



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

SELECT COMMITTEE ON A NEW TAX SYSTEM

**Reference: A new tax system**

TUESDAY, 23 FEBRUARY 1999

ADELAIDE

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**SENATE**  
**SELECT COMMITTEE ON A NEW TAX SYSTEM**

**Tuesday, 23 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, 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.

<b>Committee</b>	<b>Matters for Inquiry</b>
Community Affairs	<p>The impacts of the Government's taxation reform legislation proposals on the living standards of Australian households (especially those on low incomes), including:</p> <p>(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 <i>bona fide</i> charities;</p> <p>(b) a detailed examination of the zero-rating of health services, including an examination of which services should be zero-rated;</p>

	<ul style="list-style-type: none"> <li>(c) the effects on community sector organisations of changes to their tax exempt status, and of the compliance costs of the proposed tax arrangements;</li> <li>(d) the effects of the proposed private health insurance rebate;</li> <li>(e) the effects on people with disabilities;</li> <li>(f) the effects on public, community and private housing, including the levels of rents; and</li> <li>(g) options for amendments to improve the fairness or efficiency of the proposed legislation.</li> </ul>
<p>Employment, Workplace Relations, Small Business and Education</p>	<p>The employment incentive and education impacts of the Government's taxation reform legislation proposals, including:</p> <ul style="list-style-type: none"> <li>(a) the scope and effectiveness of the proposed zero-rating arrangements for education in maintaining its quality, accessibility and affordability;</li> <li>(b) the effects on employment;</li> <li>(c) the effects of the proposed GST treatment on the quality, accessibility and affordability of employment services;</li> <li>(d) the effects on education of imposing a GST on, or zero-rating or exempting books and associated education resources;</li> <li>(e) the effects on education of imposing a GST on ancillary resources, services and commercial activities, including the effects on overseas students;</li> <li>(f) the effects of the proposed changes to the tax system on employment;</li> <li>(g) the effects on wage costs, particularly if the basic necessities of life are taxed;</li> <li>(h) the scope and effectiveness of changing the unemployment benefits, pensions and Newstart Allowance 'tapers';</li> <li>(i) the effects of the proposed changes to the tax system on training and adult education; and</li> <li>(j) options for amendments to improve the fairness or efficiency of the proposed legislation.</li> </ul>
<p>Environment, Communications, Information Technology and the Arts</p>	<p>The broad effects of the Government's taxation reform legislation proposals on the environment, the arts and information technology, including:</p>

- (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**

**BALDOCK, Mr Maxwell David, President, Small Retailers Association of South Australia . . . . . 1083**

**BARBARO, Mr Francesco, Australian Options . . . . . 1057**

**BROWNSEA, Mr John David, Executive Director, Small Retailers Association of South Australia, Dry Cleaners Institute (South Australia) and Men's Hairdressing Association of South Australia . . . . . 1083**

**CHAPMAN, Mr Paul, Consultant, Community and Public Sector Union, State Public Services Federation . . . . . 1042**

**CHRISTOPHER, Mr Peter George, Chief Industrial Officer, Community and Public Sector Union, State Public Services Federation . . . . . 1042**

**COMRIE, Mr John Alexander Charles, Executive Director, Local Government Association of South Australia . . . . . 1022**

**CRADDOCK, Mayor Rosemary Hamilton, President, Local Government Association of South Australia . . . . . 1022**

**JOHNSTON, Mr Elliott, Member, Management Committee, and Member, Editorial Committee, Australian Options . . . . . 1057**

**McMAHON, Ms Jan, Branch Secretary, Community and Public Sector Union, State Public Services Federation . . . . . 1042**

**MIHOVILOVICH, Sue, Manager, Economic and Public Policy, Local Government Association of Queensland . . . . . 1022**

<b>RITSON, Mr Philip Andrew, Editorial Board Member, Australian Options . . . . .</b>	<b>1057</b>
<b>SIEKMANN, Mr Peter Francis, Federal President, Australian Small Business Association . . . . .</b>	<b>1096</b>
<b>SPOEHR, Mr John Douglas, Consultant, Community and Public Sector Union, State Public Services Federation . . . . .</b>	<b>1042</b>
<b>TRAUTWEIN, Mr Michael Peter, Deputy Chairman, Australian Fresh Stone Fruit Growers Association . . . . .</b>	<b>1072</b>
<b>WARDLAW, Mr Stewart Allan, Executive Director, Local Government Association of Tasmania . . . . .</b>	<b>1022</b>
<b>WIGG, Mr Hugh (Private capacity) . . . . .</b>	<b>1105</b>
<b>WOOD, Mr Gerry, Vice President, Local Government Association of the Northern Territory . . . . .</b>	<b>1022</b>

**Committee met at 9.01 a.m.**

**CHAIR**—I declare open this public hearing of the Senate Select Committee on a New Tax System here in Adelaide. Today the committee continues its inquiry into the proposed changes to the Australian taxation system. The Senate referred the inquiry to the committee on 25 November last year. This hearing continues 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 committee will report on the second stage of the inquiry by 19 April this year. This committee called for submissions to be lodged on 29 January 1999. In fact, the committee is still accepting submissions and so far has received well over 1,300.

This is the second 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 the witnesses who will be giving evidence today.

Is it the wish of the committee that submissions Nos 85, 701, 940 and 1063, Mr Baldock's submission and the Australian Small Business Association submission, be made public? There being no objection, it is so ordered. I now declare that those submissions to this inquiry, together with their attachments, may 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.

With those remarks, I now welcome representatives of the local government associations of South Australia, Western Australia, the Northern Territory, Victoria and Tasmania.

[9.05 a.m.]

**COMRIE, Mr John Alexander Charles, Executive Director, Local Government Association of South Australia**

**CRADDOCK, Mayor Rosemary Hamilton, President, Local Government Association of South Australia**

**MIHOVILOVICH, Sue, Manager, Economic and Public Policy, Local Government Association of Queensland**

**WARDLAW, Mr Stewart Allan, Executive Director, Local Government Association of Tasmania**

**WOOD, Mr Gerry, Vice President, Local Government Association of the Northern Territory**

**CHAIR**—I invite you, Mr Comrie, to introduce your associates.

**Mr Comrie**—Mayor Craddock, who is the President of the South Australian Local Government Association, will be leading the delegation this morning. I hand over to her to both address you and introduce the other members of the panel here.

**Mayor Craddock**—On behalf of the local government associations of Queensland, Western Australia, South Australia, Tasmania and the Northern Territory, I thank the committee for the opportunity you have given us to present our views at the public hearing. I would now like to introduce the representatives here today on behalf of the respective associations: Councillor Gerry Wood, Vice President of the Local Government Association of the Northern Territory; Ms Sue Mihovilovich, Manager, Economic Public Policy, Local Government Association of Queensland; me; Mayor Rosemary Craddock, President of the Local Government Association of South Australia; Mr John Comrie, Executive Director of the Local Government Association of South Australia; and Mr Stewart Wardlaw, Executive Director of the Local Government Association of Tasmania. Our representative from Western Australia is unable to be present here today.

Our view was set out in some detail in the submission which we sent to the committee on 27 January, and I draw your attention to the executive summary that is provided on pages 1 and 2 of that submission. I would like to read out that executive summary because in effect it summarises quite succinctly the points in the submission that we propose to make today:

- (1) This submission argues for the inclusion of local government in the application of fiscal equalisation principles in the distribution between the States and the Northern Territory of the GST proceeds.
- (2) Our five Local Government Associations continue to fully support the views of the Australian Local Government Association (ALGA) in relation to issues such as the payment of a fixed proportion of the GST to local government and the nature of local government's relationship with the Commonwealth; the particular position advanced in this Submission is quite independent of, and holds irrespective of the outcome on, these and other issues.

- (3) More specifically, our position is that the provision in the agreement reached at the November 1998 Premiers' Conference that "The Commonwealth Grants Commission will be directed to continue to exclude local government funding from its assessments" should be reversed.
- (4) Fiscal equalisation has served Australia well. It applies, through the recommendations of the Commonwealth Grants Commission, between the State/Northern Territory sectors and, through recommendations of State Local Government Grants Commissions, between local governments. There is a "gap" in the system in that fiscal equalisation is not currently applied between the local government sectors in each State and the Northern Territory. Instead a simple per capita distribution has been used.
- (5) This Submission puts forward a specific proposal to rectify this problem—namely to extend the assessments of inter-State relativities made by the Commonwealth Grants Commission to include the local government sector on a whole of State basis. This will require the Commonwealth Grants Commission to undertake a specific assessment which identifies the local government component of the total grant to each State and the Northern Territory.
- (6) On the basis of what was agreed at the Premiers' Conference, the grants to the local government sector in each State and the Northern Territory would under our proposal, be protected from any redistribution which may result by the provision that each State and Territory Government would be obliged to retain the general purpose grants to local government at the 1999-2000 levels indexed for inflation and population growth.
- (7) We also propose that any redistribution resulting from our proposal be subject to the agreed transition guarantee provision that no State be worse off than under the current arrangements.
- (8) In other words, any redistribution would take place over time and only out of the surplus which the GST arrangements are expected to produce for the States/Territories and after a transition period (ie compared with current arrangements).
- (9) We believe that the specific arrangements that we are proposing are reasonable, are equitable and need to be included in the proposed Commonwealth-State Agreement and the Commonwealth legislation.

We are very well aware of the wide range of issues which are before the committee, their complexity and their importance. Some of these issues have received a good deal of media attention and will no doubt continue to do so. The issues which we are addressing, namely, the comprehensive and current application of fiscal equalisation principles in the distribution of the proceeds of the GST, have really received no such attention. That does not mean to say that it is unimportant; quite to the contrary, there are substantial implications in terms of the achievement of equity in the provision of public services across Australia—an issue which is clearly well within the terms of reference of this committee.

At attachment B to our submission, there is a copy of the document outlining an agreement reached between the Commonwealth, state and territory governments last November in relation to the handing over to the states and territories of the proceeds of the GST to replace the Commonwealth's general purpose grants to the states and to local government.

The Australian Local Government Association has made submissions to this committee on certain aspects of these arrangements as they relate to local government; in particular, about the absorption of funds for local government into those for the states. I emphasise that our five associations fully support the ALGA's submissions, and that there is no inconsistency at all with the views we are expressing in this submission.

It will be seen from page 2 of the November 1998 document that it was agreed between the governments that the distribution of the proceeds of the GST would be in accordance with horizontal fiscal equalisation principles. And this is something, of course, which we support.

Fiscal equalisation, based on the work of the Commonwealth Grants Commission for nearly 70 years now, has served this nation very well. It has helped to ensure that the less wealthy or more needy parts of our nation are not disadvantaged in terms of tax rates or the standard of public services. It has helped us to avoid the inter-regional extremes in public services which can be observed in many other countries. If anyone is in doubt about this, I invite them to examine the school financing scenario in the United States.

The November meeting, at which local government was in fact denied representation, having accepted fiscal equalisation as the correct distribution principle, then went on to say that the Commonwealth Grants Commission should continue to exclude local government finances from its purview; that is, that fiscal equalisation would not apply in this area.

If this arrangement were to be put into effect, distribution between states and territories with respect to local government would continue on a simple per capita basis, which the Commonwealth Grants Commission has clearly demonstrated and stated would not be appropriate. I draw your attention, senators, to the Commonwealth Grants Commission report on the interstate distribution of general purpose grants for local government in 1991, in which those views are clearly expressed.

The position implicit in the November document is that it makes sense to equalise with respect to state land tax and schools, but not with respect to local government property, rates and libraries. The position has only to be stated to be seen to be foolish.

Why did the November Premiers Conference agree to such a contradictory approach to the question of fiscal equalisation by excluding the local government sector from equalisation? When we asked the Commonwealth Treasury for its advice about the rationale for the provision in question, its reply was—and I quote from a letter from Treasury sent to us on 13 January 1999—that it reflects the consensus views of the states and territories.

When we asked the South Australian Department of Treasury and Finance the same question, its response, which happens to have the same date, was that the agreement was largely drafted by the Commonwealth and reflected its major priority of ensuring that issues about which there might be some disputation were kept to a minimum.

If the object of this whole exercise were to keep disputes to a minimum, we would not be talking about a GST at all. The truth is that neither the November 1998 document nor the subsequent correspondence provide a rationale for the provision to which we are objecting. There is none, and there can be none.

It is clear to us that the issue was simply not thought through adequately at the November meeting. Let me say, senators, that we have thought it through and we have put to you a quite precise and specific set of arrangements to handle this issue. I refer you to pages 18 and 19 of our submission.

Without going to all the details, our proposal, in essence, is that the Commonwealth Grants Commission be asked to recommend a distribution between states and territories on a comprehensive basis, including the local government sector as well as the state sector, and that its recommendations be put into effect. There are, however, some other features of our specific proposal which warrant emphasis, namely, that neither any state nor the local government sector in any state would be disadvantaged compared with current arrangements.

It was agreed at the November meeting that the general revenue grants to local government in each state would at least increase in line with inflation and population growth, and this would continue under our proposal. In addition, we propose that no state as a whole, that is, with state and local government allocations combined, would be worse off than under the current arrangements.

This means that, to the extent to which a redistribution of funds does occur as a result of our proposal, it will only take place out of the surplus which the GST is expected to yield for the states and territories over time, compared with the current arrangements. The figures on which the Commonwealth, states and territories have been working suggest that, after a transition period, funds will be ample for this purpose.

If our proposal is not accepted, the Commonwealth parliament will, in effect, be saying that it is appropriate that some parts of Australia should be disadvantaged in the standard of local government services and/or rate levels compared with others. The areas affected will be those with relatively low tax bases or relatively high expenditure needs because of socioeconomic status, distance factors and so on. We find it hard to accept that the Senate in particular, with its particular role and form of state representation, would take such an approach.

We are confident of the validity of our proposals, but we appreciate that the committee might wish to seek the views of others, both in terms of the principles and in terms of its feasibility. We certainly believe it could be, and should be, worth while for the committee to obtain the views of the Commonwealth Grants Commission, which is quite independent, has the expertise and is well respected.

Mr Chairman, there is much more that I could say, but I will now give my colleagues a full opportunity to add their thoughts before questions from members of your committee.

**Mr Wood**—I would like to back up what Mayor Rosemary Craddock has said. I add a few things which, naturally, relate to the Northern Territory. In 1995, there was a report on the operation of local government brought out by the National Office of Local Government. I know statistics can tell lies, depending on which way you put them, but if I take some samples out of this document, perhaps you will get an idea as to why we think fiscal equalisation should apply to local government and why the way it is applied at present is basically a disaster.

Katherine, in the Northern Territory, with a population of 10,500 people—these are 1995 figures—receives \$39.32 per capita. It has a small area of 528 square kilometres. Dalby, in Queensland, has a similar population and receives \$57.85; Ararat, in Victoria, with 11,500 people, receives a per capita grant of \$126.60.

Admittedly, Ararat has a larger area to cover. But you could take a place like Deniliquin in New South Wales, population 8,550—lower than any of those three places—and area 129 square kilometres, so it is only a township size, and each person receives \$132.85. If you look at my dear old shire, the Shire of Litchfield, the only shire in the Northern Territory, and similar probably to Ararat, we had a population in 1995 of 13,000 and an area of 3,100 square kilometres, which is roughly the same size as Ararat, and we received \$50.80. That is more than 2½ times less than Ararat. You have to ask why that is occurring. We do not believe that is very fair.

I suppose I could ask why a pothole in the Northern Territory costs more to fill than one in Ararat. I can tell you that after the amount of rain we have had in the Northern Territory, potholes, bog holes and ruts are the order of the day at the moment—in fact, we have had two school buses bogged on the way to school. I do not know why that system works. It is also strange that roads run by the Northern Territory can be funded and maintained under the fiscal equalisation. Their roads are okay but our roads are not funded under the same scheme. It seems strange that we have to have a different system.

The other thing, Senator Cook, is that you read at the beginning some of the terms you should look at with this committee. One was fairness. I ask straight away: what is fair about us receiving 2½ times less than a township in Victoria? I just do not believe that is fair. In fact, it is unfair on the ratepayers in my shire who have to pay more for something for which they should get roughly the same service as Ararat.

You mentioned economic effects. Until places like our shire and places in the Northern Territory—and there are Aboriginal communities who also suffer a big disadvantage—can get proper roads and proper services they are never going to be able to develop. If we are looking at trying to develop the whole of Australia, some of these services are required. Tourism is a growing industry in the Northern Territory, but if people can only get there for part of the year it is only a part of the year industry. Upgrading of local roads would certainly help those things.

Horticulture is a growing industry in the Northern Territory. Local roads are very important for horticulture. You cannot get the mangoes out if the road is all rough. We recently had a chicken farmer saying 20 per cent of his eggs were cracked because the road was pretty useless. Those things might be minor, and I suppose the Commonwealth deals with the big issues like defence, housing and all that sort of stuff. But as, we would say, an equal sphere of government, we believe that roads, potholes and whatever you want are just as important because we are dealing with people on those very issues that concern them.

The other thing I think you mentioned was the poorer members. To some extent the bigger states are not subsidising the rest of Australia. We have some very poor communities in the Northern Territory and I think anyone that has travelled around to some of the Aboriginal communities realises that. One reason we try and seal roads within some of the Aboriginal communities is not because they want a nice sealed road but because there is a health problem coming from the dust. So there are other reasons why funding has to be adequate, not just for the sake of having a nice smooth road to drive on.

Overall, I would say, and I would say that the rest of my colleagues here would believe, that fiscal equalisation should apply to all services. We cannot see why roads and rubbish and recreation—the three Rs—are any different from schools and state government roads. Perhaps I could ask senators a question: do they know why we are exempted? Why are we the one out?

**CHAIR**—We are not the government. We are the Senate.

**Mr Wood**—Perhaps I should have asked parliament if they could tell me.

**CHAIR**—We are representing one house of the parliament, but this is a matter between the executive wing of government and the executive wings of state government at this point. We may well express a view about it—I do not know.

**Senator HARRADINE**—I am just wondering what exempted means?

**Mr Comrie**—Perhaps I could clarify that a little for the committee. At the moment the Commonwealth provides money to the states to meet their needs on a fiscal equalisation basis so that each state or territory can provide a similar level of public services to its community. The Commonwealth also provides money to the states and territories to pass on to their local governments. That money is required to be distributed by the states, and the Northern Territory when it gets to it, to their local governments on a fiscal equalisation basis. But the money that is provided to the states by the Commonwealth is on a per capita basis. In other words, those states and the Northern Territory that have greatest need or less capacity are receiving less money for local government services than the more populous states.

**Senator HARRADINE**—Mr Comrie, I know that. I just wondered what Mr Wood meant by the word ‘exempted’. He was asking us why they were exempted.

**Mr Wood**—I was wondering why local government funding is exempt from the fiscal equalisation principles that all the other funding is given out on. One of the problems with a place like the Northern Territory is that basically it does not have a capital city that is big. Take Sydney—it has got a large population and it can have fiscal equalisation within its own state; therefore little places out bush can get a lot of money because you have got Sydney with a big population. Where you start to get smaller areas, it certainly has an effect.

**Mr Comrie**—I wonder if I could make a couple of comments, then perhaps Sue and Stewart. I just wanted to emphasise—

**CHAIR**—I will allow you time to present your case, but I do want to allow time as well for senators to ask questions on it.

**Mr Comrie**—Very briefly, I just want to emphasise to the committee that this issue is well within the committee’s terms of reference. Term of reference 3(r)(i) states:

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

- (i) the effects . . . of the proposed transfer of responsibility for local government financial assistance to the states, and whether it discriminates between states,—

Our view is it certainly does. There is currently an inequity and inconsistency in the way that money is applied to the states for local government purposes. The smaller states are clearly disadvantaged. Our proposal is that disadvantage can be corrected through growth in GST revenues over time, without having to take money off the other states. In the past, that was not possible. This inequity, that was recognised in 1991 by the Commonwealth Grants Commission, can now be addressed through growth in GST revenues without disadvantage to Victoria or New South Wales.

**CHAIR**—Are there any other supplementary comments?

**Mr Wardlaw**—Very briefly, there are three or four points I would like to make. Firstly, continuing to have a per capita distribution to the states for these local government grants is actually going to increase the disparity over time because the states of New South Wales and Victoria are going to have a further increase in population compared to the other states—and I am particularly interested in Tasmania here.

Secondly, the current system is either 95 per cent correct or 95 per cent wrong because, of the money that is coming from the Commonwealth to the state government, 95 per cent will be done on a fiscal equalisation and the five per cent that local government gets will not be. We are saying that here is a chance after many, many years to correct that anomaly. Here is an opportunity; we are saying, ‘Seize upon that.’

In Tasmania’s case, we would invite the committee not to just think of the fact that it is local government missing out in Tasmania. In the first instance, it is the state of Tasmania that is missing out, by a continuation of this formula. We would implore you to really have regard for that fact. It is Tasmania in the first instance, then it is how it is spent in Tasmania. Hopefully that is by local government, but that is something that is down the track.

**CHAIR**—There are three Tasmanian senators on this committee. I am sure every one of them listened intently, Mr Wardlaw.

**Sue Mihovilovich**—If I can just add that this has always been an urgent issue for the states and territories represented, and now the opportunity is there to make it a timely one.

**Mayor Craddock**—We thank you for listening to us. We would now be very pleased to answer any questions you may have.

**CHAIR**—Thank you, Mayor. On page 18 and 19 of your submission, the pages you drew attention to in your remarks, there is a list of points with comments about them that, as I understand it, you would like to be agreed or supported by us in our recommendations. Is that right?

**Mayor Craddock**—Yes.

**CHAIR**—You are in negotiation, are you not, with the Commonwealth—and, indeed, maybe even with your state governments—about getting agreement on these points. If agreement at that level fails, are you asking us to report to the Senate that you would like the Senate to amend the GST bills to reflect these terms?

**Mayor Craddock**—We have had discussions with our Premier here. This occurred very recently and well after the Premiers Conference in November 1998; in fact, it was only last week. He indicated his full support for the local government submission. As I understand it, there have been discussions at officer levels in the other states and there has been a very positive outcome.

Despite the fact that we may well have the endorsement of our states, we are still seeking your support for our submission in terms of this inquiry, because I believe it is the most appropriate time to really amend or reform the taxation system in relation to the local government sector because of the quite clear inequities that exist. It is the only time that we have really had an opportunity to look at the application of the fiscal equalisation principles as they apply across the states and the ramifications they may have. This is obviously the appropriate time to put forward that reform, to balance out the inequities across the whole of Australia.

**CHAIR**—My point is this, though: we will have to make a decision and vote on this legislation within months. If it is not agreed in the terms that you are seeking agreement and the bills present themselves to us in their current form, are you asking this committee to report to the Senate that you want the Senate to amend the bills to conform with these conditions?

**Mr Comrie**—The clear answer is absolutely yes.

**CHAIR**—At this stage I will ask the acting deputy chair of the inquiry, Senator Gibson, to ask questions.

**Senator GIBSON**—I guess my first query is how come the premiers and chief ministers have not taken a more active role, if you like, on your behalf in this particular direction, given that at their original meeting with the Prime Minister and Treasurer a year earlier, in 1997, they agreed in principle about the government's proposed direction; in other words, to bring in a GST and to get rid of certain state taxes? The premiers and the chief ministers signed off about which state taxes they wanted to get rid of—their priority list. They basically confirmed this in the agreement in November last year, which I understand they have, in principle, signed off on, or agreed with, although I know that the agreement has not been signed. Why haven't the premiers and chief ministers taken up your case? My reason for asking is that I am not sure that what we are talking about today in your proposal is actually covered in the legislation that is before us.

**Mr Comrie**—I believe it is covered in that the terms of reference clearly ask the Senate inquiry—

**Senator GIBSON**—More importantly, what about the fundamental question about your relationship with your state governments?

