion that the saving from the introduction of a GST is much better than it will be. Do you understand what I am getting at? The larger the retailer's margin, the smaller will be the gain from a GST. The thing that disturbed me was that both these examples pre-dated the election. So we went to an election where no real savings in wholesale prices were given. I certainly did not see any in the national press.

In summary, clearly, unless the government is able to demonstrate significant improvements in the total amount of direct and indirect tax paid by overtaxed individuals, coupled with reform of tax applied to pricing systems, the Senate is within its rights to reject the tax reform proposals. It is worth noting that the coalition did not receive a popular mandate for its GST from the October 1998 federal election. In these circumstances, the Senate should recommend that once the full details and implications of the tax reform proposal are available, the people of Australia should be given the opportunity to vote for a GST by holding a referendum.

We are not given enough opportunity to take part in choosing major political change. Here in Adelaide at the moment, there is a big debate about whether or not we should privatise. I think that is another example of where the people of South Australia should be given an opportunity to sanction a significant change in policy.

Senator FERGUSON—Mr Caldecott, you have obviously gone to a lot of trouble to prepare this submission. Unfortunately, it is one of only 1,500 that we have at present. So it would be fair to say that it is difficult for us to do justice to an individual submission of this size when in fact we have another 1,499 or more that may require a similar sort of analysis. The question I really want to ask you concerns the information that you have used here where you are comparing things that happened in the United States with what is happening in Australia today. I am trying very hard to find out what point you are trying to get at in comparing the United States with Australia, when every country in the world has a different purchasing power for the amount of money that they earn through wage and salary or in any other way.

Mr Caldecott—For example, there is a current debate in the *Australian Financial Review* about why the United States has an unemployment rate of around four per cent.

When you start looking at the fact that their pricing across the board is significantly less for their households, and bear in mind that this is going to affect their second-hand prices, we seem to have a focus on compensation for this tax package when in fact the real villain is price. There is no point getting money in your pocket if you are going to be caught out by the compound effect of inflation on prices, which is what has happened in Australia.

There is a lot of material there on the auto industry because I took part in that inquiry. When you look up the *Statistical Abstract of the United States*, you find that they had CPI increases of between 30 per cent and 50 per cent from the early 1980s to the mid-1990s. Ours were significantly higher than that. Hence they are selling around 60 vehicles per thousand head of population versus Australia which has hovered around 30 vehicles. We have crept up a lot recently because the importers have realised that there is a huge gap in affordability between what the lowest priced Falcon and Commodore will cost you versus what people earn.

Senator FERGUSON—You also give us this page where you are talking about Big W versus Harris Scarfe. Why is Harris Scarfe still in business?

Mr Caldecott—You could say how come Australia is still in business, if we take the analogy right up. We work hard at it. I find it is very hard to save. You have to be really keen. I found from my experience that Harris Scarfe is more expensive than, say, Big W and I adjust my buying patterns accordingly. Big W experiences a massive increase in sales from this type of process. If that comparison is indicative of their pricing policy, it demonstrates that you can decrease prices and increase revenue. In that way you attract more customers and you sell more goods and people trust you.

Senator FERGUSON—You use identical items from Big W and Harris Scarfe. It is not that far from Harris Scarfe across to Big W.

Mr Caldecott—No, there is not a Big W store in Rundle Mall.

Senator FERGUSON—There used to be.

Mr Caldecott—It is only a Woolworths store.

Senator FERGUSON—So you can only do this in the suburbs?

Mr Caldecott—I chose it because I already had the advertisement for 1993 as a basis of comparison. It was interesting to see the state today compared with 1993. The point is that that can be translated directly to the small delicatessen owner versus the discounter. The discounter is going to have a significant price advantage and a GST is only going to multiply that competitiveness for the big fellow compared to the small fellow. My point is why should any member of the community be charged more for buying goods from Harris Scarfe versus Big W?

Senator FERGUSON—Mr Chairman, I may want to return to some questions later but, as I understand it, Senator Conroy has a number of issues that he wishes to raise so I will pass to him.