**Mr Comrie**—The simple answer to that question is that I do not believe the issue of local government finances received adequate attention by the states and the Northern Territory in their negotiations with the Commonwealth. Relative to the impact on the states and the Northern Territory and their needs, local government is a relatively small player. The states clearly were prepared to accept the revenues of the GST and the increase in their own financial capacity, and I do not believe they had due regard to this issue.

This issue has been around for a long time. It has not previously been able to be addressed, because under the Commonwealth's financial assistance grants legislation, if the Commonwealth Grants Commission's recommendations in 1991 had been adopted, you would have had to take money off the local government sectors in New South Wales and Victoria. We are suggesting now that growth in GST revenues will be able to enable that to happen. Certainly, I am confident that our own state would support what is being proposed. I understand from information we have had back that the other smaller states are likely to as well. But you are unlikely to get agreement from the governments of New South Wales and Victoria. That is why we are saying: if it cannot be resolved between the state governments and the Commonwealth, the Senate has a responsibility to protect the interests of the smaller states.

**Senator GIBSON**—But if the agreement is in fact between the executive of the Commonwealth government and the executives of either the state or territory governments—and we hear what you say, and obviously I think the point you are making is that this has been a longstanding problem—I am just a bit surprised that the matter has not been, if you like, flushed out in the last 18 months since tax reform has been on the agenda.

**Mr Comrie**—The short answer is the states have focused on the impact of their own financial affairs from the change in the tax system.

**Senator GIBSON**—You know what I mean—stating the obvious: the Commonwealth is obviously committed to keeping your current financial status intact and the states are basically locking in to guarantee that. But you are asking for an improvement over the present system.

**Mr Comrie**—We are asking for financial assistance available to local government across the nation to be applied equitably based on need. At the moment that is not the case.

**Senator MURRAY**—Just for the record, you represent four states and a territory. Is there any reason why the others are not represented here or did that just happen—how it has panned out?

**Mayor Craddock**—A very obvious answer to that is that New South Wales and Victoria, of course, with the greatest head of population, would not be at all interested in this submission because they stand to receive substantially more because of the allocation on distribution being made on a per capita basis. That is the inequity that prevails.

**Senator MURRAY**—So there is a split in the local government approach on this?

**Mayor Craddock**—In terms of the allocation of the funding, yes, because New South Wales and Victoria, on the present system that is proposed, stand to receive substantially more, and why would they argue for a lesser amount in favour of the smaller states? It is quite clearly an inequitable approach that is being proposed, and our submission redresses that inequity without in fact New South Wales or Victoria losing, in effect, or being docked any of those proceeds—

**Senator MURRAY**—But that is what I do not understand. If your in-principle proposal in terms of equity and fairness is such that it benefits the smaller states and territories but does not harm the bigger states, why aren't the bigger states in agreement with your proposal?

**Mr Comrie**—If I can just comment on that very briefly. At the moment, under the current arrangements, the money is provided to all states for local government on a per capita basis.

**Senator MURRAY**—Yes. We all understand that.

**Mr Comrie**—What we are proposing is that the shift in money would come to our states through growth in GST revenues.

**Senator MURRAY**—We all understand that.

**Mr Comrie**—Local government in New South Wales and Victoria will not be disadvantaged, but New South Wales and Victorian state sectors will not get as much more—they will still get more, a lot more, under the GST under our proposal—as they will get if you keep the system in place. In other words, we are suggesting some of the increase in revenues for New South Wales and Victoria ought to be taken away from them to redress this need and equity issue. That is why they will not support it.

**Senator MURRAY**—It is the growth in revenue?

**Mr Comrie**—It is the growth in revenue we are suggesting be used to address this inequity.

**Senator MURRAY**—Just for the record again, in the four states and territories represented before us, it is true, is it not, that none of you are represented in the constitutions of your states or territories?

**Mr Comrie**—We are not.

**Mr Wood**—We tried this, but the draft constitution fails at the moment. We only just come under the Self-Government Act.

**Mr Wardlaw**—We do have a reference in our state constitution inasmuch as the boundaries of the council cannot be changed unless the government receives a recommendation from the local government board. But it is only in that respect; it is not to preserve local government as such.

**Senator MURRAY**—For the purposes of *Hansard*, that was Tasmania. Moving on from this, I think the question put to you by Senator Cook is a particularly important one. We have been faced with numerous groups who have asked us to support this package in toto. The Senate has also been faced with an executive which says we must pass this package without change. That is what the executives want. Would you believe, if you cannot get your amendments forward, that the Senate should vote the package down because of fundamental inequity or unfairness to local government in your four states and one territory?

**Mr Comrie**—We would favour the Senate amending the legislation to enable the local government money to be distributed on a needs basis.

**Senator MURRAY**—But if we did not get the numbers to amend it, would you favour the Senate voting it down?

**Mr Comrie**—We would be indifferent because local government would still receive its money on a per capita basis. We would be no better or worse off one way or the other in that situation, and therefore we have no opinion either way.

**Senator MURRAY**—I assume that you support the Australian local government's position that local government should continue to fall under the federal government for the distribution of money and not the states?

**Mr Comrie**—Correct, we do, but our proposal remains equally valid whether the Australian local government's position or the current agreement is put into effect.

**Senator MURRAY**—Why do you trust the federal government more than you trust the states and territory?

**Mayor Craddock**—The allocations through the Commonwealth Grants Commission are based on a needs basis. Local government would respect that position. The commission has the expertise to do it and we would be very comfortable with that position. We do not foresee any disagreement with that position across the whole of the local government sector.

**Senator MURRAY**—So it is the devil you know, rather than the lack of trust in your own government?

**Sue Mihovilovich**—We are yet to receive any explanation as to the benefit to the nation of handing over funding responsibility from the federal government to the state governments, from either level of government.

**Senator SHERRY**—Is it not the bottom line that you do not trust the state governments with any potential GST surplus without a guarantee of a formula that gives you additional money? You do not trust the state governments to be able to pass on any of that additional revenue, should it occur, to local government?

**Mayor Craddock**—We would certainly need a built-in guarantee from the state governments to that effect. We would want to know, if there were to be any change in government, where would that guarantee stand? There are all sorts of disbenefits when you

look at that aspect. That is one of the problems. It is coming direct from the Commonwealth to the local government sector, and we want to be assured of that position.

**Senator SHERRY**—If I were in state politics, I would want to keep the revenue. That would seem to me to be the bottom line that a state government would take—keep the revenue and solve whatever problems and issues they want to without passing any of it on to local government.

**Mayor Craddock**—Senator Sherry, if I were the Premier of South Australia at the moment, I would certainly be paying off the state debt and I would not be allocating any additional revenue to the local government sector.

**Senator SHERRY**—And coming from Tasmania, I know they would be in a similar position.

**CHAIR**—I think Senator Sherry is selling himself short. He would be much more benign and wise than he has just presented himself as being!

**Senator SHERRY**—Concerning the formula that you are recommending, the bottom line is that it really is a shift from per capita funding to a needs based funding.

**Mayor Craddock**—Yes.

**Senator SHERRY**—You see that to be to the advantage of rural and regional areas, fundamentally, of Australia?

**Mr Comrie**—Very much so.

**Senator SHERRY**—Going back to the Tasmanian example, obviously with a declining population, a per capita formula is not particularly attractive, but being a region with significant socioeconomic and distance problems, it would be a help to that state and obviously to similar regions of Australia.

**Mayor Craddock**—One of the disparities, too, is that the longer this system progresses on the basis of distribution on a per capita basis, the greater the disparity between Victoria and New South Wales and the rest of Australia. It is going to present a real problem for the government of Australia across regional Australia. The inequities will get worse.

**Mr Comrie**—While we support fiscal equalisation, we want to highlight the inconsistency in the current approach. The Commonwealth gives money to the states on a fiscal equalisation basis. It requires the states to give the money the Commonwealth gives them for local government on a fiscal equalisation basis, but the money the Commonwealth gives to the states themselves for local government is on a per capita basis. It is inconsistent. You either believe in fiscal equalisation or you do not.

**Senator HARRADINE**—I want to assure you, Mr Comrie, that we are well aware of the terms of reference. A number of us were very much involved in the preparation of those

terms, and we are very pleased to have you here to assist us with information for us to focus on those terms.

I will go to the agreement in principle of November last year to which you referred. On page 3 of that agreement, under the heading 'Improved Local Government Finances', paragraph 3, it says:

The Commonwealth Grants Commission will be directed to continue to exclude local government funding from its assessments, with the intrastate distribution being determined by the States and Territories on the basis of horizontal fiscal equalisation principles.

By what mechanism is that interpretation of those principles going to be achieved?

**Mr Comrie**—Currently, each state—and the Northern Territory—has established, under the Commonwealth's financial assistance legislation for local government, its own state grants commission. It is envisaged that that will continue to determine the distribution of those moneys.

**Senator HARRADINE**—The preceding paragraph says:

. . . indexed in line with the CPI and population growth.

Could you give us your reaction to that?

**Mr Comrie**—It is proposed that the money be maintained in real terms per capita. The Australian local government position is that we would favour a fixed percentage share of the GST revenues. In other words, we favour access to an increase in income. The amount of money available to local government through the financial assistance grants has fallen considerably in real terms in recent years, and we would clearly prefer that reduction to be redressed and have an increase which the GST would give us. Nevertheless, maintenance in real terms per capita is better than what we have been having in recent years, and particularly if it was distributed to each state on a needs basis.

**Senator HARRADINE**—Looking at page 3, could you indicate to the committee why Queensland did not agree with the first paragraph of the traditional arrangements outlined?

**Sue Mihovilovich**—The Queensland Premier made that decision. Local government has been excluded from discussions about the GST. Right from the very beginning we have been excluded, even when the Premier wrote on our behalf concerning ALGA attendance at the Premiers Conference in November. I really do not feel qualified to comment on the Premier's decision in this instance.

**Senator HARRADINE**—Do you feel that the state bureaucracies are truly appreciative of the principle of subsidiary function?

**Mr Comrie**—No; in South Australia—

**Sue Mihovilovich**—Some states more than others, perhaps.

**Mr Comrie**—we think there is some way to go to improve that.

**Mayor Craddock**—One only has to look at the debt levels of certain states to realise that the governments are going to make decisions on a whole of state basis and local government, of course, is only a component. Local government is not necessarily going to suffer. It is going to have its allocation maintained, but it may not be looked upon so favourably in additional allocations when there is a current state debt. That would apply in two or three states.

**Mr Wardlaw**—This is evident in the national competition policy payments where some state governments have been able, within their budgets, to pass on some compensation to local government for their efforts on NCP, whereas other states have not been able to. I think that is an example of the disparity that occurs around the various states and territories.

**Senator SHERRY**—Sorry, Mr Wardlaw—haven't been able to or haven't wanted to?

**Mr Wardlaw**—In the case of Tasmania, Senator Sherry, I would think it is probably 'have not been able to', but then, in Queensland for example, they were first cab off the rank. They, at the time, had quite a generous arrangement whereby the state government passed on the advantage they received and shared that with local government.

**Senator HARRADINE**—Obviously, this question of the importance to Australia and to any democracy of upholding the principle of subsidiary function you believe should be well and truly part of the debate?

**Sue Mihovilovich**—Yes.

**Mayor Craddock**—Quite clearly local government must be included to ensure that regional Australia does not suffer—and it will suffer under the current system. There must be a consistency in its approach.

**Senator HARRADINE**—Thank you.

**Senator GIBSON**—As to the point you are making, Mayor Craddock, about local government going to suffer, it seems to me that in fact what the Commonwealth is proposing is lower costs for all local government. I know it is not a very big number in the ANTS package; the estimate is \$70 million across the nation. As you know, it will lower costs basically for all businesses, so we are trying to improve the efficiency of the economy, provide better equity for everybody and restore incentives for people to work.

**Mayor Craddock**—Yes.

**Senator GIBSON**—What you have raised today with us is another issue and, obviously, it has been a longstanding issue within local government circles. We are pleased to hear what you say. It seems to me it is important that you take up those issues with your state governments because, after all, you are set up under state legislation, aren't you?

**Mayor Craddock**—Yes, we certainly are. All the associations are taking those issues up with our state politicians but we also say that the arguments in our submission form part of the basis of this inquiry and, as such, the committee has a responsibility to consider these arguments because they fall well within your terms of reference.

**Senator CHAPMAN**—My understanding of the current arrangements—and I think it has been confirmed by what you have said this morning—is that, in terms of Commonwealth grants to the states, fiscal equalisation applies; in terms of the way in which the states divide up the local government money between local governments within their states, fiscal equalisation applies; but in determining the amount of money from the Commonwealth to the states for local government purposes, fiscal equalisation does not apply.

**Mayor Craddock**—That is correct.

**Senator CHAPMAN**—Has that always been the case? My recollection is that a few years ago the previous Labor government changed the balance and that there was in fact a break-up in the way local government money was allocated between population basis and needs basis. I cannot remember exactly how many years ago but at some time during the life of the previous Labor federal government that was changed to a population basis. Is that correct?

**Mr Comrie**—No. In fact it has always been this way. The formula has been reviewed from time to time in terms of the requirements of the Commonwealth as to how the states distribute their money between local governments. There is a per capita component of that. It is a small component. That has been changed over time but the basis of distributing the money to the states for on-passing to local government has always been on a per capita basis.

**Senator CHAPMAN**—The relationship between the Commonwealth and the states has not changed. What changed were the directions from the Commonwealth to the states as to how they distributed it.

**Mr Comrie**—Correct.

**Senator CHAPMAN**—Would you accept that in effect this issue is independent of the tax reform issue in that this is an ongoing issue that you have had for some time and, irrespective of tax reform, can be argued on its own merits?

**Mr Comrie**—It can be argued on its own merits but we do not accept that it is independent, for one very important reason. Prior to the new tax system the Commonwealth Grants Commission could make recommendations at any time to the Commonwealth government about changing the system. Indeed, in its 1991 report, it suggested the current arrangement should not continue indefinitely. Under the agreement between the Prime Minister and the premiers it is proposed to lock in indefinitely the current per capita arrangement and that is why we say it is absolutely critical that it be addressed now.

**Senator CHAPMAN**—You are asking for some change of administrative arrangements to apply to local government, when, in other aspects of the tax reform package, there are no

changes to be made. In terms of the way in which the revenue will be allocated between the states by the Commonwealth Grants Commission, for instance, there is no change to those arrangements. All that is changing under tax reform is the source of the revenue—it will be coming from a GST. You are asking here, in fact, for a change to the administrative arrangements for local government.

**Mr Comrie**—Correct. We have been pushing for this for some time. That could have always occurred. As I said, in 1991 the Commonwealth Grants Commission recommended that. If it is not changed now, under the current agreement, it never can be changed. That is why we are saying it must be addressed at this point in time.

**Senator BROWNHILL**—The whole idea of the tax reform as far as local government is concerned is that local government will be better off. You will have fewer costs and charges on you by taking off that \$70-odd million of embedded wholesale taxes. You are going to have a better flow of money coming from the Commonwealth government to the states. I have heard your argument which I do not think is really within the ambit of this committee as far as the new tax proposals are concerned.

**Senator MURRAY**—Yesterday we had a very comprehensive question and answer session with Ms Gomez, general manager of the Royal Automobile Association of South Australia. During that discussion, we came to the question of hypothecated taxes. You are all familiar with that term, I presume? The question arose because in Western Australia we have had a hypothecated tax for road construction of 4c per litre which delivered very substantial funds. Broadly, it was my view that it had strong community support. When the High Court came down with its decision, that practice was ended. You raised the question of roads and transport and they are matters that are very important to local government. I asked Ms Gomez whether she would support a move for the Commonwealth to give states the licence to hypothecate road taxes, if they so wished, which I think would get over the constitutional problems but we would have to explore that. Those kinds of suggestions relieve the pressure on local government somewhat. How do you react to the issue of states being allowed to hypothecate road taxes?

**Sue Mihovilovich**—States or the federal government being allowed to hypothecate? Federal government receives most of the revenue.

**Senator MURRAY**—It would be the states.

**Sue Mihovilovich**—We have been campaigning for some time as a whole national local government body, and certainly within states, for the hypothecation of roads taxation for roads funding. We would receive any advance towards that most favourably.

**Senator MURRAY**—Thank you. My second question relates to a figure which I think took the committee by surprise. It was some time ago in Sydney, I think, from the Housing Industry Association. They informed us that the total value of fees across Australia for residential construction, through local government, was of the order of \$5 billion. You have heard the proposition put to you that local government is going to do better out of this package. That same organisation and others have done modelling which indicates anywhere up to about five per cent reduction in housing construction. Five per cent of \$5 billion is, I

think, about \$250 million, knocked off your fees, frankly. On top of that, of course, you have got the GST.

Do you accept the government's estimates that you will in fact, according to the ANTS package, be better off by \$70 million across the nation, or do you, as representatives of local governments in the four states and the territories, believe that you will be worse off?

**Sue Mihovilovich**—From what very little information we have actually been able to receive from the federal government about the methodology used to calculate that \$70 million, we looked at the proportion of funding that Queensland now receives from the federal government as opposed to other states. I think it was about 18 per cent. We divided that amount into this \$70 million to give us a best result of about \$17 million. We then asked consultants to analyse further in more detail the sorts of activities. What they could derive from the methodology was that the assumption was based on a very business private sector model of operation, rather than the sphere of government that local government actually is, and also that it assumed that the savings from the abolition of indirect taxes were actually passed on to the consumer. Our consultants came up with a figure of about \$3 million, at best, that we would be better off out of our share of that \$70 million.

**Senator MURRAY**—It sounds to me from your answer that they began from the premise that they would accept the \$70 million figure.

**Sue Mihovilovich**—Only because that was what was given to us in the tax package.

**Senator MURRAY**—That is the point. This committee has been examining the validity of government figures and has established that, in some instances, those estimates are questionable. I simply put to you: have you examined the validity of that \$70 million? On the pure example I have given you, if residential housing construction falls by five per cent and there are \$5 billion in fees, you are \$250 million worse off across the nation.

**Sue Mihovilovich**—Yes, I agree.

**Senator MURRAY**—I want to know if there is any work underfoot to examine that base assumption in ANTS.

**Mr Comrie**—I have a couple of brief comments. First of all, that estimate of building fees sounds very high. I am not disputing it, but it does sound higher than I would have estimated off the top of my head. We have tried at a national level, through the Australian Local Government Association and in particular the work of Queensland, to verify that \$70 million figure. We have not been able to and we have some doubts about how accurate it is. We suspect it is less than that. Nevertheless, our simple point here today is whether local government collectively, across the nation, would be better or worse off under a GST. In the smaller states, local government is currently worse off, in terms of the amount of money it receives from the Commonwealth, than the bigger states, and the growth in revenues in the GST would give us the chance to address that.

**Senator MURRAY**—If you were to examine that figure and you were to establish that you were substantially worse off, surely that would also mean that you would be clamouring for more money to bring yourselves back at least to where you are at present?

**Mr Comrie**—Correct.

**Mr Wardlaw**—With the Housing Industry Association proposition—whatever the numbers might be—fees received by councils are simply not profits or unallocated revenues. Indeed, when building fees are received, councils incur a considerable expense in the certifying of building applications, inspection of buildings, et cetera. So it would have a knock-down effect on employment and services. It is not just taken off the top of local government income, if you follow what I mean.

**Senator MURRAY**—You are saying you have to look at the net effect, not the gross effect?

**Mr Wardlaw**—Yes; that is right.

**Mr Wood**—You had two questions; one was about the road tax—for the states to fund roads from state taxes.

**Senator MURRAY**—My question was simply: should they be given the allowance to hypothecate if they choose? Not automatically; if they choose.

**Mr Wood**—I have a worry that you would get into the same spot as we are now—that those states with more road users would spend their money on their state, of course, and then people in isolated areas would get less money. I am not sure that that is what you are hinting at.

**Senator MURRAY**—I think I should explain it to you later.

**Senator SHERRY**—Following on from Senator Brownhill's assertion in the ANTS document that you will all be \$70 million better off in totality and from the questions Senator Murray was posing, I understand from what you say—just a clarification—that you have not had access to the Treasury research that contends that you will be \$70 million better off.

**Sue Mihovilovich**—Yes.

**Senator SHERRY**—In Victoria, we heard from local government and I think you said earlier that you agreed with their submission. It was an outline of concerns about the way in which the GST would apply to a long list of services—

**Sue Mihovilovich**—The ALGA submission?

**Senator SHERRY**—Yes, and that included everything from hall hire, to ground hire, to child-care centres, to libraries, to photocopying, to maps, to swimming pools. It included all the sorts of services that local government offer—some offer more than others—and the

administrative cost and complexity of you having to apply a GST to this range of services. Do you share the concerns that were outlined in Victoria about that type of issue?

**Mr Comrie**—Yes.

**Mayor Craddock**—We need to clarify that that was the Australian Local Government Association submission, not the Victorian submission, but we agree with that approach.

**Mr Comrie**—I think the Victorian association was supporting the ALGA submission and we would share those views in terms of the burden imposed on local government for collecting GST.

**Senator SHERRY**—Has each of your associations been able to analyse the way in which the GST will impact on your service fee charges and also the administrative costs? I do not want the detail now but perhaps you could take that on notice and provide us with that information.

**Mr Wardlaw**—We are all at different stages of analysing that at the moment. Some are more advanced than others.

**Senator SHERRY**—By the time we vote on this in the Senate you may have the information and it might be useful.

**CHAIR**—Your equalisation proposal applies, does it not, because the Commonwealth has agreed with the states to deal with this long-running argument in federal-state relations about a state growth tax and has hypothecated the GST to the states. Your argument is not about whether you support a GST or not—these are my words. Your argument is about a share of a growth tax that might be agreed between the Commonwealth and the states. Is that right?

**Mayor Craddock**—That is correct.

**CHAIR**—Let me advise you that your colleague the Mayor of Kalgoorlie will appear before us tomorrow and probably re-emphasise all those points that you have so strikingly made today. I do have to say to Councillor Wood that the potholes around Kalgoorlie are probably bigger than those in the Northern Territory.

**Senator GIBSON**—Following on from Senator Sherry's queries to you about commercial activities, do you agree that it would really be unfair to people you are basically competing with, who provide commercial activities, that you should have a GST or, in other words, a 10 per cent advantage over them? It seems to us in the government that is not a fair situation to be facing.

**Mr Comrie**—If we are advocating a level playing field in terms of grants for needs, then we would also have to advocate a level playing field in the other areas. It is probably where you draw the line. There are some things local government does that are not commercial where we are not competing with the private sector.

**Sue Mihovilovich**—And also, to consider the purpose for which local government conducts its activities and derives a profit.

**CHAIR**—Thank you very much, Mayor Craddock and Councillor Wood and your colleagues for putting the submission forward and being available to answer questions.

**Proceedings suspended from 10.09 a.m. to 10.20 a.m.**

**CHAPMAN, Mr Paul, Consultant, Community and Public Sector Union, State Public Services Federation**

**CHRISTOPHER, Mr Peter George, Chief Industrial Officer, Community and Public Sector Union, State Public Services Federation**

**McMAHON, Ms Jan, Branch Secretary, Community and Public Sector Union, State Public Services Federation**

**SPOEHR, Mr John Douglas, Consultant, Community and Public Sector Union, State Public Services Federation**

**CHAIR**—We resume the hearing with the group of witnesses from the United Trades and Labour Council of South Australia. Do I look to you, Ms McMahon, as the designated hitter on behalf of the UTLC?

**Ms McMahon**—Yes.

**CHAIR**—Our normal format—and I am sure you have been briefed in this—is that we invite you to spend a few minutes giving an overview of your submission to the committee, and then making yourself available, if you would, for questions from the committee.

**Ms McMahon**—We have been asked to put forward the United Trades and Labour Council view of South Australia. I would like to give a brief introduction, and then ask John and Paul to go through a bit more detail of the submission and then, as you requested, we will take questions.

Just to give you some background, the Community and Public Sector Union and State Public Services Federation is the union actually responsible for state public sector functions throughout Western Australia, Queensland, New South Wales, Tasmania, Victoria and South Australia. Our members are fairly diverse and include general staff in higher education, medical scientists, school services officers, professionals such as scientists, physiotherapists, occupational therapists, social workers, engineers, administrative and clerical officers, fishery officers, correctional prison officers, park rangers. We actually look after many public sector functions.

Part of our role and that of the United Trades and Labour Council is that we not only focus on the improvement and maintenance of wages and conditions of public sector workers and other workers within Australia but also we have a social responsibility and actively undertake research into state and federal budgets, employment within South Australia and across the other states in Australia, sale of public assets and outsourcing.

The key points of our submission are: people on low incomes will be up to \$1,000 a year poorer; the public will pay more for government services; there will be a widening in the gap between rich and poor; and we believe that food must be exempted, as mounting evidence shows that low income families and pensioners and those on welfare must spend a much higher proportion of their income on food, making them victims under the proposed

GST. I will now hand over to John Spoehr and Paul Chapman to go a little further through the submission.

**Mr Spoehr**—I am the Deputy Director of the Centre for Labour Research at the University of Adelaide, and I just want to take a few minutes to draw your attention to some of the key issues in our submission. I will touch upon some of the general issues in considering the impact of a GST, and then briefly summarise some of the key outcomes, as we see them, in relation to the impact of the GST on individuals. My colleague Paul Chapman then will touch on the impact of the GST on state governments and state government services.

At the outset, we thought it was important to make clear that we favour a progressive tax system which imposes most heavily on those who are most able to pay. However, in the words of one of our contributors, ‘It is hard to design a progressive tax on consumption.’ There are two main reasons for this. Firstly, consumption is a larger part of the income of poorer people and, secondly, the marginal utility of income also tends to be greater the less wealthy one is.

We believe Australia’s tax system should be built upon a progressive base. Tax reform should be more centrally focused on closing loopholes and distortions in the corporate tax system to minimise tax evasion. Taxes on wealth, combined with a progressive income tax system, are the pillars of a fair tax system.

It is regressive to make a consumption tax central and then seek to modify it to protect those who are less well off. An overreliance upon consumption taxes will disadvantage low income earners, as our report demonstrates.

Another important point to make at the outset is that Australia is, by any standard, not a high tax country with an excessive reliance on direct taxation. On standard measures of the ratio of tax revenue to GDP, Australia is one of the lowest taxing countries amongst the members of the OECD. Similarly, Australia has one of the lowest ratios of public expenditure to GDP of the OECD countries.

I now wish to briefly turn to the desirability of the GST and an assessment of its likely impacts. The results of our investigation can be summarised as follows, and I refer to the effects of the GST on individuals. The government argues that its compensation package will mean that no-one will be worse off as a result of its tax reforms. Our analysis reveals that this result is in doubt for two main reasons. Firstly, it is more reasonable to compare the impact of the GST with a scenario where tax brackets are indexed for inflation and where the expenditure cuts of the first Howard government are rescinded in light of the recent budget surpluses. Secondly, the government’s analysis is also based on the impact of the GST on the CPI, which amounts to the assumption that a tax on consumption has the same effect on all households. This greatly understates the negative impact on poorer individuals.

A more sophisticated analysis which takes account of these matters reveals that many low income households will be worse off. The distribution of benefits, already highly skewed towards the wealthy in the government’s calculation, is even more so in more realistic modelling. Very high income households will be up to \$4,500 better off, whereas some low

income households will experience net losses of around a thousand dollars. The losses are especially marked for low income households with two children where both parents work and earn below \$25,000. It is difficult to estimate how many households will be affected, but recent census data suggests that there are around 730,000 in Australia with incomes below \$25,000. It is safe to assume that a significant proportion of these might be affected by the introduction of a GST. Much more research is necessary to measure the impact in this area.

Some of the policy implications of these outcomes might include: it is extremely difficult to design a compensation package which allows food to be taxed but still maintains equity; and it would be possible to exempt food and to make up for the loss of revenue with a modest scaling back of tax cuts and by applying other compensatory measures. Reason and international comparisons show that there is little credibility to the claim that exempting food would create insurmountable definitional and administrative problems. I would now like to hand over to my colleague Paul Chapman, who will look at the impact of the GST on state governments and state government services. Thank you.

**Mr Chapman**—In looking at the impact of the GST on states, one thing that did come out immediately was that very little research has been done on this issue. What we have found is that there will be some positives and some negatives. On the positive side, the GST funding arrangements suggest increased creditworthiness of states through greater funding certainty, and there are also some areas of cost declines for states and state governments, especially in education and public administration. On the negative side, there are going to be price increases of up to seven per cent for public administration—these are the Commonwealth's own figures—compared with two per cent for the all-industry average, and there is going to be some increase in the vertical fiscal imbalance between the Commonwealth and the states.

On top of that, we anticipate a significant decline in the revenue raising functions of states as they give up taxes and the Commonwealth takes them up. The Commonwealth figuring is that there is a net gain to the states of some \$370 million, and that is largely as a result of the removal of wholesale sales taxes. To put that into some kind of perspective, that is 1½ per cent of the GST transfer from the Commonwealth to the states, and it seems to us that that figure is quite uncertain. It really is at the edge of the bound of certainty. I guess the bottom line for this is that not enough research has been done on this issue in general, and that there is no assurance—we can find no assurance in our research—that the states will actually be better off as a result of the application of the GST. That is basically it, thank you.

**Mr Spoehr**—The modelling undertaken on the impact of the GST on households was undertaken by Professor John Quiggin. I understand he has previously presented to this inquiry and would be willing, at your convenience, to provide any detailed clarification of the modelling undertaken.

**CHAIR**—I cannot be sure, but there may be some questions on the modelling. This committee has become extraordinarily literate in modelling in recent weeks. For the *Hansard* record, there is a compositional change on the committee. Senator Sherry has stepped down and Senator George Campbell will replace him. I do not think there is any other change.

**Senator GIBSON**—You made a comment earlier about wages being adversely affected by the changes. I bring to your attention the first report of this committee—a document that was released last week. I am looking at pages 77 and 78, which is actually the Democrats' synopsis of the evidence we have had to date. It compares the evidence to this committee of the various professional economic modellers. There is a handy table there that gives you comparisons of GDP growth which ran from 0.2—from Dixon—to 1.8, 1.7, 2.5. They are the GDP figures. Over the page are real increases in wages as a result of the package. Dixon's estimate is 1.19 to 1.02; Murphy's modelling is plus 1.8 and Melbourne Institute, plus 4.8. There is no estimate from Access, but Access did estimate that the effect on employment would be an additional 190,000 jobs. I am just bringing it to your attention, because I am not sure whether you are aware of these numbers and these estimates—that in fact this committee has been given substantive, independent, academic research which indicates that there will be significant real increases in growth of wages for employees as a result of the tax package. Have you any comment?

**Mr Chapman**—I have not seen those figures, but I can well believe that such modelling has been done. Perhaps it is a matter of conjecture, but GDP increases seem likely; wage increases seem likely to follow from the GST. The impact on real wages is problematic, surely, but it depends rather on how hard the unions go on recouping the real wage losses because of the price increases, I would have thought. I am sorry; we have not seen the analysis.

**Senator GIBSON**—I bring that to your attention for you to follow up. At the back of our report the appendices contain the main reports from those economic modellers, so if you can get hold of a copy of our report you can get the detail of that.

The other thing I bring to your attention is that, with income tax cuts, surely your members would be attracted to lower marginal tax rates, particularly for lower and middle income groups. Employees in the \$20,000 to \$50,000 income group—that is, most employees in Australia—will face a much lower marginal tax rate than the present 34 cents and 43 cents in the dollar; it will fall back to 30 cents. Don't you see that as a distinct advantage for your members?

**Mr Chapman**—I am sure that that is true for members who are employed workers. Jan commented at the beginning, though, that our research is really looking at the broader social issues, and our concerns with the GST are for low income earners. I take your point, though, Senator, that, for people who are employed in that income range, there will be some benefits, at least on the Commonwealth's modelling, and that seems reasonable. Our concerns lie rather with the poorer members of the community.

**Mr Christopher**—If I could add to that, quite clearly a significant number of workers would be at the lower end of the income scale. As you have indicated, they would receive an income tax benefit—that is recognised and accepted. The concern is that for those lower income earners the proportion of their income which they then retain that needs to be spent on food is significant and would be a greater cost than what they would save through the income tax benefits. While we recognise there is a benefit, the proportion of their income they need to spend on food certainly makes that a disadvantage, in our view.

**Senator GIBSON**—Which is contrary to the evidence, basically, that we have had. Can I just go on to the more general point Ms McMahon was making earlier. Isn't it also true that by having this tax reform and bringing in a GST and thereby guaranteeing a more reliable tax revenue base for the Commonwealth, most of which is of course going on to the states, the states' ability to fund social welfare will be much more reliable than the present hotchpotch of 10 state taxes and the quite messy wholesale sales tax which is getting narrower and narrower as a proportion of consumer economy? Do you agree with that?

**Mr Chapman**—The greater certainty in state funding is a point we do accept, but the net impact on state budgets is minimal, almost zero. I do not think states are in any better position to provide for social welfare for lower income people as a result. The net impact on state budgets is virtually zero.

**Senator MURRAY**—The employment figures and the wage increases are kind of seminal to the judgment as to whether this overall package is good for the economy or not. The extremes of employment generation we have been presented with so far have been by Geoff Carmody, of Access, who said the package could overall create 190,000 jobs, and by Professor Dixon, whose modelling indicated that in certain circumstances the downside was the loss of 100,000 jobs. That is the range. Overall, it is difficult to give plausibility to either of those figures, given the evidence we have to date. But it has been generally agreed that critical to the benefits will be whether or not the employees, the workers, and their union representatives drive for significant wage increases because of a perceived or actual disadvantage arising from the situation. The president of the ACTU made it clear in evidence to the committee that the ACTU thought the package overall was unfair, which is the substance of your submission, and that she would be obliged to maintain at least the real value of workers' wages in the light of this.

It has always struck me that workers' representatives such as yourselves are pretty good at assessing the mood of members and are in touch with members. What is the mood of workers at present? Are they angry about the government's package? Are they apathetic or are they reacting strongly? Are you getting a lot of phone calls or are they just leaving it up to the Senate to consider it? As a contrast, the mood in business is very optimistic and they are saying, 'Get on with it.' What is the workers' mood?

**Mr Christopher**—The situation is that there is not a significant level of debate over the tax issue. What there is ongoing debate about is the question of wages and, in particular, enterprise bargaining. What we are finding is a very high level of dissatisfaction with the ability of the people we represent to secure what they consider to be worthwhile wages outcomes.

**Senator MURRAY**—Stay focused on a reaction to the ANTS package, if you would. I understand the general climate. I need to know how people are reacting to the ANTS package.

**Ms McMahon**—We are about to start having quite a few seminars and to bring people in to talk to them about what the package would mean for them and to seek more reaction. Certainly, there is a view for the majority of workers that they are not in the high income brackets and they do not see it as something that would benefit them. That is a very

generalised view that exists across the board. I do not know whether John has any more to add from some of his research.

**Senator MURRAY**—Let me flesh it out a little. The evidence we have had before us is that the government's 1.9 per cent CPI inflation figure is probably accurate for year 2. But for year 1 there is general consensus now that the immediate impact will be between three and four per cent. CPI pressure does have impacts on real wage demands. The Treasury has advised us that if food was exempted from the GST package, the CPI increase would drop from 1.9 in year 2 to 0.5. So it would be a very significant reduction. Would making food GST free take off a lot of potential wage pressure by workers to be compensated for CPI increases?

**Mr Spoehr**—I think there is little doubt that that would be the case, that there certainly would be decreased pressure for significant wage increases to catch up with the inflationary impact of a GST. I have no doubt that that would be the case, given past industrial precedents in this area.

**Senator MURRAY**—The government's answer to that may well be, 'Look, there's not a lot of agitation out there anyway, so that doesn't matter,' which is why I want to know what the mood of the workers is.

**Mr Spoehr**—If I can add one other point, I think it is important to take into account that the introduction of a GST takes place in an environment of increasing casualisation of the labour force. It is important to take that into account for a number of reasons. One is because demographically we will see an increase in the pool of low income workers as a result of that—more families on part-time or casual salaries—and this is going to be problematic. This is a long-term trend which workers feel considerable pressure as a result of at the moment. For those reasons, I think the reaction to a GST that significantly increases the rate of inflation would be to want to have compensation in terms of catch-up of wages and salaries.

**Mr Christopher**—Certainly from the many meetings that we have attended at work sites with members of not only our union but many other unions who are involved in campaigns, many of the workers' demands for people we represent are based on their judgment about their ability to live on their income. Whether it is caused by a change in the CPI or whether it is caused by some other factor, the underlying pressure which they raise for us to secure benefits for them is based on the fact that they are unable to live or to continue to sustain a lifestyle with their present level of income. Our fear is that if a greater proportion of their income is lost, for example, on food, then their ability to spend money on other things is more difficult. So there is that level of interaction.

**Senator MURRAY**—If the ANTS package was amended by the Senate, and the government agreed to improve income tax cuts/compensation in the lower income areas and to take food out of the GST, that package would be significantly more acceptable to workers than the present package. That is a true judgment, isn't it?

**Ms McMahan**—Yes, that is very accurate.

**Senator GEORGE CAMPBELL**—On the issue of wages, the submissions we had yesterday from the South Australian Employers Chamber of Commerce and Industry, Mr Harrison, also referred to the impact of bracket creep, particularly on those earning between \$20,000 and \$50,000 a year. I think the emphasis he was placing on it was that it would also apply some pressure in terms of wage outcomes. The ACTU, in their submissions to the committee, drew attention to the question of bracket creep, and made the clearest statement that, in their view, the impact of bracket creep and the impact of the GST would far outweigh the compensation packages that have been put in place for workers generally that they represent and that, in their view, workers generally would be worse off and that would generate pressure for increased wages. Is that your analysis of the likely outcome? Do you support the ACTU general analysis of that?

**Mr Chapman**—That is certainly our figuring, yes. We are relying, as John said, on the work by Professor Quiggin. His assessment is that bracket creep—not in all cases; it depends on the income range—in many cases, is going to overwhelm the compensation, yes.

**Mr Christopher**—If I could add to that. I suppose the clear thing from our view is that the disposable income that workers have after the purchase of necessities is really going to be a key factor in any demand.

**Ms McMahon**—So our analysis basically is supportive of the ACTU.

**Senator GEORGE CAMPBELL**—So you think their attitude will generally be driven by their perception of their purchasing power, as well, presumably, by the question of supply and demand of labour in particular industries?

**Mr Christopher**—It would be perception and reality because, in many cases, they may perceive they are worse off, but, if we are looking at disposable income which a family has left, if a significant proportion of their income is actually having to be spent on the necessities of life, their remaining disposable income for other factors is therefore reduced. So it is both a perceived and a real judgment that will be made.

**Senator GEORGE CAMPBELL**—Have you done any analysis of the likely impact of this package on jobs in South Australia?

**Mr Chapman**—We have had only a very limited sense of looking at its impact on state government agencies. To reiterate what I said before, it seems clear that state government revenue collection will decline and, therefore, employment in those agencies will decline. The absolute numbers of people involved we have not estimated. Of course, there are much broader employment impacts than that. I am sorry, we have not modelled them here in South Australia, no.

**Senator GEORGE CAMPBELL**—Have you looked at the impact on small business in South Australia? You have got a lot of small businesses in South Australia?

**Mr Chapman**—No, we have not.

**Senator HARRADINE**—Mr Christopher mentioned necessities of life and the perception of workers of where they are, what disposable income they have after expenditure on necessities of life. In South Australia, is heating a necessity of life? It was not where I was born up in Quorn. But it is certainly a necessity of life in Tasmania.

**Mr Christopher**—It can get cold in Quorn, Senator, can't it?

**Senator HARRADINE**—It certainly can.

**Mr Christopher**—I have seen it frosty in Quorn.

**Senator HARRADINE**—I wanted to come to the question that was raised by Mr Spoehr about food. It is not the only necessity of life, is it? Why are we concentrating on food so much? As I see it, the Melbourne Institute—and I am quoting from our report, and particularly the report of our honourable friend Senator Murray—

**Senator MURRAY**—I hope that was not sarcastic; I would be deeply hurt if it was.

**Senator HARRADINE**—That is a genuine acknowledgment. In the Melbourne Institute's survey, in the poorest 20 per cent quintile, the food represents 24.6 per cent of the expenditure. But housing costs, transport, fuel and power and clothing represent almost 40 per cent. None of those at the moment are subject to wholesale sales tax or any other sort of tax, but they will be subject to a 10 per cent GST.

**Ms McMahon**—Senator, I think you are highlighting areas that we should have investigated had we had a bit more time to research the issue. I think what you are saying is quite valid and I think there does need to be more research and analysis put into those other areas.

**Mr Spoehr**—From our point of view, we would absolutely concur that those are central parts of the essentials of life. So more modelling, more research on the impact of that is necessary to ascertain the impact.

**Senator HARRADINE**—And also the feelings of workers, even if food were taken out. Of course, you know the ANTS package does provide compensation. Have you any comments to make about the level of compensation that is provided?

**Mr Chapman**—The modelling that we have looked at suggests that compensation is not sufficient—particularly for poor people and couples with children. Our broad comment was that it is very difficult to start with a regressive tax like a consumption tax and then figure a compensation package. Our view is that it is much better to start with a progressive tax. I think the issues you have raised show how difficult it really is.

**Senator HARRADINE**—You mention progressive taxes. You are aware that the quid pro quo from the states will be that they share a number of their taxes. Most of those are regressive not progressive taxes, aren't they?

**Mr Chapman**—Indeed that is true. When we are thinking about sales taxes or FID or debits taxes, yes, they are levied the same, no matter what the income of the person taxed. That is quite correct.

**Senator GIBSON**—One point you have made in your submission is about the black economy. At the bottom of page 2, it says:

. . . the GST package will not constrain the ‘black economy’ and on international evidence may boost illegal economic transactions.

Can I just bring to your attention page 150 of the ANTS document regarding the GST where it says that the alignment of business tax payments, the establishment of the business number, the ABN, and the new withholding arrangements will, together, result in more timely receipt of better information and more comprehensive matching capability for the tax office to act upon. The level of integration of the GST into the tax system as a whole will be a key feature of the system.

My understanding is that, bringing those things together through the business number, the ABN, is unique in the world. For instance, in the UK, the VAT is administered by a separate organisation from the tax office. By doing this and pulling everything together, the government expects that in fact there will be a lot more businesses registering and there will be a real tightening up of the black economy. Would you care to comment?

**Mr Chapman**—Our view on this has been that those who want to cheat will continue to cheat and that what will happen is that we will change the name of the tax being dodged; we will not actually increase the level of compliance. I understand the point you are making. It is a new and untried system. We have stated simply that those who want to cheat will continue to do so.

**Senator GIBSON**—I have no doubt there will still be some cheats, but the pressure will be on for a lot of people, who currently exist outside the system, to register and take part in a system. The New Zealand experience when the 1986 legislation came in was that they were expecting, I think, 180,000 businesses to register and in fact they got 280,000 businesses registered and a lot more tax paid as a consequence. Because we are integrating all tax payments through the one system and through this business number, we in Australia should expect a similar result in that direction, shouldn't we?

**Mr Chapman**—Possibly so, Senator. We would go back and reiterate that extra effort put into compliance is something we do support. We think it is very important, but we would start with a progressive system. Let us make sure that people pay their income tax. That seems to us to be the more useful way to approach the problem.

**Senator CHAPMAN**—You indicated in your introductory remarks that you were in favour of a progressive tax system. I am just wondering how progressive you want the system to be, given that in the early to mid-1950s a person had to earn something like 17 times average weekly earnings before they paid the top marginal tax rate. Within the next year or two, unless we have some significant tax reform, people on about 1.2 times average weekly earnings will be paying the top marginal rate. It seems to me that in that context the

income tax changes that are part of this package are a relatively modest attempt to improve what has become an excessively progressive income tax system and, while benefiting taxpayers at all levels, are particularly targeted at low income earners.

**Mr Chapman**—While it is true, from the figures you quote, that as time goes by people have moved up the progressive tax scale, still the total tax take has been declining as a proportion of the economy. I do not think we can argue that the income tax scale is a heavy imposition on people in a way which does not occur in other countries. On top of that we would add that wealth taxes, which is something we also support, are absent in Australia. Only in Australia, New Zealand and Canada, among the OECD nations, are there no wealth taxes. That seems to us to be an opportunity to introduce a degree of progressivity into the tax system.

**Senator CHAPMAN**—You do not regard the capital gains tax as a wealth tax?

**Mr Chapman**—A wealth transfer tax, I am sorry—I am using a shorthand description; what used to be called death duties but are more properly understood as a wealth transfer tax.

**Senator CHAPMAN**—You also said—and I guess you are talking here in terms of total tax take—Australia is not highly taxed in comparison with the OECD. But, given our regional position, our trading situation, globalisation of the economy and the importance of our own region to our future prosperity, don't you believe that we should be comparing ourselves more with our trading partners and those with whom we are competing in this region for investment activity, and perhaps the United States, rather than with the OECD average?

**Mr Chapman**—No, I do not, actually. I think it is important that Australia maintains its membership of the OECD across a range of indicators, including tax levels. Our situation is very different to those of our Asian trading partners. We are in fact the wealthiest nation on earth on a per capita basis. The UN data shows this very clearly. We are very far and away the wealthiest country on earth.

**Senator CHAPMAN**—But you do not accept that we need to further develop our economy by attracting investment and that those investment dollars will in part be determined by the tax structure of the countries competing for those investment dollars?

**Mr Chapman**—I am sorry, Senator, yes I do think that is important. I did not mean to suggest that I did not. But I would reiterate that the tax incidence in this country is very low by comparison with other developed countries, and the advantages that are offered to investors by operating in a developed country are very significant. In some senses the lower tax rates in the rest of Asia are compensation for the poorer infrastructure and the other problems that investors have operating in those nations. We have no trouble attracting foreign investment—I would point that out. It is coming in at a rate at its historical average.

**CHAIR**—I will ask a few questions. Senator Gibson referred you to page 150 of the ANTS package which, if you do not have it before you, is a page dealing with reducing tax avoidance and the cash economy and it talks about how this tax system will reduce the black

economy. Are you aware of the recent study by the *Economist* magazine comparing OECD countries and the size of the black economy?

**Mr Chapman**—No, I have not seen it.

**CHAIR**—Then you would not be aware that it shows Australia without a GST as being in the lower quartile in terms of the size of a black economy compared to other OECD countries all with a GST with a larger black economy, would you?

**Mr Chapman**—No, but it is not really surprising.

**CHAIR**—And it remains to be seen whether this particular formula, if it gets put in place, eliminates the black economy. Are you aware of a principle of taxation which argues that the degree of tax avoidance is related to the level of tax paid and the discretionary income of the taxpayer? That is to say, if you have more money left over after you have met the necessities of life and normal living standards, then your ability to avoid tax is higher than if you do not have that money left over. Are you aware of that principle?

**Mr Chapman**—No, I am not, but it seems quite logical.

**CHAIR**—If you are not aware of it, I cannot ask you some more questions about it.

**Mr Chapman**—I plead ignorance on that, I am afraid.

**CHAIR**—In terms of the level of tax Australia pays compared to other OECD countries, you have put to us—and I think the statistics bear it out—that we are, by OECD comparisons, a low taxing country. Are you aware of a comparison which compares the level of tax raised to the social welfare net that countries in the OECD provide—that is, that higher taxed countries provide a bigger, more comprehensive social welfare provision than lower taxing countries?