CHAIR—You can pass it back to the chair actually! The normal call would go to Senator Murray and then Senator Harradine, but I will go to Senator Conroy instead.

Senator CONROY—One of the arguments that you talk about quite a lot is transparency. We have been arguing in the parliament that we believe the GST should be displayed on price tags to assist—-

Mr Caldecott—I absolutely agree. Even more importantly, the wholesale sales tax should be displayed 12 months ahead of the introduction of the GST. We will then all know whether the GST has been introduced fairly.

Senator CONROY—So you are not confident under the current propositions from the government about the full 100 per cent pass through of costs?

Mr Caldecott—Absolutely. Reflecting on Labor's initiative with the Button car industry plan, that worked fabulously well for that industry. It was a pity that the assemblers did not pass on the cost savings.

Senator CONROY—We have had references to both the 1972 experience, where people did not notice a substantial fall in the price of cars with the tariff reductions, and the experience in the mid-1980s, which you are referring to, where, again, there was not the pass on in savings.

Mr Caldecott—Just on that point, you have to realise that on page 2.1 of the supplementary evidence I have used some extracts from the auto industry volume 1 report where they tried to explain the regressive effects of the increase in price due to the exchange rate, the devaluation of the Australian dollar, a tariff, a sales tax that was applied to that price plus margins, how the federal government moved in with a sales tax and applied that to those embedded taxes, and then how the state said, 'We will have a share of that too' and applied rates to the overall price. We have to address, as a country, why our prices are significantly higher on an earnings basis versus a country like the US. If we start doing that, and start improving the accountability in the taxation system, it will lead to the employment of more people and we will start to head to that US level. But, until we do, none of this focusing on keeping earnings of workers low or having everyone work for the dole is going to change it.

Senator CONROY—I am not sure whether you were here earlier when we had representatives from the South Australian chamber of commerce—

Mr Caldecott—No, I was not.

Senator CONROY—They assured us that we had a very competitive economy and particularly here in South Australia. They assured us that within a reasonably short period of time there would be that full flow on.

Mr Caldecott—It would be nice to think that. Obviously, you have walked around this area and you have seen that there are lots of empty shops. You will find empty shops wherever you go. That tells me that things are not singing along. You have empty shops in city centres and along main arterial roads such as Main North Road and Grand Junction Road where thousands and thousands of cars travel up and down. If the economy was singing along those shops would be full.

Senator CONROY—I am not sure whether this is quite the point that you are getting to, but during the election the Treasurer started to carry a teddy bear around. Did you see that at all during the election campaign?

Mr Caldecott—Yes, I did.

Senator CONROY—He quickly had to lose the teddy bear when it was pointed out in the papers the next day that the retail margin question and the WST margin would actually mean that there would not necessarily be a fall in prices, that despite the WST coming off there would be that compounding effect from having the GST on top. Are you familiar with the issue that came up around the teddy bear at the time?

Mr Caldecott—I think so. In some cases, depending on what that wholesale sales tax margin is and where it is applied on the price scale, or where the price is worked up, a GST may, even with high rates of wholesale sales tax, result in a price increase.

Senator CONROY—I think he quickly lost the teddy bear when it was pointed out to him that that would happen even though there was a 22 per cent wholesale sales tax on the teddy bear.

Mr Caldecott—Yes. I did not take a lot of notice of that. I thought it was political grandstanding. I was more concerned with the fact that the Treasurer was comparing wholesale sales tax rates with GST rates, and they are not comparable. You cannot compare them unless you know what the wholesale margin is. With some of the statistics that I presented to you, it looks to me that the people who were working that out either have not understood that or it has been worked out to make it look better than what it is.

Senator CONROY—We have been struggling like you to get concrete information on that particular issue. We would probably be sympathetic to that argument if we could get some more facts on it.

Senator MURRAY—Mr Caldecott, may I begin by complimenting you on the effort that you have put into your submission. You are not the only individual, obviously, who has put a submission before us. It is very much part of the process of our democracy that ordinary citizens should express their views, as well as highly paid lobbyists and interest groups. Whether we agree with you or not, thank you for the effort that you have put into it.