**Mr Chapman**—Yes.

**CHAIR**—And in the case of a country such as, for example, Japan, which has a lower level of tax than the rest of us in the OECD—save the new OECD members, South Korea and Mexico—that they have a virtually non-existent social welfare net?

**Mr Chapman**—Yes, that is correct; and, by comparison, some of the European countries are at the other end of the scale.

**CHAIR**—And that the level of social welfare provision is an important consideration when considering whether or not a regressive tax like a GST is properly compensated?

**Mr Chapman**—Yes. These are germane points.

**CHAIR**—We have to report to the Senate by 19 April on what the Senate should do about a package of bills the government has put before us. I see in your submission, and you set it out here, that you support what the ACTU has put to us. But I do not see in your

submission that you are requesting us to do anything more or anything specifically about South Australia. Am I missing something or are there particular South Australian features of your submission you would like to say we should report to the Senate that you have raised with us for amendment to the legislation we will have to vote on?

**Ms McMahon**—We had prepared this as a national submission.

**CHAIR**—So I see it not so much as a United Trades and Labor Council submission but a national submission from the public sector unions—is that the appropriate way of looking at it?

**Ms McMahon**—Yes.

**CHAIR**—Then I put the question back to you from a public sector point of view: are there any public sector union elements that you want to emphasise that were raised by the ACTU or that you want to add to what the ACTU has put to us that we ought to consider and report to the Senate?

**Mr Christopher**—I think the only significant area that we wish to raise is the lack of detailed work that has actually been done to date on the impact that it will have on state public administration. There will be significant changes in what occurs and to the structures of public administration, yet the debate to date would appear not to have spent a lot of time on that. That is one area that we believe more work needs to be done on.

**CHAIR**—I will leave you with this thought and a request that flows from it. We have to report to the Senate what the community of Australia tell us about the bills that we have to vote on. I think it would be appropriate—and I express this as my own view, not necessarily the view of the committee—if we attach to our report to the Senate a list of the changes that community organisations, groups, industry, business, local government and individual citizens who put submissions to us have requested specifically as amendments to be made to the bills that we have to consider. So would you take that on board and let us know if, on reflection, there are some matters that you wish to draw to our attention where you believe the legislation should be changed. I am not encouraging you to find things that you do not want to find. But what I want, and what I think we need to report, is what seriously and in a considered way you believe ought to be changed, so that we can then reflect your views in the report. Would you do that?

**Ms McMahon**—Yes, we will do that.

**Senator MURRAY**—I would like to amplify that point. We have had before us a range of business organisations, and the assumption, generally speaking, is that they are supporters of the coalition. I am not sure that is always true. We have had before us representatives of workers organisations, and the assumption is that, generally speaking, they are Labor supporters. That is not always true. But within those broad approaches, of course, there is overall support for ANTS and overall antagonism to ANTS—and that is broadly true.

Following on from Senator Cook's question, if the ANTS package was amended so that greater fairness was delivered, in whatever way you would conceive acceptable, would it

change your overall opposition to the ANTS package, or do you remain in principle opposed to a GST and the ANTS package regardless of amendments? You might want to take that on notice, but that is really the question, as to whether an amended package would meet your needs. Many business people have argued sometimes that, if their changes are not accepted, they do not want the package at all, whereas others have said that, if their changes are not accepted, they will cop it sweet because they would rather have the package. So I need to know what your attitude is—whether you will remain opposed in principle regardless of the amendments.

**Ms McMahon**—Perhaps we can take that on notice.

**CHAIR**—Certainly. Senator Brownhill has rightly identified the fact that I have neglected to call him.

**Senator BROWNHILL**—I will not hold you up for very long. I think you believe that the tax system at the moment needs reforming.

**Ms McMahon**—Yes.

**Senator BROWNHILL**—Surely a broadly based consumption tax is a fair way, although you say in your submission that you do not think a broadly based consumption tax is a fair way. Could you explain why? Obviously if you are paying a tax on consumption rather than a tax on income, that would help the people in your constituency more than otherwise.

**Mr Chapman**—Our view is that a tax on consumption is inherently unfair for two reasons. The first is because consumption constitutes a greater part of the income of poor people, which seems obvious: they save less and therefore a consumption tax hits poor people harder. The second reason is that the marginal utility of income is different for different income groups: \$10 taken from the pay packet of a poor person obviously hurts them more than \$10 from the pay packet of a rich person. Those two facts combined mean that a consumption tax is inherently unfair, and one has to work very hard to find a compensation package which will make it fair. Perhaps this refers to Senator Murray's point: is there some compensation that would make it fair? Probably there is, but it is going to be very difficult to do.

**Senator BROWNHILL**—So you think the wholesale sales tax system that applies at the moment is fair?

**Mr Chapman**—No, I would have to say that that was also a regressive tax for the very same reason. Reform is required, Senator—there is no question about that. What we would like to see is more emphasis put on progressive tax measures.

**Senator BROWNHILL**—What about the fact of the tax cuts and the point that Senator Gibson made about the threshold being raised? There is the fact that people even on the average wage—I think you said it was about \$38,000—will definitely be well compensated because they are going to have tax cuts.

**Mr Chapman**—I think everybody agrees with that. Our point is that poor people are not compensated sufficiently.

**Senator BROWNHILL**—But you do not want to have any of those tax cuts—in other words, you do not want the package as presented at the moment?

**Mr Chapman**—As presented at the moment we think it is unfair for poor people and we reject it on that basis, basically, yes.

**Senator BROWNHILL**—Yesterday we had an employer group giving evidence that said that, if we do not have a tax reform package very quickly, we are going to have loss of jobs and we are going to find that we are not going to have investment in Australia because people will not want to invest, which would be bad for your constituents.

**Mr Chapman**—We are not against reform. We believe reform of the tax system should be ongoing, that a comprehensive review is required. We are saying as a result of that review we cannot see why this proposal is the one settled upon.

**Senator BROWNHILL**—So you are saying the tax cuts—

**Mr Chapman**—Tax reform, which may involve tax cuts, but particularly targeted to the poor, yes.

**Senator BROWNHILL**—And the compensation for the lower income people or people who are out of work—you are saying that is not good enough? The rest of the package is right?

**Mr Chapman**—Our figuring is, basically, that that is so, yes. We also have expressed concern at the large benefits to wealthy people. We do not think that is necessary. But that is not our prime concern. Our prime concern is with those people on less than \$30,000, especially \$25,000, with two kids. We have made that clear.

**Senator BROWNHILL**—Do you think we will get another chance for decent, meaningful reform of our tax system if we do not take the opportunity now?

**Mr Chapman**—I am sorry, I have not got a particularly strong view on that.

**Senator BROWNHILL**—For so many years we have just dribbled at the edges and have done a bit of a patchwork here and a bit of a patchwork there, but nobody has really ever come up with a proposal to reform the whole of the system and make it more fair and equitable.

**Mr Chapman**—There is no question that this is a comprehensive reform. It is a very large reform. We dispute that it is fair and equitable, and we think that it is crucial that tax should be raised in a way which is fair and equitable. That is fundamental.

**Senator BROWNHILL**—So those tax cuts for those people and the raising of the threshold is not fair?

**Mr Chapman**—They are fine as far as they go. But, simply, they do not address the problems faced by poor people.

**Senator BROWNHILL**—But they are compensated for.

**Mr Chapman**—Not entirely. Certainly not the very poor. Certainly not the poor with children. That is our figuring, anyway. I am aware of the government's analysis, but we consider that flawed in a number of respects.

**Senator BROWNHILL**—I think also a lot of the other analysis that has been done as well.

**Mr Chapman**—Yes. I am aware of some of it.

**Senator BROWNHILL**—They have said that it is fair and equitable.

**Mr Chapman**—Some of it does. We have not done a complete analysis of all the modelling that has been done. But we have given our reasons why we think the Commonwealth's figuring is unsophisticated in a number of respects.

**CHAIR**—You might be aware that the committee has commissioned some distributional modelling to be undertaken by Professor Ann Harding to check the distributional impacts of the cuts and compensation. That report is being worked on. We have not yet got the answers to it, but no doubt it will attract some further comment when we do receive it.

**Senator CHAPMAN**—My question is prompted by your comment to the effect that you were seeking the witnesses to highlight whether there was anything particular in their submission that related to South Australia. I am wondering whether, given that the South Australian economy is relatively heavily dependent on manufacturing industry compared with other states in Australia, they believe that the current wholesale sales tax structure—which is only levied on goods, not services—is therefore unfair to South Australia compared with a goods and services tax which would be levied across all activities of consumption and therefore impact on all states equally.

**Mr Chapman**—Senator, I think you have a point. I think the fact that the wholesale sales tax does fall most heavily on manufacturing is a problem with it. South Australia is relatively dependent upon manufacturing, as you say. It has become much less so over the years since tariff cuts. We would have to say that reform of wholesale sales tax is due. I do not think there is any doubt about that on our part. We only reiterate that we are concerned at the way in which the government is trying to replace the wholesale sales tax.

**CHAIR**—That completes all the questioning from the committee to these witnesses. Can I thank you, Ms McMahon, and your colleagues Mr Christopher, Mr Spoehr and Mr Chapman. The committee look forward to receiving the supplementary comments that we have invited you to make.

[11.21 a.m.]

**BARBARO, Mr Francesco, Australian Options**

**JOHNSTON, Mr Elliott, Member, Management Committee, and Member, Editorial Committee, Australian Options**

**RITSON, Mr Philip Andrew, Editorial Board Member, Australian Options**

**CHAIR**—For the *Hansard* record, the Labor senators will be Senators Cook, Sherry and Campbell for this session. There is no change to the coalition senators and no change to the Independents or the Democrats.

**Mr Johnston**—We would very much like to thank this committee for the opportunity of expressing our view on what we think is a most important question affecting Australian living standards.

Australian Options Publishing Inc. is a community based association created in 1995, concerned with issues of social justice. Its main activity is the publication of a quarterly journal of articles by progressive thinkers. Our rules provide that our subscribers are our members and consequently they control the organisation. I make those points because we are not bound to any one political organisation.

We strongly oppose the introduction of a GST on the basis that it is a totally regressive proposition. It will further widen the income gaps within our society. It will create hardships. Income tax is the Commonwealth's main source of revenue—85 per cent of all Commonwealth tax revenues according to the last ATO report to the parliament. Income tax remains a fundamentally sound source of public finance. It allows for tax to be gathered in a progressive fashion. Those with higher incomes pay higher taxes at higher rates than those with lower incomes.

The present system has, in essentials, been in place for most of the century. It is the legacy of the major parties. It has had the support of those leaders most praised by those parties—by Messrs Menzies and Fraser, McEwen and Anthony, and Chifley and Whitlam. They all supported and applied the current system. Of course, it is naive to believe a perfect tax system can be devised to deal with dynamic social and economic environment. Tax reform, without changing the essentials, is a sensible response to a changing environment.

Our system's present problems arise not from essentials but from what successive governments have failed to do. Firstly, they have failed to maintain the system's progressivity. The rate of tax applied to the highest incomes has been dramatically reduced; similarly with tax rates on corporate profit. Dividend imputation has been introduced. When Paul Keating introduced imputation, he said publicly and in the parliament that it was necessary for the corporate tax rate to increase to the level of the top personal tax rate. Exactly the opposite has happened. The corporate rate has been reduced.

Secondly, successive governments have failed to close off tax avoidance schemes. What I have written here on trusts is 'only now being tackled' but by this morning's paper I could

see that that would have to be subject to perhaps some question. Tax havens, transfer pricing and others remain commonly used tax avoidance schemes.

The official Australian tax office reports to the parliament show that in 1986-87—and we have only taken the highest rates; we can see the same thing from other high rates—11 taxpayers declared an annual taxable income of over \$2 million. Those 11 taxpayers paid \$20.2 million in tax, 53.8 per cent of income. In 1994, 141 people declared incomes over \$2 million. The income of these 144 totalled \$534 million. They paid \$89 million in tax, 16.7 per cent. In the same year, 1994-95, 393,057 people earned between \$23,233 and \$24,947 per annum. They paid a total of \$4.236 million or 17.1 per cent of income. Later figures show that in 1995-96 the number of incomes of \$2 million plus had jumped to 176. They paid slightly less than 20 per cent of their taxable incomes in tax, approximately the same rate as the battlers with incomes around \$25,000.

We claim that the GST is fundamentally regressive in every sense and I underline ‘in every sense’. Firstly, the proposal to abolish the wholesale sales tax will benefit those who purchase the most expensive goods and, secondly, the proposal to abolish 10 state taxes—and that is the only basis on which the GST will be paid to the states—provides benefits to the rich. They lease the most valuable properties, they raise the largest mortgages, they stay more often in five-star hotels and most often move large sums through their bank accounts. There can be no dispute about that. Consequently, abolishing financial institutions duty, debits tax, stamp duties on leases and mortgages and bed tax benefits the well off.

But it is the abolition of stamp duty on share transactions that will put millions into the pockets of the rich without conferring the slightest benefit on the majority of the population. All buys and sells on the Australian Stock Exchange carry stamp duty—30c per \$100. Turnover of shares usually exceeds \$1 billion per day. It was \$1.25 billion last Friday; I do not know what it was yesterday. Turnover per annum will be quite a lot—\$250 billion. Stamp duty on \$250 billion is \$750 million. That is the tax which is paid on share transactions at the moment. The small number of people who consistently wheel and deal on the Stock Exchange are saved a considerable part of \$750 million—not the whole of it, but a considerable part of \$750 million—while bread and butter go up by 10 per cent.

Thirdly, the same GST rate applies to the rich and the poor. But people on lower incomes spend a great deal of their money on goods and services while the wealthy spend a much lesser proportion of their income in this area.

Fourthly, the proposed income tax concessions provide higher tax cuts to those with the higher taxable incomes. High income earners receive the greatest income tax cuts because they benefit from every reduction in their marginal tax rates as their income builds towards the highest marginal rate. For example, an individual earning \$150,000 benefits from the proposed increase in the tax threshold and the proposed reductions in all the marginal rates on income between \$6,000 and \$75,000. A taxpayer earning \$25,000 will only benefit from the increase in the tax-free threshold and the reduction in the lower marginal tax rates. In the absence of a carefully targeted income tax compensation scheme, higher income earners receive the largest absolute income tax cuts.

Finally, this package carries a promise of further reductions in corporate tax rates. This increases the possibility of higher corporate earnings and dividends. To make the GST a fairer tax, some have suggested an exemption for food. Such an exemption would, undoubtedly, make the GST a less regressive tax. Equally, it will add to the GST's complexity. An exemption for food is nothing more than a band-aid solution designed to mitigate the unfairness of a demonstrably unfair tax.

The proposed mechanism designed to lock in the rate at which the GST applies inhibits its potency as a revenue raiser. A capped GST prevents the states tailoring the rate to their needs and circumstances. Without the freedom to change the rate, the states will find it difficult to grow their public services much beyond the current unacceptably low level. A permanently capped public service may have an appeal to those who favour the private sector for ideological reasons. Nevertheless, a new tax system will have to meet the needs of Australian governments of either colour for many years to come. Such deliberately imposed inflexibility represents unnecessary self-imposed hardships.

I conclude by saying that over the last 20 years, Australia's gross domestic product has gone up consistently. But Australia now has one of the most unequal distributions of income and wealth in the OECD. This disparity arose for many reasons; the proposed GST is one more episode in this continuing story.

Australian Options argues that tax reform does not equate with the introduction of a GST. Rather, we support any program designed to improve the income tax system as a fair and efficient raiser of adequate public finance. We propose that the energy devoted to the introduction of the GST would be better expended on genuine reform of the current income tax system.

**CHAIR**—Thank you. Is it intended that any of your colleagues will supplement your remarks or can we go straight to questions?

**Mr Johnston**—No. We can turn to the questions.

**Senator GIBSON**—Mr Johnston, I am sorry I was not here for the start of your address. You have been critical about financial institutions duty—FIDs and BADs—and suggested they should not be removed. Can I remind you that in November 1997, each of the state premiers and chief ministers signed off with the Prime Minister that FIDs and BADs were in fact the highest priority, from the states' and territories' point of view, to be got rid of in being replaced with a GST?

Why? There were two main arguments. Firstly, FIDs and BADs are sending—within the financial market—jobs offshore. Because of them, a lot of financial transactions are taken offshore rather than staying within Australia, so jobs are being exported. Secondly, they are a substantial impost on business costs. We want to encourage business and encourage jobs in Australia. A third important point is that the FIDs and BADs hurt low income people more than anyone else because they are on every bank statement. The FIDs and BADs are subtracting from the small balances in low income people's bank accounts. Hence each of the state premiers and chief ministers recommended getting rid of those as the highest priority. Were you aware of that?

**Mr Johnston**—I was aware of that, yes.

**Senator GIBSON**—And you do not think those arguments apply?

**Mr Johnston**—In the first place, I did not suggest that these taxes had some application only to wealthy people. What I said was that it is the wealthy people who would make the greatest advantage. Obviously, anyone who has got a bank statement will get some advantage by the cancellation of FID. But our point about all of those taxes is that the big advantage goes to the wealthy. Secondly, I think the attitude of the premiers was probably influenced by their desire to get the GST. I do not pretend to know what moved all of them, but that, I think, is fairly self-evident.

Thirdly, a lot of these international monetary transactions are not transactions relating to production or to the provision of manufacturing and goods and services, but are speculative. I think it is generally agreed—at least it is put by many eminent writers on the question—that at least 80 per cent of the international movement of money is speculative. And that is indeed one of the greatest arguments for the introduction of what is called the Tobin tax. I can understand that those speculators want to get rid of the FID and so on. But I do not think it has got very much to do with the interests of the Australian people and I do not think that it has got very much to do with the encouragement of employment. They move their money in and they move their money out tomorrow.

**Senator CHAPMAN**—Mr Johnston, you also referred to the abolition of stamp duty on share transactions as being of enormous benefit to the wealthy. As I understand it, some 40 per cent of adult Australians directly own shares. Perhaps even more significant than that, Australian institutions own the overwhelming majority of shares in Australia and would be the organisations or groups that mostly are involved in share trading. As you are probably aware, the institutions that own shares are, by and large, superannuation funds, pension funds, holding the retirement benefits of low to average income earners in Australia. Therefore, isn't it fair to say that abolishing stamp duty on these share transactions, by enhancing the capacity of those institutions in particular to operate more efficiently in their share transactions without penalty, will benefit not just the wealthy but in fact the overwhelming majority of the Australian population?

**Mr Johnston**—On your first point about the number of Australian people who own shares, there is quite a bit about that in this morning's paper, and it is suggested that five million own shares. It also appears in this morning's paper that two million of those people own, and own only, Telstra shares as a result of the government having sold off at a price which was very, very low compared to their present market value. So two million of those people own Telstra shares—and only Telstra shares.

Another high number—and I do not think the number is stated in the press, but it is said to be a very high number—own CBA shares for exactly the same reason—that they were sold off at a low price, and most of those people own either only CBA shares or a small number of shares. Those people do not trade in shares to any extent at all. I am not suggesting that people who sell 100 or 200 Telstra shares, as the market now stands, will not gain some benefit from the abolition of the tax, but it will be a very, very small amount.

That leaves the other question that you raise, that a large proportion of the shareholding is held by trusts. The first point I say about that is that a large proportion of the trust holdings is held by very wealthy individuals. Secondly, it is true, as you say, that a considerable number are held by superannuation funds. I think it is important to note that that proportion will probably go on increasing, and we would hope that it does so that it increases the percentage of Australian ownership of Australian resources, manufactured goods and services, and so on. In so far as it is owned by superannuation funds, they will gain some benefit from this, and we are not opposed to that.

We are not saying that any of these things is necessarily wholly bad. But what we are saying is the demand that the states abolish eight taxes as the price of getting the GST will in fact benefit, to the greatest possible extent, the wealthy. And, incidentally, the extent to which the wealthy own those shares is shown in those 1985-86 and 1994 figures that I quoted about tax. The difference, of course, between those two figures—there are many differences, but the most significant difference—is the introduction of the dividend imputation. It is that which played the greatest part in reducing the tax percentage from 56 to below 20. And that is an indication, in a rough way, of the extent to which the wealthy own these shares.

**Mr Barbaro**—I just want to add, in relation to this undoubtedly greater activity in the share market, with maybe the ‘mums and dads’—as the Prime Minister likes to refer to them—also being involved in share dealing or share buying, that we are living at a time where activity in that area is very precarious. All economists agree on this and are waiting with bated breath as to which of the economists can pick when the corrections will occur. There is no doubt that there has been an upsurge in the bull markets, but when these corrections happen, as they have happened in various parts of the world, it will be the mums and dads of the world who will suffer the consequences—and there are no safety nets there. There is an old saying of economists that during bear markets wealth goes back to old money. I think it is self-evident why that is the case.

The other point that the senator made in relation to superannuation funds is a very critical one, one which I do not think we as an Australian community have paid enough attention to. At the initial stages of the move towards a more superannuative type of system for retirement, there was talk about value investments, productive investments, socially worthwhile investments. I do not think that it is very healthy for people who are dependent on superannuation deposits for their retirement that much of it is tied up in speculative investment. That has been the trend worldwide. There has been a reverse from 20 years ago, when the ratio was 20 per cent speculative to about 80 per cent productive investment, which are the figures that are often quoted. With the reversal of that ratio, it means that the risks to people whose retirement money is tied up in that way are much greater.

The other side of the coin in terms of that ratio is the fact that we are producing a lot more of our goods and services with less resources, less input, which is probably one of the explanations why there is a lot of speculative investment about. There is money about. We are more wealthy, as we indicated, in relation to the growth in GDP in Australia over the past 20 years.

**Senator CHAPMAN**—In the second paragraph of the second page of your submission, you appear to be lamenting the end to bracket creep as causing a loss of growth in personal income tax revenues. Most people would regard bracket creep as a tax on inflation rather than on real income, and an evil. Why do you seem to be sympathetic to bracket creep or regard it as somewhat beneficial?

**Mr Johnston**—I am not quite sure what you are referring to, Senator.

**Senator CHAPMAN**—You talk here about various government initiatives that have reduced income tax and, among those, you say that because governments have succeeded in reducing inflation, bracket creep has ended and that that is one beneficial source of income tax revenue. I would have thought it was a most unfair and unreasonable source of income tax revenue.

**Mr Ritson**—The point we were trying to make there was that bracket creep as a phenomenon created a mechanism for the Commonwealth government to grow its income tax revenues. We did not make a judgment whether that was a good thing or not. I think most of us would believe it was a fairly dishonest mechanism; nevertheless, it was a mechanism. The only point we are trying to make is that, with a reduction of inflation to its current lower levels, that mechanism is gone and governments, if they wish to grow income tax revenues, are left with only the honest alternatives.

**Senator CHAPMAN**—I am glad you agree with me on that.

**Senator MURRAY**—I will start by saying that one of the privileges of serving on committees like this is to have people such as yourselves provoke ideas. It is very useful in amongst the interest groups, the business groups, the labour groups and others that we have before us to have the views of a think tank such as yours. It is very helpful and I hope we will have some more, such as the Evatt Foundation and the Menzies and other think tanks that exist outside.

I would like to go to something which seems to me to be at the core of your approach. Do I understand the principle underlying your approach is that you would rather there were no indirect taxes, or at least no indirect consumption taxes, at all?

**Mr Johnston**—I think I can speak for all of us and say yes.

**Senator MURRAY**—I understand that; I think that has integrity. I have never understood the halfway position, that you can tax goods but not services. If we move on from that, I pick up three principles, and I will go through each, if I may. The first is your belief that the tax system should focus on progressive taxes, such as income taxes. That would be correct, wouldn't it?

**Mr Johnston**—Yes.

**Senator MURRAY**—I rather like the phrase you have in here—‘The foundation for any tax reform must be the ability to fund a democratic, fair and civil society’—which I think is eminently quotable. To produce such a society you believe there should be some

redistribution of wealth from the wealthy to those less advantaged in our society. That would be true, wouldn't it?

**Mr Johnston**—Yes.

**Senator MURRAY**—The third proposition you are putting to us, I would suggest, is a plea to the Senate and to the government to move on from the ANTS package and the Ralph package to in fact review the broader issues of speculative transactions, of international tax inequities and of areas of taxation which have been neglected but which deserve at least a proper debate, such as wealth taxes and so on. Is that correct?

**Mr Johnston**—Yes.

**Senator MURRAY**—You made some remarks in your paper about comparative tax systems. It is true, is it not, given our status and interaction within the OECD, that by and large there is some inability of Australia, if you like, to have tax systems which are fundamentally different to those of the rest of the world. Would you agree with that remark, even where there are inequalities and inequities that arise from it because of the mobility of capital, for instance?

**Mr Johnston**—Might I just go back to one of your questions which I think I did not fully correctly answer, that is, that we certainly put the emphasis on progressivity. But there is room, and I think abundant room, for certain taxes being raised in the interests of the society as a whole—for example, taxes which are directed against people who have interfered with the land around us and that sort of thing. I think that they should be required to contribute something towards the cost of restoring damage that has been done. Also, I think that with some goods like cigarettes and a number of other things a special tax can be justified on the basis of the interests of the community in maintaining health and so on. I thought I should just make that point.

**Senator MURRAY**—So it is not an absolute rule; it is a principle.

**Mr Johnston**—Yes, it is a principle, not an absolute rule.

**Mr Barbaro**—I do not know if I understood the senator's question correctly, but from my understanding it appears that there is a sameness in the approach that governments overseas are taking in relation to funding their public expenditure. What is interesting, too, is that I heard some comments of senators on the previous submissions about the need to look towards promoting exports and towards matching ourselves with our trading partners. I am very mindful that governments today, whether they are in poor or rich countries, countries which are strong exporters or weak exporters—and Japan is the most successful exporter in the world, yet it is in trouble for the very reasons connected to its success—need government intervention at a time when the global economy seems to be rendering governments less capable of intervening.

We are quite conscious that in 1988 there was a program initiated in Australia which had some basis in government policy for what was described as the large case audit program within the Australian Taxation Office. The Commissioner for Taxation in the 1991 report

described this experience of the large case audit program of the top 100 companies as a 'conspicuous success', although only one-quarter completed. A couple of days ago I attempted to read subsequent reports to find out what had happened in the pursuit of the other three-quarters, and what the experience was. I might have missed it in reading it because it was a very cursory consultation of those reports.

In approaching tax reform for Australia, I think we need to remind ourselves, and definitely the parliament needs to remind itself, that as an economy, as a nation, we have never been richer, and it is within that context that we need to consider tax reform. We need to look at the areas that have been abandoned and which were key elements of a progressive taxation system rather than say, 'Okay, we are having difficulty in collecting this tax' or 'Somebody does not want to pay their tax, so we need to concoct some other system.'

**Senator MURRAY**—My last question is in this area. You have quite properly put, in my view, emphasis on the speculative nature of economic activity—what I call the transactions area—and you mentioned two names with regard to that. The first was Professor Tobin, who has advocated a speculative financial transactions tax, and the second was Noam Chomsky, who has made remarks, as shown in your paper, relative to the inequity which has arisen from international financial activity. Both those commentators are very acutely aware of the mobility of capital in the modern world.

There was a third name brought out recently by the Evatt Foundation, John Ralston Saul, who has outlined the fact that, of our top 100 economies, 50 are companies. All three of those writers recognise that to really address the mobility of capital problems and the ability of wealth to flee from tax jurisdictions you have to create an international taxation jurisdiction which does not currently exist. Tax treaties are simply about what happens in one country and what happens in another. There is no international taxation jurisdiction.

Is it your belief that Australia should try and take a leading role in creating a climate in which the OECD contemplates an international taxation jurisdiction to address these problems which currently our government and the previous government believe they are incapable of addressing because of the mobility of capital?

**Mr Ritson**—I think it is a proposal that we would support but, by the same token, it is a proposal we have not given much consideration to, either.

**Mr Johnston**—I would like to add something to that. I agree with what has just been said, but I think that at the same time as we show an interest in pressing for an international agreement we should show an interest in developing the most equitable and fair system in our country. That way we send the right signal.

**Senator SHERRY**—On the second last page of your submission, right at the end you state: 'If Australia is to have a GST, an adequate compensation package must accompany its introduction.' With regard to the emphasis on the 'adequate compensation package', whatever that may be, don't you see a danger that, at some future date, future governments will change or erode it so that even if lower middle income earners could be successfully compensated—personally, I do not think they can—part or all of the compensation package will be removed, as has happened in New Zealand?

**Mr Johnston**—It is very difficult to write a relatively short article about something. That is subject to misunderstanding. We are against the GST. All we say is that if, despite our opposition, all our arguments and so on, there is to be a GST, then there ought to be proper compensation. But one of our articles, which is to be found in that issue of *Australian Options*, is written by a lady, whose name now escapes me, who was an adviser to the New Zealand government. She makes the point that it is precisely the compensation aspects of the deal which, as you have said, have not kept up with the reality. Her name is Julie Smith, incidentally. She makes that point. You introduce a GST with some compensation but, as years go by, it is the compensation which is not kept in line with the new reality.

**Senator SHERRY**—This is more of an observation on which you might care to comment: one of the claims which the current government makes for the support of a GST is that we need to ensure a constant flow of government revenue in order to fund social welfare, at the same time cutting back very dramatically on social welfare. It seems to me that that is a contradictory argument.

One other question was raised, I think, by Senator Murray, about indirect taxes like wholesale sales tax. Isn't it true that some indirect taxes, at least, can have elements of progressivity in them, and that the wholesale sales tax, whatever one thinks about the base of collection, has different rates of collection, is relatively efficient, because there are so few points of collection, and you can have indirect taxes such as a wholesale sales tax which are progressive in their application if you design them properly?

**Mr Ritson**—In Elliott's opening statement one of the points he made was that a substitution from a wholesale sales tax to a flat rate goods and services tax is, in our view, a regressive step. Yes, you are right; it is difficult to go through general principles and then try to find the specifics. As a general principle, we do not like expenditure taxes because, by their nature, they are regressive. But we do accept the point that the wholesale sales tax can be made progressive by tailoring the rate to particular goods and looking at which sections of the community consume those goods. That is why we regard a substitution of the GST for wholesale sales tax as one more regressive step.

**Senator SHERRY**—And in the same way taxes on financial transactions can be made quite progressive by having a scale of rates and also just by the sheer fact that, for example, in share transactions, if you looked at share ownership, wealth and the level of transactions, I think there would be a correlation between those.

**Mr Ritson**—Especially if you remember the point that stamp duty is a tax on share transactions; it is not a tax on share ownership. Whereas I think the point was made earlier that 40 per cent of Australians own shares. I would not argue that 40 per cent of Australians were out at the stock exchange yesterday trading shares. With regard to the superannuation schemes, most of the portfolios they hold tend to be stable. If adjustments are being made, they are made at the margin, if they are properly managed. Share transactions are not as widely spread as share ownership.

**Mr Barbaro**—In relation to compensation, prevention is always better than cure. It seems absurd to us that we set out to devise a tax system, when we do have other options,

that actually necessitates compensation, with no guarantee that the compensation in five years or 10 years is going to be able to be sustained by a government.

**Senator GEORGE CAMPBELL**—The cornerstone of your argument, in terms of your paper, is this issue about progressivity of the tax system. Would you say, in respect of, say, the provision of concessional taxes, like accelerated depreciation, investment allowances, concessions on investment, venture capital and so forth, which are specifically targeted at achieving outcomes, that they should also be abolished, or is it your view that they are consistent with the provision of a progressive tax system?

**Mr Ritson**—We talked earlier about bracket creep being a dishonest way of raising tax. I find it interesting that you mention accelerated depreciation schedules, which are, in fact, themselves a dishonest way of passing on subsidies in the form of tax savings to corporate taxpayers. If you look at the financial statements of most corporate taxpayers, they are carrying huge deferred tax liability balances. Those are taxes that would be applied on income that has been earned but not taxed yet, and it is purely those mechanisms that you mentioned that are driving those deferred tax liabilities.

Whilst I can see they have been put in place to promote economic activity, they are conceived of and offered as a subsidy, but they are conceived of and offered in a way that is very underhand. I do not think that the average Australian pay-as-you-earn taxpayer understands that when the government increases the depreciation allowance for a piece of equipment, what it is providing is an interest-free loan against the tax system that says to that corporate taxpayer, ‘You can now delay your tax payments to a later date without penalty.’

**Senator GEORGE CAMPBELL**—Are you arguing that we should be abolishing those types of taxes?

**Mr Ritson**—They should be replaced with more open, more honest and more visible forms of industry support, if that is what a government wishes to do.

**Senator GEORGE CAMPBELL**—In the form of direct grants, tax credits?

**Mr Ritson**—At least it would be honest. At least it would be visible.

**Senator GEORGE CAMPBELL**—How do you see the relationship between the ANTS package and the business tax review, the Ralph report announcements this morning? Do you think it is reasonable that the Senate should be in a position of having to consider one-half of the equation without having the benefit of a full examination of the other half?

**Mr Johnston**—We have not seen the Ralph program. We have only seen what the newspapers give to us and what they stress, which may not be the whole story, so we make that point first of all. I think the main point that we make is that it is time to sit down. We made the point that you cannot have a tax system which does not need some changing and some reform from time to time, with changes in the economy, the social outlook and so on. It is time to sit down and discuss the whole system, and not to go off at a complete tangent to adopt a system which is, in itself, fundamentally regressive and which is fundamentally

regressive in many of its particular aspects, as I tried to show, such as the abolition of the 10 state taxes and so on.

We are, of course, open to the argument that all sorts of proposals, if put forward in a particular way and applied in a particular way, may be quite defensible. But we think that that can only be achieved by sitting interested people down to look at the broad aspects, not by getting a report from Mr Ralph or somebody else which might be quite interesting in itself but which is designed to serve the interests of a particular government, whichever government that is.

**Mr Barbaro**—I do not want to appear simplistic, but in looking at the trend over the past 20 years it appears that the attitude towards business and industry has been one of a public policy that encourages—and I do not know whether that encouragement has brought fruits—whereas the one in terms of funding our public expenditure, or facilitating the maintenance of Australian living standards, has come about through public intervention. I think we made the point in our submission that over the past 20 years, according to OECD figures, Australia has gone from having a top ranking to having a bottom ranking, and this has not happened simply through some market forces.

The people on higher incomes who are going to benefit from the ANTS package will benefit and become wealthier not because they worked harder, not because they were more enterprising, not because they invented something, not because they improved their service, but through government intervention. In the Ralph inquiry—as I said, I only glanced at what was reported in this morning's paper—there seems to be the potential for that trend where the attitude towards business and industry is continuously one of trying to encourage investment. But the trend in relation to ordinary income earners and people who do not earn incomes, because we have the phenomenon of permanent unemployment—and our view is that unemployment is the public enemy No. 1 and that we need to deal with that issue—is one of coercion: an indirect tax of 10 per cent flat and we will try to pick up the tabs after we have caused the problems. We think that that is a recipe which goes against some of the principles that have guided the development of Australian living standards which were, as I said, amongst the best in the world.

The other interesting aspect that you touched upon is the question of development. It appears to us that we have a situation around the world where we are seeing a breakdown of the old Third World and the old First World, where within the First World there are pockets of Third World. I was born in Italy and Italy has its Third World, which is its south. So what we are starting to see in the pattern of economic development that is being driven by the global economy—and in the global economy today there are also Australian companies that choose to go offshore—are countries like Italy, which has its south; countries like England, which has its Third World in its industrialised north; and the emergence of pockets of the First World in Third World countries.

So the old parameters of development no longer stand, and I think that there is a case for government intervention which brings about a greater degree of equality. This is not to say that there is necessarily a conspiracy theory within the business world or within the financial markets, but obviously they are driven by different objectives. The objective of government and parliament is one of enhancing the civil society, of diminishing the wealth and income

disparity. But there are undeniable trends appearing of increasing disparity within Australia and within First World countries.

**Senator GEORGE CAMPBELL**—I think what you do about those north-south issues is probably an inquiry in itself—quite apart from this one. As I understand it—and correct me if I am wrong—you are basically saying that this package ought to be thrown out and we should start the process again?

**Mr Johnston**—Yes, that is right.

**Senator GEORGE CAMPBELL**—Do you see any series of amendments or changes that could be made to this package that would turn it, or could turn it, into a progressive set of proposals for a reform of the tax system?

**Mr Johnston**—No.

**CHAIR**—Senator Campbell just asked you the question I was going to ask you, because there appear to be no recommendations in your submission. I was going to ask what you wanted us to do, based on what you have put, but it appears to me that, given your opposition to the GST, you would ask the Senate to vote down the package of bills that are coming forward.

**Mr Barbaro**—There is an inherent recommendation in our submission—that is, that we do have the core of the income tax system to give us something to work on so that we do not necessarily have to start from scratch. But I think the guiding principle behind ANTS is that we need to rewrite everything.

**CHAIR**—Could you just articulate for me what you would say to the Senate about that inherent recommendation?

**Mr Ritson**—If we need tax reform, fine, but tax reform is not spelt ‘GST’. There are other ways to reform the tax system than this and there are better ways to reform the tax system than this, and it is time we started looking for them.

**Senator SHERRY**—And the Labor senators will oblige you!

**Senator MURRAY**—To follow up on that, a view has been put—not widely, but it has been put—that it is possible to introduce the government’s income tax cuts without introducing a GST; that you would have to make some adjustment to the scale of those cuts but that income tax cuts, which are largely to be funded from the surplus, could still be applied. Would you be telling the Senate to reject the GST but to attend to the income tax cuts and the bracket creep issue?

**Mr Johnston**—I do not really think we have turned our thoughts primarily to that. Our fundamental position is that we are against the GST. I think our further attitude would be that, rather than introducing the tax cuts at this stage, which might be justified in relation to some of the lowest areas of income, basically a more fundamental review of the taxation system should be looked at. But in relation to the very lowest areas of income, we might go

along with the introduction of the tax cuts at the present time. We believe in what Senator Meg Lees said—before the government ever brought out its fundamental position but when it was allowing its ideas to be circulated through the press—that we can achieve much of what is to be achieved by changes to the income tax system without a GST. In particular, we think the income tax rate for companies and the income tax rate for the very much better off sections of the community have to be looked at again.

**CHAIR**—I have to say that that is not the Democrats' position at the moment, as I understand it. It may have been a view expressed by Senator Lees at the time, but it is not the formal position of the Australian Democrats, as I understand it.

**Senator MURRAY**—I should clarify that: we do put income tax cuts as a priority ahead of the indirect tax system changes.

**CHAIR**—I will not delay the proceedings, because Senator Brownhill has not had the call yet and I am sure he will want to ask a question, but this discussion that has just been entered into is very interesting. What is put to us is that there is a package. Part of that package is a GST and other parts of the package involve changes in taxes and tax cuts.

The modelling that this committee commissioned from Professor Dixon of Monash indicated that a stimulus to employment is achievable by the fiscal stimulus inherent in the package and that that is funded in the main, though not entirely, from taking funds from the budget surplus and could be proceeded with immediately irrespective of there being a GST. It is not dependent on the GST. The GST goes to the states as a growth tax and removes a number of other taxes, as has been referred to. But you could achieve, if you proceeded alone without fiscal stimulus, an immediate reduction in unemployment. That is one of the findings of the independent modelling work which this committee has commissioned, and has been presented in evidence and embodied in our first report. Interestingly, it was not work that Treasury did when, as the adviser to the government on these policies, you would have expected them to have at least canvassed that. But this is the discussion we are now heading toward. I put that summary of it on the record so that it is properly positioned in the *Hansard* on this matter. I see, Mr Johnston, that you are leaning forward to speak. I will allow you to speak and then I will turn to Senator Brownhill.

**Mr Johnston**—I just want to say that we thought that what we were addressing was a broad proposition from government that involved the GST. We did not think that the government was putting forward a proposition for tax cuts which was independent of the GST, so maybe the tax cuts would be, in at least some of the cases, quite defensible and quite desirable, but we did not think that that was what was on the table.

**CHAIR**—Well, part of what is on the table is tax cuts because that is part of the package, and we get into this argument that is sometimes best articulated by the Treasurer that this is a take-it-or-leave-it package. You take the lot or you leave the lot, and if you are advocating leaving the lot then you are responsible for denying tax cuts to ordinary Australians. So goes the argument, as I say, best articulated not by me but by the Treasurer—

**Senator BROWNHILL**—A very good argument.

**CHAIR**—There would be others of us who would say, ‘That is not true; the package is not dependent on the GST exclusively.’ And, if you disassemble the package and look at the component parts that make it up, maybe there is a chance to say, ‘Well, if this amount of surplus is going to be directed to reducing taxes or ameliorating bracket creep, it should be done anyway—and immediately if it has an employment effect.’

The question we debate on this committee is: is it a take-it-or-leave-it proposition as is put to us, or can the Senate discriminate as a house of review and say that parts of the package might take a different form? On the Labor side, we might say, ‘Let us knock the lot off and start from the ground up.’ Democrats might say, ‘It is possible to engineer change within it to make it fairer.’ That is the nature of our debate internally on the committee.

**Mr Ritson**—On those proposed tax cuts, can I say that, in the absence of a GST, surely it is simply a question of fiscal policy? Whilst obviously there is a link between the two, I do not see why the link between fiscal policy and tax reform is so great that one should be dependent upon the other.

**CHAIR**—The meaning of reform is another debate entirely.

**Senator BROWNHILL**—This is just about the most comprehensive look at the tax system I think we have ever had, and I have to take up what Senator Cook said about maybe knocking it all off and starting again—that is what the Labor party proposal is, anyway. The point, of course, is that when the previous government was in power wholesale taxes were raised from about \$3 billion tax take to about \$13 billion tax take without any reference to the community. This puts a much fairer look at those indirect taxes by having a GST, rather than a wholesale tax which escalated, and nobody ever seems to bring that up when they sit here across the table. Nobody had a whimper or a cry at how those taxes were raised. But I believe that it is a whole package, because you have to fund the package. It is all very well for people to say that we will have tax cuts, but where do you get the tax cuts from unless you have a much fairer and more equitable tax system?

I appreciate the points of view you have put today, and that is all very well, but you need a fair tax, which GST is, because it is a tax on consumption, a tax on expenditure, rather than a tax on income. That means that, if you have the money to spend, you pay tax; if you do not have the money, you do not pay tax. With this, you are going to have more money in your pockets anyway, because of all the tax cuts. So I cannot see why—and I have to take him to task for this—Senator Cook wants to knock something off that actually looks at tax reform when he had about 13 years to do something about a new tax system and never did a damned thing.

**Mr Johnston**—I would like to answer at least the first part of your proposition. You said that this is one of the most widespread or some such word—that was not your word exactly, but that was the—

**CHAIR**—He said ‘far reaching’.

**Mr Johnston**—and thorough examination of the tax system. I do not agree with that. I think that is very wrong, and I think that it is demonstrably—

**Senator BROWNHILL**—I am disagreeing with you.

**Mr Johnston**—Yes, I know.

**Senator SHERRY**—You are the witness, so you had better go back at it.

**CHAIR**—We are getting involved in a discussion here rather than questioning. I will let it go, but I do point out that we have another witness.

**Senator BROWNHILL**—If you have a fully costed new tax system—call it reform or a new tax system—surely that is better than we have had in the past where people have tried to patch up a system that has not been working in a fair and equitable way for everyone?

**Mr Johnston**—I do not think that is true. I do not think it is true that it has not been working in a fair and reasonable way. I think it is true that there have been lots of things that could have been done better, but a lot of things were done well. I think this review of taxation has proceeded really behind doors without any input from the broad community. It has just come up with this proposal for a GST. The government knows that the only way of getting the GST through is by making some concessions on income tax, and so it has put forward those concessions. But our position remains that this tax is fundamentally regressive in all respects.

**CHAIR**—Thank you very much, Mr Johnston, Mr Barbaro and Mr Ritson. That concludes this part of the evidence. Thank you for your assistance to the inquiry.

**Mr Johnston**—We would like to thank you very much for allowing us to be here and giving us a very fair hearing.

**CHAIR**—Thank you, indeed.

[12.30 p.m.]

**TRAUTWEIN, Mr Michael Peter, Deputy Chairman, Australian Fresh Stone Fruit Growers Association**

**CHAIR**—Welcome. The normal procedure is to invite you to give an overview of your paper and then, if you would, to make yourself available for questions from the committee.

**Mr Trautwein**—Yes, that is fine. I will try to keep it as brief as possible, with lunch coming on, and keep it snappy. The Australian Fresh Stone Fruit Growers Association is not opposed to tax reform; it is quite supportive of tax reform. But it needs to be recognised that there will be winners and losers amongst industries—some will win; some will lose—and it is what is going to happen to those losers that is so very important in this debate. It is going to be potentially not only the poor people that may lose or the lower income people, as claimed by the opposition, but businesses in rural Australia.

The underlying thought of any economy—as the Prime Minister recently commented—is that economics is not the most important thing in society. It is the overall welfare of society that is important. So, with these thoughts in mind, I will go through the six key points that, as an industry, are of concern to us.

The first one is the change in price points in retail outlets of fresh produce versus our competitor—snack foods such as chocolate bars and confectionery. Much fresh fruit, particularly stone fruit, is considered a snack food by consumers. They do not sit down and eat it at a meal, or very rarely. They usually sit down and eat it for morning smoko, in the middle of the afternoon or in front of telly at night. They also equally sit down and eat chocolate bars and biscuits, which currently attract a 12 per cent wholesale tax. Our competitor products are going to get a leg-up. It is of great concern to us that we will be disadvantaged in a new tax system.

There is a health issue here too. I am sure we do not want more people eating more snack confectionery items and having their health issues addressed. Surely we want people to have a healthier diet. The cost implications on government of health care will come through a poor diet, and people are price conscious.

The second issue we have is that we see this as a tax on labour. Our industry is a labour intensive industry. When we value add and we pass on our price to the next person in the chain, we will in effect be paying a tax on the labour we employ. In the case of our industry, labour represents, on a \$10 item that we sell, roughly 50 per cent of the cost. Or, to look at it another way, 35 per cent of our costs are currently items where we receive a wholesale sales tax exemption. That is the portion of a \$10 item that we could claim back that we would pay a GST on. We could claim back 35c out of a dollar of GST. We would collect from the people we sell to, but in effect it would mean that we would be 65c short in every \$10. It is of great concern to our industry.

Agriculture cannot be lumped together in one hit. The grains industry would have the reverse effect from us. They would benefit greatly from a GST because a significant part of their costs are in such areas as freight and transport where it is not so in our industry.

The other point we need to make is that 90 per cent of our inputs are currently wholesale sales tax exempt. So being able to claim back the GST is not of real benefit to our industry.

There has been limited tax modelling on fresh produce and the effects in supermarkets and retail outlets. The banana industry has done some modelling. But it seems that they have taken some other outside factors and have not considered the effect on price point changes with snack foods.

The other driving point about the tax reform is that export items would be tax free. If I sell the product to an exporter, he is tax free in his business and does not have to pay the GST. But I will still have to pay that 65c difference. So unless the system says I can claim back that 65c somewhere along the line, because it eventually gets exported, I am severely disadvantaged. We will have a new cost in our export drive.

The sixth point is that stone fruit production is a long-term investment. It is a 10- to 15-year investment strategy. As businessmen, we are making decisions today on the current parameters that we can make business decisions on. So a lot of stone fruit growers have made decisions based on the current tax system. The cause of this may well be a restructure of unprofitable businesses because they are disadvantaged. How are we going to deal with those issues of compensation or structural reform? The last time this happened in horticulture was with the brandy excise. I am familiar with that because we grew grapes for brandy. Those crops became unviable and we had to remove them. There was assistance at the time but it was not viable assistance.