You have made some fundamentally good points but I want to ask you whether there are possibly other explanations for them. I will go to your schedule 2.0, which is a very useful record of the number of weeks that you need to work in Australia compared to number of weeks you need to work in America to buy equivalent goods. Now an economist might explain that in a different way. An economist might say that that means that the purchasing power—I cannot see an average here so I will invent one—of a US dollar might be three times that of an Australian dollar and our exchange rate difference is just the overvaluation, if you like, of our existing dollar. In other words, there should be no surprise in this. What would your answer be to that proposition, that it is simply a reflection of purchasing power ability and of an inflated Australian dollar value?

Mr Caldecott—The reason I have done this is actually to compare affordability on an exchange rate independent basis, so the only effect on exchange rate is really contributing to the price of the good in question, for example. By taking the price and looking at it as a ratio against household median income, that tells you what it is for the middle household in the USA, that is, 50 per cent of their households are going to be worse than that and 50 per cent of their households are going to be better. But I think the exchange rate is way under value.

Senator MURRAY—Perhaps I could give you the answer that I saw, that is, that you had reduced it to a common denominator. The common denominator is the same good and the common denominator for both is the time. If the time you have to work to earn a good is much greater, it reflects probably a lower standard of living and a less productive economy.

Mr Caldecott—That is exactly right. One of the things to tune into here is that the less fortunate members of the US economy are able to afford a Sony TV. If you look at the Sony TV example, a 27-inch or a 68-centimetre Sony TV costs around $1,700 to $2,000 in Australia. How many Australians could actually afford a Sony TV? But in the US, when they are being sold on special for $US400, the difference is quite significant. So the quality of their life—the quality of their tools, their computers, their software, et cetera—is much greater. Hence it aids their competitiveness.

Senator MURRAY—This example of yours would also indicate why imports have lifted so substantially. For instance, if a small motor car produced very cheaply overseas can be imported into Australia and we cannot produce those small motor cars as cheaply, we end up with our small car market being dominated for foreigners. That is exactly what has happened. Economists would then answer that perhaps the only way you deal with that is to reduce wage costs and other costs.

Mr Caldecott—Exactly, but if you look at the US, they have done the opposite. They have taken the low road, their prices are much lower, whereas we seem to have taken the high road. All our manufactures—whitegoods, car industry—are up very high. While we did go through that period of inflation, currently the way the pricing system works in Australia—and I have used an example in my submission of a Hyundai, where 68 per cent of the price build-up was in Australia—that effect can happen in reverse. For example, in this table you will see that you could buy the 1998 Mazda 626—and this was on special in the US—with 20 weeks of median household earnings.

Senator MURRAY—But what you have said to us would imply perhaps a high level of profit taking in our society, yet our stock market indices do not indicate a better rate of return than in the US. What I am really putting to you as a proposition is that the complexity of issues which are picked up here cannot be addressed solely by a tax system. Our tax system is just part of it.

Mr Caldecott—That is absolutely right. We have to understand what is actually happening, why our prices are higher, study the system and then take corrective action based on fact.

Senator MURRAY—This example you have given puts that position very well and is very helpful.

Mr Caldecott—Just as an example—and I think I have covered this in the text of the submission—take the Mazda price for Australia of $26,645. At the time of the auto industry inquiry early in 1997, that was up around $33,000.

Senator HARRADINE—I would like to clarify something. Under 'source' on that Mazda price it says '*San Jose Mercury News* 136104'. What is the 104?

Mr Caldecott—That should be 98. That is a correction.

Senator HARRADINE—What about the one before—103?

Mr Caldecott—All the sources which reference the *San Jose Mercury News* should be 13/6/98.