I would like to go on to what it is that we need to get out of this and the things that our industry will be looking for. One of the areas that is not considered in this new tax reform is the issue of payroll tax. Our industry is restructuring considerably into larger organisations to pack and market fruit, and then all of a sudden it has to move into the realm of paying payroll tax. There is a significant cost to this and we will not receive a rebate for payroll tax. That will be a cost to our industry.

I referred earlier to the health issue. There would be a great need to promote harder to the general society the benefits of fresh produce in their diet over our competitor, snack foods. There may need to be a strategy from the government to deal with this issue. That deals, in principle, with the submission we had to make.

**Senator SHERRY**—Just before I begin, if I can gently correct you, the Labor position is to oppose a GST, obviously, but not just because of its impact on low and middle income earners. It was obvious to us that there would be many sectors of rural industry that would be disadvantaged as a consequence of a GST. Whether or not we got that message across remains to be seen. The modelling we have received to date shows that agriculture and forestry will be net losers as a consequence of a GST, and that is evidence to us of the judgment we made.

I have considerable sympathy for your particular position, but you are one of hundreds of people who have come to us saying, 'We support or we applaud tax reform and the government's package, but we want protection one, two, three, four, five.' We have had hundreds of submissions. The bottom line is: if you do not get what you want, do you

support a GST? That is my question. If you do not get the sorts of things you want to minimise the disadvantages you clearly believe to be there, correctly believe in my view, do you support a GST?

**Mr Trautwein**—What we support is a total reform of the tax situation. I am not at liberty to represent my organisation's view on that because we have not discussed what our position would be if we did not get these certain items. The point I would like to make is that these considerations need to be thought through. As Senator Brownhill said earlier, basically they believe this is the most extensive investigation into the tax system. I would submit that it has not been anywhere near extensive enough and that the reform we need in our tax system needs to be thought through a lot harder as to its consequences.

**Senator SHERRY**—I do not disagree with that. The government put this package at the last election and there is absolutely no reference to your particular problems in this package. I agree with you that it is poorly researched, full of assertions and all the rest of it, but at the end of the day we have to make a decision: accept, reject or amend. Labor's position is: reject a GST. I would be very surprised, frankly, if the sorts of things you are asking for are met by this government. What are you going to do? What is your advice to us? That is what we want.

**Mr Trautwein**—If I looked at it from my personal position, the effect on my personal business, I would not be able to support a GST if we did not get the appropriate compensatory mechanisms. I would personally have to consider leaving my industry and potentially lose \$1.5 million in reinvestment.

**Senator SHERRY**—I ask you to take the issue back to your organisation.

**Mr Trautwein**—I will take it back. I can quote what my personal situation is, but in relation to the organisation we will consider that question and submit an answer to the Senate inquiry.

**Senator SHERRY**—I have one other point. As I said, I am sympathetic to your position because I have some understanding of your particular problems. I come from Tasmania—rural and regional—and there are a number of rural industries that have similar types of problems. It is quite obvious. Did you have any input into the position of the National Farmers Federation? They came to us, and Senator Harradine, I think, made the point that it is the first organisation we have ever had front up to us and say, 'Tax the commodity you produce, that is, food.' Did you have any input into the NFF position on this issue?

**Mr Trautwein**—No, we are not members of the National Farmers Federation. By and large, horticulture is not a membership of the National Farmers Federation simply because of the completely different interests of the industry, the different cost structures, the very different needs we have overall. One organisation could not represent all of us on our various views.

**Senator MURRAY**—There are two themes to your competition within the food dollar: obviously, fresh fruit and vegetables compete, as it were, with other components of the food dollar; the other issue is the competition with what may be referred to as less healthy foods,

sometimes unhealthy foods. It strikes me that, in terms of commercial weight and impact, although you have a very high percentage of the food dollar, you have a very low percentage of the marketing. For instance, it seems to me that mostly you are marketing the advertising by government-sponsored health campaigns and that sort of thing. When I instinctively compare your marketing with, say, Mars Bars or Amatil's pursuit of snack foods and so on, you are very disadvantaged in commercial muscle. Is that a right judgment?

**Mr Trautwein**—Yes, it is. It is a correct assessment, and one of the reasons for that is that there are a number of smaller businesses. Currently we are applying for a higher rate of levy voluntarily on the industry, or through compulsory election, so we can increase our promotional dollar and accept more responsibility for the profit of our industry. But, because we are also competitors amongst each other, we spend money on advertising but we do not have a unified approach that, say, Mars Bar or Amatil/Coca Cola can take to its consumers.

**Senator MURRAY**—If I may summarise some of the things you have said, you are saying that, since you matter so much to Australia in health terms and you are commercially disadvantaged by some very big snack food and junk food competitors, the government should pay attention to ensuring that you are given a leg-up through the tax system to ensure that your products are properly promoted and distributed in Australia.

**Mr Trautwein**—Yes, not only in Australia but also overseas; our future growth will also be overseas. As we have pointed out today, it is of great concern to us that the GST could actually add a cost to our exports.

**Senator MURRAY**—Critical to the whole issue of fresh fruit and food is the issue of price, isn't it?

**Mr Trautwein**—Yes.

**Senator MURRAY**—I have never seen a kid rush out to buy a cabbage, but I sure as hell have seen them rush out to buy a Mars Bar; therefore, low income households need to be encouraged through price mechanisms to have food as cheaply as possible. Isn't that so?

**Mr Trautwein**—There are a number of mechanisms which influence people's purchasing decisions; price is one of them. I agree with you that price is one of them; there are a number of others. Another is a positive reinforcement of a health message to people to encourage them to purchase.

**Senator MURRAY**—So far the evidence we have received is that the result of this tax package will be that the price of fresh fruit and vegetables will increase but the price of snack foods and junk foods will fall.

**Mr Trautwein**—Yes.

**Senator MURRAY**—That would worsen your situation, wouldn't it?

**Mr Trautwein**—Yes, and particularly so with the perception consumers have that stone fruit, in particular, is an expensive item.

**Senator MURRAY**—The committee commissioned Chris Murphy from Econtech to do the economic modelling on the effects on industry of a goods and services tax. It shows that making food GST free would be a big boost for agriculture, with output rising by twice the rate of growth than if food was taxed. I know you have not had access to that modelling, but would you agree that, if food was made GST free, it would in fact increase the prospects for agriculture generally?

**Mr Trautwein**—I have not seen the modelling, so I cannot look at the basis behind the modelling. What we do know and understand about what currently happens, is that the wholesale sales tax on snack food items such as Mars bars and potato chips is 12 per cent. Under a new tax regime, they will be slightly cheaper while we will increase in price. That is where the disadvantage lies.

**Senator MURRAY**—Let us go back to that question—

**Mr Trautwein**—I do not think we could say that we could get an increase in growth.

**Senator MURRAY**—Mr Trautwein, let me go back to the specific question. Chris Murphy has said on the basis of that modelling—and the committee has accepted his modelling as being very professional—that, if you made food GST free, output for the agricultural industry would rise by twice the rate of growth than if food was taxed. Surely, if output was to rise by twice the rate of growth across all of agriculture, that is a good thing?

**Mr Trautwein**—What is the rate of growth?

**Senator MURRAY**—The rate of growth under the tax package is estimated to be one per cent at present and he lifts it to two per cent.

**Mr Trautwein**—So, basically, what he is saying is that there is an anticipated rate of growth of production of one per cent and he would anticipate that growing to two per cent if—

**Senator MURRAY**—If you made food GST free. That surely is in the interest of your industry, isn't it?

**Mr Trautwein**—It most certainly is when we are facing an 80 per cent increase in production over the next five years.

**Senator MURRAY**—The National Farmers Federation have tried to present the view that they represent all of agriculture. I do not mean that unfairly, because we did not ask them if they represented your industry, for instance. You made the point that agriculture cannot be lumped together because different industries within agriculture have different needs. That is so, isn't it?

**Mr Trautwein**—Yes.

**Senator MURRAY**—Do you find it a little curious that the National Farmers Federation's executive have argued that food should be taxed, but have not asked their members the question of whether it should be taxed or not?

**Mr Trautwein**—I am not a member of the National Farmers Federation, so I will not comment on what they have said. I am not privy to their decision making process and why they have said it. I will not make any comment on that, because it is not for me to make an opinion on what they do.

**Senator MURRAY**—Have you asked your members, or do you intend to ask your members, whether food should be taxed or not?

**Mr Trautwein**—We have not asked our members. We are an elected body. Therefore, we examine issues and then present that information on their behalf. These issues are discussed at regional meetings.

**Senator MURRAY**—Mr Trautwein, have you and your executive and your members considered the results of the first report that this committee produced, which clearly show that making food GST free would not affect the economic outcomes of the ANTS package? There are some simplicity issues and equity issues that have been raised. But economically and commercially speaking, making food GST free does not produce a detrimental impact for the economy overall. If it produces a positive impact for your industry, we as a committee would value your industry's response to the findings of the Senate committee so far, as expressed in three separate reports. My real question is: if it does not have detrimental effects nationally, would your industry therefore support food being GST free because it will deliver benefits to your industry?

**Mr Trautwein**—Our concern is not to gain any further benefits than we currently have through the wholesale sales tax system; we are not a greedy industry. But, because we have made long-term investment decisions, we do not need the playing field changed, the goal posts moved or the rules changed halfway through the game.

**Senator MURRAY**—But the rules are being changed by the ANT system.

**Mr Trautwein**—What we are saying is that, if those rules are going to be changed, it has to be acknowledged that some structural readjustment will occur, and that needs to be dealt with. It is one of those issues—I grow stone fruit; I may as well grow wine grapes tomorrow. The question being put by our industry is: there is a whole group of people out there who have invested finance into this area, so what is the best way to deal with them? If tax reform is good for the Australian economy overall, and there are winners and losers, our question is: how is the Senate inquiry going to recommend how we deal with those losers and help them restructure into other industries if that is what is best for the economy overall?

**Senator MURRAY**—Mr Trautwein, I want to be explicit about this: the Senate committee has established that making food GST free does not affect the economy detrimentally. We know that making food GST free is good for agriculture. Therefore, you will not need restructuring and new infrastructure assistance because you will, in fact, be

operating on a better basis than you are at present. My question to you is: does making food GST free meet all your requirements? If so, does that mean that you can let the rest of your needs fall away? I think you will probably need to take that on notice and consider it against the evidence that has been put to us.

**Mr Trautwein**—Yes.

**Senator BROWNHILL**—Just to follow up on what has just been said, if you were to make food GST free and \$5 billion was to be taken out of the whole of the reform package, where would you get that \$5 billion from, and would you actually then forgo any tax cuts and any of the other reforms? I am just prefacing the question you have taken on notice.

**Mr Trautwein**—I would like to make a further comment. I presume, Senator Brownhill, that you are saying that all food would be GST free and that that will cost \$5 billion.

**Senator BROWNHILL**—I am not suggesting that at all. That was suggested by Senator Murray.

**Mr Trautwein**—What I am presuming is that the costings in the government's proposal is that food is \$5 billion worth of revenue—all food. What we are proposing is an alternative which is similar to what has happened in the pharmaceuticals industry, where an exemption given on financial services is based on a health issue. There should also be consideration given to the diet of Australians and appropriate exemptions dealt out to those foods which are essential for a person's diet and which lead to a good and healthy life.

**Senator BROWNHILL**—I would just suggest to you that—

**Mr Trautwein**—That would not be a full \$5 billion.

**Senator BROWNHILL**—The exemptions would be such that it would be rather difficult knowing whether it is a cooked or uncooked peach or whether it is a plum that has been frozen—or whatever.

**Mr Trautwein**—With respect, Senator, I would say that is a bit of a furphy. As long as you set up the process right, the guidelines right, these things do not become a problem.

**Senator BROWNHILL**—You asserted that, as a producer, the GST would be completely rebated or refunded—whatever words you want to use. But you used some other figures and said that that would not happen to you. I cannot quite work that out. I am a farmer as well and I just cannot quite work out where you get these figures from.

**Mr Trautwein**—I have spoken at length to my federal MP.

**Senator BROWNHILL**—Who is that?

**Mr Trautwein**—Neil Andrew. We have had it explained to us that I will fill out a return every three months and that the GST I collect from other people, net of my payments, I will have to pay on to the government. There is a difference there. Because labour—which is the

value added component—represents a big portion of my items, and I am charging a GST on labour, it will impact on my costs and my returns down the line. So the supply and demand equation will change in the marketplace.

**Senator BROWNHILL**—So you saying that it is your labour inputs that make the difference to you?

**Mr Trautwein**—Yes, it is because we are highly labour intensive. The grains industry, I would have no doubt, would say that it is good for them. We are a highly labour intensive industry and we are charging a tax to the next person down the chain on the labour component as well, which we have not had previously.

**Senator BROWNHILL**—But your labour costs are all tax deductible.

**Mr Trautwein**—Yes, but I charge the cost of labour in the price of my goods. It is part of the price of my goods.

**Senator BROWNHILL**—I cannot quite see where you are going to be out of pocket with that.

**Mr Trautwein**—Simply because fresh produce in this country works on a true market situation. It is one of the few items left in the country that works purely on supply and demand. So the price is adjusted to demand and supply very quickly. If the price goes up because of the added cost or the price that retailers can afford to charge—and retail outlets have to be lower because the competitive snack foods are selling at a lower price—that impacts the whole way down the chain. So the cost is passed back.

**Senator BROWNHILL**—That surely must be the case at the moment. Obviously, at the moment you are having a fight with the snack food market. It has got nothing to do with the tax reform.

**Mr Trautwein**—Yes, but I do not currently have a final tax on my product.

**Senator BROWNHILL**—At the moment. What about all your household taxes with your transport costs? What about your fuel which is going to be reduced in price? What about those being the positives?

**Mr Trautwein**—They are positives, but they do not make up the difference. They are not a significant part of my business costs and the people who service me.

**Senator BROWNHILL**—You have done that absolutely to a T?

**Mr Trautwein**—The portion of costs of a \$10 item for me, for transport, if I average it over all of Australia, is 60c. It is the portion of cost that would be associated with transport. The government would have done figures to say, ‘They’re your saving of so much.’ But, if you look at it, I might get a saving of 20 per cent on my transport costs.

**Senator BROWNHILL**—What are your own fuel costs?

**Mr Trautwein**—As you well know, diesel is for off-road, off-farm, use and, like any consumer, I would gain for off-farm use for private business. Again, my fuel bill is not a high fuel bill. It is not a big portion of my costs. That is what I am explaining to you. Our big cost is labour. All these other benefits that flow through do not have as big an impact on our industry as they have on some other industries and agriculture.

**Senator BROWNHILL**—What about the consumer dollar and the fact that the consumer will have more dollars in their pockets with the tax cut to spend the way they want? They can buy the fruit if they want or they can buy snack food if they want. That is nothing to do with the government's new tax system. That has to do with advertising or selling your product in a better way.

**Mr Trautwein**—Yes, fair enough comment. The new tax system, though, changes the balance of cost between the two.

**Senator BROWNHILL**—I cannot see your argument entirely. Maybe one of my colleagues can see it; maybe Senator Gibson can see it better. I cannot see your total argument. In your report here, you said:

Support for reform of industry structures and expansion of the role of the proposed merged Horticultural Corporations.

I definitely support that. I did something about that.

**Mr Trautwein**—As former horticulturists, you should know that our industry was one of the only ones that stood up and supported the merger of those two horticulture corporations at the time of your proposal.

**Senator GIBSON**—When Senator Murray was questioning Mr Trautwein about the modelling with GST free of food, what was not mentioned was that for that modelling to be consistent fiscally, without any change, income tax cuts had to be reduced in order to have the same fiscal impact. It is not cost free having food excluded from the GST. Income tax cuts would be affected.

**CHAIR**—I have got two questions. What is the paperwork burden for you under a GST compared to under the current system? Have you been able to work that out at this stage?

**Mr Trautwein**—Maybe I could say that the paperwork for a wholesale sales tax is just merely signing a form and quoting a number for me. The paperwork under the new system, I presume, is collecting data. It is not a huge issue because more and more businesses are being computerised. So, to be fair and honest about that, I do not think the major issue in this is the paperwork burden. As we run computerised systems, you can now buy financial packages which have GST components built into them, so you can have automatic monthly reconciliation.

**CHAIR**—Do members of your association export?

**Mr Trautwein**—Yes.

**CHAIR**—Have you looked at the impact on the exchange rate of a GST and the higher costs for exporters that will eventually arise?

**Mr Trautwein**—No.

**CHAIR**—What was the Treasury figure?

**Senator SHERRY**—3.5.

**CHAIR**—The argument is of course—and you have heard this presented often enough—that under a GST input costs are reduced and therefore the costs of Australian goods in foreign markets are cheaper. That is usually the end of the presentation. The shunt-on effect of them being cheaper is that, if you accept the exchange rate as being a valuation of the competitiveness of the Australian economy, the exchange rate drifts upwards by—according to Treasury figures—3.5 per cent making our prices higher in foreign markets. Therefore, what the real export gain is is a question among a myriad others that this committee is interested in. I am not sure whether you can give us any useful information about that now.

**Mr Trautwein**—The export side of it is a very price competitive industry versus Chile and South Africa. Our advantage is the closeness—

**CHAIR**—Where is your market?

**Mr Trautwein**—Our predominant markets currently in export are Hong Kong, China, Singapore—so South-East Asia—and a growing market in Taiwan. There has been some growth in the Middle East in the last six months.

**CHAIR**—I do not want to coach you on this, but can you tell us about price competitive the market is?

**Mr Trautwein**—It is extremely price competitive simply because the orders can change so quickly. We are actually involved in export ourselves and the movements are very quick and sharp if you have got a competitor moving in the lower rates. We can export very successfully during December and the first half of January. As soon as a more competitive product arrives from another country, we can kiss exports goodbye.

**CHAIR**—Do you take out hedging against fluctuations in the exchange rate? Do you hedge against them?

**Mr Trautwein**—No, because we have got such a short season we export in. So generally we do not. I do not know about whether the larger exporters take out hedging against the exchange rate.

**CHAIR**—If the Australian dollar rose by 3.5 per cent what would that do to—

**Mr Trautwein**—I could not comment exactly on what it would do. We have done no modelling in that area. But any price increase is always a disadvantage.

**Senator MURRAY**—For the record, you are a much more labour intensive industry than other sectors of agriculture, say, sheep or wheat, aren't you?

**Mr Trautwein**—Yes.

**Senator MURRAY**—That affects materially the whole package from your point of view?

**Mr Trautwein**—Yes, it does.

**Senator MURRAY**—You mentioned that you consult with your members at regional meetings and so on as to their attitudes to this package. Are they for or against a GST on food or haven't you asked that question?

**Mr Trautwein**—We have not asked that question.

**Senator MURRAY**—And you will be asking that question?

**Mr Trautwein**—Yes.

**Senator MURRAY**—Thank you.

**CHAIR**—Thank you, Mr Trautwein and your association, for going to the trouble of helping our inquiry by your submission and by appearing in person to represent it to us.

**Proceedings suspended from 1.05 p.m. to 1.42 p.m.**

**BALDOCK, Mr Maxwell David, President, Small Retailers Association of South Australia**

**BROWNSEA, Mr John David, Executive Director, Small Retailers Association of South Australia, Dry Cleaners Institute (South Australia) and Men's Hairdressing Association of South Australia**

**CHAIR**—Welcome. I invite you to make a short opening statement and then the committee will proceed to questions.

**Mr Baldock**—Thank you for giving us the opportunity to speak to the committee today. Being a cafe operator, if I had known that we were going to appear just before lunch I would have brought lunch for you.

**CHAIR**—If we had known you were going to make that offer we would have accommodated you.

**Mr Baldock**—My submission, I apologise, was rather late because I had late notice that I had an opportunity of speaking to the committee. I think that what we had to offer the committee was fairly important. Obviously you have heard over the last months of your inquiry many of the arguments on the GST, but I wondered how much you had actually heard from the micro side and the micro-economy. It always amazes me to see the macro-economists make predictions as to what is going to happen when a certain phenomenon occurs in the economy. It appears that they very rarely get down to the absolute micro-economics and spend the time to see what impact it really will have on small business.

Having represented the small retailers for some four years as president, being a cafe operator for 11 years and also being on many other small business groups, within this paper I have tried to show certain examples which could lead to economic modelling at a micro level, which might give a clearer picture as to some of the effects and impacts it will have on small business, particularly the small retailing industry. The small retailing industry, as you probably know, has in Australia approximately 140,000 outlets and has around 200,000 operators who employ around 300,000 people, so it is no small industry that we are talking about. Any impact that occurs on this industry, either adversely or otherwise, will have a huge impact on the macro situation of Australia.

My paper is fairly brief. I have covered already some of the problems that are occurring at the moment that will change some of those predictions that have been made at the macro level. Already we are seeing what I have classified as pre-GST price increases. Never before have I seen such a group of wholesalers that are finding reasons for their products to be increased in price. I believe a lot of it is them repositioning themselves before the GST comes in. I do not decry what they are doing, in a sense, because many of these wholesalers have been working on absolute fine margins over the last few years and the last thing they want to find, if the GST has an adverse effect on the businesses they are running at such a fine line, is that it forces them out of business. In a sense, many of these price rises are in the form of an insurance, that if there are adverse effects they will still be able to operate. However, that is impacting on the final position of the GST on retailing and particularly on pricing.

I gave two instances, one being major leaders who indicated that the price was due directly to the cost of plastic. If you measured the amount of plastic that they were talking about—it was a 10c increase and they said it was purely for plastic—it worked out that the cost of plastic must have gone up by about \$5,000 a tonne for it to be a realistic price increase. Others are not increasing prices, and we will probably see more of this, but are reducing the size of the product. That is an effective price increase but one that the public may not be aware of. Nor will it be an easy one to trace.

I have outlined in the paper the impact of the GST on the margins and gross profit. That is going to be one of the biggest problems for retailers. Retailers work on fairly fine margins to survive, particularly those who are in shopping centres who have had huge problems over the last few years as tenants of major landlords. Any changes to their profitability will cause them to go out of business, and I think it is fairly clearly articulated in there from the examples. If retailers do not review their margins, both on present wholesale tax exempt goods and wholesale tax goods, and review them upwards, they will be out of business because their gross profit will be affected according to what could be put down to a fairly strict formula. For example, in relation to goods that at present have 10 per cent wholesale tax on them, when that is taken off and the GST is placed on them one per cent of every 10 per cent of the present turnover that can be attributed to those goods will be lost in gross profit. On 22 per cent 1.8 per cent will be lost and on products with 32 per cent wholesale tax 2.4 per cent of their gross profit will be lost. That is something we are alerting all retailers to at the moment, that they must review these.

The unfortunate outcome of that is that the government's prediction of a 1.9 per cent increase overall in products, particularly in food products, will be way out. We would predict, on our figures, it would be in excess of five per cent, which brings in another set of problems. If that is the case, CPI will be affected. CPI also affects small retailers, because one of their major costs in retailing is rent. Much of the rent is linked to CPI increases in the course of a lease, and that again will put additional pressure on prices and on margins to increase again. It has a spiralling effect.

The other impact that the GST will bring on through these price increases is the impact on competition. Already we have, I think, another Senate inquiry starting or about to start on the control of the market that some major operators have. I can tell you this is going to have a huge impact on the ability of small retailers and small business to compete with their major opponents, particularly again in food. Large business has better buying power. They have virtual control of the markets and they are going to be even more competitive than before. You can see that very simply if I draw the analogy on a can of coke, which is a very easy one to draw.