Senator MURRAY—The next point is one that you have made very well. If we use notionally the figure of 100 for a big business's sale price and 200 for a small business's sale price and the figure of 10 per cent, then 10 per cent on 100 is now a retail price of 110 and on 200 is 220. The sales price differential has increased from 100 to 110. That really relates to a series of issues which arise from this reform process, namely, that big businesses are going to get a far better cash flow out of the GST procedures and, where their margins and taxes and economies of scale operate to give them a price differential, they will actually improve that advantage, which is the point you made.

Thirdly, where they have integrated taxation structures, such as where they are vertically integrated with wholesale structures and so on, they will also get a benefit. That means that if you increase the benefit of big business versus small business you continue to erode the market share of small business. In the supermarket sector in Queensland the big three now have 86 per cent of the market. You are actually increasing their advantages over small business.

The question I put to you is really what I was drawing to earlier: you cannot attack that problem just through this tax system. You have to attack it through competition policy or through some means by which you ensure that fair competition is prevalent in the marketplace. In other words, it affects competition policy and issues other than tax. Do you agree with that? If you do, do you therefore believe that before the new tax system is introduced the government should seek to ensure that its competition reforms take that into account?

My last point is that—you probably are not aware of this—there is a government initiated select committee operating right now into those very issues. Do you think that approach should be integrated before its introduction?

Mr Caldecott—You have asked me a few questions there. The main response I have to that is that in the system as it is currently operating—and I do not see any great change in the new tax reform proposals—customers and industry supplying products to those customers are being burdened by taxes being added to taxes.

Senator MURRAY—Let me be very specific so you understand where I am going. A major part of the American system, which you admire, is antitrust legislation. In other words, they would not let the big three get to 86 per cent of the Queensland market. That is how they manage that kind of anticompetitive approach. Do you advocate a similar approach to lessen the effects of the monopolisation of society and the acceleration of these advantages for big business?

Mr Caldecott—Certainly it is important to look at what is happening. I am not familiar enough with the antitrust legislation in the US to comment, but if you change the system, big business are fairly skilled and they will work out a way of getting around it. The trick is to try to get those prices low. I think the wholesale sales tax system encourages the setting of the wholesale price. You made the comment earlier that retail industry is now vertically integrated with wholesaling and it must be very hard setting a wholesale price. If the small retailers are buying from the wholesaler who also has a retail outlet, like Big W, then maybe that degree of vertical integration needs to be questioned.

Senator MURRAY—Two of the senators on this inquiry—Senators Harradine and Margetts—have said that this tax package should not be introduced without taking full regard to the Ralph tax inquiry, which will conclude at the end of June after 11 months sitting, in comparison to ours which is sitting for just 3½ months. They have made that point, and the point you have made with regard to pricing competition would seem to indicate to me that the inquiry initiated by Minister Peter Reith might well be worth while for small business to take into account when we are delivering the GST.

Mr Caldecott—They certainly need to have their eyes open.

Senator BROWNHILL—In your submission, you quoted the *Australian* of Friday, 31 July 1998, where a married mother of two, Antra Lanskis, said the cost of her $138.03 weekly shopping basket would rise by only $6.75 and she said that the increase was less than she had expected. Of course, she has not taken into account either the fact that, if her husband was a middle income earner, he would be receiving about $27 with the proposed tax cut. Also she said that politicians cannot be trusted to keep the tax at that level and that she does not know that the locking of the GST rate requires all the state governments, plus the federal government and the Senate of the day, unanimously to make application for the GST rate to rise and to pass any increases. So there are plenty of checks and balances there which were never in the wholesale tax. It is a pity Senator Conroy is not here to know how much wholesale taxes were raised in the period that his government was in power.

So there are some misnomers which are not being brought out. In your evidence you used the analysis of the shopping trolley done by David Vos—I think it is good to have those discrepancies on the record. I commend you for the amount of effort you have put into your submission. I do not entirely agree with your summations, but some of the misnomers that are around, such as the one I have just brought up, have to be more widely known by people.

Senator GEORGE CAMPBELL—Mr Caldecott, earlier in your introductory remarks you referred to the GST as being like a giant payroll tax.

Mr Caldecott—Yes.