A can of coke can be bought from most major supermarkets for around 50c a unit. If we just applied GST, forgetting the wholesale sales tax component—whether it is coming off or not—you will have a five per cent tax on that can, which they sell for 55c. In the smaller shops, where the cans sell for \$1.40, there will be a 14c GST on it. Now there is the differential on the same product: one will bring in 5c tax and the other will bring in 14c tax; but the more important aspect is the increasing difference in price and competitiveness of the small business person.

The other problem too which will come before us is that in this instance many of the small retailers actually buy directly from the opposition, their competitors—certainly they do; and we will go back to the can of coke for a minute by way of an example—at retail prices. They cannot, or will not, be supplied by a wholesaler at realistic wholesale prices; it is cheaper to buy from the major retail outlet. When GST comes in, what will happen when they buy those products? Will Coles properly invoice so that, when they do sell it and get the 14c GST, they will be able to get any imputed credits? I would suspect that there will not be any invoicing there that would be up to what the GST program would want. That is another problem. It will mean one or two things will happen: either they will wear that cost—the government will be better off, will come out of it very well, because they will be getting the 5c and another 14c tax; but competitiveness in situations like this will be diminished—or it will put more pressure on the small retailer who will have to buy at less competitive prices from some of the major wholesalers. That is a small issue maybe, but it is a large issue to the small retailer.

There is very little cash flow advantage to small business that we have heard talked about by major economists. I have outlined some scenarios. For somebody on a turnover of \$600,000 a year, for example, the direct advantage in cash flow will be around \$5.20 per week worked on an eight per cent return on any moneys they have available to them. Compare this to Coles and Woolworths, which will be around \$9.6 million better off for their cash flow situation. So you can see that this is something else that will add to the lack of competitiveness of small retailers.

I have talked about compliance costs and a lot has been said about that. There are two problems with compliance: one is the ability of many small retailers and small business people to comply. Forty-five per cent of all small retailers are actually owner operated and employ no-one. That means that they are everything—from cleaner to entrepreneur to everything else—and, from experience, many of them struggle with compliance—in work cover, superannuation, et cetera—that they have in front of them at the moment. This will be an absolute anathema to them. The problem will not necessarily be the willingness to comply but the ability to comply. When the GST man comes around and checks and finds out that the compliance is not right, any penalties or missed amounts that should have been paid will be enough to destroy many of these businesses; whereas the major competitors are already set up for compliance and have no real problems—you can have departments that do that anyway within your industry. Certainly small retailing, which employs 19 or fewer people, would not have that facility. And that is saying nothing of the higher costs per dollar for compliance for small business, that have already been well documented.

Finally, and just very briefly, I am concerned about the impact on employment—and this is a very real concern. One of the great advantages of small retailing is its employment capacity. It is unique in that sense. The average small retailer employs 20.6 people per million dollars turnover. There is no other industry that can support those sorts of figures. It is not only a food industry but very much a service industry. Its competitors—the large retailers who are the ones most likely to gain under the GST—employ on average something like 6.8 people per million dollars turnover. It is a simple formula: every million dollars transferred from one sector to another will see a major and significant loss of job opportunities—14, 12, 15 or whatever. Even one per cent will be converted to many thousands of jobs.

The other thing that is not immediately apparent is that not only is it a great employer of people but also it is a great employer of youth. One of our biggest problems today is to find jobs for youth, and retailing takes up a huge amount of youth employment. If anything comes to impact upon that, it will cause great problems to the total economy and certainly the macro economists have not factored any of that into the figures that I have seen.

I think that is sufficient to cover it. The rest is in the documentation. I picked out only a few examples, but I can assure you that there are many. Some I have picked as best scenario situations, some as middle-of-the-road examples; none were worst scenarios because I did not want to distort the picture or make it as gloomy as possible because, whatever tax reform comes in, I want it to work—but I want it to be fair to all parties and to work to the betterment of all parties. It would be easy to work this out and create from it an economic model which would give a very clear picture of the impact the GST will have on small retailing across the board. These are just a few examples for clarification's sake.

So, if you would like to ask me or Mr Brownsea, who is the executive director and who is, on a day-to-day basis, trying to solve the problems of all our members, we would be more than happy to answer them.

**CHAIR**—Thank you, Mr Baldock. I have to begin with a very serious question: if any of the committee members are coming through Adelaide in the future and need to talk to you to get further information, what cafe should they call at?

**Mr Baldock**—Free plugs! Is this GST free or not?

**CHAIR**—What is the name of the cafe?

**Mr Baldock**—I am at Colonnades Shopping Centre, which is down in the south. I have been there for 11 years, and it is called Balfours Bake Cafe. I am more than happy, at any time, for anyone to ask questions or use me as a resource because I have done that on occasions with some polities. I am more than happy to be able to help anyone out with answering questions or giving them statistics, et cetera. My background was not as a retailer. I was a school principal and I majored in mathematics—so I am quite interested in figures.

**CHAIR**—How would you define a micro business? You are talking not on behalf of small business but, as you have submitted to us, on behalf of micro business. What is the definition?

**Mr Baldock**—Actually I was talking on behalf of small retailing.

**CHAIR**—Small retailers.

**Mr Baldock**—Small retailing is 19 employees or less. The ABS has already made a strong distinction between small business and small retailing, because small business is usually defined as those under 100 and small retailing as those under 19 employees—which is a very accurate assessment. When you get down to micro, you are talking about four or less. When we talk about micro retailing, we talk about figures of that kind. As I mentioned,

45 per cent of retailing does not employ people. Those figures are not that dissimilar right through the small business category.

**CHAIR**—The 45 per cent of retailing that does not employ people are mum-and-dad operations, are they?

**Mr Baldock**—Yes.

**CHAIR**—And they are your members, too?

**Mr Baldock**—They are our members as well.

**CHAIR**—What size in numbers, rather than members of your organisation, does this sector amount to?

**Mr Baldock**—In South Australia, there are 14,000 small retail outlets operated by 21,000 people. So we are looking at approximately 7,000 owner mums and dads who employ infrequently—probably not frequently enough for the ABS to classify them as having employees—14,000 or 15,000 people.

**CHAIR**—Last Friday, McDonald's, the hamburger chain, gave evidence to one of the other committees inquiring into the GST and, as I took it down, said that if the fast food sector and the cafe-restaurant sector were not exempted, along with food being exempted—I think this is a fair presentation of their view—17,000 jobs would be lost and that many of them would be young people's jobs. Does that figure and that assertion resonate with you as being credible?

**Mr Baldock**—Very credible. This is our major concern. Over the last five years in this state we have seen 6,500 jobs lost in small retailing, mainly because of the impact of things such as pokies and other aspects. The fact that \$1 million can be transferred or lost very quickly, times that by 20, and you have got roughly the turnover that they are saying is at risk. I would support figures of that kind, without saying that is an accurate figure. Certainly that is our concern, that many thousands will be lost.

In South Australia, apart from the owner-operators—and in all I said there are around 21,000—these 14,000 small retailers employ 86,000 people. So you can see it is a small percentage, if you like, of people that could easily lose their jobs very quickly if there was a change around in viability.

**CHAIR**—Thank you.

**Senator GIBSON**—Thank you, Mr Baldock and Mr Brownsea, for coming here. I assume from what you are saying—and I know a little bit myself about the business—that retailing is very competitive.

**Mr Baldock**—Very much so.

**Senator GIBSON**—So it is very hard for someone to actually jack up prices unilaterally.

**Mr Baldock**—Absolutely.

**Senator GIBSON**—A fair few of the points you have made in your submission seem to me to characterise your small business group versus large retailing chains. The same points you have made would apply today whether or not we were talking about tax reform. Isn't that true?

**Mr Baldock**—Many of them would be the same, yes certainly.

**Senator GIBSON**—We here are concerned about tax reform; we are not here to change the structure of the industry.

**Mr Baldock**—No, certainly not, and neither can you. That is probably up to us in other areas. But what I have tried to put there is the point that the GST will increase and enhance this difference between the two. One of the statements made at the beginning of all the business on the GST is that it has got to be a system that is fair and equitable to all sections of the community. I have tried to show that that fairness and equity will not be there because it is exacerbating a situation that is already bad.

**Senator GIBSON**—But is it not true that the existing wholesale sales tax system gives a definite advantage to the majors versus the small retailer because the wholesale sales tax for the major is applied at the factory and for you is applied as the distributor and that the GST will remove that disadvantage and make it a more even playing field?

**Mr Baldock**—Yes, at the moment the difference is about a \$120 million advantage to big business. That was the initial feeling of many retailers and why I think many retailers were initially sold on the GST. They thought, 'Beauty, it will be a level playing field.' However, if you go through some of those figures and times them out by the number of retailers we have, you will see that the figure will work out to be about a \$300 million tax advantage between the two groups.

So, although something looked like being fair in the first place, by just removing one and replacing it with another one at the end of the line, and that would solve the problem, in fact does not solve the problem; it increases the problem.

Let me take the example of the can of coke. A can of coke at the moment has a differential of about 1.2c on a wholesale tax basis between ourselves and the major retailers. Look at what it will be under a GST. The difference in tax will be between 5c and 14c. That is a 180 per cent differential, whereas before we had a very small differential. So, instead of solving the problem of a differential in tax—forget whether it is wholesale or whatever—it will actually increase the difference between the two.

That may not be a problem of the GST initially because it is another problem, but it is there, and in the end, regardless of the situation, the small retailers will be paying more tax for the same products than their larger competitors, and paying more tax under a GST system for those products than they will be under a wholesale sales tax system. That is the big problem.

**CHAIR**—So really it is anti-competitive.

**Mr Baldock**—Yes.

**Senator GIBSON**—But the GST that you collect from your customers, you get a rebate, you take off from that the GST that you pay for your suppliers and you just pass on the difference to the tax office.

**Mr Baldock**—That's right. I suppose you could look at it and say we are not paying for a wholesale sales tax now because we add on our margins to the wholesale tax anyway. So, whichever way you look at it, you do not pay for it, or the retailer is not paying for it; he is adding on that price to it. But the ultimate situation is that the tax component of that total sale will increase under a GST as opposed to wholesale sales tax in regard to small and large business.

**Senator GIBSON**—If that is the margin, the arithmetic follows through. Just while we are on invoicing and purchasing, I think you were trying to make the point that some retailers would go along and purchase their can of coke from the supermarket. Why would they not get an invoice including GST in doing so?

**Mr Baldock**—The simple answer is Coles will not give it. They will not supply it. They are very reticent at the moment and try and stop retailers from actually purchasing from them. So all you will get from them is a receipt at the check-out like you get anywhere else. You will not get a properly invoiced statement from them because it is bought at the retail level. As you know, under the system here, at the retail level you do not have to supply invoices.

**Senator GIBSON**—Yes, but it is inclusive of the 10 per cent GST. I do not see any reason why you could not include that 10 per cent in your claim with the tax office.

**Mr Baldock**—We would have to talk to the ATO to make a special dispensation to accept a cash docket as a properly certified invoice statement for that to occur. If that occurs, that would eliminate some of that problem.

**Senator GIBSON**—I think you should pursue that matter.

**Mr Brownsea**—Senator Gibson, it would be fair to assume that Coles and Woolworths would argue that they are not prepared to sell to us because they might be passing on what is a predatory price. Therefore, we would be buying a loss making product from them and so they would refuse to supply, as they do in many cases now.

**Senator GIBSON**—That I understand, but everything that is going to be purchased will include the 10 per cent GST, so if you are going to retail it there is no reason why you should not be able to get it back. Another topic you raised was compliance costs. Have you seen a draft quarterly form for the GST?

**Mr Baldock**—The only information I have seen in some detail is the ATO's document that they have sent to most retailers.

**Senator GIBSON**—Leaving aside the argument of whether food is in or out but, assuming food is part of it, for most retail shops the calculation is simply one-eleventh of sales for the quarter, straight off your bank statement, and again one-eleventh of purchases, apart from labour, again, largely off your bank statement, and pass on the difference. The evidence from New Zealand is that all that takes is 10 minutes per quarter.

**Mr Baldock**—I do not know where that evidence comes from. Being a practising operator of a shop, and it is not a huge cafe, I have about 30 suppliers per day who come in with invoices that need to be checked. Some of those may not be suppliers that will conform with the \$50,000 per year turnover figure, some of them are quite small suppliers, so they may or may not be people that you can claim back tax from. It is going to be a matter of being able to define which ones are which, keeping your running totals going anyway for those figures, and doing it on a weekly basis. It cannot be done just once a quarter because if you want to track back, if you have seen the number of invoices that any of these stores have in one day, pity trying to do it in three months time.

**Senator GIBSON**—The whole point of this particular model is that, sure, you have got to keep a record of the invoices and make sure that they are proper, but it is because you can then retreat back to your bank statement at the end of the quarter and use the aggregate numbers from the bank statement for filling in your returns that makes it simple and easy.

**Mr Baldock**—We will see on that. We will see how simple it is. We were told the same thing when we were doing superannuation, that it would not take us very long to do superannuation returns. We were told the same thing on conforming with WorkCover. Both of those take 10 to 15 minutes a day to comply with, or an hour or so a week to comply with. I am yet to see any compliance from a government agency that is simple and easy.

**Senator GIBSON**—Included in the tax package there are substantial income tax cuts for everybody. Are you in favour of that?

**Mr Baldock**—We certainly want tax reform and an equitable tax system. I do not think as far as it has gone at the moment that it has been achieved, in any shape or form. I think the middle to lower income people have been sold too short with tax reforms, and I think that also will eventually impact on many industries, and certainly the retail industry. But certainly reform is very much overdue. I have no argument with that.

**Senator MURRAY**—Mr Baldock and Mr Brownsea, thank you again for another considered and thoughtful contribution. You do a lot of these things in one form or another. The first question really relates to how your members feel, and I think there are two discrete questions. The first question is whether you have asked your members if they support a GST. The second question is whether or not, on balance, they support the entire ANTS package. Have you or do you intend to ask your members that question?

**Mr Baldock**—As a lead-up to it, certainly those sorts of questions were asked. John is probably in a better position than me to answer it. All I would say is there is an absolute amount of confusion and ignorance of what actually is involved with the GST—not only with the compliance but with the impact of the GST—at this stage. It has not been helped by the papers the ATO put out which have absolutely completely confused most people. If you

read them yourselves, I think you will come up with some confusing issues, particularly over whether rent is GST exempt to the year 2005 or not. But John is probably best to answer that.

**CHAIR**—So you regard those as a mishmash?

**Mr Baldock**—Very much.

**Mr Brownsea**—I think it is fair to say that many of our members view with considerable concern what is coming, and do not necessarily understand. All the media have various opinions as to the benefits of the GST, but certainly many of them would have taken notice of Coles Myer's comment that they maintain it was revenue neutral, which really means that Coles Myer will retain the current advantages—and therefore Woolworths—that they currently have; therefore nothing is going to change and these people will be as badly off as they ever were at the very best.

But many of them consider that the compliance costs will in fact mean that they will be worse off. Those that do not have a cash register capable of printing the sort of receipt that might be required are looking at that cost and saying to themselves, 'Well, what else is coming?' They have got new health laws coming into Australia. There are other things in the pipeline that are going to be a cost to small retailers which will not necessarily be a cost to big retailers, so they are looking at the future with considerable concerns and saying, 'Can we afford to stay in business?' Then of course we look at the market strength of the major retailers who clearly see the GST as a huge commercial advantage for them to sweep away what is left of any competition they might have in Australia.

**Senator MURRAY**—I really want to know what support there is in the small business community, firstly, because I have seen surveys which say that half of small business support a GST and half do not. If your members had to vote tomorrow on it, would that kind of fifty-fifty split be typical or not typical?

**Mr Baldock**—Nothing would have started 40-60 some time before the election, in actual fact, to be honest. But I think, as there is more information and more concern and more doubts about how it will impact on them, I would say it is getting towards the 60-40 situation at present.

**Senator MURRAY**—Against.

**Mr Baldock**—Against. Certainly when we talk, we try not to give a bias—except survival. That is what I am on about, to survive to feed my kids. That is my business, to keep on going. When it gets down to that issue, there are more and more people that are most concerned about whether this part of the tax reform is going to do that, to help them survive to feed their kids.

**Senator MURRAY**—Are many of your members members of the South Australian Employers Chamber of Commerce and Industry?

**Mr Baldock**—Not many. They cannot afford to be.

**Mr Brownsea**—It is too expensive.

**Senator MURRAY**—Their views would not necessarily represent yours.

**Mr Baldock**—Certainly not. Their membership in small retailing would be minimal.

**Senator MURRAY**—You have put to us a proposition which was put to us yesterday as well by an electronic engineer who appeared here as a private citizen—namely, that the changes increase the competitive disadvantages you have versus big business. Is it your view that if the government attended to issues of competition policy right now, which is the Senate inquiry under way, and it further attended to issues such as retail tenancy where there are many problems, and addressed a number of other policy issues which affect small business before this comes in in July 2000, that would actually make it easier for you to accept a new system?

**Mr Baldock**—You are right. Yes, it would. It is not the fact that it is a new system; it is the fact of the impact of this particular system. It does not matter what the system is called. The wholesale tax was doing it as well. This is going to do a better job of getting rid of us. That is the problem. You are dead right.

If we could get some level playing field in those areas, then, when you apply a tax at this end of the line, the impact will be certainly different. The impact would be minimised in the area of competition. In that paper, that is what it comes down to—competition, the ability to compete in a fair and level system under this tax system that is being proposed.

**Senator MURRAY**—So, if the government attacked, for instance, the vertical integration that is apparent with major retailers vertically integrated with major wholesalers and took away their present tax advantages, that would even the field out for you?

**Mr Baldock**—Absolutely.

**Senator MURRAY**—The question of food is obviously before us. It is on the record and it is indisputable that nearly every business group that has been before us has said that they would rather food were taxed than not. The answer to a particular question, though, was interesting. I will use just one example—the food and grocery council. When asked if the result of the Senate's deliberations with the government were that food would be made GST free, where would they like the definition to fall, their answer was all in or all out—in other words, as wide a definition as possible.

You can define food very widely, which is all food; you can define it to, say, exclude restaurants and takeaways, or you can define it all the way narrowly to just fresh foods and processed oils and all that sort of stuff. In terms of complexity—because that does matter to you, administrative system simplicity—if food were to be made GST free, where would you like to see the definition fall, just conceptually?

**Mr Baldock**—There is only one way it really can, to be fair and reasonable, and that is all. Once you start to define that there are certain aspects of it, you have major problems of interpretation. If you excluded, say, takeaways, as many people do, it would give a

competitive advantage to those people who deal with straight food like supermarkets, et cetera. But you have also got certain anomalies then. For example, take a can of beans: it will be GST free unless you open it and put it on toast and sell it. So you have got this silly situation.

I would like to go one step back. It has surprised me that people have said, 'We cannot afford to have food GST free,' because no-one has argued strongly that we cannot afford to give a \$4.5 billion bonus—I think was proposed—to exempt exports. That has been almost accepted right from the start. Why do we want to give a \$4.5 billion exemption to exports because everyone else is going to carry it? Because it is believed by economists that there are certain advantages to the total economy.

No-one has come out and said, 'If we make food GST free'—and I think it has been quoted to cost up to \$7 billion, as a high figure—'what would be the economic benefits to the country in doing that? What costs would be gained in the area of employment and in the areas of small business and the movement of money at a micro level?' No-one has gone and tested that. Yet, to me, that seems to be the test that should be done. We have done it in one sense, if you like, in that somebody has sat down and said that \$4.5 billion is going to be well spent by not collecting it from exporters but, on the other hand, we have just said, 'No, we cannot afford \$7 billion.' Here is an industry that is unique to Australia. It keeps the Australian economy going, but nobody has tested it to say, 'That would be value if we actually did that.' I think that is the weakness I have found with the macro economists—whether they have the facility or not to do it.

**Senator MURRAY**—You are right, Mr Baldock. I draw your attention to the first report from this inquiry. I am sure the secretariat can give it to you. What they have done so far is to model up to restaurants and takeaways. In other words, GST free for everything excluding restaurants and takeaways. No-one has done the full monty. But, up to \$4.5 billion, there is no economic harm from doing so and, in fact, there are benefits in certain areas.

**CHAIR**—Are you just about done, Senator Murray?

**Senator MURRAY**—Yes. I am done.

**Senator GEORGE CAMPBELL**—Mr Baldock, I just want to get a clear feel for the impact of a GST on competition because, as Senator Murray said, we did have someone here yesterday who also raised the same issue. Do you see that as being a serious consequence of the introduction of this GST, this widening of the gap between large retailers and small retailers?

**Mr Baldock**—We certainly do. The whole industry is running on a fine edge at the moment. The difference between success and failure in retailing at the moment is a three or four per cent gross profit. That is the figure; it is a very fine finite line, and it varies from sector to sector within the retail industry because the costs and problems have escalated so dramatically over the last few years, and Senator Murray outlined some of them.

Anything that will change the impact on that gross profit has to be of concern. I have suggested in here that, if people are going to survive and keep their equity in their business,

they must increase margins. I think Senator Gibson mentioned that there is always this almost indefinable force that is acting on prices to stop you being able to arbitrarily say, 'Well, I will charge this much now for a product.' If we were able to do that I would not be here today; I would be sitting somewhere in the Bahamas, enjoying myself. So there is that finite thing that stops you from charging a certain amount.

We have already got constraints that are putting enormous pressure on us to keep prices down even though wholesale prices are continuing to go up. We have had to absorb many of these prices that have come through in the last few months because of that finite product. We have wholesalers out there that are retailers—and I know this is away from the GST, but I think that unless you understand this you cannot see how the GST actually adds to it as a catalyst—for example, Coca-Cola, who sell to you as a wholesaler and then retail to you outside your store in a vending machine, and who can dominate the price. So, if they say the price for a can of coke is X and you charge X plus two, you are out of business. There is this manipulation keeping pressure on your price from all sources. That is one. The major players are another one.

If I say that it is as simple as raising your margins, that would be easy to accommodate. But it is not, because it is finite pressure which is going to put pressure on people to say, 'I daren't,' or 'I can't,' or 'If I do, I'll also go out of business.' The GST comes along and it just makes the difference between our competitive large opponents and us that much more different. As I said, the can of coke shows it all—a 180 per cent difference in the structure of the tax component.

**Senator GEORGE CAMPBELL**—Is that the underlying reason why you responded to Senator Gibson earlier on by saying that you did not necessarily believe that the introduction of a GST equated to tax reform?

**Mr Baldock**—Would create tax reform?

**Senator GEORGE CAMPBELL**—Equated to tax reform.

**Mr Baldock**—Yes.

**Senator GEORGE CAMPBELL**—I think you also said in respect to the ANTS package that you did not believe it delivered an equitable tax system.

**Mr Baldock**—No. We deal a lot with those people who are on the lower to lower middle income stream. Many of my staff are in that area, and I ran a test over them of the amount of livable space they had within their income after they had got the tax concessions. They were still on the knife's edge. As much as we can predict prices, et cetera, that will be impacted on by a GST, they were as much on the knife's edge as they were before tax reforms were mooted. I think that, if there is going to be a tax reform in this country, it has to give those people a certain amount of space for mistakes, misfortune, or whatever else it is. This reform, as it is at the present—and given that I do not believe it is going to be a 1.9 per cent increase in price—will not achieve that. Therefore, it is not tax reform; it is holding a situation. It is holding a status quo for many people in this country.

**CHAIR**—I have to call an end to proceedings at this point. I did say before lunch that I will have to be strict on time, and I do think that I have been fair in the apportionment of time. My apologies to Senator Chapman and Senator Sherry. Perhaps you would care to put your questions on notice. Thank you, Mr Baldock and Mr Brownsea, for the evidence you have given and the help you have been able to provide to the committee. I am sorry about the shortness of time, but we have a time constraint, as you can see. Clearly, the committee would have liked to have spent more time with you.

**Mr Baldock**—Thank you for the opportunity. I know it was done in a very difficult manner for you and it put pressure on you, but I do appreciate the opportunity.

[14.27 p.m.]

**SIEKMANN, Mr Peter Francis, Federal President, Australian Small Business Association**

**CHAIR**—While Mr Siekmann is taking his position, can I indicate to the committee that I have received a submission from Mr Hugh Wigg of Gilberton, South Australia. My understanding is that he has been in attendance at this hearing for the last two days and has sought an opportunity to be heard. It has been suggested to me that five minutes at the end might be apportioned to him to address us as a citizen witness, if we can accommodate that. I must say that I have not read the submission; I am not sure what it is about. But, if we can accommodate him, I think it would be a degree of flexibility to be desired. With those remarks, Mr Siekmann, you have the floor.

**Mr Siekmann**—As you are aware, Senator Cook, I had a fairly short period of time in which to prepare a submission. The submission which I faxed in yesterday was not by any means complete.

**CHAIR**—Could I interrupt you at that point and say, if you have supplementary documentation, either now or later on, please supply it and we will include it with your submission. But, for the moment, would you mind giving us an overview of all of the things that you want to say, but fairly briefly, so that we have some time for questions.

**Mr Siekmann**—Basically, the majority of people seem to be concentrating on the GST. It is our principal concern, as far as addressing the GST, that the argument seems to revolve around the micro side rather than the macro side of the argument. We hear constantly about how individuals and particular groups will be disadvantaged by the GST without necessarily having a look at a broader picture. The media particularly seems to be in favour of pointing out that you are going to have to pay a GST on funerals in future and various other things.

As far as our association is concerned, we have had a look at it and considered that the overall good outweighs the individual bad. When the coalition first came to power, we surveyed our members. Interestingly enough, the issues which came forward were fiscal and financial responsibility as the main components that our members were concerned about. We have been quite happy with the balancing of the budget which the current government has shown, but we are concerned about the balance of payments situation within our country which affects all of us with the outgoings concerned with that balance of payments problem we have.

The GST and tax reform will remove—largely remove although not entirely—the imposition which is placed on exports by the taxation system. This we regard as the principal plus of the GST and tends to outweigh all the minuses. When you have one big plus, you can queue a whole lot of minuses behind it and they cancel each other out. Added in to it is an eventual plus for the system.

However, the other side of this is that our tax system is totally unwieldy. It is out of control and nobody can understand it. You have to employ a level of accountants, which costs a hell of a lot of money, just to be able to put your tax return in these days.

Accordingly, simplification of the system is very necessary. The GST should go some way to addressing that particular situation. I am afraid I must apologise to the committee because I am not quite up to speed on this. I asked our taxation expert to come along, but he was tied up today and with the short notice he could not attend.

There are a number of other matters which we would like to address as far as tax reform is concerned. We feel that all taxes—state, federal and possibly even local government taxes—should be collected through one agency, preferably the ATO, so that essentially one cheque can be written out for all taxes. They can be responsible for distributing those taxes and collecting them. We feel that tax reform on a macro scale will help in the accountability and responsibility issues between federal and state governments.

In terms of redressing the tax system, we have at the moment everybody blaming the other party. The state governments are blaming the federal government because they are not getting enough money. The federal government are saying that it is the states' responsibility in order to address the health system, given their own measures with a satisfactory top-up for disadvantaged states. If you are going to have accountability, you have to have responsibility.

We feel that concessions, grants and welfare should be separated from the tax system. There should not be any business dole or anything within the tax system. These should fall outside the tax system as a separate thing. There is too much avoidance of tax through tax concessions for various things. If these could be looked at separately and outside the tax system there would be a strong possibility that it would reduce tax avoidance in the system.

I note that we have an interest in this, because as far as concessions are concerned, small business picks up something like three per cent of concessions while big business picks up the remaining 97 per cent. If there was a tendency to be able to apply for direct advantage, small business may be more inclined to. We feel that the FBT on hospital, tourism and car parking in public car parks should be dropped. We acknowledge Mr Ralph's comment that the FBT should be the responsibility of the employee, not the employer. It is a problem. But FBT on hospitality and tourism is a problem. When they get the 10 per cent GST added to that, it will be a double whammy.

We also feel that the tax uplift factor should be related to the CPI. The government currently are saying that they have reduced the tax uplift factor. In fact, it has increased. To have a look at the differential, when the uplift factor was much higher than it is now, so was inflation. If you bring the comparable CPI down, you will find that the tax uplift factor has in fact increased.

We feel that the timetable should be set to bring the top marginal rate of tax and the company tax rate together. We would like to see a graduated scale of taxable incomes to be indexed to offset the effect of inflation. In the proposal for the GST and tax reform which we have at the moment, the proposal is that a section of the business community pay their taxes quarterly. This is supposed to be a concession so that we can hold moneys together more. However, when they are suggesting that they pay tax quarterly, it also means income tax. At this stage, all those income tax books are still on the shelf. I know when I go down to see my tax agent once a year, he charges me about \$12,000. If I have to go down and see him every quarter, I will go broke. The ATO assure us that something will be done about

this and it will not be quite like that. But if it is like that, we certainly have a problem with the timing of tax collection.

We feel that the direct cost of dismantling or establishing a business should be deductible. We would like to see a 10 per cent investment allowance reintroduced for plant and equipment costing between \$2,000 and \$250,000. This is compensation for the compliance which small business is going to have to put up with with the GST to a degree. It might make them feel a little bit more comfortable. It stands outside the tax system admittedly, but is related to it in that fashion.

We would like to see all superannuation funds with net assets in excess of \$5 million at their last balance date be required to invest five per cent of the excess in a pooled investment fund to provide finance for small business under reasonable commercial conditions. I think that is as far as I should go at the moment. Perhaps you can get on with the question and we can fill in the gaps around the questions.

**CHAIR**—Thank you, Mr Siekmann. If I may begin, do you support the pay-as-you-go modifications that are made in the package?

**Mr Siekmann**—As they stand. As I said, we have some problems with the payment system as it stands, simply on the timing of it.

**CHAIR**—Are you seeking the government to modify the bills in order to reflect your concerns?

**Mr Siekmann**—We would like to see the government if not modify it explain it more clearly. We will have to do an assessment quarterly, which will lead to a considerable amount of additional work.

**CHAIR**—We need to report to the Senate about what organisations are asking us to do with the bills. Could you give us a note precisely saying what the changes are that you seek, if you seek particular changes?

**Mr Siekmann**—You mean a note outside this meeting?

**CHAIR**—Yes.

**Mr Siekmann**—Certainly.

**CHAIR**—You mentioned that this package is, in your view, broadly favourable for the economy. I might draw your attention to the fact that that is not a general opinion. There is quite learned and considered opinion to say that that is a government propaganda point rather than a fact. But in expressing your view you said that one of the reasons why your members, when you surveyed them, supported the package was the advantage it gave to export and therefore the relief to the balance of payments.

**Mr Siekmann**—Yes.

**CHAIR**—Are you aware that on Treasury modelling the impact of the tax package on the exchange rate will be to lift the exchange rate by 3.5 per cent and therefore reduce the competitiveness of Australian companies in export?

**Mr Siekmann**—I was not aware it would lift the exchange rate by 3.5 per cent. However, our exchange rate has been going up as a matter of course in the past. I would question that this alone would lift it by 3.5 per cent, except in the perspective of the video jockeys, as they call them. It would certainly make those video jockeys consider that our economy was more stable and accordingly that would, in itself, lift the exchange rate.

**CHAIR**—I would question whether it would lift it 3.5 per cent as well. I think it may in fact lift it further. What I am saying is that that is the modelling done by Treasury based on figures supplied by Econtech—the government’s preferred modeller of choice. That is the evidence that is before this committee. All I am saying is: you may well question it as being too high and I may question it as being too low, but that is what Treasury is advising the government will be the impact on the Australian economy. When your members responded favourably to the package based on their assumptions about export impact, were they aware of that, do you know?

**Mr Siekmann**—They would not have been aware of that, no.

**CHAIR**—Thank you.

**Senator GIBSON**—Mr Siekmann, thank you for coming and appearing before us today. I am pleased to say that you have put some considerable emphasis on saying that the current tax system basically is broken and needs fixing and needs reform, and you welcome that reform. On page 2 of your submission you make a plea:

We must make the system as simple as possible. In our view part of the simplification is to make the system all embracing with no exclusions and no exemptions. Canada’s system was full of exemptions, it failed. New Zealand had few exemptions and it worked.

Would you care to expand on that at all?

**Mr Siekmann**—Canada seems to have a system which has had considerable exemptions from the GST. I have not had a very good look at the Canadian system, but this is the advice which I have. I am part of a group which actually flew some people to New Zealand. I did not partake in this, but I have talked to a number of people in New Zealand. There seems to be virtually no exemptions within their system. There are very few. The feeling we obtained was that, while there was a lot of running around when their GST was brought in, it is no longer an issue there. It seems to have worked quite satisfactorily. The difference between the two systems seems to be the exclusions. One seems to work and the other does not.

**Senator GIBSON**—So I assume that you would be in favour of keeping food in the GST net?

**Mr Siekmann**—Basically for small business to accept a GST it would be necessary to make it all-embracing. That is my opinion anyhow.

**Senator GIBSON**—I do not think you are aware but today the Restaurant and Catering Association of Australia put out a media release—I have a copy here—headed ‘GST food exemption: the other side of the debate’. Again they make a plea to keep food in the GST. I just bring that to your attention. Mr Chairman, I table that document for the committee.

**CHAIR**—The document is tabled for the record of the hearing.

**Senator CHAPMAN**—You raised the issue of the provisional tax uplift factor. As you are aware, under the reform package provisional tax would be abolished, so that would no longer be a relevant problem.

**Mr Siekmann**—All I am saying here is that we would certainly like to see that happen.

**Senator SHERRY**—As a matter of fact, you might have a closer look at Canada, because one of the great problems there is that they have two taxes, one on top of the other—state provincial tax and a GST put on top—which certainly has been a major factor in the problems experienced in Canada. As you are probably aware, health and education—to give two examples—are exempt from a GST, however they are defined. You said that you do not want any exemptions.

**Mr Siekmann**—As few as humanly possible.

**Senator SHERRY**—Does that comment apply to health and education?

**Mr Siekmann**—Basically, if it were possible and reasonable, yes, it probably would apply to health and education too.

**Senator SHERRY**—You would not exempt them?

**Mr Siekmann**—No. We would say, ‘No, don’t exempt them.’ Anything which throws up any sort of a grey barrier becomes a problem. Earlier, my compatriots from the Small Retailers Association—I think it was—were saying that they would shy away from the GST. But it depends on the trade you talk to. I do not think there would be a photographer in the country who would not support a GST because of the complexity that they have with the wholesale sales tax regime.

**CHAIR**—I would be surprised if there were a photographer in the country who did support it, because the biggest component of the photographic business is the labour cost and the artistic input in the business, and that will be taxed for the first time as a service.

**Mr Siekmann**—But the problem they have with it is that they come in at virtually every different level of the wholesale sales tax. If they take a picture to hang on the wall, it is regarded as a piece of furniture; if they take a picture of a wedding, it is regarded as a luxury item; if they take a picture of a factory for an advertising brochure, it is taxed at a different level—I do not know what it is—and if they take a picture of a piece of broken

machinery for repairs it is not taxed. Yet, in all that, they are reliant on their client to tell them whether it should be taxed or not, and they finish up bearing the brunt of any fines.

**Senator SHERRY**—For those small businesses, the vast majority are not involved directly in the wholesale sales tax system—would you argue that there will not be additional paperwork, administrative costs, associated with a GST?

**Mr Siekmann**—This is one of the major problems. There will be additional paperwork involved in the GST, no matter how small or large it may be. There definitely will be. The problems of the GST will fall principally on people in small business, because they will be the tax collectors in the system.

**Senator SHERRY**—As you point out, they become the tax collector. You raised the issue of compensatory measures for becoming tax collectors. Let us assume that that does not happen and this government says, ‘This is the package; we’re not going to tolerate any changes to it.’ That has been the attitude to date, anyway. How do you think small business is going to react to becoming tax collectors without compensation?

**Mr Siekmann**—About half of our members who are currently not paying a wholesale sales tax have a problem with it; about half do not. I think it is actually 54 to 46 per cent.

**Senator SHERRY**—So half are against; half are for.

**Mr Siekmann**—But I am talking only about the people who are not involved in the wholesale sales tax system at the moment. The ones who are involved in the wholesale sales tax system—I will not say that they are for it to a man—certainly come down in favour of it.

**Senator MURRAY**—Mr Siekmann, I appreciated your apologies earlier in your address, but it is true of your organisation, isn’t it, that you are very under-resourced, and effectively it is difficult for small business associations like yourselves to get across these packages in the same way as highly resourced industry associations can?

**Mr Siekmann**—Certainly, we are not as well resourced as people like the chamber.

**Senator MURRAY**—That is right. So I, for one, am very appreciative that you made the time and effort to be here. Mr Siekmann, just to get the perspective into my mind, you are a national organisation, aren’t you?

**Mr Siekmann**—Yes.

**Senator MURRAY**—How many members do you have?

**Mr Siekmann**—The most we have ever had is about 11,000, but I would just like to make a comment here. Our organisation is structured so that to be a member of our organisation you have to be an individual who owns and operates their own small business.

**Senator MURRAY**—As defined by the ABS?

**Mr Siekmann**—Yes, as defined by the ABS. If you talk to organisations like the chamber or COSBOA, they will say, ‘We represent so many people.’ We feel we represent 860,000 of them, because our only agenda is small business. Where they get their membership from is affiliate organisations. We do not have any affiliate organisations as such. We represent our members directly.

**Senator MURRAY**—Are you affiliated to the chamber?

**Mr Siekmann**—No.

**Senator MURRAY**—As far as you are aware, are the majority of your members members of chambers as well as members of your organisation or wouldn’t you know that?

**Mr Siekmann**—It is interesting—as in my case, too—that a large percentage of our members seem to gravitate from the chamber.

**Senator MURRAY**—So the chamber, in whatever state, could not regard itself as representing your members as people?

**Mr Siekmann**—I do not believe so, no. However, a lot of them do have fair knowledge of the chamber, having been members.

**Senator MURRAY**—Do you have any particular bias within your membership? Are you orientated towards manufacturing or retailing or any particular area?

**Mr Siekmann**—Probably if you took a broad aspect of our membership, we would be either employers—not family businesses as such—in the two to 20 employees range, or professionals who are possibly employers too. Possibly the professionals—this is only an opinion—join our organisation to be able to network, rather than because of any services or lobbying through my office. Perhaps they are not truly representatives. They probably lean more to manufacturing and service organisations than retail organisations.

**Senator MURRAY**—Thank you. There are two questions before us really. Have you asked or do you intend to ask your members whether they support a GST and whether, on balance, they support the ANTS package? The reason I ask you that is that you have indicated in your submission that, on balance, you support the ANTS package, subject to various reassurances. But have you actually asked your members those questions?

**Mr Siekmann**—Yes, we have. We haven’t in the very recent past, but we have asked them several times going back over—

**Senator MURRAY**—And what are the figures there?

**Mr Siekmann**—As I said, as far as the GST is concerned, the majority of them do not really go much into the broad package. They just tend to look at the GST. It appears that the majority of those that are not part of the wholesale sales tax system at the moment falls around 54 per cent to 46 per cent. I cannot remember which way it is.

**Senator MURRAY**—I missed the percentage. What is the percentage of your members that support a GST? Do you know?

**Mr Siekmann**—Overall, I could not tell you, because we divide it up into those who pay sales tax at the moment and those who don't. The ones who pay sales tax at the moment seem to fall around 80 per cent in favour of a GST.

**Senator MURRAY**—You make the remark that Canada's system was full of exemptions and it failed; New Zealand's had few exemptions and it worked. There are many countries with a GST/VAT but most of us have just been looking at the OECD. With food for instance, 23 out of 27 OECD countries, amounting to 700 million people, treat food differently or zero rate it. Most of those would be regarded as successful tax systems and as generating revenue successfully for their government. If you were presented with an option that some foods, or all foods, were to be made GST free, what choice would you make? The words the Food and Grocery Council gave us in answer to a similar question were 'all in or all out'—in other words, they did not want somewhere in between. The three options that have so far been presented to us are a narrow definition of food, fresh and processed foods and that sort of thing; a middle definition, if you like, which only excludes restaurants and take-aways; and a total exemption which would take everyone out. As a business person, if food was to be made partly or totally GST free, where would your inclination be?

**Mr Siekmann**—We would certainly opt to have total GST. I have talked to some of the market gardeners around the place and, as soon as the election results were announced at the last election, you could almost see the black flag running up because of the potential for all the people at the markets to be paying a GST. I will also add this that, in private conversation with them, they all noted how easily they would be able to avoid the GST, so they were in two minds about it in that area.

**Senator SHERRY**—So we are going to have avoidance even with a GST?

**Mr Siekmann**—Quite obviously, if a guy is growing fruit and vegetables out of Virginia or at Werribee, and he sells them direct to the public, there is certainly a window of opportunity there.

**Senator MURRAY**—But back to the question: the Senate is deliberating where the definitions of various things will be. Other committees are looking at where the definition of education and health will be. As we know, pharmacies will have some items GST free, other items they pay GST on, so there are definitional issues throughout. One of the questions the Senate will have to decide is whether food should be in or out, or partly in or out. If the Senate were to amend food, where do you want the definition to fall: narrowly, in the middle or completely out?

**Mr Siekmann**—We would like to see food included in the GST, overall, completely.

**Senator MURRAY**—You are giving me no help because the committee is going to have to make a recommendation, if food were to be exempted, where the definition should be. Now it will come down to that decision, and it will not help if the only advice we have from big business and small business simply says, 'We will leave the definition to you.'

**Mr Siekmann**—Wherever you draw the line, there are going to be people who try to step across it. If you draw it at a loaf of bread, somebody is going to try to send you a loaf of bread which is full of marijuana seeds and wrapped in gold foil for \$1,000 and declare it to be GST free. Where are you going to draw the line? I do not know.

**Senator MURRAY**—Thank you for your help, Mr Siekmann.

**CHAIR**—I thank you for your help, too, Mr Siekmann and on behalf of the inquiry thank you for—

**Senator CHAPMAN**—I have one more question. There was some discussion between you and Senator Cook earlier in relation to the impact of the GST on the exchange rate as a result of its benefits to exporters. Irrespective of whether it is higher than Senator Cook thinks or lower than the Treasury figure, would you generally accept that in this context the exchange rate would be a reflection of the health of the economy as a result of a better export performance and, therefore, that must be for the overall benefit of the country?

**Mr Siekmann**—This will be the way the desk jockeys view it. The exchange rate is very much dependent on demand for our currency and the strength of our currency. If we have a stronger currency, the currency tends to go up and this means that we have a stronger economy. Since that one was jumped on me by Senator Cook, I have not really had a great deal of time to think about it. However, on reflection, we will be selling our goods overseas at a more competitive price. We should, therefore, be able to sell more of our goods overseas and reduce our balance of payments, allowing that we can ever catch up with the interest which is there. I am afraid the vagaries of the exchange seem to be dependent on gamblers rather than producers.

**CHAIR**—I could follow you up on that, Mr Siekmann, but I think I made the point earlier that the figure was the Treasury figure.

**Mr Siekmann**—The only thing I was saying, Senator, was that I have not had time to digest it or investigate it. I hope to come back to you with an answer.

**CHAIR**—Please do because I think it is a relevant point. The government's package is based on that assumption, although I must say I did not see it prominently advertised during the election campaign.

**Mr Siekmann**—There are a lot of things that do not get advertised—

**Senator SHERRY**—With \$20 million you can buy a lot.

**CHAIR**—Thank you, Mr Siekmann, for appearing on behalf of the Small Business Association.

[3.01 p.m.]

**WIGG, Mr Hugh (Private capacity)**

**CHAIR**—As I indicated or foreshadowed to the committee during the last break, I have invited Mr Hugh Wigg of Gilberton, who has sat patiently through this hearing for the last two days, to address us on a submission that he has lodged. I will give him five minutes to do so. Mr Wigg, I must apologise, I have not had a chance to read your submission. I will listen to what you have to say and read it as well. Can you address us on the main points.

**Mr Wigg**—Thank you for the opportunity. I am a private individual. I represent no pressure group, except my hip pocket and associated nerves. On balance, I find that I am against the GST. My submission is a couple of articles I wrote for a local paper. I copied them straight across and sent them to the tax inquiry commission so you may find that, if you do read it, it is couched in somewhat immoderate language, for which I apologise.

**CHAIR**—I am not offended by immoderate language.

**Mr Wigg**—The GST itself has about 1½ reasons going for it. One reason is that it gives benefit to exporters. If you look at it with blinkered glasses, it is 10 per cent, but it is not. If you add Senator Cook's statement about 3½ per cent loss due to the exchange rate, about one point something per cent because the GST is mildly inflationary, then the best exporters can offer is about a five per cent rebate, and I suspect it will be even less than that. While that is important, it is small bickies compared with labour rates of one-tenth or one-thirteenth of Australia's from our competitors. Exporters have real, serious problems and this five per cent is not going to help too much, although it is a step in the right direction.

The half reason why the GST is worth while is that it is called a broad based tax, but it is not really. I read recently that the top end of town, the large businesses, are quite happy with a GST because they will be saving in the region of—and the figure was—\$85 million. It was a newspaper report so I cannot give you the breakdown. Nevertheless, you can say large businesses are going to see advantages in the GST and that does not really make it a broad based tax. In particular, many of the large businesses pay no tax. It was stated to me that about half the transnationals operating in the country pay no company tax. So they are not going to be disadvantaged by this at all.

The only reason this would be called a broad based tax is if the tax applied to food—then it would be broad based. But if the food is removed from the GST, then this suddenly becomes not a broad based tax but a narrow based tax, and the reason for its existence disappears totally. That is the complication associated with the GST. There are now no valid arguments really for implementing it in Australia.

I just want to elaborate on that by making a comparison with the partial debit tax, which is described in the brochure. It is a derivative of the full debit tax, which I am sure all senators are aware of. The full debit tax operates by charging a third of a per cent on all withdrawals from financial institutions. It is claimed that it would eliminate all other taxes, including company tax and personal income tax. I happen to think that is Utopian. One tax

cannot be the universal panacea. But if you levy it at about 0.1 per cent, you will raise about the same amount as GST. If I had accurate figures, I would give them to you.

If you make that comparison between the two systems, then a GST really has some serious disadvantages. I think you have heard them all, but I will just list them extremely quickly. First of all, the GST is horribly inefficient in tax collection. There would be over 1½ million collectors for the GST. Compare that with, say, 1,000 or so—probably 500—collectors if the partial debit tax was introduced, because the collection is via these financial institutions and not via the million or so others like me. Hopefully, I am outside it.

**CHAIR**—You have one minute.

**Mr Wigg**—The compliance cost is well in excess of the \$500 million allowed by the government. It is more like \$15 billion, as estimated recently. The GST does not simplify our tax system; it adds another overlay on top of the federal tax system. There are 44 taxes there, then you add one. You are just taking off the wholesale sales tax. They are removing, or hope to remove, about nine state taxes. Maybe that is possible.

Overall, the system is unwieldy. It does not promote Australia. The money that is required for compliance, and ongoing costs—estimated at seven per cent per annum by one Canberra economist—is money which is not effective in helping Australia. We could spend that money to far better effect in export assistance, research and development grants and so on. It is a waste of money.

**CHAIR**—Mr Wigg, would you please draw your remarks to a close, if you do not mind.

**Mr Wigg**—I leave you to read, if you have time with the 1,500 submissions, my small contribution. Thank you.

**CHAIR**—Thank you, and thank you for being very patient. Is it the wish of the committee that we release this submission along with the others today? There being no objection, it is so ordered. That concludes today's hearing.

**Committee adjourned at 3.09 p.m.**