Senator GEORGE CAMPBELL—Would you mind explaining in detail what you mean by that?

Mr Caldecott—In the process of doing some research for the Big W-Harris Scarfe comparison, I had a quick look on Woolworths' web site where they had a copy of the annual report which I downloaded. They mentioned how many employees they have and, realising that most of their sales would attract a GST, with sales of nearly $17 billion at the end of June 1998, a 10 per cent GST would be heading towards an amount of $1.7 billion.

The point I was trying to make was that, if you look at their company tax expense in the year ended June 1998, you will see they paid $160.8 million. To work out how much tax 80,000 employees would pay, I used some figures from the Reserve Bank for 1995-96. It said the average tax rate was 22.5. I made an estimate of how much tax it would be and that was the $519 million. I know that is not the true story but, if you look at a GST in that context, the amount of GST being collected on Woolworths' sales would far exceed the amount of company tax they pay and would also significantly exceed the amount of income tax that they pay.

Senator GEORGE CAMPBELL—Are the consequences the same downstream? We hear consistently the argument that we should abolish payroll tax because it is a tax on jobs. Would the GST have the same impact?

Mr Caldecott—The GST is going to have a more significant impact. I think the payroll tax collection is about $8 billion, whereas the GST is going to be heading up towards $30 billion plus.

Senator GEORGE CAMPBELL—Do you think that the impact of the GST on jobs is going to be significantly greater than that of payroll tax?

Mr Caldecott—In the current situation that Australia finds itself with pricing, I certainly do. It concerns me greatly that we have not addressed the pricing imbalance between Australia's economy and an economy like the United States'. Therefore we are going to be a lot more sensitive to price increases which result in fewer sales.

I have set out to compare the $4 billion on household earnings basis but the other thing that you should look at, in terms of benchmarking, is the per capita production of goods in Australia versus, say, the US. With something like the car industry you find a significant difference. Jobs depend on selling goods and services. The more goods and services that are sold, the more people are employed and the lower will be our social security cost. We are not going to address that until we start employing people and improving the quality of jobs.

Senator GEORGE CAMPBELL—The exchange you had with Senator Murray earlier was a fairly lengthy one but I think you both came to the conclusion that, in terms of the application of the GST, small businesses are going to be disadvantaged relative to large businesses over the cost impact. Is that correct?

Mr Caldecott—I believe so.

Senator GEORGE CAMPBELL—So, in the sense of looking at this ANTS package relative to the proposed changes in business taxation of the Ralph review, would it not be fairly silly, from our point of view as legislators, to deal with one aspect of the package without knowing what the totality of the proposals is? In other words, it would be silly to deal just with the ANTS package without knowing the totality of what is involved in the business tax review and without being able to see the full implications of that across the whole of the community, particularly for the relationship between small and large businesses.

Mr Caldecott—One of the issues is that a lot of business entities are really not paying their fair share of tax. We often see press articles about major multinationals operating in Australia going scot-free in a sense—almost no company tax—because of the way they arrange their affairs. I think those things have to be addressed.

We have to set upper and lower limits. On the lower limits, to some degree there is a system in the US taxation laws that seeks to say to large income earners or large companies, 'Sorry, but there is a minimum contribution you should be making to the economy. We don't care how clever your tax minimisation schemes are. There is a lower threshold at which you should be paying a contribution to the running of the country.'

Senator GEORGE CAMPBELL—In terms of the ANTS package as it stands, rather than what the government is saying—that it will be good for small business—you are saying that it will disadvantage small business.

Mr Caldecott—You can draw your conclusions from that sort of daily comparison. I was not able to get the growth in earnings of Harris Scarfe over the same period, the past five years, because their web site has not yet been established, but it would be very interesting to compare Harris Scarfe's growth. They have grown, but whether they have grown to the extent of Woolworths Ltd would be very interesting to see.

CHAIR—As there are no further questions, I thank you, Mr Caldecott. The committee has individually commended you for your submission, but let me join with them and do so again. Thank you.

Committee adjourned at 5.31 p.m.